

CATHOLIC CHARITIES OF BUFFALO, N.Y.

FINANCIAL STATEMENTS

June 30, 2020

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, 2020 and 2019, 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, 2020 and 2019 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.


October 13, 2020

CATHOLIC CHARITIES OF BUFFALO, N.Y.

Combined Balance Sheets

June 30,	2020	2019
Assets		
Cash	\$ 2,170,940	\$ 3,342,509
Receivables, net (Note 2)	5,130,175	6,004,829
Prepaid Fund for the Faith	858,768	1,123,145
Prepaid expenses and other assets	16,901	13,595
Investments (Note 3)	24,135,742	19,029,215
Property and equipment, net (Note 4)	8,138,585	8,586,723
	\$ 40,451,111	\$ 38,100,016
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 634,454	\$ 1,200,164
Accrued expenses	1,976,032	1,854,385
Refundable advances	497,630	522,531
Long-term debt (Note 6)	465,782	543,552
Paycheck Protection Program loan (Note 7)	4,532,841	-
Estimated third-party payor settlements - service fees	444,400	444,400
Postretirement health benefits (Note 10)	3,487,000	3,262,000
	12,038,139	7,827,032
Net assets:		
Without donor restrictions	17,136,766	18,892,914
With donor restrictions (Note 8)	11,276,206	11,380,070
	28,412,972	30,272,984
	\$ 40,451,111	\$ 38,100,016

CATHOLIC CHARITIES OF BUFFALO, N.Y.

Combined Statements of Activities

For the years ended June 30,

2020

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue:			
Annual campaign	\$ -	\$ 8,464,302	\$ 8,464,302
Less: Donor designations	-	(27,116)	(27,116)
Net assets released from restrictions	8,629,742	(8,629,742)	-
Less: Estimated uncollectible pledges	-	(151,193)	(151,193)
Net appeal revenue	8,629,742	(343,749)	8,285,993
Other support and revenue			
Contributions:			
Government grants	14,057,512	-	14,057,512
Other public support	2,009,215	1,251,373	3,260,588
Service fees	5,841,475	-	5,841,475
Contracts	730,679	-	730,679
Net change in value of assets held by others	(31,444)	(197,792)	(229,236)
Other investment income	562,132	-	562,132
Other income	2,103,723	-	2,103,723
Net assets released from restrictions	713,696	(713,696)	-
Total support and revenue	34,616,730	(3,864)	34,612,866
Expenses			
Program services	29,700,689	-	29,700,689
Administration	4,948,834	-	4,948,834
Fundraising	1,370,077	-	1,370,077
Total expenses	36,019,600	-	36,019,600
Excess of expenses over support and revenue	(1,402,870)	(3,864)	(1,406,734)
Other changes in net assets			
Postretirement benefit obligation	(453,278)	-	(453,278)
Capital grants and contributions	100,000	(100,000)	-
	(353,278)	(100,000)	(453,278)
Change in net assets	(1,756,148)	(103,864)	(1,860,012)
Net assets - beginning	18,892,914	11,380,070	30,272,984
Net assets - ending	\$ 17,136,766	\$ 11,276,206	\$ 28,412,972

See accompanying notes.

2019

Without Donor Restrictions	With Donor Restrictions	Total
\$ -	\$ 9,187,852	\$ 9,187,852
-	(69,537)	(69,537)
11,049,500	(11,049,500)	-
-	(488,573)	(488,573)
<u>11,049,500</u>	<u>(2,419,758)</u>	<u>8,629,742</u>
14,696,508	-	14,696,508
1,116,491	-	1,116,491
5,883,085	-	5,883,085
744,093	-	744,093
54,276	(118,577)	(64,301)
1,015,061	-	1,015,061
1,824,027	-	1,824,027
-	-	-
<u>36,383,041</u>	<u>(2,538,335)</u>	<u>33,844,706</u>
31,169,877	-	31,169,877
4,687,245	-	4,687,245
1,413,374	-	1,413,374
<u>37,270,496</u>	<u>-</u>	<u>37,270,496</u>
(887,455)	(2,538,335)	(3,425,790)
(421,134)	-	(421,134)
100,000	(100,000)	-
<u>(321,134)</u>	<u>(100,000)</u>	<u>(421,134)</u>
(1,208,589)	(2,638,335)	(3,846,924)
<u>20,101,503</u>	<u>14,018,405</u>	<u>34,119,908</u>
<u>\$ 18,892,914</u>	<u>\$ 11,380,070</u>	<u>\$ 30,272,984</u>

