



St. Catherine Center for Special Needs Inc.

Financial Statements

June 30, 2018 and 2017



Independent Auditors' Report

Board of Directors St. Catherine Center for Special Needs Inc.

We have audited the accompanying financial statements of St. Catherine Center for Special Needs Inc. (the "Center"), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of St. Catherine Center for Special Needs Inc. as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2018 on our consideration of St. Catherine Center for Special Needs Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the solely results of that testing, and not to provide an opinion on the effectiveness of the Center's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering St. Catherine Center for Special Needs Inc.'s internal control over financial reporting and compliance.

PKF O'Connor Davies, LLP

Stamford, Connecticut
November 20, 2018

St. Catherine Center for Special Needs Inc.

Statements of Financial Position

| | June 30, | |
|--|--------------------|--------------------|
| | 2018 | 2017 |
| ASSETS | | |
| Cash and cash equivalents | \$ 1,358,970 | \$ 1,269,384 |
| Tuition and fees receivable, net | 8,951 | 49,598 |
| Grants and other receivables | 82,076 | 63,570 |
| Prepaid expenses | 17,672 | 28,528 |
| Investments | 1,689,894 | 1,182,932 |
| Property and equipment, net | 1,757,134 | 1,742,623 |
| | \$4,914,697 | \$4,336,635 |
| LIABILITIES AND NET ASSETS | | |
| Liabilities | | |
| Accounts payable and accrued expenses | \$ 60,797 | \$ 85,083 |
| Deferred revenue | 1,160 | - |
| Due to The Bridgeport Roman Catholic Diocesan Corporation | 185,874 | 113,719 |
| Total Liabilities | 247,831 | 198,802 |
| Net Assets | | |
| Unrestricted | | |
| Undesignated | 2,636,235 | 2,160,275 |
| Property and equipment, net of related loan payable | 1,757,134 | 1,742,623 |
| Total Unrestricted | 4,393,369 | 3,902,898 |
| Temporarily restricted | 223,497 | 184,935 |
| Permanently restricted | 50,000 | 50,000 |
| Total Net Assets | 4,666,866 | 4,137,833 |
| | \$4,914,697 | \$4,336,635 |

St. Catherine Center for Special Needs Inc.

Statements of Activities

| | Year Ended June 30, 2018 | | | | Year Ended June 30, 2017 | | | |
|---|--------------------------|------------------------|------------------------|---------------------|--------------------------|------------------------|------------------------|---------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| REVENUE AND SUPPORT | | | | | | | | |
| Tuition and fees | \$ 1,061,556 | \$ - | \$ - | \$ 1,061,556 | \$ 842,214 | \$ - | \$ - | \$ 842,214 |
| Financial aid | (202,200) | - | - | (202,200) | (171,350) | - | - | (171,350) |
| Net Tuition and Fees | 859,356 | - | - | 859,356 | 670,864 | - | - | 670,864 |
| Adult program fees | 631,689 | - | - | 631,689 | 427,272 | - | - | 427,272 |
| Contributions and grants | 558,059 | 70,605 | - | 628,664 | 632,433 | 83,952 | - | 716,385 |
| Forgiveness of debt to The Bridgeport Roman Catholic Diocesan Corporation | - | - | - | - | 164,291 | - | - | 164,291 |
| Fundraising events, net of direct expenses of \$42,962 and \$37,893 | 241,233 | 119,873 | - | 361,106 | 160,576 | 75,180 | - | 235,756 |
| Investment return, net | 58,163 | 168 | - | 58,331 | 26,124 | - | - | 26,124 |
| Net assets released from restrictions | 152,084 | (152,084) | - | - | 124,882 | (124,882) | - | - |
| Total Revenue and Support | <u>2,500,584</u> | <u>38,562</u> | <u>-</u> | <u>2,539,146</u> | <u>2,206,442</u> | <u>34,250</u> | <u>-</u> | <u>2,240,692</u> |
| EXPENSES | | | | | | | | |
| Program services | 1,667,103 | - | - | 1,667,103 | 1,325,259 | - | - | 1,325,259 |
| Management and general | 206,327 | - | - | 206,327 | 176,131 | - | - | 176,131 |
| Development and fundraising | 23,957 | - | - | 23,957 | 22,614 | - | - | 22,614 |
| Total Expense Before Depreciation and Amortization | 1,897,387 | - | - | 1,897,387 | 1,524,004 | - | - | 1,524,004 |
| Depreciation and amortization expense | 112,726 | - | - | 112,726 | 91,512 | - | - | 91,512 |
| Total Expenses | <u>2,010,113</u> | <u>-</u> | <u>-</u> | <u>2,010,113</u> | <u>1,615,516</u> | <u>-</u> | <u>-</u> | <u>1,615,516</u> |
| Change in Net Assets | 490,471 | 38,562 | - | 529,033 | 590,926 | 34,250 | - | 625,176 |
| NET ASSETS | | | | | | | | |
| Beginning of year | <u>3,902,898</u> | <u>184,935</u> | <u>50,000</u> | <u>4,137,833</u> | <u>3,311,972</u> | <u>150,685</u> | <u>50,000</u> | <u>3,512,657</u> |
| End of year | <u>\$ 4,393,369</u> | <u>\$ 223,497</u> | <u>\$ 50,000</u> | <u>\$ 4,666,866</u> | <u>\$ 3,902,898</u> | <u>\$ 184,935</u> | <u>\$ 50,000</u> | <u>\$ 4,137,833</u> |

