

CATHOLIC CHARITIES, INC.

FINANCIAL STATEMENTS

June 30, 2018 and 2017



TABLE OF CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
Statements of Financial Position	3
Statements of Activities	4
Statement of Functional Expenses – For the Year Ended June 30, 2018	5
Statement of Functional Expenses – For the Year Ended June 30, 2017	6
Statements of Cash Flows	7
Notes to the Financial Statements	8
SUPPLEMENTAL INFORMATION	
Schedule of Expenditures of Federal Awards	17
Notes to the Schedule of Expenditures of Federal Awards	18
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	19
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE	21
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	23
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS	24

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Catholic Charities, Inc.
Memphis, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of Catholic Charities, Inc. (a nonprofit organization) 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.

Auditor's 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 auditor's 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 Catholic Charities, 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 conformity with accounting principles generally accepted in the United States of America.

Other Matter

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2019, on our consideration of Catholic Charities, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Catholic Charities, Inc.'s internal control over financial reporting and compliance.



Memphis, Tennessee
January 23, 2019

CATHOLIC CHARITIES, INC.
STATEMENTS OF FINANCIAL POSITION

June 30, 2018 and 2017

	<u>Assets</u>	
	2018	2017
Assets		
Cash and cash equivalents	\$ 39,838	\$ 297,463
Federal grants receivable	20,391	94,341
Other receivables	11,487	9,709
Due from affiliates	-	729
Other current assets	56,741	91,068
Investments	598,317	581,214
Property and equipment, net	414,680	431,040
 Total assets	 \$ 1,141,454	 \$ 1,505,564
	<u>Liabilities and Net Assets (Deficit)</u>	
Liabilities		
Accounts payable	\$ 43,773	\$ 26,521
Accrued payroll	44,922	34,106
Accrued expenses	30,331	79,040
Due to Diocese of Memphis		
Employee benefits	882,549	956,267
Pension liability	1,159,282	1,590,614
	2,041,831	2,546,881
Total liabilities	2,160,857	2,686,548
 Net Assets (Deficit)		
Unrestricted	(1,019,403)	(1,180,984)
 Total liabilities and net deficit	 \$ 1,141,454	 \$ 1,505,564

The accompanying notes are an integral part of the financial statements.

CATHOLIC CHARITIES, INC.

STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2018 and 2017

	2018	2017
Unrestricted Support and Other Revenues		
Support		
Federal grants	\$ 1,434,348	\$ 1,586,849
United Way	306,484	277,445
Private contributions, foundations, and agencies	595,418	709,902
In-kind contributions	458,395	689,637
Special event contributions	-	53,511
Subsidy - Diocese of Memphis	100,000	100,000
Total support	2,894,645	3,417,344
Other Revenues		
Summer camp fees	19,417	43,536
Other client fees	34,930	21,905
Administrative fees	179,712	186,542
Other	-	4,946
Total other revenues	234,059	256,929
Total unrestricted support and other revenues	3,128,704	3,674,273
Expenses		
Program services	2,739,184	2,904,975
Management and general	558,915	431,595
Fundraising	118,065	135,948
Total expenses	3,416,164	3,472,518
Income (loss) from operations	(287,460)	201,755
Nonoperating Gains (Losses)		
Change in market value of investments	11,294	13,694
Investment income	6,415	3,869
Pension-related changes other than net periodic pension costs	431,332	851,111
Total nonoperating gains	449,041	868,674
Change in net deficit	161,581	1,070,429
Unrestricted net deficit, beginning of year	(1,180,984)	(2,251,413)
Unrestricted net deficit, end of the year	\$ (1,019,403)	\$ (1,180,984)

The accompanying notes are an integral part of the financial statements.

