



**CATHOLIC CHARITIES  
OF THE ARCHDIOCESE OF WASHINGTON, INC.  
AND AFFILIATES**

Consolidated Financial Statements

June 30, 2017 and 2016

(With Independent Auditors' Report Thereon)

**CATHOLIC CHARITIES  
OF THE ARCHDIOCESE OF WASHINGTON, INC.  
AND AFFILIATES**

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KPMG LLP  
1676 International Drive  
McLean, VA 22102

## **Independent Auditors' Report**

The Corporate Members and Board of Directors  
Catholic Charities of the  
Archdiocese of Washington, Inc. and Affiliates:

We have audited the accompanying consolidated financial statements of Catholic Charities of the Archdiocese of Washington, Inc. and Affiliates (Catholic Charities), which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Catholic Charities of the Archdiocese of Washington, Inc. and Affiliates as of June 30, 2017 and 2016, and the changes in their net assets, their functional expenses and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

*KPMG LLP*

Washington, District of Columbia  
November 10, 2017

**CATHOLIC CHARITIES  
OF THE ARCHDIOCESE OF WASHINGTON, INC.  
AND AFFILIATES**

Consolidated Statements of Financial Position

June 30, 2017 and 2016

(Dollars in thousands)

<b>Assets</b>	<b>2017</b>	<b>2016</b>
Cash and cash equivalents (note 1(d))	\$ 8,431	6,531
Receivables, net of allowance of approximately \$290 and \$301 in 2017 and 2016, respectively	6,744	8,344
Contributions receivable (note 3)	16,187	20,789
Prepaid expenses and other assets	661	876
Investments (note 2)	22,934	19,949
Property and equipment, net (notes 4 and 10)	24,694	23,829
Total assets	\$ 79,651	80,318
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable	\$ 3,227	4,950
Accrued expenses	4,287	5,720
Deferred revenue	836	317
Mortgages and notes payable (note 5)	628	714
Funds held on behalf of others	762	829
Total liabilities	9,740	12,530
Net assets:		
Unrestricted:		
Undesignated	(10,845)	(11,665)
Designated (notes 12 and 13)	10,279	9,953
Invested in property and equipment	13,391	13,380
Total unrestricted	12,825	11,668
Temporarily restricted (note 10):		
Restricted for program activities	27,083	27,368
Invested in property and equipment	10,675	9,735
Total temporary restricted	37,758	37,103
Permanently restricted (note 11)	19,328	19,017
Total net assets	69,911	67,788
Total liabilities and net assets	\$ 79,651	80,318

See accompanying notes to consolidated financial statements.

**CATHOLIC CHARITIES  
OF THE ARCHDIOCESE OF WASHINGTON, INC.  
AND AFFILIATES**

Consolidated Statements of Activities

Years ended June 30, 2017 and 2016

(Dollars in thousands)

	2017				2016			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenue, gains, and other support:								
Contributions	\$ 3,751	3,262	21	7,034	3,651	644	—	4,295
Legacies and bequests	215	—	—	215	337	—	—	337
Special events	2,875	279	—	3,154	2,901	71	—	2,972
Archdiocese of Washington (note 8)	126	1,322	—	1,448	238	1,324	—	1,562
Capital campaign	—	5,901	290	6,191	—	6,902	1,630	8,532
United Way	6	131	—	137	14	212	—	226
Grants and contracts	36,950	55	—	37,005	37,528	4	—	37,532
Service fees	9,730	—	—	9,730	12,100	—	—	12,100
Other income	6,165	—	—	6,165	5,581	—	—	5,581
Investment income (note 2)	606	1,867	—	2,473	169	1,042	—	1,211
In-kind contributions	18,339	—	—	18,339	18,460	—	—	18,460
Net assets released from restriction (note 10)	12,162	(12,162)	—	—	12,661	(12,661)	—	—
Total revenue, gains, and other support	<u>90,925</u>	<u>655</u>	<u>311</u>	<u>91,891</u>	<u>93,640</u>	<u>(2,462)</u>	<u>1,630</u>	<u>92,808</u>
Expenses and other losses:								
Program services	76,763	—	—	76,763	82,084	—	—	82,084
Supporting services:								
Management and general	9,825	—	—	9,825	8,968	—	—	8,968
Fund-raising	3,180	—	—	3,180	3,827	—	—	3,827
Total expenses and other losses	<u>89,768</u>	<u>—</u>	<u>—</u>	<u>89,768</u>	<u>94,879</u>	<u>—</u>	<u>—</u>	<u>94,879</u>
Change in net assets	1,157	655	311	2,123	(1,239)	(2,462)	1,630	(2,071)
Net assets, beginning of the year	<u>11,668</u>	<u>37,103</u>	<u>19,017</u>	<u>67,788</u>	<u>12,907</u>	<u>39,565</u>	<u>17,387</u>	<u>69,859</u>
Net assets, end of the year	<u>\$ 12,825</u>	<u>37,758</u>	<u>19,328</u>	<u>69,911</u>	<u>11,668</u>	<u>37,103</u>	<u>19,017</u>	<u>67,788</u>

See accompanying notes to consolidated financial statements.