See notes to financial statements

St. Catherine Center for Special Needs Inc.

Statement of Functional Expenses
Year Ended June 30, 2018

| | Program Services | | | Management and General | Development and Fundraising | Total |
|--|----------------------------|----------------------|-------------------|------------------------------|-----------------------------------|--------------------|
| | St. Catherine's Academy | Adult Day Program | Other Programs | | | |
| Personnel | | | | | | |
| Salaries | \$ 535,426 | \$ 449,381 | \$ 35,040 | \$ 131,843 | \$ 11,434 | \$1,163,124 |
| Payroll taxes and benefits | 158,410 | 110,411 | 9,407 | 35,556 | 2,608 | 316,392 |
| Total Personnel Costs | <u>693,836</u> | <u>559,792</u> | <u>44,447</u> | <u>167,399</u> | <u>14,042</u> | <u>1,479,516</u> |
| Professional therapy services | 102,695 | - | - | - | - | 102,695 |
| Maintenance and repair | 37,420 | 33,386 | 6,041 | 2,858 | 1,112 | 80,817 |
| Professional fees | 2,656 | 5,725 | 53 | 28,908 | 127 | 37,469 |
| Program activities | 14,174 | 11,095 | 96 | - | - | 25,365 |
| Rent | 17,504 | 14,740 | 3,501 | 1,105 | - | 36,850 |
| Utilities | 10,184 | 8,576 | 2,037 | 643 | - | 21,440 |
| Transportation | 13,468 | 15,366 | - | - | - | 28,834 |
| Textbooks, publications and supplies | 12,789 | 8,278 | 940 | 1,208 | 2,818 | 26,033 |
| Bad debts | 8,971 | - | 16 | - | 79 | 9,066 |
| Other | 7,932 | 4,544 | 928 | 2,272 | 1,727 | 17,403 |
| Insurance | 4,166 | 8,047 | 424 | 307 | - | 12,944 |
| Printing and postage | 3,740 | 3,177 | 322 | 767 | 1,218 | 9,224 |
| Bank and other charges | 2,692 | - | 448 | 493 | 2,834 | 6,467 |
| Food and beverage | 1,325 | 102 | 1,470 | 367 | - | 3,264 |
| Total Expenses Before Depreciation and Amortization | <u>933,552</u> | <u>672,828</u> | <u>60,723</u> | <u>206,327</u> | <u>23,957</u> | <u>1,897,387</u> |
| Depreciation and amortization expense | <u>64,253</u> | <u>39,454</u> | <u>5,354</u> | <u>3,665</u> | <u>-</u> | <u>112,726</u> |
| Total Expenses | <u>\$ 997,805</u> | <u>\$ 712,282</u> | <u>\$ 66,077</u> | <u>\$ 209,992</u> | <u>\$ 23,957</u> | <u>\$2,010,113</u> |

See notes to financial statements

St. Catherine Center for Special Needs Inc.

