

**CATHOLIC CHARITIES OF BUFFALO, N.Y.**

**SINGLE AUDIT REPORTING PACKAGE**

**June 30, 2018**

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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, 2018 and 2017, 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, 2018 and 2017, 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 October 15, 2018 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.



October 15, 2018

CATHOLIC CHARITIES OF BUFFALO, N.Y.

**Combined Balance Sheets**

June 30,	2018	2017
<b>Assets</b>		
Cash	\$ 4,873,228	\$ 4,760,210
Receivables, net (Note 2)	7,097,064	8,469,548
Prepaid Bishop's Fund	1,813,843	1,631,087
Prepaid expenses and other assets	25,862	22,871
Investments (Note 3)	20,404,114	19,206,784
Property and equipment, net (Note 4)	7,795,095	6,979,684
	<b>\$ 42,009,206</b>	<b>\$ 41,070,184</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
Accounts payable	\$ 1,375,484	\$ 1,386,132
Accrued expenses	1,923,847	2,089,561
Deferred revenue	484,330	528,106
Long-term debt (Note 6)	620,237	695,914
Estimated third-party payor settlements - service fees	444,400	540,500
Postretirement health benefits (Note 10)	3,041,000	2,630,000
	<b>7,889,298</b>	<b>7,870,213</b>
<b>Net assets:</b>		
Unrestricted	21,767,015	20,792,269
Temporarily restricted (Note 7)	12,301,232	12,356,041
Permanently restricted (Note 8)	51,661	51,661
	<b>34,119,908</b>	<b>33,199,971</b>
	<b>\$ 42,009,206</b>	<b>\$ 41,070,184</b>

CATHOLIC CHARITIES OF BUFFALO, N.Y.

**Combined Statements of Activities**

For the years ended June 30,	2018	2017
<b>Change in unrestricted net assets:</b>		
Program support and revenue:		
Government grants	\$ 16,855,169	\$ 17,809,282
Service fees	6,646,447	6,824,801
Contracts	1,850,547	327,072
Bequests and other contributions	1,285,729	699,894
Other income	1,867,360	867,415
Total support and revenue	<u>28,505,252</u>	<u>26,528,464</u>
Net assets released from restrictions	11,411,361	10,822,968
Total unrestricted support and revenue	<u>39,916,613</u>	<u>37,351,432</u>
Expenses:		
Program services	33,961,111	35,036,876
Administration	3,645,795	3,335,230
Fundraising	1,650,811	1,356,110
Total expenses	<u>39,257,717</u>	<u>39,728,216</u>
Excess (deficit) of revenues over expenses	658,896	(2,376,784)
Other changes in unrestricted net assets:		
Investment income - net change in value of assets held in trust	46,910	195,925
Other investment income	933,462	1,008,780
Postretirement benefit obligation (Note 10)	(664,522)	523,881
Total other changes in unrestricted net assets	<u>315,850</u>	<u>1,728,586</u>
<b>Change in unrestricted net assets</b>	<u>974,746</u>	<u>(648,198)</u>
<b>Change in temporarily restricted net assets:</b>		
Annual appeal	11,049,500	11,051,509
Other contributions	200,000	-
Investment income - net change in value of assets held in trust	107,052	129,531
Net assets released from restrictions	(11,411,361)	(10,822,968)
<b>Change in temporarily restricted net assets</b>	<u>(54,809)</u>	<u>358,072</u>
Change in net assets	919,937	(290,126)
Net assets - beginning	<u>33,199,971</u>	<u>33,490,097</u>
Net assets - ending	<u>\$ 34,119,908</u>	<u>\$ 33,199,971</u>

See accompanying notes.

