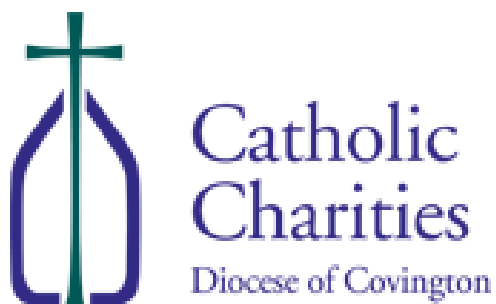


CATHOLIC CHARITIES, INC.

June 30, 2019

*FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS'
REPORT INCLUDING SUPPLEMENTARY INFORMATION*



**CATHOLIC CHARITIES, INC.
TABLE OF CONTENTS**

	PAGE
Independent Auditors' Report	
Financial Statements	
Statements of Financial Position.....	1
Statements of Activities.....	3
Statements of Functional Expenses	5
Statements of Cash Flows	7
Notes to the Financial Statements	9

INDEPENDENT AUDITORS' REPORT

Board of Directors
Catholic Charities, Inc.
Covington, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of Catholic Charities, Inc. (a nonprofit organization) which comprise the statements of financial position as of June 30, 2019 and 2018 and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 auditors' 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Catholic Charities, Inc. as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in the notes to the financial statements, during 2019, Catholic Charities, Inc. adopted Accounting Standards Update (ASU) No 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

VonLehman & Company Inc.

Fort Wright, Kentucky
February 4, 2019

CATHOLIC CHARITIES, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2019

ASSETS

	Without Donor Restrictions	With Donor Restrictions	
	Operating Fund	Diocesan Director Fund	Total
Cash	\$ 682,652	\$ 45,554	\$ 728,206
Accounts Receivable	71,451	-	71,451
Investments	2,147,566	-	2,147,566
Prepaid Expenses	8,200	-	8,200
Other Assets	5,399	-	5,399
Property and Equipment, Net	1,960,659	-	1,960,659
Total Assets	\$ 4,875,927	\$ 45,554	\$ 4,921,481

LIABILITIES AND NET ASSETS

Note Payable	\$ 13,103	\$ -	\$ 13,103
Accounts Payable and Accrued Liabilities	43,202	-	43,202
Total Liabilities	56,305	-	56,305
Net Assets	4,819,622	45,554	4,865,176
Total Liabilities and Net Assets	\$ 4,875,927	\$ 45,554	\$ 4,921,481

See accompanying notes.

CATHOLIC CHARITIES, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018

ASSETS

	Without Donor Restrictions	With Donor Restrictions	
	Operating Fund	Diocesan Director Fund	Total
Cash	\$ 678,785	\$ 7,329	\$ 686,114
Accounts Receivable	114,219	-	114,219
Investments	2,639,374	-	2,639,374
Prepaid Expenses	4,017	-	4,017
Property and Equipment, Net	1,546,904	-	1,546,904
Total Assets	\$ 4,983,299	\$ 7,329	\$ 4,990,628

LIABILITIES AND NET ASSETS

Note Payable	\$ 22,354	\$ -	\$ 22,354
Accounts Payable and Accrued Liabilities	18,635	-	18,635
Total Liabilities	40,989	-	40,989
Net Assets	4,942,310	7,329	4,949,639
Total Liabilities and Net Assets	\$ 4,983,299	\$ 7,329	\$ 4,990,628

See accompanying notes.

