

Commonwealth Catholic Charities

Combined Financial Statements

Years Ended September 30, 2019 and 2018

Table of Contents

Independent Auditors' Report	1
Financial Statements	
Combined Statements of Financial Position.....	3
Combined Statements of Activities.....	4
Combined Statements of Functional Expenses	6
Combined Statements of Cash Flows	8
Notes to Combined Financial Statements	9
Compliance Section	
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	19
Independent Auditors' Report on Compliance for the Major Program and on Internal Control over Compliance Required by the Uniform Guidance	21
Schedule of Expenditures of Federal Awards	23
Notes to the Schedule of Expenditures of Federal Awards.....	25
Schedule of Findings and Questioned Costs	26

Independent Auditors' Report

Board of Directors and Senior Management
Commonwealth Catholic Charities
Henrico, Virginia

Report on the Combined Financial Statements

We have audited the accompanying combined financial statements of Commonwealth Catholic Charities, Commonwealth Human Services Foundation, and Commonwealth Catholic Charities Housing Corporation (nonprofit organizations), which comprise the combined statements of financial position as of September 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 Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 Commonwealth Catholic Charities, Commonwealth Human Services Foundation, and Commonwealth Catholic Charities Housing Corporation (the Organization) as of September 30, 2019 and 2018, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 2 to the combined financial statements, the Organization adopted FASB ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* in 2019. Our opinion is not modified with respect to that matter.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the combined financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2020, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Dixon Hughes Goodman LLP

Richmond, Virginia
January 24, 2020

**Commonwealth Catholic Charities
 Combined Statements of Financial Position
 September 30, 2019 and 2018**

	<u>2019</u>	<u>2018</u> (As Adjusted)
ASSETS		
Cash and cash equivalents	\$ 2,004,191	\$ 2,144,601
Receivables, net:		
Program and other	1,655,742	1,252,787
Contributions receivable	344,878	467,623
Prepaid expenses	23,161	19,518
Investments	5,591,995	5,404,670
Property and equipment, net	5,579,630	4,350,273
Property held for sale, net	562,272	-
Other assets	20,194	19,426
	<u>\$ 15,782,063</u>	<u>\$ 13,658,898</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 316,443	\$ 273,103
Accrued expenses	697,200	616,946
Deferred revenue	50,330	36,230
Funds held for others	250	19,592
Line of credit	1,525,000	-
Long-term debt	973,758	741,677
Total liabilities	<u>3,562,981</u>	<u>1,687,548</u>
Net assets:		
Without donor restrictions	6,043,773	5,778,197
With donor restrictions	6,175,309	6,193,153
Total net assets	<u>12,219,082</u>	<u>11,971,350</u>
Total liabilities and net assets	<u>\$ 15,782,063</u>	<u>\$ 13,658,898</u>

See accompanying notes.

Commonwealth Catholic Charities
Combined Statement of Activities
Year Ended September 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Eliminations</u>	<u>Total</u>
Revenues and other support:				
Public support:				
Monetary contributions	\$ 284,422	\$ 102,160	\$ -	\$ 386,582
United Way allocation and donor designated contributions	50,993	76,667	-	127,660
Catholic Diocese of Richmond and Catholic churches	191,020	102,191	-	293,211
Foundation grants	1,415,746	504,317	(907,395)	1,012,668
Special events, net of \$31,936 of related expenses	51,587	-	-	51,587
Non-monetary contributions	297,503	-	-	297,503
Total public support	<u>2,291,271</u>	<u>785,335</u>	<u>(907,395)</u>	<u>2,169,211</u>
Program service fees, including government contracts and grants	<u>11,743,041</u>	<u>63,493</u>	<u>-</u>	<u>11,806,534</u>
Revenues and other income (losses):				
Investment income, including realized gains, net	101,428	44,060	-	145,488
Unrealized loss on investments	(508)	(7,112)	-	(7,620)
Rental income	-	58,320	-	58,320
Other	32,856	1,855	-	34,711
Total revenues and other income	<u>133,776</u>	<u>97,123</u>	<u>-</u>	<u>230,899</u>
Net assets released from restrictions	<u>963,795</u>	<u>(963,795)</u>	<u>-</u>	<u>-</u>
Total revenues and other support	<u>15,131,883</u>	<u>(17,844)</u>	<u>(907,395)</u>	<u>14,206,644</u>
Expenses:				
Program services:				
Housing services	3,096,306	-	-	3,096,306
Counseling services	611,931	-	-	611,931
Children services	5,612,277	-	-	5,612,277
Resettlement services	1,560,939	-	-	1,560,939
Other programs	1,300,178	-	-	1,300,178
Total program services	<u>12,181,631</u>	<u>-</u>	<u>-</u>	<u>12,181,631</u>
Support services:				
Development	895,472	-	(558,000)	337,472
Management and general	1,789,204	-	(349,395)	1,439,809
Total support services	<u>2,684,676</u>	<u>-</u>	<u>(907,395)</u>	<u>1,777,281</u>
Total expenses	<u>14,866,307</u>	<u>-</u>	<u>(907,395)</u>	<u>13,958,912</u>
Change in net assets	265,576	(17,844)	-	247,732
Net assets, beginning of year	<u>5,778,197</u>	<u>6,193,153</u>	<u>-</u>	<u>11,971,350</u>
Net assets, end of year	<u>\$ 6,043,773</u>	<u>\$ 6,175,309</u>	<u>\$ -</u>	<u>\$ 12,219,082</u>