**Combined Statements of Cash Flows**

For the years ended June 30,	2018	2017
<b>Operating activities:</b>		
Change in net assets	\$ 919,937	\$ (290,126)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Net change in value of investments - assets held in trust	(153,962)	(325,456)
Net realized and unrealized gains on other investments	(504,030)	(638,590)
Depreciation	614,243	613,031
Changes in other operating assets and liabilities:		
Receivables	1,372,484	(1,268,415)
Prepaid Bishop's Fund	(182,756)	633,049
Prepaid expenses and other assets	(2,991)	3,364
Accounts payable	(511,641)	702,752
Accrued expenses	(165,714)	83,297
Deferred revenue	(43,776)	37,180
Estimated third-party payor settlements - service fees	(96,100)	96,100
Postretirement health benefits	411,000	(657,000)
<b>Net operating activities</b>	<b>1,656,694</b>	<b>(1,010,814)</b>
<b>Investing activities:</b>		
Property and equipment purchases	(928,661)	(359,270)
Proceeds from sale of investments	5,635,530	5,604,021
Purchases of investments	(6,174,868)	(5,083,628)
<b>Net investing activities</b>	<b>(1,467,999)</b>	<b>161,123</b>
<b>Financing activities:</b>		
Payments on long-term debt	(75,677)	(65,309)
<b>Net change in cash</b>	<b>113,018</b>	<b>(915,000)</b>
Cash - beginning	4,760,210	5,675,210
Cash - ending	\$ 4,873,228	\$ 4,760,210

**Combined Statements of Functional Expenses**

For the years ended June 30,

2018

	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	\$ 9,651,576	\$ -	\$ 275,824	\$ 560,827	\$ 570,049	\$ 824,908	\$ 3,495,751
Payroll taxes and benefits	3,135,930	-	79,468	181,126	225,803	259,935	1,260,564
Postretirement health benefits	(71,791)	-	(1,932)	(3,822)	(4,181)	(6,073)	(25,273)
Stipends	3,225	-	-	4,850	-	-	232,323
Total salaries and related benefits	12,718,940	-	353,360	742,981	791,671	1,078,770	4,963,365
Bishop's Fund	-	3,809,830	-	-	-	-	-
Rent	728,029	-	2,620	33,550	-	2,880	162,526
Client care expense	1,086,645	-	-	1,164,809	192,103	9,078	52,440
Food	120,651	-	-	22,447	65	-	-
Supplies	256,656	-	5,558	9,602	29,810	15,133	125,828
Telephone	372,082	-	4,012	26,177	23,273	32,068	132,391
Travel and conference	276,334	-	2,195	20,824	19,792	26,949	52,859
Purchased services	85,679	-	180,785	2,936	78,615	27,273	692,098
Professional fees	172,569	-	3,616	9,070	7,192	12,432	1,158,248
Computer fees	93,436	-	2,453	5,051	5,296	7,790	176,073
Research	250	-	-	-	-	-	-
Auto and truck expense	54,164	-	1,248	2,738	6,889	3,733	17,977
Postage and freight	28,470	-	763	1,824	1,578	2,283	9,866
Repairs and maintenance	156,861	-	3,732	21,666	13,161	18,352	91,958
Advertising and promotion	17,427	-	-	240	262	3,557	12,239
Utilities	175,202	-	3,802	19,840	9,239	11,494	73,464
Insurance	105,534	-	2,136	8,502	8,111	8,520	38,973
Staff development	113,007	-	557	10,167	2,618	2,669	24,464
Dues and subscriptions	36,569	-	-	-	763	70	8,424
Bad debts	10,561	-	-	-	-	-	-
Other	46,785	-	-	1,455	152	446	-
Depreciation	344,422	-	5,061	15,474	76,281	18,092	118,104
	\$ 17,000,273	\$ 3,809,830	\$ 571,898	\$ 2,119,353	\$ 1,266,871	\$ 1,281,589	\$ 7,911,297

See accompanying notes.