**CATHOLIC CHARITIES  
OF THE ARCHDIOCESE OF WASHINGTON, INC.  
AND AFFILIATES**

Consolidated Statement of Functional Expenses

Year ended June 30, 2017

(Dollars in thousands)

	<b>Adult and Children Clinical Services</b>	<b>Developmental Disabilities Services</b>	<b>Enterprises, Education and Employment</b>	<b>Family, Parish and Community Outreach</b>	<b>Homeless and Housing Services</b>	<b>Total program services</b>	<b>Management and general</b>	<b>Fund-raising</b>	<b>Total support services</b>	<b>Total 2017 program and support</b>
Payroll	\$ 12,242	6,308	3,659	1,804	7,831	31,844	5,271	1,420	6,691	38,535
Benefits	2,222	1,224	876	328	1,429	6,079	935	220	1,155	7,234
Taxes	923	520	278	137	587	2,445	375	105	480	2,925
Supplies and small equipment	93	40	26	15	20	194	137	387	524	718
Professionals and communication	2,210	951	446	153	622	4,382	1,278	179	1,457	5,839
Vehicles	98	53	70	1	56	278	12	—	12	290
Program expenses	488	224	3,918	51	400	5,081	70	6	76	5,157
Program assistance	445	170	19	1,861	603	3,098	290	—	290	3,388
Facilities	1,192	934	233	223	581	3,163	373	98	471	3,634
Travel and staff development	234	74	23	49	54	434	145	9	154	588
Special events	—	4	—	—	—	4	3	546	549	553
Property/liability insurance	22	66	5	2	10	105	5	1	6	111
In-kind services	18,301	—	38	—	—	18,339	—	—	—	18,339
Banking, interest, and depreciation	514	332	168	33	270	1,317	931	209	1,140	2,457
Total expense 2017	<u>\$ 38,984</u>	<u>10,900</u>	<u>9,759</u>	<u>4,657</u>	<u>12,463</u>	<u>76,763</u>	<u>9,825</u>	<u>3,180</u>	<u>13,005</u>	<u>89,768</u>

See accompanying notes to consolidated financial statements.

**CATHOLIC CHARITIES  
OF THE ARCHDIOCESE OF WASHINGTON, INC.  
AND AFFILIATES**

Consolidated Statement of Functional Expenses

Year ended June 30, 2016

(Dollars in thousands)

	<b>Adult and Children Clinical Services</b>	<b>Developmental Disabilities Services</b>	<b>Enterprises, Education and Employment</b>	<b>Family, Parish and Community Outreach</b>	<b>Homeless and Housing Services</b>	<b>Total program services</b>	<b>Management and general</b>	<b>Fund-raising</b>	<b>Total support services</b>	<b>Total 2016 program and support</b>
Payroll	\$ 12,475	9,063	3,871	1,670	7,149	34,228	5,161	1,530	6,691	40,919
Benefits	2,123	1,533	899	282	1,267	6,104	891	227	1,118	7,222
Taxes	887	660	286	121	518	2,472	348	113	461	2,933
Supplies and small equipment	76	52	24	18	30	200	198	506	704	904
Professionals and communication	2,080	910	372	110	883	4,355	1,329	351	1,680	6,035
Vehicles	114	102	66	1	68	351	17	—	17	368
Program expenses	528	312	3,857	83	625	5,405	68	9	77	5,482
Program assistance	1,051	409	44	2,447	687	4,638	187	—	187	4,825
Facilities	1,190	1,006	388	220	1,001	3,805	296	140	436	4,241
Travel and staff development	228	108	24	40	47	447	155	14	169	616
Special events	—	6	—	—	—	6	3	738	741	747
Property/liability insurance	44	84	14	5	25	172	11	3	14	186
In-kind services	18,423	—	37	—	—	18,460	—	—	—	18,460
Banking, interest, and depreciation	581	480	149	38	193	1,441	304	196	500	1,941
Total expense 2016	<u>\$ 39,800</u>	<u>14,725</u>	<u>10,031</u>	<u>5,035</u>	<u>12,493</u>	<u>82,084</u>	<u>8,968</u>	<u>3,827</u>	<u>12,795</u>	<u>94,879</u>

See accompanying notes to consolidated financial statements.