Combined Statements of Functional Expenses

For the year ended June 30, 2020

	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	Total Program Services	Administration	Fundraising	Total
Salaries and wages	\$ 8,091,348	\$ -	\$ 212,461	\$ 564,301	\$ 540,654	\$ 1,107,643	\$ 3,704,389	\$ 14,220,796	\$ 2,375,057	\$ 407,833	\$ 17,003,686
Payroll taxes and benefits	2,685,078	-	91,374	194,863	221,010	352,026	1,188,567	4,732,918	857,413	122,071	5,712,402
Postretirement health benefits	(45,132)	-	(1,198)	(3,043)	(3,050)	(6,247)	(20,331)	(79,001)	(14,289)	(2,296)	(95,586)
Stipends	-	-	-	-	-	-	235,504	235,504	-	-	235,504
Total salaries and related benefits	10,731,294	-	302,637	756,121	758,614	1,453,422	5,108,129	19,110,217	3,218,181	527,608	22,856,006
Fund for the Faith	-	2,179,827	-	-	-	-	-	2,179,827	-	-	2,179,827
Rent	593,599	-	-	28,736	-	54,269	243,035	919,639	60,455	-	980,094
Client care expense	364,725	-	360	1,832,926	67,120	23,152	38,275	2,326,558	21,129	-	2,347,687
Food	132,615	-	-	2,173	-	510	1,056	136,354	-	-	136,354
Supplies	214,624	-	2,723	73,033	19,670	34,947	131,516	476,513	27,753	5,099	509,365
Telephone	249,880	-	4,997	37,671	16,700	32,363	132,937	474,548	665,148	10,907	1,150,603
Travel and conference	196,969	-	1,913	14,158	11,761	15,165	30,825	270,791	53,857	4,078	328,726
Purchased services	161,502	-	118,736	5,902	107,773	180,380	176,964	751,257	163,322	210,682	1,125,261
Professional fees	39,076	-	-	255	-	-	1,076,157	1,115,488	311,671	-	1,427,159
Computer fees	43,495	-	895	4,186	3,620	8,263	131,178	191,637	10,006	1,758	203,401
Research	-	-	-	-	-	-	-	-	-	-	-
Auto and truck expense	28,830	-	713	1,894	3,453	12,431	12,430	59,751	7,970	9,226	76,947
Postage and freight	25,998	-	667	2,647	3,545	1,972	10,901	45,730	3,906	25,962	75,598
Repairs and maintenance	232,330	-	3,075	72,299	10,466	28,152	110,740	457,062	34,374	6,946	498,382
Advertising and promotion	2,044	-	-	474	-	2,259	11,378	16,155	49,125	518,061	583,341
Utilities	141,776	-	1,875	26,297	23,989	20,109	86,089	300,135	20,960	7,332	328,427
Insurance	111,427	-	1,923	9,082	8,481	15,460	48,292	194,665	49,603	3,970	248,238
Staff development	35,547	-	178	2,617	406	4,229	8,314	51,291	34,955	1,049	87,295
Dues and subscriptions	65,390	-	281	1,473	2,443	2,298	13,887	85,772	65,917	5,094	156,783
Bad debts	5,634	-	503	-	3,711	36,344	3,500	49,692	-	-	49,692
Other	18,494	-	47	1,674	-	-	4,744	24,959	109,307	25,231	159,497
Depreciation	230,359	-	3,685	13,028	64,284	38,168	113,124	462,648	41,195	7,074	510,917
	13,625,608	2,179,827	445,208	2,886,646	1,106,036	1,963,893	7,493,471	29,700,689	4,948,834	1,370,077	36,019,600
Estimated uncollectible pledges	-	-	-	-	-	-	-	-	151,193	-	151,193
	\$ 13,625,608	\$ 2,179,827	\$ 445,208	\$ 2,886,646	\$ 1,106,036	\$ 1,963,893	\$ 7,493,471	\$ 29,700,689	\$ 5,100,027	\$ 1,370,077	\$ 36,170,793

See accompanying notes.

