

**CATHOLIC CHARITIES, INC.**

**FINANCIAL STATEMENTS**

June 30, 2019

(with summarized comparative information for 2018)



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## 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 statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses, and cash flows for the year 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 audit. We conducted our audit 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, 2019, and the changes in its net assets and its cash flows for the year 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 December 18, 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 solely 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 the effectiveness of Catholic Charities Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Catholic Charities, Inc.'s internal control over financial reporting and compliance.

### **Report on Summarized Comparative Information**

We have previously audited Catholic Charities Inc.'s 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 23, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Watkins Wilkerson, PLLC*

Memphis, Tennessee  
December 18, 2019

**CATHOLIC CHARITIES, INC.**

**STATEMENT OF FINANCIAL POSITION**

June 30, 2019

(with summarized comparative information at June 30, 2018)

	<u>Assets</u>	
	2019	2018
Assets		
Cash and cash equivalents	\$ 101,721	\$ 39,838
Federal grants receivable	89,302	20,391
Other receivables	60,837	11,487
Other current assets	31,598	56,741
Investments	313,935	598,317
Property and equipment, net	413,611	414,680
 Total assets	 \$ 1,011,004	 \$ 1,141,454
	 <u>Liabilities and Net Assets (Deficit)</u>	
Liabilities		
Accounts payable	\$ 81,462	\$ 43,773
Accrued payroll	30,193	44,922
Accrued expenses	27,421	30,331
Due to Diocese of Memphis		
Employee benefits	801,374	882,549
Pension liability	1,335,259	1,159,282
	2,136,633	2,041,831
 Total liabilities	 2,275,709	 2,160,857
Net Assets (Deficit)		
Without donor restrictions	(1,304,605)	(1,019,403)
With donor restrictions	39,900	-
Total net deficit	(1,264,705)	(1,019,403)
 Total liabilities and net deficit	 \$ 1,011,004	 \$ 1,141,454

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

**CATHOLIC CHARITIES, INC.**

**STATEMENT OF ACTIVITIES**

For the Year Ended June 30, 2019  
(with summarized comparative information for the year ended June 30, 2018)

	Without Donor	With Donor	Total	
	Restrictions	Restrictions	2019	2018
Support and Revenue				
Federal grants	\$ 1,402,237	\$ -	\$ 1,402,237	\$ 1,434,348
Non-federal grants	62,495	-	62,495	-
United Way	260,003	-	260,003	144,223
Private contributions, foundations, and agencies	738,756	39,900	778,656	757,679
In-kind contributions	751,709	-	751,709	458,395
Subsidy - Diocese of Memphis	100,000	-	100,000	100,000
Summer camp fees	4,762	-	4,762	19,417
Other client fees	17,812	-	17,812	34,930
Administrative fees	192,864	-	192,864	179,712
Other	14,604	-	14,604	-
Total support and revenue	<u>3,545,242</u>	<u>39,900</u>	<u>3,585,142</u>	<u>3,128,704</u>
Expenses				
Program services	2,934,461	-	2,934,461	2,739,184
Management and general	500,875	-	500,875	558,324
Fundraising	234,749	-	234,749	118,065
Total expenses	<u>3,670,085</u>	<u>-</u>	<u>3,670,085</u>	<u>3,415,573</u>
Income (loss) from operations	(124,843)	39,900	(84,943)	(286,869)
Nonoperating Gains (Losses)				
Net investment return	15,618	-	15,618	17,118
Pension-related changes other than net periodic pension costs	(175,977)	-	(175,977)	431,332
Total nonoperating gains (losses)	<u>(160,359)</u>	<u>-</u>	<u>(160,359)</u>	<u>448,450</u>
Change in net deficit	(285,202)	39,900	(245,302)	161,581
Net deficit, beginning of year	<u>(1,019,403)</u>	<u>-</u>	<u>(1,019,403)</u>	<u>(1,180,984)</u>
Net assets (deficit), end of year	<u>\$ (1,304,605)</u>	<u>\$ 39,900</u>	<u>\$ (1,264,705)</u>	<u>\$ (1,019,403)</u>

