Consolidated Financial Statements and Report of Independent Certified Public Accountants in Accordance with the Uniform Guidance

Catholic Housing and Community Services (formerly known as Catholic Health Care Services) of the Archdiocese of Philadelphia

June 30, 2018 and 2017

Contents

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Catholic Housing and Community Services
of the Archdiocese of Philadelphia

Report on the financial statements

We have audited the accompanying consolidated financial statements of Catholic Housing and Community Services of the Archdiocese of Philadelphia (the "Entity"), formerly known as Catholic Health Care Services, which comprise the consolidated balance sheets as of June 30, 2018 and 2017, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the 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 Entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Catholic Housing and Community Services of the Archdiocese of Philadelphia 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.

Grant Thornton LLP

Philadelphia, Pennsylvania
May 6, 2019

CONSOLIDATED BALANCE SHEETS

June 30,

	2018	2017
ASSETS		
Current assets		
Cash and cash equivalents	$ 7,594,759	$ 9,809,094
Accounts receivable	36,240	29,682
Other receivables	1,136,898	703,842
Related party receivables	2,835,837	2,043,988
Prepaid expenses	382,293	512,541
Related party loans receivable - current portion	1,110,808	804,568
Total current assets	13,096,835	13,903,715
Investments		
Unrestricted	2,555,998	19,877
Temporarily restricted	4,012,318	3,656,394
Permanently restricted	208,504	196,475
Total investments	6,776,820	3,872,746
Property, plant and equipment, net	47,166,218	47,166,253
Beneficial interest in trusts	1,640,595	1,669,839
Reserve and escrow accounts	1,825,356	1,685,258
Amortizable costs	323,654	158,115
Related party loans receivable	41,308,316	42,419,124
Total assets	$ 112,137,794	$ 110,875,050

Continued on next page

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEETS - CONTINUED

June 30,

	2018	2017
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	$ 132,859	$ 2,654,731
Accrued salaries	539,480	490,348
Accrued expenses	396,009	867,037
Benevolent care liability - current portion	192,629	259,876
Related party payables	5,179,585	4,751,908
Mortgages payable - current portion	-	14,848,819
Deferred revenue	90,869	139,179
Total current liabilities	6,531,431	24,011,898
Benevolent care liability	365,618	554,690
Resident funds escrow accounts	80,293	69,321
Accrued mortgage interest	4,501,457	3,966,246
Mortgages payable	9,546,857	9,546,857
Total liabilities	21,025,656	38,149,012
Net assets		
Unrestricted		
Parent	50,970,001	51,074,178
Non-controlling interest	23,969,520	5,917,952
Total unrestricted	74,939,521	56,992,130
Temporarily restricted	14,323,518	13,867,594
Permanently restricted	1,849,099	1,866,314
Total net assets	91,112,138	72,726,038
Total liabilities and net assets	$ 112,137,794	$ 110,875,050

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS

Year ended June 30, 2018

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenues				
Housing programs	$ 1,851,271	$ -	$ -	$ 1,851,271
Management fees	3,824,849	-	-	3,824,849
Community programs	3,312,936	-	-	3,312,936
Other operating revenue	226,000	-	-	226,000
Distributions from beneficial interest in trusts	37,284	-	-	37,284
Total operating revenues	9,252,340	-	-	9,252,340
Operating expenses				
Administration	521,915	-	-	521,915
Adult day services	272,181	-	-	272,181
Loan interest and fees	696,425	-	-	696,425
CHCS administration	1,213,044	-	-	1,213,044
CHCS finance	841,917	-	-	841,917
CHCS community-based services	2,562,464	-	-	2,562,464
CHCS information technology services	2,318,769	-	-	2,318,769
Depreciation and amortization	1,585,279	-	-	1,585,279
Plant operation and maintenance	1,028,715	-	-	1,028,715
Social services	138,726	-	-	138,726
Fringe benefits	1,489,093	-	-	1,489,093
Total operating expenses	12,668,528	-	-	12,668,528
Operating loss	(3,416,188)	-	-	(3,416,188)
Nonoperating revenues (expenses)				
Contributions and bequests	73,773	100,000	-	173,773
Capital contribution to related party	(259,853)	-	-	(259,853)
Loss on sale of fixed assets	(3,773)	-	-	(3,773)
Interest and investment income	1,759,424	47,707	1,613	1,808,744
Realized gain on sale of investments	-	12,906	436	13,342
Unrealized gains in fair value of investments	8,131	295,311	9,980	313,422
Change in fair value of beneficial interest in trusts	-	-	(29,244)	(29,244)
Total nonoperating revenues (expenses)	1,577,702	455,924	(17,215)	2,016,411
(Deficiency in) excess of revenues over expenses	(1,838,486)	455,924	(17,215)	(1,399,777)
Loss attributable to non-controlling interest	(1,734,309)	-	-	(1,734,309)
(Deficiency in) excess of revenues over expenses attributable to parent	(104,177)	455,924	(17,215)	334,532
Other changes in net assets				
Capital contributions from limited partners	19,785,877	-	-	19,785,877
Change in non-controlling interest	(1,734,309)	-	-	(1,734,309)
Change in net assets	17,947,391	455,924	(17,215)	18,386,100
Net assets				
Beginning of year	56,992,130	13,867,594	1,866,314	72,726,038
End of year	$ 74,939,521	$ 14,323,518	$ 1,849,099	$ 91,112,138

The accompanying notes are an integral part of this consolidated financial statement.