CATHOLIC CHARITIES, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2018

	Program Services						Supporting Services			
	Children Services	Immigration Services	Homeless Services	Community Services	Veteran Services	Driving the Dream	Total Program Services	Management and General	Fundraising	Total
Salaries	\$ 135,356	\$ 100,561	\$ 166,661	\$ 196,780	\$ 268,765	\$ 18,173	\$ 886,296	\$ 280,173	\$ 36,092	\$ 1,202,561
Payroll taxes	10,303	7,375	12,482	14,373	19,804	1,367	65,704	20,815	2,663	89,182
Employee benefits	13,460	26,633	38,238	39,290	76,941	3,370	197,932	46,096	5,567	249,595
Professional fees	5,438	13,595	4,472	22,420	9,058	20	55,003	90,902	20,266	166,171
Insurance	2,229	-	-	4,603	-	-	6,832	-	-	6,832
Occupancy	4,206	19,368	25,953	75,731	63,024	5,773	194,055	34,642	8,586	237,283
Supplies	26,342	2,350	2,580	95,847	5,494	1,376	133,989	20,064	1,232	155,285
Telephone	-	558	2,700	2,160	4,084	-	9,502	2,220	1,038	12,760
Postage and shipping	49	119	42	38	138	-	386	4,342	4,739	9,467
Special assistance to individuals	9,694	18,451	220,546	471,329	397,176	7,611	1,124,807	2,497	-	1,127,304
Rental and maintenance of equipment	-	-	102	-	-	-	102	-	-	102
Printing and publications	2,575	337	130	334	1,492	19	4,887	1,322	35,828	42,037
Transportation	25	-	-	4,450	50	-	4,525	30	-	4,555
Travel and entertainment	357	4,709	52	708	6,295	-	12,121	1,935	-	14,056
Conferences and meetings	701	2,578	62	3,927	3,031	-	10,299	6,226	1,399	17,924
Membership dues	-	1,348	-	40	-	-	1,388	3,084	655	5,127
Other	-	-	-	-	-	-	-	1,600	-	1,600
Depreciation	-	-	-	31,356	-	-	31,356	42,967	-	74,323
Total	\$ 210,735	\$ 197,982	\$ 474,020	\$ 963,386	\$ 855,352	\$ 37,709	\$ 2,739,184	\$ 558,915	\$ 118,065	\$ 3,416,164
Percentage of Total Expense by Function	6%	6%	14%	28%	25%	1%	80%	16%	3%	100%

The accompanying notes are an integral part of the financial statements.

CATHOLIC CHARITIES, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2017

	Program Services						Supporting Services			
	Children Services	Immigration Services	Homeless Services	Community Services	Veteran Services	Social Enterprises	Total Program Services	Management and General	Fundraising	Total
Salaries	\$ 119,762	\$ 75,788	\$ 151,180	\$ 151,062	\$ 312,377	\$ 13,982	\$ 824,151	\$ 159,248	\$ 18,571	\$ 1,001,970
Payroll taxes	9,153	5,662	11,315	11,068	22,975	1,028	61,201	11,699	1,402	74,302
Employee benefits	4,854	20,348	42,319	27,339	86,627	3,949	185,436	23,869	4,451	213,756
Professional fees	10,001	10,784	33,261	15,082	26,800	87	96,015	125,715	34,023	255,753
Insurance	-	-	-	4,614	-	-	4,614	634	-	5,248
Occupancy	8,278	15,134	19,694	56,579	55,540	-	155,225	33,681	5,765	194,671
Supplies	25,432	1,222	27,088	495,237	8,272	1,678	558,929	13,394	43	572,366
Telephone	-	459	2,623	2,160	6,000	-	11,242	1,441	180	12,863
Postage and shipping	-	87	60	379	4	16	546	3,942	3,317	7,805
Special assistance to individuals	14,871	6,388	228,706	147,410	536,030	-	933,405	350	-	933,755
Rental and maintenance of equipment	-	-	62	-	-	-	62	471	-	533
Printing and publications	-	224	995	1,077	90	666	3,052	999	38,499	42,550
Transportation	-	-	-	5,029	-	-	5,029	40	-	5,069
Travel and entertainment	1,280	2,655	403	639	9,780	-	14,757	3,341	-	18,098
Conferences and meetings	721	1,053	501	3,819	8,452	-	14,546	6,044	90	20,680
Membership dues	-	955	10	40	-	-	1,005	4,041	955	6,001
Other	-	-	-	-	-	-	-	220	-	220
Direct costs of special events	-	-	-	-	-	-	-	-	28,652	28,652
Depreciation	-	-	-	35,760	-	-	35,760	42,466	-	78,226
Total	\$ 194,352	\$ 140,759	\$ 518,217	\$ 957,294	\$ 1,072,947	\$ 21,406	\$ 2,904,975	\$ 431,595	\$ 135,948	\$ 3,472,518
Percentage of Total Expense by Function	6%	4%	15%	28%	31%	1%	84%	12%	4%	100%

The accompanying notes are an integral part of the financial statements.