Combined Statements of Functional Expenses

For the year 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	Total Program Services	Administration	Fundraising	Total
Salaries and wages	\$ 8,405,476	\$ -	\$ 245,112	\$ 523,746	\$ 526,420	\$ 814,470	\$ 3,150,518	\$ 13,665,742	\$ 2,315,932	\$ 390,967	\$ 16,372,641
Payroll taxes and benefits	2,864,310	-	97,865	174,915	225,277	300,890	1,115,092	4,778,349	755,077	135,058	5,668,484
Postretirement health benefits	(38,384)	-	(1,074)	(2,457)	(2,470)	(3,821)	(14,417)	(62,623)	(10,854)	(1,834)	(75,311)
Stipends	573	-	-	1,000	-	-	227,890	229,463	-	-	229,463
Total salaries and related benefits	11,231,975	-	341,903	697,204	749,227	1,111,539	4,479,083	18,610,931	3,060,155	524,191	22,195,277
Fund for the Faith	-	3,845,806	-	-	-	-	-	3,845,806	-	-	3,845,806
Rent	641,964	-	280	20,440	-	30,854	171,073	864,611	168,733	-	1,033,344
Client care expense	466,565	-	-	1,307,989	126,908	18,740	46,809	1,967,011	2,350	1,262	1,970,623
Food	148,566	-	-	24,697	-	272	535	174,070	-	-	174,070
Supplies	239,490	-	3,591	7,660	29,840	39,134	130,852	450,567	32,619	6,938	490,124
Telephone	421,766	-	4,616	39,055	36,497	62,540	190,226	754,700	246,147	16,022	1,016,869
Travel and conference	247,142	-	2,136	13,835	17,253	18,936	49,694	348,996	66,412	4,028	419,436
Purchased services	110,901	-	152,075	2,492	185,394	100,874	234,346	786,082	184,374	249,659	1,220,115
Professional fees	129,458	-	9,502	2,200	2,151	10,403	1,118,534	1,272,248	244,077	1,598	1,517,923
Computer fees	96,126	-	2,556	7,479	5,886	9,429	152,690	274,166	20,140	4,870	299,176
Research	250	-	-	-	-	-	-	250	15,401	-	15,651
Auto and truck expense	39,641	-	1,023	2,186	5,063	3,400	13,173	64,486	9,668	12,061	86,215
Postage and freight	39,140	-	813	3,472	2,492	2,786	14,083	62,786	7,686	58,487	128,959
Repairs and maintenance	149,824	-	4,012	26,432	7,391	28,797	69,146	285,602	32,258	5,446	323,306
Advertising and promotion	22,743	-	-	-	-	20,194	24,338	67,275	109,263	431,858	608,396
Utilities	163,956	-	3,503	20,857	7,816	11,925	66,857	274,914	33,094	7,452	315,460
Insurance	101,356	-	1,967	7,313	8,508	15,931	36,359	171,434	41,723	5,871	219,028
Staff development	146,260	-	762	6,782	1,717	3,151	24,658	183,330	46,918	909	231,157
Dues and subscriptions	31,010	-	-	210	690	-	2,791	34,701	64,191	8,469	107,361
Bad debts	42,365	-	-	-	-	-	-	42,365	-	-	42,365
Other	28,473	-	16	1,674	2,400	4,771	8,436	45,770	256,997	66,650	369,417
Depreciation	354,768	-	4,767	14,712	73,883	29,581	110,065	587,776	45,039	7,603	640,418
	14,853,739	3,845,806	533,522	2,206,689	1,263,116	1,523,257	6,943,748	31,169,877	4,687,245	1,413,374	37,270,496
Estimated uncollectible pledges	-	-	-	-	-	-	-	-	488,573	-	488,573
	\$ 14,853,739	\$ 3,845,806	\$ 533,522	\$ 2,206,689	\$ 1,263,116	\$ 1,523,257	\$ 6,943,748	\$ 31,169,877	\$ 5,175,818	\$ 1,413,374	\$ 37,759,069

See accompanying notes.

