

**CATHOLIC CHARITIES, INC. - ARCHDIOCESE OF HARTFORD
AND SUBSIDIARY**

Consolidated Financial Statements

June 30, 2017 and 2016

**CATHOLIC CHARITIES, INC. - ARCHDIOCESE OF HARTFORD
AND SUBSIDIARY**

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Catholic Charities, Inc. - Archdiocese of Hartford

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Catholic Charities, Inc. - Archdiocese of Hartford and Subsidiary which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities, cash flows, and functional expenses for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Catholic Charities, Inc. - Archdiocese of Hartford and Subsidiary as of June 30, 2017 and 2016, and the consolidated changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Whittlesey + Halley, P.C.

Hartford, Connecticut
October 19, 2017

**CATHOLIC CHARITIES, INC. - ARCHDIOCESE OF HARTFORD
AND SUBSIDIARY**

Consolidated Statements of Financial Position

June 30, 2017 and 2016

	2017	2016
Assets		
Cash and cash equivalents	\$ 5,271,255	\$ 8,458,033
Grants receivable	2,511,674	2,240,275
Accounts receivable, net of allowance	354,237	330,153
Deposits and prepaid expenses	193,174	93,711
Marketable securities	7,291,335	4,956,171
Property and equipment, net	9,114,024	8,764,669
Total assets	\$ 24,735,699	\$ 24,843,012
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued liabilities	\$ 1,626,273	\$ 2,050,321
Grants payable	586,374	465,752
Reserve for self-funded unemployment insurance	336,205	321,929
Refundable advances	241,694	295,173
Notes payable	2,757,268	2,855,968
Accrued pension liability	2,188,736	3,655,710
Total liabilities	7,736,550	9,644,853
Net Assets		
Unrestricted:		
Undesignated	5,034,873	4,082,849
Board designated endowment	4,508,318	4,213,770
Net investment in property and equipment	6,356,756	5,908,701
Total unrestricted	15,899,947	14,205,320
Temporarily restricted	1,099,202	992,839
Total net assets	16,999,149	15,198,159
Total liabilities and net assets	\$ 24,735,699	\$ 24,843,012

The accompanying notes are an integral part of the consolidated financial statements.

CATHOLIC CHARITIES, INC. - ARCHDIOCESE OF HARTFORD AND SUBSIDIARY

Consolidated Statements of Activities

For the years ended June 30, 2017 and 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Operating revenues and support:						
Grants from government agencies	\$ 14,318,944	\$ -	\$ 14,318,944	\$ 14,675,666	\$ -	\$ 14,675,666
United Way	755,544	-	755,544	841,245	-	841,245
Archdiocese of Hartford	2,873,236	277,249	3,150,485	2,655,571	79,187	2,734,758
Contributions and private grants	1,131,094	184,464	1,315,558	1,278,493	173,712	1,452,205
Program service fees	6,287,951	-	6,287,951	5,427,490	-	5,427,490
Fundraising	461,138	-	461,138	365,878	-	365,878
Interest and dividends	167,385	-	167,385	100,485	-	100,485
Other	89,062	-	89,062	17,053	-	17,053
Net assets released from program restrictions	338,368	(338,368)	-	323,919	(323,919)	-
Total operating revenues and support	<u>26,422,722</u>	<u>123,345</u>	<u>26,546,067</u>	<u>25,685,800</u>	<u>(71,020)</u>	<u>25,614,780</u>
Operating expenses:						
Program services	21,557,380	-	21,557,380	20,811,478	-	20,811,478
Management and general	4,366,496	-	4,366,496	4,517,651	-	4,517,651
Fundraising and development:						
Fundraising	238,514	-	238,514	235,596	-	235,596
Development	295,090	-	295,090	291,479	-	291,479
Total fundraising and development	<u>533,604</u>	<u>-</u>	<u>533,604</u>	<u>527,075</u>	<u>-</u>	<u>527,075</u>
Total operating expenses	<u>26,457,480</u>	<u>-</u>	<u>26,457,480</u>	<u>25,856,204</u>	<u>-</u>	<u>25,856,204</u>
Change in net assets from operating activities	<u>(34,758)</u>	<u>123,345</u>	<u>88,587</u>	<u>(170,404)</u>	<u>(71,020)</u>	<u>(241,424)</u>
Other changes in net assets:						
Capital grants	713,823	6,041	719,864	674,827	100,000	774,827
Bequests	46,366	-	46,366	7,128	33,454	40,582
Unrealized gain/(loss) on marketable securities	258,400	-	258,400	(106,912)	-	(106,912)
Realized gain on marketable securities	145,711	-	145,711	37,746	-	37,746
(Loss) on disposal of property	-	-	-	(24,159)	-	(24,159)
Pension changes other than net periodic pension cost	542,062	-	542,062	(1,124,097)	-	(1,124,097)
Net assets released from restrictions for capital grants	23,023	(23,023)	-	242,268	(242,268)	-
Total other changes in net assets	<u>1,729,385</u>	<u>(16,982)</u>	<u>1,712,403</u>	<u>(293,199)</u>	<u>(108,814)</u>	<u>(402,013)</u>
Change in net assets	<u>1,694,627</u>	<u>106,363</u>	<u>1,800,990</u>	<u>(463,603)</u>	<u>(179,834)</u>	<u>(643,437)</u>
Net assets, beginning of year	<u>14,205,320</u>	<u>992,839</u>	<u>15,198,159</u>	<u>14,668,923</u>	<u>1,172,673</u>	<u>15,841,596</u>
Net assets, end of year	<u>\$ 15,899,947</u>	<u>\$ 1,099,202</u>	<u>\$ 16,999,149</u>	<u>\$ 14,205,320</u>	<u>\$ 992,839</u>	<u>\$ 15,198,159</u>