CATHOLIC CHARITIES, INC.**STATEMENTS OF CASH FLOWS**

For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash Flows Provided By (Used For) Operating Activities:		
Change in net deficit	\$ 161,581	\$ 1,070,429
Adjustments to Reconcile Change in Net Assets to Net Cash Provided By (Used For) Operating Activities:		
Depreciation	74,323	78,226
Pension-related changes other than net periodic pension costs	(431,332)	(851,111)
Change in market value of investments	(11,294)	(13,694)
Increase (Decrease) in Cash and Cash Equivalents:		
Federal grants receivable	73,950	(4,239)
Other receivables	(1,778)	13,412
Due from affiliates	729	(93)
Other current assets	34,327	(71,180)
Accounts payable	17,252	8,903
Accrued payroll	10,816	5,877
Accrued expenses	(48,709)	68,361
Due to Diocese of Memphis	(73,718)	(80,916)
Total adjustments	<u>(355,434)</u>	<u>(846,454)</u>
Net cash provided by (used for) operating activities	(193,853)	223,975
Cash Flows From (Used For) Investing Activities:		
Reinvestment of earnings on investments	(5,809)	(3,318)
Purchases of investments	-	(40,000)
Purchases of property and equipment	(57,963)	-
Net cash used for investing activities	<u>(63,772)</u>	<u>(43,318)</u>
Net increase (decrease) in cash and cash equivalents	(257,625)	180,657
Cash and cash equivalents, beginning of the year	<u>297,463</u>	<u>116,806</u>
Cash and cash equivalents, end of the year	<u>\$ 39,838</u>	<u>\$ 297,463</u>

The accompanying notes are an integral part of the financial statements.

CATHOLIC CHARITIES, INC.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018 and 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Catholic Charities, Inc., (“Catholic Charities”) an affiliated organization of the Roman Catholic Diocese of Memphis (the “Diocese”), is a non-profit Tennessee corporation. The purpose of Catholic Charities is to provide social services to the people of the Memphis Metropolitan and West Tennessee area. For over 40 years, Catholic Charities has provided services to those most desperate in the community with an emphasis in the following areas:

Children Services – Camp Love & Learn is an eight week program for at-risk children from the ages of 4-10, plus their older siblings who serve as “junior counselors” and which focuses on the three areas of academic enrichment, nutrition, and fun within a safe, secure environment.

Immigration Services – The program offers low cost, comprehensive immigration counseling services addressing the client’s basic needs, as well as their legal immigration concerns in order to help them integrate into the community.

Homeless Services – This program provides long-term treatment for homeless men and women suffering from mental illness and addiction. Through a network of therapeutic and supportive services, clients are provided with the tools necessary to find gainful employment, permanent housing and the ability to make healthier long-term choices.

Community Services – These services assist families in crisis with food and clothing through Fig Tree, a facility for walk-ins and referral clients located within the Catholic Charities headquarters as well, and the Mobile Food and Clothes Pantry which delivers nourishment, clothing, and other support to the most vulnerable populations of West Tennessee.

Veteran Services – The St. Sebastian Veteran Services program places homeless veterans (and those at risk of homelessness) and their families in more permanent housing situations thereby empowering the veteran to apply for jobs, create a budget, and be resourceful in how he or she plans to maintain stable housing.

Driving the Dream – This program harnesses the power of helping organizations in Memphis to support the poor on their path from poverty to self-sufficiency, and to achieve positive, permanent change in their lives. A care coordinator assesses the problems contributing to poverty and connects clients with the necessary services to move toward self-sufficiency.

Social Enterprises – Through Bouquets of Hope and St. Bernard’s Biscuits, hard-to-employ clients are paid a fair wage, learn valuable job skills, and build a demonstrated work history that can allow them to transition into external employment. All proceeds are reinvested into the programs. This program ended as of June 30, 2017.

