

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

Consolidated Financial Statements

June 30, 2018 and 2017



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

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June 30, 2018 and 2017

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INDEPENDENT AUDITORS' REPORT

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

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, 2018 and 2017, 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, 2018 and 2017, 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 PC

Hartford, Connecticut
October 31, 2018

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

Consolidated Statements of Financial Position

June 30, 2018 and 2017

	2018	2017
Assets		
Cash and cash equivalents	\$ 928,615	\$ 1,086,780
Grants receivable	1,830,259	2,511,674
Accounts receivable, net of allowance	468,311	337,591
Deposits and prepaid expenses	168,481	228,375
Investments	12,606,161	11,475,810
Property and equipment, net	8,570,194	9,114,024
Total assets	\$ 24,572,021	\$ 24,754,254
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued liabilities	\$ 1,653,002	\$ 1,657,394
Grants payable	355,023	586,374
Reserve for self-funded unemployment insurance	292,803	336,205
Refundable advances	525,753	229,128
Notes payable, net	2,659,405	2,757,268
Accrued pension liability	2,376,028	2,188,736
Total liabilities	7,862,014	7,755,105
Net Assets		
Unrestricted:		
Undesignated	4,698,566	5,034,873
Board designated endowment	4,696,680	4,508,318
Net investment in property and equipment	5,910,789	6,356,756
Total unrestricted	15,306,035	15,899,947
Temporarily restricted	1,403,972	1,099,202
Total net assets	16,710,007	16,999,149
Total liabilities and net assets	\$ 24,572,021	\$ 24,754,254

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, 2018 and 2017

	2018			2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Operating revenues and support:						
Grants from government agencies	\$ 13,506,760	\$ -	\$ 13,506,760	\$ 14,318,944	\$ -	\$ 14,318,944
United Way	835,784	-	835,784	755,544	-	755,544
Archdiocese of Hartford	2,652,786	151,101	2,803,887	2,873,236	277,249	3,150,485
Contributions and private grants	1,480,261	302,490	1,782,751	1,131,094	184,464	1,315,558
Program service fees	5,155,977	-	5,155,977	6,287,951	-	6,287,951
Fundraising	322,641	-	322,641	461,138	-	461,138
Interest and dividends	254,166	-	254,166	167,385	-	167,385
Other	17,403	-	17,403	89,062	-	89,062
Net assets released from program restrictions	234,266	(234,266)	-	338,368	(338,368)	-
Total operating revenues and support	<u>24,460,044</u>	<u>219,325</u>	<u>24,679,369</u>	<u>26,422,722</u>	<u>123,345</u>	<u>26,546,067</u>
Operating expenses:						
Program services	20,244,099	-	20,244,099	21,557,380	-	21,557,380
Management and general	4,166,073	-	4,166,073	4,366,496	-	4,366,496
Fundraising and development:						
Fundraising	213,217	-	213,217	238,514	-	238,514
Development	263,793	-	263,793	295,090	-	295,090
Total fundraising and development	477,010	-	477,010	533,604	-	533,604
Total operating expenses	<u>24,887,182</u>	<u>-</u>	<u>24,887,182</u>	<u>26,457,480</u>	<u>-</u>	<u>26,457,480</u>
Change in net assets from operating activities	<u>(427,138)</u>	<u>219,325</u>	<u>(207,813)</u>	<u>(34,758)</u>	<u>123,345</u>	<u>88,587</u>
Other changes in net assets:						
Capital grants	87,054	200,000	287,054	713,823	6,041	719,864
Bequests	67,698	-	67,698	46,366	-	46,366
Unrealized gain/(loss) on investments	(26,345)	-	(26,345)	258,400	-	258,400
Realized gain on investments	234,654	-	234,654	145,711	-	145,711
(Loss) on disposal of property	(214,408)	-	(214,408)	-	-	-
Pension changes other than net periodic pension cost	(429,982)	-	(429,982)	542,062	-	542,062
Net assets released from restrictions for capital grants	114,555	(114,555)	-	23,023	(23,023)	-
Total other changes in net assets	<u>(166,774)</u>	<u>85,445</u>	<u>(81,329)</u>	<u>1,729,385</u>	<u>(16,982)</u>	<u>1,712,403</u>
Change in net assets	<u>(593,912)</u>	<u>304,770</u>	<u>(289,142)</u>	<u>1,694,627</u>	<u>106,363</u>	<u>1,800,990</u>
Net assets, beginning 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>
Net assets, end of year	<u>\$ 15,306,035</u>	<u>\$ 1,403,972</u>	<u>\$ 16,710,007</u>	<u>\$ 15,899,947</u>	<u>\$ 1,099,202</u>	<u>\$ 16,999,149</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, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ (289,142)	\$ 1,800,990
Adjustments to reconcile change in net assets to net change in cash from operating activities:		
Depreciation	501,055	464,713
Bequests	(67,698)	(46,366)
Contributions restricted for capital purposes	(287,054)	(719,864)
Unrealized and realized (gain)/loss on investments	(208,309)	(404,111)
Bad debt	41,363	141,310
Loss on disposal of property	214,408	-
(Increase)/decrease in assets:		
Grants receivable	681,415	(271,399)
Accounts receivable, net of allowance	(172,083)	(109,184)
Deposits and prepaid expenses	59,894	(120,203)
Increase/(decrease) in liabilities:		
Accounts payable and accrued liabilities	(4,392)	(407,595)
Grants payable	(231,351)	120,622
Reserve for self-funded unemployment insurance	(43,402)	14,276
Refundable advances	296,625	(105,402)
Accrued pension liability	187,292	(1,466,974)
Net change in cash from operating activities	<u>678,621</u>	<u>(1,109,187)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(171,633)	(814,068)
Proceeds from the sale of investments	26,189	19,218
Purchases of investments	(948,231)	(1,334,422)
Net change in cash from investing activities	<u>(1,093,675)</u>	<u>(2,129,272)</u>
Cash flows from financing activities:		
Bequests	67,698	46,366
Contributions restricted for capital purposes	287,054	719,864
Repayment of notes payable	(97,863)	(98,700)
Net change in cash from financing activities	<u>256,889</u>	<u>667,530</u>
Net change in cash and cash equivalents	(158,165)	(2,570,929)
Cash and cash equivalents, beginning of year	<u>1,086,780</u>	<u>3,657,709</u>
Cash and cash equivalents, end of year	<u>\$ 928,615</u>	<u>\$ 1,086,780</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, 2018