The accompanying notes are an integral part of the consolidated financial statements.

**CATHOLIC CHARITIES, INC. - ARCHDIOCESE OF HARTFORD
AND SUBSIDIARY**

Consolidated Statements of Cash Flows

For the years ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ 1,800,990	\$ (643,437)
Adjustments to reconcile change in net assets to net change in cash from operating activities:		
Depreciation	464,713	460,686
Bequests	(46,366)	(40,582)
Contributions restricted for capital purposes	(719,864)	(774,827)
Unrealized and realized (gain)/loss on marketable securities	(404,111)	69,166
Bad debt	141,310	568
Loss on disposal of property	-	24,159
(Increase)/decrease in assets:		
Grants receivable	(271,399)	(436,973)
Accounts receivable, net of allowance	(165,394)	156,908
Deposits and prepaid expenses	(99,463)	21,165
Increase/(decrease) in liabilities:		
Accounts payable and accrued liabilities	(424,048)	547,924
Grants payable	120,622	(209,375)
Reserve for self-funded unemployment insurance	14,276	67,868
Refundable advances	(53,479)	62,775
Accrued pension liability	(1,466,974)	893,075
	(1,109,187)	199,100
Cash flows from investing activities:		
Purchase of property and equipment	(809,652)	(1,106,862)
Proceeds from the sale of marketable securities	19,218	161,839
Purchases of marketable securities	(1,954,687)	(574,068)
	(2,745,121)	(1,519,091)
Cash flows from financing activities:		
Bequests	46,366	40,582
Contributions restricted for capital purposes	719,864	774,827
Repayment of notes payable	(98,700)	(87,295)
	667,530	728,114
Net change in cash from financing activities	667,530	728,114
Net change in cash and cash equivalents	(3,186,778)	(591,877)
Cash and cash equivalents, beginning of year	8,458,033	9,049,910
Cash and cash equivalents, end of year	\$ 5,271,255	\$ 8,458,033

The accompanying notes are an integral part of the consolidated financial statements.

**CATHOLIC CHARITIES, INC. - ARCHDIOCESE OF HARTFORD
AND SUBSIDIARY**

Consolidated Statement of Functional Expenses

For the year ended June 30, 2017

	Program Services	Management and General	Fundraising and Development	Total
Salaries and related expenses:				
Salaries	\$ 11,897,702	\$ 2,377,385	\$ 296,270	\$ 14,571,357
Employee benefits	3,008,703	419,819	69,970	3,498,492
Payroll taxes	917,789	128,064	21,344	1,067,197
Total salaries and related expenses	<u>15,824,194</u>	<u>2,925,268</u>	<u>387,584</u>	<u>19,137,046</u>
Other expenses:				
Professional fees and contract services	1,376,249	348,417	17,421	1,742,087
Occupancy	1,178,933	356,782	15,512	1,551,227
Program and office supplies	790,007	51,522	17,174	858,703
Rental and maintenance of equipment	396,168	322,803	14,673	733,644
Specific assistance	722,535	-	7,298	729,833
Travel	269,394	23,683	2,960	296,037
Telephone	150,533	43,905	14,635	209,073
Conferences, conventions and meetings	65,307	65,308	2,666	133,281
Interest	121,696	2,484	-	124,180
Membership dues and subscriptions	79,412	8,923	892	89,227
Program activities	57,698	-	-	57,698
Bank and service charges	1,675	82,095	-	83,770
Miscellaneous	2,624	138	-	2,762
Advertising	19,170	5,591	1,864	26,625
Fundraising	3,158	-	31,936	35,094
Printing and publications	4,807	3,420	9,415	17,642
Postage	11,041	7,560	4,927	23,528
Bad debt	134,244	7,066	-	141,310
Total other expenses	<u>5,384,651</u>	<u>1,329,697</u>	<u>141,373</u>	<u>6,855,721</u>
Total expenses before depreciation	21,208,845	4,254,965	528,957	25,992,767
Depreciation	<u>348,535</u>	<u>111,531</u>	<u>4,647</u>	<u>464,713</u>
Total expenses	<u>\$ 21,557,380</u>	<u>\$ 4,366,496</u>	<u>\$ 533,604</u>	<u>\$ 26,457,480</u>

The accompanying notes are an integral part of the consolidated financial statements.

