

# **Commonwealth Catholic Charities**

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**Combined Financial Statements**

**Years Ended September 30, 2016 and 2015**

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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 and Commonwealth Human Services Foundation (nonprofit organizations), which comprise the combined statements of financial position as of September 30, 2016 and 2015, 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. 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 and Commonwealth Human Services Foundation (the Organization) as of September 30, 2016 and 2015, 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.

*Dixon Hughes Goodman LLP*

**Richmond, Virginia**  
**February 1, 2017**

**Commonwealth Catholic Charities**  
**Combined Statements of Financial Position**  
**September 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 952,744	\$ 663,747
Receivables, net:		
Program and other	1,707,935	1,784,535
Contributions receivable	720,612	975,416
Prepaid expenses	19,166	10,393
Investments	4,523,419	4,350,059
Property and equipment, net	4,443,562	4,514,737
Other assets	17,712	21,319
	<u>\$ 12,385,150</u>	<u>\$ 12,320,206</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable	\$ 288,740	\$ 240,587
Accrued expenses	641,066	868,985
Funds held for others	67,893	120,534
Note payable	941,669	-
Line of credit	-	1,100,000
Total liabilities	<u>1,939,368</u>	<u>2,330,106</u>
Net assets:		
Unrestricted	4,219,031	3,195,685
Temporarily restricted	3,469,221	4,036,885
Permanently restricted	2,757,530	2,757,530
Total net assets	<u>10,445,782</u>	<u>9,990,100</u>
	<u>\$ 12,385,150</u>	<u>\$ 12,320,206</u>

See accompanying notes.

**Commonwealth Catholic Charities**  
**Combined Statement of Activities**  
**Year Ended September 30, 2016**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Eliminations</u>	<u>Total</u>
Revenues and other support:					
Public support:					
Monetary contributions	\$ 282,862	\$ 124,668	\$ -	\$ -	\$ 407,530
United Way allocation and donor designated contributions	38,676	65,564	-	-	104,240
Catholic Diocese of Richmond and Catholic churches	141,662	133,110	-	-	274,772
Foundation grants	299,560	118,349	-	(175,576)	242,333
Special events, net of \$64,973 of related expenses	55,837	-	-	-	55,837
Non-monetary contributions	274,035	-	-	-	274,035
Total public support	<u>1,092,632</u>	<u>441,691</u>	<u>-</u>	<u>(175,576)</u>	<u>1,358,747</u>
Program service fees, including government contracts and grants	<u>11,490,490</u>	<u>27,751</u>	<u>-</u>	<u>-</u>	<u>11,518,241</u>
Revenues and other income (losses):					
Investment income, including realized gains, net	153,760	53,445	-	-	207,205
Unrealized gain on investments	48,709	116,308	-	-	165,017
Other	69,000	-	-	-	69,000
Total revenues and other income	<u>271,469</u>	<u>169,753</u>	<u>-</u>	<u>-</u>	<u>441,222</u>
Net assets released from restrictions	<u>1,206,859</u>	<u>(1,206,859)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues and other support	<u>14,061,450</u>	<u>(567,664)</u>	<u>-</u>	<u>(175,576)</u>	<u>13,318,210</u>
Expenses:					
Program services:					
Housing services	1,452,947	-	-	-	1,452,947
Counseling services	660,893	-	-	-	660,893
Children services	5,377,220	-	-	-	5,377,220
Resettlement services	2,530,113	-	-	-	2,530,113
Other programs	1,205,514	-	-	-	1,205,514
Total program services	<u>11,226,687</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,226,687</u>
Support services:					
Development	316,709	-	-	-	316,709
Management and general	1,494,708	-	-	(175,576)	1,319,132
Total support services	<u>1,811,417</u>	<u>-</u>	<u>-</u>	<u>(175,576)</u>	<u>1,635,841</u>
Total expenses	<u>13,038,104</u>	<u>-</u>	<u>-</u>	<u>(175,576)</u>	<u>12,862,528</u>
Change in net assets	1,023,346	(567,664)	-	-	455,682
Net assets, beginning of year	<u>3,195,685</u>	<u>4,036,885</u>	<u>2,757,530</u>	<u>-</u>	<u>9,990,100</u>
Net assets, end of year	<u>\$ 4,219,031</u>	<u>\$ 3,469,221</u>	<u>\$ 2,757,530</u>	<u>\$ -</u>	<u>\$ 10,445,782</u>

See accompanying notes.