**CATHOLIC CHARITIES, INC.
STATEMENT OF ACTIVITIES
FOR YEAR ENDED JUNE 30, 2019**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	
	<u>Operating Fund</u>	<u>Diocesan Director Fund</u>	<u>Total</u>
Revenue, Support, and Gains			
United Way and Community Chest	\$ 193,222	\$ -	\$ 193,222
Program Service Fees	173,143	-	173,143
Fees and Grants From Government Agencies	312,965	-	312,965
Diocese of Covington	262,000	-	262,000
Net Investment Return	175,536	-	175,536
Annual Campaign	229,350	-	229,350
Contributions	238,159	38,225	276,384
Special Fundraising Events	59,879	-	59,879
Other	129,339	-	129,339
	<u>1,773,593</u>	<u>38,225</u>	<u>1,811,818</u>
Total Revenue, Support, and Gains	1,773,593	38,225	1,811,818
Net Assets Released From Restriction			
	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenue, Support, Gains and Reclassifications	1,773,593	38,225	1,811,818
Expenses			
Program Services			
Parenting Programs	69,525	-	69,525
Safe Passage Housing Counseling	112,292	-	112,292
Therapeutic Counseling	238,810	-	238,810
School Based Programs	300,437	-	300,437
Adoption, Pregnancy and Other Programs	159,996	-	159,996
Parish Kitchen	378,662	-	378,662
St. Joseph Apartments	186,850	-	186,850
	<u>1,446,572</u>	<u>-</u>	<u>1,446,572</u>
Total Program Services	1,446,572	-	1,446,572
Overhead Expenses			
Management and General	321,117	-	321,117
Fundraising	128,592	-	128,592
	<u>449,709</u>	<u>-</u>	<u>449,709</u>
Total Overhead Expenses	449,709	-	449,709
Total Expenses	1,896,281	-	1,896,281
Change in Net Assets	(122,688)	38,225	(84,463)
Net Assets, Beginning of Year	<u>4,942,310</u>	<u>7,329</u>	<u>4,949,639</u>
Net Assets, End of Year	<u>\$ 4,819,622</u>	<u>\$ 45,554</u>	<u>\$ 4,865,176</u>

See accompanying notes.

**CATHOLIC CHARITIES, INC.
STATEMENT OF ACTIVITIES
FOR YEAR ENDED JUNE 30, 2018**

	<u>Without Donor Restrictions</u> <u>Operating Fund</u>	<u>With Donor Restrictions</u> <u>Diocesan Director Fund</u>	<u>Total</u>
Revenue, Support, and Gains			
United Way and Community Chest	\$ 289,315	\$ -	\$ 289,315
Program Service Fees	185,986	-	185,986
Fees and Grants From Government Agencies	403,420	-	403,420
Diocese of Covington	262,000	-	262,000
Net Investment Return	288,506	-	288,506
Annual Campaign	232,488	-	232,488
Contributions	297,671	-	297,671
Special Fundraising Events	63,838	-	63,838
Other	117,089	-	117,089
	<u>2,140,313</u>	<u>-</u>	<u>2,140,313</u>
Total Revenue, Support, and Gains	2,140,313	-	2,140,313
Net Assets Released From Restriction	<u>1,335</u>	<u>(1,335)</u>	<u>-</u>
Total Revenue, Support, Gains and Reclassifications	<u>2,141,648</u>	<u>(1,335)</u>	<u>2,140,313</u>
Expenses			
Program Services			
Parenting Programs	71,609	-	71,609
Safe Passage Housing Counseling	111,457	-	111,457
Substance Use Disorder Services	103,527	-	103,527
Therapeutic Counseling	247,586	-	247,586
School Based Programs	333,731	-	333,731
Adoption, Pregnancy and Other Programs	151,204	-	151,204
Parish Kitchen	309,148	-	309,148
St. Joseph Apartments	212,945	-	212,945
	<u>1,541,207</u>	<u>-</u>	<u>1,541,207</u>
Total Program Services	1,541,207	-	1,541,207
Overhead Expenses			
Management and General	319,531	-	319,531
Fundraising	119,824	-	119,824
	<u>439,355</u>	<u>-</u>	<u>439,355</u>
Total Overhead Expenses	439,355	-	439,355
Total Expenses	<u>1,980,562</u>	<u>-</u>	<u>1,980,562</u>
Change in Net Assets	161,086	(1,335)	159,751
Net Assets, Beginning of Year	<u>4,781,224</u>	<u>8,664</u>	<u>4,789,888</u>
Net Assets, End of Year	<u><u>\$ 4,942,310</u></u>	<u><u>\$ 7,329</u></u>	<u><u>\$ 4,949,639</u></u>

See accompanying notes.

