# CATHOLIC CHARITIES, DIOCESE OF BROOKLYN AND RELATED AGENCIES

Consolidated Financial Statements

June 30, 2017

(With Independent Auditor's Report Thereon)

# Independent Auditor's Report

To the Board of Directors
Catholic Charities, Diocese of Brooklyn

We have audited the accompanying consolidated financial statements of Catholic Charities, Diocese of Brooklyn and Related Agencies (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2017, and the related consolidated statements of activities, changes in net assets and cash flows for the year 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 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 consolidated 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 consolidated 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 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 auditor's 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 Organization'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 Organization'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 consolidated financial position of Catholic Charities, Diocese of Brooklyn and Related Agencies as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

CohnReznick LLP

New York, New York
November 14, 2017

**CATHOLIC CHARITIES, DIOCESE OF BROOKLYN**
**AND RELATED AGENCIES**

Consolidated Statement of Financial Position

June 30, 2017

| | | |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ | 35,916,434 |
| Cash held in escrow for construction | | 244,608 |
| Accounts receivable, net of allowance of $3,552,306 | | 19,442,737 |
| Contributions receivable, net of allowance of $45,100 | | 543,397 |
| Other receivables | | 4,096,277 |
| Prepaid expenses | | 4,661,154 |
| Investments | | 46,226,866 |
| Due from affiliated agencies | | 631,784 |
| Due from others | | 4,498,135 |
| Amounts held for others | | 791,662 |
| Amounts held by others | | 1,004,483 |
| Restricted deposits and funded reserves | | 40,728,881 |
| Beneficial interest in charitable trust | | 4,245,698 |
| Developer fee receivable | | 1,881,043 |
| Fixed assets, net | | 324,524,596 |
| Total assets | $ | 489,437,755 |
| **Liabilities and Net Assets** | | |
| Liabilities: | | |
| Accounts payable and accrued expenses | $ | 16,891,985 |
| Construction advance | | 244,608 |
| Amounts held for others | | 791,662 |
| Annuities payable | | 383,956 |
| Program advances | | 5,658,205 |
| Program liabilities | | 12,937,346 |
| Due to affiliated agencies | | 13,017,120 |
| Other liabilities | | 76,208,394 |
| Loans, mortgage, and notes payable | | 231,788,962 |
| Total liabilities | | 357,922,238 |
| Commitments and contingencies | | |
| Net assets: | | |
| Unrestricted: | | |
| Unrestricted | | 42,003,127 |
| Noncontrolling interest in limited partnerships | | 75,544,562 |
| Total unrestricted net assets | | 117,547,689 |
| Temporarily restricted | | 10,756,796 |
| Permanently restricted | | 3,211,032 |
| Total net assets | | 131,515,517 |
| Total liabilities and net assets | $ | 489,437,755 |

See accompanying notes to consolidated financial statements.

**CATHOLIC CHARITIES, DIOCESE OF BROOKLYN**
**AND RELATED AGENCIES**

Consolidated Statement of Activities

Year ended June 30, 2017

| | Total unrestricted | Temporarily restricted | Permanently restricted | Total |
|---|---|---|---|---|
| Support and revenue (loss): | | | | |
| Support: | | | | |
| Contributions, grants, and bequests | $ 2,967,632 | $ 1,530,623 | $ — | $ 4,498,255 |
| Contributed goods and services | 4,375,225 | — | — | 4,375,225 |
| Special events, net | 1,557,172 | — | — | 1,557,172 |
| Net assets released from restrictions | 1,711,197 | (1,711,197) | — | — |
| Total support | 10,611,226 | (180,574) | — | 10,430,652 |
| Affiliate support: | | | | |
| Subsidy for programs | 1,100,000 | — | — | 1,100,000 |
| Grant from Mary's Hall, Inc. | 19,087 | — | — | 19,087 |
| Total affiliate support | 1,119,087 | — | — | 1,119,087 |
| Revenue: | | | | |
| Service fees from governmental agencies | 70,249,930 | — | — | 70,249,930 |
| Service fees from third-party reimbursement | 42,101,632 | — | — | 42,101,632 |
| Service fees from other sources | 3,047,727 | — | — | 3,047,727 |
| Net residence service revenue | 23,318,723 | — | — | 23,318,723 |
| Rental revenue | 44,850,428 | — | — | 44,850,428 |
| Investment return | 5,601,168 | 5,440 | 114,318 | 5,720,926 |
| Unrealized gain on beneficial interest in charitable trust | — | 121,647 | — | 121,647 |
| Management and developer fees | 689,160 | — | — | 689,160 |
| Other revenue, gains, and losses, net | 5,586,547 | — | — | 5,586,547 |
| Total revenue | 195,445,315 | 127,087 | 114,318 | 195,686,720 |
| Total support and revenue (loss) | 207,175,628 | (53,487) | 114,318 | 207,236,459 |
| Expenses: | | | | |
| Program services: | | | | |
| Family Stabilization | 19,522,620 | — | — | 19,522,620 |
| Early Childhood Services | 24,443,175 | — | — | 24,443,175 |
| Senior Services | 18,123,166 | — | — | 18,123,166 |
| Housing | 15,410,295 | — | — | 15,410,295 |
| Clinic, Recovery and Rehabilitative Services | 15,303,894 | — | — | 15,303,894 |
| Care Coordination and Case Management | 7,644,227 | — | — | 7,644,227 |
| Services for People with Developmental Disabilities | 8,676,501 | — | — | 8,676,501 |
| Office of Community Programming | 537,549 | — | — | 537,549 |
| Comprehensive Human Reosurces | 1,911,139 | — | — | 1,911,139 |
| Office of Mission | 151,309 | — | — | 151,309 |
| Pastoral care of sick and prison ministries | 78,384 | — | — | 78,384 |
| Other community programs | 346,166 | — | — | 346,166 |
| Contributions and grants to affiliates | 210,740 | — | — | 210,740 |
| Program expenses for low-income housing | 45,646,312 | — | — | 45,646,312 |
| Long-term care services | 22,027,282 | — | — | 22,027,282 |
| Total program services | 180,032,759 | — | — | 180,032,759 |
| Support services: | | | | |
| General and administration | 15,451,857 | — | — | 15,451,857 |
| Fund-raising | 732,562 | — | — | 732,562 |
| Total support services | 16,184,419 | — | — | 16,184,419 |
| Total expenses | 196,217,178 | — | — | 196,217,178 |
| Change in net assets before allocation to noncontrolling interest | 10,958,450 | (53,487) | 114,318 | 11,019,281 |
| Attributable to non-controlling interest | (6,749,701) | — | — | (6,749,701) |
| Change in net assets attributable to controlling interest | $ 17,708,151 | $ (53,487) | $ 114,318 | $ 17,768,982 |

See accompanying notes to consolidated financial statements.

**CATHOLIC CHARITIES, DIOCESE OF BROOKLYN**
**AND RELATED AGENCIES**

Consolidated Statement of Changes in Net Assets

Year ended June 30, 2017

| | Unrestricted Net Assets | | | | | |
|---|---|---|---|---|---|---|
| | **Controlling** | **Noncontrolling** | **Total** | **Temporarily Restricted Net Assets** | **Permanently Restricted Net Assets** | **Total Net Assets** |
| Balance, June 30, 2016 | $ 11,573,699 | $ 61,954,921 | $ 73,528,620 | $ 10,810,283 | $ 3,096,714 | $ 87,435,617 |
| Contributions | — | 20,339,342 | 20,339,342 | — | — | 20,339,342 |
| Distributions | (4,197) | — | (4,197) | — | — | (4,197) |
| Pension related charges other than net periodic pension costs | 12,725,474 | — | 12,725,474 | — | — | 12,725,474 |
| Change in net assets | 17,708,151 | (6,749,701) | 10,958,450 | (53,487) | 114,318 | 11,019,281 |
| Balance, June 30, 2017 | $ 42,003,127 | $ 75,544,562 | $ 117,547,689 | $ 10,756,796 | $ 3,211,032 | $ 131,515,517 |

See accompanying notes to consolidated financial statements.