**Commonwealth Catholic Charities**  
**Combined Statement of Activities**  
**Year Ended September 30, 2015**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Eliminations</u>	<u>Total</u>
Revenues and other support:					
Public support:					
Monetary contributions	\$ 158,834	\$ 288,451	\$ 200	\$ -	\$ 447,485
United Way allocation and donor designated contributions	25,648	294,191	-	-	319,839
Catholic Diocese of Richmond and Catholic churches	216,143	165,889	-	-	382,032
Foundation grants	108,300	868,363	-	(162,142)	814,521
Special events, net of \$77,104 of related expenses	98,495	-	-	-	98,495
Non-monetary contributions	267,296	-	-	-	267,296
Total public support	<u>874,716</u>	<u>1,616,894</u>	<u>200</u>	<u>(162,142)</u>	<u>2,329,668</u>
Program service fees, including government contracts and grants	<u>10,840,713</u>	<u>104,939</u>	<u>-</u>	<u>-</u>	<u>10,945,652</u>
Revenues and other income (losses):					
Investment income - including realized gains, net	41,267	215,191	-	-	256,458
Unrealized loss on investments	(45,039)	(261,666)	-	-	(306,705)
Other	82,892	-	-	-	82,892
Total revenues and other income	<u>79,120</u>	<u>(46,475)</u>	<u>-</u>	<u>-</u>	<u>32,645</u>
Net assets released from restrictions	<u>1,746,960</u>	<u>(1,746,960)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues and other support	<u>13,541,509</u>	<u>(71,602)</u>	<u>200</u>	<u>(162,142)</u>	<u>13,307,965</u>
Expenses:					
Program services:					
Housing services	1,451,057	-	-	-	1,451,057
Counseling services	817,668	-	-	-	817,668
Children services	5,379,650	-	-	-	5,379,650
Resettlement services	2,526,179	-	-	-	2,526,179
Other programs	1,064,903	-	-	-	1,064,903
Total program services	<u>11,239,457</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,239,457</u>
Support services:					
Development	478,786	-	-	-	478,786
Management and general	1,295,152	-	-	(162,142)	1,133,010
Total support services	<u>1,773,938</u>	<u>-</u>	<u>-</u>	<u>(162,142)</u>	<u>1,611,796</u>
Total expenses	<u>13,013,395</u>	<u>-</u>	<u>-</u>	<u>(162,142)</u>	<u>12,851,253</u>
Change in net assets	528,114	(71,602)	200	-	456,712
Net assets, beginning of year	<u>2,667,571</u>	<u>4,108,487</u>	<u>2,757,330</u>	<u>-</u>	<u>9,533,388</u>
Net assets, end of year	<u>\$ 3,195,685</u>	<u>\$ 4,036,885</u>	<u>\$ 2,757,530</u>	<u>\$ -</u>	<u>\$ 9,990,100</u>

See accompanying notes.

**Commonwealth Catholic Charities  
 Combined Statement of Functional Expenses  
 Year Ended September 30, 2016**

	Program Services					Total Program Services	Support Services			Total Program and Support Expenses	
	Housing Services	Counseling Services	Children Services	Resettlement Services	Other Programs		Development	Management and General	Total Support Services		Eliminations
Compensation	\$ 633,029	\$ 431,549	\$ 1,789,117	\$ 951,133	\$ 591,990	\$ 4,396,818	\$ 181,641	\$ 699,322	\$ 880,963	\$ -	\$ 5,277,781
Employee benefits	161,604	116,008	475,797	231,770	148,248	1,133,427	42,777	157,751	200,528	-	1,333,955
Direct financial assistance	509,252	1,364	435,345	1,044,307	3,122	1,993,390	-	-	-	-	1,993,390
Purchase of service	-	-	2,131,020	-	-	2,131,020	-	-	-	-	2,131,020
Professional fees	2,738	2,115	14,541	47,124	319,665	386,183	17,162	38,957	56,119	-	442,302
Transportation	10,602	8,351	111,576	34,228	24,283	189,040	2,098	6,249	8,347	-	197,387
Occupancy and related expenses	48,112	39,195	147,205	80,236	38,285	353,033	12,529	32,422	44,951	-	397,984
Operating and administrative expenses	68,123	50,064	203,738	104,806	62,804	489,535	54,873	369,560	424,433	-	913,968
Contribution from the Foundation	-	-	-	-	-	-	-	175,576	175,576	(175,576)	-
Depreciation	17,028	10,702	60,332	31,903	15,087	135,052	4,919	12,995	17,914	-	152,966
Interest	2,459	1,545	8,549	4,606	2,030	19,189	710	1,876	2,586	-	21,775
	<u>\$ 1,452,947</u>	<u>\$ 660,893</u>	<u>\$ 5,377,220</u>	<u>\$ 2,530,113</u>	<u>\$ 1,205,514</u>	<u>\$ 11,226,687</u>	<u>\$ 316,709</u>	<u>\$ 1,494,708</u>	<u>\$ 1,811,417</u>	<u>\$ (175,576)</u>	<u>\$ 12,862,528</u>