Statement of Functional Expenses
Year Ended June 30, 2017

| | Program Services | | | Total | Management and General | Development and Fundraising | Total |
|--|----------------------------|----------------------|-------------------|---------------------|------------------------------|-----------------------------------|---------------------|
| | St. Catherine's Academy | Adult Day Program | Other Programs | | | | |
| Personnel | | | | | | | |
| Salaries | \$ 446,037 | \$331,560 | \$ 45,687 | \$ 823,284 | \$ 108,368 | \$ 10,942 | \$ 942,594 |
| Payroll taxes and benefits | 131,955 | 87,972 | 10,546 | 230,473 | 28,754 | 2,367 | 261,594 |
| Total Personnel Costs | <u>577,992</u> | <u>419,532</u> | <u>56,233</u> | <u>1,053,757</u> | <u>137,122</u> | <u>13,309</u> | <u>1,204,188</u> |
| Professional therapy services | 67,472 | - | - | 67,472 | - | - | 67,472 |
| Maintenance and repair | 39,938 | 24,317 | 6,333 | 70,588 | 2,869 | 882 | 74,339 |
| Professional fees | 2,632 | 1,043 | 1,462 | 5,137 | 30,631 | 199 | 35,967 |
| Program activities | 7,151 | 10,843 | 697 | 18,691 | - | - | 18,691 |
| Rent | 12,312 | 6,480 | 2,052 | 20,844 | 756 | - | 21,600 |
| Utilities | 10,321 | 8,692 | 2,064 | 21,077 | 652 | - | 21,729 |
| Transportation | 8,150 | 17,756 | - | 25,906 | - | - | 25,906 |
| Textbooks, publications and supplies | 7,729 | 4,940 | 3,019 | 15,688 | 729 | 1,702 | 18,119 |
| Bad debts | (5,350) | - | - | (5,350) | - | - | (5,350) |
| Other | 4,142 | 1,348 | 1,071 | 6,561 | 1,265 | 2,077 | 9,903 |
| Insurance | 3,483 | 5,989 | 421 | 9,893 | 205 | - | 10,098 |
| Printing and postage | 5,544 | 3,460 | 944 | 9,948 | 1,347 | 1,946 | 13,241 |
| Bank and other charges | 2,435 | - | 405 | 2,840 | 457 | 2,499 | 5,796 |
| Food and beverage | <u>955</u> | <u>466</u> | <u>786</u> | <u>2,207</u> | <u>98</u> | <u>-</u> | <u>2,305</u> |
| Total Expenses Before Depreciation and Amortization | 744,906 | 504,866 | 75,487 | 1,325,259 | 176,131 | 22,614 | 1,524,004 |
| Depreciation and amortization expense | <u>52,162</u> | <u>27,454</u> | <u>8,693</u> | <u>88,309</u> | <u>3,203</u> | <u>-</u> | <u>91,512</u> |
| Total Expenses | <u>\$ 797,068</u> | <u>\$532,320</u> | <u>\$ 84,180</u> | <u>\$ 1,413,568</u> | <u>\$ 179,334</u> | <u>\$ 22,614</u> | <u>\$ 1,615,516</u> |

See notes to financial statements

St. Catherine Center for Special Needs Inc.