2017

Total Program Services				2017			
Administration	Fundraising	Total	Program	Administration	Fundraising	Total	
\$ 15,378,935	\$ 1,636,714	\$ 369,494	\$ 17,385,143	\$ 15,702,859	\$ 1,568,814	\$ 366,090	\$ 17,637,763
5,142,826	686,696	130,562	5,960,084	4,895,191	588,082	113,521	5,596,794
(113,072)	(14,551)	(2,816)	(130,439)	(13,935)	(2,258)	(336)	(16,529)
240,398	-	-	240,398	252,032	3,000	-	255,032
<b>20,649,087</b>	<b>2,308,859</b>	<b>497,240</b>	<b>23,455,186</b>	<b>20,836,147</b>	<b>2,157,638</b>	<b>479,275</b>	<b>23,473,060</b>
3,809,830	-	-	3,809,830	3,943,491	-	-	3,943,491
929,605	124,402	-	1,054,007	953,264	123,207	-	1,076,471
2,505,075	2,958	2,540	2,510,573	2,087,634	3,013	-	2,090,647
143,163	228	-	143,391	164,641	449	-	165,090
442,587	22,130	6,522	471,239	304,458	11,591	20,808	336,857
590,003	123,673	11,178	724,854	447,235	86,689	8,160	542,084
398,953	64,558	9,628	473,139	434,076	61,351	3,398	498,825
1,067,386	196,480	205,104	1,468,970	1,811,882	228,727	222,228	2,262,837
1,363,127	20,728	7,223	1,391,078	1,617,338	34,731	7,239	1,659,308
290,099	14,469	3,266	307,834	269,457	16,485	3,921	289,863
250	127,200	35,000	162,450	250	-	-	250
86,749	7,406	4,770	98,925	81,276	6,313	5,569	93,158
44,784	4,530	49,877	99,191	39,050	3,811	34,711	77,572
305,730	21,135	4,771	331,636	688,554	38,829	14,532	741,915
33,725	59,076	713,711	806,512	108,346	71,504	473,718	653,568
293,041	22,561	6,413	322,015	221,538	18,314	4,274	244,126
171,776	37,866	2,981	212,623	185,942	38,563	3,315	227,820
153,482	164,798	6,973	325,253	165,161	34,253	1,055	200,469
45,826	61,423	1,232	108,481	48,099	43,635	1,184	92,918
10,561	218,383	-	228,944	-	29,636	-	29,636
48,838	12,902	75,603	137,343	49,143	299,624	66,453	415,220
577,434	30,030	6,779	614,243	579,894	26,867	6,270	613,031
<b>\$ 33,961,111</b>	<b>\$ 3,645,795</b>	<b>\$ 1,650,811</b>	<b>\$ 39,257,717</b>	<b>\$ 35,036,876</b>	<b>\$ 3,335,230</b>	<b>\$ 1,356,110</b>	<b>\$ 39,728,216</b>

**Notes to Combined Financial Statements**

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**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 of Buffalo, N.Y. and Monsignor Carr Institute are 501(c)(3) corporations 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 October 15, 2018, 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 \$50,000 in 2018 and \$48,000 in 2017.

**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, 2018 and 2017, Catholic Charities recognized approximately \$278,000 and \$128,000 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 46% of Catholic Charities' service fees for the years ended June 30, 2018 (45% in 2017). 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:

	2018	2017
Contributions	\$ 2,672,092	\$ 4,244,824
Service fees	1,048,319	1,496,095
Government agencies and other	4,187,653	3,765,629
	<u>7,908,064</u>	<u>9,506,548</u>
Less allowance for estimated uncollectibles:		
Contributions	348,000	261,000
Service fees	463,000	776,000
	<u>811,000</u>	<u>1,037,000</u>
	<u>\$ 7,097,064</u>	<u>\$ 8,469,548</u>

## 3. Investments:

	2018	2017
Marketable securities:		
Money market funds	\$ 5,719,997	\$ 5,339,385
Corporate bonds	857,470	921,309
U.S. Government securities	843,896	821,078
Mutual funds	2,915,699	2,908,009
Common stock	5,343,803	4,647,716
Assets held in trust (see below)	4,723,249	4,569,287
	<u>\$ 20,404,114</u>	<u>\$ 19,206,784</u>

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

	2018	2017
Dividends and interest, net	\$ 429,432	\$ 370,190
Net realized and unrealized gains	504,030	638,590
	<u>\$ 933,462</u>	<u>\$ 1,008,780</u>

Assets held in trust consist of the following:

	2018	2017
St. Joseph Investment Fund	\$ 1,961,505	\$ 1,914,595
Catholic Charities of Buffalo, N.Y. Foundation, Inc	2,761,744	2,654,692
	<u>\$ 4,723,249</u>	<u>\$ 4,569,287</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:

	2018	2017
Land and buildings	\$ 8,205,078	\$ 8,126,784
Equipment and vehicles	1,415,860	1,373,197
Leasehold improvements	667,831	667,831
Construction in progress	1,313,342	17,806
	<u>11,602,111</u>	<u>10,185,618</u>
Less accumulated depreciation	3,807,016	3,205,934
	<u>\$ 7,795,095</u>	<u>\$ 6,979,684</u>

Construction in progress at June 30, 2018 is related to renovations of an office building which is expected to cost \$1,870,000 and be completed in fiscal year 2019. The project is being funded by contributions, grants, and Catholic Charities' unrestricted resources.