See accompanying notes.

**Commonwealth Catholic Charities  
 Combined Statement of Functional Expenses  
 Year Ended September 30, 2015**

	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	
Compensation	\$ 598,229	\$ 545,148	\$ 1,792,737	\$ 1,078,107	\$ 503,955	\$ 4,518,176	\$ 278,206	\$ 771,587	\$ 1,049,793	\$ -	\$ 5,567,969
Employee benefits	145,893	141,076	501,029	267,675	125,447	1,181,120	65,175	192,673	257,848	-	1,438,968
Direct financial assistance	544,059	2,008	369,465	831,289	1,076	1,747,897	-	-	-	-	1,747,897
Purchase of service	-	-	2,092,094	-	-	2,092,094	-	-	-	-	2,092,094
Professional fees	6,137	8,009	85,592	43,207	307,017	449,962	44,884	12,992	57,876	-	507,838
Transportation	9,604	11,491	131,983	42,137	23,026	218,241	2,332	8,786	11,118	-	229,359
Occupancy and related expenses	55,227	47,569	154,338	92,466	32,962	382,562	18,601	40,008	58,609	-	441,171
Operating and administrative expenses	68,902	46,245	181,303	128,696	57,246	482,392	61,509	88,531	150,040	-	632,432
Contribution from the Foundation	-	-	-	-	-	-	-	162,142	162,142	(162,142)	-
Depreciation	19,874	13,927	61,428	36,802	12,244	144,275	6,979	15,923	22,902	-	167,177
Interest	3,132	2,195	9,681	5,800	1,930	22,738	1,100	2,510	3,610	-	26,348
	<u>\$ 1,451,057</u>	<u>\$ 817,668</u>	<u>\$ 5,379,650</u>	<u>\$ 2,526,179</u>	<u>\$ 1,064,903</u>	<u>\$ 11,239,457</u>	<u>\$ 478,786</u>	<u>\$ 1,295,152</u>	<u>\$ 1,773,938</u>	<u>\$ (162,142)</u>	<u>\$ 12,851,253</u>

See accompanying notes.

**Commonwealth Catholic Charities**  
**Combined Statements of Cash Flows**  
**Years Ended September 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$ 455,682	\$ 456,712
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	152,966	167,177
Unrealized (gain) loss on investments	(165,017)	306,705
Gain loss on investments	(80,149)	(164,702)
Non-cash contributions, stock	(15,413)	(39,784)
Change in assets:		
Receivables, programs and other	76,600	(358,476)
Receivables, contributions receivable	254,804	(26,445)
Prepaid expenses	(8,773)	6,346
Other assets	3,607	-
Accounts payable	48,153	(277,365)
Accrued expenses	(227,919)	148,814
Funds held for others	(52,641)	(81,736)
Net cash provided by operating activities	<u>441,900</u>	<u>137,246</u>
Cash flows from investing activities:		
Purchase of property and equipment	(81,791)	(67,670)
Proceeds from sale of investments	156,955	530,623
Purchase of investments	(69,736)	(88,818)
Net cash provided by investing activities:	<u>5,428</u>	<u>374,135</u>
Cash flows from financing activities:		
Repayments on note payable	(58,331)	-
Repayments on line of credit	(100,000)	(150,000)
Net cash used by financing activities:	<u>(158,331)</u>	<u>(150,000)</u>
Increase in cash and cash equivalents	288,997	361,381
Cash and cash equivalents, beginning of year	<u>663,747</u>	<u>302,366</u>
Cash and cash equivalents, end of year	<u>\$ 952,744</u>	<u>\$ 663,747</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 22,040</u>	<u>\$ 26,097</u>
Supplemental disclosure of noncash transactions:		
Repayment of line of credit with issuance of note payable	<u>\$ 1,000,000</u>	<u>\$ -</u>

See accompanying notes.