Statements of Cash Flows

| | Year Ended June 30, | |
|--|---------------------|--------------------|
| | 2018 | 2017 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ 529,033 | \$ 625,176 |
| Adjustments to reconcile change in net assets to net cash from operating activities | | |
| Realized and unrealized gain on investments | (34,021) | (10,474) |
| Depreciation and amortization | 112,726 | 91,512 |
| Forgiveness of debt to The Bridgeport Roman Catholic Diocesan Corporation | - | (164,291) |
| Provision for bad debts (recovery) | 9,065 | (5,350) |
| Changes in operating assets and liabilities | | |
| Tuition and fees receivable | 31,582 | 178,547 |
| Grants and other receivables | (18,506) | 97,155 |
| Prepaid expense | 10,856 | (18,066) |
| Accounts payable and accrued expenses | (24,286) | 36,430 |
| Deferred revenue | 1,160 | - |
| Due to The Bridgeport Roman Catholic Diocesan Corporation | <u>72,155</u> | <u>28,949</u> |
| Net Cash from Operating Activities | <u>689,764</u> | <u>859,588</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of investments | (450,000) | (550,000) |
| Proceeds from sales of investments | - | 59,763 |
| Acquisitions of property and equipment | (127,237) | (82,829) |
| Interest and dividend income reinvested | <u>(22,941)</u> | <u>(14,174)</u> |
| Net Cash from Investing Activities | <u>(600,178)</u> | <u>(587,240)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Loan payments to The Bridgeport Roman Catholic Diocesan Corporation | <u>-</u> | <u>(25,000)</u> |
| Change in cash and cash equivalents | 89,586 | 247,348 |
| CASH AND CASH EQUIVALENTS | | |
| Beginning of year | <u>1,269,384</u> | <u>1,022,036</u> |
| End of year | <u>\$1,358,970</u> | <u>\$1,269,384</u> |

See notes to financial statements

St. Catherine Center for Special Needs Inc.

Notes to Financial Statements
June 30, 2018 and 2017

1. Organization

St. Catherine Center for Special Needs Inc. (the “Center”) offers a functional academic and life skills curriculum to children and adults with intellectual disabilities and other developmental and learning disabilities. The Center was established in 1999 as a private special education program of The Bridgeport Roman Catholic Diocesan Corporation (the “Diocese”) and was formerly known as St. Catherine Academy (the “Academy”). In October 2014, the Diocese formed St. Catherine Center for Special Needs Inc. and contributed the assets and liabilities of the Academy to the Center. The Center is a Connecticut nonstock corporation whose members are made up of the individuals holding the offices of Bishop of the Diocese, the Vicar General of the Diocese and the Secretary of Faith Formations.

Located in a facility on the grounds of Holy Cross Church in Fairfield, Connecticut, the Center’s programs include the “Academy” for school programs as well as the Office of Parish and Community Outreach, The Office of Inclusive Support and the Adult Day Program. Its mission is to oversee unified pastoral and educational support for individuals with disabilities while serving as a centralized resource for the Diocesan community. The Center strives to foster the educational, spiritual and social wellbeing of individuals with disabilities. The Center’s Academy had enrollment of 19 and 16 students (authorized to serve up to 28 students) for the years ended June 30, 2018 and 2017. The Center Adult Day Program, established in 2015, served 21 adults and 14 adults for the years ended June 30, 2018 and 2017 .

2. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements of the Center have been prepared using the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America (“U.S. GAAP”). Accordingly, the accounts of the Center are reported in the following net asset categories:

Unrestricted - Unrestricted net assets represent available resources other than donor-restricted contributions.

Temporarily restricted - Temporarily restricted net assets include contributions that are restricted by the donor either as to purpose or time of expenditure and accumulated gains and investment income on donor-restricted endowment assets.

Permanently restricted - Permanently restricted net assets represent contributions received with the donor restriction that the principal be invested in perpetuity and that only the income earned thereon be available for use.

St. Catherine Center for Special Needs Inc.

Notes to Financial Statements
June 30, 2018 and 2017

2. Summary of Significant Accounting Policies (*continued*)

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures in the financial statements. Actual results could differ from those estimates. Financial statement areas where management applies the use of estimates include the allowance for doubtful accounts, the functional allocation of expenses and depreciation. It is management's opinion that the estimates applied in the accompanying financial statements are reasonable.