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

**CATHOLIC CHARITIES, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES**

For the Year Ended June 30, 2019  
(with summarized comparative information for the year ended June 30, 2018)

	Program Services						Supporting Services			Totals	
	Children Services	Immigration Services	Homeless Services	Community Services	Veteran Services	Driving the Dream	Total Program Services	Management and General	Fundraising	2019	2018
	Salaries	\$ 29,948	\$ 99,441	\$ 154,525	\$ 211,674	\$ 264,032	\$ 65,069	\$ 824,689	\$ 312,934	\$ 120,169	\$ 1,257,792
Payroll taxes	2,281	7,147	11,586	14,968	19,231	4,813	60,026	21,885	8,483	90,394	89,182
Employee benefits	4,717	25,944	29,606	57,224	80,953	18,217	216,661	60,199	31,610	308,470	249,595
Professional fees	6,079	6,936	5,637	10,071	15,099	2,217	46,039	24,358	30,217	100,614	165,580
Insurance	1,449	6,102	-	-	-	-	7,551	-	-	7,551	6,832
Occupancy	11,511	18,538	23,737	112,865	51,573	18,361	236,585	3,425	16,255	256,265	237,283
Supplies	3,347	1,016	3,208	120,539	7,320	483	135,913	25,029	1,182	162,124	155,285
Telephone	-	47	-	-	133	-	180	-	-	180	12,760
Postage and shipping	-	220	-	-	70	-	290	304	3,336	3,930	9,467
Special assistance to individuals	1,701	10,931	304,015	730,702	309,658	11,613	1,368,620	398	-	1,369,018	1,127,304
Rental and maintenance of equipment	-	-	381	620	-	-	1,001	-	-	1,001	102
Printing and publications	-	70	385	545	2,597	105	3,702	506	21,822	26,030	42,037
Transportation	-	-	-	8,807	38	-	8,845	-	-	8,845	4,555
Travel and entertainment	-	2,060	757	365	10,172	-	13,354	13,447	425	27,226	14,056
Conferences and meetings	-	225	815	1,654	424	69	3,187	1,364	755	5,306	17,924
Membership dues	-	1,320	-	40	-	-	1,360	2,896	495	4,751	5,127
Other	-	-	-	-	-	-	-	-	-	-	1,600
Depreciation	-	-	-	6,458	-	-	6,458	34,130	-	40,588	74,323
<b>Total</b>	<b>\$ 61,033</b>	<b>\$ 179,997</b>	<b>\$ 534,652</b>	<b>\$ 1,276,532</b>	<b>\$ 761,300</b>	<b>\$ 120,947</b>	<b>\$ 2,934,461</b>	<b>\$ 500,875</b>	<b>\$ 234,749</b>	<b>\$ 3,670,085</b>	<b>\$ 3,415,573</b>
Percentage of Each Function to Total	2%	5%	15%	35%	20%	3%	80%	14%	6%	100%	

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

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

For the Year Ended June 30, 2019  
(with summarized comparative information for the year ended June 30, 2018)

