

# Commonwealth Catholic Charities

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**Combined Financial Statements**

**Years Ended September 30, 2017 and 2016**

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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, 2017 and 2016, 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 and Commonwealth Human Services Foundation (the Organization) as of September 30, 2017 and 2016, 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 February 5, 2018, 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**  
**February 5, 2018**

**Commonwealth Catholic Charities  
 Combined Statements of Financial Position  
 September 30, 2017 and 2016**

|                                   | <u>2017</u>          | <u>2016</u>          |
|-----------------------------------|----------------------|----------------------|
| <b>ASSETS</b>                     |                      |                      |
| Cash and cash equivalents         | \$ 2,343,122         | \$ 952,744           |
| Receivables, net:                 |                      |                      |
| Program and other                 | 1,356,998            | 1,707,935            |
| Contributions receivable          | 592,723              | 720,612              |
| Prepaid expenses                  | 8,187                | 19,166               |
| Investments                       | 4,967,929            | 4,523,419            |
| Property and equipment, net       | 4,407,025            | 4,443,562            |
| Other assets                      | 19,398               | 17,712               |
|                                   | <u>\$ 13,695,382</u> | <u>\$ 12,385,150</u> |
| <b>LIABILITIES AND NET ASSETS</b> |                      |                      |
| Liabilities:                      |                      |                      |
| Accounts payable                  | \$ 266,527           | \$ 288,740           |
| Accrued expenses                  | 597,989              | 641,066              |
| Deferred revenue                  | 206,224              | -                    |
| Funds held for others             | 36,171               | 67,893               |
| Note payable                      | 841,673              | 941,669              |
|                                   | <u>1,948,584</u>     | <u>1,939,368</u>     |
| Net assets:                       |                      |                      |
| Unrestricted                      | 5,149,749            | 4,219,031            |
| Temporarily restricted            | 3,839,519            | 3,469,221            |
| Permanently restricted            | 2,757,530            | 2,757,530            |
|                                   | <u>11,746,798</u>    | <u>10,445,782</u>    |
|                                   | <u>\$ 13,695,382</u> | <u>\$ 12,385,150</u> |

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

|   | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Eliminations</u> | <u>Total</u>         |
|---|---------------------|-----------------------------------|-----------------------------------|---------------------|----------------------|
| 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 (losses):                             |                     |                                   |                                   |                     |                      |
| Investment income, including realized gains, net                | 7,718               | 290,945                           | -                                 | -                   | 298,663              |
| Unrealized gain (loss) 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 Activities  
Year Ended September 30, 2016**

|   | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>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> |

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

|   | Program Services    |                        |                      |                          |                     | Total<br>Program<br>Services | Support Services  |                           |                              | Eliminations        | Total<br>Program<br>and<br>Support<br>Expenses |
|---|---------------------|------------------------|----------------------|--------------------------|---------------------|------------------------------|-------------------|---------------------------|------------------------------|---------------------|--|
|   | Housing<br>Services | Counseling<br>Services | Children<br>Services | Resettlement<br>Services | Other<br>Programs   |                              | Development       | Management<br>and General | Total<br>Support<br>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>                           |

See accompanying notes.

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

|                                       | 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 |                     |                                    |
| 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>               |

**Commonwealth Catholic Charities**  
**Combined Statements of Cash Flows**  
**Years Ended September 30, 2017 and 2016**