**CATHOLIC CHARITIES  
OF THE ARCHDIOCESE OF WASHINGTON, INC.  
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Consolidated Statements of Cash Flows

Years ended June 30, 2017 and 2016

(Dollars in thousands)

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ 2,123	(2,071)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,472	1,491
Bad debt expense/loss on uncollectible pledges	379	427
(Gain) loss from disposal of property and other assets	(336)	32
Net gain on investments, realized and unrealized	(2,185)	(977)
Receipt of contributions for endowment	(170)	(238)
Receipt of contributions for property & equipment	(1,471)	(413)
Decrease (increase) in assets:		
Contributions receivable	3,178	(302)
Fees and purchased services receivable	1,395	(880)
Prepaid expenses and other assets	215	(546)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(3,156)	3,182
Deferred revenue	519	65
Funds held on behalf of others	(67)	21
Net cash provided by (used in) operating activities	<u>1,896</u>	<u>(209)</u>
Cash flows from investing activities:		
Purchases of investments	(9,863)	(8,364)
Proceeds from sales and maturities of investments	9,063	7,795
Purchases of property and equipment	(2,001)	(2,228)
Net cash used in investing activities	<u>(2,801)</u>	<u>(2,797)</u>
Cash flows from financing activities:		
Contributions receivable restricted for long term purpose	1,250	980
Contributions for endowment	170	238
Contributions for property & equipment	1,471	413
Payments of mortgages and notes payable	(86)	(80)
Net cash provided by financing activities	<u>2,805</u>	<u>1,551</u>
Net increase (decrease) in cash and cash equivalents	1,900	(1,455)
Cash and cash equivalents at beginning of year	<u>6,531</u>	<u>7,986</u>
Cash and cash equivalents at end of year	<u>\$ 8,431</u>	<u>6,531</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 41	46

See accompanying notes to consolidated financial statements.

**CATHOLIC CHARITIES  
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Notes to Consolidated Financial Statements

June 30, 2017 and 2016

**(1) Summary of Significant Accounting Policies**

**(a) General**

Catholic Charities of the Archdiocese of Washington, Inc. (CCADW) is a Catholic social service agency designed to deliver and coordinate services to ensure the greatest outreach and impact for those who are served. CCADW and its affiliated agencies; Anchor Mental Health Association Inc. (Anchor), Lt. Joseph P. Kennedy Institute, Inc. (Kennedy), and Spanish Catholic Center, Inc. (SCC) operate as one integrated social service agency. The major service areas are presented in the Consolidated Statements of Functional Expenses. The Catholic Charities of the Archdiocese of Washington Foundation, Inc. (Foundation) manages endowment assets to support the services provided by CCADW and its affiliates. In addition to the above named entities, Anchor Housing Corporation (AHC), Kennedy Housing Corporation (Kennedy Housing I) and Kennedy Housing Corporation II (Kennedy Housing II) are included in the consolidated financial statements. Collectively, these organizations are referred to as Catholic Charities. All significant intercompany accounts and transactions have been eliminated in consolidation. Each of the corporations is a separate tax-exempt corporation.

**Adult and Children Clinical Services** has three main areas of professional services:

*Health Services* – provides medical, dental, and behavioral health services to the uninsured, to immigrants, and to chronically mentally ill adults. The Catholic Charities Health Care Network provides referrals for the uninsured to a large network of medical practitioners and facilities that donate their services. Clinical services are also supported with employment and housing services.

*Legal Services* – provides civil and immigration legal services to the poor, refugees, and other immigrants. Legal services for civil matters are provided through the Catholic Charities Legal network of pro bono providers. Immigration legal services are provided by an in-house legal staff as well as a network of pro bono providers.

*Children Services* – provides case management and crisis behavioral health services to children, teens, and their families.

**Developmental Disabilities Services** provides educational, therapeutic rehabilitation, and personal support to individuals with developmental disabilities. Kennedy Housing I, established in 1995, and Kennedy Housing II, established in 2003, own houses utilized by providers of services to individuals with development disabilities.

**Enterprises, Education and Employment** provides a variety of services to the community, including:

*Food & Nutrition Services* – provides meals to the chronically mentally ill, the aging, and the homeless; operates a wholesale food bank supplying food pantries and soup kitchens; and operates a warehouse to provide community access to nutritional food at below retail prices.

*Employment Services* – provides job readiness preparation for food services, cleaning services, and government agencies, as well as ongoing employment support; and employs individuals requiring supportive services.

**CATHOLIC CHARITIES  
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June 30, 2017 and 2016

*Education Services* – provides training in the areas of construction, green construction, building maintenance, and professional counseling; teaches ESL and Spanish classes; assists refugees in adapting to local employment requirements; and provides social services to assist the immigrant population with employment-related issues.

**Family, Parish and Community Outreach** is engaged in linking Catholic Charities with the wider community through operating family centers; providing case management services to assist Parishes; engaging Catholic schools and other volunteers in Catholic Charities programs; and assisting Parishes in establishing social ministries.

**Homeless and Housing Services** operates emergency shelters and provides supported and transitional housing. Case management and other supportive services are provided in all housing programs.

**(b) Basis of Presentation**

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of Catholic Charities and changes therein are classified and reported as follows:

*Unrestricted net assets* – Net assets that are not subject to any donor-imposed stipulations.

*Temporarily restricted net assets* – Net assets subject to donor-imposed restrictions on their use that may be met either by actions of Catholic Charities or the passage of time.

*Permanently restricted net assets* – Net assets subject to donor-imposed or other legal restrictions requiring that the principal be maintained permanently by Catholic Charities.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed or time restrictions. Expenses are reported as decreases in unrestricted net assets. Donor-restricted contributions, where it is anticipated that such restrictions will be met in the current reporting period, are recorded as unrestricted in the period received. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

**(c) Use of Estimates**

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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June 30, 2017 and 2016

**(d) Cash Equivalents and Concentrations of Credit Risk**

Cash equivalents consist of certificates of deposit with maturities at date of purchase of less than three months and investments in overnight sweep accounts. Restricted cash of \$0.8 million was held on behalf of others as of June 30, 2017 and 2016.