**CONSOLIDATED STATEMENT OF OPERATIONS
AND CHANGES IN NET ASSETS**

Year ended June 30, 2017

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenues				
Housing programs	$ 1,470,062	$ -	$ -	$ 1,470,062
Management fees	4,422,949	-	-	4,422,949
Community programs	3,188,048	-	-	3,188,048
Other operating revenue	101,292	-	-	101,292
Distributions from beneficial interest in trusts	66,837	-	-	66,837
Total operating revenues	9,249,188	-	-	9,249,188
Operating expenses				
Administration	426,279	-	-	426,279
Adult day services	242,551	-	-	242,551
Loan interest and fees	854,481	-	-	854,481
CHCS administration	1,644,033	-	-	1,644,033
CHCS finance	1,228,910	-	-	1,228,910
CHCS community-based services	2,912,607	-	-	2,912,607
CHCS information technology services	2,465,926	-	-	2,465,926
Depreciation and amortization	1,298,198	-	-	1,298,198
Plant operation and maintenance	801,534	-	-	801,534
Social services	125,547	-	-	125,547
Fringe benefits	1,630,058	-	-	1,630,058
Total operating expenses	13,630,124	-	-	13,630,124
Operating loss	(4,380,936)	-	-	(4,380,936)
Nonoperating revenues (expenses)				
Contributions and bequests	21,749	-	-	21,749
Distribution to Archdiocese of Philadelphia	(32,000,000)	-	-	(32,000,000)
Interest and investment income	1,911,618	54,661	1,848	1,968,127
Realized (loss) gain on sale of investments	(212,300)	1,130	38	(211,132)
Unrealized gains in fair value of investments	1,101,215	446,752	15,101	1,563,068
Change in fair value of beneficial interest in trusts	-	-	(103,591)	(103,591)
Total nonoperating (expenses) revenues	(29,177,718)	502,543	(86,604)	(28,761,779)
(Deficiency in) excess of revenues over expenses	(33,558,654)	502,543	(86,604)	(33,142,715)
Loss attributable to non-controlling interest	(1,626,600)	-	-	(1,626,600)
(Deficiency in) excess of revenues over expenses attributable to parent	(31,932,054)	502,543	(86,604)	(31,516,115)
Other changes in net assets				
Capital contributions from limited partners	1,815,423	-	-	1,815,423
HUD Section 202 capital contribution	-	865,386	-	865,386
Change in non-controlling interest	(1,626,600)	-	-	(1,626,600)
Change in net assets	(31,743,231)	1,367,929	(86,604)	(30,461,906)
Net assets				
Beginning of year	88,735,361	12,499,665	1,952,918	103,187,944
End of year	$ 56,992,130	$ 13,867,594	$ 1,866,314	$ 72,726,038

The accompanying notes are an integral part of this consolidated financial statement.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended June 30,

	2018	2017
Cash flows from operating activities		
Change in net assets	$ 18,386,100	$ (30,461,906)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Realized and unrealized gains on investments	(326,764)	(1,351,936)
Depreciation and amortization	1,585,279	1,298,198
Capital contributions from limited partners	(19,785,877)	(1,815,423)
Section 202 Capital Advance from HUD	-	(865,386)
Change in fair value of beneficial interest in trusts	(8,040)	36,754
Distributions from beneficial interest in trusts	37,284	66,837
Changes in assets and liabilities		
Accounts receivable, net	(6,558)	142,563
Reserve and escrow accounts	(140,098)	(1,120,051)
Related party receivables	(791,849)	234,226
Other receivables	(433,056)	(99,735)
Prepaid expenses	130,248	(215,206)
Accounts payable	143,902	142,038
Accrued salaries	49,132	(260,679)
Accrued expenses	(471,028)	280,380
Amortizable costs	(165,539)	(34,866)
Related party payables	427,677	(3,943,898)
Resident funds escrow accounts	10,972	12,304
Benevolent care liability	(256,319)	(348,110)
Accrued mortgage interest	535,211	457,251
Deferred revenue	(48,310)	60,871
Net cash used in operating activities	(1,127,633)	(37,785,774)
Cash flows from investing activities		
Capital expenditures	(4,251,018)	(10,896,796)
Purchase of investment securities	(5,177,659)	(25,175,993)
Proceeds from sale of investment securities	2,600,349	50,120,738
Payments received on related party loan	804,568	1,762,077
Net cash (used in) provided by investing activities	(6,023,760)	15,810,026
Cash flows from financing activities		
Section 202 Capital Advance from HUD	-	865,386
Capital contributions from limited partners	19,785,877	1,815,423
Repayment of mortgage payable	(14,848,819)	-
Proceeds from mortgages payable	-	8,386,460
Net cash provided by financing activities	4,937,058	11,067,269
Net decrease in cash and cash equivalents	(2,214,335)	(10,908,479)
Cash and cash equivalents		
Beginning of year	9,809,094	20,717,573
End of year	$ 7,594,759	$ 9,809,094
Supplemental disclosure of cash flow information		
Cash paid for interest, net of amount capitalized	$ 161,214	$ 171,730
Accounts payable and accrued expenses related to construction in progress	$ -	$ 2,665,774

The accompanying notes are an integral part of these consolidated financial statements.

NOTE A - NATURE OF OPERATIONS

Catholic Housing and Community Services of the Archdiocese of Philadelphia ("Catholic Housing and Community Services") is a nonprofit corporation whose members consist of the following: the Archbishop of Philadelphia, the Moderator of the Curia, and the Secretary for Clergy. Catholic Housing and Community Services provides support and services for seniors in Philadelphia and surrounding counties. These services include in-home support, parish-based support programs, geriatric care management, adult day care and senior housing communities.

Catholic Housing and Community Services is the developer of the following entities under the Pennsylvania Housing Finance Agency's Low-Income Housing Tax Credit ("LIHTC") program:

- St. John Neumann Place LP was organized as a for-profit limited partnership under the laws of the Commonwealth of Pennsylvania to develop, construct, and maintain rental housing for low-income seniors. The project consists of 75 units of rehabilitated housing located in Philadelphia, Pennsylvania. The project qualifies for the low-income tax credit established by the Tax Reform Act of 1986. St. John Neumann Place Inc., a nonprofit corporation, entered into a partnership joint venture (St. John Neumann Place LP) for the project as the general partner and owns 0.01% interest of the partnership. St. John Neumann Place LP is a controlled entity.

- St. Francis Villa Senior Housing LP was organized as a for-profit limited partnership under the laws of the Commonwealth of Pennsylvania to develop, construct, and maintain rental housing for low-income seniors. The project consists of 40 units of housing located in Philadelphia, Pennsylvania. The project qualifies for the low-income credit established by the Tax Reform Act of 1986. St. Francis Villa Inc., a nonprofit corporation, entered into a partnership joint venture (St. Francis Villa Senior Housing LP) for the project as the general partner and owns 0.01% interest of the partnership. St. Francis Villa Senior Housing LP is a controlled entity.

