

**CATHOLIC CHARITIES, INC.**

**FINANCIAL STATEMENTS**

June 30, 2022

(with summarized comparative information for 2021)



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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Catholic Charities, Inc.

### Report on the Audit of the Financial Statements

#### *Opinion*

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, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinion*

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Catholic Charities, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Catholic Charities, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

## ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Catholic Charities, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Catholic Charities, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

## ***Supplementary 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 schedule of expenditures of federal awards 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 19, 2022, 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, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the 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 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 15, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Watkins Mikusall, PLLC*

Memphis, Tennessee  
December 19, 2022

**CATHOLIC CHARITIES, INC.**

**STATEMENT OF FINANCIAL POSITION**

June 30, 2022

(with summarized comparative information at June 30, 2021)

	<u>Assets</u>	
	2022	2021
<b>Assets</b>		
Cash and cash equivalents	\$ 361,949	\$ 782,803
Grants receivable	261,358	228,940
Other receivables	16,105	86,200
Inventory	32,974	86,217
Other current assets	46,960	42,501
Investments	341,009	377,438
Due from Diocese of Memphis - pension asset	-	289,741
Property and equipment, net	963,648	528,065
 Total assets	 \$ 2,024,003	 \$ 2,421,905
	<u>Liabilities and Net Assets</u>	
<b>Liabilities</b>		
Accounts payable	\$ 120,921	\$ 45,321
Accrued payroll	77,186	63,664
Accrued expenses	37,604	74,150
Due to Diocese of Memphis		
Employee benefits	570,875	690,875
Pension liability	479,465	-
	1,050,340	690,875
 Total liabilities	 1,286,051	 874,010
 <b>Net Assets</b>		
Without donor restrictions	662,952	1,430,395
With donor restrictions	75,000	117,500
Total net assets	737,952	1,547,895
 Total liabilities and net assets	 \$ 2,024,003	 \$ 2,421,905

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

**CATHOLIC CHARITIES, INC.**

**STATEMENT OF ACTIVITIES**

For the Year Ended June 30, 2022  
(with summarized comparative information for the year ended June 30, 2021)

	Without Donor	With Donor	Total	
	<u>Restrictions</u>	<u>Restrictions</u>	<u>2022</u>	<u>2021</u>
Support and Revenue				
Contributions				
Federal grants	\$ 2,867,403	\$ -	\$ 2,867,403	\$ 2,340,282
Non-federal grants	65,500	-	65,500	59,942
United Way	67,000	-	67,000	132,345
Private foundations and individuals	1,581,704	50,000	1,631,704	1,296,005
In-kind	1,988,665	-	1,988,665	974,963
Special events	8,000	-	8,000	-
Operating subsidy - Diocese of Memphis	100,000	-	100,000	100,000
Contract revenue	32,867	-	32,867	23,121
Administrative fees	192,864	-	192,864	192,864
Other	39,874	-	39,874	27,059
Net assets released from restrictions	92,500	(92,500)	-	-
Total support and revenue	<u>7,036,377</u>	<u>(42,500)</u>	<u>6,993,877</u>	<u>5,146,581</u>
Expenses				
Program services	6,045,595	-	6,045,595	3,894,926
Management and general	643,572	-	643,572	527,814
Fundraising	309,127	-	309,127	349,958
Total expenses	<u>6,998,294</u>	<u>-</u>	<u>6,998,294</u>	<u>4,772,698</u>
Income (loss) from operations	38,083	(42,500)	(4,417)	373,883
Nonoperating Gains (Losses)				
Net investment return	(36,320)	-	(36,320)	49,110
Gain on disposal of property and equipment	-	-	-	135,860
Gain on forgiveness of PPP loan	-	-	-	161,036
Pension-related changes other than net periodic pension costs	(769,206)	-	(769,206)	1,950,000
Total nonoperating gains (losses)	<u>(805,526)</u>	<u>-</u>	<u>(805,526)</u>	<u>2,296,006</u>
Change in net assets	(767,443)	(42,500)	(809,943)	2,669,889
Net assets (deficit), beginning of year	<u>1,430,395</u>	<u>117,500</u>	<u>1,547,895</u>	<u>(1,121,994)</u>
Net assets, end of year	<u>\$ 662,952</u>	<u>\$ 75,000</u>	<u>\$ 737,952</u>	<u>\$ 1,547,895</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, 2022  
(with summarized comparative information for the year ended June 30, 2021)