	Program Services	Management and General	Fundraising and Development	Total
Salaries and related expenses:				
Salaries	\$ 11,103,340	\$ 2,226,028	\$ 290,928	\$ 13,620,296
Employee benefits	2,443,901	491,027	76,316	3,011,244
Payroll taxes	819,103	162,601	21,742	1,003,446
Total salaries and related expenses	<u>14,366,344</u>	<u>2,879,656</u>	<u>388,986</u>	<u>17,634,986</u>
Other expenses:				
Professional fees and contract services	1,821,658	290,394	22,887	2,134,939
Occupancy	1,257,333	372,526	8,539	1,638,398
Program and office supplies	793,883	34,991	1,153	830,027
Rental and maintenance of equipment	363,889	251,919	9,298	625,106
Specific assistance	464,282	2,325	1,106	467,713
Travel	233,862	19,534	854	254,250
Telephone	148,618	32,950	2,467	184,035
Conferences, conventions and meetings	69,861	45,085	3,883	118,829
Interest	115,567	3,611	-	119,178
Membership dues and subscriptions	65,688	2,259	399	68,346
Program activities	64,193	-	-	64,193
Bank and service charges	18,095	95,965	-	114,060
Miscellaneous	3,757	1,961	3,496	9,214
Advertising	10,395	7,797	7,499	25,691
Special events	-	-	22,646	22,646
Printing and publications	6,164	2,269	3,546	11,979
Postage	12,887	8,036	251	21,174
Bad debt	437	40,926	-	41,363
Total other expenses	<u>5,450,569</u>	<u>1,212,548</u>	<u>88,024</u>	<u>6,751,141</u>
Total expenses before depreciation	19,816,913	4,092,204	477,010	24,386,127
Depreciation	<u>427,186</u>	<u>73,869</u>	<u>-</u>	<u>501,055</u>
Total expenses	<u>\$ 20,244,099</u>	<u>\$ 4,166,073</u>	<u>\$ 477,010</u>	<u>\$ 24,887,182</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, 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
Special events	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**

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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.

