

CATHOLIC CHARITIES OF BUFFALO, N.Y.

FINANCIAL STATEMENTS

June 30, 2019

INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Catholic Charities of Buffalo, N.Y.

We have audited the accompanying combined balance sheets of Catholic Charities of Buffalo, N.Y. (Catholic Charities) and affiliates as of June 30, 2019 and 2018, and the related combined statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 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 combined financial statements referred to above present fairly, in all material respects, the combined financial position of Catholic Charities as of June 30, 2019 and 2018 and the combined 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.



December 20, 2019

CATHOLIC CHARITIES OF BUFFALO, N.Y.

Combined Balance Sheets

June 30,	2019	2018
Assets		
Cash	\$ 3,342,509	\$ 4,873,228
Receivables, net (Note 2)	6,004,829	7,097,064
Prepaid Fund for the Faith	1,123,145	1,813,843
Prepaid expenses and other assets	13,595	25,862
Investments (Note 3)	19,029,215	20,404,114
Property and equipment, net (Note 4)	8,586,723	7,795,095
	\$ 38,100,016	\$ 42,009,206
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 1,200,164	\$ 1,375,484
Accrued expenses	1,854,385	1,923,847
Deferred revenue	522,531	484,330
Long-term debt (Note 6)	543,552	620,237
Estimated third-party payor settlements - service fees	444,400	444,400
Postretirement health benefits (Note 10)	3,262,000	3,041,000
	7,827,032	7,889,298
Net assets:		
Without donor restrictions	18,404,341	20,101,503
With donor restrictions (Note 7)	11,868,643	14,018,405
	30,272,984	34,119,908
	\$ 38,100,016	\$ 42,009,206

CATHOLIC CHARITIES OF BUFFALO, N.Y.

Combined Statements of Activities

For the years ended June 30,

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue:			
Annual campaign	\$ -	\$ 9,187,852	\$ 9,187,852
Less: Donor designations	-	(69,537)	(69,537)
Net assets released from restrictions	11,049,500	(11,049,500)	-
Less: Estimated uncollectible pledges	(488,573)	-	(488,573)
Net appeal revenue	10,560,927	(1,931,185)	8,629,742
Other support and revenue			
Government grants	14,696,508	-	14,696,508
Service fees	5,883,085	-	5,883,085
Contracts	744,093	-	744,093
Bequests and contributions	1,116,491	-	1,116,491
Net change in value of assets held by others	54,276	(118,577)	(64,301)
Other investment income	1,015,061	-	1,015,061
Other income	1,824,027	-	1,824,027
Total support and revenue	35,894,468	(2,049,762)	33,844,706
Expenses			
Program services	31,169,877	-	31,169,877
Administration	4,687,245	-	4,687,245
Fundraising	1,413,374	-	1,413,374
Total expenses	37,270,496	-	37,270,496
Excess (deficit) support and revenue over expenses	(1,376,028)	(2,049,762)	(3,425,790)
Other changes in net assets			
Postretirement benefit obligation	(421,134)	-	(421,134)
Capital grants and contributions	100,000	(100,000)	-
	(321,134)	(100,000)	(421,134)
Change in net assets	(1,697,162)	(2,149,762)	(3,846,924)
Net assets - beginning	20,101,503	14,018,405	34,119,908
Net assets - ending	\$ 18,404,341	\$ 11,868,643	\$ 30,272,984

See accompanying notes.

2018		
Without Donor Restrictions	With Donor Restrictions	Total
\$ -	\$ 11,049,500	\$ 11,049,500
-	-	-
11,051,509	(11,051,509)	-
(218,383)	-	(218,383)
<u>10,833,126</u>	<u>(2,009)</u>	<u>10,831,117</u>
16,855,169	-	16,855,169
6,646,447	-	6,646,447
837,205	-	837,205
1,185,729	-	1,185,729
46,910	107,052	153,962
933,462	-	933,462
1,867,360	-	1,867,360
<u>39,205,408</u>	<u>105,043</u>	<u>39,310,451</u>
33,061,424	-	33,061,424
4,332,970	-	4,332,970
1,644,940	-	1,644,940
<u>39,039,334</u>	<u>-</u>	<u>39,039,334</u>
166,074	105,043	271,117
(664,522)	-	(664,522)
1,113,342	200,000	1,313,342
<u>448,820</u>	<u>200,000</u>	<u>648,820</u>
614,894	305,043	919,937
<u>19,486,609</u>	<u>13,713,362</u>	<u>33,199,971</u>
<u>\$ 20,101,503</u>	<u>\$ 14,018,405</u>	<u>\$ 34,119,908</u>

CATHOLIC CHARITIES OF BUFFALO, N.Y.