Catholic Charities holds cash that is restricted for specific programs of \$0.7 million for each of the years ended June 30, 2017 and 2016.

Amounts in excess of the FDIC-insured limit totaled approximately \$7.2 million and \$5.5 million as of June 30, 2017 and 2016, respectively.

**(e) Investments and Fair Value Measurements**

Investments are recorded at fair value, based on quoted market prices or, in the case of nonexchange-traded investments, at net asset value as a practical expedient. Management reviews and evaluates the values provided and agrees with the valuation methods and assumptions used in determining fair value of these investments.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

Catholic Charities uses net asset value (NAV) per share or its equivalent as a practical expedient for the fair value of investments, such as the Focused Core Fixed Income Fund (a Collective Investment Fund within the Collective Investment Trust Fund and herein referred to as the Fund), which does not have a readily determinable fair value. Fair value may not equal the NAV as defined in the paragraph above. Catholic Charities has approximately \$3.6 million and \$3.2 million investments reported at estimated fair values utilizing NAV as a practical expedient as of June 30, 2017 and 2016, respectively. The Fund's investment strategy involves investing in domestic corporate and governmental fixed income securities.

Fair value is based on the assumptions market participants would use when pricing an asset or liability and a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to Catholic Charities' assumptions (unobservable inputs). Catholic Charities groups assets at fair value in three levels, based on the markets in which the assets are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1: Quoted prices in active markets for identical assets or liabilities. Level 1 assets held by Catholic Charities include money market funds and exchange-traded equity securities.

**CATHOLIC CHARITIES  
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Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets held by Catholic Charities include the Focused Core Fixed Income Fund. The Fund is a private investment security valued using the NAV provided by the Trustee. The NAV is quoted on a private market that is not active; however, the unit price is based on underlying investments that are traded on an active market. The Fund reports net asset value on a monthly basis and there are no restrictions on contributions or redemptions from the Fund.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liability. Catholic Charities does not hold any Level 3 assets as of June 30, 2017 and 2016.

**(f) Contributions Receivable and Allowance of Uncollectible Accounts**

Contributions receivable consist of unconditional promises to give, including bequests and amounts for the capital campaign. Contributions receivable are recorded net of an allowance for estimated uncollectible contributions and a discount for amounts due beyond one year.

**(g) Receivables and Allowance for Uncollectible Accounts**

Accounts receivable are stated at invoiced amount net of an allowance for doubtful accounts. Catholic Charities establishes an allowance for doubtful accounts based on historical experience and any specific customer collection issues that have been identified. Uncollectible accounts receivable are written off when a settlement is reached for an amount that is less than the outstanding historical balance or when it has been determined that the balance will not be collected.

Catholic Charities' program service revenues are earned from both annual and multiyear contracts with various agencies from the District of Columbia, State of Maryland, Montgomery County, Maryland and the federal government. Additionally, a significant portion of the accounts receivable is owed to Catholic Charities by these governments, which exposes Catholic Charities to concentrations of risk.

**(h) Property and Equipment**

Acquisitions of property and equipment are recorded at cost. Depreciation on all property and equipment is calculated using the straight-line method over the estimated useful lives of the assets as follows:

Furniture and equipment	3–10 years
Automobiles	5 years
Buildings and improvements	5–40 years
Leasehold improvements	4–20 years

Donated assets are recorded at fair value at date of donation.

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Under Canon law, the rules governing the operation of the Catholic Church, most real property recorded in these consolidated financial statements is titled to the Archbishop of Washington or if titled to CCADW, may not be sold, leased, or transferred without approval of Archbishop of Washington.

**(i) Charitable Gift Annuities**

Catholic Charities is the beneficiary of eight charitable gift annuities. Under charitable gift annuity agreements, Catholic Charities pays a fixed annuity amount for the life of the beneficiaries. In the year of the gift, contribution revenue is recognized based on the net amount of the assets and liabilities of the charitable gift annuities. The assets held for charitable gift annuities are stated at fair value and are included as investments in the consolidated statements of financial position. The liability to the beneficiaries from the agreements represents the present value of the estimated future payments based on actuarial assumptions and is included in accrued expenses in the consolidated statements of financial position. Adjustments to the liability to reflect any changes in actuarial assumptions and amortization of discount are recognized as contributions in the consolidated statements of activities. The discount rates were determined at the time of the initial contribution and range from 5.8% to 8.4%. The estimated life expectancies used are from the Internal Revenue Service Life Expectancy Tables.

Balances associated with charitable gift annuities as of June 30, 2017 included liability to beneficiaries of \$159 thousand and \$50 thousand of contributions. Balances associated with charitable gift annuities as of June 30, 2016 included liability to beneficiaries of \$215 thousand and \$15 thousand of contributions.