See accompanying notes.

**Commonwealth Catholic Charities
Combined Statement of Activities
Year Ended September 30, 2018**

	<u>Without Donor Restrictions</u> (As Adjusted)	<u>With Donor Restrictions</u> (As Adjusted)	<u>Eliminations</u>	<u>Total</u>
Revenues and other support:				
Public support:				
Monetary contributions	\$ 209,039	\$ 77,801	\$ -	\$ 286,840
United Way allocation and donor designated contributions	60,448	92,640	-	153,088
Catholic Diocese of Richmond and Catholic churches	195,555	142,271	-	337,826
Foundation grants	134,635	455,380	(189,495)	400,520
Special events, net of \$30,601 of related expenses	33,991	-	-	33,991
Non-monetary contributions	403,377	-	-	403,377
Total public support	<u>1,037,045</u>	<u>768,092</u>	<u>(189,495)</u>	<u>1,615,642</u>
Program service fees, including government contracts and grants	<u>10,664,676</u>	<u>189,794</u>	<u>-</u>	<u>10,854,470</u>
Revenues and other income:				
Investment income, including realized gains, net	385,362	30,090	-	415,452
Unrealized gain (loss) on investments	(176,176)	95,932	-	(80,244)
Other	35,643	-	-	35,643
Total revenues and other income	<u>244,829</u>	<u>126,022</u>	<u>-</u>	<u>370,851</u>
Net assets released from restrictions	1,176,647	(1,176,647)	-	-
Reclassifications	<u>311,157</u>	<u>(311,157)</u>	<u>-</u>	<u>-</u>
Total revenues and other support	<u>13,434,354</u>	<u>(403,896)</u>	<u>(189,495)</u>	<u>12,840,963</u>
Expenses:				
Program services:				
Housing services	2,570,335	-	(14,283)	2,556,052
Counseling services	632,232	-	-	632,232
Children services	5,077,106	-	-	5,077,106
Resettlement services	1,584,021	-	-	1,584,021
Other programs	1,337,086	-	-	1,337,086
Total program services	<u>11,200,780</u>	<u>-</u>	<u>(14,283)</u>	<u>11,186,497</u>
Support services:				
Development	311,626	-	-	311,626
Management and general	1,293,500	-	(175,212)	1,118,288
Total support services	<u>1,605,126</u>	<u>-</u>	<u>(175,212)</u>	<u>1,429,914</u>
Total expenses	<u>12,805,906</u>	<u>-</u>	<u>(189,495)</u>	<u>12,616,411</u>
Change in net assets	628,448	(403,896)	-	224,552
Net assets, beginning of year	<u>5,149,749</u>	<u>6,597,049</u>	<u>-</u>	<u>11,746,798</u>
Net assets, end of year	<u>\$ 5,778,197</u>	<u>\$ 6,193,153</u>	<u>\$ -</u>	<u>\$ 11,971,350</u>

See accompanying notes.

