

CATHOLIC CHARITIES OF BUFFALO, N.Y.

SINGLE AUDIT REPORTING PACKAGE

June 30, 2017

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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) as of June 30, 2017 and 2016, and the related combined statements of activities, cash flows and functional expenses for the years then ended, and the related notes to the 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 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 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 financial position of Catholic Charities as of June 30, 2017 and 2016, and the respective 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 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 December 1, 2017 on our consideration of Catholic Charities' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 Catholic Charities' internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Lumsden & McCormick, LLP". The signature is written in a cursive, flowing style.

December 1, 2017

CATHOLIC CHARITIES OF BUFFALO, N.Y.

Combined Balance Sheets

June 30,	2017	2016
Assets		
Cash	\$ 4,760,210	\$ 5,675,210
Receivables, net (Note 2)	8,669,548	7,401,133
Prepaid Bishop's Fund	1,631,087	2,264,136
Prepaid expenses and other assets	22,871	26,235
Investments (Note 3)	19,206,784	18,763,131
Property and equipment, net (Note 4)	6,979,684	7,233,445
	\$ 41,270,184	\$ 41,363,290
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 1,386,132	\$ 683,380
Accrued expenses	2,089,561	2,006,264
Deferred revenue	528,106	490,926
Long-term debt (Note 6)	695,914	761,223
Estimated third-party payor settlements - service fees	740,500	644,400
Postretirement health benefits (Note 10)	2,630,000	3,287,000
	8,070,213	7,873,193
Net assets:		
Unrestricted	20,792,269	21,440,467
Temporarily restricted (Note 7)	12,356,041	11,997,969
Permanently restricted (Note 8)	51,661	51,661
	33,199,971	33,490,097
	\$ 41,270,184	\$ 41,363,290

CATHOLIC CHARITIES OF BUFFALO, N.Y.

Combined Statements of Activities

For the years ended June 30,	2017	2016
Change in unrestricted net assets:		
Program support and revenue:		
Government grants	\$ 17,809,282	\$ 19,715,781
Service fees (net of provision for bad debts of \$575,939 and \$512,817)	6,824,801	6,580,348
Contracts	327,072	383,055
Bequests and other contributions	699,894	1,686,506
Other income	867,415	734,385
Total support and revenue	<u>26,528,464</u>	29,100,075
Net assets released from restrictions	<u>10,822,968</u>	11,052,013
Total unrestricted support and revenue	<u>37,351,432</u>	40,152,088
Expenses:		
Program services	35,036,876	36,446,502
Administration	3,335,230	3,338,361
Fundraising	1,356,110	1,418,482
Total expenses	<u>39,728,216</u>	41,203,345
Excess of expenses over revenues	(2,376,784)	(1,051,257)
Other changes in unrestricted net assets:		
Other investment income	1,008,780	350,889
Investment income - net change in value of assets held in trust	195,925	(36,381)
Postretirement benefit obligation (Note 10)	523,881	3,250,650
Total other changes in unrestricted net assets	<u>1,728,586</u>	3,565,158
Change in unrestricted net assets	<u>(648,198)</u>	2,513,901
Change in temporarily restricted net assets:		
Annual appeal	11,051,509	11,114,412
Investment income - net change in value of assets held in trust	129,531	(206,478)
Net assets released from restrictions	<u>(10,822,968)</u>	(11,052,013)
Change in temporarily restricted net assets	<u>358,072</u>	(144,079)
Change in net assets	(290,126)	2,369,822
Net assets - beginning	<u>33,490,097</u>	31,120,275
Net assets - ending	<u>\$ 33,199,971</u>	\$ 33,490,097

See accompanying notes.

Combined Statements of Cash Flows

For the years ended June 30,	2017	2016
Operating activities:		
Change in net assets	\$ (290,126)	\$ 2,369,822
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Net change in value of investments - assets held in trust	(325,456)	242,859
Net realized and unrealized gains on other investments	(638,590)	(236,037)
Depreciation	613,031	452,091
Changes in other operating assets and liabilities:		
Receivables	(1,268,415)	(599,526)
Prepaid Bishop's Fund	633,049	358,993
Prepaid expenses and other assets	3,364	(10,124)
Accounts payable	702,752	(351,306)
Accrued expenses	83,297	171,844
Deferred revenue	37,180	(2,105)
Estimated third-party payor settlements - service fees	96,100	(43,800)
Postretirement health benefits	(657,000)	(2,747,000)
Net operating activities	(1,010,814)	(394,289)
Investing activities:		
Property and equipment purchases	(359,270)	(1,447,512)
Proceeds from sale of investments	5,604,021	7,573,134
Purchases of investments	(5,083,628)	(5,684,113)
Net investing activities	161,123	441,509
Financing activities:		
Proceeds from issuance of long-term debt	-	550,000
Payments on long-term debt	(65,309)	(17,385)
Net financing activities	(65,309)	532,615
Net change in cash	(915,000)	579,835
Cash - beginning	5,675,210	5,095,375
Cash - ending	\$ 4,760,210	\$ 5,675,210