**(j) Revenue Recognition**

Grants and contracts: Contracted services and program service fees revenue is reported as unrestricted revenue at the time services or goods are provided. Foundation and other grants considered exchange transactions are recognized as unrestricted revenue in the period the services are provided. Amounts received in advance of services or goods provided are recorded as deferred revenue.

Contributions of equipment are recorded as unrestricted revenue unless donor stipulations specify how the property must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are recorded as restricted support. This restriction is released ratably over the useful life of the asset as the asset is depreciated.

Behavioral health services rendered under the Medicaid Rehabilitation Option Service (MRO) program are reimbursed on a fee for service basis in accordance with a fee schedule provided in the MRO agreement. Revenue is recognized in the period the related services are rendered and is included in service fees as unrestricted revenue on the consolidated statement of activities for the years ended June 30, 2017 and 2016.

Catholic Charities' revenue from tuition and residential contracts is recognized at fixed rates in the period the services are rendered and is included in service fees as unrestricted revenue.

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Contributions and bequests, including unconditional promises to give, are recorded when in the period received and are considered to be available for unrestricted use unless specifically restricted by the donor or time. Unconditional promises to give are recognized initially at fair value giving consideration to anticipated future cash receipts and discounting such amounts at a risk-adjusted rate. Amortization of the discount is included in contributions revenue. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

**(k) *Deferred Revenue***

Revenue received in advance of the period in which it is earned is deferred. Deferred revenue includes advance payments on government and private grants and contracts which will be recognized as costs are incurred under the terms of the agreements.

**(l) *Contributed Services***

Catholic Charities received contributed legal, medical, dental, and other professional services through its operations to support various programs under different networks such as Catholic Charities Legal Network, Immigration Legal Services, Catholic Charities Healthcare Network, and Missions of Mercy Adult Dental Clinic. These contributed services meet the criteria for revenue recognition under the Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC), ASC 958-605-25, *Contributed Services* at the fair value of such services and are reported as in-kind contributions and as expenses on the consolidated statement of activities for the years ended June 30, 2017 and 2016.

In addition, the organization received the services of a significant number of volunteers not recognized in the statement of activities because such services do not require specialized skills. Noncompensated members of the board of directors and other unpaid volunteers perform a significant portion of the fundraising activities and contribute significant time to support various programs each year.

**(m) *Income Taxes***

As of the end of the fiscal year, each entity within Catholic Charities has been recognized by the Internal Revenue Service as exempt from federal income tax, except for unrelated business income, under the provisions of Section 501(c)(3) of the Internal Revenue Code as part of a group exemption made to all institutions listed in the Official Catholic Directory. No provision has been made for income taxes since Catholic Charities had no significant net unrelated business income and Catholic Charities does not believe that there are any unrecognized tax benefits or liabilities that should be recorded. Catholic Charities' tax returns are subject to review and examination by federal, state, and local authorities. The tax returns for the past three years are generally open for examination by taxing authorities.

**CATHOLIC CHARITIES  
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**(n) Functional Expenses**

Catholic Charities allocates their expenses on a functional basis among their various programs and supporting services. Expenses that can be identified with a specific program or supporting service are recorded directly. Other expenses that are common to several functions are allocated on various statistical bases including number of full-time equivalent employees and total direct expenses. Special events expense includes the costs of venues, meals, and entertainment provided at fundraising events.

**(o) Reclassification**

During the year ended June 30, 2017, Catholic Charities allocated information technology costs to all functions based on number of equipment each function uses. Previously information technology costs were classified as management and general expense in the consolidated financial statements. As a result, Catholic Charities reclassified the 2016 consolidated financial statement amounts to provide comparability to the 2017 consolidated financial statements. Catholic Charities also reclassified certain cash flow items from operating to financing to conform with current year presentation. The reclassifications did not impact the 2016 change in net assets.

**(2) Investments**

The following table presents the fair value hierarchy for those assets measured at fair value on a recurring basis (dollars in thousands):

	<b>June 30, 2017</b>	<b>Cash and cash equivalents, at cost</b>	<b>Level I</b>	<b>Level II</b>	<b>Level III</b>
Investments:					
Cash and cash equivalents	\$ 1,833	1,833	—	—	—
Fixed income	6,744	—	3,127	3,617	—
Equity securities	14,357	—	14,357	—	—
Total investments	<u>\$ 22,934</u>	<u>1,833</u>	<u>17,484</u>	<u>3,617</u>	<u>—</u>



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The following table presents the fair value hierarchy for those assets measured at fair value on a recurring basis (dollars in thousands):

	<b>June 30, 2016</b>	<b>Cash and cash equivalents, at cost</b>	<b>Level I</b>	<b>Level II</b>	<b>Level III</b>
Investments:					
Cash and cash equivalents	\$ 1,925	1,925	—	—	—
Fixed income	6,304	—	3,126	3,178	—
Equity securities	11,720	—	11,720	—	—
Total investments	<u>\$ 19,949</u>	<u>1,925</u>	<u>14,846</u>	<u>3,178</u>	<u>—</u>