Combined Statements of Functional Expenses

For the years ended June 30,

2019

	Family and Community Services	Fund for the Faith	School Based Services	Parish Outreach and Advocacy	Refugee and Immigration Assistance	Workforce Development	Clinical and Aging Services
Salaries and wages	\$ 8,405,476	\$ -	\$ 245,112	\$ 523,746	\$ 526,420	\$ 814,470	\$ 3,150,518
Payroll taxes and benefits	2,864,310	-	97,865	174,915	225,277	300,890	1,115,092
Postretirement health benefits	(38,384)	-	(1,074)	(2,457)	(2,470)	(3,821)	(14,417)
Stipends	573	-	-	1,000	-	-	227,890
Total salaries and related benefits	11,231,975	-	341,903	697,204	749,227	1,111,539	4,479,083
Fund for the Faith	-	3,845,806	-	-	-	-	-
Rent	641,964	-	280	20,440	-	30,854	171,073
Client care expense	466,565	-	-	1,307,989	126,908	18,740	46,809
Food	148,566	-	-	24,697	-	272	535
Supplies	239,490	-	3,591	7,660	29,840	39,134	130,852
Telephone	421,766	-	4,616	39,055	36,497	62,540	190,226
Travel and conference	247,142	-	2,136	13,835	17,253	18,936	49,694
Purchased services	110,901	-	152,075	2,492	185,394	100,874	234,346
Professional fees	129,458	-	9,502	2,200	2,151	10,403	1,118,534
Computer fees	96,126	-	2,556	7,479	5,886	9,429	152,690
Research	250	-	-	-	-	-	-
Auto and truck expense	39,641	-	1,023	2,186	5,063	3,400	13,173
Postage and freight	39,140	-	813	3,472	2,492	2,786	14,083
Repairs and maintenance	149,824	-	4,012	26,432	7,391	28,797	69,146
Advertising and promotion	22,743	-	-	-	-	20,194	24,338
Utilities	163,956	-	3,503	20,857	7,816	11,925	66,857
Insurance	101,356	-	1,967	7,313	8,508	15,931	36,359
Staff development	146,260	-	762	6,782	1,717	3,151	24,658
Dues and subscriptions	31,010	-	-	210	690	-	2,791
Bad debts	42,365	-	-	-	-	-	-
Other	28,473	-	16	1,674	2,400	4,771	8,436
Depreciation	354,768	-	4,767	14,712	73,883	29,581	110,065
	14,853,739	3,845,806	533,522	2,206,689	1,263,116	1,523,257	6,943,748
Estimated uncollectible pledges	-	-	-	-	-	-	-
	\$ 14,853,739	\$ 3,845,806	\$ 533,522	\$ 2,206,689	\$ 1,263,116	\$ 1,523,257	\$ 6,943,748

See accompanying notes.

