

**Catholic Charities and Community Services
of the Archdiocese of Denver, Inc.**

**Combined Financial Statements and Supplementary
Information**

June 30, 2019

(With Independent Auditor's Report Thereon)

Kundinger, Corder & Engle, P.C.

Certified Public Accountants

Independent Auditor's Report

Board of Directors Catholic Charities and Community Services of the Archdiocese of Denver, Inc.

Report on the Financial Statements

We have audited the accompanying combined financial statements of Catholic Charities and Community Services of the Archdiocese of Denver, Inc. (Catholic Charities) which comprise the combined statement of financial position as of June 30, 2019, and the related combined statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audit. We conducted our audit 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined financial statements.

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

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Catholic Charities as of June 30, 2019, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Catholic Charities and Community Services
of the Archdiocese of Denver, Inc.
Board of Directors**

Emphasis of Matter

As discussed in note 1, Catholic Charities adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*, as of and for the year ended June 30, 2019. The requirements of the ASU have been applied retrospectively for all years presented. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited Catholic Charities' 2018 combined financial statements, and our report dated November 19, 2018, expressed an unmodified opinion on those audited combined financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited combined financial statements from which it has been derived.

Other Matter – Other Information

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The accompanying supplementary information included in pages 28-31 is presented for purposes of additional analysis and is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the combined financial statements as a whole.

Kremdingen, Cordia & Congle, P.C.

November 18, 2019

**Catholic Charities and Community Services of
the Archdiocese of Denver, Inc.**
Combined Statement of Financial Position
June 30, 2019
(With Summarized Comparative Totals for 2018)

	2019	2018
Assets		
Cash and cash equivalents	\$ 5,297,946	4,942,607
Accounts receivable, net	1,018,202	1,231,243
Contributions receivable	–	191,250
Reserve cash, FLHC (note 3)	671,151	646,086
Development fees receivable–affiliates (note 15)	670,369	363,661
Investments (notes 4 and 5)	964,366	1,362,066
Other assets	276,786	632,603
Investment in subsidiaries (note 6)	600,250	600,250
Beneficial interest in assets held by others (notes 5 and 7)	1,150,138	1,147,377
Notes and accrued interest receivable (note 8)	1,438,145	1,438,146
Property and equipment, net (notes 9 and 11)	19,486,665	19,829,197
Total assets	\$ 31,574,018	32,384,486
Liabilities		
Accounts payable	\$ 357,591	360,815
Accrued expenses	1,365,553	1,505,844
Liabilities under annuity agreements (note 10)	231,872	382,454
Notes payable (note 11)	964,740	1,004,554
Total liabilities	2,919,756	3,253,667
Net Assets		
Net assets without donor restrictions		
Property and equipment, net of related debt	18,521,925	18,294,985
Development fees, notes, and subsidiaries	2,708,764	2,402,057
Undesignated	4,968,968	5,609,555
Total net assets without donor restrictions	26,199,657	26,306,597
Net assets with donor restrictions (note 12)	2,454,605	2,824,222
Total net assets	28,654,262	29,130,819
Commitments and contingencies (notes 13 through 17)		
Total liabilities and net assets	\$ 31,574,018	32,384,486

See the accompanying notes to the combined financial statements.

**Catholic Charities and Community Services of
the Archdiocese of Denver, Inc.**
Combined Statement of Activities
Year Ended June 30, 2019
(With Summarized Comparative Totals for 2018)

	Without donor restrictions	With donor restrictions	2019 Total	2018 Total
Public support, revenue and gains				
Public support				
Direct contributions	\$ 1,717,398	5,585,211	7,302,609	7,161,847
Wills and bequests	92,994	25,416	118,410	340,539
In-kind contributions	2,123,602	–	2,123,602	2,330,104
Archbishop's Catholic Appeal and other support (note 15)	–	1,400,000	1,400,000	1,350,000
Public and private grants	7,014,812	2,417,502	9,432,314	8,388,463
Federated campaigns	52,175	242,735	294,910	467,762
Change in net present value of annuities	72,636	–	72,636	(77,761)
Fund raising events revenue	–	380,445	380,445	252,098
Direct benefits to donors	(8,633)	(287,202)	(295,835)	(60,561)
Net assets released from restrictions (note 12)	10,187,454	(10,187,454)	–	–
Total public support	<u>21,252,438</u>	<u>(423,347)</u>	<u>20,829,091</u>	<u>20,152,491</u>
Revenue and gains				
Program service fees	4,915,451	–	4,915,451	4,720,629
Development fees (note 15)	1,548,700	–	1,548,700	1,264,086
Rental income and subsidy	854,797	–	854,797	853,156
Investment return (note 4)	42,613	53,730	96,343	223,485
Net gain (loss) on disposal of property	(3,181)	–	(3,181)	172,373
Miscellaneous income	255,126	–	255,126	1,726,070
Total revenue and gains	<u>7,613,506</u>	<u>53,730</u>	<u>7,667,236</u>	<u>8,959,799</u>
Total public support, revenue and gains	<u>28,865,944</u>	<u>(369,617)</u>	<u>28,496,327</u>	<u>29,112,290</u>
Expenses				
Program services				
Family & Children Services	10,103,398	–	10,103,398	9,886,809
Shelter & Community Outreach Services	7,800,772	–	7,800,772	7,850,809
Western Slope	621,554	–	621,554	711,502
Weld County	1,907,208	–	1,907,208	1,819,671
Larimer County	1,440,082	–	1,440,082	1,327,489
Farm Labor Housing Corporation	889,199	–	889,199	894,509
Archdiocesan Housing, Inc.	275,420	–	275,420	481,066
Total program services	<u>23,037,633</u>	<u>–</u>	<u>23,037,633</u>	<u>22,971,855</u>
Supporting services				
General and administrative	3,493,288	–	3,493,288	3,263,905
Fund raising	2,441,963	–	2,441,963	1,993,614
Total supporting services	<u>5,935,251</u>	<u>–</u>	<u>5,935,251</u>	<u>5,257,519</u>
Total expenses	<u>28,972,884</u>	<u>–</u>	<u>28,972,884</u>	<u>28,229,374</u>
Change in net assets	<u>(106,940)</u>	<u>(369,617)</u>	<u>(476,557)</u>	<u>882,916</u>
Net assets at beginning of year	<u>26,306,597</u>	<u>2,824,222</u>	<u>29,130,819</u>	<u>28,247,903</u>
Net assets at end of year	<u>\$ 26,199,657</u>	<u>2,454,605</u>	<u>28,654,262</u>	<u>29,130,819</u>

See the accompanying notes to the combined financial statements.

Catholic Charities and Community Services of the Archdiocese of Denver, Inc.
Combined Statement of Functional Expenses
Year Ended June 30, 2019
(With Summarized Comparative Totals for 2018)

