

CATHOLIC CHARITIES OF BUFFALO, N.Y.

FINANCIAL STATEMENTS

June 30, 2016

INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Catholic Charities of Buffalo, N.Y.

We have audited the accompanying combined balance sheets of Catholic Charities of Buffalo, N.Y. (Catholic Charities) and affiliates as of June 30, 2016 and 2015, and the related combined statements of activities, cash flows and functional expenses for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Catholic Charities as of June 30, 2016 and 2015 and the combined changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



January 6, 2017

CATHOLIC CHARITIES OF BUFFALO, N.Y.

Combined Balance Sheets

| June 30, | 2016 | 2015 |
|--|----------------------|----------------------|
| Assets | | |
| Cash | \$ 5,675,210 | \$ 5,095,375 |
| Receivables, net (Note 2) | 7,401,133 | 6,801,607 |
| Prepaid Bishop's Fund | 2,264,136 | 2,623,129 |
| Prepaid expenses and other assets | 26,235 | 16,111 |
| Investments (Note 3) | 18,763,131 | 20,658,974 |
| Property and equipment, net (Note 4) | 7,233,445 | 6,238,024 |
| | \$ 41,363,290 | \$ 41,433,220 |
| Liabilities and Net Assets | | |
| Liabilities: | | |
| Accounts payable | \$ 683,380 | \$ 1,034,686 |
| Accrued expenses | 2,006,264 | 1,834,420 |
| Deferred revenue | 490,926 | 493,031 |
| Long-term debt (Note 6) | 761,223 | 228,608 |
| Estimated third-party payor settlements - service fees | 644,400 | 688,200 |
| Postretirement health benefits (Note 10) | 3,287,000 | 6,034,000 |
| | 7,873,193 | 10,312,945 |
| Net assets: | | |
| Unrestricted | 21,440,467 | 18,926,566 |
| Temporarily restricted (Note 7) | 11,997,969 | 12,142,048 |
| Permanently restricted (Note 8) | 51,661 | 51,661 |
| | 33,490,097 | 31,120,275 |
| | \$ 41,363,290 | \$ 41,433,220 |

CATHOLIC CHARITIES OF BUFFALO, N.Y.

Combined Statements of Activities

| For the years ended June 30, | 2016 | 2015 |
|--|----------------------|---------------|
| Change in unrestricted net assets: | | |
| Program support and revenue: | | |
| Government grants | \$ 19,715,781 | \$ 18,916,399 |
| Service fees (net of provision for bad debts of \$512,817 and \$432,068) | 6,580,348 | 6,387,354 |
| Contracts | 383,055 | 518,216 |
| Bequests and other contributions | 1,686,506 | 699,924 |
| Other income | 734,385 | 558,469 |
| Total support and revenue | <u>29,100,075</u> | 27,080,362 |
| Net assets released from restrictions | 11,052,013 | 10,794,826 |
| Total unrestricted support and revenue | <u>40,152,088</u> | 37,875,188 |
| Expenses: | | |
| Program services | 36,446,502 | 34,777,701 |
| Administration | 3,338,361 | 3,111,925 |
| Fundraising | 1,418,482 | 1,303,572 |
| Total expenses | <u>41,203,345</u> | 39,193,198 |
| Excess of expenses over revenues | (1,051,257) | (1,318,010) |
| Other changes in unrestricted net assets: | | |
| Investment income | 350,889 | 322,511 |
| Net change in value of assets held in trust | (36,381) | (7,909) |
| Post-retirement benefit obligation (Note 10) | 3,250,650 | (170,721) |
| Total other changes in unrestricted net assets | <u>3,565,158</u> | 143,881 |
| Change in unrestricted net assets | <u>2,513,901</u> | (1,174,129) |
| Change in temporarily restricted net assets: | | |
| Annual appeal | 11,114,412 | 10,989,617 |
| Net change in value of assets held in trust | (206,478) | (159,356) |
| Net assets released from restrictions | (11,052,013) | (10,794,826) |
| Change in temporarily restricted net assets | <u>(144,079)</u> | 35,435 |
| Change in net assets | 2,369,822 | (1,138,694) |
| Net assets - beginning | <u>31,120,275</u> | 32,258,969 |
| Net assets - ending | <u>\$ 33,490,097</u> | \$ 31,120,275 |

CATHOLIC CHARITIES OF BUFFALO, N.Y.

