

Commonwealth Catholic Charities

Combined Financial Statements

Years Ended September 30, 2018 and 2017

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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, 2018 and 2017, 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, 2018 and 2017, 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.

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 28, 2019, 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 28, 2019

Commonwealth Catholic Charities
Combined Statements of Financial Position
September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents	\$ 2,144,601	\$ 2,343,122
Receivables, net:		
Program and other	1,252,787	1,356,998
Contributions receivable	467,623	592,723
Prepaid expenses	19,518	8,187
Investments	5,404,670	4,967,929
Property and equipment, net	4,350,273	4,407,025
Other assets	19,426	19,398
	<u>\$ 13,658,898</u>	<u>\$ 13,695,382</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 273,103	\$ 266,527
Accrued expenses	616,946	597,989
Deferred revenue	36,230	206,224
Funds held for others	19,592	36,171
Note payable	741,677	841,673
Total liabilities	<u>1,687,548</u>	<u>1,948,584</u>
Net assets:		
Unrestricted	5,578,197	5,149,749
Unrestricted, Board designated	200,000	-
Total unrestricted	<u>5,778,197</u>	<u>5,149,749</u>
Temporarily restricted	3,435,623	3,839,519
Permanently restricted	2,757,530	2,757,530
Total net assets	<u>11,971,350</u>	<u>11,746,798</u>
	<u>\$ 13,658,898</u>	<u>\$ 13,695,382</u>

See accompanying notes.

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Eliminations	Total
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>-</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>-</u>	<u>10,854,470</u>
Revenues and other income (losses):					
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>-</u>	<u>370,851</u>
Net assets released from restrictions	1,176,647	(1,176,647)	-	-	-
Reclassifications	311,157	(311,157)	-	-	-
Total revenues and other support	<u>13,434,354</u>	<u>(403,896)</u>	<u>-</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>-</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>-</u>	<u>(175,212)</u>	<u>1,429,914</u>
Total expenses	<u>12,805,906</u>	<u>-</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>3,839,519</u>	<u>2,757,530</u>	<u>-</u>	<u>11,746,798</u>
Net assets, end of year	<u>\$ 5,778,197</u>	<u>\$ 3,435,623</u>	<u>\$ 2,757,530</u>	<u>\$ -</u>	<u>\$ 11,971,350</u>

**Commonwealth Catholic Charities
Combined Statement of Activities
Year Ended September 30, 2017**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Eliminations	Total
Revenues and other support:					
Public support:					
Monetary contributions	\$ 715,895	\$ 263,271	\$ -	\$ -	\$ 979,166
United Way allocation and donor designated contributions	105,471	82,010	-	-	187,481
Catholic Diocese of Richmond and Catholic churches	180,410	112,882	-	-	293,292
Foundation grants	354,554	212,361	-	(366,851)	200,064
Special events, net of \$23,326 of related expenses	72,502	-	-	-	72,502
Non-monetary contributions	436,092	-	-	-	436,092
Total public support	<u>1,864,924</u>	<u>670,524</u>	<u>-</u>	<u>(366,851)</u>	<u>2,168,597</u>
Program service fees, including government contracts and grants	<u>11,425,463</u>	<u>145,022</u>	<u>-</u>	<u>-</u>	<u>11,570,485</u>
Revenues and other income:					
Investment income, including realized gains, net	7,718	290,945	-	-	298,663
Unrealized gain on investments	-	103,339	-	-	103,339
Other	81,616	-	-	-	81,616
Total revenues and other income	<u>89,334</u>	<u>394,284</u>	<u>-</u>	<u>-</u>	<u>483,618</u>
Net assets released from restrictions	<u>839,532</u>	<u>(839,532)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues and other support	<u>14,219,253</u>	<u>370,298</u>	<u>-</u>	<u>(366,851)</u>	<u>14,222,700</u>
Expenses:					
Program services:					
Housing services	1,653,478	-	-	-	1,653,478
Counseling services	640,498	-	-	-	640,498
Children services	5,133,124	-	-	-	5,133,124
Resettlement services	2,386,878	-	-	-	2,386,878
Other programs	1,273,002	-	-	-	1,273,002
Total program services	<u>11,086,980</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,086,980</u>
Support services:					
Development	535,019	-	-	(200,000)	335,019
Management and general	1,666,536	-	-	(166,851)	1,499,685
Total support services	<u>2,201,555</u>	<u>-</u>	<u>-</u>	<u>(366,851)</u>	<u>1,834,704</u>
Total expenses	<u>13,288,535</u>	<u>-</u>	<u>-</u>	<u>(366,851)</u>	<u>12,921,684</u>
Change in net assets	930,718	370,298	-	-	1,301,016
Net assets, beginning of year	<u>4,219,031</u>	<u>3,469,221</u>	<u>2,757,530</u>	<u>-</u>	<u>10,445,782</u>
Net assets, end of year	<u>\$ 5,149,749</u>	<u>\$ 3,839,519</u>	<u>\$ 2,757,530</u>	<u>\$ -</u>	<u>\$ 11,746,798</u>