CATHOLIC CHARITIES OF BUFFALO, N.Y.

Combined Statements of Functional Expenses

For the years ended June 30,

2017

	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	\$ 9,621,988	\$ -	\$ 229,424	\$ 538,575	\$ 586,189	\$ 739,638	\$ 3,987,045
Payroll taxes and benefits	2,947,669	-	70,690	154,057	230,453	212,296	1,280,026
Postretirement health benefits	(8,586)	-	(208)	(479)	(520)	(666)	(3,476)
Stipends	484	-	-	12,375	-	-	239,173
Total salaries and related benefits	12,561,555	-	299,906	704,528	816,122	951,268	5,502,768
Bishop's Fund	-	3,943,491	-	-	-	-	-
Rent	730,710	-	-	42,803	1,750	6,000	172,001
Client care expense	998,481	-	-	4,822	701,270	5,484	38,397
Food	143,023	-	-	21,567	-	14	37
Supplies	193,350	-	1,715	5,093	6,999	12,369	84,932
Telephone	277,469	-	2,754	17,041	18,196	19,025	112,750
Travel and conference	262,341	-	483	22,698	25,453	28,373	94,728
Purchased services	198,169	-	157,673	1,904	45,587	20,857	1,387,692
Professional fees	228,000	-	4,271	11,416	9,684	15,202	1,348,765
Computer fees	101,108	-	2,411	5,659	6,160	7,772	146,347
Research	250	-	-	-	-	-	-
Auto and truck expense	45,648	-	923	4,629	9,130	2,976	17,970
Postage and freight	23,747	-	557	1,608	1,424	1,798	9,916
Repairs and maintenance	414,637	-	5,678	24,859	27,879	24,802	190,699
Advertising and promotion	8,325	-	-	475	-	2,201	97,345
Utilities	127,187	-	2,679	10,974	7,307	9,187	64,204
Insurance	115,525	-	1,837	5,835	10,996	10,098	41,651
Staff development	122,943	-	54	14,401	2,419	3,119	22,225
Dues and subscriptions	39,388	-	-	-	825	-	7,886
Bad debts	-	-	-	-	-	-	-
Other	29,941	-	-	350,191	-	995	7,196
Depreciation	326,240	-	3,929	14,185	73,995	12,667	148,878
	\$ 16,948,037	\$ 3,943,491	\$ 484,870	\$ 1,264,688	\$ 1,765,196	\$ 1,134,207	\$ 9,496,387

See accompanying notes.

2016

Total Program Services				2016			
Administration	Fundraising	Total	Program	Administration	Fundraising	Total	
\$ 15,702,859	\$ 1,568,814	\$ 366,090	\$ 17,637,763	\$ 17,915,304	\$ 1,472,675	\$ 361,666	\$ 19,749,645
4,895,191	588,082	113,521	5,596,794	5,382,159	594,981	106,442	6,083,582
(13,935)	(2,258)	(336)	(16,529)	554,833	63,018	11,525	629,376
252,032	3,000	-	255,032	292,606	-	-	292,606
20,836,147	2,157,638	479,275	23,473,060	24,144,902	2,130,674	479,633	26,755,209
3,943,491	-	-	3,943,491	3,904,875	-	-	3,904,875
953,264	123,207	-	1,076,471	950,827	118,959	-	1,069,786
1,748,454	3,013	-	1,751,467	1,334,029	2,586	-	1,336,615
164,641	449	-	165,090	207,736	2,091	1,296	211,123
304,458	11,591	20,808	336,857	242,828	8,774	14,669	266,271
447,235	86,689	8,160	542,084	418,169	145,698	8,466	572,333
434,076	61,351	3,398	498,825	513,339	70,964	4,583	588,886
1,811,882	228,727	222,228	2,262,837	734,167	132,103	259,849	1,126,119
1,617,338	34,731	7,239	1,659,308	1,686,789	33,477	5,807	1,726,073
269,457	16,485	3,921	289,863	303,482	16,468	4,044	323,994
250	-	-	250	15,810	-	-	15,810
81,276	6,313	5,569	93,158	79,872	5,335	2,593	87,800
39,050	3,811	34,711	77,572	46,620	3,660	27,628	77,908
688,554	38,829	14,532	741,915	552,021	24,205	7,472	583,698
108,346	71,504	473,718	653,568	24,978	78,542	500,272	603,792
221,538	18,314	4,274	244,126	188,670	12,970	3,185	204,825
185,942	38,563	3,315	227,820	180,871	29,673	3,120	213,664
165,161	34,253	1,055	200,469	118,465	53,784	2,660	174,909
48,099	43,635	1,184	92,918	70,360	40,281	891	111,532
-	29,636	-	29,636	-	253,878	-	253,878
388,323	299,624	66,453	754,400	301,348	153,568	87,238	542,154
579,894	26,867	6,270	613,031	426,344	20,671	5,076	452,091
\$ 35,036,876	\$ 3,335,230	\$ 1,356,110	\$ 39,728,216	\$ 36,446,502	\$ 3,338,361	\$ 1,418,482	\$ 41,203,345