Commonwealth Catholic Charities
 Combined Statement of Functional Expenses
 Year Ended September 30, 2019

	Program Services					Total Program Services	Support Services			Eliminations	Total Program and Support Expenses
	Housing Services	Counseling Services	Children Services	Resettlement Services	Other Programs		Development	Management and General	Total Support Services		
Salaries and benefits	\$ 1,272,583	\$ 528,614	\$ 2,644,987	\$ 904,587	\$ 898,128	\$ 6,248,899	\$ 246,370	\$ 1,004,499	\$ 1,250,869	\$ -	\$ 7,499,768
Direct financial assistance	1,072,051	-	2,365,741	402,382	1,029	3,841,203	-	-	-	-	3,841,203
Professional fees	59,345	2,907	29,275	5,856	7,446	104,829	6,614	119,662	126,276	-	231,105
Transportation	45,092	10,537	120,063	17,591	23,688	216,971	52	7,557	7,609	-	224,580
Occupancy and related expenses	298,757	48,959	330,320	167,681	95,213	940,930	14,570	129,523	144,093	-	1,085,023
Operating and administrative expenses	334,513	20,914	108,948	62,842	261,236	788,453	69,866	171,381	241,247	-	1,029,700
Contribution from the Foundation to CCC	-	-	-	-	-	-	-	299,395	299,395	(299,395)	-
Contribution from CCC to the Foundation	-	-	-	-	-	-	558,000	-	558,000	(558,000)	-
Contribution from CCC to the Housing Corporation	-	-	-	-	-	-	-	50,000	50,000	(50,000)	-
Depreciation - program related assets	13,965	-	12,943	-	13,438	40,346	-	7,187	7,187	-	47,533
	<u>\$ 3,096,306</u>	<u>\$ 611,931</u>	<u>\$ 5,612,277</u>	<u>\$ 1,560,939</u>	<u>\$ 1,300,178</u>	<u>\$ 12,181,631</u>	<u>\$ 895,472</u>	<u>\$ 1,789,204</u>	<u>\$ 2,684,676</u>	<u>\$ (907,395)</u>	<u>\$ 13,958,912</u>

See accompanying notes.

Commonwealth Catholic Charities
 Combined Statement of Functional Expenses
 Year Ended September 30, 2018

	Program Services					Support Services				Eliminations	Total Program and Support Expenses
	Housing Services	Counseling Services	Children Services	Resettlement Services	Other Programs	Total Program Services	Development	Management and General	Total Support Services		
Salaries and benefits	\$ 1,099,704	\$ 526,504	\$ 2,374,223	\$ 988,467	\$ 899,642	\$ 5,888,540	\$ 233,058	\$ 838,851	\$ 1,071,909	\$ -	\$ 6,960,449
Direct financial assistance	726,155	-	2,194,706	334,001	1,751	3,256,613	-	-	-	-	3,256,613
Professional fees	64,525	3,592	49,400	20,088	257,097	394,702	4,137	132,553	136,690	-	531,392
Transportation	29,965	14,163	107,226	19,661	26,065	197,080	587	3,124	3,711	-	200,791
Occupancy and related expenses	159,197	65,011	270,425	155,108	86,879	736,620	11,440	76,874	88,314	-	824,934
Operating and administrative expenses	466,816	22,962	70,621	66,696	52,214	679,309	62,404	66,886	129,290	-	808,599
Contribution to the Foundation from CCC	-	-	-	-	-	-	-	175,212	175,212	(175,212)	-
Contribution from the Foundation to CCC	14,283	-	-	-	-	14,283	-	-	-	(14,283)	-
Depreciation - program related assets	9,690	-	10,505	-	13,438	33,633	-	-	-	-	33,633
	<u>\$ 2,570,335</u>	<u>\$ 632,232</u>	<u>\$ 5,077,106</u>	<u>\$ 1,584,021</u>	<u>\$ 1,337,086</u>	<u>\$ 11,200,780</u>	<u>\$ 311,626</u>	<u>\$ 1,293,500</u>	<u>\$ 1,605,126</u>	<u>\$ (189,495)</u>	<u>\$ 12,616,411</u>

See accompanying notes.