	<u>2019</u>	<u>2018</u>
Cash Flows Provided By (Used For) Operating Activities:		
Change in net deficit	\$ (245,302)	\$ 161,581
Adjustments to Reconcile Change in Net Assets to Net Cash Provided By (Used For) Operating Activities:		
Depreciation	40,588	74,323
Pension-related changes other than net periodic pension costs	175,977	(431,332)
Realized and unrealized gains on investments	(9,429)	(11,294)
Increase (Decrease) in Cash and Cash Equivalents:		
Federal grants receivable	(68,911)	73,950
Other receivables	(49,350)	(1,778)
Due from affiliates	-	729
Other current assets	25,143	34,327
Accounts payable	(1,830)	17,252
Accrued payroll	(14,729)	10,816
Accrued expenses	(2,910)	(48,709)
Due to Diocese of Memphis	(81,175)	(73,718)
Total adjustments	<u>13,374</u>	<u>(355,434)</u>
Net cash used for operating activities	<u>(231,928)</u>	<u>(193,853)</u>
Cash Flows From (Used For) Investing Activities:		
Proceeds from sale of investments	300,000	-
Reinvestment of earnings on investments	(6,189)	(5,809)
Purchases of property and equipment	-	(57,963)
Net cash from (used for) investing activities	<u>293,811</u>	<u>(63,772)</u>
Net increase (decrease) in cash and cash equivalents	61,883	(257,625)
Cash and cash equivalents, beginning of the year	<u>39,838</u>	<u>297,463</u>
Cash and cash equivalents, end of the year	<u>\$ 101,721</u>	<u>\$ 39,838</u>
Noncash Investing Activities:		
Capital expenditures included in accounts payable	<u>\$ 39,519</u>	<u>\$ -</u>

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



# CATHOLIC CHARITIES, INC.

## NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019 and 2018

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### 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.

#### Basis of Accounting

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”).

#### 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.

### 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, 2019 and 2018, Catholic Charities received 49% and 54%, respectively, of its support and other revenues, excluding in-kind contributions, from federal grants.

### Revenue Recognition and Contributed Support

Catholic Charities receives revenue from a variety of sources including federal grants, private contributions, and service fees. Contributions are recognized when cash, other assets, or an unconditional promise to give is received. Conditional promises to give are not recognized until the conditions on which they depend have been met.

Service fees are recognized when the services are performed. Grant and contract revenues under cost-reimbursable contracts are recognized when the qualifying expenditures are incurred.

### Cash and Cash Equivalents

For purposes of the statement 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

Purchased investments are carried at their fair market values in the statement of financial position. Donated investments are recorded at fair value at the date of donation. Net investment return is reported in the statement of activities and consists of interest and dividend income, realized and unrealized gains and losses, less related investment advisory fees.

### Property and Equipment

Title to property and equipment vests 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. 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:

	<u>2019</u>	<u>2018</u>
Clothing, food and supplies	\$ 749,913	\$ 445,284
Donated services	1,796	13,111
Total in-kind contributions	<u>\$ 751,709</u>	<u>\$ 458,395</u>

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, 2019 and 2018, management estimates that volunteers worked approximately 9,536 hours and 11,600 hours, respectively, on Catholic Charities' behalf. The estimated fair value of these services, based on a rate of \$17 per hour, was \$161,500 and \$197,200 for the years ended June 30, 2019 and 2018, 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.

### Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor restrictions.

*Net Assets With Donor Restrictions* – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. There were no donor-imposed restrictions of perpetual nature at June 30, 2019 and 2018. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. If a restriction expires in the reporting period in which the revenue is recognized, revenue is reported as an increase in net assets without donor restrictions.

## Functional Allocation of Expenses

The costs of program and supporting services have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Expenses that are identified with a specific program or support service are charged directly to the appropriate function. Other shared costs have been allocated among the programs and supporting services benefited based on management's estimate of the relative effort expended for the related functions.

## 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 \$1,828 and \$6,631 for the years ended June 30, 2019 and 2018, respectively.

## Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) amended the Leases topic of the Accounting Standards Codification to revise certain aspects of recognition, measurement, presentation, and disclosure of leasing transactions. The amendments will be effective for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. Catholic Charities is currently evaluating the effect that implementation of the new standard will have on its financial position, results of operations, and cash flows.