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.

Subsequent Events:

Catholic Charities has evaluated events and transactions for potential recognition or disclosure in the financial statements through December 1, 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 \$48,000 in 2017 and \$46,000 in 2016.

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 years ended June 30, 2017 and 2016, Catholic Charities recognized approximately \$128,000 and \$125,000 of in-kind services, respectively. 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 45% of Catholic Charities' service fees for the years ended June 30, 2017 (63% in 2016). 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:

	2017	2016
Contributions	\$ 4,244,824	\$ 2,727,152
Service fees	1,496,095	1,114,141
Government agencies and other	3,765,629	4,450,840
	<u>9,506,548</u>	<u>8,292,133</u>
Less allowance for estimated uncollectibles:		
Contributions	261,000	378,000
Service fees	576,000	513,000
	<u>837,000</u>	<u>891,000</u>
	<u>\$ 8,669,548</u>	<u>\$ 7,401,133</u>

3. Investments:

	2017	2016
Marketable securities:		
Money market funds	\$ 5,339,385	\$ 6,086,269
Corporate bonds	921,309	1,247,500
U.S. Government securities	821,078	1,262,297
Mutual funds	2,908,009	2,240,394
Common stock	4,647,716	3,682,840
Assets held in trust (see below)	4,569,287	4,243,831
	<u>\$ 19,206,784</u>	<u>\$ 18,763,131</u>

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

	2017	2016
Dividends and interest, net	\$ 370,190	\$ 114,852
Net realized and unrealized gains	638,590	236,037
	<u>\$ 1,008,780</u>	<u>\$ 350,889</u>

Assets held in trust consist of the following:

	2017	2016
St. Joseph Investment Fund	\$ 1,914,595	\$ 1,718,670
Catholic Charities of Buffalo, N.Y. Foundation, Inc.	2,654,692	2,525,161
	<u>\$ 4,569,287</u>	<u>\$ 4,243,831</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:

	2017	2016
Land and buildings	\$ 9,861,975	\$ 9,641,036
Equipment and vehicles	3,660,358	3,525,327
Leasehold improvements	1,063,545	1,063,545
Construction in progress	17,806	14,506
	<u>14,603,684</u>	<u>14,244,414</u>
Less accumulated depreciation	7,624,000	7,010,969
	<u>\$ 6,979,684</u>	<u>\$ 7,233,445</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, 2017 and 2016.

6. Long-Term Debt:

	2017	2016
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.	\$ 192,922	\$ 211,223
Bank note payable, monthly installments of \$4,701 plus interest at 2.41% through May 2026, secured by deposits at the banking institution.	502,992	550,000
	<u>\$ 695,914</u>	<u>\$ 761,223</u>

Aggregate annual maturities of long-term debt subsequent to June 30, 2017 are as follows:

2018	\$ 75,676
2019	76,692
2020	77,762
2021	78,888
2022	80,073
Thereafter	<u>306,823</u>
	<u>\$ 695,914</u>

7. Temporarily Restricted Net Assets:

Temporarily restricted net assets are available for the following purposes:

	2017	2016
Annual appeal allocation to program services	\$ 5,750,051	\$ 5,615,212
Bishop's Fund	3,995,798	3,902,096
The Foundation	2,610,192	2,480,661
	<u>\$ 12,356,041</u>	<u>\$ 11,997,969</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, 2017 and 2016.