Commonwealth Catholic Charities
Combined Statements of Cash Flows
Years Ended September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net assets	\$ 247,732	\$ 224,552
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	175,109	172,931
Unrealized loss on investments	7,620	80,244
Realized (gain) loss on investments	2,878	(309,402)
Non-cash contributions, stock	-	(9,191)
Change in assets:		
Receivables, programs and other	(402,955)	104,211
Receivables, contributions receivable	122,745	125,100
Prepaid expenses	(3,643)	(11,331)
Other assets	(768)	(28)
Accounts payable	43,340	6,576
Accrued expenses	80,254	18,957
Deferred revenue	14,100	(169,994)
Funds held for others	(19,342)	(16,579)
Net cash provided by operating activities	<u>267,070</u>	<u>216,046</u>
Cash flows from investing activities:		
Purchase of property and equipment	(98,628)	(116,179)
Proceeds from sale of investments	4,488,520	4,100,351
Purchase of investments	(4,686,343)	(4,298,743)
Net cash used by investing activities	<u>(296,451)</u>	<u>(314,571)</u>
Cash flows from financing activities:		
Repayments on long-term debt	(111,029)	(99,996)
Net cash used by financing activities	<u>(111,029)</u>	<u>(99,996)</u>
Decrease in cash and cash equivalents	(140,410)	(198,521)
Cash and cash equivalents, beginning of year	<u>2,144,601</u>	<u>2,343,122</u>
Cash and cash equivalents, end of year	<u>\$ 2,004,191</u>	<u>\$ 2,144,601</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 49,679</u>	<u>\$ 20,898</u>
Supplemental disclosure of noncash transactions:		
Purchase of property and equipment through debt issuance	<u>\$ 1,868,110</u>	<u>\$ -</u>

Notes to Combined Financial Statements

1. Organization and Nature of Activities

Commonwealth Catholic Charities, Commonwealth Human Services Foundation, and Commonwealth Catholic Charities Housing Corporation (collectively, the Organization) were established under the laws of the Commonwealth of Virginia to operate as a social services organization. It is the mission of the Organization to provide quality, compassionate human services to all people, especially the most vulnerable, regardless of faith. The Organization's vision is a world where poverty is alleviated, people of all races and faiths are treated with respect, and all are inspired to serve.

The Organization primarily provides services through its offices located in Central, Southwestern, and Eastern Virginia.

The Organization is supported by donor contributions, grants, Catholic parishes throughout the Diocese of Richmond, and United Way organizations. The Organization also provides services to various governmental agencies, third party payers and individuals. Grants and contracts from governmental agencies for services provided during fiscal years 2019 and 2018 represented approximately 49.9% and 48.8% of the Organization's total revenues, respectively.

The accompanying combined financial statements include the resources and financial activities of Commonwealth Catholic Charities, Commonwealth Human Services Foundation (Foundation), a public charity, and Commonwealth Catholic Charities Housing Corporation. The Foundation was established to conduct and support financial development. In August 2017, Commonwealth Catholic Charities Housing Corporation (Housing Corporation) was formed to focus on affordable housing and other housing-related services.

2. Summary of Significant Accounting Policies

Financial statement presentation

The accompanying combined financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets and revenues, gains, and losses, are classified based on the existence or absence of donor-imposed restrictions. The Organization's net assets are segregated into two net asset groups:

Net assets without donor restrictions are free from donor-imposed restrictions. Net assets without donor restrictions may be designated for specific purposes by action of the Board or may otherwise be limited by contractual agreements with outside parties.

Net assets with donor restrictions are subject to donor-imposed stipulations. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions.

Cash and cash equivalents

The Organization's definition of cash equivalents includes items such as short-term, highly liquid investments with maturities of three months or less at the date of acquisition. Cash and cash equivalents designated for investment purposes are reported with investments.

Commonwealth Catholic Charities
Notes to Combined Financial Statements

Recognition of contributions and grants

Contributions and grants are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions and grants that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the fiscal period in which the contribution or grant is recognized. All other donor-restricted contributions and grants are reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires, net assets with donor restrictions are reclassified as net assets without donor restrictions.

Receivables

The Organization uses the reserve method of accounting for bad debts for financial reporting and contractual write-offs. The reserve for doubtful accounts and contractual write-offs at September 30, 2019 and 2018 was \$42,896 and \$183,726, respectively.

Property and equipment

Purchased property and equipment are stated at cost. Donated assets are stated at fair value at the time of the donation. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets as follows:

Building	20-39 years
Building and leasehold improvements	10-20 years
Furniture, fixtures, equipment and vehicles	3-10 years

Contributed materials and services

The value of contributed goods and the value of contributed services that either (a) created or enhanced a non-financial asset or (b) required specialized skills, was provided by individuals possessing those skills, and would have been purchased if not contributed, are recognized in the combined financial statements, if material. During fiscal years 2019 and 2018, approximately \$297,503 and \$403,377 of contributed materials and service transactions were recognized in the combined financial statements, respectively.