	Catholic Charities											2019 Total	2018 Total
	Family & Children Services	Shelter & Community Outreach Services	Western Slope	Weld County	Larimer County	General and admin- istrative	Fund raising	Catholic Charities Total	Farm Labor Housing Corp.	Arch- diocesan Housing, Inc.			
Salaries	\$ 5,927,971	3,222,254	283,076	949,071	764,044	1,735,054	867,493	13,748,963	123,280	200,003	14,072,246	13,522,872	
Benefits and payroll taxes	1,717,190	890,775	79,214	243,221	208,030	659,322	179,367	3,977,119	62,385	60,111	4,099,615	3,906,993	
Food	169,622	211,534	149	24,367	9,855	—	—	415,527	—	—	415,527	508,093	
Specific assistance	521,707	2,041,720	172,705	382,266	253,341	19,307	—	3,391,046	—	—	3,391,046	3,322,427	
Grants to others	—	—	—	—	—	—	—	—	—	—	—	164,996	
Professional services and contract labor	631,456	122,157	1,350	11,257	16,897	578,945	938,500	2,300,562	76,235	20,264	2,397,061	2,472,113	
Rent, utilities and building maintenance	416,539	235,210	20,587	51,633	46,437	242,615	4,897	1,017,918	318,874	6,228	1,343,020	1,278,600	
Printing	26,730	18,401	3,769	2,255	5,921	15,623	107,499	180,198	—	—	180,198	37,514	
Publicity and marketing	3,807	1,605	21	500	1,784	—	49,973	57,690	—	—	57,690	36,476	
Travel and transportation	52,114	34,577	4,220	5,202	2,231	9,604	493	108,441	—	—	108,441	132,057	
Telephone	40,477	47,121	8,364	20,817	17,111	47,352	100	181,342	—	—	181,342	209,710	
Office and program supplies	165,159	136,058	2,126	40,869	27,058	41,520	1,898	414,688	16,152	1,208	432,048	483,295	
Equipment, maintenance and repairs	41,239	67,193	2,150	25,888	17,792	53,659	7,727	215,648	—	—	215,648	209,791	
Postage and freight	3,145	1,482	221	1,349	208	17,203	51,762	75,370	—	—	75,370	30,315	
Insurance	35,124	50,883	3,574	16,065	12,429	33,615	—	151,690	32,762	15,533	199,985	263,542	
Dues, memberships and subscriptions	10,050	3,167	323	372	201	29,215	26,946	70,274	—	—	70,274	42,872	
Interest and bank fees	—	—	—	—	—	4,242	—	4,242	68,305	—	72,547	69,771	
Conferences and training	91,137	77,190	333	9,055	6,904	51,444	11,465	247,528	—	2,495	250,023	245,397	
Occupancy allocation	126,012	327,917	—	—	—	(496,603)	42,674	—	—	—	—	—	
Other expenses	30,570	31,168	55	7,620	5,129	55,433	447,004	576,979	18,664	40,363	636,006	318,305	
Total expenses before depreciation	10,010,049	7,520,412	582,237	1,791,807	1,395,372	3,097,550	2,737,798	27,135,225	716,657	346,205	28,198,087	27,255,139	
Depreciation	93,349	280,360	39,317	115,401	44,710	235,090	—	808,227	262,405	—	1,070,632	1,034,796	
Total expenses	10,103,398	7,800,772	621,554	1,907,208	1,440,082	3,332,640	2,737,798	27,943,452	979,062	346,205	29,268,719	28,289,935	
Less expenses netted with revenues on statement of activities	—	—	—	—	—	—	(295,835)	(295,835)	—	—	(295,835)	(60,561)	
Total expenses included in expense section on statement of activities	\$ 10,103,398	7,800,772	621,554	1,907,208	1,440,082	3,332,640	2,441,963	27,647,617	979,062	346,205	28,972,884	28,229,374	

See the accompanying notes to the combined financial statements.

**Catholic Charities and Community Services of
the Archdiocese of Denver, Inc.
Combined Statement of Cash Flows
Year Ended June 30, 2019
(With Summarized Comparative Totals for 2018)**

	2019	2018
Cash flows from operating activities		
Change in net assets	\$ (476,557)	882,916
Adjustments to reconcile change in net assets to cash provided by operating activities		
Depreciation	1,070,632	1,034,796
Amortization	49,901	50,185
Loss (gain) on disposals of property and equipment	3,181	(172,373)
Donated securities	(63,317)	(56,404)
Contributions restricted for capital projects	(109,982)	(514,432)
Realized and unrealized gains on investments	(51,817)	(180,395)
Change in net present value of annuities	(72,636)	77,761
Changes in operating assets and liabilities		
Receivables	213,041	(214,161)
Contributions receivable	191,250	108,750
Development fees receivable—affiliates	(306,708)	88,294
Other assets	355,818	(177,054)
Accounts payable and accrued expenses	(143,515)	(574,459)
Net cash provided by operating activities	659,291	353,424
Cash flows from investing activities		
Payments received on notes receivable	—	1,243,140
Issuance of note receivable	—	(300,000)
Net proceeds from sales of investments	485,008	921,800
Proceeds from sales of assets	10,124	252,431
Purchases of property and equipment	(741,405)	(1,545,624)
Net cash provided by (used in) investing activities	(246,273)	571,747
Cash flows from financing activities		
Proceeds from contributions restricted for capital projects	109,982	514,432
Charitable gift annuity activity	(77,946)	(91,669)
Payments on notes payable	(89,715)	(88,532)
Net cash provided by (used in) financing activities	(57,679)	334,231
Net increase in cash and cash equivalents	355,339	1,259,402
Cash and cash equivalents at beginning of year	4,942,607	3,683,205
Cash and cash equivalents at end of year	\$ 5,297,946	4,942,607
Supplemental disclosures		
Other cash flow information		
Interest paid	\$ 22,646	19,586

See the accompanying notes to the combined financial statements.

**Catholic Charities and Community Services
of the Archdiocese of Denver, Inc.**
Notes to Combined Financial Statements
June 30, 2019

(1) Summary of Significant Accounting Policies

(a) Organization

Catholic Charities and Community Services of the Archdiocese of Denver, Inc. (Catholic Charities) is organized as a Colorado not-for-profit corporation and was formed on April 27, 1928. Under the 1983 Code of Canon Law of the Roman Catholic Church, Catholic Charities is also a *public juridic person* and accordingly, is subject to its Canonical Statutes. Catholic Charities operates various programs to assist and promote charitable, welfare, educational, health, and social services in the Denver-Metropolitan area, Weld and Larimer counties and in Western Slope counties within the territory of the Archdiocese of Denver (the Archdiocese). Some of the major programs in operation are:

Family and Children Services – Denver Metro provides adoptive, child welfare, and counseling services to birth parents with unplanned pregnancies. It also provides services and referrals to relatives raising children as well as services to the elderly and disabled. In addition, Family and Children Services provide daycare programs and Head Start in metro Denver through several child care centers including the *Margery Reed Mayo Center, Child Development Center, and the Mariposa Center*.

Shelter and Community Outreach Services – Denver Metro provides temporary shelter and meals as well as case management for homeless persons and homeless Veterans. It also provides employment referrals and assistance, transitional housing services to individuals and families, and immigration assistance. In addition, emergency assistance is provided to individuals and families in need of basic necessities in metro Denver.

Catholic Charities – Western Slope provides family transitional housing services, immigration assistance and advocacy, and emergency assistance to individuals and families in need of basic necessities including food, rent, and utilities to clients in the Glenwood Springs and surrounding western slope of Colorado.

Catholic Charities – Weld County provides temporary shelter and meals as well as case management for homeless persons at the *Guadalupe Shelter* in Greeley. In addition, it also provides services to low-income seniors, and emergency assistance to individuals and families in need of basic necessities in Weld County and the surrounding area.

Catholic Charities – Larimer County provides temporary shelter and meals as well as case management for homeless persons at *The Mission* in Fort Collins. In addition, it also provides transitional housing services, services to low-income seniors, and emergency assistance to individuals and families in need of basic necessities in Larimer County and the surrounding area.

Farm Labor Housing Corporation (FLHC) is a separately incorporated not-for-profit corporation, formed in 1993 to provide farm labor housing that is safe, clean and affordable and to act as a catalyst to building more farm labor housing. The initial project for FLHC, *Plaza del Milagro*, consists of a 40-unit housing complex, which includes a community center and child-care center located in Greeley, Colorado. *Plaza del Sol*, which consists of 42 independent housing units, housing up to 144 single occupants, is located adjacent to *Plaza del Milagro*. FLHC is controlled by Catholic Charities through the selection of FLHC board members.

**Catholic Charities and Community Services
of the Archdiocese of Denver, Inc.**
Notes to Combined Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(a) Organization, Continued

Archdiocesan Housing, Inc. (AHI) is a Colorado nonprofit corporation incorporated on December 17, 1968 to provide affordable housing for low- and moderate-income families and seniors where no adequate housing exists for such persons. AHI is controlled by Catholic Charities as they are the sole voting member of AHI. Included with the accounts of AHI are the following wholly-owned subsidiaries (of which AHI is the sole member): AHI Development, LLC; AHI Trust, LLC; AHI Development Silverthorne, LLC; and AHI Development Guadalupe, LLC.

AHI is also affiliated with, but does not consolidate in its financial statements, the following Colorado nonprofit entities because AHI does not have both control and an economic interest in the entities.

- Archdiocesan Family Housing, Inc. (Denver Family Sites)
- Cathedral Plaza, Inc. (Cathedral)
- Colorado Affordable Catholic Housing Corporation (CACHC)
- Golden Spike, Inc. (Golden Spike)
- Higgins Plaza, Inc. (Higgins)
- Holy Cross Village, Inc. (Holy Cross)
- Holy Family Plaza, Inc. (Holy Family)
- Housing Management Services, Inc. (HMS)
- Machebeuf Apartments, Inc. (Machebeuf)
- Madonna Plaza, Inc. (Madonna)
- Marian Plaza, Inc. (Marian)
- Prairie Rose Plaza (Prairie Rose)
- St. Martin Plaza, Inc. (St. Martin)
- Villas de Santa Lucia, Inc. (VSL)
- Villa Sierra Madre, Inc. (VSM)

AHI Development, LLC is the Managing Member in Courtyard Commons, LLC (Courtyard) at .005% ownership, the General Partner in St. Joseph Golden, LLLP (SJG) at .01% ownership and the General Partner in Broadway Affordable, LLLP (BA) at .01% ownership. AHI is the Administrative Special Limited Partner in The Villas in Southgate, LLLP (VSG) at .005% ownership. AHI Development Silverthorne, LLC is the General Partner in Villa Sierra Madre II LLLP (VSMII) at .01% ownership. AHI Development Guadalupe, LLC is the Managing General Partner in Guadalupe Apartments, LLLP (GA) at .005% ownership, and AHI is the Administrative General Partner in Guadalupe Apartments, LLLP at .005% ownership. Each of the above for-profit partnerships in which AHI is the general or managing partner are not consolidated in AHI's financial statements as the limited partners in these partnerships have substantive participating rights in the partnership and, therefore, AHI does not have control.