Combined Statements of Cash Flows

For the years ended June 30,	2020	2019
Operating activities:		
Change in net assets	\$ (1,860,012)	\$ (3,846,924)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Net change in value of investments - assets held in trust	229,236	64,301
Net realized and unrealized gains on other investments	(526,536)	(898,089)
Depreciation	510,917	640,418
Loss on disposal of assets	-	4,640
Changes in other operating assets and liabilities:		
Receivables	874,654	1,092,235
Prepaid Fund for the Faith	264,377	690,698
Prepaid expenses and other assets	(3,306)	12,267
Accounts payable	(565,710)	325,673
Accrued expenses	121,647	(69,462)
Refundable advances	(24,901)	38,201
Postretirement health benefits	225,000	221,000
Net operating activities	(754,634)	(1,725,042)
Investing activities:		
Property and equipment purchases	(62,779)	(1,937,679)
Proceeds from sale of investments	6,167,870	8,508,549
Purchases of investments	(10,977,097)	(6,299,862)
Net investing activities	(4,872,006)	271,008
Financing activities:		
Paycheck Protection Program loan	4,532,841	-
Payments on long-term debt	(77,770)	(76,685)
Net financing activities	4,455,071	(76,685)
Net change in cash	(1,171,569)	(1,530,719)
Cash - beginning	3,342,509	4,873,228
Cash - ending	\$ 2,170,940	\$ 3,342,509

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.

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 October 13, 2020, the date the financial statements were available to be issued.

New Accounting Standards Adopted:

In 2020, Catholic Charities adopted two new comprehensive revenue recognition models under Financial Accounting Standards Board (FASB) Accounting Standards Updates (ASU).

ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, addresses the differences between contributions and exchange transactions, including guidance on timing and revenue recognition. ASU 2018-08 was adopted using the modified prospective method of application, and Catholic Charities' accounting policies related to revenues were revised accordingly effective July 1, 2019.

ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606), requires an organization to recognize revenue from exchange transactions to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. ASU 2014-09 was adopted using the full retrospective method of application, and Catholic Charities' accounting policies related to revenues from service fees and contracts were revised accordingly effective July 1, 2018.

The adoption of these new standards did not impact Catholic Charities' recognition of revenue and related accounts.

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.

Revenue Recognition:

Contributions

Contributions, including governmental grants, are reported at fair value at the date the contributions are received. Contributions are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated support for future periods. When a donor restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Contributions received with donor-imposed restrictions that are met in the same reporting period are shown as support without donor restrictions.

When significant, unconditional promises to give that are expected to be collected in future years are recorded at the net present value of estimated future cash flows using a discount rate applicable to the year in which the pledge is received. Amortization of the discount is included in contribution revenue.

Funds received from conditional grants are considered earned and reported as revenue when the Catholic Charities incurs expenditures in compliance with specific grant requirements. Amounts received but not yet earned are reported as refundable advances.

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 2020 and 2019 (related to the 2019 and 2018 appeal years) totaled \$2,179,827 and \$3,845,806. Commitments to the Fund for the Faith to be allocated and recorded in fiscal 2021 (2020 appeal) total approximately \$1,500,000. 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 \$27,116 and \$69,537 designated contributions for Fund for the Faith in 2020 and 2019. During 2019, Catholic Charities absorbed all uncollectible pledges and administrative appeal expenses; in 2020, these expenses were split between Catholic Charities and the Diocese based on their proportionate share of cash receipts.

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.

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, 2020 and 2019, Catholic Charities recognized approximately \$85,000 and \$76,000 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.

Service Fees

Service fee revenue relates to contracts with patients and in most cases involve a third-party payor (Medicare, Medicaid, commercial and other managed care insurance companies) in which Catholic Charities' performance obligations are to provide health care services. Service fee revenue is recorded at expected collectible amounts over the time in which obligations to provide health care services are satisfied.

The transaction price is determined based on gross charges for services provided, reduced by contractual adjustments provided to third-party payors and implicit price concessions provided primarily to uninsured patients. Patients who have health care insurance may also have discounts applied related to their copayment or deductible. Implicit price concessions are recorded as a direct reduction to service fee revenue and are based primarily on historical collection experience. Estimates of contractual adjustments and discounts are determined by major payor classes for patient revenues based on contractual agreements, discount policies and historical experience. Management continually reviews the contractual estimation process to consider and incorporate updates to laws and regulations and frequent changes in commercial and managed care contractual terms resulting from contract renegotiations and renewals.

Implicit price concessions relate primarily to amounts due directly from patients. Estimated implicit price concessions are recorded for all uninsured accounts, regardless of the aging of those accounts. Accounts are written off when all reasonable internal and external collections have been performed.