Concentrations of credit risk

Financial instruments which potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents, investments, and receivables. The Organization places its cash and cash equivalents with high-credit, quality financial institutions. As of September 30, 2019 and 2018, the Organization had cash deposits of approximately \$1,725,697 and \$1,877,802, respectively, in excess of federally insured limits. Concentration of credit risk for investments is limited by the Organization's policy of diversification of investments. Program and other receivables are monitored closely by management, and an allowance for estimated uncollectible amounts is in place. Pledges receivable have been adjusted to present value less an allowance for estimated uncollectible amounts. These policies and adjustments mitigate the Organization's exposure to concentration of credit risk.

Estimates

The preparation of 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 certain reported amounts and disclosures. Actual results could differ from those estimates and assumptions.

Deferred revenue

Funds received in advance from exchange transactions are reported as unearned revenue and recognized in the period when the exchange transaction is consummated.

Commonwealth Catholic Charities
Notes to Combined Financial Statements

Tax status

Commonwealth Catholic Charities, Commonwealth Human Services Foundation, and Commonwealth Catholic Charities Housing Corporation are each exempt from income taxes under Sections 501(c)(3) and 509(a)(3) of the Internal Revenue Code and under the tax statutes of the Commonwealth of Virginia. In addition, each has been classified as an organization that is not a private foundation under Section 509(a) of the Internal Revenue Code. The Organization has determined that there are no material unrecognized tax benefits or obligations as of September 30, 2019 and 2018.

Functional expenses

The Organization allocates expenses on a functional basis among their various programs and supporting services. Expenses that can be identified with a specific program or supporting service are allocated directly. Other expenses that are common to several functions are allocated by various statistical bases.

New accounting pronouncement

During fiscal year 2019, the Organization adopted ASU No. 2016-14 – *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The Update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity of available resources, and the lack of consistency in the type of information provided about expenses and investment return. The fiscal year 2018 financial information has been adjusted to reflect retrospective application of the new accounting guidance, except for the disclosures around liquidity and availability of resources. These disclosures have been presented for 2019 as allowed by ASU No. 2016-14. The retrospective application resulted in temporarily restricted net assets of \$3,435,623 and permanently restricted net assets of \$2,757,530 being reported as net assets with donor restrictions and unrestricted net assets of \$5,778,197 being reported as net assets without donor restrictions as of September 30, 2018.

Subsequent events

In preparing these combined financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through January 24, 2020, the date the combined financial statements were available to be issued.

3. Investments

Investments are shown on the combined statements of financial position at fair value. Transactions are accounted for using the trade date. Investments at September 30 are composed of the following:

	<u>2019</u>		<u>2018</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Cash and cash equivalents	\$ 49,450	\$ 49,450	\$ 142,124	\$ 142,124
Corporate bonds and government securities	2,286,100	2,352,716	2,149,436	2,105,229
Marketable securities	<u>2,811,260</u>	<u>3,189,829</u>	<u>2,627,498</u>	<u>3,157,317</u>
	<u>\$ 5,146,810</u>	<u>\$ 5,591,995</u>	<u>\$ 4,919,058</u>	<u>\$ 5,404,670</u>

Investment income is reflected in the table below at September 30:

	<u>2019</u>	<u>2018</u>
Investment returns:		
Dividends and interest, net	\$ 148,366	\$ 106,050
Net realized and unrealized (loss) gain	<u>(10,498)</u>	<u>229,158</u>
Total return on investments	<u>\$ 137,868</u>	<u>\$ 335,208</u>

Commonwealth Catholic Charities
Notes to Combined Financial Statements

4. Property and Equipment

Property and equipment consisted of the following at September 30:

	<u>2019</u>	<u>2018</u>
Land	\$ 1,251,534	\$ 790,534
Building	2,609,051	1,793,866
Building and leasehold improvements	2,024,178	2,055,889
Furniture, fixtures, equipment and vehicles	<u>1,014,325</u>	<u>909,387</u>
	6,899,088	5,549,676
Accumulated depreciation	<u>(1,319,458)</u>	<u>(1,199,403)</u>
Property and equipment, net	<u>\$ 5,579,630</u>	<u>\$ 4,350,273</u>