**CATHOLIC CHARITIES, DIOCESE OF BROOKLYN**
**AND RELATED AGENCIES**

Consolidated Statement of Cash Flows

Year ended June 30, 2017

| | |
|---|---|
| Cash flows from operating activities: | |
| Change in net assets | $ 11,019,281 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | |
| Depreciation and amortization | 10,670,006 |
| Amortization of debt issuance costs | 340,935 |
| Provision for bad debts | 3,412,021 |
| Loss on fixed asset disposal | 122,553 |
| Net realized and unrealized gains on investments | (4,299,938) |
| Unrealized gain on amounts held by others | (114,318) |
| Unrealized gain in beneficial interest in charitable trust | (121,647) |
| Changes in assets and liabilities: | |
| Accounts receivable | 3,216,601 |
| Other receivables | (50,530) |
| Contributions receivable | 55,620 |
| Prepaid expenses and developer fee | (455,299) |
| Due from/to affiliated agencies | 503,723 |
| Other assets | 1,770,167 |
| Accounts payable and accrued expenses | (2,041,222) |
| Other liabilities | 17,563 |
| Annuities payable | (50,859) |
| Program advances | 1,635,521 |
| Program liabilities | (9,008,584) |
| Deferred revenue | 55,777 |
| Deferred rent | (636,134) |
| Net cash provided by operating activities | 16,041,237 |
| Cash flows from investing activities: | |
| Purchase of fixed assets | (6,949,223) |
| Purchase of investments | (1,951,208) |
| Proceeds from the sales of fixed assets | 1,720,534 |
| Sale of investments | 774,641 |
| Repayment from affiliates | 34,363 |
| Net reimbursement of developmental costs | (763,523) |
| Net deposits to restricted reserves | (6,874,728) |
| Net cash used in investing activities | (14,009,144) |
| Cash flows from financing activities: | |
| Proceeds from loans, mortgage, and notes payable | 33,237,765 |
| Principal payments on loans, mortgage, and notes payable | (54,003,407) |
| Distributions | (4,197) |
| Payments to affiliates | (140,988) |
| Contributions from noncontrolling interest | 20,339,342 |
| Net cash used in financing activities | (571,485) |
| Net increase in cash and cash equivalents | 1,460,608 |
| Cash and cash equivalents, beginning of year | 34,455,826 |
| Cash and cash equivalents, end of year | $ 35,916,434 |
| Supplemental disclosure of cash flow information: | |
| Interest paid | $ 6,241,573 |
| Noncash changes in due from others | $ 2,330,467 |
| Noncash changes in fixed assets, other liabilities, accounts payable and accrued expenses | $ 8,749,514 |

See accompanying notes to consolidated financial statements.

## (1) Organization

Catholic Charities, Diocese of Brooklyn (Catholic Charities) is a private, not-for-profit corporation, which provides a variety of social services throughout the boroughs of Brooklyn and Queens. Catholic Charities is the sole corporate member of the following organizations:

- Catholic Charities Neighborhood Services (CCNS is a not-for-profit corporation that also provides a variety of social services throughout the boroughs of Brooklyn and Queens. CCNS has experienced decreases in net assets for several years, and has an accumulated net deficit at June 30, 2017. CCNS has received internal grants and capital loans from Catholic Charities through June 30, 2017 and is economically dependent on Catholic Charities for financial support. Catholic Charities has committed to CCNS that it will provide financial support to CCNS sufficient for it to satisfy its obligations as they come due until December 1, 2018 and will satisfy, on a timely basis, all liabilities and obligations of CCNS that CCNS is unable to satisfy when due, through and including December 1, 2018.

- Progress of Peoples Management Corporation (POP Management), a not-for-profit organization, was organized for the purpose of providing management and operational services for low-income housing projects located in Brooklyn and Queens. POP Management derives most of its revenues from the fees earned for services provided to affiliated low-income housing projects.

- Catholic Charities Progress of Peoples Development Corporation (POP Development) is a not-for-profit organization whose primary function is to sponsor, arrange, and provide affordable housing to low-, moderate-, or middle-income residents, including the elderly. All properties are located in Brooklyn and Queens. POP Development wholly owns or controls the sole stockholder of 20 for-profit entities, collectively referred to as "General Partner Corporations." The General Partner Corporations have a minority interest in 19 limited partnerships. POP Development also controls 17 Not-For-Profit Housing Affiliates and 18 For-Profit Housing Affiliates (the Housing Affiliates). Support for POP Development comes primarily from developer fees.

- Pierrepont Charitable Fund (PCF) is a not-for-profit organization whose primary purpose is to assist in the support and funding of the activities of Catholic Charities.

- J. Jerome Reddy Foundation, Inc. (the Foundation) assists Catholic Charities in the fulfillment of its mission to the poor, dependent, handicapped, aged, families, and children in Brooklyn and Queens by leasing its property to senior citizen centers for various social activities, including meal programs.

- Saints Joachim & Anne Nursing and Rehabilitation Center (the Center) is a not-for-profit voluntary nursing home located in Brooklyn, New York. The Center is a skilled nursing facility with a 200-bed capacity. The Center's primary source of revenue is Medicaid.

General Partner Corporations comprise the following:

| Entity name | incorporated | Date formed | General partner |
|---|---|---|---|
| 55 Pierrepont Apartments Corp. | New York | August 22, 2011 | 55 Pierrepont LLC |
| Bedford-St. John's Associates, Inc. | New York | August 2, 2001 | 715 St. John's Place, LP |
| Bishop Boardman Apartments, Inc. | New York | May 17, 2005 | Bishop Boardman Senior Apartments, LP |
| Bishop Mugavero Apartments, Inc. | New York | May 17, 2005 | Bishop Francis J. Mugavero Senior Apartments, LP |
| Caring Supported Housing Managing Member Corporation (Managing Member) | New York | August 13, 2013 | Caring Supported Housing LLC |
| Caring Supported Housing Development Fund Corporation (Managing Member) | New York | October 17, 2013 | Caring Supported Housing LLC |
| Holy Spirit Apartments, Inc. | New York | May 17, 2005 | Holy Spirit Senior Apartments, LP |
| Howard Beach Housing Corporation | New York | August 19, 2011 | Howard Beach Apartments LLC |
| Jefferson Melrose Associates, Inc. | New York | August 25, 2003 | Wilson Avenue, LP |
| Mary Star of the Sea Apartments, Inc. | New York | May 17, 2005 | Mary Star of the Sea Senior Apartments, LP |
| Msgr. Burke Apartments, Inc. | New York | May 17, 2005 | Msgr. Edward Burke Senior Apartments, LP |
| Msgr. John O'Brien Apartments, Inc. | New York | May 17, 2005 | Msgr. John O'Brien Senior Apartments, LP |
| Msgr. Thomas Campbell Apartments, Inc. | New York | May 17, 2005 | Msgr. Thomas Campbell Senior Apartments, LP |
| O.L. Loreto Housing Corp. (Managing Member) | New York | October 25, 2010 | Loreto Preservation LLC |
| O.L. Loreto Housing Development Fund Corporation (Managing Member) | New York | November 30, 2010 | Loreto Preservation LLC |
| Pope John Paul II Apartments, Inc. | New York | May 17, 2005 | Pope John Paul II Senior Apartments, LP |
| Sr. Lucian Apartments, Inc. | New York | May 17, 2005 | Sr. Lucian Senior Apartments, LP |
| St. Brendan's Apartments, Inc. | New York | May 17, 2005 | St. Brendan's Senior Apartments, LP |
| Taaffe/Kent Associates, Inc. | New York | March 20, 1998 | 918 Kent Avenue, LP |
| Willoughby Classon Apartments, Inc. | New York | December 1, 1990 | Classon Avenue Housing Associates, LP |

The Not-For-Profit Housing Affiliates, whose primary purpose is affordable housing, comprise the following:

| Entity Name | State Incorporated | Date Formed / Acquired | Multi-family Residential Housing Property | Program |
|---|---|---|---|---|
| 101-105 South 8th Street HDFC | New York | June 24, 2008 | 25 units located in Brooklyn, New York | LIHPRA |
| 176 South 8th Street HDFC | New York | June 24, 2008 | 30 units located in Brooklyn, New York | LIHPRA |
| 72 Lewis Avenue Apartments HDFC | New York | January 28, 2008 | 36 units located in Brooklyn, New York | LIHPRA |
| Bellerose HDFC | New York | July 27, 1989 | 50 units located in Brooklyn, New York | Section 202 of the National Housing Act |
| Caring Communities Associates HDFC | New York | April 19, 1993 | N/A | N/A |
| Casa Betsaida HDFC | New York | June 1, 2002 | 27 units located in Brooklyn, New York | N/A |
| Catherine Sheridan HDFC | New York | April 18, 2002 | 240 units located in Queens, New York | Section 207 pursuant to Section 223(f) of the National Housing Act |
| David Minkin HDFC | New York | September 15, 1995 | 100 units located in Brooklyn, New York | Section 202 of the National Housing Act |
| Msgr. Stedman HDFC | New York | September 23, 1997 | 88 units located in Brooklyn, New York | Section 202 of the National Housing Act |
| Mt. Carmel HDFC | New York | August 2, 2001 | 68 units located in Brooklyn, New York | Section 202 of the National Housing Act |
| Our Lady of Fatima HDFC | New York | January 24, 1994 | 93 units located in Queens, New York | Section 202 of the National Housing Act |
| Pierrepont HDFC | New York | November 8, 2000 | N/A | N/A |
| Pierrepont House for the Elderly | New York | August 1979 | N/A | N/A |
| St. Paul the Apostle HDFC | New York | February 10, 2000 | 86 units located in Brooklyn, New York | Section 202 of the National Housing Act |
| St. Pius V HDFC | New York | September 23, 1997 | 70 units located in Queens, New York | Section 202 of the National Housing Act |
| St. Theresa of Avila HDFC | New York | February 8, 2002 | 64 units located in Brooklyn, New York | Section 202 of the National Housing Act |
| Sunset Park HDFC | New York | September 1, 1979 | 16 units located in Brooklyn, New York | Section 202 of the National Housing Act |

