

CATHOLIC CHARITIES, INC.

FINANCIAL STATEMENTS

June 30, 2021

(with summarized comparative information for 2020)



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Catholic Charities, Inc.

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, 2021, 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, 2021, 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 15, 2021, 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 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 15, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Watkins Mikusall, PLLC

Memphis, Tennessee
December 15, 2021

CATHOLIC CHARITIES, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2021

(with summarized comparative information at June 30, 2020)

	<u>Assets</u>	
	2021	2020
Assets		
Cash and cash equivalents	\$ 782,803	\$ 774,505
Federal grants receivable	221,871	49,858
Other receivables	93,269	19,778
Inventory	86,217	8,029
Other current assets	42,501	35,902
Investments	377,438	328,636
Due from Diocese of Memphis - pension asset	289,741	-
Property and equipment, net	528,065	373,111
 Total assets	 \$ 2,421,905	 \$ 1,589,819
	<u>Liabilities and Net Assets (Deficit)</u>	
Liabilities		
Accounts payable	\$ 45,321	\$ 36,195
Accrued payroll	63,664	48,978
Accrued expenses	74,150	28,983
Note payable	-	161,036
Due to Diocese of Memphis		
Employee benefits	690,875	776,362
Pension liability	-	1,660,259
	690,875	2,436,621
 Total liabilities	 874,010	 2,711,813
Net Assets (Deficit)		
Without donor restrictions	1,430,395	(1,121,994)
With donor restrictions	117,500	-
Total net assets (deficit)	1,547,895	(1,121,994)
 Total liabilities and net assets (deficit)	 \$ 2,421,905	 \$ 1,589,819

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

CATHOLIC CHARITIES, INC.

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2021
(with summarized comparative information for the year ended June 30, 2020)

	Without Donor Restrictions	With Donor Restrictions	Total	
			2021	2020
Support and Revenue				
Federal grants	\$ 2,340,282	\$ -	\$ 2,340,282	\$ 1,629,123
Non-federal grants	59,942	-	59,942	47,500
Contract revenue	23,121	-	23,121	-
United Way	132,345	-	132,345	241,504
Private contributions, foundations, and agencies	1,153,505	142,500	1,296,005	1,296,875
In-kind contributions	974,963	-	974,963	662,433
Subsidy - Diocese of Memphis	100,000	-	100,000	100,000
Other client fees	-	-	-	501
Administrative fees	192,864	-	192,864	192,864
Other	27,059	-	27,059	27,265
Net assets released from restrictions	25,000	(25,000)	-	-
Total support and revenue	<u>5,029,081</u>	<u>117,500</u>	<u>5,146,581</u>	<u>4,198,065</u>
Expenses				
Program services	3,894,926	-	3,894,926	3,126,533
Management and general	527,814	-	527,814	424,273
Fundraising	349,958	-	349,958	194,447
Total expenses	<u>4,772,698</u>	<u>-</u>	<u>4,772,698</u>	<u>3,745,253</u>
Income from operations	256,383	117,500	373,883	452,812
Nonoperating Gains (Losses)				
Net investment return	49,110	-	49,110	14,899
Gain on disposal of property and equipment	135,860	-	135,860	-
Forgiveness of Paycheck Protection Program loan	161,036	-	161,036	-
Pension-related changes other than net periodic pension costs	1,950,000	-	1,950,000	(325,000)
Total nonoperating gains (losses)	<u>2,296,006</u>	<u>-</u>	<u>2,296,006</u>	<u>(310,101)</u>
Change in net assets	2,552,389	117,500	2,669,889	142,711
Net assets (deficit), beginning of year	<u>(1,121,994)</u>	<u>-</u>	<u>(1,121,994)</u>	<u>(1,264,705)</u>
Net assets (deficit), end of year	<u>\$ 1,430,395</u>	<u>\$ 117,500</u>	<u>\$ 1,547,895</u>	<u>\$ (1,121,994)</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, 2021
(with summarized comparative information for the year ended June 30, 2020)