Board designated endowment - Net assets subject to self-imposed limits by action of the governing board. Board designated net assets may be earmarked for future programs, investment or other uses.

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, 2018 and 2017, 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 \$208,600 and \$198,236 for the years ended June 30, 2018 and 2017, respectively.

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 \$317,400 and \$352,497 as of June 30, 2018 and 2017, respectively.

Fair Value Measurements

Catholic Charities adopted the requirements of the *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.

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.

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

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.

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the support is reported as unrestricted.

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.

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

The following are useful lives of the assets:

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

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, 2018 through October 31, 2018, the date on which financial statements were available to be issued.

Reclassifications

Certain reclassifications have been made to the June 30, 2017 financial statements to conform to the June 30, 2018 financial statement presentation.

NOTE 3 - NET CLIENT SERVICE REVENUE:

Net client service revenue is comprised of net realizable amounts from clients, third party payers and others for services rendered. Net client service revenue is included in program service fees in the statements of activities.

NOTE 3 - NET CLIENT SERVICE REVENUE (CONTINUED):

The following summarizes net client service revenue for the years ended June 30,:

	<u>2018</u>	<u>2017</u>
Gross client service revenue	\$ 7,307,026	\$ 7,356,608
Less: contractual allowance	<u>(4,002,021)</u>	<u>(3,706,978)</u>
Net client service revenue	<u>\$ 3,305,005</u>	<u>\$ 3,649,630</u>

For the years ended June 30, 2018 and 2017, approximately 75 and 77 percent of net client 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 use of facilities and contributed services is recorded as expenses under the following categories for the year ended June 30,:

	<u>2018</u>	<u>2017</u>
Occupancy	\$ 346,377	\$ 346,985
Specific assistance	<u>2,126</u>	<u>9,122</u>
Total	<u>\$ 348,503</u>	<u>\$ 356,107</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. The corresponding revenue of \$348,503 and \$356,107 from the Archdiocese of Hartford is included in the Archdiocese of Hartford revenue on the consolidated statements of activities.

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 - INVESTMENTS:

The following investments are measured at fair value or net asset value on a recurring basis at June 30, 2018:

	Total	Quoted Prices in Active Markets or Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Net Asset Value (NAV)
Cash and cash equivalents	\$ 72,075	\$ 72,075	\$ -	\$ -
Money market	4,428,755	4,428,755	-	-
Market-linked certificate of deposit	1,193,599	1,193,599	-	-
Corporate bonds	1,616,679	1,616,679	-	-
Equity funds	422,042	422,042	-	-
Interest in Archdiocese of Hartford Investment Trust:				
Fixed income	1,668,154	-	-	1,668,154
Large cap	884,886	-	-	884,886
SCC index	481,957	-	-	481,957
International	737,370	-	-	737,370
Alternative	1,100,644	-	-	1,100,644
Total common collective trusts	4,873,011	-	-	4,873,011
Totals	<u>\$ 12,606,161</u>	<u>\$ 7,733,150</u>	<u>\$ -</u>	<u>\$ 4,873,011</u>

The following investments are measured at fair value or net asset 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)	Net Asset Value (NAV)
Cash and cash equivalents	\$ 125,418	\$ 125,418	\$ -	\$ -
Money market	3,499,407	3,499,407	-	-
Market-linked certificate of deposit	1,185,073	1,185,073	-	-
Corporate bond	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	4,648,805	-	-	4,648,805
Totals	<u>\$ 11,475,810</u>	<u>\$ 6,827,005</u>	<u>\$ -</u>	<u>\$ 4,648,805</u>

NOTE 6 - INVESTMENTS (CONTINUED):

The following is a description of the valuation methodologies used for assets measured at fair value:

Money market - valued using observable quoted prices for identical assets in active markets.