				2018			
Total							
Program Services	Administration	Fundraising	Total	Program	Administration	Fundraising	Total
\$ 13,665,742	\$ 2,315,932	\$ 390,967	\$ 16,372,641	\$ 14,871,657	\$ 2,143,991	\$ 369,495	\$ 17,385,143
4,778,349	755,077	135,058	5,668,484	4,962,464	867,058	130,562	5,960,084
(62,623)	(10,854)	(1,834)	(75,311)	(113,072)	(14,551)	(2,816)	(130,439)
229,463	-	-	229,463	240,398	-	-	240,398
18,610,931	3,060,155	524,191	22,195,277	19,961,447	2,996,498	497,241	23,455,186
3,845,806	-	-	3,845,806	3,809,830	-	-	3,809,830
864,611	168,733	-	1,033,344	929,605	124,402	-	1,054,007
1,967,011	2,350	1,262	1,970,623	2,505,075	2,958	2,540	2,510,573
174,070	-	-	174,070	143,163	228	-	143,391
450,567	32,619	6,938	490,124	441,942	22,775	6,522	471,239
754,700	246,147	16,022	1,016,869	590,003	123,673	11,178	724,854
348,996	66,412	4,028	419,436	398,953	64,558	9,628	473,139
786,082	184,374	249,659	1,220,115	1,067,386	196,480	205,104	1,468,970
1,272,248	244,077	1,598	1,517,923	1,182,761	206,966	1,351	1,391,078
274,166	20,140	4,870	299,176	285,615	18,953	3,266	307,834
250	15,401	-	15,651	250	127,200	35,000	162,450
64,486	9,668	12,061	86,215	84,453	9,702	4,770	98,925
62,786	7,686	58,487	128,959	43,380	5,934	49,877	99,191
285,602	32,258	5,446	323,306	299,179	27,686	4,771	331,636
67,275	109,263	431,858	608,396	33,725	59,076	713,711	806,512
274,914	33,094	7,452	315,460	286,048	29,554	6,413	322,015
171,434	41,723	5,871	219,028	171,776	37,866	2,981	212,623
183,330	46,918	909	231,157	153,482	164,798	6,973	325,253
34,701	64,191	8,469	107,361	45,826	61,423	1,232	108,481
42,365	-	-	42,365	10,561	-	-	10,561
45,770	256,997	66,650	369,417	48,838	12,902	75,603	137,343
587,776	45,039	7,603	640,418	568,126	39,338	6,779	614,243
31,169,877	4,687,245	1,413,374	37,270,496	33,061,424	4,332,970	1,644,940	39,039,334
-	488,573	-	488,573	-	218,383	-	218,383
\$ 31,169,877	\$ 5,175,818	\$ 1,413,374	\$ 37,759,069	\$ 33,061,424	\$ 4,551,353	\$ 1,644,940	\$ 39,257,717

Combined Statements of Cash Flows

For the years ended June 30,	2019	2018
Operating activities:		
Change in net assets	\$ (3,846,924)	\$ 919,937
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Net change in value of investments - assets held in trust	64,301	(153,962)
Net realized and unrealized gains on other investments	(898,089)	(504,030)
Depreciation	640,418	614,243
Loss on disposal of assets	4,640	-
Changes in other operating assets and liabilities:		
Receivables	1,092,235	1,372,484
Prepaid Fund for the Faith	690,698	(182,756)
Prepaid expenses and other assets	12,267	(2,991)
Accounts payable	325,673	(511,641)
Accrued expenses	(69,462)	(165,714)
Deferred revenue	38,201	(43,776)
Estimated third-party payor settlements - service fees	-	(96,100)
Postretirement health benefits	221,000	411,000
Net operating activities	(1,725,042)	1,656,694
Investing activities:		
Property and equipment purchases	(1,937,679)	(928,661)
Proceeds from sale of investments	8,508,549	5,635,530
Purchases of investments	(6,299,862)	(6,174,868)
Net investing activities	271,008	(1,467,999)
Financing activities:		
Payments on long-term debt	(76,685)	(75,677)
Net change in cash	(1,530,719)	113,018
Cash - beginning	4,873,228	4,760,210
Cash - ending	\$ 3,342,509	\$ 4,873,228

Notes to Combined Financial Statements

1. Summary of Significant Accounting Policies:

Nature of Organization:

The combined financial statements include the accounts of Catholic Charities of Buffalo, N.Y. and its affiliated entity, Monsignor Carr Institute (collectively referred to as Catholic Charities) which provide a variety of community care services throughout Western New York State.

Catholic Charities coordinates an annual fund raising appeal and enters into agreements with federal, state and local government agencies to support its mission. It also (through Monsignor Carr Institute) provides individual and group mental health and substance abuse services to residents of Erie and Niagara Counties, New York, which generates patient service fees.

All significant interprogram and intercompany transactions have been eliminated in the accompanying combined financial statements.

Catholic Charities is related to the Diocese of Buffalo (the Diocese) and The Foundation of the Roman Catholic Diocese of Buffalo, N.Y. Inc. (the Foundation) through common Board members. Catholic Charities receives certain support services from the Diocese.

Tax Status:

Catholic Charities of Buffalo, N.Y. and Monsignor Carr Institute are 501(c)(3) corporations exempt from income taxes under Section 501(a) of the Internal Revenue Code.

Subsequent Events:

Catholic Charities has evaluated events and transactions for potential recognition or disclosure in the financial statements through December 31, 2019, the date the financial statements were available to be issued.

Cash:

Cash in financial institutions in excess of insured limits may subject Catholic Charities to concentrations of credit risk at various times during the year.