Combined Statements of Cash Flows

| For the years ended June 30, | 2016 | 2015 |
|---|------------------|------------------|
| Operating activities: | | |
| Change in net assets | \$ 2,369,822 | \$ (1,138,694) |
| Adjustments to reconcile change in net assets to net cash flows from operating activities: | | |
| Net realized and unrealized gains on investments | (236,037) | (71,942) |
| Depreciation | 452,091 | 462,716 |
| Net depreciation of assets held in trust | 242,859 | 167,265 |
| Changes in other operating assets and liabilities: | | |
| Receivables | (599,526) | (119,449) |
| Prepaid Bishop's Fund | 358,993 | (262,330) |
| Prepaid expenses and other assets | (10,124) | 29,290 |
| Accounts payable | (351,306) | (29,981) |
| Accrued expenses | 171,844 | (122,922) |
| Deferred revenue | (2,105) | (190,186) |
| Estimated third-party payor settlements - service fees | (43,800) | (191,700) |
| Postretirement health benefits | (2,747,000) | 594,000 |
| Net operating activities | (394,289) | (873,933) |
| Investing activities: | | |
| Property and equipment purchases | (1,447,512) | (224,215) |
| Proceeds from sale of investments | 7,573,134 | 7,543,712 |
| Purchases of investments | (5,684,113) | (6,991,650) |
| Net investing activities | 441,509 | 327,847 |
| Financing activities: | | |
| Proceeds from issuance of long-term debt | 550,000 | - |
| Payments on long-term debt | (17,385) | (17,461) |
| Net financing activities | 532,615 | (17,461) |
| Net change in cash | 579,835 | (563,547) |
| Cash - beginning | 5,095,375 | 5,658,922 |
| Cash - ending | \$ 5,675,210 | \$ 5,095,375 |

See accompanying notes.

CATHOLIC CHARITIES OF BUFFALO, N.Y.