The Organization owns a property that it intends to sell within 12 months as of September 30, 2019. This property is listed separately as property held for sale on the Combined Statements of Financial Position. The property held for sale consisted of the following at September 30:

	<u>2019</u>	<u>2018</u>
Land	\$ 341,000	\$ -
Building	242,209	-
Building and leasehold improvements	<u>47,061</u>	<u>-</u>
	630,270	-
Accumulated depreciation	<u>(67,998)</u>	<u>-</u>
Property held for sale, net	<u>\$ 562,272</u>	<u>\$ -</u>

5. Contributions Receivable

On November 20, 2014, the Organization received a \$150,000 restricted pledge for the purpose of renovations at the Organization's principal facility in Richmond. This pledge is payable in five annual installments of \$30,000. All five installments were received as of September 30, 2019.

On June 4, 2014, the Organization received a \$1,000,000 restricted pledge for the purpose of renovations at the Organization's principal facility in Richmond. This pledge is payable in ten annual installments of \$100,000. The first six installments were received as of September 30, 2019. Other contributions receivable are expected to be collected within one year. All pledges are recorded at net realizable value.

Contributions receivable are as follows at September 30:

	<u>2019</u>	<u>2018</u>
Receivable in one year or less	\$ 100,000	\$ 135,000
Receivable in two to five years	<u>300,000</u>	<u>400,000</u>
Total unconditional promises to give	400,000	535,000
Discounts to fair value (2%)	<u>(55,122)</u>	<u>(67,377)</u>
Net contributions receivable	<u>\$ 344,878</u>	<u>\$ 467,623</u>

Commonwealth Catholic Charities
Notes to Combined Financial Statements

6. Debt

On January 20, 2014, the Organization opened a \$1,500,000 uncollateralized line of credit with a bank bearing interest at the one month London Interbank Offered Rate (LIBOR) plus .95%, with a minimum interest rate of 2.0%. Amounts borrowed under this line of credit were payable on demand. Accrued interest was payable on the 1st of each month and on demand. This agreement was scheduled to expire in February of 2016. On February 15, 2016 the line of credit was refinanced by a \$1,000,000 10-year commercial term loan. The loan requires principal payments of \$8,333 plus accrued interest each month, beginning on March 1, 2016. The loan bears interest at the one month LIBOR plus .95%, with a minimum interest rate of 2.0% (3.0% at September 30, 2019). The outstanding balance on the term loan was \$641,681 and \$741,677 at September 30, 2019 and 2018, respectively.

On November 14, 2018, the Organization entered into a \$300,000, 15-year commercial term loan. The loan requires principal payments of \$2,346 plus accrued interest each month, beginning on December 30, 2018. The loan bears interest at a fixed rate of 4.73% for the term of the loan. The outstanding balance on the term loan was \$288,967 at September 30, 2019.

On August 29, 2019, the Organization entered into a \$21,877, 5-year loan secured by an automobile. The loan requires principal payments of \$322 plus accrued interest each month, beginning on October 13, 2019. The loan bears interest at a fixed rate of 4.99% for the term of the loan. The outstanding balance on the loan was \$21,555 at September 30, 2019.

On August 29, 2019, the Organization entered into an additional \$21,877, 5-year loan secured by an automobile. The loan requires principal payments of \$322 plus accrued interest each month, beginning on October 13, 2019. The loan bears interest at a fixed rate of 4.99% for the term of the loan. The outstanding balance on the loan was \$21,555 at September 30, 2019.

Estimated principal repayments on long-term debt for future years ending September 30 are as follows:

2020	\$ 136,080
2021	136,486
2022	136,910
2023	137,358
2024	137,006
Thereafter	<u>289,918</u>
	<u>\$ 973,758</u>

On April 19, 2019, the Organization opened a \$1,525,000 revolving line of credit with a bank collateralized by a security interest in and a lien upon all deposits and investments the Organization holds with the bank. The line of credit bears interest at the one month London Interbank Offered Rate (LIBOR) plus .95%, with a minimum interest rate of 2.0%. Amounts borrowed under this line of credit are payable on the maturity date. Accrued interest is payable on the 1st of each month. The maturity date of this agreement is May 1, 2020. The outstanding balance was \$1,525,000 at September 30, 2019.