Cash and Cash Equivalents

Cash and cash equivalents are defined as highly liquid investments with remaining maturities of up to 90 days at the time of purchase.

Allowance for Uncollectible Receivables

An allowance for uncollectible receivables is estimated based on a combination of write-off history, aging analysis and any specific known troubled accounts.

Investment Valuation and Income Recognition

Investments are reported at fair value. Fair value is 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. See Note 6 for a discussion of fair value measurements.

Purchases and sales of securities are recorded on a trade date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Realized and unrealized gains, if any, include gains and losses on investments bought and sold as well as held during the year.

Property and Equipment

Property, equipment and improvements thereon that exceed \$1,000 are capitalized at cost, or if received by donation, at estimated fair value at the time such items are received. Expenditures for maintenance and repairs are expensed as incurred. Leasehold improvements are amortized over the lesser of the estimated useful life of the asset or the term of the lease inclusive of expected renewals. Equipment, property and improvements are depreciated or amortized on a straight-line basis over the following estimated useful lives:

| | |
|------------------------|---------------|
| Leasehold improvements | 10 - 40 years |
| Furniture and fixtures | 5 - 7 years |
| Computers | 5 years |
| Vehicle | 5 years |
| Other equipment | 5 - 10 years |

St. Catherine Center for Special Needs Inc.

Notes to Financial Statements
June 30, 2018 and 2017

2. Summary of Significant Accounting Policies (continued)

Revenue

Revenue from tuition and program fees is recorded as earned during the year. Tuition is reported net of allowances for scholarships. Revenue received in advance for the ensuing year, if any, is deferred and recognized as income over the period earned.

Contributions

Unconditional contributions are recognized when pledged or received, as applicable, and are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions receivable that are expected to be collected in more than one year are discounted to their present value. The Center reports contributions and grants of cash and other assets as restricted support if they are received with donor stipulations that limit their use. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets released from restrictions. Contributions received whose restrictions are met in the same period are recognized within unrestricted net assets. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Contributed services are recognized in the financial statements if they enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. General volunteer services do not meet these criteria for recognition. Donated goods are recorded as support and expensed at fair value.

Functional Expense Allocation

Expenses are charged directly to program services, management and general, and development and fundraising based on specific identification to the extent practicable. Expenses related to more than one function have been allocated using reasonable ratios determined by management. Management and general expenses include those expenses that are not directly identifiable with a specific function but provide for the overall support and direction of the Center.

Income Taxes

The Internal Revenue Service has held that religious institutions operated, supervised or controlled by the Roman Catholic Church in the United States appearing in "The Official Catholic Directory" are exempt from federal income tax under Section 501(c)(3). The Center is listed in The Official Catholic Directory and therefore is exempt from income tax. The Center recognizes the effect of income tax positions only if those positions are more likely than not to be sustained and, accordingly, believes that income tax positions are consistent with its exemption.

St. Catherine Center for Special Needs Inc.

Notes to Financial Statements
June 30, 2018 and 2017

2. Summary of Significant Accounting Policies *(continued)*

Subsequent Events

In preparing these financial statements, management has evaluated subsequent events through November 20, 2018 which represents the date the financial statements were available to be issued.

3. Concentrations

The Center's financial instruments that are exposed to a concentration of credit risk consist primarily of cash and cash equivalents and investments.

Cash and cash equivalents - The Center places its cash and cash equivalent deposits with one financial institution. Accounts are insured by the Federal Deposit Insurance Corporation (FDIC insured) up to \$250,000. As of June 30, 2018, the uninsured balance is approximately \$1,259,000. The Organization has not experienced any loss in such accounts and management believes that the Center's deposits are not subject to significant credit risk.