	Program Services					Supporting Services			Totals	
	Children Services	Immigration Services	Community Services	Veteran & Homeless Services	Driving the Dream	Total Program Services	Management and General	Fundraising	2021	2020
	Salaries	\$ 41,325	\$ 4,700	\$ 192,548	\$ 652,385	\$ 60,021	\$ 950,979	\$ 304,581	\$ 156,723	\$ 1,412,283
Payroll taxes	3,032	359	13,906	47,272	4,416	68,985	22,629	11,245	102,859	88,283
Employee benefits	12,455	1,425	49,366	202,782	18,089	284,117	60,788	27,188	372,093	334,155
Professional fees	142	1,057	12,808	10,059	725	24,791	54,258	66,498	145,547	77,065
Occupancy	10,815	9,264	228,064	74,160	0	322,303	21,358	16,210	359,871	297,234
Supplies	11,217	-	39,839	24,955	175	76,186	13,429	3,248	92,863	99,584
Postage and shipping	9	10	133	-	-	152	623	3,304	4,079	6,055
Special assistance to individuals	595	-	1,282,224	867,217	2,418	2,152,454	-	-	2,152,454	1,519,642
Printing and publications	-	-	1,204	455	70	1,729	1,607	56,603	59,939	29,078
Transportation	-	-	8,338	843	-	9,181	-	-	9,181	9,790
Travel and entertainment	-	-	105	1,377	-	1,482	745	-	2,227	14,094
Conferences and meetings	-	-	371	884	-	1,255	12,041	309	13,605	14,337
Other	-	-	1,312	-	-	1,312	2,677	8,630	12,619	4,905
Depreciation	-	-	-	-	-	-	33,078	-	33,078	40,500
Total	\$ 79,590	\$ 16,815	\$ 1,830,218	\$ 1,882,389	\$ 85,914	\$ 3,894,926	\$ 527,814	\$ 349,958	\$ 4,772,698	\$ 3,745,253
Percentage of Each Function to Total	2%	0%	38%	38%	2%	82%	11%	7%	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, 2021
(with summarized comparative information for the year ended June 30, 2020)

	<u>2021</u>	<u>2020</u>
Cash Flows From Operating Activities:		
Change in net assets	\$ 2,669,889	\$ 142,711
Adjustments to Reconcile Change in Net Assets to Net Cash Provided By (Used For) Operating Activities:		
Depreciation	33,078	40,500
Donated inventory	(78,188)	4,769
Pension-related changes other than net periodic pension costs	(1,950,000)	325,000
Realized and unrealized gains on investments	(47,946)	(11,451)
Forgiveness of Paycheck Protection Program loan	(161,036)	-
Increase (Decrease) in Cash and Cash Equivalents:		
Federal grants receivable	(172,013)	39,444
Other receivables	(73,491)	41,059
Other current assets	(6,599)	(17,102)
Accounts payable	9,126	(45,267)
Accrued payroll	14,686	18,785
Accrued expenses	45,167	1,562
Due to Diocese of Memphis - employee benefits	(85,487)	(25,012)
Total adjustments	<u>(2,472,703)</u>	<u>372,287</u>
Net cash provided by operating activities	197,186	514,998
Cash Flows From Investing Activities:		
Reinvestment of earnings on investments	(856)	(3,250)
Purchases of property and equipment	<u>(188,032)</u>	<u>-</u>
Net cash used for investing activities	(188,888)	(3,250)
Cash Flows From Financing Activities:		
Proceeds from issuance of note payable	<u>-</u>	<u>161,036</u>
Net increase in cash and cash equivalents	8,298	672,784
Cash and cash equivalents, beginning of the year	<u>774,505</u>	<u>101,721</u>
Cash and cash equivalents, end of the year	<u>\$ 782,803</u>	<u>\$ 774,505</u>

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

CATHOLIC CHARITIES, INC.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2021

NOTE 1 – PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Activities

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.

Veteran and Homeless 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 veterans to apply for jobs, create a budget, and be resourceful in how he or she plans to maintain stable housing. The homeless 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.

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 held in bank depository accounts. Depository 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.

Investments, which are not insured by the FDIC, are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with investments, it is at least possible that changes in the values of investments will occur in the near term and such changes could materially affect Catholic Charities' financial position and changes in its net assets.

Catholic Charities is economically dependent upon federal government grants and subsidies to finance its operations. For the years ended June 30, 2021 and 2020, Catholic Charities received 56% and 46%, 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 administrative fees. Contributions are recognized when cash, other assets, or an unconditional promise to give is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been met. Catholic Charities' federal grants are conditioned upon performance requirements and the incurrence of allowable qualifying expenses. Consequently, at June 30, 2021, conditional grants approximating \$2,540,000, for which no amounts had been received in advance, have not been recognized in the financial statements.

Administrative fees are related to the management of the Target House at St. Peter's Village for the accounting and maintenance of the property. Administrative fees are recognized ratably over the period the services are performed.

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.