Market-linked certificate of deposit - valued using observable quoted prices for identical assets in active markets.

Corporate bond - valued at the closing price reported on the active market on which the individual securities are traded.

Equity funds - valued using observable quoted prices for identical assets in active markets.

Endowment funds held in the Archdiocese of Hartford Investment Trust are valued at the net asset value of shares held by Catholic Charities.

NOTE 7 - PROPERTY AND EQUIPMENT:

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

	2018	2017
Land and buildings	\$ 8,325,974	\$ 8,325,974
Leasehold and building improvements	4,712,915	5,205,528
Automobiles	102,006	102,006
Office equipment	1,095,070	1,170,478
Furniture	56,242	57,790
Construction in progress	2,638	406,089
Total cost	<u>14,294,845</u>	<u>15,267,865</u>
Less: accumulated depreciation	<u>(5,724,651)</u>	<u>(6,153,841)</u>
Property and equipment, net	<u>\$ 8,570,194</u>	<u>\$ 9,114,024</u>

NOTE 8 - REFUNDABLE ADVANCES:

Refundable advances consist of the following at June 30,:

	2018	2017
Refundable advances - grants	\$ 55,980	\$ 81,622
United States Conference of Catholic Bishops	27,250	27,250
Department of Developmental Services	120,256	120,256
Department of Developmental Services - Bridge Funding	<u>322,267</u>	<u>-</u>
Total refundable advances	<u>\$ 525,753</u>	<u>\$ 229,128</u>

NOTE 9 - 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, 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
Investment return:			
Interest and dividends	96,208	-	96,208
Realized and unrealized gains	259,245	-	259,245
Fees	(26,189)	-	(26,189)
Total investment return	329,264	-	329,264
Contributions to endowment	67,698	-	67,698
Amounts appropriated for expenditure	(208,600)	-	(208,600)
Endowment assets, at June 30, 2018	\$ 4,696,680	\$ 242,395	\$ 4,939,075

NOTE 10 - TEMPORARILY RESTRICTED NET ASSETS:

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

	2018	2017
Family centers	\$ 499,648	\$ 280,526
Capital improvements	271,760	223,115
Basic human needs	558,623	521,620
Adoption	60,817	60,817
Counseling	13,124	13,124
	<u>\$ 1,403,972</u>	<u>\$ 1,099,202</u>

Temporarily restricted net assets released were as follows during the years ended June 30,:

	2018	2017
Family centers	\$ 96,191	\$ 149,347
Capital improvements	114,555	23,023
Basic human needs	138,075	189,021
Adoption	-	-
Counseling	-	-
	<u>\$ 348,821</u>	<u>\$ 361,391</u>

NOTE 11 - NOTES PAYABLE:

Notes payable consist of the following at June 30,:

	<u>2018</u>	<u>2017</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 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 \$70,000 and \$75,000 for the years ended June 30, 2018 and 2017, respectively. The maturity date of the note is July 2038. Interest was at 3.0% and 2% for the years ended June 30, 2018 and 2017, 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 \$168,587 and \$170,388 for the years ended June 30, 2018 and 2017, respectively. CHEFA intercepts 19.2% of the balance of debt service payments from the City of Hartford School Readiness grant; the intercept amounted to \$33,127 and \$32,714 for the years ended June 30, 2018 and 2017, respectively. This note is collateralized by the related building in Hartford, CT.</p>	\$ 2,345,000	\$ 2,415,000
<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, 2018 and 2017, respectively. This note is collateralized by the related building in Hartford, CT.</p>	465,104	499,999
<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>30,666</u>	<u>33,179</u>
Total notes payable	2,840,770	2,948,178
Less: debt financing costs, net of amortization	<u>181,365</u>	<u>190,910</u>
Total notes payable, net	<u><u>\$ 2,659,405</u></u>	<u><u>\$ 2,757,268</u></u>