The For-Profit Housing Affiliates, whose primary purpose is affordable housing, comprise the following:

| Entity name | State incorporated | Date formed/ acquired | Multifamily residential housing property | Program |
|---|---|---|---|---|
| 55 Pierrepont LLC | New York | December 22, 2011 | 188 units located in Brooklyn, New York | Section 8 of the National Housing Act and Section 42 of the Internal Revenue Code |
| 715 St. John's Place, LP | New York | August 15, 2001 | 31 units located in Brooklyn, New York | Section 42 of the Internal Revenue Code |
| 918 Kent Avenue, LP | New York | March 20, 1998 | 47 units located in Brooklyn, New York | Section 42 of the Internal Revenue Code |
| Bishop Boardman Senior Apartments, LP | New York | May 17, 2005 | 200 units located in Brooklyn, New York | Section 8 of the National Housing Act and Section 42 of the Internal Revenue Code |
| Bishop Francis J. Mugavero Senior Apartments, LP | New York | May 17, 2005 | 85 units located in Brooklyn, New York | Section 8 of the National Housing Act and Section 42 of the Internal Revenue Code |
| Caring Supported Housing LLC | New York | August 13, 2013 | 215 units located in Brooklyn, New York | Section 42 of the Internal Revenue Code |
| Classon Avenue Housing Associates, LP | New York | November 1990 | 79 units located in Brooklyn, New York | Section 42 of the Internal Revenue Code |
| Holy Spirit Senior Apartments, LP | New York | May 17, 2005 | 51 units located in Brooklyn, New York | Section 8 of the National Housing Act and Section 42 of the Internal Revenue Code |
| Howard Beach Apartments, LLC | New York | August 3, 2011 | 96 units located in Howard Beach, New York | Section 8 of the National Housing Act and Section 42 of the Internal Revenue Code |
| Loreto Preservation LLC | New York | October 29, 2008 | 64 units located in Brooklyn, New York | Section 42 of the Internal Revenue Code |
| Mary Star of the Sea Senior Apartments, LP | New York | May 17, 2005 | 101 units located in Brooklyn, New York | Section 8 of the National Housing Act and Section 42 of the Internal Revenue Code |
| Msgr. Edward T. Burke Senior Apartments, LP | New York | May 17, 2005 | 51 units located in Brooklyn, New York | Section 8 of the National Housing Act and Section 42 of the Internal Revenue Code |
| Msgr. John P. O'Brien Senior Apartments, LP | New York | May 17, 2005 | 113 units located in Brooklyn, York | Section 8 of the National Housing Act and Section 42 of the Internal Revenue Code |
| Msgr. Thomas Campbell Senior Apartments, LP | New York | May 17, 2005 | 73 units located in Brooklyn, New York | Section 8 of the National Housing Act and Section 42 of the Internal Revenue Code |
| Pope John Paul II Senior Apartments, LP | New York | May 17, 2005 | 61 units located in Brooklyn, New York | Section 8 of the National Housing Act and Section 42 of the Internal Revenue Code |
| Sr. Lucian Senior Apartments, LP | New York | May 17, 2005 | 150 units located in Brooklyn, New York | Section 8 of the National Housing Act and Section 42 of the Internal Revenue Code |
| St. Brendan's Senior Apartments, LP | New York | May 17, 2005 | 121 units located in Brooklyn, New York | Section 8 of the National Housing Act and Section 42 of the Internal Revenue Code |
| Wilson Avenue, LP | New York | December 11, 2003 | 85 units located in Brooklyn, New York | Section 42 of the Internal Revenue Code |

## (2) Summary of Significant Accounting Policies

### *(a) Consolidation*

The consolidated financial statements include Catholic Charities, CCNS, PCF, the Foundation, the Center, POP Management, POP Development, the Housing Affiliates, and the General Partner Corporations (collectively, the Organization).

Additionally, the consolidated financial statements include the accounts of 18 limited partnerships in which the General Partner Corporations have a controlling interest. These entities are included in the consolidation in accordance with the accounting standards for determining whether a general partner, or the general partners as a group, controls a limited partnership or similar entity when the limited partners have certain rights. In accordance with the accounting standards, management determined that the presumption of control for the limited partnerships in which POP Development owns in the general partners had not been overcome, and as a result, the Organization is required to consolidate the financial statements of those limited partnerships.

All material intercompany transactions and balances have been eliminated in consolidation.

### *(b) Basis of Accounting*

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting.

### *(c) Basis of Presentation*

The Organization's net assets and revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions as follows:

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

*Unrestricted net assets – noncontrolling interest in limited partnerships* – In accordance with the adoption of Accounting Standards Codification (ASC) Topic 810-10-65-1, *Transition Related to FASB Statement No. 160, Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51*, this represents the aggregate balance of limited partnership/member equity interest (both positive and any negative amounts) in nonwholly owned limited partnerships that are included in the consolidated financial statements.

*Temporarily restricted net assets* – Net assets subject to donor-imposed stipulations that will be met either by actions of the Organization and/or by the passage of time.

*Permanently restricted net assets* – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes.

Revenues are reported as increases in unrestricted net assets unless their use is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

***(d) Accounting Estimates***

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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 these estimates. Significant items subject to such estimates and assumptions include the allocation of expenses between program and supporting services; the useful lives of fixed assets; the determination of uncollectible receivables; the adequacy of program liabilities; and the evaluation of other contingencies.

***(e) Cash and Cash Equivalents***

All highly liquid investments, including money market funds and certificates of deposit, with original maturities of three months or less when purchased are considered to be cash equivalents, except for those held in escrow (Note 6) and those amounts managed as a component of the Organization's investment portfolio.

Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. At June 30, 2017, accounts at various institutions are in excess of the FDIC insured limits.

***(f) Surplus Cash and Residual Receipts***

Many of the Organization's nonprofit housing affiliates and limited partnerships are subject to U.S. Department of Housing and Urban Development (HUD) regulatory agreements, which restrict the use of the property and limit the use of project cash. Under these regulatory agreements, many of the subsidiaries are precluded from receiving any distributions of operating cash. A surplus cash calculation is required to be prepared annually and any surplus cash, as defined, is required to be deposited in a residual receipts account controlled by HUD. The existing deposits to this account at June 30, 2017 (which includes all prior required contributions less withdrawals) are included in restricted deposits and funded reserves on the accompanying consolidated statement of financial position.

***(g) 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. The Financial Accounting Standards Board (FASB) guidance on fair value measurements establishes a hierarchy, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are as follows:

Level 1 Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date.

Level 2 Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3 Inputs that are unobservable for the asset or liability.

The Organization follows the measurement provisions of Accounting Standards Update (ASU) No. 2009-12, *Fair Value Measurement and Disclosures* (Topic 820): *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, which, as a practical expedient, allows for the estimation of fair value of investments in investment companies for which the investment does not have a readily determinable fair value using net asset value per share or its equivalent as reported by the investment managers. In addition, because the net asset value reported by each fund is used as a practical expedient to estimate the fair value of the Organization's interest therein, its classification as Level 2 or 3 is based on the Organization's ability to redeem its interest at or near the date of the consolidated statement of financial position.

### *(h) Fair Value of Financial Instruments*

The carrying amount of the Organization's short term financial instruments approximate fair value because of the short maturity of these financial instruments. These financial instruments involve unobservable inputs considered to be Level 3 in the fair value hierarchy. The fair value of investments, amounts held for others, amounts held by others, restricted deposits and funded reserves, and beneficial interest in charitable trust is disclosed in Note 4.

The Organization invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated statement of financial position.

Management believes it is impracticable to estimate the fair value of its loans, mortgage, and notes payable associated with POP Management and POP Development since loans with similar terms are not at market rate and not currently available as these are insured under various government programs. The carrying amount of the long-term debt of the remaining entities approximates fair value because these financial instruments bear interest at various rates, which, when averaged, are not significantly different from current market rates for loans with similar maturities and credit quality.

### *(i) Accounts Receivable and Bad Debts*

Accounts receivables are charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of the accounts by management. Accounting principles generally accepted in the United States of America require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

### *(j) Contributions*

Contributions, which include unconditional promises to give, if any, are recognized as revenues in the period received. Conditional promises to give, if any, are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions receivable relate primarily to receivables from bequests and the fund-raising humanitarian dinner and are recorded at fair value utilizing a risk-adjusted rate. Contributions receivable are scheduled to be collected in the next year and are recorded at net realizable value.

### *(k) Fixed Assets*

Fixed assets are stated at cost less accumulated depreciation and amortization, computed using the straight-line method. Leasehold improvements are amortized using the straight-line method over the life of the lease or useful life of the asset, whichever is shorter. Furniture and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. The resulting gains and losses are reflected in the consolidated statements of activities and changes in net assets.

Depreciation is provided using the straight-line method over the estimated useful lives of the assets as follows:

| | |
|---|---|
| Buildings and building improvements | 5–40 years |
| Equipment | 5–25 years |
| Furniture and fixtures | 3–25 years |
| Leased equipment | 4–5 years |

### *(l) Predevelopment Costs*

The Organization incurs costs in connection with properties it is considering for development as well as costs associated with properties in the initial stages of development. These costs include such items as market studies, purchase options, environmental study cost, legal, and accounting costs. These costs are capitalized and recorded as predevelopment project costs until such time as the project either is abandoned or becomes an approved project with independent funding sources. Predevelopment project costs are charged to operations at either the time a potential project is no longer considered desirable or feasible, or the project has incurred excess development costs, which are absorbed by the Organization and charged to operations per terms of the related partnership agreement. Predevelopment project costs related to projects that are ultimately developed are recorded as receivables.