|   | <u>2017</u>         | <u>2016</u>         |
|---|---------------------|---------------------|
| Cash flows from operating activities:   |                     |                     |
| Change in net assets  | \$ 1,301,016        | \$ 455,682          |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: |                     |                     |
| Depreciation  | 175,887             | 152,966             |
| Unrealized gain on investments  | (103,339)           | (165,017)           |
| Realized gain on investments  | (217,569)           | (80,149)            |
| Non-cash contributions, stock   | (150,941)           | (15,413)            |
| Change in assets:   |                     |                     |
| Receivables, programs and other   | 350,937             | 76,600              |
| Receivables, contributions receivable   | 127,889             | 254,804             |
| Prepaid expenses  | 10,979              | (8,773)             |
| Other assets  | (1,686)             | 3,607               |
| Accounts payable  | (22,213)            | 48,153              |
| Accrued expenses  | (43,077)            | (227,919)           |
| Deferred revenue  | 206,224             | -                   |
| Funds held for others   | (31,722)            | (52,641)            |
| Net cash provided by operating activities   | <u>1,602,385</u>    | <u>441,900</u>      |
| Cash flows from investing activities:   |                     |                     |
| Purchase of property and equipment  | (139,350)           | (81,791)            |
| Proceeds from sale of investments   | 1,931,925           | 156,955             |
| Purchase of investments   | (1,904,586)         | (69,736)            |
| Net cash provided (used) by investing activities:   | <u>(112,011)</u>    | <u>5,428</u>        |
| Cash flows from financing activities:   |                     |                     |
| Repayments on note payable  | (99,996)            | (58,331)            |
| Repayments on line of credit  | -                   | (100,000)           |
| Net cash used by financing activities:  | <u>(99,996)</u>     | <u>(158,331)</u>    |
| Increase in cash and cash equivalents   | 1,390,378           | 288,997             |
| Cash and cash equivalents, beginning of year  | <u>952,744</u>      | <u>663,747</u>      |
| Cash and cash equivalents, end of year  | <u>\$ 2,343,122</u> | <u>\$ 952,744</u>   |
| Supplemental disclosure of cash flow information:   |                     |                     |
| Cash paid for interest  | <u>\$ 18,419</u>    | <u>\$ 22,040</u>    |
| Supplemental disclosure of noncash transactions:  |                     |                     |
| Repayment of line of credit with issuance of note payable                                   | <u>\$ -</u>         | <u>\$ 1,000,000</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 2017 and 2016 represented approximately 39.6% and 44.1% 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.

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 have not begun as of September 30, 2017 and therefore no activity is included in the combined financial statements.

### **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  
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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.

***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, 2017 and 2016 was \$171,198 and \$116,362, 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 2017 and 2016, approximately \$436,092 and \$274,035 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, 2017 and 2016, the Organization had cash deposits of approximately \$2,087,000 and \$483,000, 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.

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***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, 2017 and 2016.

***Subsequent events***

In preparing these combined financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through February 5, 2018, 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:

|   | 2017                |                     | 2016                |                     |
|---|---------------------|---------------------|---------------------|---------------------|
|   | Cost                | Market              | Cost                | Market              |
| Other investments:                        |                     |                     |                     |                     |
| Cash and cash equivalents                 | \$ 443,621          | \$ 443,621          | \$ 324,796          | \$ 324,796          |
| Corporate bonds and government securities | 1,509,352           | 1,516,331           | 1,586,738           | 1,628,709           |
| Marketable securities                     | <u>2,449,100</u>    | <u>3,007,977</u>    | <u>2,149,368</u>    | <u>2,569,914</u>    |
|   | <u>\$ 4,402,073</u> | <u>\$ 4,967,929</u> | <u>\$ 4,060,902</u> | <u>\$ 4,523,419</u> |

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

|                                   | 2017              | 2016              |
|-----------------------------------|-------------------|-------------------|
| Investment returns:               |                   |                   |
| Dividends and interest, net       | \$ 86,350         | \$ 127,056        |
| Net realized and unrealized gains | <u>315,652</u>    | <u>245,166</u>    |
| Total return on investments       | <u>\$ 402,002</u> | <u>\$ 372,222</u> |

**4. Property and Equipment**

Property and equipment consisted of the following at September 30:

|   | 2017                | 2016                |
|---|---------------------|---------------------|
| Land  | \$ 790,534          | \$ 773,534          |
| Building                                    | 1,793,866           | 1,793,866           |
| Building and leasehold improvements         | 1,978,906           | 1,977,906           |
| Furniture, fixtures, equipment and vehicles | <u>894,142</u>      | <u>798,297</u>      |
|   | 5,457,448           | 5,343,602           |
| Accumulated depreciation                    | <u>(1,050,423)</u>  | <u>(900,040)</u>    |
| Property and equipment, net                 | <u>\$ 4,407,025</u> | <u>\$ 4,443,562</u> |

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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 principal facility in Richmond. This pledge is payable in five annual installments of \$30,000. The first three installments were received as of September 30, 2017.