Investment income, for the years ended June 30, 2017 and 2016, respectively, consists of the following (dollars in thousands):

	<b>2017</b>	<b>2016</b>
Net realized and unrealized gain	\$ 2,185	977
Interest and dividend income	407	342
Fees	(119)	(108)
Total investment income	<u>\$ 2,473</u>	<u>1,211</u>

**(3) Contributions Receivable**

Contributions receivable, net as of June 30, 2017 and 2016, respectively, are summarized as follows (dollars in thousands):

	<b>2017</b>	<b>2016</b>
Unconditional promises expected to be collected in:		
Less than one year	\$ 6,470	7,414
One to five years	10,059	13,478
More than five years	600	1,100
	<u>17,129</u>	<u>21,992</u>
Less:		
Unamortized discount	(826)	(1,030)
Allowance for uncollectible contributions	(116)	(173)
Contributions receivable, net	<u>\$ 16,187</u>	<u>20,789</u>

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Contributions receivable are discounted at rates ranging from 0.019% to 2.83%, which approximate the risk-adjusted rate of return for the expected promises to give. Forward in Faith, Inc., an affiliate of the Archdiocese of Washington, held capital campaign contributions of approximately \$1.8 million and \$2.2 million at June 30, 2017 and 2016, respectively, on behalf of Catholic Charities.

**(4) Property and Equipment**

Property and equipment as of June 30, 2017 and 2016, respectively, consists of the following (dollars in thousands):

	<b>2017</b>	<b>2016</b>
Land, building, and building improvements	\$ 19,850	18,716
Leasehold improvements	11,191	10,664
Furniture and equipment	13,626	13,032
Construction in progress	3,816	3,738
	48,483	46,150
Less accumulated depreciation	(23,789)	(22,321)
Property and equipment, net	\$ 24,694	23,829

**(5) Line of Credit, Mortgages, and Notes Payable**

**(a) Line of Credit and Available Construction Loan**

Catholic Charities has a \$1.0 million available line of credit from a bank as of June 30, 2017, which is under the Archdiocese of Washington's line of credit. The line of credit requires annual renewals to remain available. As of June 30, 2017 and 2016, there was no outstanding balance on the line of credit. Both the Archdiocese of Washington and Catholic Charities lines of credit were renewed in June 2017 for an additional year.

Catholic Charities has a \$1.0 million available construction loan from United Bank as of June 30, 2017 to finance the construction of Angel's Watch Shelter located in Charles County, Maryland. As of June 30, 2017, there was no outstanding loan balance.

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**(b) Mortgages and Notes Payable**

Mortgages and notes payable as of June 30, 2017 and 2016, respectively, consists of the following (dollars in thousands):

	<u>Interest rate</u>	<u>2017</u>	<u>2016</u>
Purchase money mortgage for St. Sebastian's Townhomes. The note requires monthly payments of principal and interest of \$1 through August 2017 and a balloon payment of \$99 due in August 2017.	4.50 % \$	99	109
Note payable for 809 East Franklin NW, Washington, DC. The note requires monthly principal and interest payments of \$2 through July 2023 and is secured by the property.	4.52	220	235
Mortgage payable for 1200 Monroe St and 1609 Lawrence St. The note requires monthly principal and interest payments of \$7 through September 1, 2021.	7.45	<u>309</u>	<u>370</u>
Total mortgages and note payable		<u>\$ 628</u>	<u>714</u>

Land and building, including improvements, with a carrying amount of \$0.6 million as of June 30, 2017 and 2016, secure the mortgages and note payable.

Principal payments to be made over the next five years and thereafter on outstanding mortgages and notes payable are as follows (dollars in thousands):

Fiscal years ending June 30:	
2018	\$ 180
2019	87
2020	93
2021	100
2022	34
2023 and thereafter	<u>134</u>
	<u>\$ 628</u>

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**(c) HUD Capital Advances**

Kennedy Housing I and II obtained capital advances from HUD under Section 811 of the Housing Act of 1959. The Section 811 program is a federally assisted program designed to provide housing for the elderly and handicapped. Section 811 capital advances and interest need not be repaid as long as the project owner continues to make the housing available for the low-income elderly and handicapped for at least 40 years from the date of commencing operations.

Management anticipates the facility will remain compliant with the requirements under the grant. Therefore, under contribution accounting, temporarily restricted grant revenue is recognized to the extent that qualified HUD-authorized expenditures have been incurred. If Kennedy Housing I or II were to cease providing housing to the disabled, the capital advances would be repayable to HUD and recognition of a liability appropriate at that time.