On June 21, 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which applies to all entities that receive or make contributions. The criteria for evaluating whether contributions are unconditional (and thus recognized immediately in income) or conditional (for which income recognition is deferred) have been clarified. The focus is whether a gift or grant agreement both (1) specifies a "barrier or hurdle" that the recipient must overcome to be entitled to the resources, and (2) releases the donor from its obligation to transfer resources (or if assets are advanced, a right to demand their return) if the barrier or hurdle is not achieved. An agreement that contains both is a conditional contribution. An agreement that omits one or both is unconditional. No new disclosures are required. For grants/contributions made, donors will use the same criteria as recipients (i.e., a barrier or hurdle coupled with a right of return/release) to determine whether gifts or grants are conditional or unconditional.

For federal and other government grants, the ASU clarifies the definition of an exchange transaction. As a result, not-for-profit entities will account for most federal grants as donor-restricted conditional contributions, rather than as exchange transactions (the prevalent practice today). An accommodation ("simultaneous release" option) is provided which, if elected, would allow grants received and used within the same period to be reported in net assets without donor restrictions, consistent with where the grant revenue is reported today.

For transactions in which a non-public entity serves as a resource recipient, the entity should apply the amendments in this ASU on contributions received to annual periods beginning after December 15, 2018. For transactions in which a non-public entity serves as a resource provider, the entity should apply the amendments in this ASU on contributions made to annual periods beginning after December 15, 2019. Early adoption of the amendments is permitted. Catholic Charities is currently evaluating the effect that implementation of the new standard will have on its financial position, results of operations, and cash flows.

### Change in Accounting Principle

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-For-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-For-Profit Entities*. The update addressed the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return.

Catholic Charities, Inc. has implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly. The ASU has been applied retrospectively to the prior period presented, which did not have a material effect on the financial statements.

### Summarized Comparative Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with Catholic Charities' 2018 financial statements. Additionally, certain prior year amounts have been reclassified to conform with the current year presentation.

### Date of Management's Review

Catholic Charities evaluated its June 30, 2019 financial statements for subsequent events through December 18, 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 – LIQUIDITY AND AVAILABILITY**

Financial assets available for general expenditure, that is, without donor purpose restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

Cash and cash equivalents	\$ 101,721
Federal grants receivable	89,302
Other receivables	60,837
Investments	<u>313,935</u>
	565,795
Less: amounts restricted for certain purposes	<u>(39,900)</u>
	<u><u>\$ 525,895</u></u>

Catholic Charities' goal is to maintain financial assets to meet two months of operating expenses (currently approximately \$485,000) as most of the funding is for specific grants to be carried out. Most funds are kept in checking accounts that earn interest.

### NOTE 3 – FAIR VALUE MEASUREMENTS AND INVESTMENTS

Catholic Charities reports certain assets at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the most advantageous market at the measurement date. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset based on market data obtained from sources independent of Catholic Charities. Unobservable inputs are inputs that reflect Catholic Charities' own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

*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 within Level 1) such as quoted prices for similar assets or liabilities, quoted prices in inactive markets, or other inputs that can be corroborated by observable market data.

*Level 3* – Unobservable inputs for the asset or liability that rely on management's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities. There were no Level 3 Investments at June 30, 2019 and 2018.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to the entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to management's assessment of the quality, risk, or liquidity profile of the asset or liability.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2019 and 2018:

*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 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, the investments at fair value at June 30, 2019 and 2018:

June 30, 2019				
	Level 1	Level 2	Investments Measured at Net Asset Value	Total
Mutual Funds				
Equity	\$ 55,098	\$ -	\$ -	\$ 55,098
Fixed income	64,690	-	-	64,690
Total mutual funds	119,788	-	-	119,788
Common stocks	22,856	-	-	22,856
Limited Partnerships				
Strategic hedge funds	-	-	25,917	25,917
Conservative hedge fund	-	-	20,407	20,407
Total limited partnerships	-	-	46,324	46,324
Money market funds	-	124,967	-	124,967
Total investments	\$ 142,644	\$ 124,967	\$ 46,324	\$ 313,935

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	-	-	42,300	42,300
Money market funds	-	429,700	-	429,700
Total investments	\$ 126,317	\$ 429,700	\$ 42,300	\$ 598,317