Receivables:

Receivables from contributions, government grants and contracts are stated at the amount management expects to collect from outstanding balances. An allowance for doubtful accounts is recorded based on management's assessment of the collectability of individual account balances and historical trends. Amounts outstanding after management has used reasonable collection efforts are written off through a charge to allowance for bad debts and a credit to receivables.

Contributors to the annual appeal reside primarily in Western New York State. Economic conditions in this area may affect the collectability of the contributions receivable.

Service fee receivables are reduced by an allowance for doubtful accounts. In evaluating the collectability of service fee receivables, Catholic Charities analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, Catholic Charities analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to have financial difficulties that make the realization of amounts due unlikely).

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), Catholic Charities records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

Investments:

Investments in marketable securities are measured at fair value on a recurring basis as determined by quoted prices in active markets.

Contributions:

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and nature of any donor restrictions. Net assets with donor restrictions are reclassified to net assets without donor restrictions upon satisfaction of time or purpose restrictions.

Catholic Charities' annual appeal is conducted each spring and is essentially complete by June 30th. Substantially all cash contributions and pledges are recorded as time restricted until the following fiscal year when management approves and allocates funds to programs within Catholic Charities and Fund for the Faith at the Diocese. Amounts allocated to Fund for the Faith in 2019 and 2018 (related to the 2018 and 2017 appeal years) totaled \$3,845,806 and \$3,809,830. Commitments to the Fund for the Faith to be allocated and recorded in fiscal 2020 (2019 appeal) total approximately \$2,000,000. Prepaid Fund for the Faith represents amounts that are disbursed to the Diocese in advance.

Beginning with the 2019 appeal, donors were also offered a choice to direct contributions entirely to either Catholic Charities or the Fund for the Faith. Consequently, Catholic Charities recorded \$69,537 designated contributions for Fund for the Faith in 2019.

Catholic Charities recognizes in-kind services as contributions if the services create or enhance non-financial assets or require specialized skills, are performed by people with those skills, and would otherwise be purchased by Catholic Charities. During the years ended June 30, 2019 and 2018, Catholic Charities recognized approximately \$76,000 and \$278,000 of in-kind services, respectively. A large number of volunteers have contributed services throughout the year that are not reported as contributions in the financial statements since the recognition criteria under generally accepted accounting principles were not met.

Property and Equipment:

Property and equipment is stated at cost or fair market value at the date of donation, net of accumulated depreciation. Depreciation is provided over estimated service lives on the straight line basis. Maintenance and repairs are charged to operations as incurred; significant improvements are capitalized.

Service Fees Revenue:

Service fees revenue is derived primarily for services provided under Medicaid and other third-party insurance programs. Catholic Charities has agreements with third-party payors that provide for payments at established rates. Payment arrangements include prospectively determined rates per visit and discounted charges. Service fees revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Revenue from the Medicaid and Medicare programs accounted for approximately 45% of service fees for the years ended June 30, 2019 (46% in 2018). Laws and regulations governing the programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Deferred Revenue:

Funds received from reimbursement based government grants and contracts are considered earned and reported as revenue when expenditures are incurred in compliance with specific grant requirements. Amounts received but not yet earned are reported as deferred revenue.

Net Assets:

Net assets are reported in two classes based on the absence or existence of donor-imposed restrictions. Net assets with donor restrictions include net assets whose use has been limited by donors for a specific time period, purpose, or to be maintained by Catholic Charities in perpetuity.

Functional Expense Allocations:

Expenses have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefitted. These costs include depreciation and certain occupancy costs, which are allocated on a square footage basis; salaries and benefits, which are allocated on the basis of estimates of time and effort; and supplies, computer fees and utilities, which are allocated based on the program's proportion of salaries.

Use of Estimates:

The preparation of the combined 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 amounts reported in the combined financial statements and accompanying notes. Actual results could differ from those estimates.

Reclassifications:

The 2018 financial statements have been reclassified to conform with the presentation adopted for 2019.