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

	Program Services					Support Services				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		Eliminations
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 from the Foundation to CCC	-	-	-	-	-	-	-	175,212	175,212	(175,212)	-
Contribution from CCC to the Housing Corporation	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 Statement of Functional Expenses
 Year Ended September 30, 2017**

	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	\$ 909,075	\$ 526,689	\$ 2,270,269	\$ 1,115,354	\$ 860,949	\$ 5,682,336	\$ 248,868	\$ 871,816	\$ 1,120,684	\$ -	\$ 6,803,020
Direct financial assistance	523,843	26	2,348,457	990,519	2,016	3,864,861	-	-	-	-	3,864,861
Professional fees	10,657	3,785	35,300	44,976	248,467	343,185	6,850	31,160	38,010	-	381,195
Transportation	23,112	13,540	95,483	28,730	26,564	187,429	2,518	6,118	8,636	-	196,065
Occupancy and related expenses	136,434	69,223	289,114	164,916	65,418	725,105	12,859	78,019	90,878	-	815,983
Operating and administrative expenses	44,097	27,235	83,996	42,383	62,767	260,478	63,924	512,572	576,496	-	836,974
Contribution to the Foundation from CCC	-	-	-	-	-	-	200,000	-	200,000	(200,000)	-
Contribution from the Foundation to CCC	-	-	-	-	-	-	-	166,851	166,851	(166,851)	-
Depreciation - program related assets	6,260	-	10,505	-	6,821	23,586	-	-	-	-	23,586
	<u>\$ 1,653,478</u>	<u>\$ 640,498</u>	<u>\$ 5,133,124</u>	<u>\$ 2,386,878</u>	<u>\$ 1,273,002</u>	<u>\$ 11,086,980</u>	<u>\$ 535,019</u>	<u>\$ 1,666,536</u>	<u>\$ 2,201,555</u>	<u>\$ (366,851)</u>	<u>\$ 12,921,684</u>

Commonwealth Catholic Charities
Combined Statements of Cash Flows
Years Ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Change in net assets	\$ 224,552	\$ 1,301,016
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	172,931	175,887
Unrealized (gain) loss on investments	80,244	(103,339)
Realized gain on investments	(309,402)	(217,569)
Non-cash contributions, stock	(9,191)	(150,941)
Change in assets:		
Receivables, programs and other	104,211	350,937
Receivables, contributions receivable	125,100	127,889
Prepaid expenses	(11,331)	10,979
Other assets	(28)	(1,686)
Accounts payable	6,576	(22,213)
Accrued expenses	18,957	(43,077)
Deferred revenue	(169,994)	206,224
Funds held for others	(16,579)	(31,722)
Net cash provided by operating activities	<u>216,046</u>	<u>1,602,385</u>
Cash flows from investing activities:		
Purchase of property and equipment	(116,179)	(139,350)
Proceeds from sale of investments	4,100,351	1,931,925
Purchase of investments	(4,298,743)	(1,904,586)
Net cash used by investing activities	<u>(314,571)</u>	<u>(112,011)</u>
Cash flows from financing activities:		
Repayments on note payable	(99,996)	(99,996)
Increase (decrease) in cash and cash equivalents	(198,521)	1,390,378
Cash and cash equivalents, beginning of year	<u>2,343,122</u>	<u>952,744</u>
Cash and cash equivalents, end of year	<u>\$ 2,144,601</u>	<u>\$ 2,343,122</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 20,898</u>	<u>\$ 18,419</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 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 Hampton Roads communities in 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 2018 and 2017 represented approximately 48.8% and 48.1% 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. Housing Corporation operations had not begun as of September 30, 2017 and therefore no activity was included in the 2017 combined financial statements. The Housing Corporation had minimal activity during 2018.