Inventory

Inventory consists of program-related clothing, food, and supplies. Purchased items are stated at cost using the first-in first-out method. Donated items are recorded at the estimated fair value at the date of donation.

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>2021</u>	<u>2020</u>
Clothing, food, and supplies	\$ 974,963	\$ 662,433

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, 2021 and 2020, management estimates that volunteers worked approximately 11,404 hours and 9,976 hours, respectively, on Catholic Charities' behalf. The estimated fair value of these services, based on a rate of \$17 per hour, was \$193,800 and \$170,000 for the years ended June 30, 2021 and 2020, 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, 2021 and 2020.

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 and space utilized 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.

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 recognitions, measurement, presentation, and disclosure of leasing transactions. The amendments will be effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. 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.

In September 2020, the Financial Accounting Standards Board (FASB) issued ASU No. 2020-07 – *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which enhances presentation and disclosure requirements for not-for-profit entities that receive contributed nonfinancial assets. The main provisions require entities to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets, and to disclose additional details including a disaggregation of the various types of contributed nonfinancial assets and whether those assets were monetized or utilized, among others. The amendments will be effective for fiscal years beginning after June 15, 2021. Early adoption is permitted. Catholic Charities is currently evaluating the effect that implementation of the new standard will have on its 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' 2020 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, 2021 financial statements for subsequent events through December 15, 2021, the date the financial statements were available to be issued. Catholic Charities is not aware of any other 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 restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 782,803	\$ 774,505
Federal grants receivable	221,871	49,858
Other receivables	93,269	19,778
Investments	377,438	328,636
Less donor purpose restrictions	(117,500)	-
	<u>\$ 1,357,881</u>	<u>\$ 1,172,777</u>

Catholic Charities regularly monitors liquidity to meet operating needs and general expenditures within one year and has a goal to maintain financial assets to meet two months of operating expenses (currently approximately \$570,000) 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, 2021 and 2020.

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, 2021 and 2020:

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 creditworthiness 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, 2021 and 2020:

June 30, 2021				
	Level 1	Level 2	Investments Measured at Net Asset Value	Total
Mutual Funds				
Equity	\$ 105,665	\$ -	\$ -	\$ 105,665
Fixed income	92,461	-	-	92,461
Total mutual funds	<u>198,126</u>	<u>-</u>	<u>-</u>	<u>198,126</u>
Common stocks	45,938	-	-	45,938
Limited Partnerships				
Strategic hedge funds	-	-	63,068	63,068
Conservative hedge fund	-	-	42,862	42,862
Total limited partnerships	<u>-</u>	<u>-</u>	<u>105,930</u>	<u>105,930</u>
Money market funds	-	27,444	-	27,444
Total investments	<u>\$ 244,064</u>	<u>\$ 27,444</u>	<u>\$ 105,930</u>	<u>\$ 377,438</u>
June 30, 2020				
	Level 1	Level 2	Investments Measured at Net Asset Value	Total
Mutual Funds				
Equity	\$ 60,492	\$ -	\$ -	\$ 60,492
Fixed income	66,873	-	-	66,873
Total mutual funds	<u>127,365</u>	<u>-</u>	<u>-</u>	<u>127,365</u>
Common stocks	21,533	-	-	21,533
Limited Partnerships				
Strategic hedge funds	-	-	26,043	26,043
Conservative hedge fund	-	-	21,032	21,032
Total limited partnerships	<u>-</u>	<u>-</u>	<u>47,075</u>	<u>47,075</u>
Money market funds	-	132,663	-	132,663
Total investments	<u>\$ 148,898</u>	<u>\$ 132,663</u>	<u>\$ 47,075</u>	<u>\$ 328,636</u>

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 4 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	2021	2020
Land	\$ 290,000	\$ 290,000
Leasehold Improvements	1,122,228	1,105,640
Furnishings and equipment	320,191	268,532
Automobiles	99,305	32,288
	<u>1,831,724</u>	<u>1,696,460</u>
Less accumulated depreciation	<u>(1,303,659)</u>	<u>(1,323,349)</u>
	<u>\$ 528,065</u>	<u>\$ 373,111</u>

During the year ended June 30, 2021, Catholic Charities suffered the loss of a boiler unit resulting in an insurance claim of \$135,860, which was recognized as a gain, for reimbursement of expenditures incurred for equipment replacement. At June 30, 2021, Catholic Charities has recognized an insurance claim receivable for \$67,930 representing unpaid claims for reimbursement as of that date.