Due to the insignificant investment balances of the general or managing partner's interest in the for-profit corporations which are not consolidated, AHI accounts for these entities using the cost method of accounting, which approximates the equity method of accounting.

(b) Basis of Accounting

The accompanying combined financial statements of Catholic Charities have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

**Catholic Charities and Community Services
of the Archdiocese of Denver, Inc.**
Notes to Combined Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(c) Financial Statement Presentation

Reporting Entity

The accompanying combined financial statements include the accounts of FLHC and AHI, which are separate not-for-profit corporations over which Catholic Charities has control and an economic interest. All material inter-organizational transactions have been eliminated in combination. Management of Catholic Charities annually reassesses the limited partner's rights in the for-profit partnerships (in which AHI is the general partner) to determine whether to consolidate the partnerships.

Basis of Presentation

Catholic Charities is required to present information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of Catholic Charities. These net assets may be used at the discretion of Catholic Charities' management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of Catholic Charities or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

(d) Cash and Cash Equivalents

Catholic Charities considers all highly liquid investments with an initial maturity of three months or less, and which are not held as part of the investment portfolio or subject to donor restrictions for long-term purposes, to be cash equivalents. Bank accounts held as reserve accounts (note 3) have not been included in cash and cash equivalents.

(e) Concentrations of Credit Risk

Financial instruments which potentially subject Catholic Charities to concentrations of credit risk consist principally of cash, cash equivalents, investments, notes receivable, development fees receivable, accounts receivables and contributions receivables. Investments which potentially subject Catholic Charities to concentrations of credit risk include \$344,941 held by the Archdiocese of Denver Irrevocable Revolving Fund Trust (Revolving Fund Trust) and invested on behalf of Catholic Charities. Catholic Charities also holds debt and equity securities valued at \$619,425 that are subject to changes in value due to market factors. In addition, Catholic Charities is subject to concentrations of credit risk resulting from notes receivable and accrued interest totaling \$1,438,145 (see note 8), and development fee receivable-affiliates of \$670,369 (see note 15).

Catholic Charities places its temporary cash and money market accounts with creditworthy, high-quality financial institutions. At times, a portion of these balances may exceed the limits for insurance by the FDIC or similar entity.

**Catholic Charities and Community Services
of the Archdiocese of Denver, Inc.**
Notes to Combined Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(e) Concentrations of Credit Risk, Continued

Catholic Charities is subject to the risk of loss from certain government receivables if the government determines that certain amounts are unallowable reimbursements, although this has not happened to date. Credit risk associated with contributions receivable is limited due to the number and creditworthiness of the foundations and individuals that comprise the contributor base.

(f) Accounts Receivable

Accounts receivable consist of program service fees due primarily from government agencies and government grant and contract related receivables. The allowance for doubtful accounts is based on past experience and on analysis of the collectability of current accounts receivable. Accounts deemed uncollectible are charged to the allowance in the year they are deemed uncollectible. Accounts receivable are considered to be past due based on contractual terms. At June 30, 2019, accounts receivable includes an allowance of \$2,714. Management believes the existing allowance for doubtful accounts at June 30, 2019 is adequate.

(g) Investments

Investments are recorded at cost, if purchased, or at fair value, if donated. Thereafter, investments are reported at their fair values in the statement of financial position. Fair value is more fully discussed in note 1(h). Management is responsible for the fair value measurement of investments reported in the financial statements and believes that the reported values are reasonable.

Investment return consists of Catholic Charities' distributive share of any interest, dividends, and capital gains and losses generated from sales of investments. Gains and losses attributable to investments are realized and reported upon a sale or disposition of the investment. Unrealized gains and losses are included in the change in net assets in the statement of activities.

(h) Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Generally accepted accounting principles in the U.S. establishes a fair value hierarchy that prioritizes investments based on the assumptions market participants would use when pricing an asset. The fair value hierarchy gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to an entity's assumptions (unobservable inputs). Assets are grouped at fair value in three levels based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

- Level 1 Unadjusted quoted market prices for identical assets or liabilities in active markets as of the measurement date.
- Level 2 Inputs other than quoted market prices that are observable for the asset/liability, either directly or indirectly.
- Level 3 Unobservable inputs that cannot be corroborated by observable market data.

**Catholic Charities and Community Services
of the Archdiocese of Denver, Inc.**
Notes to Combined Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(h) Fair Value Measurements, Continued

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. These classifications (Level 1, 2 and 3) are intended to reflect the observability of inputs used in the valuation of investments and are not an indication of risk or liquidity.

Investments in marketable equity and fixed income securities with readily determinable fair values are reported at fair value based on quoted prices in active markets. The market value of Catholic Charities' beneficial interest in assets held at The Catholic Foundation is based on information reported by The Catholic Foundation, which holds the funds.

(i) Property and Equipment

Property and equipment with initial cost or value of more than \$5,000 are capitalized at cost or, if donated, the estimated fair market value of the asset at the date of donation. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets. Equipment leased under capital leases is recorded at the present value of the lease payments. Amortization of capitalized leases is included with depreciation on the combined financial statements.

(j) Contributions and Contributions Receivable

Unconditional contributions receivable are recognized as revenues in the period the pledge is received. Unconditional contributions receivable are recorded at net realizable value if expected to be collected in one year, and at fair value if expected to be collected in more than one year. Conditional contributions receivable are recognized when the conditions on which they depend are substantially met. Donated marketable securities and other non-cash donations are recorded as contributions at their estimated fair values at the date of donation.

Catholic Charities uses the allowance method to determine uncollectible contributions receivable. The allowance is based on prior years' experience and management's analysis of specific promises made.

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

**Catholic Charities and Community Services
of the Archdiocese of Denver, Inc.**
Notes to Combined Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(k) In-kind Contributions

In-kind contributions are recorded as contributions and corresponding expenses in the accompanying statements at their estimated values at date of donation. Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by Catholic Charities. In-kind contributions received for the year ended June 30, 2019 are as follows:

Program supplies	\$ 1,032,522
Food and food preparation materials	954,387
Professional services	7,836
Building space	<u>128,857</u>
Total in-kind revenue and expense	\$ <u>2,123,602</u>

In-kind expenses are recorded under various categories on the combined statement of functional expenses, according to their classification. Many individuals volunteer their time and perform a variety of tasks that assist Catholic Charities in its programs and general operations. However, the value of this contributed time is not reflected in the accompanying combined financial statements as it does not meet the criteria of recognition under accounting principles.

(l) Program Service Fees

Program service fees are deemed to be earned and are reported as revenue when Catholic Charities has incurred expenditures or performed services in compliance with the provisions of the respective service agreements. Cash received for contracts in excess of allowable expenses incurred is recorded as unearned revenue, and allowable expenses incurred on contracts in excess of cash received are recorded as a receivable.

(m) Advertising

Catholic Charities uses advertising to promote certain programs and products. The costs of advertising are expensed as incurred. During fiscal year 2019, advertising costs totaled \$57,690.

(n) Functional Allocation of Expenses

The costs of providing program and supporting services have been summarized on a functional basis in the combined statement of functional expenses. Catholic Charities incurs expenses that directly relate to, and can be assigned to, specific programs or supporting activities. Catholic Charities also conducts a number of activities which benefit both its program objectives as well as supporting services (i.e. fundraising and management and general activities). These costs, which are not specifically attributable to a specific program or supporting activity, are allocated by management on a consistent basis among program and supporting services benefited, based on either financial or nonfinancial data, such as headcount, square-footage, or estimates of time and effort incurred by personnel.

**Catholic Charities and Community Services
of the Archdiocese of Denver, Inc.**
Notes to Combined Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(o) Estimates

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

(p) Income Taxes

Catholic Charities, FLHC, and AHI are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code through their inclusion in the United States Conference of Catholic Bishops group ruling and listing in the Official Catholic Directory. Accordingly, contributions to the above mentioned organizations qualify for the charitable contribution deduction. Income from activities not directly related to Catholic Charities', FLHC's, or AHI's tax exempt purpose is subject to taxation as unrelated business income. There was no unrelated business income subject to tax in the current year.