2. Receivables:

	2019	2018
Contributions	\$ 2,260,600	\$ 2,672,092
Service fees	925,153	1,048,319
Government agencies and other	3,662,076	4,187,653
	<u>6,847,829</u>	<u>7,908,064</u>
Less allowance for estimated uncollectibles:		
Contributions	380,000	348,000
Service fees	463,000	463,000
	<u>843,000</u>	<u>811,000</u>
	<u>\$ 6,004,829</u>	<u>\$ 7,097,064</u>

3. Investments:

	2019	2018
Marketable securities:		
Money market funds	\$ 4,322,485	\$ 5,719,997
Corporate bonds	724,061	857,470
U.S. Government securities	707,348	843,896
Mutual funds	2,606,417	2,915,699
Common stock	6,009,956	5,343,803
Interest in assets held by others (see below)	4,658,948	4,723,249
	<u>\$ 19,029,215</u>	<u>\$ 20,404,114</u>

The following summarizes investment return of marketable securities included as other investment income in the statements of activities:

	2019	2018
Dividends and interest	\$ 116,972	\$ 429,432
Net realized and unrealized gains	898,089	504,030
	<u>\$ 1,015,061</u>	<u>\$ 933,462</u>

Interest in assets held by others consist of the following:

	2019	2018
St. Joseph Investment Fund	\$ 2,015,781	\$ 1,961,505
The Foundation of the Roman Catholic Diocese of Buffalo, N.Y. Inc.	2,643,167	2,761,744
	<u>\$ 4,658,948</u>	<u>\$ 4,723,249</u>

The St. Joseph Investment Fund (the Fund) was organized by the Diocese and provides diocesan organizations the opportunity to invest in diversified investment portfolios. Assets invested in the fund are pooled in a short-term fund designed to provide liquidity and a long-term fund to provide growth. Investment managers follow investment guidelines described in the Fund's "Offering Circular and Investment Agreement," which also specifies a policy for the strategic allocation of Fund investments. Values are based on Catholic Charities' contributions, plus its allocable share of the investment's net income or loss, less any withdrawals or distributions. The underlying holdings of the Fund are based on various investment strategies. Redemptions can be made daily on the short-term fund and on the first business day of each quarter for the long-term fund. Essentially all investments are in the long-term fund.

Pursuant to an agreement dated October 25, 2002, Catholic Charities of Buffalo, N.Y. Foundation, Inc. (Catholic Charities Foundation) merged with the Foundation of the Roman Catholic Diocese of Buffalo, N.Y., Inc. (the Foundation). Pursuant to this agreement, a separate fund or burse was established at the Foundation to receive the net assets of the Catholic Charities Foundation "to be used for the same donor and corporate purpose and with the same donor restrictions applicable to those assets" prior to the transfer. Assets maintained in this separate fund by the Foundation are primarily invested in the St. Joseph Investment Fund. The Foundation, at the discretion of its independent Board of Trustees, makes unrestricted distributions to Catholic Charities. The amount distributed is based on the three prior years' average investment performance and return, not to exceed 5%. Essentially all of the net assets held in trust by the Foundation are presented with purpose, time or perpetuity restrictions.

4. Property and Equipment:

	2019	2018
Land and buildings	\$ 10,836,164	\$ 8,205,078
Equipment and vehicles	1,182,976	1,415,860
Leasehold improvements	674,069	667,831
Construction in progress	-	1,313,342
	<u>12,693,209</u>	<u>11,602,111</u>
Less accumulated depreciation	4,106,486	3,807,016
	<u>\$ 8,586,723</u>	<u>\$ 7,795,095</u>

5. Short-Term Borrowings:

Catholic Charities has available a \$1,000,000 revolving bank demand note for working capital with interest at LIBOR plus 1.85%, secured by deposits held at the bank. No amounts were outstanding at June 30, 2019 and 2018.

6. Long-Term Debt:

	2019	2018
Mortgage note payable to seller of real property, monthly installments of \$2,396 including interest at 5.15% through September 2025, secured by related property.	\$ 153,381	\$ 173,656
Bank note payable, monthly installments of \$4,701 plus interest at 2.41% through May 2026, secured by deposits at the banking institution.	390,171	446,581
	\$ 543,552	\$ 620,237

Aggregate annual maturities of long-term debt subsequent to June 30, 2019 are as follows:

2020	\$ 77,762
2021	78,888
2022	80,073
2023	81,321
2024	82,635
Thereafter	142,873
	\$ 543,552

7. Net Assets With Donor Restrictions:

Net assets with donor restrictions at June 30, 2019 and 2018 are available for the following purposes:

	2019	2018
Annual appeal	\$ 9,118,315	\$ 11,049,500
Time restricted contributions	100,000	200,000
The Foundation:		
Time restricted	2,325,384	2,443,961
Perpetuity	324,944	324,944
	\$ 11,868,643	\$ 14,018,405

The Board of Trustees of Catholic Charities has interpreted the New York Prudent Management of Institutional Funds Act (NYPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, Catholic Charities classifies as net assets with donor restrictions (a) the original value of gifts donated to the endowment corpus, (b) the original value of subsequent gifts to the endowment corpus, and (c) accumulations to the endowment corpus made in accordance with the direction of a donor gift instrument at the time the accumulation is added to the fund. In accordance with NYPMIFA, Catholic Charities considers the following factors to appropriate or accumulate donor-restricted endowment funds:

- Duration and preservation of the fund
- Purposes of Catholic Charities and the fund
- General economic conditions
- Possible effect of inflation and deflation
- Expected total return from income and appreciation of investments
- Other resources of Catholic Charities
- Investment policy of Catholic Charities
- Where appropriate and circumstances would otherwise warrant, alternatives to expenditure of the endowment fund, giving due consideration to the effect that such alternatives may have on Catholic Charities

Catholic Charities has adopted investment and spending policies for endowment assets that attempt to provide a reasonable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of its endowment assets. Endowment assets include those assets of donor-restricted funds that Catholic Charities must hold in perpetuity or for donor-specified periods.

Income earned from the investment of net assets with donor restrictions is expendable primarily for student scholarships. All investment earnings on net assets with donor restrictions were appropriated and reported within net assets without donor restrictions for the years ended June 30, 2019 and 2018.

9. Pension Plans:

Catholic Charities contributes to the Diocese of Buffalo, New York Retirement Plan (the Plan), a frozen defined benefit pension plan in conjunction with the Diocese and other Diocesan organizations. Catholic Charities does not directly manage the Plan, which is managed by a board of trustees. A majority of Catholic Charities’ employees were participants in the Plan on January 1, 2016 when the Plan was frozen.

The Plan is organized as a nonelecting noncontributory church retirement plan, and therefore the Plan is not subject to certain reporting requirements of the Employee Retirement Income Security Act of 1974, as amended (ERISA).

The risks of participating in a multiemployer plan are different from a single employer plan in the following aspects: (1) assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers; (2) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers; (3) if any employer chooses to stop participating in a multiemployer plan, the company may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability. If a plan were to terminate, if participants voluntarily withdrew or there was a mass withdrawal, Catholic Charities may also be required to make additional payments to the plan for its proportionate share of underfunded liabilities.

The following table presents information on the plan and Catholic Charities’ participation in the Plan (\$000s omitted):

Plan Employer Identification and Plan Number	Plan Funded Status as of December 31, 2018		Catholic Charities’ Contributions for the Years ended June 30:		Total Plan Contributions for the Years ended December 31:		Catholic Charities’ contributions greater than 5%?	
	Assets	Actuarial Present Value of Accumulated Benefits	2019	2018	2018	2017		
Diocese of Buffalo, New York Retirement Plan	16-0743984/002	\$ 160,600	\$ 212,200	\$ 793	\$ 826	\$ 5,785	\$ 5,774	Yes

The Plan’s accumulated benefit obligations are determined annually by the Plan’s actuary. Significant actuarial assumptions used for the Plan include a discount rate of 6.0% and an expected rate of investment return of 6.0%.

The Plan is 76% funded as of December 31, 2018, the most recent actuarial valuation date. The Plan’s certified zone status is not available since the Plan is not subject to ERISA reporting requirements.

Catholic Charities also participates in a defined contribution plan administered by the Diocese of Buffalo which was established January 1, 2016. Employer contributions consist of a 100% employee deferral match, up to 1% of compensation, plus a core contribution based on age and years of service for eligible employees. Defined contribution plan expense totaled \$494,000 and \$661,000 for the years ended June 30, 2019 and 2018.

Catholic Charities also administers a noncontributory 403(b) plan for the benefit of employees. Employees may contribute a percentage of eligible salaries to the plan subject to certain limitations.

10. Postretirement Health Benefits:

Catholic Charities provides a postemployment health care plan (the Plan) for retirees hired by December 31, 2015 who have reached age 62 and were employed for 15 or 20 years, depending on date of hire. Effective July 1, 2018, members of the senior management team are eligible for benefits if they were employed for a minimum of three years and retire at age 65. Catholic Charities' policy is to fund these benefits as paid. Catholic Charities uses a June 30th measurement date for the Plan.

