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

Consolidated Financial Statements

June 30, 2018 and 2017

(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:

Report on the Financial Statements

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, 2018 and 2017, 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, 2018 and 2017, 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

Mclean, Virginia
November 6, 2018

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

Consolidated Statements of Financial Position

June 30, 2018 and 2017

(Dollars in thousands)

Assets		**2018**	**2017**
Cash and cash equivalents (note 1(d))	$	5,419	8,431
Receivables, net of allowance of approximately $709 and $290 in 2018 and 2017, respectively		7,290	6,744
Contributions receivable (note 3)		11,467	16,187
Prepaid expenses and other assets		703	661
Investments (note 2)		25,889	22,934
Property and equipment, net (notes 4 and 10)		27,109	24,694
Total assets	$	77,877	79,651
Liabilities and Net Assets			
Liabilities:			
Accounts payable	$	2,457	3,227
Accrued expenses		4,562	4,287
Deferred revenue		913	836
Mortgages and notes payable (note 5)		244	628
Funds held on behalf of others		602	762
Total liabilities		8,778	9,740
Net assets:			
Unrestricted:			
Undesignated		(6,689)	(10,845)
Designated (notes 12 and 13)		8,009	10,279
Invested in property and equipment		13,470	13,391
Total unrestricted		14,790	12,825
Temporarily restricted (note 10):			
Restricted for program activities		21,441	27,083
Invested in property and equipment		13,395	10,675
Total temporary restricted		34,836	37,758
Permanently restricted (note 11)		19,473	19,328
Total net assets		69,099	69,911
Total liabilities and net assets	$	77,877	79,651

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, 2018 and 2017

(Dollars in thousands)

	2018				2017			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**	**Unrestricted**	**Temporarily restricted**	**Permanently restricted**	**Total**
Revenue, gains, and other support:								
Contributions	$ 3,415	4,338	24	7,777	3,751	3,262	21	7,034
Legacies and bequests	705	—	—	705	215	—	—	215
Special events	2,771	31	—	2,802	2,875	279	—	3,154
Archdiocese of Washington (note 8)	107	1,318	—	1,425	126	1,322	—	1,448
Capital campaign	—	2,857	121	2,978	—	5,901	290	6,191
United Way	—	123	—	123	6	131	—	137
Grants and contracts	34,653	—	—	34,653	36,950	55	—	37,005
Service fees	9,773	—	—	9,773	9,730	—	—	9,730
Other income	4,687	—	—	4,687	6,165	—	—	6,165
Investment income (note 2)	831	1,806	—	2,637	606	1,867	—	2,473
In-kind contributions	21,132	—	—	21,132	18,339	—	—	18,339
Net assets released from restriction (note 10)	13,395	(13,395)	—	—	12,162	(12,162)	—	—
Total revenue, gains, and other support	91,469	(2,922)	145	88,692	90,925	655	311	91,891
Expenses and other losses:								
Program services	77,034	—	—	77,034	76,763	—	—	76,763
Supporting services:								
Management and general	9,402	—	—	9,402	9,825	—	—	9,825
Fund-raising	3,068	—	—	3,068	3,180	—	—	3,180
Total expenses and other losses	89,504	—	—	89,504	89,768	—	—	89,768
Change in net assets	1,965	(2,922)	145	(812)	1,157	655	311	2,123
Net assets, beginning of the year	12,825	37,758	19,328	69,911	11,668	37,103	19,017	67,788
Net assets, end of the year	$ 14,790	34,836	19,473	69,099	12,825	37,758	19,328	69,911

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, 2018

(Dollars in thousands)

	Adult and Children Clinical Services	Developmental Disabilities Services	Enterprises, Education and Employment	Family, Parish and Community Outreach	Homeless and Housing Services	Total program services	Management and general	Fund-raising	Total support services	Total 2018 program and support
Payroll	$ 11,824	4,747	3,574	1,814	8,433	30,392	5,202	1,470	6,672	37,064
Benefits	2,182	898	858	350	1,491	5,779	947	237	1,184	6,963
Taxes	864	355	262	130	620	2,231	358	106	464	2,695
Supplies and small equipment	85	23	37	8	51	204	92	374	466	670
Professionals and communication	2,138	856	469	135	422	4,020	1,241	167	1,408	5,428
Vehicles	79	30	66	2	83	260	13	—	13	273
Program expenses	559	146	3,204	169	505	4,583	59	6	65	4,648
Program assistance	455	53	37	1,485	608	2,638	174	—	174	2,812
Facilities	1,188	941	250	266	727	3,372	370	67	437	3,809
Travel and staff development	217	85	28	50	93	473	184	13	197	670
Special events	3	4	1	—	—	8	2	546	548	556
Liability insurance	28	15	8	3	19	73	7	2	9	82
Banking, interest, and depreciation	1,068	250	348	38	201	1,905	717	80	797	2,702
In-kind services	21,057	—	39	—	—	21,096	36	—	36	21,132
Total expense	$ 41,747	8,403	9,181	4,450	13,253	77,034	9,402	3,068	12,470	89,504