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. The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The combined financial statements report amounts separately by class of assets as follows:

Unrestricted net assets impose no restriction on the Organization as to their use or purpose. Such net assets are expended for purposes deemed appropriate for operating purposes.

Temporarily restricted net assets are those whose use by the Organization has been limited by donors to a specific time period or purpose.

Permanently restricted net assets consist of endowment fund investments to be held indefinitely, the income from which may be expended to support the activities of the Organization.

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 unrestricted net assets 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 temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified as unrestricted.

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, 2018 and 2017 was \$183,726 and \$171,198, 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 2018 and 2017, approximately \$403,377 and \$436,092 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, 2018 and 2017, the Organization had cash deposits of approximately \$1,877,802 and \$2,087,000, 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 and Commonwealth Human Services Foundation 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 tax exempt status of Commonwealth Catholic Charities Housing Corporation is currently pending approval by the Internal Revenue Service. The Organization has determined that there are no material unrecognized tax benefits or obligations as of September 30, 2018 and 2017.

Subsequent events

In preparing these combined financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through January 28, 2019, 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>2018</u>		<u>2017</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Cash and cash equivalents	\$ 142,124	\$ 142,124	\$ 443,621	\$ 443,621
Corporate bonds and government securities	2,149,436	2,105,229	1,509,352	1,516,331
Marketable securities	<u>2,627,498</u>	<u>3,157,317</u>	<u>2,449,100</u>	<u>3,007,977</u>
	<u>\$ 4,919,058</u>	<u>\$ 5,404,670</u>	<u>\$ 4,402,073</u>	<u>\$ 4,967,929</u>

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

	<u>2018</u>	<u>2017</u>
Investment returns:		
Dividends and interest, net	\$ 106,050	\$ 86,350
Net realized and unrealized gains	<u>229,158</u>	<u>315,652</u>
Total return on investments	<u>\$ 335,208</u>	<u>\$ 402,002</u>

4. Property and Equipment

Property and equipment consisted of the following at September 30:

	<u>2018</u>	<u>2017</u>
Land	\$ 790,534	\$ 790,534
Building	1,793,866	1,793,866
Building and leasehold improvements	2,055,889	1,978,906
Furniture, fixtures, equipment and vehicles	<u>909,387</u>	<u>894,142</u>
	<u>5,549,676</u>	5,457,448
Accumulated depreciation	<u>(1,199,403)</u>	<u>(1,050,423)</u>
Property and equipment, net	<u>\$ 4,350,273</u>	<u>\$ 4,407,025</u>

Commonwealth Catholic Charities
Notes to Combined Financial Statements

5. Contributions Receivable

On November 20, 2014, the Organization received a \$150,000 temporarily 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. The first four installments were received as of September 30, 2018.

On June 4, 2014, the Organization received a \$1,000,000 temporarily 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 five installments were received as of September 30, 2018. 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>2018</u>	<u>2017</u>
Receivable in one year or less	\$ 135,000	\$ 135,000
Receivable in two to five years	400,000	435,000
Receivable in more than five years	<u>-</u>	<u>100,000</u>
Total unconditional promises to give	535,000	670,000
Discounts to fair value (2%)	<u>(67,377)</u>	<u>(77,277)</u>
Net contributions receivable	<u>\$ 467,623</u>	<u>\$ 592,723</u>

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% (3.1% at September 30, 2018). The outstanding balance on the term loan was \$741,677 and \$841,673 at September 30, 2018 and 2017, respectively.

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

2019	\$ 99,996
2020	99,996
2021	99,996
2022	99,996
2023	99,996
Thereafter	<u>241,697</u>
	<u>\$ 741,677</u>

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 bears interest at the one month LIBOR plus .95%, with a minimum interest rate of 2.0% (3.1% at September 30, 2018). No amounts were borrowed under this line of credit during 2018. The line matures on April 30, 2019.