On March 28, 2016, the Organization entered into a line of credit agreement with a maximum borrowing amount of \$250,000. The line of credit bore interest at the one month LIBOR plus .95%, with a minimum interest rate of 2.0% (3.0% at September 30, 2019). No amounts were borrowed under this line of credit during 2018. The line matured on April 30, 2019.

Commonwealth Catholic Charities
Notes to Combined Financial Statements

7. Operating Leases

The Organization leases certain office space and equipment under non-cancelable operating lease agreements. Total rental expense under non-cancelable operating leases was \$262,439 and \$237,963 for the years ended September 30, 2019 and 2018, respectively. Future minimum lease payments for fiscal years ending September 30 are as follows:

2020	\$ 223,926
2021	163,554
2022	126,225
2023	<u>33,080</u>
	<u>\$ 546,785</u>

8. Retirement Plan

The Organization has a defined contribution pension plan which covers substantially all employees. Employees can contribute up to the Section 402(g) limit of the Internal Revenue Code. The Organization makes basic contributions equal to 4% of each qualified participant's compensation and matches up to an additional 4% of the qualified participant's contributions to the plan. The qualified participants become fully vested in the employer's contributions after three years of service. If an employee's employment is terminated prior to becoming vested, the employer's contribution becomes refundable to the Organization subject to certain limitations. Total expense under the plan was \$293,430 and \$293,170 for the years ended September 30, 2019 and 2018, respectively.

9. Net Assets with Donor Restrictions

Net assets were restricted for the following purposes at September 30:

	<u>2019</u>	<u>2018</u>
Time/Purpose restrictions:		
Housing services	\$ 336,351	\$ 286,198
Counseling services	2,426	-
Children services	104,262	99,351
Resettlement services	56,901	59,902
Other programs	2,319,443	2,416,775
Capital improvement grant	<u>598,396</u>	<u>573,397</u>
	<u>3,417,779</u>	<u>3,435,623</u>
Perpetual restrictions:		
Undesignated endowment	2,223,005	2,223,005
Pregnancy counseling	232,484	232,484
Scholarships	200,000	200,000
Necessitous children (Roanoke Valley)	74,008	74,008
Necessitous children (Southwest Virginia)	<u>28,033</u>	<u>28,033</u>
	<u>2,757,530</u>	<u>2,757,530</u>
	<u>\$ 6,175,309</u>	<u>\$ 6,193,153</u>

Commonwealth Catholic Charities
Notes to Combined Financial Statements

10. Net Assets Released from Restrictions

Net assets with donor restrictions were released from restrictions for the following purposes during the year ended September 30:

	<u>2019</u>	<u>2018</u>
Housing services	\$ 667,546	\$ 598,120
Counseling services	700	10
Children services	50,683	39,910
Resettlement services	68,986	236,972
Other programs	<u>175,880</u>	<u>301,635</u>
	<u>\$ 963,795</u>	<u>\$ 1,176,647</u>

11. Fair Value Measurements

Accounting standards establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 - Inputs to the valuation methodology include:

quoted prices for similar or identical assets or liabilities in active markets;
quoted prices for similar or identical assets or liabilities in inactive markets;
inputs other than quoted prices that are observable for the asset or liability;
inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

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 September 30, 2019 and 2018.

Money market mutual funds

Valued at the transacted value, which approximates fair value.

Commonwealth Catholic Charities
Notes to Combined Financial Statements

Equities, corporate bonds, mortgage backed securities, U.S. Treasury securities, and agency securities

Valued at the closing price reported on the active market on which the individual securities are traded.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization 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 fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value:

	September 30, 2019			Total
	Level 1	Level 2	Level 3	
Money market mutual funds	\$ 49,450	\$ -	\$ -	\$ 49,450
Equities:				
U.S. equities	2,494,180	-	-	2,494,180
International securities	695,649	-	-	695,649
Corporate bonds	964,544	-	-	964,544
Mortgage backed securities	380,348	-	-	380,348
U.S. Treasury securities	982,737	-	-	982,737
Agency securities	25,087	-	-	25,087
Total assets at fair value	<u>\$ 5,591,995</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,591,995</u>

	September 30, 2018			Total
	Level 1	Level 2	Level 3	
Money market mutual funds	\$ 142,124	\$ -	\$ -	\$ 142,124
Equities:				
U.S. equities	2,367,134	-	-	2,367,134
International securities	790,183	-	-	790,183
Corporate bonds	1,135,014	-	-	1,135,014
Mortgage backed securities	152,888	-	-	152,888
U.S. Treasury securities	817,327	-	-	817,327
Total assets at fair value	<u>\$ 5,404,670</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,404,670</u>