**CATHOLIC CHARITIES, INC. - ARCHDIOCESE OF HARTFORD
AND SUBSIDIARY**

Consolidated Statement of Functional Expenses

For the year ended June 30, 2016

	Program Services	Management and General	Fundraising and Development	Total
Salaries and related expenses:				
Salaries	\$ 11,945,418	\$ 2,319,446	\$ 301,056	\$ 14,565,920
Employee benefits	2,436,473	609,420	81,239	3,127,132
Payroll taxes	878,451	168,337	22,578	1,069,366
Total salaries and related expenses	<u>15,260,342</u>	<u>3,097,203</u>	<u>404,873</u>	<u>18,762,418</u>
Other expenses:				
Professional fees and contract services	1,287,646	359,053	17,578	1,664,277
Occupancy	1,185,912	339,713	12,548	1,538,173
Program and office supplies	819,606	55,310	2,842	877,758
Rental and maintenance of equipment	405,887	272,397	19,366	697,650
Specific assistance	664,867	5,904	1,047	671,818
Travel	282,107	31,940	492	314,539
Telephone	166,530	36,480	4,431	207,441
Conferences, conventions and meetings	104,689	25,687	1,335	131,711
Interest	123,257	2,558	-	125,815
Membership dues and subscriptions	3,634	71,630	204	75,468
Program activities	74,091	-	-	74,091
Bank and service charges	25,712	46,520	-	72,232
Miscellaneous	246	46,076	-	46,322
Advertising	29,812	7,756	2,958	40,526
Fundraising	3,476	-	36,828	40,304
Printing and publications	7,817	5,562	15,310	28,689
Postage	12,068	8,264	5,386	25,718
Bad debt	-	568	-	568
Total other expenses	<u>5,197,357</u>	<u>1,315,418</u>	<u>120,325</u>	<u>6,633,100</u>
Total expenses before depreciation	20,457,699	4,412,621	525,198	25,395,518
Depreciation	<u>353,779</u>	<u>105,030</u>	<u>1,877</u>	<u>460,686</u>
Total expenses	<u>\$ 20,811,478</u>	<u>\$ 4,517,651</u>	<u>\$ 527,075</u>	<u>\$ 25,856,204</u>

The accompanying notes are an integral part of the consolidated financial statements.

**CATHOLIC CHARITIES, INC. - ARCHDIOCESE OF HARTFORD
AND SUBSIDIARY**

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

NOTE 1 - ORGANIZATION AND BASIS OF PRESENTATION:

Catholic Charities, Inc. - Archdiocese of Hartford (“Catholic Charities”) is a non-profit, professional guidance and counseling service for individuals, families and their children. Services are provided to anyone, regardless of age, race, religion, ethnic origin, sex or financial circumstances. Catholic Charities provides its services throughout the Archdiocese of Hartford, Connecticut.

The financial statements reflect the transactions of Catholic Charities, Inc. – Archdiocese of Hartford, and Catholic Charities Institute for the Hispanic Family Association, Inc. including all of their respective offices and programs. All significant intercompany accounts and transactions have been eliminated.

Catholic Charities Institute for the Hispanic Family Association, Inc. (“Condo Association”) is a wholly owned subsidiary of Catholic Charities, which owns the facility that houses the Institute for the Hispanic Family program.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting

The financial statements have been prepared on the accrual basis.

Financial Statement Presentation

The presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958 *Not-for-Profit Entities Presentation of Financial Statements*, in which Catholic Charities reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of Catholic Charities, and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by Catholic Charities. Generally, the donors of these assets permit Catholic Charities to use all or part of the income earned on related investments for general or specific purposes.

As of June 30, 2017 and 2016, Catholic Charities did not have any net assets classified as permanently restricted.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Donor Restricted Endowment Funds

Catholic Charities follows the FASB Accounting Standards Codification disclosure requirements for reporting donor-restricted endowment funds that relates to net asset classification of funds subject to the Uniform Prudent Management of Institutional Funds Act and included enhanced disclosures for the endowment funds.

Catholic Charities utilizes a spending policy that should preserve the real (inflation-adjusted) value of the endowment fund assets over the long term, focus more clearly on total return (asset growth and income combined) and increase the predictability of distribution levels. The annual distribution from the endowment funds will be calculated as a percentage of its asset base. It is determined that Catholic Charities will spend 5% of a 24 quarter trailing average of its asset values. Transfers made in accordance with the aforementioned spending policy amounted to \$198,236 and \$186,724 for the years ended June 30, 2017 and 2016, respectively.

By action of the Board of Directors, certain income from investments is designated to provide funding for specific projects as determined by the Board in addition to board designation of funds for the spending policy.

Cash Equivalents

All short-term, highly liquid investments that have original maturity dates of three months or less are considered cash equivalents.

Accounts Receivable

Accounts receivable are stated at the amounts management expects to collect from outstanding balances. An allowance for uncollectible accounts is maintained at a level adequate to absorb probable losses. Management determines the adequacy of the allowance based upon reviews of individual activity, recent loss experience, current economic conditions and other pertinent factors. The allowance for uncollectible accounts was \$352,497 and \$410,717 as of June 30, 2017 and 2016, respectively.