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, 2016		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	2017	2016	2016	2015	
Diocese of Buffalo, New York Retirement Plan 16-0743984/002	\$ 178,242	\$ 233,833	\$ 755	\$ 425	\$ 4,567	\$ 7,837	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, 2017 as actuarial valuations were not performed as of that date due to the significant cost of such retroactive calculations. The Plan is 76% funded as of December 31, 2016. 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 \$675,000 and \$900,000 for the years ended June 30, 2017 and 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, 2017 and 2016 is as follows:

	2017	2016
Accumulated postretirement benefit obligation (APBO)	\$ 2,630,000	\$ 3,287,000
Accrued postretirement health benefit obligation	\$ 2,630,000	\$ 3,287,000
Accumulated adjustment to unrestricted net assets	\$ 3,208,000	\$ 2,684,000
Benefit cost	\$ (13,000)	\$ 629,000
Benefits paid	\$ 119,000	\$ 125,000
Plan amendments	\$ -	\$ (4,744,000)

At June 30, 2017 and 2016, the following items included as adjustments to unrestricted net assets had not yet been recognized as components of employee benefit expense:

	2017	2016
Net loss	\$ (1,597,000)	\$ (2,568,000)
Prior service credit	4,805,000	5,252,000
	\$ 3,208,000	\$ 2,684,000

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:

	2017	2016
Weighted average assumptions used to determine benefit obligation:		
Discount rate	4.25%	4.25%
Weighted average assumptions used to determine net periodic benefit cost:		
Discount rate	4.25%	5.00%
Expected future benefit payments:		
2018	\$ 145,000	
2019	152,000	
2020	157,000	
2021	161,000	
2022	161,000	
2023-2027	866,000	
	\$ 1,642,000	

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 \$184,000 and \$190,000 for the years ended June 30, 2017 and 2016. Additionally, Catholic Charities reimbursed the Diocese \$818,000 and \$804,000 for shared insurance costs in 2017 and 2016.

12. Lease Obligations:

Catholic Charities leases space and vehicles under the terms of operating leases. Rental expense for all operating leases amounted to \$1,076,000 and \$1,070,000 for the years ended June 30, 2017 and 2016.

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

2018	\$ 865,000
2019	665,000
2020	469,000
2021	324,000
2022	311,000
Thereafter	993,000
	<u>\$ 3,627,000</u>

13. Cash Flow Information:

Net cash flows from operating activities reflect cash payments for interest of \$25,419 and \$14,420 for the years ended June 30, 2017 and 2016, 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.

Supplementary Information
Schedule of Expenditures of Federal Awards

For the year ended June 30, 2017

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Grantor Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Agriculture</u>			
Passed through New York State Department of Health:			
WIC Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	C-019321	\$ 23,004,295
Child and Adult Care Food Program	10.558	Unavailable	8,218
Total U.S. Department of Agriculture			<u>23,012,513</u>
<u>U.S. Department of Health and Human Services</u>			
Passed through New York State Office of Temporary and Disability Assistance Services:			
Grants to States for Access and Visitation Programs	93.597	C-009664	84,023
Grants to States for Access and Visitation Programs	93.597	PS3100	368,250
Refugee and Entrant Assistance			
State/Replacement Designee Administered Programs	93.566	C-009590	439,290
Refugee and Entrant Assistance Targeted Assistance Grants	93.584	C-009543	194,587
			<u>1,086,150</u>
Passed through United States Conference of Catholic Bishops:			
Refugee and Entrant Assistance Voluntary Agency Programs	93.567	90RV0064	150,187
Total U.S. Department of Health and Human Services			<u>1,236,337</u>
<u>U.S. Department of State</u>			
Passed through United States Conference of Catholic Bishops:			
U.S. Refugee Admissions Program	19.510	2010-CS-010-000015	<u>1,075,946</u>
<u>U.S. Department of Labor</u>			
WIOA Cluster:			
Passed through Buffalo and Erie County Workforce Development Consortium, Inc.:			
WIOA Youth Activities	17.259	BBD-0038-A1	614,209
Passed through Niagara County:			
WIOA Youth Activities	17.259	Unavailable	93,609
Total U.S. Department of Labor			<u>707,818</u>

Supplementary Information
Schedule of Expenditures of Federal Awards (continued)