### *(m) Impairment of Long-Lived Assets*

The Organization reviews its rental property for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. When recovery is reviewed, if the undiscounted cash flows estimated to be generated by the property are less than its carrying amount, management compares the carrying amount of the property to its fair value in order to determine whether an impairment loss has occurred. The amount of the impairment loss is equal to the excess of the asset's carrying value over its estimated fair value. No impairment loss has been recognized during the year ended June 30, 2017.

***(n) Debt Issuance Costs***

Debt issuance costs, net of accumulated amortization, are reported as a direct deduction from the face amount of the mortgage loan payable to which such costs relate. Amortization of debt issuance costs is reported as a component of interest expense and is computed using an imputed interest rate on the related loan.

***(o) Revenue Recognition***

Grants and contracts from government agencies are recognized as the related costs are incurred. Amounts received in advance are reported as program advances.

Revenue from service fees provided under contract or other regulations with various government agencies may be subject to predetermined budgets or provisional rates. Amounts reported as revenue and receivables from governmental and third-party reimbursements are subject to possible adjustment after audit. Amounts related to the third-party reimbursement and/or settlements are reported as program liabilities in the accompanying consolidated statement of financial position. Management is of the opinion that adjustments, if any, resulting from any audit will not be material to the Organization's consolidated financial statements.

CCNS recognized rate adjustments of approximately $7,229,859 reported in service fees from third-party reimbursements in the fiscal year ended June 30, 2017.

The above represents People First Community Service Fund (PFCSF) money. PFCSF is money provided based on an OPWDD surplus/loss calculation losses due to the delayed implementation of Rate Rationalization. CCNS IRA and Day Habilitation Waiver programs were funded via a contract. The ICF program was funded via its rate. Wavier program funds processed and disbursed in December 2016 totaled $3,096,766 and the funds were for the contract period July 1, 2014 through June 30, 2016, while the ICF program processed and disbursed totaled $4,133,093 in November 2016 for the rate period July 1, 2014 through September 30, 2016.

Rental income is recognized as income on the accrual basis as it is earned. Advance receipts of rental income are deferred and classified as liabilities until earned. All leases between the properties and tenants are considered to be operating leases.

Development and builder fees are recognized as income in the year earned based on the percentage-of-completion method, taking into account the total anticipated development costs of the related project and the completion, tax credit, and operating deficit guarantee obligations of POP Development to the respective limited partnerships. The unearned portion is deferred and included in other liabilities on the accompanying consolidated statement of financial position.

The Center's resident service revenues are reported at the estimated net realizable amount from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Revenue is recognized when services are performed. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Laws and regulations governing the healthcare programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Additionally, noncompliance with such laws and regulations could result in fines, penalties, and exclusion from the Medicare and Medicaid programs.

The majority of patient services are reimbursed by Medicaid. Accordingly, the Center is highly dependent on the Medicaid reimbursement system. The Center grants credit without collateral to its patients, most of whom reside within its nursing home facility and are insured under third-party payor agreements.

### *(p) Contributed Goods and Services*

The Organization uses rent-free facilities at certain program locations. The fair value of the in-kind rent is reflected as support and occupancy cost. Total contributed rent for the year ended June 30, 2017 was $1,940,847.

Contributed services of $785,957 have been reflected in the consolidated statements of activities and changes in net assets. The computation of these services represents the difference between the compensation that would have been paid to the volunteer and the comparable compensation that would be paid if an employee were to hold these positions. The Organization also received other contributed in-kind contributions of food, clothing, transportation, and consulting services of $1,648,421 in 2017.

### *(q) Amounts Held for Others*

Amounts held for others include amounts held for residents in the intermediate care facilities, independent residences assistance, and the community residences programs. The account is primarily cash, funded by social security checks for the residents, which is used to fund the personal needs of the residents and to reimburse CCNS for general costs associated with the maintenance of the residents.

### *(r) Annuities Payable*

Charitable gift annuities are recorded at the date the assets are received after recording liabilities for the actuarial present value of the estimated payments to be made to donors and/or other beneficiaries. Such contributions are recorded as increases in temporarily restricted net assets, if received with donor restrictions. The liabilities are adjusted annually for changes in the value of the assets and changes in the estimates for future benefits. The change in value of split-interest agreements is recorded in contributions in the accompanying consolidated statements of activities and changes in net assets.

### *(s) Functional Allocation of Expenses*

The cost of providing programs by the Organization has been summarized on a functional basis in the accompanying consolidated financial statements. Accordingly, expenses have been charged to program and supporting services based on direct expenses and other specific allocation methods.

### *(t) Tax Status*

Catholic Charities, CCNS, PCF, the Foundation, the Center, POP Development, POP Management, and the Not-For-Profit Housing Affiliates are classified as tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code. As not-for-profit organizations, these entities are also exempt from New York State and New York City income and sales taxes. The Organization recognizes the effects of income tax positions only if those positions are more likely than not to be sustained. The Organization has evaluated its tax positions and has determined there are no significant uncertain tax positions and that it will continue to be exempt from taxes.

For CCNS, PCF, the Foundation and the Center, federal and state income tax returns prior to fiscal year 2014 are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax laws and new authoritative rulings.

Catholic Charities has determined that there are no material uncertain tax positions that require recognition or disclosure in the consolidated financial statements. Periods ending June 30, 2014 and subsequent remain subject to examination by applicable taxing authorities. If the Organization is selected for examination, the Internal Revenue Service (the IRS) can add an additional three year period to the examination; therefore, periods ending June 30, 2011 and subsequent remain subject to examination by applicable taxing authorities.

POP Development, POP Management and the Not-For-Profit Housing Affiliates have applied for and received a determination letter from the IRS to be treated as tax exempt entities pursuant to Section 501(c)(3) of the Internal Revenue Code and did not have any unrelated business income for the year ended June 30, 2017. Due to their tax exempt status, the POP Development, POP Management and the Not-For-Profit Housing Affiliates are not subject to income taxes. POP Development, POP Management and the Not-For-Profit Housing Affiliates are required to file and do file tax returns with the IRS and other taxing authorities. Accordingly, these financial statements do not reflect a provision for income taxes and the POP Development, POP Management, and the Not-For-Profit Housing Affiliates have no other tax positions which must be considered for disclosure. The POP Development, POP Management and the Not-For-Profit Housing Affiliates are no longer subject to U.S. federal, state, or local income tax examinations by tax authorities for years before 2014.

The For-Profit Housing Affiliates have elected to be treated as pass-through entities for income tax purposes and, as such, are not subject to income taxes. Rather, all items of taxable income, deductions and tax credits are passed through to and are reported by the owners on their respective income tax returns. The For-Profit Housing Affiliates' federal tax status as pass-through entities is based on their legal status as partnerships or limited liability companies. Accordingly, the For-Profit Housing Affiliates are not required to take any tax positions in order to qualify as pass-through entities. The For-Profit Housing Affiliates are required to file and do file tax returns with the IRS and other taxing authorities. Accordingly, these consolidated financial statements do not reflect a provision for income taxes and the Housing Affiliates have no other tax positions which must be considered for disclosure. The For-Profit Housing Affiliates are no longer subject to U.S. federal, state, or local income tax examinations by tax authorities for years before 2014.

The General Partner Corporations operate as C corporations and are not exempt from income taxes. The General Partner Corporations account for income taxes in accordance with the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for temporary differences between financial statement and income tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. A valuation allowance is established when necessary to reduce deferred tax assets to the amount expected to be realized. No taxable income was reported by the General Partner Corporations as of June 30, 2017, and no temporary differences between financial statement and income tax bases of assets or liabilities which are required to be reported existed at June 30, 2017. Accordingly, the consolidating financial statements do not reflect a provision for income taxes or deferred tax assets or liabilities, and the General Partner Corporations have no other tax positions which must be considered for disclosure. The General Partner Corporations are no longer subject to U.S. federal, state, or local income tax examinations by tax authorities for years before 2014.

### *(u) Change in Accounting Principle*

During 2017, the Organization adopted the provisions of ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs ("ASU 2015-03"), which modifies the presentation of debt issuance costs and the related amortization. The change in accounting under ASU 2015-03 improves the reporting of debt issuance costs by no longer reporting them as assets. It also improves the reporting of the related amortization by including it as a component of interest expense. ASU 2015-03 has been adopted by the Organization, its subsidiaries and its affiliates on a retrospective basis.

## (3) Related-Party Transactions

The Organization transacts business on behalf of and with other affiliated agencies of the Roman Catholic Diocese of Brooklyn (the Diocese.) It has availed itself of services provided by such related organizations, including the rental of facilities, insurance, and pension. In addition, the Organization provides certain administrative services to related entities for which it is reimbursed. Amounts due from and to affiliated agencies at June 30, 2017 consist of the following:

| | | |
|---|---|---|
| Due from affiliated agencies: | | |
| Mary’s Hall, Inc. | $ | 577,281 |
| Other affiliates | | 54,503 |
| | $ | 631,784 |
| Due to affiliated agencies: | | |
| Mary’s Hall, Inc. | $ | 3,800,000 |
| Roman Catholic Diocese of Brooklyn | | 9,217,120 |
| | $ | 13,017,120 |

In 2017, the Organization received a grant from Mary's Hall, Inc., an affiliated agency, totaling $19,087, and a subsidy grant from the Diocese , an affiliated agency, for $1,100,000. In 2012, the Organization provided contributions and grants to affiliated agencies in the amount of $3,813,256. This included a $3,800,000 related-party note receivable that was assigned to Mary's Hall, Inc. The note does not bear interest and is due on December 22, 2051. There are no payments required until the maturity date.