Generally accepted accounting principles require Catholic Charities' management to evaluate tax positions taken by Catholic Charities and recognize a tax liability (or asset) if Catholic Charities has taken an uncertain position that more likely than not would not be sustained upon examination by taxing authorities. Management has analyzed the tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements and determined there are none. Catholic Charities is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Catholic Charities' tax returns for the three previous tax years remain subject to examination.

(q) Prior Period Information

The accompanying combined financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with Catholic Charities' combined financial statements for the year ended June 30, 2019, from which the summarized information was derived.

(r) Subsequent Events

Management has evaluated subsequent events through November 18, 2019 and this is the date through which subsequent events were evaluated.

**Catholic Charities and Community Services
of the Archdiocese of Denver, Inc.**
Notes to Combined Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(s) Not-for-Profit Financial Statement Presentation

During 2019, Catholic Charities adopted ASU No. 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*, which is intended to improve how a not-for-profit entity classifies its net assets, as well as the information it presents in its financial statements about its liquidity and availability of resources, expenses and investment returns, and cash flows. The guidance replaces the three classes of net assets previously presented on the statement of financial position with two new classes of net assets which are based on the existence or absence of donor-imposed restrictions. ASU 2016-14 includes specific disclosure requirements intended to improve a financial statement user's ability to assess an entity's available financial resources, along with its management of liquidity and liquidity risk.

(2) Liquidity and Availability of Financial Assets

The following reflects the financial assets as of June 30, 2019 that are available for general expenditure within one year. Financial assets are considered unavailable when illiquid, not convertible to cash within one year, or when restricted by donors for purposes more limited than general expenditures.

Financial assets at year-end	
Cash and cash equivalents	\$ 5,297,946
Accounts receivable, net	1,018,202
Investments	964,366
Beneficial interest in assets held by others	<u>1,150,138</u>
Total financial assets	8,430,652
Less endowment funds	<u>(1,453,626)</u>
Financial assets available for general expenditures within one year	\$ <u>6,977,026</u>

As part of Catholic Charities' liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, Catholic Charities invests cash in excess of daily requirements in short-term investments. To manage liquidity, Catholic Charities maintains a \$3,000,000 revolving line of credit with a bank that is drawn upon as needed during the year to manage cash flows (as further discussed in note 14). Catholic Charities considers donor restricted contributions for on-going programs to be available for expenditure, provided they are available for expenditure within the next twelve months.

**Catholic Charities and Community Services
of the Archdiocese of Denver, Inc.
Notes to Combined Financial Statements, Continued**

(3) Reserve Cash

FLHC is required to make monthly payments to a reserve account for *Plaza del Milagro* until the balance reaches \$400,000. The funds may be used with the approval of the USDA for repair, replacement, or improvement of the property, to meet payments on loan obligations, or to promote the loan or grant purpose. For fiscal year 2019, no payments were made to this reserve account as the balance exceeded \$400,000 throughout the year. Also, no withdrawals were made from this reserve account in 2019. A similar account is required at *Plaza del Sol*. FLHC was originally required to make annual payments of \$41,380 to the reserve account for the *Plaza del Sol* until the balance reaches \$413,800; however, the USDA has reduced the annual payment requirement to \$25,000. Payments totaling \$25,000 were made to the *Plaza del Sol* reserve during the year ended June 30, 2019 and no withdrawals were made in 2019.

The following is a summary of the required reserve accounts at June 30, 2019:

<i>Plaza del Milagro</i>	\$ 423,554
<i>Plaza del Sol</i>	<u>247,597</u>
Total reserve cash	\$ <u>671,151</u>

(4) Investments

Investments consist of the following at June 30, 2019:

Investments with the Revolving Fund Trust	\$ 344,941
Exchange traded funds (ETFs)	127,959
Mutual funds invested in equities	118,212
Fixed income	219,748
Equities	107,031
Cash and cash equivalents	<u>46,475</u>
	\$ <u>964,366</u>

Investment return for the year ended June 30, 2019, is summarized as follows:

Interest and dividend income	\$ 44,526
Realized and unrealized losses on investments	<u>(3,917)</u>
Total from investments	40,609
Change in value of beneficial interest in assets held by others (note 7)	<u>55,734</u>
Total investment return	\$ <u>96,343</u>

The Revolving Fund Trust enables parishes and other Catholic entities within the territory of the Archdiocese to pool financial resources to obtain competitive terms for depositing, withdrawing and borrowing money. The Revolving Fund Trust holds title to the assets of the trust. However, the equitable and beneficial ownership of the assets of the trust belong to and are owned by each entity participating in the Revolving Fund Trust pursuant to the terms and conditions of the trust agreement.

**Catholic Charities and Community Services
of the Archdiocese of Denver, Inc.
Notes to Combined Financial Statements, Continued**

(5) Fair Value Measurements

The following table summarizes Catholic Charities' investments by the fair value hierarchy levels as of June 30, 2019:

	<u>Fair Value</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Revolving Fund Trust	\$ 344,941	344,941	–	–
Exchange traded funds	127,959	127,959	–	–
Mutual funds invested				
in equities	118,212	118,212	–	–
Fixed income	219,748	219,748	–	–
Equities	107,031	107,031	–	–
Cash and cash equivalents	<u>46,475</u>	<u>46,475</u>	–	–
Subtotal	964,366	964,366	–	–
Investments held at The Catholic Foundation	<u>1,150,138</u>	<u>–</u>	<u>1,150,138</u>	<u>–</u>
Total	<u>\$ 2,114,504</u>	<u>964,366</u>	<u>1,150,138</u>	<u>–</u>

Investments in marketable equity and fixed income securities with readily determinable market values are reported at fair value based on quoted prices in active markets. Investments held in the Revolving Fund Trust consist of marketable securities that are also valued based on quoted prices in active markets. The market value of Catholic Charities' beneficial interest in assets held at The Catholic Foundation is based on information reported by The Catholic Foundation, which holds the funds. There were no changes in the valuation techniques in the current year.

(6) Investment in Subsidiaries

AHI Development, LLC and AHI Development Silverthorne, LLC were formed to acquire, construct, own, and operate low- and moderate-income housing complexes in Colorado. AHI Development, LLC owns .01% of St. Joseph Golden, LLLP and AHI which owns .005% as the Administrative Special Limited Partner in The Villas in Southgate, LLLP, neither of which has a cost basis of acquisition. AHI Development Silverthorne, LLC is the General Partner in Villa Sierra Madre II, LLLP and owns .01% of the partnership. AHI is the Administrative General Partner in Guadalupe Apartments, LLLP at .005% ownership, and AHI Development Guadalupe, LLC is the Managing General Partner in Guadalupe Apartments, LLLP at .005% ownership. Investment in the project entities is accounted for under the equity method by the corporations. Accordingly, the corporations recognize the earnings and losses of the partnerships to the extent of their respective ownership interests. AHI's investment in subsidiaries at June 30, 2019 was \$200 in AHI Development, LLC and \$600,050 in AHI Development Guadalupe, LLC.

AHI has agreements with the affiliated partnerships to oversee the development and construction of their respective low- and moderate-income housing complexes. At June 30, 2019, AHI had guaranteed any general partner calls for capital contributions by the limited partnerships for operations. Since inception of the partnerships, there have been no additional cash contributions required from the general partner corporations.

**Catholic Charities and Community Services
of the Archdiocese of Denver, Inc.
Notes to Combined Financial Statements, Continued**

(7) Beneficial Interest in Assets Held by Others

Catholic Charities has entered into an agreement with The Catholic Foundation for the Roman Catholic Church in Northern Colorado (the Foundation), to hold and invest certain endowed funds, originally valued at \$1,100,000. The funds deposited at the Foundation are to be held in perpetuity by the Foundation, to which variance power has been given. The Foundation shall distribute annually to Catholic Charities as much of the net income of the Fund as Catholic Charities requests and the Foundation deems consistent with the agreement and the distribution policies of the Foundation. At June 30, 2019, the investments had a fair market value of \$1,150,138.