**(d) Replacement Reserve**

In accordance with the provisions of a regulatory agreement between HUD and AHC, Kennedy Housing I, and Kennedy Housing II, certain cash and investments are to be used for the replacement of property with the approval of HUD. These amounts are included in cash and cash equivalents on the consolidated statements of financial position. The replacement reserve at June 30, 2017 and 2016, at fair value, consisted of the following (dollars in thousands):

	2017	2016
AHC	\$ 244	244
Kennedy Housing	98	93
Kennedy Housing II	35	26
Total replacement reserves	\$ 377	363

**(6) Pension and Retirement Plans**

Catholic Charities participates in the Retirement Plan of the Archdiocese of Washington (the Plan), which is a defined-benefit plan. To be eligible for participation in the Plan, an employee must have completed one year of service and be over 21 years of age. Catholic Charities accounts for its participation in the Plan as a multiemployer plan. Information regarding net assets and actuarial liabilities of the Plan is not available at the individual employer level. On December 31, 2012, the Plan was frozen and all employees receive the full benefits promised under the Plan. The multiemployer plan is approximately 85% funded at June 30, 2017. During the years ended June 30, 2017 and 2016, Catholic Charities incurred pension costs of \$2.9 million and \$3.0 million, respectively.

Effective January 1, 2013, Catholic Charities participated in the Archdiocese of Washington Retirement Savings Plan (403(b) plan). Participants may elect to contribute from 0% to 100%, (subject to IRS regulations) of their compensation on a pretax basis to the plan. Participants who contribute to the plan will receive a matching contribution from the Archdiocese of Washington at a rate of 50% up to 4% of eligible pay period compensation. The Archdiocese of Washington will make a fixed annual contribution starting at

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1% after the first year of the 403(b) plan and increase annually to a maximum of 4% upon an employee reaching 30 years of service with Catholic Charities.

In March 2015, the board authorized the adopting of a Nonqualified Deferred Compensation Plan (457(b) plan) for members of the leadership team. The plan, which went into effect as of April 1, 2015, permits the Agency to make discretionary contributions on an annual basis as well as permits the participants to defer their pretax compensation up to the maximum amount allowed by law. Contributions of \$117 thousand and \$112 thousand were made to the plan during the calendar years ending December 31, 2017 and 2016, respectively.

**(7) Lease Commitments**

At June 30, 2017 and 2016, Catholic Charities leases general office and warehouse space and certain equipment under long-term noncancelable operating leases. The following represents the minimum future rentals under leases at June 30, 2017 (dollars in thousands):

Fiscal year ending June 30:		
2018	\$	1,312
2019		922
2020		757
2021		715
2022 and thereafter		3,199
Total minimum lease payments	\$	6,905

Rent expense, including short-term leases, for each of the years ended June 30, 2017 and 2016 was \$1.5 million.

**(8) Related-Party Transactions**

During the years ended June 30, 2017 and 2016, Catholic Charities paid \$7.7 million and \$8.3 million, respectively, to the administrator of the Archdiocesan insurance and pension programs. The Archdiocese of Washington insurance programs are self-insured, up to certain limits, for property-casualty, workers' compensation, unemployment, and health insurance. The Archdiocese of Washington retains the risk of loss for all claims and Catholic Charities' risk is limited to the annual premium and deductibles of \$1 thousand or less.

For each of the years ended June 30, 2017 and 2016, Catholic Charities received a contribution of \$1.3 million, from the Archdiocese of Washington in support of its programs including amounts from Archdiocese of Washington's Forward in Faith, Inc.

Various programs lease buildings from the Archdiocese of Washington. Payments made under these leases for the years ended June 30, 2017 and 2016 totaled \$425 thousand and \$521 thousand, respectively.

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**(9) Commitments and Contingencies**

Catholic Charities receive a substantial portion of their revenue from government contracts, all of which are subject to audit by the government.

Revenue from the Medicaid Rehabilitation Option Service (MRO) program accounted for 9.6% and 9.7% of Catholic Charities total revenue for the years ended June 30, 2017 and 2016, respectively. Laws and regulations governing the MRO program are complex and subject to interpretation. The MRO program is subject to review and audits by the District of Columbia and the federal government. Until such audits have been completed and final settlement reached, there exists a contingent liability to refund any amounts received in excess of allowable costs. Management is of the opinion that no significant liability will result from audit adjustments.

Catholic Charities is involved in various claims and legal actions arising in the ordinary course of business. Based upon information currently available, management believes the ultimate disposition of these matters will not have a material adverse effect on Catholic Charities' consolidated financial position, change in net assets or cash flows.

**(10) Temporarily Restricted Net Assets**

Temporarily restricted net assets as of June 30, 2017 and 2016 were subject to the following restrictions (dollars in thousands):

	<u>2017</u>	<u>2016</u>
Passage of time – Archdiocese	\$ 10	10
Passage of time – United Way	132	211
Capital campaign for programs	21,343	24,482
Program services	5,598	2,665
Investment in property and equipment	10,675	9,735
	<u>\$ 37,758</u>	<u>37,103</u>

Net assets released from restriction for the years ended June 30, 2017 and 2016 are as follows (dollars in thousands):

	<u>2017</u>	<u>2016</u>
Passage of time – Archdiocese	\$ 1,320	1,320
Passage of time – United Way	210	272
Capital campaign for programs	8,586	9,406
Program services	1,317	811
Investment in property and equipment	729	852
	<u>\$ 12,162</u>	<u>12,661</u>

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**(11) Permanently Restricted Net Assets**