Method of Accounting and Basis of Presentation

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

Catholic Charities reports its financial position and activities in three net asset categories according to the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein, are classified and reports as follows:

Permanently Restricted Net Assets – Permanently restricted net assets represent contributions subject to donor-imposed stipulations to be invested in perpetuity, for which only the income may be available for program operations. Currently, Catholic Charities has no permanently restricted net assets.

Temporarily Restricted Net Assets – Temporarily restricted net assets represent contributions or other revenues wherein donors have specified the purpose for which the net assets are to be spent or time restrictions imposed or implied by the nature of the gift. When a restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. There were no temporarily restricted net assets at June 30, 2018 or 2017.

Unrestricted Net Assets – Unrestricted net assets are all the remaining net assets of Catholic Charities.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts in the financial statements and the accompanying notes. Actual results could differ from those estimates.

Fair Value Measurements

Catholic Charities applies GAAP for fair value measurements of financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GAAP also establishes a framework for measuring fair value and requires certain disclosures about fair value measurements. See Note 2 for additional disclosures.

Concentrations of Credit Risks

Catholic Charities' credit risks relate primarily to cash and cash equivalents and receivables. Cash and cash equivalents are primarily held in bank accounts. Accounts are insured by the Federal Deposit Insurance Corporation up to an aggregate of \$250,000. Catholic Charities has minimized risk by depositing cash in banks with high credit standings. Catholic Charities has not experienced any losses of such funds, and management believes the Organization is not exposed to significant risk on cash.

Catholic Charities is economically dependent upon federal government grants and subsidies to finance its operations. For the years ended June 30, 2018 and 2017, Catholic Charities received 54% and 53%, respectively, of its support and other revenues, excluding in-kind contributions, from federal grants. Additionally, for the years ended June 30, 2018 and 2017, United Way accounted for 11% and 9%, respectively, of total support and other revenues.

Revenue Recognition

Catholic Charities receives revenue from a variety of sources including federal grants, private contributions, including private foundation grants, and service fees. Service fees and federal grant revenue are recognized when the services are performed. Contributions, including private foundation grants, are recognized when a donor makes a promise to give to Catholic Charities that is, in substance, unconditional. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending upon the existence or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in

unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Cash and Cash Equivalents

For purposes of the statements of cash flows, Catholic Charities considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. Money market funds held in investment accounts have been excluded.

Accounts Receivable

Grants receivable are due from federal and local agencies under contract agreements requiring payment within 30 – 90 days from the billing date. Receivables are stated at the amount management expects to collect from outstanding balances. Management closely monitors outstanding balances and writes off amounts that are considered uncollectible through a charge to earnings. Based upon management's assessment of the credit history with contributors and grantors having outstanding balances, an allowance for uncollectible accounts is not considered necessary.

Investments

Investments are stated at fair market value in the statements of financial position. Changes in market value, including realized gains and losses and unrealized appreciation and depreciation, are included in the statement of activities.

Property and Equipment

Title to property and equipment vest with the Bishop of the Diocese. Property and equipment are reflected in the accompanying financial statements as the Bishop has authorized the use of such assets by Catholic Charities.

Certain land, in the absence of cost records, is stated at its appraised value of \$290,000 at the time of the founding of the Diocese in 1971.

Catholic Charities' policy is to capitalize all assets with a cost in excess of \$5,000. Property and equipment are recorded at cost if purchased or the estimated fair value on the date received, if donated. If the donor stipulates how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support. Asset improvements and repairs that significantly extend the life of an asset are capitalized. Catholic Charities provides for depreciation using the straight-line method over the estimated useful lives of the respective assets, generally five to forty years for leasehold improvements, and three to ten years for furnishings, equipment, and automobiles.

Donated Materials and Services

Donated materials and services are recorded as contributions at their estimated fair values at the date of donation. Contributions of services are recognized in the financial statements if the services enhance or create 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.

Catholic Charities received the following in-kind contributions for the years ended June 30:

	2018	2017
Clothing, food and supplies	\$ 445,284	\$ 644,542
Donated services	13,111	45,095
Total in-kind contributions	\$ 458,395	\$ 689,637

In addition donated materials on hand of \$0 and \$64,114 are reflected in the statement of financial position at June 30, 2018 and 2017, respectively.