Combined Statement of Functional Expenses

For the years ended June 30,

2016

| | Family and Community Services | Bishop's Fund | School Based Services | Parish Outreach and Advocacy | Refugee and Immigration Assistance | Workforce Development | Clinical and Aging Services |
|--|-------------------------------------|------------------|--------------------------|------------------------------------|--|--------------------------|-----------------------------------|
| Salaries and wages | \$ 8,951,383 | \$ - | \$ 3,558,011 | \$ 432,613 | \$ 626,264 | \$ 664,375 | \$ 3,682,658 |
| Payroll taxes and benefits | 2,724,700 | - | 936,277 | 120,945 | 238,726 | 198,554 | 1,156,762 |
| Other personnel costs | 277,491 | - | 114,245 | 13,381 | 19,423 | 20,785 | 115,703 |
| Stipends | 2,571 | - | 35,308 | 10,000 | - | - | 244,727 |
| Total salaries and related benefits | 11,956,145 | - | 4,643,841 | 576,939 | 884,413 | 883,714 | 5,199,850 |
| Bishop's Fund | - | 3,904,875 | - | - | - | - | - |
| Rent | 699,971 | - | 20,500 | 31,514 | - | 6,000 | 192,842 |
| Client care expense | 662,849 | - | 18,178 | 2,227 | 582,393 | 27,105 | 41,277 |
| Food | 184,440 | - | - | 23,247 | - | - | 49 |
| Supplies | 123,861 | - | 23,306 | 6,797 | 7,087 | 8,854 | 72,923 |
| Telephone | 243,894 | - | 20,886 | 17,486 | 19,326 | 14,474 | 102,103 |
| Travel and conference | 294,595 | - | 45,771 | 22,164 | 19,784 | 25,457 | 105,568 |
| Purchased services | 181,850 | - | 228,092 | 2,151 | 122,110 | 1,875 | 198,089 |
| Professional fees | 334,613 | - | 48,639 | 7,543 | 7,756 | 11,384 | 1,276,854 |
| Computer fees | 100,828 | - | 39,787 | 4,838 | 7,003 | 8,729 | 142,297 |
| Research | 15,810 | - | - | - | - | - | - |
| Auto and truck expense | 38,251 | - | 12,889 | 1,567 | 8,131 | 2,427 | 16,607 |
| Postage and freight | 23,474 | - | 8,843 | 1,407 | 1,557 | 1,664 | 9,675 |
| Repairs and maintenance | 269,738 | - | 65,102 | 11,890 | 26,784 | 18,680 | 159,827 |
| Advertising and promotion | 7,372 | - | - | 351 | - | 1,644 | 15,611 |
| Utilities | 90,311 | - | 31,335 | 8,471 | 6,175 | 6,071 | 46,307 |
| Insurance | 97,988 | - | 18,694 | 5,725 | 10,380 | 7,381 | 40,703 |
| Special programs and projects | - | - | - | - | - | - | - |
| Staff development | 84,002 | - | 423 | 10,576 | 1,229 | 1,659 | 20,576 |
| Dues and subscriptions | 54,549 | - | 6,525 | 976 | 845 | - | 7,465 |
| Bad debts | - | - | - | - | - | - | - |
| Other | 25,370 | - | 7,243 | 258,589 | 2,983 | 1,455 | 5,708 |
| Depreciation | 185,203 | - | 49,940 | 10,437 | 28,346 | 9,325 | 143,093 |
| | \$ 15,675,114 | \$ 3,904,875 | \$ 5,289,994 | \$ 1,004,895 | \$ 1,736,302 | \$ 1,037,898 | \$ 7,797,424 |

See accompanying notes.

2015

| Total Program Services | | | | 2015 | | | |
|------------------------|---------------------|---------------------|----------------------|----------------------|---------------------|---------------------|----------------------|
| Administration | Fundraising | Total | Program | Administration | Fundraising | Total | |
| \$ 17,915,304 | \$ 1,472,675 | \$ 361,666 | \$ 19,749,645 | \$ 16,599,530 | \$ 1,428,522 | \$ 325,287 | \$ 18,353,339 |
| 5,375,964 | 594,595 | 106,442 | 6,077,001 | 5,149,500 | 503,930 | 91,793 | 5,745,223 |
| 561,028 | 63,404 | 11,525 | 635,957 | 467,514 | 55,370 | 9,281 | 532,165 |
| 292,606 | - | - | 292,606 | 237,397 | - | - | 237,397 |
| 24,144,902 | 2,130,674 | 479,633 | 26,755,209 | 22,453,941 | 1,987,822 | 426,361 | 24,868,124 |
| 3,904,875 | - | - | 3,904,875 | 3,790,039 | - | - | 3,790,039 |
| 950,827 | 118,959 | - | 1,069,786 | 846,038 | 155,787 | - | 1,001,825 |
| 1,334,029 | 2,586 | - | 1,336,615 | 1,375,122 | 27,542 | - | 1,402,664 |
| 207,736 | 2,091 | 1,296 | 211,123 | 194,764 | 1,836 | 870 | 197,470 |
| 242,828 | 8,774 | 14,669 | 266,271 | 231,715 | 10,068 | 15,415 | 257,198 |
| 418,169 | 145,698 | 8,466 | 572,333 | 527,696 | 62,982 | 9,637 | 600,315 |
| 513,339 | 70,964 | 4,583 | 588,886 | 451,541 | 63,401 | 4,418 | 519,360 |
| 734,167 | 132,103 | 259,849 | 1,126,119 | 801,442 | 85,892 | 284,435 | 1,171,769 |
| 1,686,789 | 33,477 | 5,807 | 1,726,073 | 1,806,952 | 38,099 | 1,527 | 1,846,578 |
| 303,482 | 16,468 | 4,044 | 323,994 | 398,254 | 24,924 | 5,863 | 429,041 |
| 15,810 | - | - | 15,810 | 13,000 | 1,729 | - | 14,729 |
| 79,872 | 5,335 | 2,593 | 87,800 | 73,499 | 5,045 | 2,949 | 81,493 |
| 46,620 | 3,660 | 27,628 | 77,908 | 47,853 | 3,022 | 45,062 | 95,937 |
| 552,021 | 24,205 | 7,472 | 583,698 | 602,880 | 29,498 | 8,703 | 641,081 |
| 24,978 | 78,542 | 500,272 | 603,792 | 24,132 | 123,386 | 429,754 | 577,272 |
| 188,670 | 12,970 | 3,185 | 204,825 | 235,827 | 17,115 | 3,897 | 256,839 |
| 180,871 | 29,673 | 3,120 | 213,664 | 187,889 | 30,509 | 6,655 | 225,053 |
| - | - | - | - | - | - | - | - |
| 118,465 | 53,784 | 2,660 | 174,909 | 135,940 | 32,508 | 1,419 | 169,867 |
| 70,360 | 40,281 | 891 | 111,532 | 62,552 | 52,904 | 1,653 | 117,109 |
| - | 253,878 | - | 253,878 | 1,743 | 188,588 | - | 190,331 |
| 301,348 | 153,568 | 87,238 | 542,154 | 78,785 | 147,586 | 50,017 | 276,388 |
| 426,344 | 20,671 | 5,076 | 452,091 | 436,097 | 21,682 | 4,937 | 462,716 |
| \$ 36,446,502 | \$ 3,338,361 | \$ 1,418,482 | \$ 41,203,345 | \$ 34,777,701 | \$ 3,111,925 | \$ 1,303,572 | \$ 39,193,198 |