	Program Services				Supporting Services		Totals	
	Emergency Services	Homeless Services	Community Services	Total Program Services	Management and General	Fundraising	2022	2021
	Salaries	\$ 111,039	\$ 895,682	\$ 287,761	\$ 1,294,482	\$ 249,527	\$ 166,477	\$ 1,710,486
Payroll taxes	8,044	65,570	20,335	93,949	18,442	12,350	124,741	102,859
Employee benefits	23,942	252,575	58,827	335,344	57,863	18,069	411,276	372,093
Professional fees	6,054	18,394	21,404	45,852	103,062	45,190	194,104	145,979
Occupancy	112,249	161,645	-	273,894	84,530	16,219	374,643	360,751
Supplies	21,225	35,068	52,327	108,620	24,997	2,498	136,115	92,085
Postage and shipping	9	-	-	9	1,945	3,137	5,091	4,079
Special assistance to individuals	2,187,993	1,630,248	5,875	3,824,116	-	-	3,824,116	2,152,454
Rental and maintenance of equipment	120	1,755	-	1,875	9,862	-	11,737	-
Printing and publications	374	672	578	1,624	2,187	25,259	29,070	59,939
Transportation	8,204	6,916	-	15,120	1,165	-	16,285	9,181
Travel and entertainment	1,073	1,213	803	3,089	4,631	628	8,348	2,227
Conferences and meetings	137	1,030	1,271	2,438	7,363	2,117	11,918	13,605
Other	-	-	38,759	38,759	2,672	17,183	58,614	12,085
Depreciation	3,753	2,671	-	6,424	75,326	-	81,750	33,078
<b>Total</b>	<b>\$ 2,484,216</b>	<b>\$ 3,073,439</b>	<b>\$ 487,940</b>	<b>\$ 6,045,595</b>	<b>\$ 643,572</b>	<b>\$ 309,127</b>	<b>\$ 6,998,294</b>	<b>\$ 4,772,698</b>

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



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

For the Year Ended June 30, 2022  
(with summarized comparative information for the year ended June 30, 2021)

	<u>2022</u>	<u>2021</u>
Cash Flows From Operating Activities:		
Change in net assets	\$ (809,943)	\$ 2,669,889
Adjustments to Reconcile Change in Net Assets to Net Cash Provided By (Used For) Operating Activities:		
Depreciation	81,750	33,078
Change in donated inventory	53,243	(78,188)
Pension-related changes other than net periodic pension costs	769,206	(1,950,000)
Realized and unrealized gains on investments	37,471	(47,946)
Gain on forgiveness of PPP loan	-	(161,036)
Increase (Decrease) in Cash and Cash Equivalents:		
Grants receivable	(32,418)	(166,445)
Other receivables	70,095	(79,059)
Other current assets	(4,459)	(6,599)
Accounts payable	41,015	9,126
Accrued payroll	13,522	14,686
Accrued expenses	(36,546)	45,167
Due to Diocese of Memphis - employee benefits	(120,000)	(85,487)
Net cash provided by operating activities	<u>62,936</u>	<u>197,186</u>
Cash Flows From Investing Activities:		
Reinvestment of earnings on investments	(1,042)	(856)
Purchases of property and equipment	(482,748)	(188,032)
Net cash used for investing activities	<u>(483,790)</u>	<u>(188,888)</u>
Net increase (decrease) in cash and cash equivalents	(420,854)	8,298
Cash and cash equivalents, beginning of year	<u>782,803</u>	<u>774,505</u>
Cash and cash equivalents, end of year	<u>\$ 361,949</u>	<u>\$ 782,803</u>
Noncash Investing Activities:		
Capital expenditures included in accounts payable	<u>\$ 34,585</u>	<u>\$ -</u>

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

# CATHOLIC CHARITIES, INC.

## NOTES TO THE FINANCIAL STATEMENTS

June 30, 2022

(with summarized comparative information for 2021)

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### NOTE 1 – PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

#### Organization and Activities

Catholic Charities of West Tennessee, 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 areas. For over 50 years, Catholic Charities has provided services to those most desperate in the community, with an emphasis in the following areas:

*Emergency Services* – The Emergency Services Program (f.k.a. Fig Tree Emergency Services) supports our neighbors in crisis with food and financial assistance at multiple locations in the Greater Memphis area, and across West Tennessee to ensure that no one goes hungry. This program supports individuals, families, children, and seniors facing food insecurity. This program also provides nutritional support for Catholic Charities’ other program areas and utilizes volunteers to produce and distribute its services.

*Homeless Services* – The Homeless Services Program (f.k.a. St. Sebastian Veteran Services and Genesis Homeless Services) serves those experiencing homelessness, including homeless veterans, individuals, and families (along with those at risk of homelessness) with permanent housing. Services often begin with hospitality and outreach, whereby people experiencing homelessness are connected with a meal, resources, case management, employment, and access to health services. 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* – The Community Services Program assists families post-crisis with clothing, family supplies, nutrition, and academic support. Clothing support for families with children offers families an opportunity to shop for seasonally appropriate items free of charge. Additional programming through the Tiny Blessings initiative connects families with infants to formula, diapers, car seats, and parenting classes. As children enter school, Camp Love & Learn provides academic summer camps across multiple counties in partnership with other organizations.