In 2011, Catholic Charities entered into an agreement with the Diocese to purchase the property in Brooklyn for $12,350,000. Prior to 2011, Catholic Charities leased the premises for $1 per year. Catholic Charities paid the Diocese $1,350,000 at closing and paid the Diocese $1,000,000 on both January 2, 2012 and 2013. In addition, Catholic Charities entered into a mortgage note with the Diocese for the remaining $9,000,000. The mortgage note required monthly interest payments of $45,833 through January 2, 2014, at which time payments of principal and interest of $275,000 were required semiannually through July 1, 2059. In addition, the purchase sale agreement gives the Diocese the right to repurchase the property for $1 at the end of the agreement. The interest rate on the note approximates 6%. At June 30, 2017, the Organization had approximately $8,941,050 outstanding on the mortgage note.

## (4) Investments

The following table represents the Organization's fair value hierarchy for those assets measured at fair value as of June 30, 2017:

| | Fair Value | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Cash and cash equivalents | $ 2,647,039 | $ 2,647,039 | $ — | $ — |
| Equities: | | | | |
| Domestic equities | 26,945,952 | 26,945,952 | — | — |
| Fixed income: | | | | |
| U.S. Treasury securities | 2,763,995 | — | 2,763,995 | — |
| U.S. agency securities | 7,267,439 | — | 7,267,439 | — |
| Corporate bonds and mortgages | 5,381,941 | — | 5,381,941 | — |
| Mortgage securities | 617,965 | — | 617,965 | — |
| U.S. mutual funds | 602,083 | — | 602,083 | — |
| Alternative investments: | | | | |
| Special Holdings | 452 | — | 452 | — |
| Total investments | $ 46,226,866 | $ 29,592,991 | $ 16,633,875 | $ — |
| Amounts held for others | $ 791,662 | $ 791,662 | $ — | $ — |
| Amounts held by others | 1,004,483 | — | — | 1,004,483 |
| Restricted deposits and funded reserves | 40,728,881 | 40,728,881 | — | — |
| Beneficial interest in charitable trust | 4,245,698 | — | — | 4,245,698 |

The following table presents the Organization's activity for the financial instruments classified as Level 3 within the fair value hierarchy for the year ended June 30, 2017:

| | Level 3 assets |
|---|---|
| Beginning balance | $ 5,014,216 |
| Net appreciation in fair value of investments | 235,965 |
| Ending balance | $ 5,250,181 |

The composition of investment return for the year ended June 30, 2017 is as follows:

| | |
|---|---|
| Interest and dividends, net | $ 1,757,088 |
| Realized gains, net | 1,528,475 |
| Unrealized gains, net | 2,435,363 |
| | $ 5,720,926 |

## (5) Fixed Assets, Net

Fixed assets, net at June 30, 2017 are summarized as follows:

| | | |
|---|---|---|
| Land | $ | 31,921,219 |
| Buildings and building improvements | | 385,163,146 |
| Furniture and equipment | | 12,470,667 |
| Leasehold improvements | | 9,358,965 |
| | | 438,913,997 |
| Less accumulated depreciation and amortization | | 122,956,227 |
| | | 315,957,770 |
| Construction in progress | | 8,566,826 |
| Fixed assets, net | $ | 324,524,596 |

Construction in progress includes costs associated with renovations of various sites. One of the sites in Coney Island, Brooklyn, is in the final construction phase. Total costs are expected to amount to approximately $15,903,600. Management estimates completion of the project to be in the winter of 2018.

## (6) Cash Held in Escrow and Restricted Deposits

The Organization has received funds for the renovation of one of its mental health sites. These funds were advanced through the Office of Mental Health of the State of New York and are being administered by an escrow agent. The balance of these funds as of June 30, 2017 of $244,608, is included as cash held in escrow for construction in the accompanying consolidated statement of financial position. This transaction is accounted for as an agency transaction.

The Organization also has restricted deposits and funded reserves of $40,728,881 as of June 30, 2017, which primarily represent mortgage escrows, replacement reserves, and operating deficit reserves. The escrows and replacement reserves are held by the mortgage lender for the majority of the partnerships and are invested in cash and cash equivalents. The operating deficit reserves are generally required by the partnership agreements and are invested in cash and cash equivalents.

## (7) Pension Plan

### *(a) Defined Benefit Plan*

Prior to October 1, 2014, the Organization provided pension benefits to eligible employees through the Pension Plan of Roman Catholic Diocese of Brooklyn (the Diocesan Plan), a multi-employer defined benefit plan.

Effective October 1, 2014, the Organization established the Catholic Charities Diocese of Brooklyn and Queens Pension Plan (the CCBQ Pension Plan) to assume the assets and liabilities in connection with the provision of retirement benefits to current and former employees who previously accrued retirement benefits under the Diocesan Plan. The plan qualifies as a "church plan" as defined and is not subject to the provisions of the Department of Labor (the DOL) or the Employee Retirement Income Security Act of 1974 (ERISA). On October 1, 2014, Catholic Charities withdrew from the Diocesan Plan and froze the CCBQ Pension Plan.

The following sets forth the plan's funded status as of June 30, 2017 from the most recent actuarial study, which was prepared for the July 1, 2017 plan year. The changes in the benefit obligation and fair value of plan assets, the funded status of the plan, the components of net periodic pension cost and the assumptions used in the measurement of the CCBQ Pension Plan benefit obligation are as follows:

| | | |
|---|---|---|
| Change in Benefit Obligation: | | |
| Projected Benefit Obligation at the Beginning of the Year | $ | 154,116,706 |
| Service Cost | | - |
| Interest Cost | | 5,209,686 |
| Actuarial gain | | (9,211,819) |
| Benefits Paid | | (5,296,222) |
| Projected Benefit Obligation at the End of the Year | $ | 144,818,351 |
| | | |
| Change in Fair Value of Plan Assets: | | |
| Fair Value of Plan Assets at the Beginning of the Year | $ | 76,895,582 |
| Actual Return on Plan Assets | | 8,390,163 |
| Employer contributions | | 2,059,879 |
| Benefits Paid | | (5,296,222) |
| Fair Value of Plan Assets at the End of the Year | $ | 82,049,402 |
| | | |
| Funded Status: | | |
| Unfunded Status of Plan, which is included in Other Liabilities in the consolidated statement of financial position | $ | 62,768,949 |

The 2017 net periodic pension cost included the following components:

| | | |
|---|---|---|
| Service Cost | $ | - |
| Interest Cost | | 5,209,686 |
| Expected Return on Assets | | (4,876,510) |
| Amortization of net loss | | 197,303 |
| Net Periodic Pension Cost | $ | 530,479 |

Total amount recognized in unrestricted net assets consists of the following:

| | | |
|---|---|---|
| Net gain | $ | 12,725,474 |

The accumulated benefit obligation totaled $144,818,351 at June 30, 2017.

Total amount recognized in the consolidated statements of activities and changes in net assets consists of net periodic pension costs of $530,479 which is included in general and administration expense in the consolidated statements of activities and changes in net assets.

The CCBQ Pension Plan assets are measured at fair value on a recurring basis. Fair value is defined as the price that would be received to sell an asset in an ordinary transaction between market participants at the measurement date.

Plan assets as of June 30, 2017 were as follows:

| | Fair Value | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Cash and Cash Equivalents | $ 954,324 | $ 954,324 | $ — | $ — |
| Mortgage Securities | 404,682 | — | 404,682 | — |
| U.S. Government Agencies | 17,260,895 | — | 17,260,895 | — |
| Domestic Corporate Bonds | 8,575,907 | — | 8,575,907 | — |
| Common Stock | 53,165,619 | 53,165,619 | — | — |
| Short Term Funds | 1,687,975 | — | 1,687,975 | — |
| Total investments | $ 82,049,402 | $ 54,119,943 | $ 27,929,459 | $ — |

Long term investment objectives are to maintain plan assets that will assist in covering long term obligations and to generate a return on plan assets sufficient to off-set the growth of obligations.

A diversified portfolio and various risk management techniques are used to achieve these objectives.

The discount rate used in determining the actuarial present value of the projected benefit obligation was 3.76% as of June 30, 2017. The expected long term return on plan assets was 6.50% in fiscal year 2017. The discount rates were selected to reflect the interest rate environment at the respective measurement dates. The expected long term rate of return assumptions were selected to represent reasonable expectations of future experience. The plan utilizes the RP-2014 mortality table.

Plan benefits anticipated to be made by Catholic Charities are as follows:

| | |
|---|---|
| 2018 | $ 5,709,089 |
| 2019 | 5,917,626 |
| 2020 | 6,104,007 |
| 2021 | 6,351,553 |
| 2022 | 6,651,349 |
| 2023-2027 | 37,586,042 |

Plan contributions anticipated to be made in 2017 amount to $1,700,000.

***(b) 1199SEIU Health Care Employees Pension Fund***

Union employees are covered by a pension plan administered by the union, 1199SEIU Health Care Employees Pension Fund (the Union Plan). Total pension costs for the year ended June 30, 2017 related to union employees were approximately $751,000.

The Employee Identification Number (EIN)/three-digit Pension Plan number is 13-3604862/001. The most recent Pension Protection Act of 2006 zone status is green at December 31, 2016 which is for the plan year ended December 31, 2016. The zone status is based on information that the Center received from the plan's sponsor and, as required by the PPA, is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded.