To operate its programs and services, Catholic Charities depends on strong volunteer support. Although these donated services do not require specific expertise, the services are nonetheless central to its operations. During the years ended June 30, 2018 and 2017, management estimates that volunteers worked approximately 11,600 hours and 18,600 hours, respectively, on Catholic Charities' behalf. The estimated fair value of these services, based on a rate of \$17 per hour, was \$197,200 and \$316,200 for the years ended June 30, 2018 and 2017, respectively. The value of these services is not reflected in the financial statements since the criteria for recognition of such volunteer effort have not been satisfied.

Functional Allocation of Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the statement of functional expenses. Expenses that are identified with a specific program or support service are charged directly according to their natural expense classification. Other shared costs have been allocated among the programs and supporting services benefited based on usage or other estimates made by management.

Income Taxes

Catholic Charities is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and, therefore, no provision has been made for such taxes. Catholic Charities files an exempt organization return in the U.S. federal jurisdiction.

Advertising

Catholic Charities expenses advertising costs as incurred. Advertising expense totaled \$6,631 and \$21,080 for the years ended June 30, 2018 and 2017, respectively.

Recent Accounting Pronouncements

The FASB issued ASU No.2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The most significant changes within the ASU impact the following areas:

1. Net Asset Classes – Net asset classification has been reduced from three classes of net assets (unrestricted, temporarily restricted and permanently restricted) to net assets with donor restrictions and net assets without donor restrictions.
2. Investment Return – Investment return will be reported net of external and direct internal investment expenses and those netted expenses are no longer required to be disclosed.

3. Expenses – Expenses by both their natural classification and their functional classification will be presented either on the face of the statement of activities, as a separate statement or in the notes to the financial statements.
4. Liquidity and Availability of Resources – The ASU requires disclosures that communicate qualitative information of how a not-for-profit entity manages its liquid resources available to meet cash needs for general expenditures within one year of the statement of financial position date, as well as quantitative information that communicates the availability of a not-for-profit entity's financial assets at the statement of financial position date to meet cash needs for general expenditures within one year of the statement of financial position date.
5. Presentation of Operating Cash Flows – Not-for-profit entities can continue to present the statement of cash flows using either the direct method or indirect method. The ASU removes the requirement to present or disclose the indirect method when using the direct method of reporting cash flows.

The above changes only impact the presentation and disclosures within the financial statements. However, within the ASU, there is one change in the accounting requirements for not-for-profit entities. The placed-in-service approach will now be required for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset. The ASU eliminates the current option that, in the absence of explicit donor stipulations, had allowed a not-for-profit to delay reporting of an expiration of a donor imposed restriction for the acquisition or construction of a long-lived asset by electing to report the expiration over time (as the asset is used or consumed, i.e. to match the depreciation expense on the asset) rather than when placed in service.

Catholic Charities, Inc. intends to adopt the new ASU guidance using the retrospective method for the year ended June 30, 2019.

Date of Management's Review

Catholic Charities evaluated its June 30, 2018 financial statements for subsequent events through January 23, 2019, the date the financial statements were available to be issued. Catholic Charities is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

NOTE 2 – FAIR VALUE MEASUREMENTS

GAAP establishes a framework for measuring fair value. That 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 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. In determining fair value, Catholic Charities utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The three levels of the fair value hierarchy under GAAP are described below:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities Catholic Charities has the ability to access.

Level 2 – Inputs (other than quoted prices with level 1) that are observable for the asset or liability, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Inputs which are unobservable for the asset or liability and rely on management’s own assumptions about the assumptions that market participants would use in pricing the asset or liability.

The following is a description of the valuation methodologies used for assets measured at fair value:

Common stock and mutual funds: Valued at the closing price reported on the active market on which the individual securities are traded.

Money market funds: Valued based on current yields of similar instruments with comparable durations considering the credit-worthiness of the issuer.

Limited partnerships – Management uses significant unobservable inputs including information from fund managers and general partners. The fund managers value these investments using the practical expedient based upon the Catholic Charities’ proportional share of the net asset values (“NAV”) of the underlying securities or as reported by the underlying entities. Since these investments are measured at NAV, there is no requirement to categorize them within the fair value hierarchy. Rather, they are presented in a separate column labeled “Investments Measured at Net Asset Value” in order to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statement of financial position. Management reviews and evaluates the values provided by the fund managers and general partners and agrees with the valuation methods and assumptions used in determining the fair values. Because of the inherent uncertainty of the valuation of these assets, the values reported in these financial statements may differ significantly from the values that would have been used had a ready market for the investments existed.