CATHOLIC CHARITIES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR YEAR ENDED JUNE 30, 2019

	<u>Parenting Programs</u>	<u>Safe Passage Housing Counseling</u>	<u>Therapeutic Counseling</u>	<u>School Based Programs</u>	<u>Adoption/ Pregnancy and Other Programs</u>	<u>Parish Kitchen</u>	<u>St. Joseph Apartments</u>	<u>Program Total</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and Wages	\$ 46,475	\$ 74,844	\$ 152,880	\$ 199,741	\$ 92,762	\$ 164,833	\$ 65,576	\$ 797,111	\$ 199,101	\$ 70,086	\$ 1,066,298
Employee Benefits and Payroll Taxes	13,851	21,918	43,176	55,358	28,605	45,125	22,984	231,017	57,330	19,691	308,038
Total Salaries, Wages and Related Expenses	60,326	96,762	196,056	255,099	121,367	209,958	88,560	1,028,128	256,431	89,777	1,374,336
Professional Fees	595	1,291	3,637	3,694	1,546	9,204	1,468	21,435	16,683	902	39,020
Office Supplies	215	344	862	1,642	792	1,447	371	5,673	948	536	7,157
Household Supplies	134	215	440	640	387	3,760	249	5,825	641	202	6,668
Telephone	396	635	1,298	1,695	1,109	3,276	1,870	10,279	1,690	595	12,564
Postage and Shipping	152	298	512	651	320	3,169	214	5,316	874	3,705	9,895
Occupancy, Building and Grounds	1,736	2,782	5,682	7,424	3,448	32,420	81,865	135,357	7,400	2,605	145,362
Maintenance of Equipment	502	804	1,643	2,146	1,228	13,592	755	20,670	2,139	753	23,562
Information Technology	720	1,392	2,357	3,079	1,430	2,641	1,011	12,630	3,069	1,080	16,779
Printing and Publications	29	46	237	455	1,661	4,055	40	6,523	838	10,618	17,979
Subscriptions and Publications	297	474	482	952	2,296	743	207	5,451	832	1,787	8,070
Travel	-	-	116	3,038	879	33	1,575	5,641	2,955	590	9,186
Special Events	-	-	-	-	-	920	-	920	-	605	1,525
Conferences, Conventions and Meetings	114	424	491	970	5,815	403	630	8,847	6,216	8,242	23,305
Staff Education Expenses	192	308	630	968	810	739	270	3,917	2,717	368	7,002
Specific Assistance to Individuals	50	-	10,704	590	8,830	972	2,055	23,201	-	-	23,201
Membership Dues	25	39	430	105	49	112	34	794	450	162	1,406
Miscellaneous	100	160	328	428	199	428	140	1,783	427	150	2,360
Food	-	-	-	-	-	76,876	-	76,876	-	-	76,876
Insurance Premiums	662	1,061	2,168	2,832	1,315	2,337	930	11,305	2,823	994	15,122
Total Expenses Before Depreciation	66,245	107,035	228,073	286,408	153,481	367,085	182,244	1,390,571	307,133	123,671	1,821,375
Depreciation	3,280	5,257	10,737	14,029	6,515	11,577	4,606	56,001	13,984	4,921	74,906
Total Expenses by Function	\$ 69,525	\$ 112,292	\$ 238,810	\$ 300,437	\$ 159,996	\$ 378,662	\$ 186,850	\$ 1,446,572	\$ 321,117	\$ 128,592	\$ 1,896,281

See accompanying notes.