## 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, 2018 and 2017.

## 6. Long-Term Debt:

	2018	2017
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.	\$ 173,656	\$ 192,922
Bank note payable, monthly installments of \$4,701 plus interest at 2.41% through May 2026, secured by deposits at the banking institution.	446,581	502,992
	<u>\$ 620,237</u>	<u>\$ 695,914</u>

Aggregate annual maturities of long-term debt subsequent to June 30, 2018 are as follows:

2019	\$ 76,692
2020	77,762
2021	78,888
2022	80,073
2023	81,321
Thereafter	<u>225,501</u>
	<u>\$ 620,237</u>

## 7. Temporarily Restricted Net Assets:

Temporarily restricted net assets are available for the following purposes:

	2018	2017
Annual appeal allocation to program services	\$ 5,536,553	\$ 5,750,051
Bishop's Fund	3,847,435	3,995,798
The Foundation	2,717,244	2,610,192
Time restricted contributions	200,000	-
	<u>\$ 12,301,232</u>	<u>\$ 12,356,041</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, 2018 and 2017.

### 9. Pension Plans:

Catholic Charities contributes to the Diocese of Buffalo, New York Retirement Plan (the Plan), a frozen 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, 2017		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	2018	2017	2017	2016		
Diocese of Buffalo, New York Retirement Plan	16-0743984/002	\$ 176,486	\$ 214,302	\$ 826	\$ 755	\$ 5,774	\$ 4,567	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 6.0%, an expected rate of investment return of 6.0%, and an expected rate of salary increase of 2%.

The Plan is 82% funded as of December 31, 2017, the most recent actuarial valuation date. 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 \$661,000 and \$675,000 for the years ended June 30, 2018 and 2017.

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 by December 31, 2015 who have reached age 62 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 30<sup>th</sup> measurement date for the Plan.

Effective January 1, 2016, the Plan provides \$2,000 each be paid annually to each eligible retiree and spouse, with payments beginning when the retiree reaches age 65 and continuing until the retiree’s death.

The status of the Plan at and for the years ended June 30, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Accumulated postretirement benefit obligation (APBO)	<b>\$ 3,041,000</b>	\$ 2,630,000
Accrued postretirement health benefit obligation	<b>\$ 3,041,000</b>	\$ 2,630,000
Accumulated adjustment to unrestricted net assets	<b>\$ 2,543,000</b>	\$ 3,208,000
Benefit cost (income)	<b>\$ (134,000)</b>	\$ (13,000)
Benefits paid	<b>\$ 119,000</b>	\$ 119,000

At June 30, 2018 and 2017, the following items included as adjustments to unrestricted net assets had not yet been recognized as components of employee benefit expense:

	<u>2018</u>	<u>2017</u>
Net loss	<b>\$ (1,815,000)</b>	\$ (1,597,000)
Prior service credit	<b>4,358,000</b>	4,805,000
	<b>\$ 2,543,000</b>	\$ 3,208,000

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>2018</u>	<u>2017</u>
Weighted average assumptions used to determine benefit obligation:		
Discount rate	<b>4.50%</b>	4.25%
Weighted average assumptions used to determine net periodic benefit cost:		
Discount rate	<b>4.25%</b>	4.25%

Expected future benefit payments:

2019	<b>\$ 178,000</b>
2020	<b>183,000</b>
2021	<b>187,000</b>
2022	<b>185,000</b>
2023	<b>184,000</b>
2024-2028	<b>1,006,000</b>
	<b>\$ 1,923,000</b>

**11. Related Party Transactions:**

Pursuant to a shared services agreement, 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 \$170,000 and \$184,000 for the years ended June 30, 2018 and 2017. Additionally, Catholic Charities reimbursed the Diocese \$790,000 and \$818,000 for shared insurance costs in 2018 and 2017.

## 12. Lease Obligations:

Catholic Charities leases space and vehicles under the terms of operating leases. Rental expense for all operating leases totaled \$1,054,000 and \$1,076,000 for the years ended June 30, 2018 and 2017.