The estimates for implicit price concessions are based upon management's assessment of historical write-offs and expected net collections, business and economic conditions, trends in federal, state and private health care coverage and other collection indicators. Management relies on the results of detailed reviews of historical write-offs and collections of revenues and patient accounts receivable as a primary source of information in estimating the collectability of service fees receivable.

Laws and regulations governing the Medicare and Medicaid programs are 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.

Settlements with third-party payors for retroactive revenue adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. Such estimates are determined through either a probability-weighted estimate or an estimate of the most likely amount, depending on the circumstances related to a given estimated settlement item.

These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and Catholic Charities' historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known, or as years are settled or are no longer subject to such audits, reviews and investigations.

Service fee revenues earned by payor and significant concentrations of service fees receivable are as follows:

	Service Fee Revenue	
	2020	2019
Medicare	1%	1%
Medicaid	8%	45%
Commercial and managed care	84%	44%
Self-pay	7%	10%
	100%	100%

	Service Fees Receivable	
	2020	2019
Medicare	28%	38%
Medicaid	21%	43%
Commercial and managed care	44%	10%
Self-pay	7%	9%
	100%	100%

Contracts

Contract revenue is generated by Catholic Charities performing services for third parties. Catholic Charities recognizes revenues as services are performed. Third parties are billed monthly and payment is due generally within 30 days.

Charity Care:

Catholic Charities provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because Catholic Charities does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

The estimated costs of services and supplies furnished under Catholic Charities' charity care policy, determined based on a ratio of cost to charges calculation, aggregated approximately \$295,000 and \$305,000 in 2020 and 2019.

Investments:

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

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.

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.

2. Receivables:

	2020	2019
Contributions	\$1,938,351	\$2,260,600
Service fees	667,010	462,153
Government agencies and other	2,909,814	3,662,076
	5,515,175	6,384,829
Less allowance for estimated uncollectibles:		
Contributions	385,000	380,000
	\$5,130,175	\$6,004,829

3. Investments:

	2020	2019
Marketable securities:		
Money market funds	\$ 9,367,470	\$ 4,322,485
Corporate bonds	720,160	724,061
U.S. Government securities	801,821	707,348
Mutual funds	2,534,399	2,606,417
Common stock	6,282,180	6,009,956
Interest in assets held by others (see below)	4,429,712	4,658,948
	<u>\$ 24,135,742</u>	<u>\$ 19,029,215</u>

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

	2020	2019
Dividends and interest	\$ 35,596	\$ 116,972
Net realized and unrealized gains	526,536	898,089
	<u>\$ 562,132</u>	<u>\$ 1,015,061</u>

Interest in assets held by others consist of the following:

	2020	2019
St. Joseph Investment Fund	\$ 1,984,337	\$ 2,015,781
The Foundation of the Roman Catholic Diocese of Buffalo, N.Y. Inc.	2,445,375	2,643,167
	<u>\$ 4,429,712</u>	<u>\$ 4,658,948</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 bourse 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:

	2020	2019
Land and buildings	\$ 10,840,688	\$ 10,836,164
Equipment and vehicles	1,235,811	1,182,976
Leasehold improvements	679,489	674,069
	<u>12,755,988</u>	<u>12,693,209</u>
Less accumulated depreciation	4,617,403	4,106,486
	<u>\$ 8,138,585</u>	<u>\$ 8,586,723</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, 2020 and 2019.

6. Long-Term Debt:

	2020	2019
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.	\$ 132,021	\$ 153,381
Bank note payable, monthly installments of \$4,701 plus interest at 2.41% through May 2026, secured by deposits at the banking institution.	333,761	390,171
	<u>\$ 465,782</u>	<u>\$ 543,552</u>

Aggregate annual maturities of long-term debt subsequent to June 30, 2020 are as follows:

2021	\$	78,888
2022		80,073
2023		81,321
2024		82,635
2025		84,018
Thereafter		58,847
	\$	465,782

7. Paycheck Protection Program Loan:

In April 2020, Catholic Charities received loans totaling \$4,532,841 from the Small Business Administration under the Paycheck Protection Program (PPP) of the Coronavirus Aid, Relief and Economic Security (CARES) Act in response to the pandemic described in Note 16. Some or all of the loan may be forgiven if certain criteria is met. Otherwise, the loan is unsecured, bears interest at 1%, and is payable over a negotiated period of time.