During the year ended June 30, 2017, the collective bargaining agreement requiring contributions to the Plan was extended through September 30, 2017.

The following table presents information about the Union Plan at December 31, 2016:

| | Fair Value | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Cash and Cash Equivalents | $ 954,324 | $ 954,324 | $ — | $ — |
| Mortgage Securities | 404,682 | — | 404,682 | — |
| U.S. Government Agencies | 17,260,895 | — | 17,260,895 | — |
| Domestic Corporate Bonds | 8,575,907 | — | 8,575,907 | — |
| Common Stock | 53,165,619 | 53,165,619 | — | — |
| Short Term Funds | 1,687,975 | — | 1,687,975 | — |
| Total investments | $ 82,049,402 | $ 54,119,943 | $ 27,929,459 | $ — |

### *(c) 403(b) Pension Plan*

Concurrent with the freezing of the CCBQ Pension Plan, Catholic Charities established the Catholic Charities Brooklyn and Queens Retirement 403(b) Plan (the Catholic Charities 403(b) Plan), a defined contribution retirement plan. The 403(b) plan qualifies as a "church plan" as defined and is not subject to provisions of the DOL or ERISA.

All eligible qualifying employees participate in the Catholic Charities 403(b) Plan. Eligible employees may also make an elective salary contribution to the Catholic Charities 403(b) Plan. For all eligible employees, Catholic Charities makes a non-elective contribution of various percentages to the Catholic Charities 403(b) Plan. The total amount of each eligible employee's contribution in the Catholic Charities 403(b) Plan may not exceed $18,000 in 2017. In addition, employees over the age of 50 are subject to a catch-up provision, which allows an additional contribution amount not to exceed $6,000, for a total contribution amount of $24,000. Catholic Charities makes a matching contribution equal to the employee's salary reduction not to exceed 1% of the employee's compensation.

## (8) Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following programs or purposes at June 30, 2017:

| | |
|---|---|
| Family Services | $ 232,593 |
| Early Childhood Services | 161,956 |
| Behavioral Health Services | 348,255 |
| Older adult services | 164,671 |
| Services for People with Developmental Disabilities | 12,141 |
| Comprehensive Human Services | 6,204,914 |
| Disaster relief funds | 581,195 |
| Children and youth services | 578,103 |
| Parish and communities | 693,389 |
| Office for disabled persons | 36 |
| Nursing scholarships | 24,792 |
| Low-income housing | 1,271,622 |
| Appreciation on endowment not yet appropriated | 483,129 |
| | $ 10,756,796 |

Catholic Charities is the beneficiary of The Domenica Amelia Arra Carrella Charitable Trust for the Benefit of the Catholic Charities of the Diocese of Brooklyn (the Trust). Income from the Trust is distributed annually for a maximum period of 25 years unless the trustees terminate the Trust and distribute all of the principal and income beforehand. Upon such termination of the Trust, all principal and undistributed net income shall be distributed to Catholic Charities. Distributions of income from the Trust are reported as investment income on the consolidated statements of activities and changes in net assets. The corpus of the trust fund is administered by JPMorgan Chase Bank as co-trustee. Catholic Charities has reported the fair value of the contribution receivable from the Trust of $4,245,698 at June 30, 2017, as temporarily restricted net assets in the accompanying consolidated financial statements. The Trust is restricted for purposes of comprehensive human services. Changes in the fair value of the Trust are reported as temporarily restricted gains or losses.

### *Net Assets Released from Donor Restrictions*

Temporarily restricted net assets are released from donor restrictions by incurring expenses satisfying the restricted purposes, by the occurrences of events specified by the donor, or by changes in restrictions specified by the donor. Amounts released during the year ended June 30, 2017 are summarized as follows:

| | |
|---|---|
| Family Services | $ 282,806 |
| Early Childhood Services | 24,613 |
| Behavior Health Services | 61,500 |
| Comprehensive Human Services | 933,459 |
| Children and youth services | 271,784 |
| Disaster relief funds | 97,035 |
| Parish and communities | 40,000 |
| | $ 1,711,197 |

## (9) Commitments and Contingencies

### *(a) Operating Leases*

CCNS conducts most of its operations from leased premises. Rent expense for CCNS (exclusive of contributed rent) for the year ended June 30, 2017 was $6,259,130.

The aggregate minimum annual rental commitments for CCNS are as follows:

| | | |
|---|---|---|
| 2018 | $ | 3,953,984 |
| 2019 | | 4,155,518 |
| 2020 | | 3,881,984 |
| 2021 | | 2,907,721 |
| 2022 | | 2,219,232 |
| Thereafter | | 4,958,720 |
| | $ | 22,077,159 |

Catholic Charities also leases property for its family centers. Total rental expense for these lease arrangements amounted to $264,663 for the year ended June 30, 2017. The aggregate minimum annual rental commitment under these agreements is $137,206 for the year ending June 30, 2018.

### *(b) Operating Deficit Guarantee/Operating Deficit Loan Guarantee*

**Operating Deficit Guarantee**

If, at any time after the Completion Date, as defined, an operating deficit exists, then the General Partners (100% owned by POP Development) for certain For-Profit Housing Affiliates shall contribute funds (an Operating Deficit Contribution) to the partnerships as a contribution to capital in an amount equal to the amount of the Operating Deficit. The General Partners' obligation shall be unlimited through the Stabilization Date, as defined. The obligation of the General Partners to make Operating Deficit Contributions shall terminate on the date that the following have occurred simultaneously: (i) the project has operated at breakeven for at least three (3) consecutive calendar years following the Stabilization Date of the project and (ii) the balance in the Operating Reserve equals or exceeds the minimum required per the partnership agreements. The General Partners' obligation to make Operating Deficit Contributions after the Stabilization Date, which is not funded from the Operating Reserve, shall be limited to $1,495,000.

If, at any time during the period beginning upon the date Breakeven Operations is achieved and ending on the date on which Breakeven Operations are maintained over 12-month periods on an annual basis for three years of which at least two years shall be consecutive, an Operating Deficit exists, the Managing Members (100% owned by the POP Development) for Howard Beach Apartments, LLC shall provide such funds to the company as necessary to pay such Operating Deficits, provided however, that the Managing Members shall not be obligated to provide more than $853,509, plus amounts repaid as Operating Deficit Loans, in the aggregate. Any such funds provided after the achievement of Breakeven Operations shall be in the form of a noninterest-bearing loan to the company. As of the date of this report no amounts have been funded under this guarantee.

If, at any time during the period beginning upon the date Breakeven Operations, as defined, is achieved and ending on the date on the later of (i) the fifth anniversary of such date, and (ii) the company achieving the required Debt Coverage Ratio, as defined, for the final two years during such period, an Operating Deficit exists, the Managing Members (100% owned by the corporation) for Loreto Preservation LLC shall provide such funds to the company as necessary to pay such Operating Deficits provided however, that the Managing Member shall not be obligated to provide more than $436,200. As of the date of this report, no amounts have been funded under this guarantee.

**Operating Deficit Loan Guarantee**

If, at any time prior to the date that all of the conditions for the Investor Member's Final Installment are satisfied (Period 1), an Operating Deficit exists, the Managing Member (100% owned by the POP Development) for 55 Pierrepont LLC shall fund the Operating Deficit without limitation as to amount through Operating Deficit Loans. At any time during a minimum of five years after Period I until dissolution and liquidation of the company, the Managing Member's obligation to fund Operating Deficits through Operating Deficit Loans shall continue in an additional amount (but not reduced by any Operating Deficit Loans made in Period 1) not to exceed $1,813,429 in the aggregate. If, after the five years have passed, the company has maintained the required debt service coverage ratio, as defined, for a 12-month period, the Managing Member's obligation to fund guarantees will expire. As of the date of this report no amounts have been funded under this guarantee.

If, at any time during the period beginning upon the date Breakeven Operations, as defined, is achieved and ending on the date on the later of i) the third anniversary of such date, and ii) final closing, as defined, an Operating Deficit exists, the Managing Members for Caring Supported Housing LLC shall provide such funds in the form of an operating deficit loan to the company as necessary to pay such Operating Deficits, provided however, that the Managing Member shall not be obligated to provide more than $1,503,851 and only to the extent there are no funds in the operating reserve or other reserve accounts, as defined. As of the date of this report, no amounts have been funded under this guarantee.

***(c) POP Development Guarantees***

POP Development and its general partners assume the normal risks and responsibilities of a general partner. POP Development and several of the general partners have provided certain guarantees to several investee partnerships as follows:

**Tax Contribution Guarantee**

If, at any time, certain for-profit housing affiliates become liable for recordation or property sales taxes not identified in the Projections, as defined, the General Partners shall contribute funds to the investee partnership an amount equal to such taxes. Any amounts funded under this guarantee shall not be deemed capital contributions to the investee partnership and shall not be repayable by the investee partnership. Since no such taxes were projected to be paid, the maximum potential amount of future payments under this guarantee cannot be estimated. As of the date of this report, no amounts have been funded under this guarantee.

**Wilson Avenue, Limited Partnership Loan**

In connection with the development of rental property, Wilson Avenue, Limited Partnership obtained a $500,000 purchase money mortgage from the Roman Catholic Church of St. Leonard. Simple interest accrues at a rate of 1% per annum. No interest is due or payable before the date of the closing of the permanent loan. POP Development has agreed to make the following payment.