(8) Notes and Accrued Interest Receivable

AHI

At June 30, 2019, AHI had notes receivable and accrued interest receivable consisting of the following:

	<u>Interest rate</u>	<u>Date due</u>	<u>Note receivable</u>	<u>Interest receivable</u>
Broadway Affordable, LLLP	3.94%	June 30, 2050	\$ 774,621	302,898
Allowance–BA			–	(289,374)
Villa Sierra Madre II, LLLP	6.00%	December 31, 2045	350,000	112,980
Allowance–VSMII			–	(112,980)
Guadalupe Apartments, LLLP	6.50%	December 31, 2056	300,000	37,227
Allowance–GA			–	(37,227)
			<u>\$ 1,424,621</u>	<u>13,524</u>

AHI's \$774,621 note from Broadway Affordable LLLP earns interest at 3.94%, compounded annually, and is unsecured. The note requires payments of principal and interest made annually, 90 days following the end of each fiscal year of Broadway Affordable LLLP, solely from and to the extent of cash flow remaining, if any, in the priority set forth in the Third Amended and Restated Agreement of Limited Partnership. If not paid sooner, the principal sum and all interest accrued thereon is due and payable in full on June 30, 2050. Interest earned on this note during the year ended June 30, 2019 was \$41,231. An allowance was recorded for \$41,231 for interest earned in fiscal year 2019, due to the cash flow calculation for Broadway Affordable, LLLP historically reflecting no funds being available to pay the interest. No payments were made in 2019.

AHI's \$350,000 note from Villa Sierra Madre II, LLLP earns interest at 6%, compounded annually, and is secured by the property, subordinate to the mortgage. The note requires payments of 100% of the available cash flow as defined in the related Partnership Agreement. If not paid sooner, the principal sum and all interest accrued thereon is due and payable in full on December 31, 2045. Interest earned on this note during the year ended June 30, 2019 was \$26,897. An allowance was recorded for \$26,897 for interest earned in fiscal year 2019, due to the cash flow calculation for Villa Sierra Madre II, LLLP reflecting no funds being available to pay the interest.

**Catholic Charities and Community Services
of the Archdiocese of Denver, Inc.
Notes to Combined Financial Statements, Continued**

(8) Notes and Accrued Interest Receivable, Continued

In June 2018, AHI acquired a \$300,000 note from Guadalupe Apartments, LLLP which earns interest at 6.50%. The note requires payments of the available cash flow as defined in the related Partnership Agreement. Principal and accrued interest are due and payable on December 31, 2056. Interest earned on this note during the year ended June 30, 2019 was \$20,664. An allowance was recorded for \$20,664 for interest earned on this note during the year ended June 30, 2019, due to the cash flow calculation for Guadalupe Apartments, LLLP reflecting no funds being available to pay the interest.

Catholic Charities

On April 4, 2006, Catholic Charities sold its property at 1122 Pearl Street, Denver, known as Courtyard Commons. The property was sold to Courtyard Commons, LLC, a limited liability company whose managing member is AHI Development, LLC. The property was sold for \$840,000 comprised of \$202,731 in payment of the existing CHFA mortgages on the property, and a promissory note of \$637,269. The promissory note bears interest of 4.79%, and requires that Courtyard Commons LLC make annual payments of \$1,000, cash flows permitting. Because payment of the note is uncertain, Catholic Charities has determined that a gain on sale will be recorded under the cost recovery method only when payments are received. The balance of the note (\$483,526 at June 30, 2019) and accrued interest (\$272,147 at June 30, 2019) are due and payable in full in 2045.

(9) Property and Equipment

Property and equipment used in continuing operations consisted of the following at June 30, 2019:

	<u>Catholic Charities</u>	<u>FLHC</u>	<u>Total</u>
Land and land improvements	\$ 3,907,120	1,152,979	5,060,099
Buildings	19,698,697	7,159,461	26,858,158
Furniture and equipment	<u>2,658,794</u>	<u>464,459</u>	<u>3,123,253</u>
	26,264,611	8,776,899	35,041,510
Less accumulated depreciation	<u>(11,216,942)</u>	<u>(4,605,102)</u>	<u>(15,822,044)</u>
Construction in progress	<u>267,199</u>	<u>—</u>	<u>267,199</u>
Property and equipment, net	\$ <u>15,314,868</u>	<u>4,171,797</u>	<u>19,486,665</u>

(10) Charitable Gift Annuities

Catholic Charities has received several charitable gift annuity contracts. These contracts require Catholic Charities to make fixed payments to the beneficiaries over their lifetimes. The obligation to make the periodic disbursements to the beneficiary becomes a general obligation of Catholic Charities. This liability is recorded at the net present value of the expected future payments, discounted at interest rates ranging from 1% to 6% over the expected lives of the beneficiaries, and totaled \$231,872 at June 30, 2019.

**Catholic Charities and Community Services
of the Archdiocese of Denver, Inc.
Notes to Combined Financial Statements, Continued**

(11) Notes Payable

FLHC has received five loans with interest rates below market. These notes have been discounted, depending on the market rate for similar loans at the time of borrowing. The discounts have been deducted from the face value of the notes, and were recorded as restricted contributions in the years in which the loans were received. The discount totals \$419,757 at June 30, 2019. As this discount is amortized, a corresponding amount is released from temporarily restricted net assets. At June 30, 2019, notes payable consisted of the following:

Note payable to USDA Rural Development, interest at 1%, monthly payments of \$1,575 to be made through September 2031, secured by first lien on property- <i>Plaza del Milagro</i>	\$ 216,416
Note payable to Weld County, interest at 3%, monthly payments of \$1,194 through June 2033, secured by deed of trust - <i>Plaza del Milagro</i>	163,675
Note payable to USDA Rural Development, including accrued interest, interest at 1%, monthly payments of \$4,078 to be made over 33 years, secured by deed of trust- <i>Plaza del Sol</i>	716,323
Note payable to Weld County, interest at 3%, monthly payments of \$555, secured by deed of trust- <i>Plaza del Sol</i>	31,837
Note payable to Colorado Housing and Finance Authority, interest at 1%, monthly payments of \$1,608 to be made over 30 years - <i>Plaza del Sol</i>	<u>256,246</u>
Face value of below market rate notes payable	1,384,497
Less discount	<u>(419,757)</u>
	964,740
Note payable to Catholic Charities, at 0% interest, payable in annual installments of \$10,000 beginning in 2004- <i>Plaza del Sol</i> (inter- organizational transaction has been eliminated in consolidation)	<u>60,000</u>
Net notes payable	<u>\$ 1,024,740</u>

The future undiscounted principal payments on these notes for years ending June 30 are:

2020	\$ 90,920
2021	92,145
2022	93,393
2023	94,663
2024	93,027
Later years	<u>980,349</u>
	1,444,497
Less discount	<u>(419,757)</u>
Net notes payable	<u>\$ 1,024,740</u>

**Catholic Charities and Community Services
of the Archdiocese of Denver, Inc.
Notes to Combined Financial Statements, Continued**

(12) Net Assets With Donor Restrictions

Net assets with donor restriction at June 30, 2019 consist of the following:

<i>Catholic Charities:</i>	
Contributions restricted by donors, but not yet expended	\$ 491,528
Unspent endowment earnings	74,198
Endowment funds	<u>1,453,626</u>
Subtotal	2,019,352
<i>FLHC:</i>	
Unamortized loan discount (note 11)	419,757
<i>AHI:</i>	
Improvements at Marian Plaza	<u>15,496</u>
Total net assets with donor restriction	\$ <u>2,454,605</u>

Net assets released from restrictions during fiscal year 2019 consisted of the following:

<i>Catholic Charities:</i>	
Collection of contributions receivable	\$ 191,250
Expenditure of endowment earnings	42,692
Restricted contributions expended per donor instructions	<u>9,903,611</u>
Subtotal	10,137,553
<i>FLHC:</i>	
Amortization of below market rate note payable	<u>49,901</u>
Total net assets released	\$ <u>10,187,454</u>

In addition, net assets without donor restriction generated by FLHC projects are restricted for use by that particular housing project.

Endowment Funds

Net assets with donor restrictions include endowment fund assets that are subject to restrictions requiring that the principal be invested in perpetuity and only the income be used. Endowment net assets consist of the following funds at June 30, 2019:

Catholic Charities Endowment Fund-Samaritan House	\$ 1,000,000
Catholic Charities Endowment Fund-operations	100,000
General Endowment	50,000
South West Emergency Assistance	26,707
Marjory Reed Mayo - equipment	25,000
Samaritan House - capital improvements	<u>251,919</u>
Total endowment net assets	\$ <u>1,453,626</u>

**Catholic Charities and Community Services
of the Archdiocese of Denver, Inc.
Notes to Combined Financial Statements, Continued**

(12) Net Assets With Donor Restrictions, Continued

Endowment Funds, Continued

Catholic Charities follows the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Catholic Charities has interpreted the UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation and in the absence of explicit donor stipulations to the contrary, Catholic Charities classifies as net assets with donor restrictions (a) the original value of gifts donated to the restricted endowment, (b) the original value of subsequent gifts to the restricted endowment, and (c) accumulations to the restricted endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The unspent portion of the donor-restricted endowment fund is classified in net assets with donor restrictions until those amounts are appropriated for expenditure by the Board in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, Catholic Charities considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of Catholic Charities and the donor-restricted endowment funds
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other Catholic Charities resources
- (7) The investment policies of Catholic Charities.