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)

		Adult and Children Clinical Services	Developmental Disabilities Services	Enterprises, Education and Employment	Family, Parish and Community Outreach	Homeless and Housing Services	Total program services	Management and general	Fund-raising	Total support services	Total 2017 program and support
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
Liability insurance		22	66	5	2	10	105	5	1	6	111
Banking, interest, and depreciation		514	332	168	33	270	1,317	931	209	1,140	2,457
In-kind services		18,301	—	38	—	—	18,339	—	—	—	18,339
Total expense	$	38,984	10,900	9,759	4,657	12,463	76,763	9,825	3,180	13,005	89,768

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Cash Flows

Years ended June 30, 2018 and 2017

(Dollars in thousands)

		2018	2017
Cash flows from operating activities:			
Change in net assets	$	(812)	2,123
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:			
Depreciation and amortization		1,549	1,472
Bad debt expense/loss on uncollectible pledges		664	379
Loss (gain) from disposal of property and other assets		30	(336)
Net gain on investments, realized and unrealized		(2,304)	(2,185)
Receipt of contributions for endowment		(117)	(170)
Receipt of contributions for property & equipment		(2,294)	(1,899)
Decrease (increase) in assets:			
Contributions receivable		3,793	3,188
Fees and purchased services receivable		(1,168)	1,395
Prepaid expenses and other assets		(42)	215
Increase (decrease) in liabilities:			
Accounts payable and accrued expenses		(657)	(3,156)
Deferred revenue		77	519
Funds held on behalf of others		(160)	(67)
Net cash (used in) provided by operating activities		(1,441)	1,478
Cash flows from investing activities:			
Purchases of investments		(9,268)	(9,863)
Proceeds from sales and maturities of investments		8,617	9,063
Purchases of property and equipment		(3,832)	(2,001)
Net cash used in investing activities		(4,483)	(2,801)
Cash flows from financing activities:			
Contributions receivable restricted for long term purpose		885	1,240
Contributions for endowment		117	170
Contributions for property & equipment		2,294	1,899
Payments of mortgages and notes payable		(384)	(86)
Net cash provided by financing activities		2,912	3,223
Net (decrease) increase in cash and cash equivalents		(3,012)	1,900
Cash and cash equivalents at beginning of year		8,431	6,531
Cash and cash equivalents at end of year	$	5,419	8,431
Supplemental disclosure of cash flow information:			
Cash paid for interest	$	25	41
Purchase of fixed asset additions in accounts payable		458	—

See accompanying notes to consolidated financial statements.

(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.

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.

(d) Cash Equivalents and Concentrations of Credit Risk

Cash equivalents consist of investments in overnight sweep accounts. Restricted cash of $0.6 million and $0.8 million was held on behalf of others as of June 30, 2018 and 2017, respectively.

Catholic Charities holds cash that is restricted for specific programs of $0.6 million and $0.7 million as of June 30, 2018 and 2017, respectively.

Amounts in excess of the FDIC-insured limit totaled approximately $4.3 million and $7.2 million as of June 30, 2018 and 2017, 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 $3.5 million and $3.6 million investments reported at estimated fair values utilizing NAV as a practical expedient as of June 30, 2018 and 2017, 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.

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 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, 2018 and 2017.

In May 2015, the FASB issued Accounting Standards Update No. 2015-07, Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) (ASU 2015-07). The amendments within ASU 2015-07 remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. ASU 2015-07 also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. Catholic Charities adopted this accounting pronouncement on a retrospective basis as of June 30, 2018 and reclassified June 30, 2017 to conform with presentation. There was no effect to the previously reported total investments.

(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.

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 9.0%. The estimated life expectancies used are from the Internal Revenue Service Life Expectancy Tables.

Balances associated with charitable gift annuities as of June 30, 2018 included liability to beneficiaries of $154 thousand and $2 thousand of contributions. Balances associated with charitable gift annuities as of June 30, 2017 included liability to beneficiaries of $159 thousand and $50 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, 2018 and 2017.

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.

(Continued)

Contributions and bequests, including unconditional promises to give, are recorded in the period received and are considered to be available for unrestricted use unless specifically restricted by 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, 2018 and 2017.

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. Because of the enactment of H.R.1, commonly known as Tax Cuts and Jobs Act (TCJA) in December 2017, transit and parking benefits provided to eligible employees are deemed to be unrelated business taxable income and Catholic Charities has recorded a provision for related income taxes for the six months ended June 30, 2018. 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.