Investments - The Center's investments are comprised of various mutual funds that invest in equities and fixed income securities and money market funds. These money market funds are not protected by federal depository insurance. The value of the investments is subject to fluctuations due to general market conditions and interest rates. Management considers investments to be sufficiently diversified to minimize individual investment and industry concentration risks.

The Center's adult day program is partially funded by a contract with the State of Connecticut. Revenue earned in connection with this contract was \$601,661 and \$412,876 for the years ended June 30, 2018 and 2017, respectively.

4. Tuition and Fees Receivable

Tuition and fees receivable are shown net of estimated uncollectible balances of \$21,500 and \$14,750 at June 30, 2018 and 2017, respectively.

5. Grants and Other Receivables

Grants and other receivables consist of the following at June 30:

| | <u>2018</u> | <u>2017</u> |
|-------------------------------|------------------|------------------|
| Grants | \$ 30,000 | \$ 36,000 |
| Contributions and fundraising | <u>52,076</u> | <u>27,570</u> |
| | <u>\$ 82,076</u> | <u>\$ 63,570</u> |

No allowance for doubtful accounts has been provided as management considers all grants and other receivables to be collectible based on significant receipts subsequent to year end and other factors.

St. Catherine Center for Special Needs Inc.

Notes to Financial Statements
June 30, 2018 and 2017

6. Fair Value Measurements and Investments

The Center follows U.S. GAAP guidance on *Fair Value Measurements* which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. If there is uncertainty or the inability to redeem an investment at net asset value in the near term subsequent to the measurement date, the investment is categorized as Level 3.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2018 and 2017.

Certificates of Deposit – Certificates of deposit with maturities of greater than three months at the time of purchase are valued based on quoted prices for similar assets in active markets.

Mutual Funds - Mutual funds are valued at the quoted net asset value of shares reported in the active market in which the funds are traded at year-end.

The following is a summary of the fair value of investments at June 30:

| | <u>2018</u> | <u>2017</u> |
|----------------|--------------------|--------------------|
| Level 1 Inputs | | |
| Mutual funds | <u>\$1,689,894</u> | <u>\$1,182,932</u> |

St. Catherine Center for Special Needs Inc.

Notes to Financial Statements
June 30, 2018 and 2017

6. Fair Value Measurements and Investments (continued)

Investment income for the years ended June 30 includes earnings on cash equivalents and is comprised of the following:

| | <u>2018</u> | <u>2017</u> |
|---|------------------|------------------|
| Dividends on investments | \$ 22,942 | \$ 14,245 |
| Interest on cash equivalents | 1,367 | 1,405 |
| Realized and unrealized gain on investments | <u>34,022</u> | <u>10,474</u> |
| | <u>\$ 58,331</u> | <u>\$ 26,124</u> |

7. Property and Equipment

Property and equipment consists of the following at June 30:

| | <u>2018</u> | <u>2017</u> |
|---|--------------------|--------------------|
| Leasehold improvements | \$2,241,766 | \$2,188,786 |
| Land improvements | 3,500 | 3,500 |
| Furniture and fixtures | 45,338 | 45,338 |
| Computers | 30,457 | 23,766 |
| Vehicles | 225,808 | 161,468 |
| Other equipment | <u>57,846</u> | <u>54,620</u> |
| | 2,604,715 | 2,477,478 |
| Accumulated depreciation and amortization | <u>(847,581)</u> | <u>(734,855)</u> |
| | <u>\$1,757,134</u> | <u>\$1,742,623</u> |

8. Loan Payable to The Bridgeport Roman Catholic Diocesan Corporation

The Center had an interest free loan from the Diocese dated October 2013 in the original amount of \$239,291. The loan was payable in annual installments of \$25,000, subject to certain limitations. In February 2017, the Diocese forgave the remaining outstanding balance of the loan equal to \$164,291.

St. Catherine Center for Special Needs Inc.