NOTE 5 – NOTE PAYABLE

Catholic Charities obtained an unsecured loan in the amount of \$161,036 through the Paycheck Protection Program, a program implemented by the U.S. Small Business Administration (SBA) under the Coronavirus Aid, Relief, and Economic Security Act. The loan bears interest at 1.00% per annum and is payable in monthly installments of principal and interest of \$9,062 over two years. Payments are deferred until ten months after the end of the loan forgiveness covered period of 8 weeks. The loan and accrued interest are forgivable as long as Catholic Charities uses the loan proceeds for eligible purposes, including covered payroll costs, rent, and utilities, and maintains its payroll levels. Catholic Charities was notified during the year ended June 30, 2021, that the SBA had fully forgiven the loan and the forgiveness is recorded as a gain in the statement of activities.

NOTE 6 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions were restricted for the following purposes at June 30:

	2021	2020
A Place To Go project	\$ 80,000	\$ -
Food box program	12,500	-
Food outreach expansion	25,000	-
	<u>\$ 117,500</u>	<u>\$ -</u>

NOTE 7 – 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, 2021 and 2020, amounting to \$111,940 and \$105,153, respectively. The Diocese allocated a gain or (loss) from the change in the projected benefit obligation to Catholic Charities in the amounts of \$1,950,000 and (\$325,000), respectively. At June 30, 2021, total amounts due from the Diocese for retirement benefits were \$289,741. At June 30, 2020, total amounts owed to the Diocese for retirement benefits were \$1,660,259.

The Diocese periodically pays certain expenses including employee benefits on behalf of Catholic Charities. At June 30, 2021 and 2020, amounts due to the Diocese for these expenses totaled \$690,875 and \$776,362, respectively.

Catholic Charities receives from the Diocese a direct Diocesan subsidy which amounted to \$100,000 for each of the years ended June 30, 2021 and 2020, respectively.

NOTE 8 – COMMITMENTS

Catholic Charities leases equipment and a warehouse through operating leases expiring in various years through 2026. Total lease expense was \$66,453 and \$17,600 for the years ended June 30, 2021 and 2020, respectively.

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

2022	\$ 82,470
2023	64,345
2024	56,070
2025	52,665
2026	28,700
	<u>\$ 284,250</u>

SUPPLEMENTAL INFORMATION

CATHOLIC CHARITIES, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2021

Federal Grantor / Pass-Through Agency / Program	Assistance Listing Number	Award Number	Amount Expended
U.S. Department of Housing and Urban Development			
City of Memphis / COVID-19 Emergency Solutions Grant Program	14.231	ESG-16-08	\$ 130,565
City of Memphis / COVID-19 Emergency Solutions Grant Program	14.231	ESG-16-08-CA	112,607
Direct Award / Continuum of Care Program	14.267	TN0241L4J011904	466,928
Total U.S. Department of Housing and Urban Development			<u>710,100</u>
U.S. Department of the Treasury			
United Way / COVID-19 Coronavirus Relief Fund	21.019	n/a	190,443
U.S. Department of Veterans Affairs			
Direct Award / VA Supportive Services for Veteran Families Program	64.033	14-TN-287-20	410,599
Direct Award / COVID-19 VA Supportive Services for Veteran Families Program	64.033	14-TN-287-C1	144,863
Direct Award / COVID-19 VA Supportive Services for Veteran Families Program	64.033	14-TN-287-C2	598,208
Total U.S. Department of Veteran's Affairs			<u>1,153,670</u>
U.S. Department of Health and Human Services			
477 Cluster			
Shelby County / COVID-19 Community Services Block Grant	93.569	CA2100371	73,263
U.S. Department of Homeland Security			
United Way / Emergency Food and Shelter National Board	97.024	778200-001	37,806
United Way / Emergency Food and Shelter National Board	97.024	778200-001	175,000
Total U.S. Department of Homeland Security			<u>212,806</u>
Total federal awards			<u>\$ 2,340,282</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, 2021

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, 2021. 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 subrecipients. Pass-through entity identifying numbers are presented where available.

**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, 2021, 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 15, 2021.

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) as a basis for designing 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 financial statements. 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 15, 2021

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 Catholic Charities, Inc.'s major federal program for the year ended June 30, 2021. Catholic Charities, Inc.'s major federal program is 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 program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Catholic Charities, Inc.'s major federal program 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 its 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 its major federal program for the year ended June 30, 2021.

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 its 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
December 15, 2021

CATHOLIC CHARITIES, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2021

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, assistance listing number 64.033.
8. The threshold used for distinguishing Type A and B programs was \$750,000.
9. Catholic Charities 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, 2021

None.