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

2019	\$ 111,303
2020	117,824
2021	114,404
2022	121,048
2023	127,778
Thereafter	<u>2,067,048</u>
	<u><u>\$ 2,659,405</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>2018</u>	<u>2017</u>
<u>Change in Projected Benefit Obligation:</u>		
Projected benefit obligation, beginning of year	\$ 12,246,980	\$ 12,527,414
Service cost	18,635	18,740
Interest cost	368,357	326,297
Change due to assumption changes	406,534	(167,768)
Actuarial gain	314,470	334,741
Benefits disbursed from plan assets (including expense charges)	(1,225,282)	(792,444)
Effects of settlement	39,599	-
Projected benefit obligation, end of year	<u>\$ 12,169,293</u>	<u>\$ 12,246,980</u>
<u>Change in Plan Assets:</u>		
Total fair value of plan assets, beginning of year	\$ 10,058,244	\$ 8,871,704
Actual return on plan assets	661,303	877,446
Employer contributions	299,000	1,101,538
Benefits disbursed from plan assets (including expense charges)	(1,225,282)	(792,444)
Total fair value of plan assets, end of year	<u>\$ 9,793,265</u>	<u>\$ 10,058,244</u>
<u>Funded Status:</u>		
Actuarial present value of projected benefit obligation	\$ (12,169,293)	\$ (12,246,980)
Plan assets at fair value	<u>9,793,265</u>	<u>10,058,244</u>
Unfunded status	<u>(2,376,028)</u>	<u>(2,188,736)</u>
Liability for pension benefits	<u>\$ (2,376,028)</u>	<u>\$ (2,188,736)</u>

NOTE 12 - RETIREMENT PLAN (CONTINUED):

	<u>2018</u>	<u>2017</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	\$ 416,030	\$ (508,882)
Net periodic pension cost (recognized in total operating expenses)	(56,310)	(176,626)
Contribution paid during the year	<u>299,000</u>	<u>1,101,538</u>
Liability for pension benefits at end of fiscal year before reflecting ASC Topic 715 adjustments	658,720	416,030
Settlement loss	(273,127)	-
Net effect of adoption of recognition provisions of ASC Topic 715	<u>(2,761,621)</u>	<u>(2,604,766)</u>
Liability for pension benefits at end of fiscal year after reflecting adjustments for ASC Topic 715	<u><u>\$ (2,376,028)</u></u>	<u><u>\$ (2,188,736)</u></u>

Components of Net Periodic Pension Benefits Cost:

Service cost	\$ 18,635	\$ 18,740
Interest cost	368,357	326,297
Actual return on plan assets	(661,303)	(877,446)
Amortization of unrecognized net loss	244,572	332,629
Asset (loss) deferred	<u>86,049</u>	<u>376,406</u>
Net periodic pension benefit cost	<u><u>\$ 56,310</u></u>	<u><u>\$ 176,626</u></u>

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

	<u>July 1, 2017</u>	<u>Reclassified as a Net Periodic Benefit Cost</u>	<u>Amounts Arising During Period</u>	<u>Effects of Settlement</u>	<u>June 30, 2018</u>
Transition obligation (or asset)	\$ -	\$ -	\$ -	\$ -	\$ -
Net prior service cost (or credit)	-	-	-	-	-
Net (gain) or loss	2,604,766	(244,572)	674,554	(273,127)	2,761,621

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

	<u>July 1, 2018</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	2,761,621	(266,326)

NOTE 12 - RETIREMENT PLAN (CONTINUED):

Assumptions Used for Determining

Net Periodic Pension Benefit Cost:

	<u>2018</u>	<u>2017</u>
Discount rate	3.75%	3.50%
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, 2018 and 2017, by asset category are as follows:

	<u>2018</u>	<u>2017</u>
Equity	53.30%	54.00%
Fixed income	34.10%	30.60%
General account	12.60%	15.40%
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, 2018 and 2017.

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.

Insurance Company General Account (Interest Accumulation Account): Credited with contractual rate of return. Fixed income assets are carried at amortized cost, or contract value, which is deemed to be fair value.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different value measurement at the reporting date.