CATHOLIC CHARITIES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR YEAR ENDED JUNE 30, 2018

	<u>Parenting Programs</u>	<u>Safe Passage Housing Counseling</u>	<u>Substance Use Disorder Services</u>	<u>Therapeutic Counseling</u>	<u>School Based Programs</u>	<u>Adoption/ Pregnancy and Other Programs</u>	<u>Parish Kitchen</u>	<u>St. Joseph Apartments</u>	<u>Program Total</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and Wages	\$ 45,395	\$ 68,042	\$ 65,340	\$ 158,295	\$ 224,177	\$ 84,403	\$ 147,805	\$ 66,076	\$ 859,533	\$ 190,621	\$ 65,390	\$ 1,115,544
Employee Benefits and Payroll Taxes	15,453	21,986	22,604	48,462	53,437	17,858	43,909	22,118	245,827	56,343	18,133	320,303
Total Salaries, Wages and Related Expenses	60,848	90,028	87,944	206,757	277,614	102,261	191,714	88,194	1,105,360	246,964	83,523	1,435,847
Professional Fees	850	1,888	1,223	4,258	4,196	6,288	3,601	1,572	23,876	26,448	1,661	51,985
Supplies	299	448	430	1,646	2,299	584	64,596	513	70,815	2,502	444	73,761
Telephone	422	633	608	1,472	2,085	1,140	1,628	1,394	9,382	1,774	608	11,764
Postage and Shipping	154	344	222	537	760	351	2,425	224	5,017	648	2,361	8,026
Occupancy, Building and Grounds	2,182	3,271	3,141	7,609	10,775	4,057	20,270	92,837	144,142	9,160	3,143	156,445
Maintenance of Equipment	1,964	2,945	2,828	6,885	9,702	4,108	4,511	3,364	36,307	8,282	2,830	47,419
Printing and Publications	655	307	745	1,284	1,863	1,329	4,983	298	11,464	861	11,909	24,234
Travel	-	347	875	289	5,690	1,729	130	2,144	11,204	4,244	484	15,932
Conferences, Conventions and Meetings	103	753	473	426	913	5,583	215	255	8,721	1,683	7,445	17,849
Staff Education Expenses	210	315	303	1,250	1,588	426	150	306	4,548	2,608	303	7,459
Specific Assistance to Individuals	672	5,305	55	3,835	189	17,204	-	2,264	29,524	203	55	29,782
Membership Dues	20	31	29	71	101	138	25	30	445	586	404	1,435
Programs and Activities	569	852	819	1,983	2,809	1,057	-	828	8,917	2,388	819	12,124
Miscellaneous	105	157	151	366	518	195	530	1,207	3,229	441	151	3,821
Insurance Premiums	311	468	449	1,089	1,542	580	2,613	3,425	10,477	1,311	450	12,238
Total Expenses Before Depreciation	69,364	108,092	100,295	239,757	322,644	147,030	297,391	198,855	1,483,428	310,103	116,590	1,910,121
Depreciation	2,245	3,365	3,232	7,829	11,087	4,174	11,757	14,090	57,779	9,428	3,234	70,441
Total Expenses by Function	\$ 71,609	\$ 111,457	\$ 103,527	\$ 247,586	\$ 333,731	\$ 151,204	\$ 309,148	\$ 212,945	\$ 1,541,207	\$ 319,531	\$ 119,824	\$ 1,980,562

See accompanying notes.

**CATHOLIC CHARITIES, INC.
STATEMENT OF CASH FLOWS
FOR YEAR ENDED JUNE 30, 2019**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	
	<u>Operating Fund</u>	<u>Diocesan Director Fund</u>	<u>Total</u>
Cash Flows From Operating Activities			
Change in Net Assets	\$ (122,688)	\$ 38,225	\$ (84,463)
Adjustments to Reconcile Change in Net Assets to Net Cash (Used) Provided by Operating Activities			
Depreciation	74,906	-	74,906
Net Realized and Unrealized Gains on Investments	(94,623)	-	(94,623)
Changes in			
Accounts Receivable	42,768	-	42,768
Prepaid Expenses	(4,183)	-	(4,183)
Other Assets	(5,399)	-	(5,399)
Accounts Payable and Accrued Liabilities	24,567	-	24,567
	<u>(84,652)</u>	<u>38,225</u>	<u>(46,427)</u>
Cash (Used) Provided by Operating Activities			
Cash Flows From Investing Activities			
Acquisition of Property and Equipment	(488,661)	-	(488,661)
Proceeds From Sale of Investments	656,297	-	656,297
Purchases of Investments	(69,866)	-	(69,866)
	<u>97,770</u>	<u>-</u>	<u>97,770</u>
Cash Provided by Investing Activities			
Cash Flows From Financing Activities			
Payments on Note Payable	(9,251)	-	(9,251)
	<u>3,867</u>	<u>38,225</u>	<u>42,092</u>
Net Change in Cash			
Cash, Beginning of Year	<u>678,785</u>	<u>7,329</u>	<u>686,114</u>
Cash, End of Year	<u>\$ 682,652</u>	<u>\$ 45,554</u>	<u>\$ 728,206</u>