- St. John Neumann Place II LP was organized as a for-profit limited partnership under the laws of the Commonwealth of Pennsylvania to develop, construct, and maintain rental housing for low-income seniors. The project consists of 52 units of rehabilitated housing located in Philadelphia, Pennsylvania. The project qualifies for the low-income tax credit established by the Tax Reform Act of 1986. St. John Neumann Place II Inc., a nonprofit corporation, entered into a partnership joint venture (St. John Neumann Place II LP) for the project as the general partner and owns 0.01% interest of the partnership. St. John Neumann Place II LP is a controlled entity.

- St. Rita Place Senior Housing LP was organized as a for-profit limited partnership under the laws of the Commonwealth of Pennsylvania to develop, construct, and maintain rental housing for low-income seniors.

In addition, Catholic Housing and Community Services is the sponsor of the following organization under the United States Department of Housing and Urban Development ("HUD") Section 202 Supportive Housing for the Elderly program:

- Nativity BVM Place ("Nativity") was organized as a nonprofit corporation under the laws of the Commonwealth of Pennsylvania to develop, construct and maintain housing facilities for elderly persons. Nativity consists of 63 units located in Philadelphia, Pennsylvania. Tenants began moving into the units in December 2015. Nativity is operating under Section 202 of the National Housing Act of 1959,

(Continued)

NOTE A - NATURE OF OPERATIONS - Continued

which provides housing for elderly and disabled persons. Nativity is primarily financed under HUD's Section 202 capital advance program. The project is regulated by HUD with respect to rental charges, operating expenses and operating methods. The by-laws of Nativity require the directors to be either members of Catholic Housing and Community Services or nonmembers who have the approval of the Board of Directors of Catholic Housing and Community Services. For this reason, the entity is considered to be controlled by Catholic Housing and Community Services.

Catholic Housing and Community Services manages Villa Saint Joseph, a personal care facility, and St. John Vianney Center, a residential facility providing behavioral health treatment and outpatient behavioral health management and clinical services, both of which are owned by the Archdiocese of Philadelphia. Catholic Housing and Community Services receives an annual fee for administrative support services from these entities in exchange for management services rendered.

The organization was formed as Catholic Health Care Services and changed its name to Catholic Housing and Community Services as of July 1, 2017 to better reflect the nature of the organization.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Principles of Consolidation

The consolidated financial statements include the accounts of Catholic Housing and Community Services and its controlled entities, which are collectively referred to as "CHCS."

For consolidated for-profit entities in which the ownership is less than 100%, the outside ownership interests are shown as non-controlling interests. All significant intercompany accounts and transactions have been eliminated.

2. Basis of Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis. Net assets and the related revenues, expenses, gains and losses are classified into three categories, based on the existence or absence of donor-imposed restrictions. The categories are permanently restricted, temporarily restricted and unrestricted net assets.

Temporarily restricted net assets include gifts, pledges, trusts and remainder interests, and income and gains which include restrictions that have not yet been met. Such restrictions include purpose restrictions where donors have specified the purpose for which the net assets are to be spent, or time restrictions imposed by donor or implied by the nature of the gift.

Permanently restricted net assets include the historical corpus amounts of gifts which are required by donor restriction to be invested in perpetuity, and the fair value of the beneficial interest in trusts. Capital appreciation, if permanently restricted by the donor, is included in permanently restricted net assets.

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NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Unrestricted net assets are free of donor-imposed restrictions and are all the remaining net assets of CHCS.

3. Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") 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. These significant estimates include the useful lives of depreciable assets, allocation of functional expenses, valuation of the benevolent care liability, and the fair values of investments, including those investments held in beneficial interest in trusts. Actual results could differ from those estimates.

4. Cash and Cash Equivalents

CHCS considers investments in highly liquid securities, authorized by management, purchased with a maturity of three months or less from the date purchased to be cash equivalents. CHCS maintains cash balances with financial institutions that at times may exceed Federal Depository Insurance Corporation limits. Management does not believe the credit risk related to these deposits to be significant.

5. Reserve and Escrow Accounts

Reserve and escrow accounts represent cash separately restricted for operational reserves or restricted pursuant to terms of debt agreements.

6. Investments

SEI, a provider of institutional asset management services, created two publicly traded Catholic Values mutual funds: the Catholic Values Equity Fund and the Catholic Values Fixed Income Fund ("Catholic Values Funds"), which provide Catholic institutions with high quality investment products that align with their core values, without sacrificing diversification or return potential. Specifically, the Catholic Values Funds align with the investment directives set forth by the United States Conference of Catholic Bishops ("USCCB"). The Archdiocese of Philadelphia appointed SEI Private Trust Company to act as custodian (the "Custodian") of the investments, which consist of certain cash and securities and are more fully described in Notes D and P. Investment allocation decisions are the responsibility of the finance committee.

Investments are reported at fair value. Realized gains and losses are reported to the participant monthly. Gains and losses created at the participant level due to sales are recorded in the specific participant accounts. Unrealized gains and losses are included in the consolidated statements of operations and changes in net assets as unrealized gains in fair value of investments.

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NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

7. Property, Plant and Equipment

Property, plant and equipment are stated at cost. Expenditures for major renewals and betterments are capitalized. Maintenance, repairs and minor renewals are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Donated assets are recorded at fair value at the date of donation. Upon sale, or retirement of depreciable property, the cost and related accumulated depreciation are removed from the related accounts, and resulting gains or losses are retired in operations.

Recovery periods are based on the following ranges of useful lives:

Land improvements	5 - 20 years
Buildings	20 - 40 years
Building improvements	5 - 25 years
Furniture and equipment	3 - 20 years

8. Long-Lived Assets

CHCS continually evaluates whether events and circumstances have occurred that indicate the remaining estimated useful life of long-lived assets may warrant revision or that the remaining balance may not be recoverable. When factors indicate that long-lived assets should be evaluated for possible impairment, CHCS uses an estimate of the related undiscounted operating income over the remaining life of the long-lived asset in measuring whether the long-lived asset is recoverable. The impairment loss on these assets is measured as the excess of the carrying amount of the asset over its fair value. Fair value is based on market prices where available, or discounted cash flows. Management believes that no revision to the remaining useful lives or write-down of long-lived assets were required at June 30, 2018 and 2017.