Following are the changes in the endowment net assets for the year ended June 30, 2019:

Endowment net assets at beginning of year	\$ 1,516,786
Investment return, net	53,730
Contributions	—
Expenditure of endowment earnings	<u>(42,692)</u>
Endowment net assets at end of year	\$ <u>1,527,824</u>

Return Objectives and Risk Parameters

Catholic Charities' assets include donor-restricted funds that Catholic Charities must hold in perpetuity. Catholic Charities has adopted investment policies for endowment assets that attempt to provide a reasonable, predictable, stable and sustainable level of income that supports current needs and provides for growth in assets and income over time. Catholic Charities' spending policies reflect donor restrictions on the original gift.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, Catholic Charities relies on a total return strategy, in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). In addition, Catholic Charities relies on the strategies of the Catholic Foundation where a portion of the endowment is held. Catholic Charities targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

**Catholic Charities and Community Services
of the Archdiocese of Denver, Inc.
Notes to Combined Financial Statements, Continued**

(12) Net Assets With Donor Restrictions, Continued

Distribution Policy and How the Investment Objectives Relate to Distribution Policy

Catholic Charities has a policy of appropriating for distribution each year that amount of investment income which it deems prudent. During 2019, Catholic Charities expended \$42,692 in endowment earnings for purposes in accordance with endowment requirements.

(13) Operating Leases

Catholic Charities rents office space for administrative and program needs in various locations. Total minimum rental commitments under these written lease agreements are as follows for the years ending June 30:

2020	\$ 325,849
2021	285,572
2022	285,887
2023	75,774
2024	<u>1,808</u>
	<u>\$ 974,890</u>

In addition, Catholic Charities rents space for various programs on a month-to-month basis. Total rent expense for the year ended June 30, 2019 was \$499,792, which includes in-kind building space valued at \$128,857.

(14) Line of Credit

Catholic Charities has a \$3,000,000 revolving line of credit with a bank that expires November 13, 2019. Borrowings on the line bear interest at the Wall Street Journal Prime rate minus .75%. At June 30, 2019, no amounts were outstanding on the line of credit.

(15) Related Party Transactions – Archdiocese and Related Organizations

Catholic Charities has as its general purpose, the promotion of the charitable causes of the Archdiocese. In addition to investments in the Revolving Fund Trust, the following related party transactions existed with the Archdiocese for the year ended June 30, 2019:

- (a) The Archdiocese of Denver contributed \$1,400,000 to Catholic Charities through the Archbishop's Catholic Appeal and other support.
- (b) Effective July 1, 2014, Catholic Charities discontinued their self-insurance program and was admitted to The Archdiocese of Denver Welfare Benefits Trust Plan. Expense for the insurance plan for the year totaled \$2,608,268. In order to be admitted to the plan, Catholic Charities was required to pay \$560,000 to the Archdiocese of Denver to fund the Risk Corridor Reserve, of which \$186,667 had been paid as of June 30, 2018. The remaining \$373,333 due to the Archdiocese of Denver was paid in full during the year ended June 30, 2019.

**Catholic Charities and Community Services
of the Archdiocese of Denver, Inc.
Notes to Combined Financial Statements, Continued**

(15) Related Party Transactions – Archdiocese and Related Organizations, Continued

- (c) Archdiocesan Housing, Inc. and its affiliates share a building with Catholic Charities and use Catholic Charities' payroll services for their employees. AHI and affiliates reimbursed Catholic Charities a total of \$5,236,064 for salaries and related expenses, including \$198,453 in employer matching under their 403(b) retirement plan. Also included in this total are charges amounting to \$661,195 related to health insurance provided by the Archdiocese of Denver (see note (b) above). Furthermore, AHI and affiliates paid Catholic Charities \$58,567 for shared occupancy costs. The senior housing sites, through AHI, also contracted with Catholic Charities to provide case management services, for a total of \$65,710.
- (d) The Archdiocese of Denver Risk Management and Property/Casualty Insurance Trust (the Trust) currently procures worker's compensation, property and general liability insurance coverage for Catholic Charities. Catholic Charities paid \$481,322 to the Trust during the year ended June 30, 2019.
- (e) Effective July 1, 2018, Catholic Charities entered into an agreement with the Archdiocese of Denver's Office of Development to provide certain fundraising and donor development services to Catholic Charities. During the year ended June 30, 2019, Catholic Charities incurred \$714,550 in expense for these services, which includes \$55,746 in accounts payable at year-end.
- (f) During the year ended June 30, 2019, Catholic Charities received a contribution totaling \$2,000,000 from Colorado Affordable Catholic Housing Corporation, an affiliate to Archdiocesan Housing, Inc.
- (g) AHI, AHI Development, LLC, and AHI Development Silverthorne, LLC have agreements with affiliates and/or entities managed or controlled by affiliates whereby they earn development fees for services rendered in connection with the investigation, due diligence, development, financing, construction and permitting of related affordable housing projects. During the year ended June 30, 2019, fees earned on separate projects and affiliates were \$1,548,700. Because the development fees are paid dependent upon third party investor agreements (which may include interest), the amounts due at June 30, 2019 were as follows:

Guadalupe	\$ 392,354
Mount Loretto	192,013
Villa Sierra Madre II, LLLP	<u>86,002</u>
Total development fees receivable – affiliates	<u>\$ 670,369</u>

- (h) At June 30, 2019, Broadway Affordable, LLLP owed AHI \$774,621 and net accrued interest of \$13,524. See note 8.
- (i) At June 30, 2019, Villa Sierra Madre II, LLLP owed AHI \$350,000. See note 8.
- (j) At June 30, 2019, Guadalupe Apartments, LLLP owed AHI \$300,000. See note 8.

(16) Retirement Plan

Catholic Charities has established a retirement plan under section 403(b) of the Internal Revenue Service Code that is available to employees. Catholic Charities contributes 5% of employee salaries for employees with a year or more service. In addition, Catholic Charities matches 50% of the employee's elective deferral amount that does not exceed 2% of the total employee's compensation. Total employer contributions under this plan for Catholic Charities employees were \$593,365 for the year ended June 30, 2019.

**Catholic Charities and Community Services
of the Archdiocese of Denver, Inc.**
Notes to Combined Financial Statements, Continued

(17) Land Use Restrictions, Project Guarantees, and Commitments

Guadalupe Shelter

Catholic Charities received grants totaling \$600,000 from Greeley Urban Renewal Authority (GURA) for the purchase of land and construction of the new Guadalupe Center Homeless Shelter. If Catholic Charities ceases to use the property for this purpose, Catholic Charities must transfer the property to GURA or reimburse GURA for the fair market value of the portion of the property attributable to this grant at the time the property ceases to be used for this purpose. Additionally, the project received funding from the State of Colorado totaling \$600,000 with the commitment to provide housing for moderate, low and very low income persons for 30 years after the close out of the project. A portion of the property was sold to an affiliated entity during 2016, who intends to continue using the property for the specified purpose.

Mission Building-Fort Collins

In conjunction with the renovation of the Mission building in Ft. Collins that was partially funded by a grant of \$46,235 from the City of Ft. Collins in 2006, Catholic Charities has agreed to continue to operate the building as a Community Development Block Grant eligible public facility for 90 years or refund the grant.

Smith Road

On October 12, 2016, Catholic Charities purchased property at 6240 Smith Road in Denver, for \$2,500,000, to be used as an overnight shelter space and short-term transitional housing for women. Part of the property also serves as an office building for administration. Catholic Charities received \$1,000,000 in funding from the City and County of Denver, which was applied to the purchase. Repayment of the loan shall be deferred as long as the property is used as a non-profit community facility for a term of 35 years. Should this condition not be met during the 35-year period, the \$1,000,000 must be repaid.

Farm Labor Housing Corporation

FLHC has received various loans with interest at rates below market (see note 11). The loans require that the *Plaza del Milagro* and *Plaza del Sol* be maintained as low-income housing.

Mount Loretto, LLC

Under an agreement with Catholic Charities, AHI has assumed responsibility for the guarantees made for the Mount Loretto, LLC housing project by Catholic Charities and has agreed to indemnify Catholic Charities for any claims made against those guarantees. AHI also assumed the covenant that the project will rent to qualified low-income occupants for the 40-year guaranty period, which expires in 2045. Should the project lose its low-income housing status, grants received from local agencies through Catholic Charities to the project construction totaling \$1,494,000 would have to be repaid.