See accompanying notes.

**CATHOLIC CHARITIES, INC.
STATEMENT OF CASH FLOWS
FOR YEAR ENDED JUNE 30, 2018**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	
	<u>Operating Fund</u>	<u>Diocesan Director Fund</u>	<u>Total</u>
Cash Flows From Operating Activities			
Change in Net Assets	\$ 161,086	\$ (1,335)	\$ 159,751
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities			
Depreciation	70,441	-	70,441
Net Realized and Unrealized Gains on Investments	(214,726)	-	(214,726)
Loss on Disposal of Property and Equipment	3,291	-	3,291
Changes in			
Accounts Receivable	(55,369)	-	(55,369)
Prepaid Expenses	(1)	-	(1)
Accounts Payable and Accrued Liabilities	(329)	-	(329)
	<u>(35,607)</u>	<u>(1,335)</u>	<u>(36,942)</u>
Cash Used by Operating Activities			
Cash Flows From Investing Activities			
Acquisition of Property and Equipment	(34,443)	-	(34,443)
Proceeds From Sale of Investments	100,986	-	100,986
Purchases of Investments	(16,869)	-	(16,869)
	<u>49,674</u>	<u>-</u>	<u>49,674</u>
Cash Provided by Investing Activities			
Cash Flows From Financing Activities			
Payments on Note Payable	(9,250)	-	(9,250)
	<u>4,817</u>	<u>(1,335)</u>	<u>3,482</u>
Net Change in Cash			
Cash, Beginning of Year	<u>673,968</u>	<u>8,664</u>	<u>682,632</u>
Cash, End of Year	<u>\$ 678,785</u>	<u>\$ 7,329</u>	<u>\$ 686,114</u>

See accompanying notes.

CATHOLIC CHARITIES, INC.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Catholic Charities, Inc. (Catholic Charities) was incorporated and commenced operations as a nonprofit agency in September, 1978 under the laws of the State of Kentucky. Catholic Charities provides counseling and social services in the Greater Cincinnati and Northern Kentucky areas.

Use of Estimates

The process of preparing financial statements in conformity with U.S. GAAP requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Certain estimates relate to unsettled transactions and events as of the date of the financial statements. Other estimates relate to assumptions about the ongoing operations and may impact future periods. Accordingly, upon settlement, actual results may differ from estimated amounts.

Accounts Receivable

Accounts receivable are stated at their contractual outstanding balances, net of any allowance for doubtful accounts. Accounts are considered past due if any portion of an account has not been paid in full within the contractual terms of the account or the anticipated due date. Catholic Charities begins to assess its ability to collect receivables that are over 90 days past due and provides for an adequate allowance for uncollectible accounts based on Catholic Charities' collection history, the financial stability and recent payment history of the grantors and clients, and other pertinent factors. Accounts receivables are written off as uncollectible after Catholic Charities has used reasonable collection efforts and deems them uncollectible. Based on these criteria, no allowance for doubtful accounts has been provided at June 30, 2019 and 2018 since Catholic Charities does not expect any material losses.

Investments

Investments, if purchased, are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statements of financial position. Net investment return is reported in the statements of activities and consists of interest and dividend income, trust income, and realized and unrealized capital gains and losses, less any external and direct internal investment expenses. Cash equivalents, and other securities and investments held in brokerage accounts are protected by the Securities Investor Protection Corporation (SIPC) in the event of broker-dealer failure, up to \$500,000 of protection for each brokerage account with a limit of \$250,000 for claims of uninvested cash balances. The SIPC insurance does not protect against market losses on investments.