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 four installments were received as of September 30, 2017. 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>2017</u>       | <u>2016</u>       |
|--------------------------------------|-------------------|-------------------|
| Receivable in one year or less       | \$ 135,000        | \$ 135,387        |
| Receivable in two to five years      | 435,000           | 470,000           |
| Receivable in more than five years   | <u>100,000</u>    | <u>200,000</u>    |
| Total unconditional promises to give | 670,000           | 805,387           |
| Discounts to fair value (2%)         | <u>(77,277)</u>   | <u>(84,775)</u>   |
| Net contributions receivable         | <u>\$ 592,723</u> | <u>\$ 720,612</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% (2.2% at September 30, 2017). The outstanding balance on the term loan was \$841,673 and \$941,669 at September 30, 2017 and 2016, respectively.

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

|            |                   |
|------------|-------------------|
| 2018       | \$ 99,996         |
| 2019       | 99,996            |
| 2020       | 99,996            |
| 2021       | 99,996            |
| 2022       | 99,996            |
| Thereafter | <u>341,693</u>    |
|            | <u>\$ 841,673</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% (2.2% at September 30, 2017). No amounts were borrowed under this line of credit during 2017. The line matures on April 30, 2018.

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 \$233,386 and \$252,857 for the years ended September 30, 2017 and 2016, respectively. Future minimum lease payments for fiscal years ending September 30 are as follows:

|      |                   |
|------|-------------------|
| 2018 | \$ 225,733        |
| 2019 | 133,908           |
| 2020 | 33,863            |
| 2021 | 7,464             |
| 2022 | <u>1,866</u>      |
|      | <u>\$ 402,834</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 \$275,472 and \$275,449 for the years ended September 30, 2017 and 2016, respectively.

**9. Temporarily Restricted Net Assets**

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

|                           | <u>2017</u>         | <u>2016</u>         |
|---------------------------|---------------------|---------------------|
| Housing services          | \$ 663,318          | \$ 430,219          |
| Children services         | 471                 | 1,573               |
| Resettlement services     | 188,230             | -                   |
| Other programs            | 2,301,603           | 2,267,154           |
| Capital improvement grant | <u>685,897</u>      | <u>770,275</u>      |
|                           | <u>\$ 3,839,519</u> | <u>\$ 3,469,221</u> |

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

|                               | <u>2017</u>       | <u>2016</u>         |
|-------------------------------|-------------------|---------------------|
| Housing services              | \$ 439,660        | \$ 700,117          |
| Counseling services           | -                 | 39,976              |
| Children services             | 42,532            | 24,606              |
| Resettlement services         | 46,500            | 47,636              |
| Other programs                | 310,840           | 252,337             |
| Time restricted contributions | -                 | 125,519             |
| Capital improvement grant     | <u>-</u>          | <u>16,668</u>       |
|                               | <u>\$ 839,532</u> | <u>\$ 1,206,859</u> |

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**10. Permanently Restricted Net Assets**

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

|   | <u>2017</u>         | <u>2016</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.

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, 2017 and 2016.

***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.

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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, 2017</b> |                |                | <b>Total</b>        |
|----------------------------|---------------------------|----------------|----------------|---------------------|
|                            | <b>Level 1</b>            | <b>Level 2</b> | <b>Level 3</b> |                     |
| 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   | 549,935                   | -              | -              | 549,935             |
| Total assets at fair value | <u>\$ 4,967,929</u>       | <u>\$ -</u>    | <u>\$ -</u>    | <u>\$ 4,967,929</u> |

|                            | <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                 | -              | -              | 1,833,752           |
| 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   | 1,109,383                 | -              | -              | 1,109,383           |
| Total assets at fair value | <u>\$ 4,523,419</u>       | <u>\$ -</u>    | <u>\$ -</u>    | <u>\$ 4,523,419</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.

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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, 2017 and 2016 is as follows:

|  | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u>   |
|--|---------------------|-------------------------------|-------------------------------|----------------|
| Endowment net assets, September 30, 2015 | \$ (13,853)         | \$ 288,028                    | \$ 2,757,530                  | \$ 3,031,705   |
| 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 | (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   |

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, deficiencies of this nature that are reported in unrestricted net assets as of September 30, 2016 were (\$5,383). There were no deficiencies as of September 30, 2017. This deficiency 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.

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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.