9. Amortizable Costs

Amortizable costs consist of costs related to the St. John Neumann Place LP project development, the St. Francis Villa Senior Housing LP project development, and the St. John Neumann Place II LP project development, and are being amortized using the straight-line method over their related useful lives. Amortization expense was $61,562 and $73,813 for the years ended June 30, 2018 and 2017, respectively.

10. Pledges/Contributions

CHCS reports gifts of cash and other assets as restricted support if they are received with a donor stipulation that limits the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose of restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions.

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NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Unconditional promises to give (pledges) are recorded as receivables and revenues at fair value at the date the promise is received within the appropriate net asset category. Donor-restricted gifts which are received and either spent or deemed spent within the same year are reported as unrestricted revenues and expenses. Gifts of long-lived assets are reported at fair value as unrestricted revenue. Gifts specified for the acquisition or constructions of long-lived assets are reported as unrestricted net assets when the assets are placed in service.

11. (Deficiency in) Excess of Revenues over Expenses

The consolidated statements of operations and changes in net assets include the (deficiency in) excess of revenues over expenses. Changes in unrestricted net assets which are excluded from the (deficiency in) excess of revenues over expenses, consistent with industry practice, include permanent transfers of assets to and from affiliates for other than goods and services, non-controlling interest and capital contributions.

12. Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

13. Developer Fee Income

As the general partner of the LIHTC partnerships and as the sponsor of Nativity BVM Place, CHCS provides development and management services to the entities in exchange for a specified developer fee. The developer fee income and related capital asset are eliminated in consolidation. Below is a summary of developer fees by entity:

- St. John Neumann Place LP - This developer fee totaled $1,395,573, $630,938 of which is deferred and will be paid to CHCS as cash flow permits. The deferred developer's fee will accrue interest at 8% per annum, and shall be paid no later than the 15th anniversary of completion of construction.
- St. Francis Villa Senior Housing LP - This developer fee totaled $1,231,356, $227,707 of which is deferred and will be paid to CHCS as cash flow permits. The deferred developer's fee will accrue interest at 6% per annum, and shall be paid no later than the 13th anniversary of completion of construction.
- St. John Neumann Place II LP - This developer fee totaled $1,401,181, $422,445 of which is deferred and will be paid to CHCS as cash flow permits. The deferred developer fee will accrue interest at 8% per annum, and shall be paid no later than the 15th anniversary of completion of construction.
- Nativity BVM Place - This developer fee totaled $261,803, $65,579 of which is deferred and will be paid to CHCS as cash flow permits.

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NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

14. New Accounting Pronouncements

Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2014-09, *Revenue (Topic 606): Revenue from Contracts with Customers*, outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts, whether or not written, with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of ASU 2014-09 is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services by applying five steps listed in the guidance. ASU 2014-09 also requires disclosure of both quantitative and qualitative information that enables users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from customers. The new guidance is effective for fiscal years beginning after December 15, 2018. Entities have the option of using either a full retrospective or a modified retrospective approach. Early adoption is permitted. CHCS has not yet determined the effect the adoption of ASU 2014-09 may have on the consolidated financial statements.

ASU 2016-02, *Leases,* requires that most leased assets be recognized on the balance sheet as assets and liabilities for the rights and obligations created by these leases. ASU 2016-02 is effective for fiscal years beginning after December 15, 2019. Early application is permitted. An entity is required to apply the amendments in ASU 2016-02 under the modified retrospective transition approach. This approach includes a number of optional practical expedients, which are described in the final standard. Under these practical expedients, an organization will continue to account for leases that commence before the effective date in accordance with current U.S. GAAP, unless the lease is modified. However, lessees are required to recognize on the balance sheet leased assets and liabilities for operating leases at each reporting date. CHCS has not yet determined the effect the adoption of ASU 2016-02 may have on the consolidated financial statements.

ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, intends to make certain improvements to the current reporting requirements for not-for-profit entities including: (1) the presentation for two classes of net assets at the end of the period, rather than the currently required three classes, as well as the annual change in each of the two classes; (2) the removal of the requirement to present or disclose the indirect method (reconciliation) when using the direct method for the statement of cash flows; and (3) the requirement to provide various enhanced disclosures relating to various not-for-profit specific topics. The new standard is effective for annual financial statements beginning after December 15, 2017. CHCS is evaluating the pronouncement at this time.

ASU No. 2018-08, *Not-for-profit Entities: Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, intends to clarify and improve the scope and accounting guidance for contributions received and contributions made. The amendment provides (1) a framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction, including how to evaluate whether a resource provider is receiving commensurate value in an exchange transaction, and (2) guidance to assist entities in determining whether a contribution is either conditional or unconditional. Guidance applies to both recipients and resource providers. For contributions received, the new standard is effective for annual financial statements beginning after December 15, 2018. For transactions in which CHCS serves as resource provider, the new standard is effective for annual consolidated financial statements beginning after December 15, 2019. CHCS has not determined the impact of the new standard at this time.

NOTE C - BENEVOLENT CARE LIABILITY

On November 3, 2014, Center Management Group acquired the operating assets and real property of the CHCS long-term care facilities. The agreement of sale stipulated that CHCS pay 50% of the monthly unpaid charges for the St. Mary Manor personal care residents, up to a total of $1.5 million for each of the 7 years following the closing date. At June 30, 2018 and 2017, the consolidated financial statements reflect an estimated future liability of $558,247 and $814,566, respectively.

NOTE D - INVESTMENTS

Investments held at SEI are reported at fair value and consist of the following:

Catholic Values Equity Fund (or "fund") - Invests in common stocks and is managed by SEI. The fund is valued at the closing price of the traded fund.

Catholic Values Fixed Income Fund (or "fund") - Invests in mutual funds, corporate obligations, United States Treasury obligations and municipal obligations and is managed by SEI. The fund is valued at the closing price of the traded fund.

Liquidity Sub-Account (or "fund") - Investments are liquid in nature and invested in short-duration U.S. government bonds.