12. Endowment Funds

The Organization's endowment consists of five individual funds held in funds with donor restrictions. The endowment includes only donor-restricted endowment funds. These funds were established for a variety of purposes. As required by accounting principles generally accepted in the United States of America (U.S. GAAP), net assets associated with these endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The management of donor-restricted endowment funds is governed by state law under the Uniform Prudent Management of Institutional Funds (UPMIFA) law as adopted by the state legislature. Virginia's version of UPMIFA was enacted during 2008. The Organization has interpreted the relevant state law as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary.

Commonwealth Catholic Charities
Notes to Combined Financial Statements

As a result of this interpretation, the Organization classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

A summary of the activity in endowment funds for the year ended September 30, 2019 and 2018 is as follows:

	<u>With Donor Restrictions</u>		<u>Total</u>
	<u>Original Gift</u>	<u>Accumulated Earnings</u>	
Endowment net assets, September 30, 2017	\$ 2,757,530	\$ 450,139	\$ 3,207,669
Investment return:			
Investment income	-	39,125	39,125
Reclassification of earnings	-	(375,547)	(375,547)
Releases	-	(15,451)	(15,451)
	-	(351,873)	(351,873)
Endowment net assets, September 30, 2018	<u>2,757,530</u>	<u>98,266</u>	<u>2,855,796</u>
Investment return:			
Investment income	-	13,325	13,325
Releases	-	(15,911)	(15,911)
	-	(2,586)	(2,586)
Endowment net assets, September 30, 2019	<u>\$ 2,757,530</u>	<u>\$ 95,680</u>	<u>\$ 2,853,210</u>

During 2018, the Organization determined that the earnings on one endowment fund were actually unrestricted and this change is reflected in the reclassification of earnings line in the table above.

In accordance with state UPMIFA law, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purposes of the Organization and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization, and (7) the investment policies of the Organization.

From time-to-time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or state UPMIFA guidelines require the Organization to retain as a fund of perpetual duration. In accordance with U.S. GAAP, there was only one fund with a deficiency balance of approximately \$2,800 as of September 30, 2019 and no deficiencies as of September 30, 2018.

During the year ended June 30, 2009, the Organization formed the Investment Committee to review the existing investment policy and oversee the direct management of donor-restricted funds in accordance with its investment policy and the guidelines established under the Uniform Prudent Management of Institution Funds Act as enacted by the Commonwealth of Virginia. The primary objective of the investment policy is to preserve the purchasing power of the funds and maintain a competitive rate of return, relative to risk, by investing in fixed income and equity securities in accordance with specified asset allocation guidelines. The investment policy defines benchmarks and establishes a three-to-five year time horizon to quantitatively measure investment performance. The Investment Committee will meet at least annually to review the investment asset allocation and investment objectives. To assist the committee fulfill its responsibilities, an investment advisor was engaged to manage the portfolio under the guidelines set by the committee.

Commonwealth Catholic Charities
Notes to Combined Financial Statements

The investment policy was designed to support a spending rate distribution policy of 4%. The asset allocation target of equity to fixed income securities is 50% plus/minus 20%. The establishment of the asset allocation mix is estimated to provide an annual return of approximately 6.75%, which is sufficient to preserve the funds balances and support the payment of a 4% distribution.

13. Availability and Liquidity of Financial Assets

The following represents the financial assets of the Organization at September 30, 2019:

Financial assets at year-end:	
Cash and cash equivalents	\$ 2,004,191
Receivables	1,655,742
Contributions receivable (collections expected in one year)	344,878
Investments	<u>5,591,995</u>
Total financial assets	9,596,806
Less amounts not available to be used within one year:	
Net assets with donor restrictions	<u>(6,175,309)</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 3,421,497</u>

The Organization's policy is to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. As part of its liquidity plan, excess cash is invested in trading securities.

14. Subsequent Event

On October 1, 2019, CCC Nettles Drive, LLC was formed as a subsidiary of Commonwealth Catholic Charities Housing Corporation to further the mission of the Housing Corporation by partnering with other agencies in an affordable housing development project. CCC Nettles Drive, LLC will be consolidated into the Organization's financial statements in fiscal year 2020.