## **Notes to Combined Financial Statements**

### **1. Organization and Nature of Activities**

Commonwealth Catholic Charities and Commonwealth Human Services Foundation (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 to empower individuals, strengthen families and build community through faith and service.

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 2016 and 2015 represented approximately 44.1% and 46.7% of the Organization's total revenues, respectively.

The accompanying combined financial statements include the resources and financial activities of Commonwealth Catholic Charities and Commonwealth Human Services Foundation (Foundation), a public charity. The Foundation was established to conduct and support financial development.

### **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**

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***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.

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, 2016 and 2015 was \$116,362 and \$95,533, 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 2016 and 2015, approximately \$274,035 and \$267,296 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, 2016 and 2015, the Organization had cash deposits of approximately \$483,000 and \$467,000, 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.

***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 Organization has determined that there are no material unrecognized tax benefits or obligations as of September 30, 2016 and 2015.

**Commonwealth Catholic Charities**  
**Notes to Combined Financial Statements**

***Subsequent events***

In preparing these combined financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through February 1, 2017, 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:

	2016		2015	
	Cost	Market	Cost	Market
Other investments:				
Cash and cash equivalents	\$ 261,820	\$ 261,820	\$ 205,099	\$ 205,099
Corporate bonds and government securities	410,283	416,089	476,206	478,442
Marketable securities	554,386	642,834	537,618	587,784
Endowment funds:				
Cash and cash equivalents	29,850	29,850	27,983	27,983
Corporate bonds and government securities	1,229,939	1,245,747	1,266,476	1,282,399
Marketable securities	1,661,927	1,927,079	1,617,428	1,768,352
	<u>\$ 4,148,205</u>	<u>\$ 4,523,419</u>	<u>\$ 4,130,810</u>	<u>\$ 4,350,059</u>

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

	2016	2015
Investment returns:		
Dividends and interest	\$ 127,056	\$ 91,756
Net realized and unrealized gains (losses)	<u>245,166</u>	<u>(142,003)</u>
Total return on investments	<u>\$ 372,222</u>	<u>\$ (50,247)</u>

**4. Property and Equipment**

Property and equipment consisted of the following at September 30:

	2016	2015
Land	\$ 773,534	\$ 759,834
Building	1,793,866	1,793,866
Building and leasehold improvements	1,977,906	1,977,906
Furniture, fixtures, equipment and vehicles	<u>798,297</u>	<u>730,205</u>
	5,343,602	5,261,810
Accumulated depreciation	<u>(900,040)</u>	<u>(747,074)</u>
Property and equipment, net	<u>\$ 4,443,562</u>	<u>\$ 4,514,737</u>

**Commonwealth Catholic Charities**  
**Notes to Combined Financial Statements**

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**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 principle facility in Richmond. This pledge is payable in five annual installments of \$30,000, the first two payments were received during 2016 and 2015.

On June 4, 2014, the Organization received a \$1,000,000 temporarily restricted pledge for the purpose of renovations at the Organization's principle facility in Richmond. This pledge is payable in ten annual installments of \$100,000. The first three installments were received as of September 30, 2016. Other contributions receivable are expected to be collected within one year. All pledges are recorded at net realizable value.

Pledges receivable are as follows at September 30:

	<u>2016</u>	<u>2015</u>
Receivable in one year or less	\$ 135,387	\$ 260,240
Receivable in two to five years	470,000	505,000
Receivable in more than five years	<u>200,000</u>	<u>300,000</u>
Total unconditional promises to give	805,387	1,065,240
Discounts to fair value (2%)	<u>(84,775)</u>	<u>(89,824)</u>
Net pledges receivable	<u>\$ 720,612</u>	<u>\$ 975,416</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 1<sup>st</sup> 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% (2.0% at September 30, 2016). The outstanding balance on the term loan was \$941,669 at September 30, 2016.