For the year ended June 30, 2017

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Grantor Number</u>	<u>Federal Expenditures</u>
<u>Corporation for National and Community Service</u>			
Direct Program:			
Foster Grandparent Program	94.011	13SFANY003	385,208
Passed through Catholic Charities USA:			
AmeriCorps	94.006	16NDVA001	25,590
Total Corporation for National and Community Service			<u>410,798</u>
<u>U.S. Department of Housing and Urban Development</u>			
Direct Program:			
Continuum of Care Program	14.267	NYS0970LZC081400	179,740
Passed through City of Buffalo:			
Emergency Solutions Grant Program	14.231	Unavailable	384,113
Passed through Erie County:			
Emergency Solutions Grant Program	14.231	Unavailable	31,168
Total U.S Department of Housing and Urban Development			<u>595,021</u>
<u>U.S. Department of Homeland Security</u>			
Passed through United Way of Buffalo & Erie County:			
Emergency Food and Shelter National Board Program	97.024	615600-001	23,796
Total Expenditures of Federal Awards			<u>\$ 27,062,229</u>

Notes to Schedule of Expenditures of Federal Awards

1. Summary of Significant Accounting Policies:

Basis of Presentation:

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards of Catholic Charities of Buffalo, N.Y. (Catholic Charities), an entity as described in Note 1 to its combined financial statements. Federal awards received directly from federal agencies, as well as federal awards passed through other governmental agencies, are included on the Schedule of Expenditures of Federal Awards.

Basis of Accounting:

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting, consistent with the combined financial statements. The amounts reported as federal expenditures generally were obtained from the appropriate financial reports for the applicable programs and periods. The amounts reported in these financial reports are prepared from records maintained for each program. These records are periodically reconciled to the general ledger which is the source of the financial statements.

Indirect Costs:

Catholic Charities allocates certain indirect costs to federal programs based on an approved indirect cost plan, and as such, does not apply the 10% de minimis rate permitted by the Uniform Guidance.

2. Vouchers:

The accompanying Schedule of Expenditures of Federal Awards includes \$17,421,266 of vouchers paid directly to recipients by the New York State Department of Health for the WIC Special Supplemental Nutrition Program for Women, Infants, and Children, CFDA #10.557. No amounts have been reflected in the accompanying combined financial statements, as these vouchers are redeemed directly by the pass-through grantor.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited, in accordance with the 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, the financial statements of Catholic Charities of Buffalo, N.Y. (Catholic Charities), which comprise the combined balance sheet as of June 30, 2017, and the related combined statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 1, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the combined financial statements, we considered Catholic Charities' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of Catholic Charities' internal control. Accordingly, we do not express an opinion on the effectiveness of Catholic Charities' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

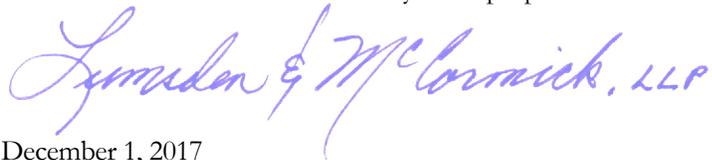
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Catholic Charities' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Catholic Charities' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Catholic Charities' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Lynden & McCormick, LLP". The signature is written in a cursive, flowing style.

December 1, 2017

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

We have audited Catholic Charities of Buffalo, N.Y.'s (Catholic Charities') compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Catholic Charities' major federal programs for the year ended June 30, 2017. Catholic Charities' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Catholic Charities' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Catholic Charities' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Catholic Charities' compliance.

Opinion on Each Major Federal Program

In our opinion, Catholic Charities complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of Catholic Charities is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Catholic Charities' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Catholic Charities' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.


December 1, 2017

Schedule of Findings and Questioned Costs

For the year end June 30, 2017

Section I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: *Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? None reported

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? None reported

Type of auditors' report issued on compliance for major programs: *Unmodified*

Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a)? No

Identification of major programs:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>	<u>Total Expenditures</u>
WIC Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 23,004,295
U.S. Refugee Admissions Program	19.510	<u>1,075,946</u>
Total Expenditures of Federal Award		<u>\$ 24,080,241</u>

Dollar threshold used to distinguish between type A and type B programs: \$811,867

Auditee qualified as low-risk auditee? Yes

Section II. Financial Statement Findings

No matters were reported.

Section III. Federal Award Findings and Questioned Costs

No matters were reported.