Notes to Combined Financial Statements

1. Summary of Significant Accounting Policies:

Nature of Organization:

The combined financial statements include the accounts of Catholic Charities of Buffalo, N.Y. and its affiliated entity, Monsignor Carr Institute (collectively referred to as Catholic Charities) which provide a variety of community care services throughout Western New York State.

Catholic Charities coordinates an annual fund raising appeal and enters into agreements with federal, state and local government agencies to support its mission. It also (through Monsignor Carr Institute) provides individual and group mental health and substance abuse services to residents of Erie and Niagara Counties, New York, which generates patient service fees.

All significant interprogram and intercompany transactions have been eliminated in the accompanying combined financial statements.

Catholic Charities receives certain support services from the Diocese of Buffalo (the Diocese), an organization related through common Board members.

Tax Status:

Catholic Charities is a 501(c)(3) corporation exempt from income taxes under Section 501(a) of the Internal Revenue Code. Catholic Charities believes it is no longer subject to examination by Federal taxing authorities for years prior to 2013.

Subsequent Events:

Catholic Charities has evaluated events and transactions for potential recognition or disclosure in the financial statements through January 6, 2017, the date the financial statements were available to be issued.

Cash:

Cash in financial institutions in excess of insured limits may subject Catholic Charities to concentrations of credit risk at various times during the year.

Receivables:

Receivables from contributions, government grants and contracts are stated at the amount management expects to collect from outstanding balances. An allowance for doubtful accounts is recorded based on management's assessment of the collectability of individual account balances and historical trends. Amounts outstanding after management has used reasonable collection efforts are written off through a charge to allowance for bad debts and a credit to receivables.

Contributors to the annual appeal reside primarily in Western New York State. Economic conditions in this area may affect the collectability of the contributions receivable.

Service fee receivables are reduced by an allowance for doubtful accounts. In evaluating the collectability of service fee receivables, Catholic Charities analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, Catholic Charities analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to have financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), Catholic Charities records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

Investments:

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

Investment income is reported net of investment management fees of \$46,000 in 2016 and \$58,000 in 2015.