On the first day of the first month following the one-year anniversary of the Commencement Date, and on the first day of the first month following each successive anniversary of the Commencement Date prior to and including the Maturity Date, POP Development shall pay principal and interest totaling $19,298.

As of June 30, 2017, payments totaling $250,879 have been made under this guarantee, including $19,298 during the year ended June 30, 2017.

**918 Kent Avenue Limited Partnership Loan Guarantee**

In connection with the development of rental property, 918 Kent Avenue Limited Partnership obtained a $260,000 purchase money mortgage from the Roman Catholic Church of St. Patrick. Simple interest accrues at a rate of 8% per annum and the loan matures in 2028. POP Development has agreed to fund the difference, if any, between the annual required debt service payment of $23,095, and the excess cash flow of 918 Kent Avenue Limited Partnership available to make such payment, as and when the payment is due each year.

As of the date of this report, no payments have been made under this guarantee.

**Lease with the Church of Our Lady of Loreto**

The Organization entered into a ground lease and a project ground lease agreement on January 11, 2011 with The Church of Our Lady of Loreto for land located in Brooklyn, New York, to be used for the construction and operation of an 88-unit rental project for low- to moderate-income families. The term of the lease is for 53 years commencing on the date the lease agreement was signed. The Organization is required to make a total lump-sum rental payment of $607,000 for the two leases upon the closing of a construction loan for the development of the proposed rental project. The lump-sum rental payment was paid in full and is being amortized over the life of the lease. For the year ended June 30, 2017, rent expense is $11,453 and included in general and administration expense on the accompanying consolidated statements of activities and changes in net assets. Prepaid rent as of June 30, 2017 is $408,741 and included in other assets in the accompanying consolidated statement of financial position.

The Organization concurrently subleases the land under the project ground lease to Loreto Preservation LLC under the same terms and conditions. This transaction is eliminated in consolidation.

**Lease with Howard Beach Apartments, LLC**

The Organization entered into a master lease agreement on December 19, 2011 with Howard Beach Apartments, LLC for space located in Howard Beach, New York, to be used for a community facility space. The term of the lease is for 30 years, beginning on the commencement date, as defined. The Organization is required to make annual rent payments of $20,000, adjusted annually based on the lesser of the consumer price index percentage, as defined, and 3%, and an additional amount of not less than $25,000 for the cost of utilities. The estimated fair market value of the rent for this space is $102,400 and the difference is presented as part of the in-kind contribution and expense, included in other revenue and general and administration expense, respectively, on the accompanying statements of activities. This transaction is eliminated in consolidation.

The Organization concurrently subleases the space under a sublease agreement to CCNS. The lease commencing on August 1, 2013 for a three-year term, requires an annual rent payment of $51,000, with annual increase of 3%, and an additional payment of $25,948 for the cost of utilities. Rental income of $79,922 is included on the accompanying statement of activities. The estimated fair market value of the rent for this space is $134,640 and the difference is presented as part of the in-kind contribution and expense, included in other revenue and general and administration expense, respectively, on the accompanying consolidated statements of activities.

**Acquisition of Property**

On November 21, 2013, Caring Communities Associates HDFC entered into a contract of sale agreement with Caring Supported Housing LLC to sell its property for the purchase price of $20,700,000 in exchange for proceeds of $2,102,677 and a mortgage and purchase money note receivable with Caring Supported Housing LLC in the amount of $18,597,323. The purchase money note receivable and accrued interest are eliminated in consolidation. The sales transaction resulted in an excess land and building value of $3,727,392. The remaining gain of $1,457,082 is included in deferred revenue in the accompanying consolidated statements of financial position and is eliminated in consolidation. Total depreciation and amortization expense for the Organization for the year ended June 30, 2017 amounted to $11,777,380.

***(d) Construction Contracts***

The Housing Affiliates have entered into several construction contracts with various unrelated parties as of June 30, 2017 for rehabilitation and development of the housing projects in the amounts totaling $20,905,361, which includes $2,437,710 in change orders. As of June 30, 2017, $20,116,101 has been incurred and $260,600 remains due and is included in accounts payable on the accompanying consolidated statement of financial position.

***(e) Litigation***

The Organization's entities are defendants in various legal actions arising out of the normal course of their operations. Although the final outcome of such actions cannot currently be determined, the Organization believes that eventual liability, if any, will not have a material effect on the Organization's consolidated financial position.

## (10) Concentrations

POP Management's and the Housing Affiliates operations are concentrated in the multifamily real estate market. In addition, they operate in a heavily regulated environment. The operations of the multifamily real estate projects are subject to the administrative directives, rules, and regulations of federal agencies, including, but not limited to, HUD and the IRS. Such administrative directives, rules, and regulations are subject to change by an act of Congress or an administrative change mandated by HUD or the IRS. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with the change.

## (11) Endowment Funds

The Organization's endowment fund is subject to the New York Prudent Management of Institutional Funds Act (NYPMIFA). The Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument, when applicable. In accordance with the accounting guidance associated with the adoption of NYPMIFA, the remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted until those amounts are appropriated for expenditure.

Permanently restricted net assets at June 30, 2017 are restricted for investment as follows:

| | |
|---|---|
| Catholic Foundation | $ 1,004,483 |
| Julia Walden Fund | 710,984 |
| Futures Fund | 995,565 |
| Frances L. and Edwin L. Cummings Memorial Fund | 175,000 |
| Matched Challenge Fund | 325,000 |
| | $ 3,211,032 |

Catholic Foundation (formerly The Alive In Hope Foundation) includes investments held by the Catholic Foundation for the benefit of Catholic Charities and are reflected as amounts held by others in the accompanying consolidated statement of financial position. Any change in the fair value of investments held by Catholic Foundation is reported as permanently restricted gain (loss), net, in the accompanying consolidated statements of activities and changes in net assets.

Flowers with Care of the Diocese of Brooklyn, Inc. (FWC) transferred its permanently restricted endowment to CCNS, which consisted of the Frances L. and Edwin L. Cummings Memorial Fund and the Matched Challenge Fund. The income from these funds is restricted to support the programs formerly operated by FWC.

Changes in endowment net assets for the year ended June 30, 2017 are as follows:

| | Unrestricted | Temporarily restricted | Permanently restricted | Total |
|---|---|---|---|---|
| Beginning balance | $ — | $ 477,689 | $ 3,096,714 | $ 3,574,403 |
| Investment income | — | 5,440 | 114,318 | 119,758 |
| Ending balance | $ — | $ 483,129 | $ 3,211,032 | $ 3,694,161 |

### *Fund Deficiencies*

From time to time, the fair value of the assets associated with the individual donor-restricted endowment funds may fall below the level that is required to retain as a fund of perpetual duration (underwater). Of the donor-restricted endowment funds, one fund requires the investment gains and losses on the fair value of the asset to be added to the corpus. All other donor-restricted funds record the gains to temporarily restricted and losses, if underwater, to unrestricted net assets.

### *Return Objectives and Risk Parameters*

The Organization has adopted investment policies for the endowment assets that attempt to provide a predictable return on its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, the endowment assets are invested in a manner that is intended to maintain the corpus of the endowment fund with little or no risk. The Organization expects its endowment funds, consistent with underlying investments, which are primarily in money market funds, to provide an average rate of return of approximately 1% annually. Actual returns in any given year may vary from this amount.

***Spending Policy***

The Organization does not have a formal spending policy. The Organization spends the return during the year it is earned, as needed. There was no spending appropriation by the Board of Directors in 2017.

## (12) Loans, Mortgage, and Notes Payable

Aggregate annual maturities of the loans, mortgage, and notes payable over each of the next five years and thereafter are as follows:

| | CCNS (a) | Catholic Charities (b) | Sts. Joachim & Anne (c) | POP Development (d) | Housing affiliates (e) | Total |
|---|---|---|---|---|---|---|
| June 30: | | | | | | |
| 2018 | $ 2,231,153 | $ 7,297,911 | $ 1,190,256 | $ — | $ 13,559,127 | $ 24,278,447 |
| 2019 | — | — | 1,229,275 | — | 2,142,091 | 3,371,366 |
| 2020 | — | — | 1,269,574 | — | 4,291,406 | 5,560,980 |
| 2021 | — | — | 1,311,194 | — | 3,435,036 | 4,746,230 |
| 2022 | — | — | 1,354,178 | — | 2,388,596 | 3,742,774 |
| Thereafter | — | — | 8,832,378 | 2,835,323 | 183,625,478 | 195,293,179 |
| | 2,231,153 | 7,297,911 | 15,186,855 | 2,835,323 | 209,441,734 | 236,992,976 |
| Less debt issuance costs | — | — | (372,961) | — | (4,831,053) | (5,204,014) |
| Total net of debt | $ 2,231,153 | $ 7,297,911 | $ 14,813,894 | $ 2,835,323 | $ 204,610,681 | $ 231,788,962 |

### *(a) Catholic Charities Neighborhood Services*

As of June 30, 2017, CCNS had six term loans with a financial institution. The loans totaled $2,231,153 with interest rates ranging from 4.5% to 5.5%, maturing at various times through June 2039, all of which are guaranteed by Catholic Charities and secured by the respective properties. CCNS is required to maintain certain financial ratios annually, as well as other covenants. Interest expense on the loans payable was $183,475 for the year ended June 30, 2017.