St. Joseph, LLLP

Under an agreement effective December 16, 2009 with AHI Development, LLC, general partner of the St. Joseph Golden, LLLP, AHI has assumed joint responsibility with CACHC for guarantees made for the St. Joseph Golden, LLLP housing project by AHI Development, LLC and has agreed to indemnify AHI Development, LLC for any claims made against those guarantees. AHI also assumed the covenant that the project will rent to qualified low-income occupants for the 20-year guaranty period, which expires in 2029. Should the project lose its low-income housing status, the loans received from a local governmental agency through AHI for the project construction totaling \$612,236 would have to be repaid.

**Catholic Charities and Community Services
of the Archdiocese of Denver, Inc.**
Notes to Combined Financial Statements, Continued

(17) Land Use Restrictions, Project Guarantees, and Commitments, Continued

Villas in Southgate, LLLP

AHI is the Administrative Special Limited Partner of Villas in Southgate, LLLP. If, at any time or from time to time after the redemption of the Series B Bonds, an operating deficit exists, then the Administrative Special Limited Partner is required to lend funds (an operating deficit loan) to the Partnership in an amount equal to the amount of the operating deficit. The Administrative Special Limited Partner's obligation to make these loans will terminate at the close of the fiscal year in which certain requirements are satisfied. The Administrative Special Limited Partner's obligation to make operating deficit loans is limited to an amount equal to \$300,000. Operating deficit loans are repayable without interest. No operating deficits have been experienced as of June 30, 2019.

AHI has a partnership agreement with The Villas in Southgate, LLLP whereby The Villas at Southgate, LLLP must pay AHI a management fee in connection with management of the project commencing the first year the Project is 95% occupied by qualified tenants, provided that such fee shall be payable only to the extent The Villas in Southgate, LLLP has cash from operations remaining after payment of obligations having a higher priority as set forth in the partnership agreement. If cash flow is not sufficient to pay the fee provided above, any unpaid fee shall accrue and shall be payable out of the next available cash flow. During the year ended June 30, 2019, The Villas in Southgate, LLLP paid management fees totaling \$15,039.

Courtyard Commons, LLC

AHI Development, LLC is the Managing Member of Courtyard Commons, LLC. If, at any time or from time to time an operating deficit exists, then the Managing Member shall lend funds (an operating deficit loan) to Courtyard Commons, LLC in an amount equal to the amount of the operating deficit. The Managing Member's obligation to make these loans will terminate at the close of the fiscal year in which certain requirements are satisfied. Operating deficit loans are repayable with interest at the applicable federal rate for long term obligations. No operating deficits have been experienced.

AHI Development, LLC has an operating agreement with Courtyard Commons, LLC whereby Courtyard Commons, LLC must pay AHI Development, LLC a management fee in connection with management of the project commencing the first year the Project is 95% occupied by qualified tenants. During the year ended June 30, 2019, Courtyard Commons, LLC paid management fees totaling \$4,775.

During the year ended June 30, 2007, AHI received funding totaling \$240,000 from the State of Colorado for the necessary rehabilitation of Courtyard Commons. As a condition to the receipt of this funding, a covenant has been recorded to ensure that the housing is to be rented to low-income occupants for a term of 50 years. Should this condition not be met during the 50-year period, the \$240,000 must be repaid. Similarly, during the year ended June 30, 2008 AHI received a grant of \$350,000 from the City and County of Denver, and a grant of \$200,000 from the Federal Home Loan Bank of Topeka. The terms of these grants require that the property be rented to low-income occupants for terms of 40 and 15 years, respectively. These grants were funded directly to Courtyard Commons and are not reflected on the AHI financial statements except as the guarantee commitment. In turn, Courtyard Commons has entered into promissory notes with AHI for repayment of the grants. Should the project lose its low-income housing status, grants received from the agencies through AHI to the project construction totaling \$790,000 would have to be repaid.

**Catholic Charities and Community Services
of the Archdiocese of Denver, Inc.**
Notes to Combined Financial Statements, Continued

(17) Land Use Restrictions, Project Guarantees, and Commitments, Continued

Broadway Affordable, LLLP

During the year ended June 30, 2010, AHI received funding totaling \$497,000 from the City and County of Denver. Repayment of the loan shall be deferred so long as the housing is rented to low-income occupants for a term of 40 years. Should this condition not be met during the 40-year period, the \$497,000 must be repaid. The loan was funded directly to Broadway Affordable, LLLP and is not reflected on the AHI financial statements except as the guarantee commitment. In turn, Broadway Affordable, LLLP has entered into a promissory note with AHI for repayment of the loan. Should the project lose its low-income housing status, the loan received from the City through AHI to the project totaling \$497,000 would have to be repaid. As a General Partner, AHI Development, LLC and its affiliated entity, CACHC, provide certain operating deficit and other related guaranties for the benefit of Broadway Affordable, LLLP.

Prairie Rose Plaza

During the year ended June 30, 2011, AHI received funding totaling \$190,000 from the State of Colorado for acquisition and construction of the Prairie Rose Plaza apartments. Repayment of the loan shall be deferred so long as the property continues to be used primarily to provide housing for eligible beneficiaries at affordable rents for a term of 40 years. Should this condition not be met during the 40-year period, the \$190,000 must be repaid.

Villa Sierra Madre II, LLLP

AHI Development Silverthorne, LLC is the general partner of Villa Sierra Madre II, LLLP. If, at any time prior to the date that all conditions for the funding of the investor limited partner's final installment have been satisfied and the investor limited partner has funded the final installment (Period 1), an operating deficit exists, the general partner shall fund the operating deficit without limitation as to amount through operating deficit loans. At any time during a minimum of thirty-six months after Period 1 until dissolution and liquidation of the partnership, the general partner's obligation to fund operating deficits through operating deficit loans shall continue in an additional amount (i.e., not reduced by any operating deficit loans made in Period 1) not to exceed \$250,000 in the aggregate. Funds in the operating reserve may be used to pay operating deficits occurring after the last day of Period 1 before the general partner is required to make operating deficit loans. All operating deficit loans shall bear interest at the prime interest rate, compounded annually, and shall be repayable from cash flow or net proceeds as provided in the partnership agreement. No operating deficits have been experienced.

AHI also assumed the covenant that the project will rent to qualified low-income occupants for a term of at least 40 years, which expires in 2055. Should the project lose its low-income housing status, a grant received from a local government agency through AHI to the project totaling \$350,000 may have to be repaid.

AHI Development Silverthorne, LLC has an agreement with Villa Sierra Madre II, LLLP whereby Villa Sierra Madre II, LLLP must pay AHI Development Silverthorne, LLC an annual asset management fee of \$7,500 in connection with management of the project. During the year ended June 30, 2019, Villa Sierra Madre II, LLLP paid management fees totaling \$7,500.

**Catholic Charities and Community Services
of the Archdiocese of Denver, Inc.**
Notes to Combined Financial Statements, Continued

(17) Land Use Restrictions, Project Guarantees, and Commitments, Continued

Guadalupe Apartments, LLLP

AHI, as guarantor for the project, has guaranteed the due and punctual payment and performance of all of the obligations set forth in the partnership agreement. In addition, AHI is the guarantor of operating deficits of the partnership limited to the maximum cumulative amount of \$175,641.

During the year ended June 30, 2017, AHI received funding totaling \$750,000 from First Bank for acquisition, construction and development of Guadalupe Apartments. Repayment of the loan shall be deferred so long as the property continues to be used to provide low-income housing for a term of 15 years. Should this condition not be met during the 15-year period, the \$750,000 must be repaid.

During the year ended June 30, 2017, AHI received funding totaling \$250,000 from the Greeley Urban Renewal Authority for the purpose of assisting with infrastructure costs associated with the construction of Guadalupe Apartments. This loan will be forgiven so long as the property continues to be used to provide low-moderate income housing for a term of five years. Should this condition not be met during the five-year period, the \$250,000 must be repaid.

(18) Subsequent Events

In July 2019, HMS entered into a financing arrangement with AHI to finance \$606,128, at 0% interest, in property insurance premiums covering the period July 1, 2019 through July 1, 2020. The arrangement requires monthly payments of \$60,613 beginning August 25, 2019 through May 25, 2020.

On August 15, 2019, AHI closed on the purchase of Immaculata Plaza, Inc. in Greeley, Colorado, a HUD-subsidized project, for \$96,878 and the assumption of notes payable totaling \$1,095,594. Conveyance of the property was approved by HUD. Immaculata Plaza, Inc. has entered into a repayment agreement with AHI to repay the \$96,878 as cash flow allows.