Account holders have the option of six asset classifications in which to invest. The options include a short-duration U.S. government bond fund, a 100% fixed income bond fund and four equity funds with varying fixed income to equity mixes of 30/70, 50/50, 60/40 or 70/30. The Investment Committee of the Archdiocese of Philadelphia ("Investment Committee") has primary responsibility for determining fixed income to equity mix. The asset mix of the mutual funds is SEI's responsibility.

At June 30, 2018, CHCS's investments are summarized as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Catholic Values Equity Fund	$ 1,795,982	$ 2,888,199	$ 150,088	$ 4,834,269
Catholic Values Fixed Income Fund	746,171	1,124,119	58,416	1,928,706
Liquidity Sub-Account	13,845	-	-	13,845
Investment in SEI Catholic Values Funds	$ 2,555,998	$ 4,012,318	$ 208,504	$ 6,776,820

(Continued)

NOTE D - INVESTMENTS - Continued

At June 30, 2017, CHCS's investments are summarized as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Catholic Values Equity Fund	$ -	$ 2,612,681	$ 140,392	$ 2,753,073
Catholic Values Fixed Income Fund	-	1,043,713	56,083	1,099,796
Liquidity Sub-Account	19,877	-	-	19,877
Investment in SEI Catholic Values Funds	$ 19,877	$ 3,656,394	$ 196,475	$ 3,872,746

NOTE E - BENEFICIAL INTEREST IN TRUSTS

CHCS is the beneficiary of individual trusts held in perpetuity by third parties. The beneficial interest in the trusts is recorded at the fair value of the assets underlying the trusts. At June 30, 2018 and 2017, the allocable fair value of these trusts was $1,640,595 and $1,669,839, respectively, and is recorded as beneficial interest in trusts in the accompanying consolidated balance sheets.

Jeremiah J. Harrigan Trust

During November 2016, PNC Bank, the trustee for the Jeremiah J. Harrigan Trust, questioned the interpretation of provisions in the Will of Jeremiah J. Harrigan concerning income shares for certain beneficiaries that have ceased to exist or no longer provide services. Two such beneficiaries include St. Francis' Country House for Convalescents ("St. Francis") and St. Mary's Institute for the Blind ("St. Mary"), both of which were nursing homes owned and operated by CHCS until they were sold to Center Management Group LLC during November 2014.

In June 2018, the Court of Common Pleas of Philadelphia Orphans' Court Division granted PNC Bank's request to redistribute the income payable to St. Francis and St. Mary to the remaining beneficiaries. Accordingly, CHCS recorded a loss of $184,105 within the change in fair value of beneficial interest in trusts to reflect the removal of such beneficiary interests in trust.

NOTE F - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment and accumulated depreciation at June 30, 2018 and 2017 consist of:

	2018	2017
Land	$ 1,702,992	$ 1,702,992
Land improvements	10,700	10,700
Buildings and improvements	50,047,698	36,889,343
Furniture and equipment	4,991,806	4,623,907
Construction in progress	276,784	12,278,419
	57,029,980	55,505,361
Accumulated depreciation	(9,863,762)	(8,339,108)
Property, plant and equipment, net	$ 47,166,218	$ 47,166,253

Depreciation expense was $1,523,717 and $1,224,385 for the years ended June 30, 2018 and 2017, respectively.

CHCS sold the building located at 15th and Porter Streets in Philadelphia on February 21, 2019 for $1.4 million, reducing property, plant and equipment and related depreciation by $636,496.

NOTE G - EMPLOYEE BENEFIT PLANS

1. Lay Employees' Retirement Plan - frozen effective June 30, 2014

Through June 30, 2014, the eligible lay employees of CHCS were covered under the Lay Employees' Retirement Plan of the Archdiocese of Philadelphia (the "Plan"), which is a defined benefit pension plan covering substantially all lay employees of the Archdiocese of Philadelphia, based on age and service requirements. The Plan is administered by the Trustees of the Plan. CHCS made annual contributions to the Plan at an average rate of 5.90% and 4.95% of the salaries of eligible employees for the years ended June 30, 2018 and 2017, respectively. The amount expensed by CHCS for contributions to the Plan was $267,029 and $267,104 for the years ended June 30, 2018 and 2017, respectively. Separate accounts for vested benefits and pension fund assets are not maintained for each institution.

2. Archdiocese of Philadelphia 403(b) Retirement Plan

Effective July 1, 2014, the Archdiocese of Philadelphia established a 403(b) defined contribution plan. Under the 403(b) plan, and subject to statutory limits, all employees at least 18 years of age are immediately eligible to make voluntary deferred salary contributions into the 403(b) plan.

(Continued)

NOTE G - EMPLOYEE BENEFIT PLANS - Continued

Employer contributions, which cover employees meeting the eligibility requirements below, are discretionary. The following are the eligibility requirements for the employer contributions:

Grandfathered Employees - Any employee who was accruing benefits as an active participant in the Plan as of its freeze date of June 30, 2014 is a grandfathered employee and will be eligible to receive employer contributions beginning with the first payroll on or after July 1, 2014. A grandfathered 10-month employee will be eligible to receive employer contributions beginning with the first payroll on or after September 1, 2014.

Non-Grandfathered Employees - Non-grandfathered employees are eligible to receive the employer contribution beginning with the first payroll coinciding with or immediately following the completion of 1,000 hours of service during the 18-month period beginning July 1, 2014 through December 31, 2015. The employee must also have attained at least 18 years of age to be eligible. For a non-grandfathered employee hired prior to July 1, 2014 who does not meet the eligibility requirements for an employer contribution in the time frame described above, the period for determining whether or not one meets the 1,000 hour service requirement will shift to the calendar year beginning January 1, 2016.

Vesting - Vesting in employer contributions to a 403(b) plan account will be immediate for any grandfathered employee who has completed 12 months of service as of June 30, 2014. Vesting in employer contributions for all other employees will take place after the completion of 12 months of service.

In fiscal years 2018 and 2017, the employer contribution rate was 4.5% of base salary for eligible employees. The contributions by CHCS into the 403(b) plan totaled $192,236 and $253,441 for the years ended June 30, 2018 and 2017, respectively.