(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) New Accounting Pronouncements

In August 2016, Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about the not-for-profit entity’s liquidity, financial performance and cash flows. ASU 2016-14 is effective for CCADW for fiscal year June 30, 2019.

In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This ASU establishes principles for reporting useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity’s contracts with customers. ASU 2014-09 is effective for CCADW for fiscal year 2020 or in fiscal year 2019 with early adoption.

In June 2018, FASB issued ASU 2018-08: *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which is an amendment of FASB Accounting Standards Codification (ASC) 958-602: Not-for-Profit Entities-Revenue Recognition. The new ASU provides additional guidance to determine whether a transaction is a contribution or an exchange transaction. The requirements of ASU 2014-09 as clarified by ASU 2018-08 are effective for CCADW for fiscal year 2020, unless early adoption in fiscal year 2019.

In February 2016, FASB issues ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 requires entities to recognize all leased assets as assets on the statement of financial position with a corresponding liability resulting in a gross up of the statement of financial position. Entities will also be required to present additional disclosures regarding the nature and extent of leasing activities. ASU 2016-02 is effective for the CCADW in fiscal year 2021.

CCADW has not yet evaluated the impact of these pronouncements to the financial statements.

(Continued)

(2) Investments

The following table presents the fair value hierarchy for those assets measured at fair value on a recurring basis as of June 30, 2018 (dollars in thousands):

	June 30, 2018	Cash equivalents, at cost	NAV using Practical Expedient (1)	Level I	Level II	Level III
Investments:						
Cash equivalents	$ 3,322	3,322	—	—	—	—
Fixed income	7,136	—	3,469	3,667	—	—
Equity securities	15,431	—	—	15,431	—	—
Total investments	$ 25,889	3,322	3,469	19,098	—	—

The following table presents the fair value hierarchy for those assets measured at fair value on a recurring basis as of June 30, 2017 (dollars in thousands):

	June 30, 2017	Cash equivalents, at cost	NAV using Practical Expedient (1)	Level I	Level II	Level III
Investments:						
Cash equivalents	$ 1,833	1,833	—	—	—	—
Fixed income	6,744	—	3,617	3,127	—	—
Equity securities	14,357	—	—	14,357	—	—
Total investments	$ 22,934	1,833	3,617	17,484	—	—

(1) *Certain investments are measured at fair value using Net Asset Value (NAV) as a practical expedient and have not been classified in the fair value hierarchy. The NAV amounts have been presented to permit reconciliation to the fair value hierarchy to the amounts presented in the Statement of Financial Position. There are no restrictions on contributions or redemptions from the Fund.*

Investment income, for the years ended June 30, 2018 and 2017, respectively, consists of the following (dollars in thousands):

	2018	2017
Net realized and unrealized gain	$ 2,304	2,185
Interest and dividend income	477	407
Fees	(144)	(119)
Total investment income	$ 2,637	2,473

(3) Contributions Receivable

Contributions receivable, net as of June 30, 2018 and 2017, respectively, are summarized as follows (dollars in thousands):

		2018	2017
Unconditional promises expected to be collected in:			
Less than one year	$	4,321	6,470
One to five years		7,165	10,059
More than five years		500	600
		11,986	17,129
Less:			
Unamortized discount		(434)	(826)
Allowance for uncollectible contributions		(85)	(116)
Contributions receivable, net	$	11,467	16,187

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 $1.5 million and $1.8 million at June 30, 2018 and 2017, respectively, on behalf of Catholic Charities.

(4) Property and Equipment

Property and equipment as of June 30, 2018 and 2017, respectively, consists of the following (dollars in thousands):

		2018	2017
Land, building, and building improvements	$	23,008	19,850
Leasehold improvements		11,396	11,191
Furniture and equipment		14,133	13,626
Construction in progress		3,754	3,816
		52,291	48,483
Less accumulated depreciation		(25,182)	(23,789)
Property and equipment, net	$	27,109	24,694

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

(a) Line of Credit

Catholic Charities has a $1.0 million available line of credit from a bank as of June 30, 2018, 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, 2018 and 2017, 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 2018 for an additional year.

(b) Mortgages and Notes Payable

Mortgages and notes payable as of June 30, 2018 and 2017, respectively, consists of the following (dollars in thousands):

	Interest rate		2018	2017
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 %	$	244	309
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
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
Total mortgages and note payable		$	244	628

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

Fiscal years ending June 30:		
2019	$	70
2020		76
2021		82
2022		16
2023 and thereafter		—
	$	244

Catholic Charities has a $1.0 million available construction loan from United Bank as of June 30, 2018 to finance the construction of new Angel's Watch Shelter (Angel's Watch Shelter) located in Charles County, Maryland. As of June 30, 2018, there was no outstanding loan balance.