Notes to Financial Statements
June 30, 2018 and 2017

9. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at June 30:

| | <u>2018</u> | <u>2017</u> |
|--|-------------------|-------------------|
| Purpose | | |
| Scholarships | \$ 32,300 | \$ 800 |
| Adult program | 15,805 | 7,133 |
| Music therapy | 2,500 | 4,000 |
| Other program enhancements | 16,335 | 11,189 |
| Capital improvements | - | 17,633 |
| Technology and vehicle purchase | 33,525 | 108,180 |
| Social Enterprise and Vocational | 119,873 | - |
| Employment 1st initiative | 2,991 | 36,000 |
| Accumulated income on donor-restricted endowment assets restricted until appropriated | <u>168</u> | <u>-</u> |
| | <u>\$ 223,497</u> | <u>\$ 184,935</u> |

10. Net Asset Released from Restrictions

Net assets were released from restrictions for the satisfaction of purpose or time restrictions as follows during the years ended June 30:

| | <u>2018</u> | <u>2017</u> |
|-------------------------------|-------------------|-------------------|
| Purpose | | |
| Scholarships | \$ 800 | \$ 13,231 |
| Music therapy | 4,000 | 4,000 |
| Other special education | 11,987 | 10,227 |
| Vehicle purchases | 64,340 | - |
| Technology | 20,315 | 4,000 |
| Capital improvement | 17,633 | 47,927 |
| Appropriated endowment income | - | 9,497 |
| Time restriction | <u>33,009</u> | <u>36,000</u> |
| | <u>\$ 152,084</u> | <u>\$ 124,882</u> |

11. Permanently Restricted Net Assets

Permanently restricted net assets consist of a scholarship endowment totaling \$50,000 as of June 30, 2018 and 2017.

St. Catherine Center for Special Needs Inc.

Notes to Financial Statements
June 30, 2018 and 2017

12. Endowment

The Center's endowment consists of a donor-restricted endowment fund. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Center has interpreted the Connecticut Prudent Management of Institutional Funds Act ("CTPMIFA") 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, the Center 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 at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Center in a manner consistent with the standard of prudence prescribed by CTPMIFA.

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

- The duration and preservation of the fund
- The purposes of the donor-restricted endowment fund
- The investment policies of the Center
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Center

St. Catherine Center for Special Needs Inc.

Notes to Financial Statements
June 30, 2018 and 2017

12. Endowment (continued)

The Center's donor-restricted endowments by net asset classification and a reconciliation of these amounts as of and for the years ended, June 30 are as follows:

| | Temporarily Restricted | Permanently Restricted | Total |
|------------------------|---------------------------|---------------------------|------------------|
| Balance, June 30, 2016 | \$ 9,497 | \$ 50,000 | \$ 59,497 |
| Interest income | 231 | - | 231 |
| Appropriations | <u>(9,728)</u> | <u>-</u> | <u>(9,728)</u> |
| Balance, June 30, 2017 | - | 50,000 | 50,000 |
| Interest income | 168 | - | 168 |
| Appropriations | <u>-</u> | <u>-</u> | <u>-</u> |
| Balance, June 30, 2018 | <u>\$ 168</u> | <u>\$ 50,000</u> | <u>\$ 50,168</u> |

13. Donated Services

Included in contributions and grants are approximately \$9,900 of contributed professional services for the years ended June 30, 2018 and 2017. These amounts are included in program services expense as salaries in the statement of functional expenses.

14. Defined Benefit Plan

The Center participates in the Bridgeport Diocesan Pension Plan (the "DB Plan"), a multiemployer, defined benefit plan sponsored by The Bridgeport Roman Catholic Diocesan Corporation (the "Diocese"). The DB Plan, a church plan not subject to the Employee Retirement Income Security Act of 1974, covers all lay employees of the sponsor and participating Diocesan employers who work 20 hours or more per week, have attained the age of 30 and have at least 3 years of continuous service prior to July 2, 2008, when participation was frozen. Effective July 31, 2010, pension benefits under the DB Plan were frozen. Pension benefits under the DB Plan are based on years of service and average compensation over a five-year period during the last 10 years of service, prior to July 31, 2010.