Effective January 1, 2016, the Plan provides \$2,000 each be paid annually to an eligible retiree and spouse, with payments beginning when the retiree reaches age 65 and continuing until the retiree's death.

The status of the Plan at and for the years ended June 30, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Accumulated postretirement benefit obligation (APBO)	<u>\$ 3,262,000</u>	\$ 3,041,000
Accrued postretirement health benefit obligation	<u>\$ 3,262,000</u>	\$ 3,041,000
Accumulated adjustment to net assets without donor restrictions	<u>\$ 2,260,000</u>	\$ 2,681,000
Benefit cost (income)	<u>\$ (75,000)</u>	\$ (134,000)
Benefits paid	<u>\$ 126,000</u>	\$ 119,000

At June 30, 2019 and 2018, the following items included as adjustments to net assets without donor restrictions had not yet been recognized as components of employee benefit expense:

	<u>2019</u>	<u>2018</u>
Net loss	<u>\$ (1,651,000)</u>	\$ (1,815,000)
Prior service credit	<u>3,911,000</u>	4,496,000
	<u>\$ 2,260,000</u>	\$ 2,681,000

The actuarial calculations reflect a long-term perspective and use techniques designed to reduce short-term volatility in actuarial accrued liabilities. A summary of the methods and assumptions is as follows:

	<u>2019</u>	<u>2018</u>
Weighted average assumptions used to determine benefit obligation:		
Discount rate	4.25%	4.50%
Weighted average assumptions used to determine net periodic benefit cost:		
Discount rate	4.50%	4.25%

Expected future benefit payments:

2019	\$ 194,000
2020	200,000
2021	201,000
2022	201,000
2023	206,000
2024-2028	<u>1,078,000</u>
	<u>\$ 2,080,000</u>

11. Related Party Transactions:

Pursuant to a shared services agreement, the Diocese provides certain administrative and support services to Catholic Charities related to the annual appeal. Allocated shared costs related to this agreement and paid to the Diocese totaled \$174,000 and \$170,000 for the years ended June 30, 2019 and 2018. Additionally, Catholic Charities reimbursed the Diocese \$829,000 and \$790,000 for shared insurance costs in 2019 and 2018.

12. Lease Obligations:

Catholic Charities leases space and vehicles under the terms of operating leases. Rental expense for all operating leases totaled \$1,033,000 and \$1,054,000 for the years ended June 30, 2019 and 2018.

Future minimum rentals to be paid for noncancellable operating leases are:

2020	\$ 773,000
2021	375,000
2022	203,000
2023	191,000
2024	153,000
Thereafter	<u>682,000</u>
	<u>\$ 2,377,000</u>

13. Cash Flows Information:

Net cash flows from operating activities reflect cash payments for interest of \$26,295 and \$25,603 for the years ended June 30, 2019 and 2018, which approximates interest expense.

Property and equipment purchases included in accounts payable at June 30, 2018 of \$500,993 are excluded from the 2018 statement of cash flows.

14. Contingencies:

Catholic Charities is a recipient of numerous Federal and State governmental grants. The grant programs are administered by various agencies, and are subject to compliance and financial audits by the respective agencies administering the grant. Management of Catholic Charities believes it has substantially complied with the rules and regulations as specified under the program agreements as well as the rules and regulations of the respective agency for each program.

A significant amount of Catholic Charities' operations are funded by governmental programs. As such, the resource provider may hold a reversionary interest in certain assets of Catholic Charities in the event of disposition.

Catholic Charities and certain related organizations are involved in legal proceedings, the outcome of which cannot be determined at this time.

15. Financial Assets Available for Operating Purposes:

Catholic Charities obtains financial assets generally through government grants, an annual appeal, service fees, and bequests and other contributions. The financial assets are acquired throughout the year to help meet Catholic Charities cash needs for general expenditures. If necessary, Catholic Charities also has access to a \$1,000,000 revolving bank demand note (see Note 5).

Catholic Charities' financial assets available within one year of the balance sheet date to meet cash needs for general expenditures consist of the following at June 30, 2019:

Cash	\$ 1,306,285
Accounts receivable	4,024,229
Investments	<u>11,177,396</u>
	<u>\$ 16,507,910</u>