Fair Value Measurements

Catholic Charities adopted requirements of, *Fair Value Measurements and Disclosures* topic of the FASB ASC 820. *Fair Value Measurements and Disclosures* defines fair value and establishes a framework for measuring fair value in generally accepted accounting principles. Fair value is defined as the exchange price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability. The fair value should be calculated based on assumptions that market participants would use in pricing the asset or liability, not on assumptions specific to the entity. In addition, the fair value of liabilities should include consideration of non-performance risk including Catholic Charities' own credit risk.

In addition to defining fair value, *Fair Value Measurements and Disclosures* expands the disclosure requirements around fair value and establishes a fair value hierarchy for valuation inputs. The hierarchy prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. These levels are:

Level 1 - inputs are based upon unadjusted quoted prices for identical instruments traded in active markets.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Level 2 - inputs are based upon quoted prices, other than those included in Level 1, that are either directly or indirectly observable for the assets or liabilities, including inputs in markets that are not considered to be active and investments in third party investment funds which may permit redemption at net asset value at the measurement date.

Level 3 - inputs are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

Valuation techniques based on unobservable inputs are highly subjective and require judgments regarding significant matters such as the amount and timing of future cash flows and the selection of discount rates that may appropriately reflect market and credit risks. Changes in these judgments often have a material impact on the fair value estimates. In addition, since these estimates are as of a specific point in time, they are susceptible to material near-term changes.

Donated Materials, Services and Use of Facilities

Donated materials, services, and use of facilities, when significant, are reflected at their appraised or estimated value. A substantial number of volunteers have donated significant amounts of time to Catholic Charities' activities and its fundraising events. Catholic Charities recognizes contributed services when the service requires specialized skills that would typically need to be purchased if not provided by the contribution. See note 4 for information regarding valuation of in-kind contributions.

Refundable Advances

Refundable advances represent revenues collected in advance of the period of intended support.

Revenue

Catholic Charities receives a substantial portion of its revenue from grants and contracts from government agencies. Catholic Charities recognizes contract revenue (up to the contract ceiling) from its contracts to the extent of expenses. Grants require the fulfillment of certain conditions as set forth in the instrument of the grant. Failure to fulfill the conditions could result in the return of funds to grantors.

Property and Equipment

Property and equipment purchased for \$5,000 and greater are capitalized at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. Amortization of leasehold improvements has been provided on the straight-line method over the shorter period of the lease term or the estimated life of the assets. Expenditures for repairs and maintenance are charged to expense as incurred. For assets sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in income for the year. The following are useful lives of the assets:

	Number of Years
Building	30 - 40
Leasehold and building improvements	5 - 30
Automobiles	2 - 5
Office equipment	3 - 8
Furniture	5 - 10

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Federal and State Income Taxes

Catholic Charities is exempt from Federal income taxation under Section 501(c)(3) of the Internal Revenue Code. Catholic Charities is also exempt from state income taxes.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events Measurement Date

Catholic Charities monitored and evaluated any subsequent events for footnote disclosures or adjustments required in its financial statements for the year ended June 30, 2017 through October 19, 2017, the date on which financial statements were available to be issued.

Reclassifications

Certain reclassifications have been made to the June 30, 2016 financial statements to conform to the June 30, 2017 financial statement presentation.

NOTE 3 - NET PATIENT SERVICE REVENUE:

Net patient service revenue is comprised of net realizable amounts from patients, third party payers and others for services rendered. Net patient service revenue is included in program service fees in the statements of activities. The following summarizes net patient service revenue for the years ended June 30,:

	<u>2017</u>	<u>2016</u>
Gross patient service revenue	\$ 7,394,394	\$ 6,316,323
Less: contractual allowance	<u>(3,706,978)</u>	<u>(2,984,865)</u>
Net patient service revenue	<u>\$ 3,687,416</u>	<u>\$ 3,331,458</u>

For the years ended June 30, 2017 and 2016, approximately 77 and 80 percent of net patient service revenue was reimbursable under the Medicaid program, respectively. Laws and regulations governing the Medicaid program are complex and subject to interpretation. Catholic Charities believes that it is in compliance with all applicable laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties and exclusion from the Medicaid program. Changes in the Medicaid program and the reduction of funding levels could have an adverse impact on Catholic Charities.

NOTE 4 - IN-KIND CONTRIBUTIONS:

An estimated value for contributed services is recorded as expenses under the following categories for the year ended June 30,:

	2017	2016
Salaries	\$ -	\$ 3,441
Occupancy	346,985	347,013
Specific assistance	9,122	4,304
Total	<u>\$ 356,107</u>	<u>\$ 354,758</u>

Only in-kind salaries requiring specialized skills are recognized as contributions in the financial statements as required by the *Revenue Recognition for Contributed Services* topic of the FASB Accounting Standards Codification.