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

2017	\$ 99,996
2018	99,996
2019	99,996
2020	99,996
2021	99,996
Thereafter	<u>441,689</u>
	<u>\$ 941,669</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% (2.0% at September 30, 2016). No amounts were borrowed under this line of credit during 2016.

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 noncancelable operating lease agreements. Total rental expense under noncancelable operating leases was \$252,857 and \$252,881 for the years ended September 30, 2016 and 2015, respectively. Future minimum lease payments for fiscal years ending September 30 are as follows:

2017	\$ 220,360
2018	83,851
2019	55,102
2020	29,832
2021	<u>3,569</u>
	<u>\$ 392,714</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 \$275,449 and \$314,080 for the years ended September 30, 2016 and 2015, respectively.

**9. Temporarily Restricted Net Assets**

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

	<u>2016</u>	<u>2015</u>
Housing services	\$ 430,219	\$ 628,708
Counseling services	-	10,771
Children services	1,573	4,963
Other programs	2,267,154	2,350,285
Time restricted contributions	-	125,265
Capital improvement grant	<u>770,275</u>	<u>916,893</u>
	<u>\$ 3,469,221</u>	<u>\$ 4,036,885</u>

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

	<u>2016</u>	<u>2015</u>
Housing services	\$ 700,117	\$ 475,721
Counseling services	39,976	31,627
Children services	24,606	57,414
Resettlement services	47,636	71,043
Other programs	252,337	88,026
Time restricted contributions	125,519	274,168
Capital improvement grant	<u>16,668</u>	<u>748,961</u>
	<u>\$ 1,206,859</u>	<u>\$ 1,746,960</u>

**10. Permanently Restricted Net Assets**

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

	<u>2016</u>	<u>2015</u>
Unrestricted 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.

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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, 2016 and 2015.

***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.

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

	<b>September 30, 2016</b>			<b>Total</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
Money market mutual funds	\$ 291,670	\$ -	\$ -	\$ 291,670
Equities:				
U.S. equities	1,832,752	-	-	1,833,751
International securities	456,899	-	-	456,899
Small cap securities	280,262	-	-	280,262
Corporate bonds	324,831	-	-	324,831
Mortgage backed securities	227,622	-	-	227,622
U.S. Treasury securities	<u>1,109,383</u>	-	-	<u>1,108,850</u>
Total assets at fair value	<u>\$ 4,523,419</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,523,419</u>

	<b>September 30, 2015</b>			<b>Total</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
Money market mutual funds	\$ 233,082	\$ -	\$ -	\$ 233,082
Equities:				
U.S. equities	1,468,097	-	-	1,468,097
International securities	509,847	-	-	509,847
Small cap securities	378,192	-	-	378,192
Corporate bonds	940,089	-	-	940,089
Mortgage backed securities	514,979	-	-	514,979
U.S. Treasury securities	<u>305,773</u>	-	-	<u>305,773</u>
Total assets at fair value	<u>\$ 4,350,059</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,350,059</u>

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**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.

A summary of the activity in endowment funds for the year ended September 30, 2016 and 2015 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, September 30, 2014	\$ -	\$ 417,051	\$ 2,757,330	\$ 3,174,381
Gifts	-	-	200	200
Investment return:				
Investment income	(13,853)	(19,316)	-	(33,169)
Releases	-	(109,707)	-	(109,707)
	<u>(13,853)</u>	<u>(129,023)</u>	<u>-</u>	<u>(142,876)</u>
Endowment net assets, September 30, 2015	<u>(13,853)</u>	<u>288,028</u>	<u>2,757,530</u>	<u>3,031,705</u>
Investment return:				
Investment income	8,470	115,871	-	124,341
Releases	-	(118,771)	-	(118,771)
	<u>8,470</u>	<u>(2,900)</u>	<u>-</u>	<u>5,570</u>
Endowment net assets, September 30, 2016	<u>\$ (5,383)</u>	<u>\$ 285,128</u>	<u>\$ 2,757,530</u>	<u>\$ 3,037,275</u>

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.

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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, deficiencies of this nature that are reported in unrestricted net assets as of September 30, 2016 and 2015 were (\$5,383) and (\$13,853), respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Organization.

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.