NOTE H - DEBT

Mortgages Payable - St. John Neumann Place LP

St. John Neumann Place LP obtained a loan from the Archdiocese of Philadelphia, in the principal amount of $2,860,000, with a term of 30 years and an interest rate of 6.25%, compounded annually. Principal and interest are payable in monthly installments as cash flow permits with any balance due in full on the 30th anniversary of the closing, December 4, 2036. At both June 30, 2018 and 2017, the outstanding balance was $2,860,000.

The Philadelphia Redevelopment Authority ("PRA"), an agency of the City of Philadelphia, approved St. John Neumann Place LP a $1,765,000 loan through the Federal HOME program. As a condition of the loan, the project is required to meet certain rental and occupancy requirements for a period of 20 years or until the loan is paid in full. The loan will bear interest at the greater of 4.9% or a composite rate, as defined in the Mortgage Note. Interest will accrue from the date of the closing, and principal and interest are payable in full on the 30th anniversary of the closing, December 4, 2036. The loan is secured by a first mortgage on substantially all assets of St. John Neumann Place LP. At both June 30, 2018 and 2017, the outstanding balance was $1,765,000.

(Continued)

NOTE H - DEBT - Continued

St. John Neumann Place LP received funding of $335,000 under the Federal Home Loan Bank's Affordable Housing Program ("AHP"). The program provides a forgivable loan that will not require repayment if the project is maintained in accordance with AHP regulations for the 15-year retention period. Should the partnership not meet these terms, repayment of principal plus interest will be required. The loan is secured by a second mortgage on substantially all assets of St. John Neumann Place LP. At both June 30, 2018 and 2017, the outstanding balance was $335,000.

Mortgages Payable - St. Francis Villa Senior Housing LP

PNC Bank, a national banking association, has approved financing for St. Francis Villa Senior Housing LP in the amount of $8,350,000 as a first mortgage. The loan will bear interest at a variable rate, as defined in the Mortgage Note, currently 2.521%. Interest is due monthly, and the entire balance of principal and any unpaid interest will be payable in full on the maturity date of the note, October 17, 2017. The loan is secured by a security interest in substantially all assets of St. Francis Villa Senior Housing LP. At June 30, 2018 and 2017, the outstanding balance was $-0- and $8,350,000, respectively. During September 2017, this loan was paid in full using equity contributions received from the limited partner in accordance with the terms of the limited partnership agreement.

The Philadelphia Housing Authority ("PHA"), a public body, has approved financing for St Francis Villa Senior Housing LP in the amount of $1,800,000 as a second mortgage. As a condition of the loan, the project is required to meet certain covenants and conditions for a period of 40 years from the date the project becomes available for occupancy and for a period of 10 years after the end of the last PHA fiscal year for which operating assistance is provided by PHA. The loan will bear simple interest at 8.00% per annum once construction has been completed. Principal and accrued interest are payable in full on the 45th anniversary of the note. The loan is secured by a first mortgage on substantially all assets of St. Francis Villa Senior Housing LP. At both June 30, 2018 and 2017, the outstanding balance was $1,800,000.

St. Francis Villa Senior Housing LP has received funding of $443,991 under the Federal Home Loan Bank's AHP. The program provides a forgivable loan that will not require repayment if the project is maintained in accordance with AHP regulations for the 15-year retention period. Should the partnership not meet these terms, repayment of principal plus interest will be required. The loan is secured by the second mortgage on substantially all assets of St. Francis Villa Senior Housing LP. At both June 30, 2018 and 2017, the outstanding balance was $443,991.

Mortgages Payable - St. John Neumann Place II Senior Housing LP

Capital One, National Association, a national banking association, has approved financing for St. John Neumann Place II Senior Housing LP in the amount of $10,757,259 as a first mortgage. The loan will bear interest at a variable rate, as defined in the Mortgage Note. Interest is due monthly, and the entire balance of principal and any unpaid interest will be payable in full on the maturity date of the note, October 28, 2017. At June 30, 2018 and 2017, the outstanding balance was $-0- and $6,498,819, respectively. During October 2017, this loan was paid in full using equity contributions received from the limited partner in accordance with the terms of the limited partnership agreement.

(Continued)

NOTE H - DEBT - Continued

Manufacturers and Traders Trust Company, a banking organization, has approved a direct subsidy of $250,000 to the project's sponsor through the Federal Home Loan Bank's AHP. The sponsor, in turn, has funded a loan in the amount of $250,000 to the project, effective July 28, 2016, with interest of 6.5% per year compounded annually. Provided the project is maintained in accordance with AHP regulations for the 15-year retention period, the loan will be considered satisfied and no repayment will be required. Should the partnership not meet these terms, payment of principal plus interest will be required. No payments are due until the loan matures on August 30, 2047. At both June 30, 2018 and 2017, the outstanding balance was $250,000.

Capital One, National Association, a national banking organization, has approved a direct subsidy of $397,866 to the project's sponsor through the Federal Home Loan Bank's AHP. The sponsor, in turn, has funded a loan in the amount of $397,866 to the project, effective November 3, 2016, with interest of 6.5% per year compounded annually. Provided the project is maintained in accordance with AHP regulations for the 15-year retention period, the loan will be considered satisfied and no repayment will be required. Should the partnership not meet these terms, payment of principal plus interest will be required. No payments are due until the loan matures on August 30, 2047. At both June 30, 2018 and 2017, the outstanding balance was $397,866.

<u>Mortgages Payable - Nativity BVM Place</u>

The PRA approved Nativity BVM Place a $1,695,000 loan through the Federal HOME program. As a condition of the loan, the project is required to meet certain rental and occupancy requirements for a period of 20 years or until the loan is paid in full. Except upon the occurrence of an event of default as defined in the loan documents, the loan will not bear interest and the entire principal balance will be due and payable on the 45th anniversary of the loan closing. The loan is secured by the second mortgage on substantially all assets of Nativity. At both June 30, 2018 and 2017, the outstanding balance was $1,695,000.