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

2019	<b>\$ 1,066,000</b>
2020	<b>539,000</b>
2021	<b>273,000</b>
2022	<b>173,000</b>
2023	<b>151,000</b>
Thereafter	<b><u>1,020,000</u></b>
	<b><u>\$ 3,222,000</u></b>

## 13. Cash Flow Information:

Net cash flows from operating activities reflect cash payments for interest of \$25,603 and \$25,419 for the years ended June 30, 2018 and 2017, which approximates interest expense.

Property and equipment purchases included in accounts payable at June 30, 2018 of \$500,993 are excluded from the 2018 statement of cash flows.

## 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, 2018

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Grantor Number</u>	<u>Federal Expenditures</u>
<b><u>U.S. Department of Agriculture</u></b>			
<b>Passed through New York State Department of Health:</b>			
WIC Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	C-019321	\$ 22,937,980
Child and Adult Care Food Program	10.558	Unavailable	8,305
<b>Total U.S. Department of Agriculture</b>			<u>22,946,285</u>
<b><u>U.S. Department of Health and Human Services</u></b>			
<b>Passed through New York State Office of Temporary and Disability Assistance:</b>			
Grants to States for Access and Visitation Programs	93.597	C-009664	71,736
Grants to States for Access and Visitation Programs	93.597	PS3100	354,042
Refugee and Entrant Assistance			
State/Replacement Designee Administered Programs	93.566	C-009590	522,150
Refugee and Entrant Assistance Targeted Assistance Grants	93.584	C-009543	103,528
			<u>1,051,456</u>
<b>Passed through United States Conference of Catholic Bishops:</b>			
Refugee and Entrant Assistance Voluntary Agency Programs	93.567	90RV0064	95,235
<b>Total U.S. Department of Health and Human Services</b>			<u>1,146,691</u>
<b><u>U.S. Department of State</u></b>			
<b>Passed through United States Conference of Catholic Bishops:</b>			
U.S. Refugee Admissions Program	19.510	2010-CS-010-000015	<u>321,172</u>
<b><u>U.S. Department of Labor</u></b>			
<b>WIOA Cluster:</b>			
<b>Passed through Buffalo and Erie County Workforce Development Consortium, Inc.:</b>			
WIOA Youth Activities	17.259	BBD-0038-A1	565,589
<b>Passed through Niagara County:</b>			
WIOA Youth Activities	17.259	Unavailable	141,961
<b>Total U.S. Department of Labor</b>			<u>707,550</u>

**Supplementary Information**  
**Schedule of Expenditures of Federal Awards (continued)**

For the year ended June 30, 2018

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Grantor Number</u>	<u>Federal Expenditures</u>
<b><u>Corporation for National and Community Service</u></b>			
<b>Direct Program:</b>			
Foster Grandparent Program	94.011	13SFANY003	374,672
<b>Passed through Catholic Charities USA:</b>			
AmeriCorps	94.006	16NDVA001	21,246
<b>Total Corporation for National and Community Service</b>			<b>395,918</b>
<b><u>U.S. Department of Housing and Urban Development</u></b>			
<b>Direct Program:</b>			
Continuum of Care Program	14.267	NYS0970LZC081400	115,830
<b>Passed through City of Buffalo:</b>			
Emergency Solutions Grant Program	14.231	Unavailable	450,955
<b>Passed through Erie County:</b>			
Emergency Solutions Grant Program	14.231	Unavailable	33,752
<b>Total U.S Department of Housing and Urban Development</b>			<b>600,537</b>
<b><u>U.S. Department of Homeland Security</u></b>			
<b>Passed through United Way of Buffalo &amp; Erie County:</b>			
Emergency Food and Shelter National Board Program	97.024	615600-001	31,678
 <b>Total Expenditures of Federal Awards</b>			<b>\$ 26,149,831</b>

**Notes to Schedule of Expenditures of Federal Awards**

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**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 \$17,309,709 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, 2018, 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 October 15, 2018.

**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.



October 15, 2018

**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, 2018. 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, 2018.

## 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.

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

October 15, 2018

**Schedule of Findings and Questioned Costs**

For the year end June 30, 2018

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**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	<u>\$ 22,937,980</u>

Dollar threshold used to distinguish between type A and type B programs: \$784,495

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.