*Community Engagement and Volunteerism* – Catholic Charities relies on the generosity of thousands of volunteers and partners each year to leverage its impact in the community. Volunteers serve in every program initiative of the organization. Individuals, families, business, schools, government, first responders, and universities all find a place to serve at Catholic Charities, as neighbors serving neighbors.

#### 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”).

#### 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’ 2021 financial statements. Additionally, certain prior year amounts have been reclassified to conform with the current year presentation.

### 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

Deposit concentration risk is managed by placing cash and money market accounts with financial institutions believed by management to be creditworthy. At times, amounts on deposit may exceed federally insured limits of \$250,000 in the aggregate. To date, Catholic Charities has not experienced any losses in such accounts nor does management believe there is any significant credit risk on its deposits.

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 2022 and 2021, Catholic Charities received 57% and 56%, respectively, of its support and 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, 2022 and 2021, conditional grants approximating \$1,190,000 and \$2,540,000, respectively, consisted of government grants awarded for which no amounts had been advanced and no qualifying expenditures had been incurred and therefore 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.

### Grants 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 donated services and materials for the years ended June 30:

	<u>2022</u>	<u>2021</u>
Clothing, food, and supplies	\$ 1,987,282	\$ 974,963
Security services	1,383	-
Total in-kind contributions	<u>\$ 1,988,665</u>	<u>\$ 974,963</u>

The estimated fair value of security services is provided by the service provider, who estimates the fair value using standard billing rates in like circumstances. Donated clothing, food, and supplies are received for the emergency services program to be distributed to people in need, and the value is estimated based on federal meal reimbursement rates and industry guidelines published by third parties for thrift values.

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 2022 and 2021, management estimates that volunteers worked approximately 19,796 and 11,404 hours, respectively, on Catholic Charities' behalf. The estimated fair value of these services, based on a rate of \$17 per hour, was \$336,600 and \$193,800 for 2022 and 2021, 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, 2022 and 2021. 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.

## Adoption of Accounting Pronouncements

In fiscal year 2022, Catholic Charities adopted Accounting Standards Update (ASU) No. 2020-07 – *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The new guidance requires nonprofit 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. The standard also increases the disclosure requirements around contributed nonfinancial assets, including a disaggregation of the various types of contributed nonfinancial assets and whether those assets were monetized or utilized. Adoption of the standard did not have a significant impact on the financial statements, with the exception of increased disclosure.

## 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. 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.

### Date of Management's Review

Catholic Charities evaluated its June 30, 2022 financial statements for subsequent events through December 19, 2022, 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 restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 361,949	\$ 782,803
Grants receivable	261,358	228,940
Other receivables	16,105	86,200
Investments	341,009	377,438
Less donor purpose restrictions	<u>(75,000)</u>	<u>(117,500)</u>
	<u>\$ 905,421</u>	<u>\$ 1,357,881</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 \$730,000) 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, 2022 and 2021.

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, 2022 and 2021.

*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. 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 fund managers value these investments using the practical expedient based upon Catholic Charities’ proportional share of the net asset values (“NAV”) of the underlying securities or as reported by the underlying entities. Investments measured at NAV are presented in a separate column to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

The following tables presents assets measured at fair value on a recurring basis at June 30, 2022 and 2021:

	June 30, 2022			
	Level 1	Level 2	Investments Measured at NAV	Total
Money market funds	\$ -	\$ 133,076	\$ -	\$ 133,076
Equity mutual funds	54,323	-	-	54,323
Fixed income mutual funds	42,359	-	-	42,359
Common stocks	26,662	-	-	26,662
Limited Partnerships				
Strategic hedge funds	-	-	46,207	46,207
Conservative hedge fund	-	-	38,382	38,382
Total limited partnerships	-	-	84,589	84,589
Total investments	\$ 123,344	\$ 133,076	\$ 84,589	\$ 341,009

	June 30, 2021			
	Level 1	Level 2	Investments Measured at NAV	Total
Money market funds	\$ -	\$ 132,941	\$ -	\$ 132,941
Equity mutual funds	73,815	-	-	73,815
Fixed income mutual funds	64,591	-	-	64,591
Common stocks	32,091	-	-	32,091
Limited Partnerships				
Strategic hedge funds	-	-	44,058	44,058
Conservative hedge fund	-	-	29,942	29,942
Total limited partnerships	-	-	74,000	74,000
Total investments	\$ 170,497	\$ 132,941	\$ 74,000	\$ 377,438