On August 17, 2017, Catholic Charities executed a $1.6 million 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, Catholic Charities executed a $0.5 million 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

Management anticipates that Catholic Charities will remain compliant with the requirements under the agreements with the DHCD and the Federal Home Loan Bank of Atlanta. Therefore, under contribution accounting, temporarily restricted contribution revenue is recognized to the extent that qualified expenditures have been incurred.

As of June 30, 2018, $1.1 million and $0.5 million relating to DHCD and Federal Home Loan Bank of Atlanta loans, respectively, is recognized as temporarily restricted contribution revenue.

(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, 2018 and 2017, at fair value, consisted of the following (dollars in thousands):

		2018	2017
AHC	$	249	244
Kennedy Housing		103	98
Kennedy Housing II		41	35
Total replacement reserves	$	393	377

(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 88% funded at June 30, 2018. During the years ended June 30, 2018 and 2017, Catholic Charities incurred pension costs of $2.7 million and $2.9 million, respectively.

Effective January 1, 2013, Catholic Charities participate 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 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 $93 thousand and $117 thousand were made to the plan during the calendar years ending December 31, 2018 and 2017, respectively.

(Continued)

(7) Lease Commitments

At June 30, 2018 and 2017, 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, 2018 (dollars in thousands):

Fiscal year ending June 30:		
2019	$	1,106
2020		777
2021		720
2022		694
2023 and thereafter		3,058
Total minimum lease payments	$	6,355

Rent expense, including short-term leases, for the years ended June 30, 2018 and 2017 was $1.4 million and $1.5 million, respectively.

(8) Related-Party Transactions

During the years ended June 30, 2018 and 2017, Catholic Charities paid $7.8 million and $7.7 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, 2018 and 2017, 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, 2018 and 2017 totaled $399 thousand and $425 thousand, respectively.

(9) Commitments and Contingencies

Catholic Charities received 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 10.2% and 9.6% of Catholic Charities total revenue for the years ended June 30, 2018 and 2017, 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, 2018 and 2017 were subject to the following restrictions (dollars in thousands):

		2018	2017
Passage of time – Archdiocese	$	—	10
Passage of time – United Way		123	132
Capital campaign for programs		13,554	21,343
Program services		7,764	5,598
Investment in property and equipment		13,395	10,675
	$	34,836	37,758

Net assets released from restriction for the years ended June 30, 2018 and 2017 are as follows (dollars in thousands):

		2018	2017
Passage of time – Archdiocese	$	1,313	1,320
Passage of time – United Way		132	210
Capital campaign for programs		9,036	8,586
Program services		2,214	1,317
Investment in property and equipment		700	729
	$	13,395	12,162

(11) Permanently Restricted Net Assets

Permanently restricted net assets at June 30, 2018 and 2017 consist of (dollars in thousands):

		2018	2017
General endowment	$	16,749	16,643
Anchor Mental Health endowment		1,085	1,085
Spanish Catholic Center endowment		50	50
Domestic Violence restricted fund		801	801
Monsignor Vaghi endowment		788	749
	$	19,473	19,328

(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, 2018 and 2017, 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.

Endowment net asset composition by type of fund as of June 30, 2018 (dollars in thousands):

	Board Designated	Temporarily restricted	Permanently restricted	Total
Donor-restricted funds	$ —	3,732	19,473	23,205
Board-designated funds	4,513	—	—	4,513
	$ 4,513	3,732	19,473	27,718

Changes in endowment net assets for the fiscal year ended June 30, 2018 (dollars in thousands):

	Board Designated	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 30, 2017	$ 6,726	2,598	19,328	28,652
Investment income	108	358	—	466
Fees	(35)	(107)	—	(142)
Net gains realized	93	1,278	—	1,371
Net gains unrealized	637	277	—	914
Total investment return	803	1,806	—	2,609
Release of designation	(2,969)	—	—	(2,969)
Contributions	204	—	145	349
Amounts appropriated for expenditures	(251)	(672)	—	(923)
Endowment net assets, June 30, 2018	$ 4,513	3,732	19,473	27,718

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

		Board Designated	Temporarily restricted	Permanently restricted	Total
Donor-restricted funds	$	—	2,598	19,328	21,926
Board-designated funds		6,726	—	—	6,726
	$	6,726	2,598	19,328	28,652

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

		Board Designated	Temporarily restricted	Permanently restricted	Total
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	$	6,726	2,598	19,328	28,652

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.

(13) Subsequent Events

Catholic Charities has evaluated events and transactions for potential recognition or disclosure through November 6, 2018, the date the consolidated financial statements were available to be issued. Catholic Charities is not aware of any subsequent events that would require recognition or disclosure in the consolidated financial statements.