Due to the nature of the Lay Plan, it is not practicable to determine the extent to which the assets of the Lay Plan cover the actuarially computed value of vested benefits for the School on a stand-alone basis. In addition, because the Lay Plan is considered to be a multi-employer plan, it is only subject to certain minimum reporting requirements. The School's required contributions were \$12,780 and \$12,048 for the years ended June 30, 2018 and 2017, respectively, and are expected to be approximately \$12,800 for the year ending June 30, 2019.

St. Catherine Center for Special Needs Inc.

Notes to Financial Statements
June 30, 2018 and 2017

14. Defined Benefit Plan (continued)

The Lay Plan is considered a church plan and is therefore exempt from the provisions of the Employee Retirement Income Security Act of 1974, as amended. At June 30, 2017, the date of the most recent valuation, the Lay Plan's projected benefit obligation exceeded the fair value of its assets by approximately \$96 million (unaudited).

15. Defined Contribution Plan

The Center participates in the Diocese's defined-contribution 401(a) thrift plan covering all lay employees of the Diocese and other Diocesan entities who worked at least 20 hours per week, who meet the eligibility requirements of one year of service, and who were 21 years of age. Contributions are based on years of service to Diocesan entities, including years of service prior to August 1, 2010 at rates of 3%, 5% or 7%, with certain long serving employees at August 1, 2010 at rates of 10% or 13%. Effective July 1, 2015, the plan modified the contribution rates to 3% and 5% and the eligibility requirement to 30 hours per week. The Center's contributions were \$31,290 and \$22,663 for the years ended June 30, 2018 and 2017, respectively.

The Center also participates in the Diocese's 403(b) salary reduction plan for all employees who wish to contribute. The Center does not make any contributions to this plan.

16. State of Connecticut Department of Developmental Services Bridge Funding

During the fiscal year ended June 30, 2018, the Agency received \$60,914 in bridge funding from DDS (the "DDS bridge funding") to fund billings that had not yet been processed by DDS. The bridge funding has been netted against a receivable from DDS in the amount of \$59,754 resulting in net deferred revenue of \$1,160.

17. Related Party Transactions (Not Disclosed Elsewhere)

In July 2012, the Center entered into a long-term lease agreement for the space with Holy Cross Church. The Center amended the lease with the Holy Cross Church in November 15, 2017 at which time the annual base rent increased from \$21,600 to \$30,000. Beginning on July 1, 2022, the annual base rent shall increase to \$32,400. Upon execution of the amendment, the Center paid a \$10,000 lump sum to the Church as a capital repair contribution. Beginning on July 1, 2032 and on each tenth anniversary, the base rent shall be adjusted based upon current market rentals; however, the rent can never be decreased. The lease also requires the Center to pay utilities, repairs and maintenance expenses on a proportionate basis. Those expenses are not expected to vary significantly as a result of the new lease from amounts incurred in recent years. The lease expires on June 30, 2111. Rental expense was \$36,850 and \$21,600 for the years ended June 30, 2018 and 2017, respectively.

St. Catherine Center for Special Needs Inc.

Notes to Financial Statements
June 30, 2018 and 2017

17. Related Party Transactions (Not Disclosed Elsewhere) (continued)

The Center participates in various insurance programs sponsored by the Diocese for all Diocesan entities. The Center incurred the following expenses for these programs for the years ended June 30:

| | <u>2018</u> | <u>2017</u> |
|--|-------------------|-------------------|
| Health and dental insurance | \$ 144,674 | \$ 113,323 |
| Property, casualty and liability insurance | <u>12,813</u> | <u>9,965</u> |
| | <u>\$ 157,487</u> | <u>\$ 123,288</u> |

In addition, the Center's employees are employees of the Diocese. The Diocese processes and funds the Center's payroll and receives reimbursement for payroll from the Center on a routine and recurring basis. The amounts payable to the Diocese in connection with these payroll services were \$185,874 and \$113,719 at June 30, 2018 and 2017, respectively.

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