The following tables set forth by level, within the fair value hierarchy, Catholic Charities’ assets at fair value at June 30:

	June 30, 2018			
	Level 1	Level 2	Investments Measured at Net Asset Value	Total
Mutual Funds				
Equity	\$ 47,604	\$ -	\$ -	\$ 47,604
Fixed income	58,871	-	-	58,871
Total mutual funds	106,475	-	-	106,475
Common stocks	19,842	-	-	19,842
Limited Partnerships				
Strategic hedge funds	-	-	25,229	25,229
Conservative hedge fund	-	-	17,071	17,071
Total limited partnerships	19,842	-	42,300	62,142
Money market funds	-	429,700	-	429,700
Total investments	\$ 126,317	\$ 429,700	\$ 42,300	\$ 598,317

June 30, 2017

	Level 1	Level 2	Investments Measured at Net Asset Value	Total
Mutual Funds				
Equity	\$ 50,208	\$ -	\$ -	\$ 50,208
Fixed income	64,961	-	-	64,961
Total mutual funds	115,169	-	-	115,169
Common stocks	21,087	-	-	21,087
Limited Partnerships				
Strategic hedge funds	-	-	18,317	18,317
Conservative hedge fund	-	-	16,821	16,821
Total limited partnerships	21,087	-	35,138	56,225
Money market funds	-	409,820	-	409,820
Total investments	\$ 136,256	\$ 409,820	\$ 35,138	\$ 581,214

The table below presents additional information regarding investments whose fair value is estimated using the practical expedient of reported net asset value (NAV):

	Conservative Hedge Fund (1)	Strategic Hedge Funds (2)
Liquidity		
Initial lock-up	1 year	0 - 2 years
Redemption fees	Up to 5%	0 - 3%
Redemption frequency	Quarterly/semi- annual	Quarterly/semi- annual
Notice	95 days	90 - 105 days
Gate	10%	None

- (1) *Conservative hedge fund*: This is a fund of funds that seeks consistent returns by primarily investing in funds that generally engage in more non-directional strategies such as Equity Market Neutral and Fixed Income Arbitrage.
- (2) *Strategic hedge funds*: These are funds of funds that seek superior returns by primarily investing in funds that engage in more opportunistic strategies such as Emerging Markets, Sector specific, Equity Hedge, credit-related investments, and structured products.

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	<u>2018</u>	<u>2017</u>
Land	\$ 290,000	\$ 290,000
Leasehold Improvements	1,066,122	1,066,122
Furnishings and equipment	268,532	210,569
Automobiles	32,288	32,288
	<u>1,656,942</u>	<u>1,598,979</u>
Less accumulated depreciation	<u>(1,242,262)</u>	<u>(1,167,939)</u>
	<u>\$ 414,680</u>	<u>\$ 431,040</u>

NOTE 4 – RELATED PARTY TRANSACTIONS

Catholic Charities participates in a defined benefit pension plan sponsored by the Diocese. The plan provides certain retirement benefits to employees of Catholic Charities who meet certain eligibility requirements. In order to defray the cost incurred by the Diocese to provide these benefits, the Diocese charged Catholic Charities eight percent (8%) of full-time wages for each of the years ended June 30, 2018 and 2017, amounting to \$94,755 and \$119,762, respectively. The Diocese allocated a gain or (loss) from the change in the projected benefit obligation to Catholic Charities in the amounts of \$431,332 and \$851,111, respectively. Total amounts owed to the Diocese for retirement benefits were \$1,159,282 and \$1,590,614 at June 30, 2018 and 2017, respectively.

The Diocese periodically pays certain expenses including employee benefits on behalf of Catholic Charities. At June 30, 2018 and 2017, amounts due to the Diocese for these expenses totaled \$882,549 and \$956,267, respectively.

Catholic Charities receives from the Diocese a direct Diocesan subsidy which amounted to \$100,000 for each of the years ended June 30, 2018 and 2017, respectively.

Catholic Charities charges administrative and occupancy overhead expenses to the Diocese. For the years ended June 30, 2018 and 2017, administrative fee revenue from the Diocese totaled \$0 and \$6,830, respectively, and the receivable balance was \$0 and \$729, respectively.