<u>Future Maturities of Debt</u>

Principal repayments under the loans and mortgages are as follows:

Year ending June 30,	
2019	$ -
2020	-
2021	-
2022	-
2023	-
Thereafter	9,546,857
	$ 9,546,857

NOTE I - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2018 and 2017 are restricted to:

	2018	2017
Senior housing support	$ 1,847,371	$ 1,595,042
Community based services for seniors	2,264,947	2,061,352
HUD Section 202 Capital Advance and Grant	10,211,200	10,211,200
	$ 14,323,518	$ 13,867,594

Permanently restricted net assets at June 30, 2018 and 2017 are restricted to:

	2018	2017
Beneficial interest in trusts	$ 1,640,595	$ 1,669,839
Endowments	208,504	196,475
	$ 1,849,099	$ 1,866,314

During 2018 and 2017, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes in the amount of $-0-.

NOTE J - HUD SECTION 202 CAPITAL ADVANCE AND GRANT

The temporarily restricted net assets of Nativity BVM Place include a capital advance of $9,811,200, of which $9,811,200 has been received as of June 30, 2018 and 2017 from HUD under the Section 202 Capital Advance program of the Act, with a mortgage note which requires no repayment and bears no interest so long as housing remains available for very low-income elderly persons for a minimum of 40 years. Failure to keep the housing available for elderly persons would result in the repayment of the entire note plus interest since the date of the first advances. The capital advance grants HUD a security interest in substantially all property and equipment and gross revenues.

The temporarily restricted net asset balance for Nativity also includes a Section 202 Demonstration Pre-Development Grant from HUD for $400,000, of which the full amount has been received at both June 30, 2018 and 2017.

NOTE K - ENDOWMENTS

CHCS's endowments consist of donor-restricted endowment funds established for a variety of purposes. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

For some of the endowments, the donor has directed how the earnings are to be used. When documentation does not provide specific direction, CHCS follows the Commonwealth of Pennsylvania Act 141.

1. Interpretation of Relevant Law

In accordance with Commonwealth of Pennsylvania Act 141, and unless directed otherwise by the donor, CHCS 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 CHCS in a manner consistent with the standard of prudence prescribed by relevant law. CHCS does not release any portion of the permanently restricted funds. Pennsylvania law permits the Archdiocese of Philadelphia to release a percentage, which is elected annually, of the market value of its endowment funds into unrestricted income. The spending rate percentage, between 2% and 7%, is applied to the three-year average of the market value of the endowment funds' assets.

2. Return Objectives and Risk Parameters

CHCS has adopted investment policies established by the Archdiocese of Philadelphia's Investment Committee and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by their endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity. Under this policy, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of plus 3% over the consumer price index while assuming a moderate level of investment risk. CHCS expects their endowment funds, over time, to provide an average rate of return of approximately 5% annually. Actual returns in any given year may vary from that amount.

3. Spending Policy

In accordance with state law, net realized and unrealized gains on permanently restricted investments are included as temporarily restricted net assets, unless subject to donor restrictions for the corpus. Commonwealth of Pennsylvania law permits CHCS to adopt a spending policy for endowment earnings, subject to certain limitations. CHCS follows the total return concept of endowment investment and spending. Under this concept, a prudent amount of appreciation earned on the investments may be spent in the event that the interest and dividends earned are insufficient to meet that period's spending rate. The Archdiocese of Philadelphia's spending policy for the years ended June 30, 2018 and 2017 allowed for a 3% draw of the three-year average market value of the permanently restricted endowments, unless directed otherwise by the donor. CHCS did not allocate a draw for the years ended June 30, 2018 or 2017.

(Continued)

NOTE K - ENDOWMENTS - Continued

4. Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the original gift amount maintained as permanently restricted net assets. At both June 30, 2018 and 2017, there were no deficiencies of this nature.

5. Endowment Balances

As of June 30, 2018 and 2017, $208,504 and $196,475, respectively, in donor-restricted endowment funds were recorded within permanently restricted net assets.

CHCS had the following endowment activities during the years ended June 30, 2018 and 2017, delineated by net asset class. All endowment activities were donor-restricted.

	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 30, 2016	$ 3,153,851	$ 179,488	$ 3,333,339
Investment income	54,661	1,848	56,509
Net appreciation (realized and unrealized gains)	447,882	15,139	463,021
Total investment return	502,543	16,987	519,530
Endowment net assets, June 30, 2017	3,656,394	196,475	3,852,869
Investment income	47,707	1,613	49,320
Net appreciation (realized and unrealized gains)	308,217	10,416	318,633
Total investment return	355,924	12,029	367,953
Endowment net assets, June 30, 2018	$ 4,012,318	$ 208,504	$ 4,220,822

NOTE L - INCOME TAXES

CHCS and Nativity BVM Place are nonprofit corporations which have been granted exempt status from federal and state taxation under Section 501(c)(3) of the Internal Revenue Code.

CHCS has not recorded any provision or benefit for federal or state income taxes related to the for-profit partnerships which are included in the consolidated financial statements since taxable income or loss passes through to and is reportable by the partners. The partnerships are subject to City of Philadelphia Gross Receipts Tax, which will be expensed as paid.

(Continued)

NOTE L - INCOME TAXES - Continued

CHCS follows the accounting guidance for uncertainties in income tax positions which requires that a tax position be recognized or derecognized based on a "more likely than not" threshold. This applies to positions taken or expected to be taken in a tax return. CHCS does not believe its consolidated financial statements include material uncertain tax positions.

NOTE M - CONTINGENCIES

CHCS is from time to time subject to routine litigation incidental to its business. In the opinion of management, after consulting with legal counsel, the settlement of litigation and claims, in the aggregate, will not have a material adverse effect on CHCS's consolidated balance sheets.

NOTE N - CONCENTRATION OF CREDIT RISK

Three funding sources account for approximately 73% of CHCS's total accounts receivable and other receivable balances as of June 30, 2018. Two funding sources account for approximately 75% of CHCS's total accounts receivable and other receivable balances as of June 30, 2017. Additionally, two funding sources account for 60% and 67% of CHCS's total operating revenue for the years ended June 30, 2018 and 2017, respectively.