NOTE 5 - CONCENTRATION OF CREDIT RISK:

Catholic Charities maintains its cash in bank deposit accounts that, at times, may exceed federally insured limits. Catholic Charities has not experienced any losses in its cash accounts.

NOTE 6 - MARKETABLE SECURITIES:

The following investments are measured at fair value on a recurring basis at June 30, 2017:

	Total	Quoted Prices in Active Markets or Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 125,418	\$ 125,418	\$ -	\$ -
Market-linked certificate of deposit	500,005	500,005	-	-
Corporate bonds	1,604,919	1,604,919	-	-
Equity funds	412,188	412,188	-	-
Interest in Archdiocese of Hartford				
Investment trust:				
Fixed income	1,383,925	-	1,383,925	-
Large cap	1,140,812	-	1,140,812	-
SCC index	443,941	-	443,941	-
International	653,623	-	653,623	-
Alternative	1,026,504	-	1,026,504	-
Total common collective trusts	<u>4,648,805</u>	<u>-</u>	<u>4,648,805</u>	<u>-</u>
Totals	<u>\$ 7,291,335</u>	<u>\$ 2,642,530</u>	<u>\$ 4,648,805</u>	<u>\$ -</u>

NOTE 6 - MARKETABLE SECURITIES (CONTINUED):

The following investments measured at fair value on a recurring basis at June 30, 2016:

		Quoted Prices in Active Markets or Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
	Total			
Cash and cash equivalents	\$ 248,897	\$ 248,897	\$ -	\$ -
Market-linked certificate of deposit	500,006	500,006	-	-
Interest in Archdiocese of Hartford				
Investment trust:				
Fixed income	1,300,419	-	1,300,419	-
Large cap	1,108,852	-	1,108,852	-
SCC index	506,703	-	506,703	-
International	442,613	-	442,613	-
Alternative	848,681	-	848,681	-
Total common collective trusts	4,207,268	-	4,207,268	-
Totals	<u>\$ 4,956,171</u>	<u>\$ 748,903</u>	<u>\$ 4,207,268</u>	<u>\$ -</u>

NOTE 7 - PROPERTY AND EQUIPMENT:

The cost and accumulated depreciation of property and equipment are as follows at June 30,:

	2017	2016
Land and buildings	\$ 8,325,974	\$ 8,325,974
Leasehold and building improvements	5,205,528	3,986,175
Automobiles	102,006	102,006
Office equipment	1,170,478	1,164,839
Furniture	57,790	57,790
Construction in progress	406,089	826,557
Total cost	<u>15,267,865</u>	<u>14,463,341</u>
Less: accumulated depreciation	<u>(6,153,841)</u>	<u>(5,698,672)</u>
Property and equipment, net	<u>\$ 9,114,024</u>	<u>\$ 8,764,669</u>

NOTE 8 - ENDOWMENT ASSETS:

The following represents endowment assets and activity for the years ended June 30,:

	Board- designated Unrestricted	Temporarily Restricted	Total
Endowment assets, at July 1, 2015	\$ 4,404,167	\$ 208,941	\$ 4,613,108
Investment return:			
Interest and dividends	74,068	-	74,068
Realized and unrealized losses	(69,166)	-	(69,166)
Fees	(15,703)	-	(15,703)
Total investment return	(10,801)	-	(10,801)
Contributions to endowment	7,128	33,454	40,582
Amounts appropriated for expenditure	(186,724)	-	(186,724)
Endowment assets, at June 30, 2016	4,213,770	242,395	4,456,165
Investment return:			
Interest and dividends	80,647	-	80,647
Realized and unrealized gains	384,989	-	384,989
Fees	(19,218)	-	(19,218)
Total investment return	446,418	-	446,418
Contributions to endowment	46,366	-	46,366
Amounts appropriated for expenditure	(198,236)	-	(198,236)
Endowment assets, at June 30, 2017	\$ 4,508,318	\$ 242,395	\$ 4,750,713

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS:

Balances in temporarily restricted net assets are held for the following purposes at June 30,:

	2017	2016
Family centers	\$ 280,526	\$ 282,209
Capital improvements	223,115	203,297
Basic human needs	521,620	433,392
Adoption	60,817	60,817
Counseling	13,124	13,124
	\$ 1,099,202	\$ 992,839

NOTE 10 - REFUNDABLE ADVANCES:

Refundable advances consist of the following at June 30,:

	2017	2016
Refundable advances - grants	\$ 94,188	\$ 147,667
United States Conference of Catholic Bishops	27,250	27,250
Department of Developmental Services	120,256	120,256
Total refundable advances	\$ 241,694	\$ 295,173

NOTE 11 - NOTES PAYABLE:

Notes payable consist of the following at June 30,:

	<u>2017</u>	<u>2016</u>
<p>\$2,555,000 note payable to Connecticut Health and Educational Facilities Authority ("CHEFA") to fund the construction of a building for the Institute for the Hispanic Family. Semi-annual installments of principal and accrued interest commenced on July 1, 2010. The note was refinanced effective April of 2015. The debt issuance costs related to the refinance are \$210,000, and will be amortized over the life of the loan. In accordance with the loan agreement, principal payments will increase systematically, by various increments, over the life of the loan. Principal payments were \$75,000 and \$65,000 for the years ended June 30, 2017 and 2016, respectively. The maturity date of the note is July 2038. Interest was at 2.0% and 1.5% for the years ended June 30, 2017 and 2016, respectively. The State of Connecticut Department of Social Services ("DSS") agreed to a debt service commitment equal to 80.8% of the principal and interest; debt service payments by DSS amounted to \$170,388 and \$151,097 for the years ended June 30, 2017 and 2016, respectively. CHEFA intercepts 19.2% of the balance of debt service payments from the City of Hartford School Readiness grant; the intercept amounted to \$32,714 and \$29,011 for the years ended June 30, 2017 and 2016, respectively. This note is collateralized by the related building in Hartford, CT.</p>	\$ 2,415,000	\$ 2,490,000
<p>\$700,000 note payable to Webster Bank for debt related to the construction of a building for the Institute for the Hispanic Family. Installments of principal and interest in the amount of \$4,388 are due monthly with a maturity date of June, 2029. The note bears interest at Eurodollar rate plus 1% per annum, which was 4% for each of the years ended June 30, 2017 and 2016, respectively. This note is collateralized by the related building in Hartford, CT.</p>	499,999	531,693
<p>\$50,000 note payable to Department of Developmental Services. Installments of principal and interest in the amount of \$300 are due monthly with a maturity date of December 1, 2030. The note bears interest at 6.0% per annum. This note is collateralized by the related property in Bloomfield, CT.</p>	<u>33,179</u>	<u>34,730</u>
Total notes payable	2,948,178	3,056,423
Less: debt financing costs, net of amortization	<u>190,910</u>	<u>200,455</u>
Total notes payable, net	<u><u>\$ 2,757,268</u></u>	<u><u>\$ 2,855,968</u></u>

Future minimum principal payments are as follows for the next five years ending June 30,:

2018	\$ 104,854
2019	111,303
2020	117,824
2021	114,404
2022	121,048
Thereafter	<u>2,187,835</u>
	<u><u>\$ 2,757,268</u></u>

NOTE 12 - RETIREMENT PLAN:Defined Benefit Pension Plan:

Catholic Charities had a defined benefit pension plan (the “Plan”) covering substantially all employees. The benefits are based on years of service and final average salary. Catholic Charities’ funding policy is to contribute to the Plan the annual actuarially required amounts. Contributions are intended to provide benefits based on both past and future service. All of the information presented is based on the most recent actuarial information available.

Freezing of the Plan:

The Plan was frozen effective June 30, 2008, and a new 403(b) benefit plan took effect July 1, 2008. The result of freezing the Plan is that no new employees will be added to the Plan and final average earnings will not include compensation earned by any participant after the date of the freeze. The assets of the Plan and the income earned on these assets will be used to fund current and future benefit payments.

	<u>2017</u>	<u>2016</u>
<u>Change in Projected Benefit Obligation:</u>		
Projected benefit obligation, beginning of year	\$ 12,527,414	\$ 12,345,094
Service cost	18,740	18,095
Interest cost	326,297	379,300
Change due to assumption changes	(167,768)	790,625
Actuarial gain	334,741	74,234
Benefits disbursed from plan assets (including expense charges)	(792,444)	(1,106,655)
Effects of settlement	-	26,721
Projected benefit obligation, end of year	<u>\$ 12,246,980</u>	<u>\$ 12,527,414</u>
<u>Change in Plan Assets:</u>		
Total fair value of plan assets, beginning of year	\$ 8,871,704	\$ 9,582,459
Actual return on plan assets	877,446	145,900
Employer contributions	1,101,538	250,000
Benefits disbursed from plan assets (including expense charges)	(792,444)	(1,106,655)
Total fair value of plan assets, end of year	<u>\$ 10,058,244</u>	<u>\$ 8,871,704</u>
<u>Funded Status:</u>		
Actuarial present value of projected benefit obligation	\$ (12,246,980)	\$ (12,527,414)
Plan assets at fair value	10,058,244	8,871,704
Unfunded status	<u>(2,188,736)</u>	<u>(3,655,710)</u>
Liability for pension benefits	<u>\$ (2,188,736)</u>	<u>\$ (3,655,710)</u>

NOTE 12 - RETIREMENT PLAN (CONTINUED):