Property and Equipment

Property and equipment are stated at cost, or if donated, at fair value at the date of donation, and depreciated over the estimated useful lives of the related assets. Depreciation is computed using the straight-line method for financial reporting purposes. Maintenance and repairs are charged to operations when incurred. Betterments and renewals are capitalized for items in excess of \$5,000.

The useful lives of property and equipment for purposes of computing depreciation are:

Building	39 Years
Furniture, Equipment and Autos	5 – 10 Years
Leasehold Improvements	5 – 10 Years

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Long-Lived Assets**

Long-lived assets to be held and used are tested for recoverability whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are measured based on the fair value of the asset, and long-lived assets to be disposed of by sale are reported at the lower of the carrying amount or fair value less costs to sell. Long-lived assets were measured for impairment, and no adjustments were deemed necessary during both the years ended June 30, 2019 and 2018.

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. 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.

The Organization reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions.

Revenue and Revenue Recognition

Revenue is recognized when earned. Program service fees are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received.

Support funded by government grants is recognized as Catholic Charities performs the contracted services under grant agreements. Grant revenue is recognized as earned as the eligible expenses are incurred. Grant expenditures are subject to audit and acceptance by the granting agency and, as a result of such audits, adjustments could be required.

Donated Services, Food, and Items

Donations of equipment and in-kind contributions are recorded as contributions at fair value at the date of donation. Such donations are reported as increases in net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose.

Donated services are recognized as contributions if the services a) create or enhance nonfinancial assets or b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization

Donated food for the Parish Kitchen program estimated to be valued at \$20,497 and \$14,582 has been recorded in these financial statements for the years ended June 30, 2019 and 2018, respectively.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Catholic Charities has significant time contributed to its mission through volunteers, however, the statements of activities does not reflect the value of these services as they do not meet recognition criteria required under U.S. GAAP.

Retirement Plan

Catholic Charities has a tax sheltered annuity plan and custodial account covering substantially all of its employees. By its nature, the Plan is fully funded.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The expenses that are allocated include occupancy and depreciation, which are allocated on a square footage basis as well as salaries and wages, benefits, payroll taxes, professional services, office and household expenses, telecommunications, shipping, maintenance, information technology, printing, subscriptions, travel, special events, meetings, education, special assistance, dues, food, insurance, and other, which are allocated on the basis of estimates of time and effort.

Income Tax Status

Catholic Charities is a Kentucky nonprofit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes on related income pursuant to the Internal Revenue Code.

Catholic Charities has adopted the provisions of the accounting pronouncement related to accounting for uncertainty in income taxes. Catholic Charities recognized no interest or penalties in the statements of activities for either of the years ended June 30, 2019 and 2018. If the situation arose in which Catholic Charities would have interest to recognize, it would recognize this as interest expense and penalties would be recognized in other expenses. Currently, the prior three years are open under federal and state statutes of limitations and remain subject to review and change. Catholic Charities is not currently under audit, nor has Catholic Charities been contacted by these jurisdictions.

Based on the evaluation of Catholic Charities' tax positions, management believes all positions taken would be upheld under examination. Therefore, no provision for the effects of uncertain tax positions has been recorded for either of the years ended June 30, 2019 and 2018.

Recently Issued Significant Accounting Standards*Revenue Recognition Standards*

In May, 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. This standard may have an impact on the timing of when an entity recognizes certain revenue. The ASU is effective for nonpublic entities for years beginning after December 15, 2018.

In June, 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made* (Topic 958). The core principle of the guidance is to clarify and improve current guidance about whether a transfer of assets is a contribution or an exchange transaction by evaluating whether the resource provider is receiving commensurate value in return for the resources transferred. The ASU is effective for nonpublic entities for years beginning after December 15, 2018.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Lease Accounting Standard

In February, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases* (Topic 842). The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases that are not excluded by this standard. Such leases create an asset and a liability for the lessee in accordance with FASB Concepts Statement No. 6, *Elements of Financial Statements*, and therefore, recognition of those lease assets and lease liabilities represents an improvement over previous GAAP, which did not require lease assets and lease liabilities to be recognized for most leases. The ASU is effective for nonpublic entities for years beginning after December 15, 2020.