NOTE O - RELATED PARTY TRANSACTIONS

1. <u>Loans Receivable</u>

In June 2012, the Archdiocese of Philadelphia and related entities entered into several Term Loan Agreements with participating Archdiocesan entities to retire outstanding external debt obligations. These retired obligations include the Variable Rate Revenue Bonds Series of 2008 issued through the Montgomery County Industrial Development Authority totaling $47,007,923; the Variable Rate Revenue Bonds Series of 2001 through the Chester County Industrial Development Authority totaling $50,708,547; and the various interest rate swap transactions associated with these debts totaling $15,750,000. The transactions resulted in the inter-diocesan Term Loan Receivables and Term Loans Payables totaling $71,357,582 at participating Archdiocesan entities, which included a loan receivable of $48,713,240 recorded by CHCS. The loan receivable was refinanced on July 1, 2014, with terms as described below. The outstanding balances for the loans receivable at June 30, 2018 and 2017, were $42,419,124 and $43,223,692, respectively.

The loans are collateralized by first priority mortgage liens encumbering the following Archdiocesan high school premises: Bonner-Prendergrast High School, Pope John Paul II High School, Bishop Shanahan High School and Archbishop Wood High School. In addition, the Archdiocese of Philadelphia pledges the High School Revenue associated with these specific schools. The loans carry a fixed interest rate of 4% amortized over 28 years, maturing on June 1, 2042.

(Continued)

NOTE O - RELATED PARTY TRANSACTIONS - Continued

The future principal amounts receivable on the loans at June 30, 2018 are as follows:

2019	$ 1,110,808
2020	1,155,912
2021	1,202,846
2022	1,251,687
2023	1,302,510
Thereafter	36,395,361
Total	$ 42,419,124

2. Other

CHCS is covered under various insurance, retirement and other plans of the Archdiocese of Philadelphia. The transactions with the Archdiocese of Philadelphia and affiliates recorded as revenue or charged to expense for the fiscal years ended June 30, 2018 and 2017, are as follows:

	2018	2017
Revenues		
Management fees	$ 3,824,849	$ 4,422,949
Engineering consulting	87,381	101,292
	$ 3,912,230	$ 4,524,241
Expenses		
Distribution to Archdiocese of Philadelphia	$ -	$ 32,000,000
Pension	459,266	520,545
Insurance	109,865	126,248
	$ 569,131	$ 32,646,793

The Board of Directors of Catholic Housing and Community Services adopted a resolution at a special meeting held on October 19, 2016, approving the contribution and authorizing the transfer of $32 million in cash and securities from the assets of CHCS to the Archdiocese of Philadelphia, to be used for the purpose of funding the Lay Employees' Retirement Plan of the Archdiocese of Philadelphia and the Priests' Pension Plan and Ancillary Retirement Benefits Trusts of the Archdiocese of Philadelphia.

(Continued)

NOTE O - RELATED PARTY TRANSACTIONS - Continued

CHCS has receivables due from related parties of $2,835,837 and payables of $5,179,585 at June 30, 2018. Receivables include $970,712 due from Archdiocese of Philadelphia related entities at June 30, 2018. The remaining related party balances are the result of cash management arrangements between CHCS and other related entities.

CHCS had receivables due from related parties of $2,043,988 and payables of $4,751,908 at June 30, 2017. Receivables included $504,759 due from Archdiocese of Philadelphia related entities at June 30, 2017. The remaining related party balances were the result of cash management arrangements between CHCS and other related entities.

NOTE P - FAIR VALUE MEASUREMENTS

FASB Accounting Standards Codification ("ASC") 820, *Fair Value Measurements and Disclosures*, establishes a single authoritative definition of fair value, sets a framework for measuring fair value, and requires additional disclosures about fair value measurements. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy 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 under ASC 820 are described as follows:

Level 1 Quoted prices in active markets for identical assets or liabilities as of the measurement date.

Level 2 Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Fair value calculations may not be indicative of net realizable value or reflective of future fair values. Furthermore, although CHCS believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

(Continued)

NOTE P - FAIR VALUE MEASUREMENTS - Continued

The following table presents the fair values of the investments held by CHCS by level within the fair value hierarchy, as of June 30, 2018 and 2017:

2018	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
Assets				
Investment in SEI	$ 6,776,820	$ -	$ -	$ 6,776,820
Beneficial interest in trusts	-	-	1,640,595	1,640,595
Total of assets at June 30, 2018	$ 6,776,820	$ -	$ 1,640,595	$ 8,417,415
2017				
Assets				
Investment in SEI	$ 3,872,746	$ -	$ -	$ 3,872,746
Beneficial interest in trusts	-	-	1,669,839	1,669,839
Total of assets at June 30, 2017	$ 3,872,746	$ -	$ 1,669,839	$ 5,542,585

The table below sets forth a summary of changes in the fair value of CHCS's Level 3 assets for the years ended June 30, 2018 and 2017:

	2018	2017
Balance at beginning of year	$ 1,669,839	$ 1,773,430
Distributions received from trusts	(37,284)	(66,837)
Net appreciation	8,040	147,351
Reduction in fair value due to change in beneficiaries (Note E)	-	(184,105)
Net change in fair value	8,040	(36,754)
Balance at end of year	$ 1,640,595	$ 1,669,839

NOTE Q - FUNCTIONAL EXPENSES

CHCS provides a variety of services, as described in Note A. Expenses related to providing these services are as follows for the years ended June 30, 2018 and 2017:

	2018	2017
Housing programs	$ 3,202,497	$ 2,860,277
Community programs	3,493,894	3,831,989
Administrative	5,972,137	6,937,858
	$ 12,668,528	$ 13,630,124

NOTE R - LEASES

CHCS has entered into lease agreements for real estate with various affiliated and non-affiliated entities. The following is a schedule of future minimum lease payments for operating leases with noncancellable lease terms in excess of one year:

Year ending June 30,	
2019	$ 174,003
2020	103,825
2021	50,402
2022	51,914
2023	8,705
Thereafter	160
	$ 389,009

Rental expense for the years ended June 30, 2018 and 2017 totaled approximately $431,000 and $494,000, respectively.

NOTE S - LESSOR

CHCS leases its building space to unaffiliated tenants. Rental income on the leases totaled approximately $110,000 during both of the years ended June 30, 2018 and 2017.

Future minimum rents to be received on the leases during the year ending June 30, 2019 total approximately $55,000.

NOTE T - SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 6, 2019, which is the date the consolidated financial statements were available to be issued. There were no events or transactions occurring during the subsequent event reporting period which require recognition or disclosure in the consolidated financial statements, except as noted in Note F.