**Catholic Charities and Community Services of
the Archdiocese of Denver, Inc.
Combining Schedule of Financial Position
June 30, 2019**

	Catholic Charities	Farm Labor Housing Corporation	Archdioces- san Hous- ing, Inc.	Total
Assets				
Cash and cash equivalents	\$ 993,434	205,576	4,098,936	5,297,946
Accounts receivable	915,950	12,690	89,562	1,018,202
Reserve cash	–	671,151	–	671,151
Development fees receivable	–	–	670,369	670,369
Due from (to) other fund	60,000	(60,000)	–	–
Investments	964,366	–	–	964,366
Other assets	141,737	6,015	129,034	276,786
Investment in subsidiaries	–	–	600,250	600,250
Beneficial interest in assets held by others	1,150,138	–	–	1,150,138
Notes and accrued interest receivable	–	–	1,438,145	1,438,145
Property and equipment, net	15,314,868	4,171,797	–	19,486,665
Total assets	<u>\$ 19,540,493</u>	<u>5,007,229</u>	<u>7,026,296</u>	<u>31,574,018</u>
Liabilities				
Accounts payable	\$ 257,136	80,563	19,892	357,591
Accrued expenses	1,335,565	13,786	16,202	1,365,553
Liabilities under annuity agreements	231,872	–	–	231,872
Notes payable	–	964,740	–	964,740
Total liabilities	<u>1,824,573</u>	<u>1,059,089</u>	<u>36,094</u>	<u>2,919,756</u>
Net Assets				
Net assets without donor restrictions				
Property and equipment, net of related debt	15,314,868	3,207,057	–	18,521,925
Development fees, notes, and subsidiaries	–	–	2,708,764	2,708,764
Undesignated	381,700	321,326	4,265,942	4,968,968
Total net assets without donor restrictions	<u>15,696,568</u>	<u>3,528,383</u>	<u>6,974,706</u>	<u>26,199,657</u>
Net assets with donor restrictions	2,019,352	419,757	15,496	2,454,605
Total net assets	<u>17,715,920</u>	<u>3,948,140</u>	<u>6,990,202</u>	<u>28,654,262</u>
Total liabilities and net assets	<u>\$ 19,540,493</u>	<u>5,007,229</u>	<u>7,026,296</u>	<u>31,574,018</u>

See the accompanying independent auditor's report.

Catholic Charities and Community Services of the Archdiocese of Denver, Inc.
Schedule of Activities
Year Ended June 30, 2019
(With Summarized Comparative Totals for 2018)

	Without donor restrictions	With donor restrictions	2019 Total	2018 Total
Public support, revenue and gains				
Public support				
Direct contributions	\$ 1,716,898	5,585,211	7,302,109	7,159,936
Wills and bequests	92,994	25,416	118,410	340,539
In-kind contributions	2,123,602	-	2,123,602	2,330,104
Archbishop's Catholic Appeal and other support	-	1,400,000	1,400,000	1,350,000
Public and private grants	7,008,587	2,417,502	9,426,089	9,378,257
Federated campaigns	52,175	242,735	294,910	467,762
Change in net present value of annuities	72,636	-	72,636	(77,761)
Fund raising events revenue	-	380,445	380,445	252,098
Direct benefits to donors	(8,633)	(287,202)	(295,835)	(60,561)
Net assets released from restrictions	10,137,553	(10,137,553)	-	-
Total public support	<u>21,195,812</u>	<u>(373,446)</u>	<u>20,822,366</u>	<u>21,140,374</u>
Revenue and gains				
Program service fees	4,888,137	-	4,888,137	4,709,203
Rental income	50,954	-	50,954	42,654
Investment return	42,613	53,730	96,343	223,485
Net gain (loss) on disposal of property	(3,181)	-	(3,181)	172,373
Miscellaneous income	147,775	-	147,775	159,741
Total revenue and gains	<u>5,126,298</u>	<u>53,730</u>	<u>5,180,028</u>	<u>5,307,456</u>
Total public support, revenue and gains	<u>26,322,110</u>	<u>(319,716)</u>	<u>26,002,394</u>	<u>26,447,830</u>
Expenses				
Program services				
Family & Children Services	10,103,398	-	10,103,398	9,886,809
Shelter & Community Outreach Services	7,800,772	-	7,800,772	7,850,809
Western Slope	621,554	-	621,554	711,502
Weld County	1,907,208	-	1,907,208	1,819,671
Larimer County	1,440,082	-	1,440,082	1,327,489
Total program services	<u>21,873,014</u>	<u>-</u>	<u>21,873,014</u>	<u>21,596,280</u>
Supporting services				
General and administrative	3,332,640	-	3,332,640	3,107,130
Fund raising	2,441,963	-	2,441,963	1,993,614
Total supporting services	<u>5,774,603</u>	<u>-</u>	<u>5,774,603</u>	<u>5,100,744</u>
Total expenses	<u>27,647,617</u>	<u>-</u>	<u>27,647,617</u>	<u>26,697,024</u>
Change in net assets	<u>(1,325,507)</u>	<u>(319,716)</u>	<u>(1,645,223)</u>	<u>(249,194)</u>
Net assets at beginning of year	<u>17,022,075</u>	<u>2,339,068</u>	<u>19,361,143</u>	<u>19,610,337</u>
Net assets at end of year	<u>\$ 15,696,568</u>	<u>2,019,352</u>	<u>17,715,920</u>	<u>19,361,143</u>

See the accompanying independent auditor's report.

Farm Labor Housing Corporation
Schedule of Activities
Year Ended June 30, 2019
(With Summarized Comparative Totals for 2018)

	Without donor restrictions	With donor restrictions	2019 Total	2018 Total
Revenue, gains and support				
Public support				
Contributions and grants	\$ 500	–	500	1,911
Rental income, tenants	507,967	–	507,967	459,120
Rental subsidy, USDA	295,876	–	295,876	351,382
Interest income	124	–	124	78
Miscellaneous income	35,502	–	35,502	40,588
Net assets released from restrictions	49,901	(49,901)	–	–
Total revenue, gains and support	<u>889,870</u>	<u>(49,901)</u>	<u>839,969</u>	<u>853,079</u>
Expenses				
Program services				
Plaza del Sol operations	486,842	–	486,842	480,091
Plaza del Milagro operations	402,357	–	402,357	414,418
Total program services expenses	<u>889,199</u>	<u>–</u>	<u>889,199</u>	<u>894,509</u>
Supporting services				
General and administrative	89,863	–	89,863	86,242
Total expenses	<u>979,062</u>	<u>–</u>	<u>979,062</u>	<u>980,751</u>
Change in net assets	(89,192)	(49,901)	(139,093)	(127,672)
Net assets at beginning of year	<u>3,617,575</u>	<u>469,658</u>	<u>4,087,233</u>	<u>4,214,905</u>
Net assets at end of year	<u>\$ 3,528,383</u>	<u>419,757</u>	<u>3,948,140</u>	<u>4,087,233</u>

See the accompanying independent auditor's report.

Archdiocesan Housing, Inc.
Schedule of Activities
Year Ended June 30, 2019
(With Summarized Comparative Totals for 2018)

	Without donor restrictions	With donor restrictions	2019 Total	2018 Total
Revenue				
Grant income	\$ 6,225	–	6,225	10,206
Development fees	1,548,700	–	1,548,700	1,264,086
Partnership management fees	27,314	–	27,314	11,426
Interest income	71,676	–	71,676	20,801
Other income	49	–	49	1,504,862
Total revenue	<u>1,653,964</u>	<u>–</u>	<u>1,653,964</u>	<u>2,811,381</u>
Expenses				
Program services				
Development activities	275,420	–	275,420	316,070
Contributions to related entities	–	–	–	1,164,996
Total program services	<u>275,420</u>	<u>–</u>	<u>275,420</u>	<u>1,481,066</u>
Supporting services—general and administrative	<u>70,785</u>	<u>–</u>	<u>70,785</u>	<u>70,533</u>
Total expenses	<u>346,205</u>	<u>–</u>	<u>346,205</u>	<u>1,551,599</u>
Change in net assets	1,307,759	–	1,307,759	1,259,782
Net assets at beginning of year	<u>5,666,947</u>	<u>15,496</u>	<u>5,682,443</u>	<u>4,422,661</u>
Net assets at end of year	<u>\$ 6,974,706</u>	<u>15,496</u>	<u>6,990,202</u>	<u>5,682,443</u>

See the accompanying independent auditor's report.