8. Net Assets With Donor Restrictions:

Net assets with donor restrictions at June 30, 2020 and 2019 are available for the following purposes:

	<u>2020</u>	<u>2019</u>
Annual appeal	\$ 8,285,993	\$ 8,629,742
Time and purpose restrictions	537,677	100,000
Perpetuity	7,161	7,161
The Foundation:		
Time restricted	2,127,592	2,325,384
Perpetuity	317,783	317,783
	<u>\$ 11,276,206</u>	<u>\$ 11,380,070</u>

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, 2020 and 2019.

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, 2019		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	2020	2019	2019	2018		
Diocese of Buffalo, New York Retirement Plan	16-0743984/002	\$ 171,300	\$ 211,975	\$ 710	\$ 793	\$ 5,479	\$ 5,785	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 81% funded as of December 31, 2019, 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 \$557,000 and \$494,000 for the years ended June 30, 2020 and 2019.

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, 2020 and 2019 is as follows:

	2020	2019
Accumulated postretirement benefit obligation (APBO)	\$ 3,487,000	\$ 3,262,000
Accrued postretirement health benefit obligation	\$ 3,487,000	\$ 3,262,000
Accumulated adjustment to net assets without donor restrictions	\$ 1,669,000	\$ 2,122,000
Benefit cost (income)	\$ (65,000)	\$ (75,000)
Benefits paid	\$ 163,000	\$ 126,000

At June 30, 2020 and 2019, the following items included as adjustments to net assets without donor restrictions had not yet been recognized as components of employee benefit expense:

	<u>2020</u>	<u>2019</u>
Net loss	\$ (1,796,000)	\$ (1,789,000)
Prior service credit	3,465,000	3,911,000
	<u>\$ 1,669,000</u>	<u>\$ 2,122,000</u>

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>2020</u>	<u>2019</u>
Weighted average assumptions used to determine benefit obligation:		
Discount rate	3.25%	4.25%
Weighted average assumptions used to determine net periodic benefit cost:		
Discount rate	4.25%	4.50%
Expected future benefit payments:		
2021	\$ 214,000	
2022	213,000	
2023	210,000	
2024	212,000	
2025	220,000	
2026-2030	1,076,000	
	<u>\$ 2,145,000</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 \$177,000 and \$174,000 for the years ended June 30, 2020 and 2019. Additionally, Catholic Charities purchased insurance through the Diocese and paid \$833,000 and \$829,000 in 2020 and 2019.

12. Lease Obligations:

Catholic Charities leases space and vehicles under the terms of operating leases. Rental expense for all operating leases totaled \$980,000 and \$1,033,000 for the years ended June 30, 2020 and 2019.

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

2021	\$ 751,000
2022	425,000
2023	335,000
2024	257,000
2025	254,000
Thereafter	<u>521,000</u>
	<u>\$ 2,543,000</u>

13. Cash Flows Information:

Net cash flows from operating activities reflect cash payments for interest of \$20,449 and \$26,295 for the years ended June 30, 2020 and 2019, which approximates interest expense.

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 contributions, including an annual appeal, and service fees. 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 amounts at June 30, 2020 and 2019:

	2020	2019
Cash	\$ 2,170,940	\$ 3,342,509
Accounts receivable	5,130,175	6,004,829
Investments	12,859,536	7,160,572
	\$ 20,160,651	\$ 16,507,910

16. Risks and Uncertainties

On January 31, 2020, the United States Secretary of Health and Human Services (HHS) declared a public health emergency related to the global spread of coronavirus COVID-19, and a pandemic was declared by the World Health Organization in February 2020. Efforts to fight the widespread disease included limiting or closing many businesses and resulted in a severe disruption of operations for organizations. Financial markets also experienced a significant decline in value.

In March 2020, Catholic Charities transitioned to providing many services remotely, including telehealth which allows patients to access virtual health care. As a result, Catholic Charities’ government grant and service fee revenues for the year ended June 30, 2020 were not significantly impacted. The pandemic closed Catholic churches in March 2020, which negatively impacted the success of the annual appeal. With the continuation of program funding and the receipt of the PPP loan (Note 7), Catholic Charities was able to maintain its current workforce.

The extent of the impact of COVID-19 on Catholic Charities’ operational and financial performance will depend on further developments, including the duration and spread of the outbreak, impact on clients and patients, employees and vendors, all of which cannot be predicted.