NOTE 5 – COMMITMENTS

Catholic Charities leases equipment through operating leases expiring in various years through 2020. Total equipment lease expense was \$17,760 and \$12,552 for the years ended June 30, 2018 and 2017, respectively.

Future minimum payments under the operating leases for the years ending June 30 are as follows:

2019	\$ 17,760
2020	15,660
	<u>\$ 33,420</u>

SUPPLEMENTAL INFORMATION

CATHOLIC CHARITIES, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2018

Federal Grantor/Pass-Through Agency/Program	CFDA Number	Award Number	Receivable June 30, 2017	Amount Received	Amount Expended	Receivable June 30, 2018
U.S Department of Housing and Urban Development						
City of Memphis / CDBG Entitlement Program	14.218	B-16-MC-0006	\$ 4,200	\$ 27,300	\$ 25,200	\$ 2,100
State of Tennessee / Emergency Solutions Grant Program	14.231	ESG-16-08	7,508	37,098	37,165	7,575
Direct Award / Supportive Housing Program	14.235	TN0241L4J011601	18,010	457,973	445,837	5,874
City of Memphis / HOME Program (Tenant Based Rental Assistance)	14.239	33462	<u>12,890</u>	<u>87,369</u>	<u>78,252</u>	<u>3,773</u>
Total U. S. Department of Housing and Urban Development			42,608	609,740	586,454	19,322
U.S Department of Veterans Affairs						
Direct Award/VA Supportive Services for Veteran Families	64.033	14-TN-287	14,233	801,058	787,894	1,069
U.S. Department of Homeland Security						
United Way/Emergency Food and Shelter National Board	97.024	778200-001	<u>37,500</u>	<u>97,500</u>	<u>60,000</u>	<u>-</u>
Total federal awards			<u>\$ 94,341</u>	<u>\$ 1,508,298</u>	<u>\$ 1,434,348</u>	<u>\$ 20,391</u>

See independent auditor's report and accompanying notes to the schedule.

CATHOLIC CHARITIES, INC.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2018

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Catholic Charities, Inc. under programs of the federal government for the year ended June 30, 2018. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Catholic Charities, Inc., it is not intended to and does not present the financial position, changes in net assets or cash flows of Catholic Charities, Inc.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE C – INDIRECT COST RATE

Catholic Charities, Inc. has elected not to use the 10% de minimis indirect cost rate as described in the Uniform Guidance.

NOTE D – SUBRECIPIENTS

There were no federal awards passed through to sub-recipients.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors
Catholic Charities, Inc.

We have audited, in accordance with the 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, the financial statements of Catholic Charities, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 23, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Catholic Charities, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Catholic Charities, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Catholic Charities, Inc.'s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Catholic Charities, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Watkins Mikusall, PLLC

Memphis, Tennessee
January 23, 2019

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
Catholic Charities, Inc.

Report on Compliance for Each Major Federal Program

We have audited Catholic Charities, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Catholic Charities, Inc.'s major federal programs for the year ended June 30, 2018. Catholic Charities, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Catholic Charities, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Catholic Charities, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Catholic Charities, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Catholic Charities, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of Catholic Charities, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Catholic Charities, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Catholic Charities, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Watkins Mikusall, PLLC

Memphis, Tennessee
January 23, 2019

CATHOLIC CHARITIES, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2018

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on whether the financial statements of Catholic Charities, Inc. ("Catholic Charities") were prepared in accordance with U.S. GAAP.
2. No significant deficiencies or material weaknesses relating to the audit of the financial statements are reported in the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of Catholic Charities, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies or material weaknesses relating to the audit of the major federal award programs are reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award programs for Catholic Charities, Inc. expresses an unmodified opinion.
6. There were no audit findings required to be reported in accordance with 2 CFR section 200.516(a).
7. The program tested as a major program was U.S. Department of Veterans Affairs – VA Supportive Services for Veteran Families Program, CFDA number 64.033.
8. The threshold used for distinguishing Type A and B programs was \$750,000.
9. Catholic Charities, Inc. was determined to be a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

None

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

CATHOLIC CHARITIES, INC.

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS

For the Year Ended June 30, 2018

None.