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

	<u>Conservative Hedge Fund (1)</u>	<u>Strategic Hedge Funds (2)</u>
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 4 – PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following at June 30:

	<u>2019</u>	<u>2018</u>
Land	\$ 290,000	\$ 290,000
Leasehold Improvements	1,105,640	1,066,122
Furnishings and equipment	268,532	268,532
Automobiles	32,288	32,288
	<u>1,696,460</u>	<u>1,656,942</u>
Less accumulated depreciation	<u>(1,282,849)</u>	<u>(1,242,262)</u>
	<u><u>\$ 413,611</u></u>	<u><u>\$ 414,680</u></u>

#### **NOTE 5 – NET ASSETS WITH DONOR RESTRICTIONS**

At June 30, 2019 and 2018, net assets of \$39,900 and \$0, were restricted for camp love and learn, respectively.



## NOTE 6 – 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, 2019 and 2018, amounting to \$106,055 and \$94,755, respectively. The Diocese allocated a gain or (loss) from the change in the projected benefit obligation to Catholic Charities in the amounts of \$(175,977) and \$431,332, respectively. Total amounts owed to the Diocese for retirement benefits were \$1,335,259 and \$1,159,282 at June 30, 2019 and 2018, respectively.

The Diocese periodically pays certain expenses including employee benefits on behalf of Catholic Charities. At June 30, 2019 and 2018, amounts due to the Diocese for these expenses totaled \$801,374 and \$882,549, respectively.

Catholic Charities receives from the Diocese a direct Diocesan subsidy which amounted to \$100,000 for each of the years ended June 30, 2019 and 2018, respectively.

## NOTE 7 – COMMITMENTS

Catholic Charities leases equipment through operating leases expiring in various years through 2024. Total equipment lease expense was \$16,909 and \$17,760 for the years ended June 30, 2019 and 2018, respectively.

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

2020	\$	10,500
2021		10,500
2022		5,400
2023		5,400
2024		2,250
	\$	<u>34,050</u>

**SUPPLEMENTAL INFORMATION**

**CATHOLIC CHARITIES, INC.**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For the Year Ended June 30, 2019

Federal Grantor/Pass-Through Agency/Program	CFDA Number	Award Number	Receivable June 30, 2018	Amount Received	Amount Expended	Receivable June 30, 2019
U.S Department of Housing and Urban Development						
City of Memphis / CDBG Entitlement Program	14.218	B-16-MC-0006	\$ 2,100	\$ 26,372	\$ 25,200	\$ 928
State of Tennessee / Emergency Solutions Grant Program	14.231	ESG-16-08	7,575	98,790	117,884	26,669
Direct Award / Supportive Housing Program	14.235	TN0241L4J011702	5,874	443,274	456,920	19,520
City of Memphis / HOME Program (Tenant Based Rental Assistance)	14.239	33462	3,773	33,215	31,038	1,596
Total U. S. Department of Housing and Urban Development			<u>19,322</u>	<u>601,651</u>	<u>631,042</u>	<u>48,713</u>
U.S Department of Veterans Affairs						
Direct Award/VA Supportive Services for Veteran Families	64.033	14-TN-287	1,069	702,245	710,341	9,165
U.S. Department of Homeland Security						
United Way/Emergency Food and Shelter National Board	97.024	778200-001	-	29,430	60,854	31,424
Total federal awards			<u>\$ 20,391</u>	<u>\$ 1,333,326</u>	<u>\$ 1,402,237</u>	<u>\$ 89,302</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, 2019

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**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, 2019. 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, 2019, 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 December 18, 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  
December 18, 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, 2019. 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, 2019.

## 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 Nilusall, PLLC*

Memphis, Tennessee  
December 18, 2019



**CATHOLIC CHARITIES, INC.**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For the Year Ended June 30, 2019

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**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 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, 2019

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None.