NOTE 12 - RETIREMENT PLAN (CONTINUED):

The fair values of Catholic Charities' Pension Plan assets, by asset class are as follows at June 30, 2018:

		Quoted Prices in Active Markets or Identical Assets (Level 1)			Significant Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
	Total					
Interest accumulation account	<u>\$ 1,230,310</u>	<u>\$ -</u>		<u>\$ -</u>	<u>\$ 1,230,310</u>	
Mutual Funds:						
Equity	5,222,480	5,222,480		-	-	
Fixed income	<u>3,340,475</u>	<u>3,340,475</u>		<u>-</u>	<u>-</u>	
Total mutual funds	8,562,955	8,562,955		-	-	
Total investments, fair value	<u><u>\$ 9,793,265</u></u>	<u><u>\$ 8,562,955</u></u>		<u><u>\$ -</u></u>	<u><u>\$ 1,230,310</u></u>	

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>\$ -</u>		<u>\$ -</u>	<u>\$ 1,551,383</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>\$ 8,506,861</u></u>		<u><u>\$ -</u></u>	<u><u>\$ 1,551,383</u></u>	

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

<u>Fiscal Year End</u>	
2019	\$ 3,690,000
2020	907,000
2021	1,146,000
2022	662,000
2023	723,000
2024-2028	3,777,000

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, 2018 and 2017 were \$371,675 and \$470,374, respectively.

Section 457(b) Deferred Compensation Plan

Catholic Charities also maintains a 457(b) nonqualified deferred compensation plan for highly compensated employees only. The plan investments totaling \$49,529 and \$8,245 are included in deposits and prepaid expenses on the consolidated statements of financial position.

NOTE 13 - CONCENTRATION OF REVENUES:

Of the total support and revenue received by Catholic Charities, approximately 6.8% and 7.2% represent grants from federal agencies and 47.2% and 46.7% represent grants from state agencies for the years ended June 30, 2018 and 2017, respectively. Total grants from state agencies amounted to approximately \$11.6 and \$12.4 million for the years ended June 30, 2018 and 2017, respectively. Approximately 75% of the \$11.6 million in state funding is comprised of grants from the following agencies: Department of Children and Families (19%), Office of Early Childhood (23%), and Department of Developmental Services (33%). 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 \$153,492 and \$194,012 for the years ended June 30, 2018 and 2017, respectively.

Catholic Charities has several automobile leases. The leases run for various periods of time through June 2020. Lease expense was \$78,531 and \$80,490 for the years ended June 30, 2018 and 2017, respectively.

Catholic Charities also leases furniture and office equipment that run for various periods of time through June 2020. Lease expense was \$89,233 and \$88,966 for the years ended June 30, 2018 and 2017, respectively.

NOTE 14 - OPERATING LEASES (CONTINUED):

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

2019	\$	241,034
2020		112,752
2021		68,253
2022		63,526
2023		36,603
Thereafter		234,604
	\$	<u>756,772</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 \$292,803 and \$336,205 at June 30, 2018 and 2017, 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.

Catholic Charities is subject to cost settlement procedures prescribed by state and federal agencies and other funding sources. Management has estimated no cost settlements for the years ended June 30, 2018 and 2017.

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 \$26,285 and \$25,995 on June 30, 2018 and 2017, 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 Education	\$ 120,030	\$ 36,000	6/30/2026
Department of Social Services	250,000	25,000	6/30/2027
Department of Education	442,679	44,000	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 \$2,803,887 and \$3,150,485 for the years ended June 30, 2018 and 2017, respectively. These amounts include \$346,377 and \$346,985 for in-kind contribution of rent for use of buildings owned by the Archdiocese for the years ended June 30, 2018 and 2017, respectively. In addition, the Archdiocese provided support for capital improvements in the amount of \$200,000 for both of the years ended June 30, 2018 and 2017.

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 \$260,923 and \$183,825 for this program for the years ended June 30, 2018 and 2017, respectively.

NOTE 18 - SUPPLEMENTARY CASH FLOW INFORMATION:

Supplementary information:

Cash paid for interest	<u>\$ 119,178</u>	<u>\$ 124,180</u>
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