Both agreements were endorsed by the Bishop of the Catholic Diocese of Richmond.

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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 \$237,963 and \$233,386 for the years ended September 30, 2018 and 2017, respectively. Future minimum lease payments for fiscal years ending September 30 are as follows:

2019	\$ 230,887
2020	161,609
2021	139,277
2022	116,040
2023	<u>29,320</u>
	<u>\$ 677,133</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 \$293,170 and \$275,472 for the years ended September 30, 2018 and 2017, respectively.

9. Temporarily Restricted Net Assets

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

	<u>2018</u>	<u>2017</u>
Housing services	\$ 286,198	\$ 663,318
Children services	99,351	471
Resettlement services	59,902	188,230
Other programs	2,416,775	2,301,603
Capital improvement grant	<u>573,397</u>	<u>685,897</u>
	<u>\$ 3,435,623</u>	<u>\$ 3,839,519</u>

Temporarily restricted net assets were released from restrictions for the following purposes during the year ended September 30:

	<u>2018</u>	<u>2017</u>
Housing services	\$ 598,120	\$ 439,660
Counseling services	10	-
Children services	39,910	42,532
Resettlement services	236,972	46,500
Other programs	<u>301,635</u>	<u>310,840</u>
	<u>\$ 1,176,647</u>	<u>\$ 839,532</u>

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10. Permanently Restricted Net Assets

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

	<u>2018</u>	<u>2017</u>
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>

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, 2018 and 2017.

Money market mutual funds

Valued at the transacted value, which approximates fair value.

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

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

	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	<u>817,327</u>	<u>-</u>	<u>-</u>	<u>817,327</u>
Total assets at fair value	<u>\$ 5,404,670</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,404,670</u>

	September 30, 2017			Total
	Level 1	Level 2	Level 3	
Money market mutual funds	\$ 443,621	\$ -	\$ -	\$ 443,621
Equities:				
U.S. equities	2,153,599	-	-	2,153,599
International securities	618,995	-	-	618,995
Small cap securities	235,384	-	-	235,384
Corporate bonds	862,975	-	-	862,975
Mortgage backed securities	103,420	-	-	103,420
U.S. Treasury securities	<u>549,935</u>	<u>-</u>	<u>-</u>	<u>549,935</u>
Total assets at fair value	<u>\$ 4,967,929</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,967,929</u>

12. Endowment Funds

The Organization's endowment consists of five individual funds held in permanently restricted funds. 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.

As a result of this interpretation, the Organization classifies as permanently restricted net assets (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. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by the state UPMIFA law.

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A summary of the activity in endowment funds for the year ended September 30, 2018 and 2017 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, September 30, 2016	\$ (5,383)	285,128	2,757,530	3,037,275
Investment return:				
Investment income	5,383	290,264	-	295,647
Releases	-	(125,253)	-	(125,253)
	<u>5,383</u>	<u>165,011</u>	<u>-</u>	<u>170,394</u>
Endowment net assets, September 30, 2017	-	450,139	2,757,530	3,207,669
Investment return:				
Investment income	-	39,125	-	39,124
Reclassification of earnings	-	(375,547)	-	(375,547)
Releases	-	(15,451)	-	(15,451)
	<u>-</u>	<u>(351,873)</u>	<u>-</u>	<u>(351,873)</u>
Endowment net assets, September 30, 2018	<u>\$ -</u>	<u>\$ 98,266</u>	<u>\$ 2,757,530</u>	<u>\$ 2,855,796</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 were no deficiencies as of September 30, 2018 or September 30, 2017.

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.

The investment policy was designed to support a spending rate distribution policy of 4% based on the endowment average return over the preceding 12 quarters prior to the fiscal period in which the distribution is planned. 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. Subsequent Event

In October 2018, Commonwealth Catholic Charities Housing Corporation purchased a building and land for \$300,000. The building was paid for with cash and subsequently financed with a note payable to SunTrust. On November 14, 2018, Commonwealth Catholic Charities Housing Corporation entered into a note agreement with SunTrust for \$300,000. The loan accrues interest at a fixed rate of 4.78%. Fixed monthly payments of \$2,345.80 of principal and interest are due beginning December 30, 2018. The note matures on November 30, 2033 and any unpaid principal and interest are due at that time.