Permanently restricted net assets at June 30, 2017 and 2016 consist of (dollars in thousands):

	<b>2017</b>	<b>2016</b>
General endowment	\$ 16,643	16,384
Anchor Mental Health endowment	1,085	1,085
Spanish Catholic Center endowment	50	50
Domestic Violence restricted fund	801	801
Monsignor Vaghi endowment	749	697
	\$ 19,328	19,017

**(12) Endowment Net Assets**

Effective January 23, 2008, the District of Columbia enacted UPMIFA, the provisions of which apply to funds existing on or established after that date. 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 discretion of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are explicitly appropriated by its board of directors for expenditure in a manner consistent with the standard of prudence described by UPMIFA. The investment goal is to provide income and capital growth to be used to meet current and future financial obligations of Catholic Charities while limiting the risk of the funds in order to preserve the principal. The investment objective is pursued as a long-term goal designed to maximize returns after expenses without exposure to undue risk. The investment policy acts in accordance with the investment policy of the Archdiocese of Washington, which is based on two fundamental and interdependent principles: the Archdiocese of Washington and its related organizations should exercise responsible financial stewardship over their economic resources; and the Archdiocese of Washington and its related organizations should exercise ethical and social stewardship in their investment policy. The targeted regular annual distribution rate is from 4.3% to 5.0% of the total endowment. For each of the years ended June 30, 2017 and 2016, the distribution was 4.3% of the average total endowment for the prior three years. The most recent investment policy was reviewed and approved in May 2013. The endowment balances presented below include contribution receivables that have yet to be collected and cash yet to be transferred.

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Endowment net asset composition by type of fund as of June 30, 2017 (dollars in thousands):

	<b>Board Designated</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
Donor-restricted funds	\$ —	2,598	19,328	21,926
Board-designated funds	6,726	—	—	6,726
	<u>\$ 6,726</u>	<u>2,598</u>	<u>19,328</u>	<u>28,652</u>

Changes in endowment net assets for the fiscal year ended June 30, 2017 (dollars in thousands):

	<b>Board Designated</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
Endowment net assets, June 30, 2016	\$ 6,400	1,298	19,017	26,715
Investment income	101	299	—	400
Fees	(33)	(85)	—	(118)
Net gains realized	131	909	—	1,040
Net gains unrealized	388	743	—	1,131
Total investment return	587	1,866	—	2,453
Contributions	—	—	311	311
Amounts appropriated for expenditures	(261)	(566)	—	(827)
Endowment net assets, June 30, 2017	<u>\$ 6,726</u>	<u>2,598</u>	<u>19,328</u>	<u>28,652</u>

Endowment net asset composition by type of fund as of June 30, 2016 (dollars in thousands):

	<b>Board Designated</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
Donor-restricted funds	\$ —	1,298	19,017	20,315
Board-designated funds	6,400	—	—	6,400
	<u>\$ 6,400</u>	<u>1,298</u>	<u>19,017</u>	<u>26,715</u>



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Changes in endowment net assets for the fiscal year ended June 30, 2016 (dollars in thousands):

	<b>Board designated</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
Endowment net assets, June 30, 2015	\$ 6,478	867	17,387	24,732
Investment income	86	243	—	329
Fees	(33)	(74)	—	(107)
Losses realized	(47)	110	—	63
Gains unrealized	141	763	—	904
Total investment return	147	1,042	—	1,189
Contributions	—	—	1,630	1,630
Transfers	(37)	(74)	—	(111)
Amounts appropriated for expenditures	(188)	(537)	—	(725)
Endowment net assets, June 30, 2016	\$ <u>6,400</u>	<u>1,298</u>	<u>19,017</u>	<u>26,715</u>

**(13) Designated Unrestricted Net Assets**

In fiscal year 2000, the board designated funds from donations to be used in the current and future periods on Anchor's building renovations. In fiscal year 2015, the board designated these funds to function as additional endowment for Anchor's behavioral health programs.

**(14) Subsequent Events**

Catholic Charities has evaluated events and transactions for potential recognition or disclosure through November 10, 2017, the date the consolidated financial statements were available to be issued. The following are subsequent events that would require disclosure in the consolidated financial statements.

On July 5, 2017, CCADW executed Capital Projects Grants from the State of Maryland totaling \$1,500,000 to partially fund the design, construction, and capital equipping of the Angel's Watch Shelter in Charles County, Maryland. On August 17, 2017, CCADW executed a \$1,600,000 Shelter and Transitional Housing Facilities Grant (Grant) from the State of Maryland Department of Housing & Community Development (DHCD) to partially fund the acquisition and construction of Angel's Watch Shelter. DHCD recorded a lien on the property which will be released on August 17, 2032 if the property has continued to be operated in accordance with the provisions of the Grant.

On August 17, 2017, CCADW executed a \$500,000 loan from Federal Home Loan Bank of Atlanta (Loan) to partially fund the construction of the Angel's Watch Shelter. The Loan does not bear interest and is not repayable if the property has continued to be operated in accordance with the provisions of the Loan agreement through August 17, 2032.