The loans are scheduled to transfer to Cerebral Palsy of New York State (CPofNYS) with a date retroactive to the CPofNYS change of auspice date October 1, 2016. The transfer is slated for completion in fiscal year 2018.

### *(b) Catholic Charities*

In May 2010, Catholic Charities obtained a line of credit for $7,000,000 bearing a 3.5% interest rate. In April 2017, TD Bank approved CCBQ's request of a $3,000,000 increase to the line of credit, which is now $10,000,000. The current interest rate is 4.25%, which is tied to the prime interest rate. CCBQ had $7,000,000 outstanding under the line of credit as of June 30, 2017. Catholic Charities is required to have a minimum aggregate deposit balance of $10,000,000 between Catholic Charities and CCNS at the issuing institution. The line of credit has a maturity date of March 2019.

In July 2014, Catholic Charities obtained a line of credit for $750,000 bearing a 3.89% interest rate. The line of credit expired and the balance of $402,464 was converted to a 5-year lease line of credit which commenced in February 2016. The balance as of June 30, 2017 was $297,911 bearing an interest rate of 4.69%.

***(c) Saints Joachim & Anne Nursing and Rehabilitation Center***

On April 30, 2015, the Center entered into a $17,546,600 mortgage loan agreement with a financial institution through a HUD program. The proceeds of the HUD mortgage debt were used to pay off all of the Center's existing outstanding debt (notes payable and DASNY mortgage payable), with the exception of the NYC Nonprofit Recovery Loan. The new mortgage has a maturity date of April 1, 2028 and bears interest at a rate of 3.23%. The mortgage has certain prepayment penalties if the mortgage is prepaid within four years. In addition, the mortgage has certain required covenants to be annually maintained. The Center's management believes it has complied with the covenants. The balance due as of June 30, 2017 amounted to $15,186,855.

Debt issuance costs, net of accumulated amortization, totaled $372,961 as of June 30, 2017. Interest expense for the Center amounted to $510,798 for the year ended June 30, 2017.

***(d) Progress of Peoples Development Corporation***

In October 2003, POP Development entered into an unsecured, noninterest-bearing loan agreement with Green Point Bank, which was subsequently acquired by Capital One Bank, under the Federal Home Loan Bank Act's Affordable Housing Program in the amount of $183,616, in order to subsidize 715 St. John's Place Limited Partnership, an affordable housing entity. As of June 30, 2017, the entire original principal balance is outstanding. This advance will be considered to be repaid in full in October 2018 as long as the affordable housing project remains available for persons of low income.

In January 2004, POP Development entered into an unsecured, noninterest-bearing loan agreement with Green Point Bank, which was subsequently acquired by Capital One Bank, under the Federal Home Loan Bank Act's Affordable Housing Program in the amount of $536,424 in order to subsidize Caring Communities Associates Housing Development Fund Corporation, Inc. (CCAH), an affordable housing entity. As of June 30, 2017, the entire original principal balance is outstanding. This advance will be considered to be repaid in full in January 2019 as long as the affordable housing project remains available for persons of low income.

In July 2009, POP Development entered into an unsecured, noninterest-bearing loan agreement with New York Community Bank, under the Federal Home Loan Bank Act's Affordable Housing Program in the amount of $735,200 in order to subsidize CCAH. As of June 30, 2017, the entire original principal balance is outstanding. This advance will be considered to be repaid in full in July 2024 as long as the affordable housing project remains available for persons of low income.

In December 2011, POP Development entered into a secured, noninterest-bearing loan agreement with New York Community Bank, under the Federal Home Loan Bank Act's Affordable Housing Program in the amount of $1,380,083 in order to subsidize Howard Beach Apartments, LLC, an affordable housing entity. As of June 30, 2017, the entire original principal balance is outstanding. This advance will be considered to be repaid in full on the 15th anniversary of the issuance of the project's certificate of occupancy, as long as the affordable housing project remains available for persons of low income.

In March 2016, the POP Development entered into a secured loan agreement with Leviticus 25:23 Alternative Fund, Inc. in the amount of $1,046,890 in order to demolish an existing vacant church facility, in preparation for the construction of an affordable housing project. The loan bears interest at 6%, and payments of interest-only are due monthly until the loan matures in March 2018. During the year ended June 30, 2017, $530,476 was advanced on the loan and remains payable.

Debt issuance costs, net of accumulated amortization, totaled $4,831,053 as of June 30, 2017 and are related to the first mortgage.

### *(e) For-Profit and Not-For-Profit Affiliates*

The For-Profit and Not-For-Profit Housing Affiliates have several mortgages payable to various lending institutions and/or local housing. These notes bear interest at rates ranging from noninterest-bearing to 9.25%, have monthly payments ranging from $8,140 to $146,938, and mature at various dates from December 2020 to December 2051. Many of the notes are insured under various Federal Housing Administration (FHA) sections of the National Housing Act.

Capital advance notes are discharged and deemed paid on the maturity date provided that the project remained available for occupancy by eligible families until the maturity date, and the note does not otherwise become due and payable by reason of default under the note, the mortgage or the Regulatory Agreement. In the event of default, at the option of the lender, the entire principal and interest shall be payable on demand.

The Housing Affiliates have several construction loans payable to various lending institutions and/or local housing agencies. These notes bear interest at rates ranging from noninterest-bearing to a variable interest rate per annum equal to the prime rate, have monthly payments ranging from no payment to interest-only payment and mature at various dates from December 2016 through the 30th anniversary of the Conversion Date, as defined in the agreement.

The liability of the For-Profit and Not-For-Profit Housing Affiliates under these mortgage notes is limited to the underlying value of the real estate collateral, assignment of rents and leases, and other amounts deposited with the lenders.

Under various agreements with the mortgage lender, the housing affiliates and limited partnerships are required to make monthly escrow deposits for taxes, insurance, and replacement of project assets, and are subject to restrictions as to operating policies, rental charges, operating expenditures, and distributions to partners.

## (13) Housing Assistance Payment Contract Agreements

FHA has contracted with various For-Profit Housing Affiliates and various Not-For-Profit Housing Affiliates have entered into a project rental assistance contract with the HUD to make housing assistance payments to the projects on behalf of the qualified tenants. The expiration dates of the agreements range from October 2016 through August 2032.

In January 2001, HUD issued the Guidebook for Section 8 Renewal Policy (the Guidebook), which provides guidance for the renewal of expiring Section 8 project-based contracts. The Guidebook is a comprehensive resource for all renewals and is updated periodically to reflect program and legislative changes.

The Guidebook sets forth six options for renewing Section 8 contracts. They consist of requesting renewal under the mark-up-to-market procedures, renewing contracts with current rents at or below comparable market rents but not being renewed using the mark-up-to-market option, referring projects to the Office of Assisted Housing Preservation (OAHP) for processing and renewal when the contract has rents greater than market rents, renewing contracts for projects exempted from OAHP, renewing contracts for portfolio reengineering demonstration or preservation projects, and opting out of the Section 8 program. Owners are limited to selecting options based upon eligibility at the expiration of the

Section 8 contract. Owners must submit renewal requests and required documentation to HUD at least 120 days before contract expiration.

Contracts may be renewed for one to twenty years, but multiple-year contracts are funded for one year with the balance of the contract subject to annual appropriations. Subsequent renewals of contracts may be made under any option the contract is eligible for at the time of renewal.

For contracts that expire in the next 12 months, management plans to apply for renewal.

## (14) Office of Medicaid Inspector General

On July 8, 2014, the New York State Office of Medicaid Inspector General (OMIG) issued an Exit Conference Summary as a result of their completion of an audit of CCNS for the OPWDD day treatment services for the period April 1, 2006 through December 31, 2009. As a result of certain errors identified by OMIG during the audit, OMIG extrapolated the errors over the population of cases and determined CCNS was overpaid approximately $3.7 million. Management is currently in discussion with OMIG to resolve the findings of the audit. While management believes the services were appropriately provided to eligible participants, management accrued a liability of approximately $3.7 million as a result of the audit, which was included in program liabilities in the consolidated statement of financial position in fiscal year 2014. On September 16, 2015, OMIG notified CCNS of the revised liability calculation of approximately $2.7 million, which was previously included in program liabilities as of June 30, 2016. In July 2016, CCNS began repayment of the OPWDD day treatment services for the period April 1, 2006 through December 31, 2009.

During 2015, an internal audit of CCNS Services for People with Developmental Disability (SPwDD) Medicaid programs determined that a potential liability of approximately $3.4 million was due to the OMIG. On June 20, 2017, OMIG finalized an agreement with CCNS for approximately $1.1 million which began to be repaid in July 2017.

On June 9, 2017, the OPWDD requested that CCNS review specialized rate funding for certain individuals. The joint review between OPWDD and CCNS determined that most of the individuals did not qualify for the specialized rate payment. The $1.5 million program liability is included in the consolidated statement of financial position as of June 30, 2017.

## (15) Subsequent Events

In connection with the preparation of the financial statements, the Organization has evaluated events subsequent to the consolidated statement of financial position date of June 30, 2017 and through November 14, 2017, the date on which the consolidated financial statements were available to be issued, and determined that there were no additional matters that are required to be disclosed.