Contributions:

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and nature of any donor restrictions. Restricted net assets are reclassified to unrestricted net assets upon satisfaction of time or purpose restrictions.

Catholic Charities' annual appeal is conducted each spring, and is substantially completed by May 1. The appeal proceeds are allocated to programs within Catholic Charities and the Bishop's Fund at the Diocese. Substantially all cash and pledges are reported as temporarily restricted net assets until the expiration of time restrictions on July 1 following each appeal.

Prepaid Bishop's Fund represents allocations that were disbursed to the Diocese in advance.

Catholic Charities' recognizes in-kind services as contributions if the services create or enhance non-financial assets or require specialized skills, are performed by people with those skills, and would otherwise be purchased by Catholic Charities. During the year ended June 30, 2016, Catholic Charities recognized approximately \$125,000 of in-kind services. A large number of volunteers have contributed services throughout the year that are not reported as contributions in the financial statements since the recognition criteria under generally accepted accounting principles were not met.

Property and Equipment:

Property and equipment is stated at cost or fair market value at the date of donation, net of accumulated depreciation. Depreciation is provided over estimated service lives on the straight line basis. Maintenance and repairs are charged to operations as incurred; significant improvements are capitalized.

Service Fees Revenue:

The majority of Catholic Charities' total service fees revenue is derived from patients admitted under Medicaid and other third-party insurance programs. Catholic Charities has agreements with third-party payors that provide for payments at established rates. Payment arrangements include prospectively determined rates per visit and discounted charges. Service fees revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Revenue from the Medicaid and Medicare programs accounted for approximately 63% of Catholic Charities' service fees for the years ended June 30, 2016 and 2015. Laws and regulations governing the programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Deferred Revenue:

Funds received from reimbursement based government grants and contracts are considered earned and reported as revenue when Catholic Charities has incurred expenditures in compliance with specific grant requirements. Amounts received but not yet earned are reported as deferred revenue.

Use of Estimates:

The preparation of the combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the combined financial statements and accompanying notes. Actual results could differ from those estimates.

2. Receivables:

| | 2016 | 2015 |
|--|---------------------|---------------------|
| Contributions | \$ 2,727,152 | \$ 2,500,807 |
| Service fees | 1,114,141 | 1,208,785 |
| Government agencies and other | 4,450,840 | 3,945,015 |
| | <u>8,292,133</u> | <u>7,654,607</u> |
| Less allowance for estimated uncollectibles: | | |
| Contributions | 378,000 | 421,000 |
| Service fees | 513,000 | 432,000 |
| | <u>891,000</u> | <u>853,000</u> |
| | <u>\$ 7,401,133</u> | <u>\$ 6,801,607</u> |

3. Investments:

| | 2016 | 2015 |
|----------------------------------|----------------------|----------------------|
| Marketable securities: | | |
| Money market funds | \$ 6,086,269 | \$ 7,911,217 |
| Corporate bonds | 1,247,500 | 1,136,273 |
| U.S. Government securities | 1,262,297 | 1,309,013 |
| Mutual funds | 2,240,394 | 2,211,737 |
| Common stock | 3,682,840 | 3,604,044 |
| Assets held in trust (see below) | 4,243,831 | 4,486,690 |
| | <u>\$ 18,763,131</u> | <u>\$ 20,658,974</u> |

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

| | 2016 | 2015 |
|-----------------------------------|-------------------|-------------------|
| Dividends and interest, net | \$ 114,852 | \$ 250,569 |
| Net realized and unrealized gains | 236,037 | 71,942 |
| | <u>\$ 350,889</u> | <u>\$ 322,511</u> |

Assets held in trust consist of the following:

| | 2016 | 2015 |
|--|---------------------|---------------------|
| St. Joseph Investment Fund | \$ 1,718,670 | \$ 1,755,051 |
| Catholic Charities of Buffalo, N.Y. Foundation, Inc. | 2,525,161 | 2,731,639 |
| | <u>\$ 4,243,831</u> | <u>\$ 4,486,690</u> |