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

- (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>2022</u>	<u>2021</u>
Land	\$ 290,000	\$ 290,000
Leasehold Improvements	1,340,959	1,122,228
Furnishings and equipment	472,992	320,191
Automobiles	178,021	99,305
Construction in progress	67,085	-
	<u>2,349,057</u>	<u>1,831,724</u>
Less accumulated depreciation	<u>(1,385,409)</u>	<u>(1,303,659)</u>
	<u>\$ 963,648</u>	<u>\$ 528,065</u>

#### NOTE 5 – NOTE PAYABLE

In 2020, 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 and accrued interest are forgivable as long as the loan proceeds are used for eligible purposes, including covered payroll costs, rent, and utilities, and maintains its payroll levels. Catholic Charities was notified during 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:

	<u>2022</u>	<u>2021</u>
A Place To Go project	\$ -	\$ 80,000
Food box program	-	12,500
Food outreach expansion	25,000	25,000
Workforce development	50,000	-
	<u>\$ 75,000</u>	<u>\$ 117,500</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes specified by donors as follows for the years ended June 30:

	<u>2022</u>	<u>2021</u>
A Place To Go project	\$ 80,000	\$ -
Food box program	12,500	-
	<u>\$ 92,500</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 charges Catholic Charities eight percent (8%) of full-time wages. The Diocese also provides an annual subsidy for operational support. Transactions with the Diocese consisted of the following as of and for the years ended June 30:

	<u>2022</u>	<u>2021</u>
Retirement plan contributions	\$ 127,848	\$ 113,926
Pension-related gain (loss)	(769,206)	1,950,000
Annual operating subsidy	100,000	100,000
Amounts Due from (Due to) the Diocese for:		
Employee benefits	(570,875)	(690,875)
Pension plan	(479,465)	289,741
	<u>\$ (1,050,340)</u>	<u>\$ (401,134)</u>

**NOTE 8 – COMMITMENTS**

Catholic Charities leases equipment and storage facilities through operating leases expiring in various years through 2026. Total lease expense was \$81,858 and \$66,453 for 2022 and 2021, respectively.

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

2023	\$	81,493
2024		63,668
2025		54,128
2026		30,548
2027		1,232
	\$	<u>231,069</u>

**SUPPLEMENTARY INFORMATION**

**CATHOLIC CHARITIES, INC.**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For the Year Ended June 30, 2022

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	\$ 90,000
City of Memphis / COVID-19 Emergency Solutions Grant Program	14.231	ESG-16-08-CA	439,652
Direct Award / Continuum of Care Program	14.267	TN0241L4J012005	478,544
Total U.S. Department of Housing and Urban Development			<u>1,008,196</u>
U.S. Department of Veterans Affairs			
Direct Award / VA Supportive Services for Veteran Families Program	64.033	14-TN-287-21	750,200
Direct Award / COVID-19 VA Supportive Services for Veteran Families Program	64.033	14-TN-287-C2	418,510
Direct Award / VA Supportive Services for Veteran Families Program - Shallow Subsidy	64.033	14-TN-287-SS	92,302
Total U.S. Department of Veterans Affairs			<u>1,261,012</u>
U.S. Department of Health and Human Services			
477 Cluster			
Shelby County / COVID-19 Community Services Block Grant	93.569	CA2100371	566,929
U.S. Department of Homeland Security			
United Way of the Mid-South / Emergency Food and Shelter National Board Program	97.024	778200-001	23,578
United Way of the Mid-South / Emergency Food and Shelter National Board Program	97.024	778200-001	7,688
Total U.S. Department of Homeland Security			<u>31,266</u>
Total expenditures of federal awards			<u>\$ 2,867,403</u>

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

**CATHOLIC CHARITIES, INC.**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For the Year Ended June 30, 2022

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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, 2022. 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, 2022, 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 19, 2022.

### **Report On 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 or significant deficiencies may exist that were not identified.

### **Report on 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 19, 2022

**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 Major Federal Program**

***Opinion on Major Federal Program***

We have audited the Catholic Charities, Inc.’s compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on the Organization’s major federal program for the year ended June 30, 2022. 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.

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, 2022.

***Basis for Opinion on Major Federal Program***

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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Catholic Charities, Inc. and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of Catholic Charities, Inc.’s compliance with the compliance requirements referred to above.

***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Catholic Charities, Inc.’s federal programs.



## ***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Catholic Charities, Inc.'s compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Catholic Charities, Inc.'s compliance with the requirements of its major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Catholic Charities, Inc.'s compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Catholic Charities, Inc.'s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 Catholic Charities, Inc.'s internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

## **Report on 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 19, 2022

**CATHOLIC CHARITIES, INC.**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For the Year Ended June 30, 2022

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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 program 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 program 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, 2022

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**FINDINGS – FINANCIAL STATEMENT AUDIT**

None

**FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT**

None