	<u>2017</u>	<u>2016</u>
<i>Amounts Recognized in the Consolidated Statements of Financial Position and Statements of Activities:</i>		
Liability for pension benefits at beginning of fiscal year before reflecting ASC Topic 715 adjustments	\$ (508,882)	\$ (466,267)
Net periodic pension cost (recognized in total operating expenses)	(176,626)	(18,978)
Contribution paid during the year	<u>1,101,538</u>	<u>250,000</u>
Liability for pension benefits at end of fiscal year before reflecting ASC Topic 715 adjustments	416,030	(235,245)
Settlement loss	-	(273,637)
Net effect of adoption of recognition provisions of ASC Topic 715	<u>(2,604,766)</u>	<u>(3,146,828)</u>
Liability for pension benefits at end of fiscal year after reflecting adjustments for ASC Topic 715	<u><u>\$ (2,188,736)</u></u>	<u><u>\$ (3,655,710)</u></u>
 <i>Components of Net Periodic Pension Benefits Cost:</i>		
Service cost	\$ 18,740	\$ 18,095
Interest cost	326,297	379,300
Actual return on plan assets	(877,446)	(145,900)
Amortization of unrecognized net loss	332,629	173,641
Asset (loss) deferred	<u>376,406</u>	<u>(406,158)</u>
Net periodic pension benefit cost	<u><u>\$ 176,626</u></u>	<u><u>\$ 18,978</u></u>

*Reconciliation of Items Not Yet Reflected
in Net Periodic Pension Benefit Cost:*

	<u>July 1, 2016</u>	<u>Reclassified as a Net Periodic Benefit Cost</u>	<u>Amounts Arising During Period</u>	<u>June 30, 2017</u>
Transition obligation (or asset)	\$ -	\$ -	\$ -	\$ -
Net prior service cost (or credit)	-	-	-	-
Net (gain) or loss	3,146,828	(332,629)	(209,433)	2,604,766

*Estimated Effect in Next Fiscal Year - Items Not Yet
Reflected in Net Periodic Pension Benefit Cost:*

	<u>July 1, 2017</u>	<u>Estimated Amounts to be Reclassified as Net Periodic Benefit Cost</u>
Transition obligation (or asset)	\$ -	\$ -
Net prior service cost (or credit)	-	-
Net (gain) or loss	2,604,766	(246,441)

NOTE 12 - RETIREMENT PLAN (CONTINUED):

Assumptions Used for Determining

Net Periodic Pension Benefit Cost:

	<u>2017</u>	<u>2016</u>
Discount rate	3.50%	3.00%
Post retirement interest rate	5.50%	5.50%
Expected long-term rate of return on plan assets	7.00%	7.00%
Rate of compensation increase	N/A	N/A

Catholic Charities' expected rate of return on plan assets is determined by the plan assets' historical long-term investment performance, current asset allocation and estimates of future long-term returns by asset class.

Plan Assets:

Catholic Charities' pension plan weighted-average asset allocations at June 30, 2017 and 2016, by asset category are as follows:

	<u>2017</u>	<u>2016</u>
Equity	54.00%	51.80%
Fixed income	30.60%	34.40%
General account	15.40%	13.80%
Total	<u>100.00%</u>	<u>100.00%</u>

Catholic Charities' investment policy is to manage the Plan with long-term objectives; with little concern for high current income or the need to maintain ready-cash reserves beyond those necessary to pay current benefits for the Plan; and with the intent to achieve the highest long-term rate of return practical without jeopardizing Catholic Charities' funding policy or creating undue funding volatility.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2017 and 2016.

Registered Investment Companies (Mutual Funds): Valued at the daily closing price as reported by the fund. Mutual funds held by the Plan are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value ("NAV") and to transact at that price. The mutual funds held by the Plan are deemed to be actively traded.

The insurance company general account (interest accumulation account) is recorded at contract value, which is deemed to be fair value. The interest accumulation account is credited with a contractual rate of return rather than a market value. Participants may direct the withdrawal or transfer of all or a portion of their investment at contract value. There are no reserves against contract value for credit risk of the contract issuer or otherwise.

NOTE 12 - RETIREMENT PLAN (CONTINUED):

The fair values of Catholic Charities' Pension Plan assets, by asset class are as follows at June 30, 2017:

		Quoted Prices in Active Markets or Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
	Total			
Interest accumulation account	<u>\$ 1,551,383</u>	<u>\$ 1,551,383</u>	<u>\$ -</u>	<u>\$ -</u>
Mutual Funds:				
Equity	5,427,693	5,427,693	-	-
Fixed income	<u>3,079,168</u>	<u>3,079,168</u>	<u>-</u>	<u>-</u>
Total mutual funds	8,506,861	8,506,861	-	-
Total investments, fair value	<u><u>\$ 10,058,244</u></u>	<u><u>\$ 10,058,244</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

The fair values of Catholic Charities' Pension Plan assets, by asset class are as follows at June 30, 2016:

		Quoted Prices in Active Markets or Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
	Total			
Interest accumulation account	<u>\$ 1,226,112</u>	<u>\$ 1,226,112</u>	<u>\$ -</u>	<u>\$ -</u>
Mutual Funds:				
Equity	4,597,581	4,597,581	-	-
Fixed income	<u>3,048,011</u>	<u>3,048,011</u>	<u>-</u>	<u>-</u>
Total mutual funds	7,645,592	7,645,592	-	-
Total investments, fair value	<u><u>\$ 8,871,704</u></u>	<u><u>\$ 8,871,704</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

The following benefit payments that reflect expected future service, as appropriate, are expected to be paid:

<u>Fiscal Year End</u>	
2018	\$ 3,927,000
2019	568,000
2020	911,000
2021	1,152,000
2022	655,000
2023-2027	3,952,000