The St. Joseph Investment Fund (the Fund) was organized by the Diocese and provides diocesan organizations the opportunity to invest in diversified investment portfolios. Assets invested in the fund are pooled in a short-term fund designed to provide liquidity and a long-term fund to provide growth. Investment managers follow investment guidelines described in the Fund's "Offering Circular and Investment Agreement," which also specifies a policy for the strategic allocation of Fund investments. Values are based on Catholic Charities' contributions, plus its allocable share of the investment's net income or loss, less any withdrawals or distributions. The underlying holdings of the Fund are based on various investment strategies. Redemptions can be made daily on the short-term fund and on the first business day of each quarter for the long-term fund. Essentially all investments are in the long-term fund.

During 2004, Catholic Charities of Buffalo, N.Y. Foundation, Inc. was dissolved, and its assets were merged into The Foundation of the Roman Catholic Diocese of Buffalo, N.Y., Inc. (the Foundation). Catholic Charities' assets maintained by the Foundation are invested in the St. Joseph Investment Fund. The Foundation, at the discretion of its independent Board of Trustees, makes unrestricted distributions to Catholic Charities. The amount distributed is based on the three prior years' average investment performance and return. Essentially all of the net assets held in trust by the Foundation are presented as temporarily restricted due to purpose restrictions.

4. Property and Equipment:

| | 2016 | 2015 |
|-------------------------------|---------------------|---------------------|
| Land and buildings | \$ 9,641,036 | \$ 8,577,604 |
| Equipment and vehicles | 3,525,327 | 2,993,922 |
| Leasehold improvements | 1,063,545 | 1,063,545 |
| Construction in progress | 14,506 | 161,831 |
| | <u>14,244,414</u> | <u>12,796,902</u> |
| Less accumulated depreciation | 7,010,969 | 6,558,878 |
| | <u>\$ 7,233,445</u> | <u>\$ 6,238,024</u> |

5. Short-Term Borrowings:

Catholic Charities has \$1,000,000 available in a revolving bank demand note for working capital with interest at LIBOR plus 1.85%, secured by deposits held at the bank. No amounts were outstanding at June 30, 2016 and 2015.

6. Long-Term Debt:

| | 2016 | 2015 |
|--|-------------------|-------------------|
| Mortgage note payable to seller of real property, monthly installments of \$2,396 including interest at 5.15% through September 2025, secured by related property. | \$ 211,223 | \$ 228,608 |
| Bank note payable, monthly principal payments of \$4,701 plus interest at 2.41% through May 2026, secured by deposits at the banking institution. | 550,000 | - |
| | <u>\$ 761,223</u> | <u>\$ 228,608</u> |

Aggregate annual maturities of long-term debt subsequent to June 30, 2016 are as follows:

| | |
|------------|-------------------|
| 2017 | \$ 65,310 |
| 2018 | 75,676 |
| 2019 | 76,692 |
| 2020 | 77,762 |
| 2021 | 78,888 |
| Thereafter | 386,895 |
| | <u>\$ 761,223</u> |

7. Temporarily Restricted Net Assets:

Temporarily restricted net assets are available for the following purposes:

| | 2016 | 2015 |
|--|----------------------|----------------------|
| Annual appeal allocation to program services | \$ 5,615,212 | \$ 5,578,396 |
| Bishop's Fund | 3,902,096 | 3,876,513 |
| The Foundation | 2,480,661 | 2,687,139 |
| | <u>\$ 11,997,969</u> | <u>\$ 12,142,048</u> |

8. Permanently Restricted Net Assets:

The Board of Trustees of Catholic Charities has interpreted the New York Prudent Management of Institutional Funds Act (NYPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, Catholic Charities classifies as 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 a donor gift instrument at the time the accumulation is added to the fund. Any 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 Catholic Charities in a manner consistent with the standard of prudence prescribed by NYPMIFA. In accordance with NYPMIFA, Catholic Charities considers the following factors to appropriate or accumulate donor-restricted endowment funds:

- Duration and preservation of the fund
- Purposes of Catholic Charities and the fund
- General economic conditions
- Possible effect of inflation and deflation
- Expected total return from income and appreciation of investments
- Other resources of Catholic Charities
- Investment policy of Catholic Charities
- Where appropriate and circumstances would otherwise warrant, alternatives to expenditure of the endowment fund, giving due consideration to the effect that such alternatives may have on Catholic Charities

Catholic Charities has adopted investment and spending policies for endowment assets that attempt to provide a reasonable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of its endowment assets. Endowment assets include those assets of donor-restricted funds that Catholic Charities must hold in perpetuity or for donor-specified periods.

Income earned from the investment of permanently restricted net assets is expendable primarily for student scholarships. All investment earnings on permanently restricted net assets were appropriated, expended and reported within unrestricted net assets for the years ended June 30, 2016 and 2015.

9. Pension Plans:

Catholic Charities contributes to the Diocese of Buffalo, New York Retirement Plan (the Plan), a defined benefit pension plan in conjunction with the Diocese and other Diocesan organizations. Catholic Charities does not directly manage the Plan, which is managed by a board of trustees. A majority of Catholic Charities' employees were participants in the Plan on January 1, 2016 when the Plan was frozen.

The Plan is organized as a nonelecting noncontributory church retirement plan, and therefore the Plan is not subject to certain reporting requirements of the Employee Retirement Income Security Act of 1974, as amended (ERISA).

The risks of participating in a multiemployer plan are different from a single employer plan in the following aspects: (1) assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers; (2) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers; (3) if any employer chooses to stop participating in a multiemployer plan, the company may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability. If a plan were to terminate, if participants voluntarily withdrew or there was a mass withdrawal, Catholic Charities may also be required to make additional payments to the plan for its proportionate share of underfunded liabilities.

The following table presents information on the plan and Catholic Charities' participation in the Plan (\$000s omitted):

| Plan Employer Identification and Plan Number | Plan Funded Status as of December 31, 2015 | | Catholic Charities' Contributions for the Years ended June 30: | | Total Plan Contributions for the Years ended December 31: | | Catholic Charities' contributions greater than 5% ? | |
|--|---|---|--|--------|---|----------|---|-----|
| | Assets | Actuarial Present Value of Accumulated Benefits | 2016 | 2015 | 2015 | 2014 | | |
| Diocese of Buffalo, New York Retirement Plan | 16-0743984/002 | \$ 173,657 | \$ 230,968 | \$ 425 | \$ 1,146 | \$ 7,837 | \$ 8,018 | Yes |

The Plan's accumulated benefit obligations are determined annually by the Plan's actuary. Significant actuarial assumptions used for the Plan include a discount rate of 6.5%, an expected rate of investment return of 6.5%, and an expected rate of salary increase of 2%.

Funded status information is not available as of June 30, 2016 as actuarial valuations were not performed as of that date due to the significant cost of such retroactive calculations. The Plan is 75% funded as of December 31, 2015. The Plan's certified zone status is not available since the Plan is not subject to ERISA reporting requirements.

Catholic Charities also participates in a defined contribution plan administered by the Diocese of Buffalo which was established January 1, 2016. Employer contributions consist of 100% employee deferral match, up to 1% of compensation, plus a core contribution based on age and years of service for eligible employees. Defined contribution plan expense totaled \$900,000 for the year ended June 30, 2016.

Catholic Charities also administers a noncontributory 403(b) plan for the benefit of employees. Employees may contribute a percentage of eligible salaries to the plan subject to certain limitations.

10. Postretirement Health Benefits:

Catholic Charities provides a postemployment health care plan (the Plan) for retirees hired prior to December 31, 2015 who have reached age 65 and were employed for 15 or 20 years, depending on date of hire. Catholic Charities' policy is to fund these benefits as paid. Catholic Charities uses a June 30th measurement date for the Plan.