NOTE 12 - RETIREMENT PLAN (CONTINUED):

Section 403(b) Defined Contribution Plan:

Catholic Charities offers a 403(b) benefit plan. There is no minimum age requirement to make salary reduction contributions to this plan. The participant can enroll on the first day of the month coinciding with or immediately following the date of hire. Employees who are twenty one years of age, work twenty or more hours and completed at least one year of service are eligible to receive employer base contributions. The employer also makes an additional matching contribution to the Plan for eligible participants based on years of service, ranging from 3% to 6% for years of service less than five to greater than 15 years of service, respectively. Total employer contributions for the years ended June 30, 2017 and 2016 were \$470,374 and \$384,531, respectively.

NOTE 13 - CONCENTRATION OF REVENUES:

Of the total support and revenue received by Catholic Charities, approximately 7.2% and 7.7% represent grants from federal agencies and 46.7% and 47.1% represent grants from state agencies for the years ended June 30, 2017 and 2016, respectively. Total grants from state agencies amounted to approximately \$12.4 and \$12.1 million for the years ended June 30, 2017 and 2016, respectively. Approximately 80% of the \$12.1 million in state funding is comprised of grants from the following agencies: Department of Children and Families (19%), Office of Early Childhood (28%), and Department of Developmental Services (32%). If a reduction in the level of this support were to occur, there would be a significant impact on Catholic Charities' operations.

NOTE 14 - OPERATING LEASES:

Catholic Charities has occupancy leases for several of its programs. The leases run for various periods of time through August 2033. Lease expense was \$194,012 and \$230,002 for the years ended June 30, 2017 and 2016, respectively.

Catholic Charities has several automobile leases. The leases run for various periods of time through June 2020. Lease expense was \$80,490 and \$89,852 for the years ended June 30, 2017 and 2016, respectively.

Catholic Charities also leases furniture and office equipment that run for various periods of time through June 2020. Lease expense was \$88,966 and \$90,308 for the years ended June 30, 2017 and 2016, respectively.

The payments required by the leases for the next five years are as follows:

2018	\$	292,465
2019		233,281
2020		115,633
2021		58,652
2022		53,925
Thereafter		262,801
		<u>\$ 1,016,757</u>

NOTE 15 - SELF-FUNDED UNEMPLOYMENT INSURANCE:

Employees are provided with unemployment benefits in the event of loss of employment. The future estimated liability was \$336,205 and \$321,929 at June 30, 2017 and 2016, respectively, which is based on an average rate of 1% of salaries and wages and is adjusted for the value of claims processed during the year.

NOTE 16 - COMMITMENTS AND CONTINGENCIES:

Catholic Charities is, from time to time, subject to legal proceedings and claims that arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the financial position of Catholic Charities.

The CHEFA loan agreement requires that Catholic Charities maintain a renewal and replacement fund equal to two percent (2%) of annual revenues of the Institute for the Hispanic Family facility. The balance in the renewal and replacement fund held in custody by CHEFA was \$25,995 and \$25,898 on June 30, 2017 and 2016, respectively.

Catholic Charities is the recipient of bonding grants from various state agencies for the purpose of capital improvements. With these grants, Catholic Charities is required to maintain its operations for 10 years following the completion of all renovations to the specific location. If Catholic Charities is not in compliance with this and other restrictions, the State of Connecticut has the ability to request repayment of the funds on a percentage basis.

	Award Amount	Expired Amount	Expiration Date
Department of Social Services	2,000,000	1,800,000	6/30/2018
Department of Education	120,030	24,000	6/30/2026
Department of Social Services	250,000	-	6/30/2027
Department of Education	442,679	-	6/30/2027

NOTE 17 - RELATED PARTIES:

Catholic Charities is affiliated with the Archdiocese of Hartford. The Archdiocese provides economic assistance to Catholic Charities, and Archdiocese personnel serve as members of the Catholic Charities Board of Trustees.

The Archdiocese provided operational support to Catholic Charities in the amount of \$3,150,485 and \$2,734,758 for the years ended June 30, 2017 and 2016, respectively. These amounts include \$346,985 and \$347,013 for in-kind contribution of rent for use of buildings owned by the Archdiocese for the years ended June 30, 2017 and 2016, respectively. In addition, the Archdiocese provided support for capital improvements in the amount of \$200,000 and \$100,000 for the years ended June 30, 2017 and 2016, respectively.

Catholic Charities provides case management services to benefit residents of Cathedral Green, Inc and St. Francis Xavier Plaza. pursuant to a contract with the State of Connecticut Department of Mental Health and Addiction Services. Diocesan personnel are on the Boards of both Catholic Charities and Cathedral Green. Total expenses were \$183,825 and \$194,700 for this program for the years ended June 30, 2017 and 2016, respectively.

NOTE 18 - SUPPLEMENTARY CASH FLOW INFORMATION:

Supplementary information:

Cash paid for interest expense	<u>\$ 124,180</u>	<u>\$ 125,815</u>
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