Effective January 1, 2016, the Plan provides \$2,000 be paid annually to each eligible retiree, with continuation of payments to the spouse after the death of the retiree. Previous to January 1, 2016, Plan coverage ranged between 50% and 75% of the cost of health insurance, depending on date of hire and coverage period.

The status of the Plan at and for the years ended June 30, 2016 and 2015 is as follows:

| | <u>2016</u> | <u>2015</u> |
|--|-----------------------|--------------|
| Accumulated postretirement benefit obligation (APBO) | \$ 3,287,000 | \$ 6,034,000 |
| Accrued postretirement health benefit obligation | \$ 3,287,000 | \$ 6,034,000 |
| Accumulated adjustment to unrestricted net assets | \$ 2,684,000 | \$ (567,000) |
| Benefit cost | \$ 629,000 | \$ 543,000 |
| Benefits paid | \$ 125,000 | \$ 120,000 |
| Plan amendments | \$ (4,744,000) | \$ - |

At June 30, 2016 and 2015, the following items included as adjustments to unrestricted net assets had not yet been recognized as components of employee benefit expense:

| | <u>2016</u> | <u>2015</u> |
|----------------------|-----------------------|----------------|
| Net loss | \$ (2,568,000) | \$ (1,139,000) |
| Prior service credit | 5,252,000 | 572,000 |
| | \$ 2,684,000 | \$ (567,000) |

The actuarial calculations reflect a long-term perspective and use techniques designed to reduce short-term volatility in actuarial accrued liabilities. A summary of the methods and assumptions is as follows:

| | <u>2016</u> | <u>2015</u> |
|---|--------------|-------------|
| Weighted average assumptions used to determine benefit obligation: | | |
| Discount rate | 4.25% | 5.00% |
| Weighted average assumptions used to determine net periodic benefit cost: | | |
| Discount rate | 5.00% | 5.00% |

Annual health care premium increases through December 31, 2015 were estimated at 10% for the first year, then grading down by 1/2% for each subsequent year until reaching a 5% floor.

Expected future benefit payments:

| | |
|-----------|----------------------------|
| 2017 | \$ 148,000 |
| 2018 | 155,000 |
| 2019 | 163,000 |
| 2020 | 169,000 |
| 2021 | 175,000 |
| 2022-2026 | 940,000 |
| | <u>\$ 1,750,000</u> |

For 2016, a 1% increase in the trend rate for health care costs would not have increased the APBO.

11. Related Party Transactions:

Pursuant to a shared services agreement beginning in 2010, the Diocese provides certain administrative and support services to Catholic Charities related to the annual appeal. Allocated shared costs related to this agreement and paid to the Diocese totaled \$190,000 and \$256,000 for the years ended June 30, 2016 and 2015. Additionally, Catholic Charities reimbursed the Diocese \$804,000 and \$815,000 for shared insurance costs in 2016 and 2015.

12. Lease Obligations:

Catholic Charities leases space and vehicles under the terms of operating leases. Rental expense for all operating leases amounted to \$1,070,000 and \$1,002,000 for the years ended June 30, 2016 and 2015.

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

| | |
|------------|----------------------------|
| 2017 | \$ 749,000 |
| 2018 | 644,000 |
| 2019 | 540,000 |
| 2020 | 355,000 |
| 2021 | 283,000 |
| Thereafter | <u>1,238,000</u> |
| | <u>\$ 3,809,000</u> |

13. Cash Flow Information:

Net cash flows from operating activities reflect cash payments for interest of \$14,240 and \$12,237 for the years ended June 30, 2016 and 2015, which approximates interest expense.

14. Contingencies:

Catholic Charities is a recipient of numerous Federal and State governmental programs. These programs are administered by various agencies, and are subject to compliance and financial audits by the respective agencies administering the grant. Management of Catholic Charities believes it has substantially complied with the rules and regulations as specified under the program agreements as well as the rules and regulations of the respective agency for each program.

A significant amount of Catholic Charities' operations are funded by governmental programs. As such, the resource provider may hold a reversionary interest in certain assets of Catholic Charities in the event of disposition.