Catholic Charities is currently in the process of evaluating the impact of adoption of these ASUs on its financial statements.

Change in Accounting Principle

In August, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities* (Topic 958). The core principles of the guidance are a reduction in the number of net asset categories from three to two, reporting investment return net of external and internal investment expenses, the placed-in-service approach for reporting expirations of restrictions on donated assets and enhanced disclosures regarding designations and donor restrictions, qualitative and quantitative liquidity information, expense allocation methods, expenses by natural classification and function and underwater endowments. Catholic Charities implemented ASU 2016-14 and adjusted presentation in these statements accordingly.

Subsequent Events

Catholic Charities has evaluated subsequent events through February 4, 2019, which is the date the financial statements were available to be issued.

NOTE 2 – LIQUIDITY

Financial assets available for general use and without donor or other restrictions limiting their use, within one year of the statements of financial position are comprised of the following:

	June 30, 2019
Cash, Without Restrictions	\$ 682,652
Accounts Receivable	71,451
Investments	<u>2,147,566</u>
	<u>\$ 2,901,669</u>

As part of Catholic Charities' liquidity management, Catholic Charities will invest cash in excess of the requirements of operating activities. These funds are available if deemed necessary.

NOTE 3 – CASH AND CASH FLOWS

At various times throughout the year, Catholic Charities may have cash in financial institutions in excess of insured limits. The Federal Deposit Insurance Corporation (FDIC) insures account balances up to \$250,000 for each business depositor.

Catholic Charities also has uninsured cash held at the Diocese of Covington. The amount of uninsured cash held at the Diocese as of June 30, 2019 and 2018, was \$377,024 and \$501,235, respectively.

Catholic Charities' only debt is a non-interest note payable (see Note Payable note), therefore no cash was paid for interest for either of the years ended June 30, 2019 or 2018.

NOTE 4 – INVESTMENTS

Investments are stated at fair value and consist of money market accounts, mutual funds and common stocks. The Diocese of Covington (the Diocese) is the custodian of these investments and maintains them in a pooled investment account. Therefore, the value of each category is maintained at the Diocese level for the entire pooled investment account and is not available at Catholic Charities level. Fair values and unrealized gains are as follows:

	June 30, 2019		
	Cost	Fair Value	Unrealized Gains
Operating Fund Investments	\$ 1,729,687	\$ 2,147,566	\$ 417,879
	June 30, 2018		
	Cost	Fair Value	Unrealized Gains
Operating Fund Investments	\$ 1,728,883	\$ 2,639,374	\$ 910,491

Net Investment return is summarized as follows:

	Years Ended June 30,	
	2019	2018
Interest and Dividend Income	\$ 25,759	\$ 22,541
Realized Gain on Investments, Net	51,459	30,362
Unrealized Gain on Investments, Net	43,164	184,364
Trust Income	55,154	51,239
Net Investment Return	\$ 175,536	\$ 288,506

Investment fees of \$2,526 are netted against interest and dividend income above.

NOTE 5 – FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

LEVEL 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that Catholic Charities has the ability to access.

LEVEL 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

LEVEL 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability’s fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodology used for assets measured at fair value. There have been no changes in the methodology used at June 30, 2019.

Trusts, Stocks and Bonds (Included in Pooled Investments): Valued at the closing price reported on the active market on which the individual securities are traded.

The preceding method described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although Catholic Charities believes its valuation method is appropriate and consistent with the other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following were measured at fair value as of June 30, 2019 and 2018.

	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Other Significant Unobservable Inputs (Level 3)	Total
Assets at Fair Value as of June 30, 2019				
Pooled Investments	\$ -	\$ 2,147,566	\$ -	\$ 2,147,566
Assets at Fair Value as of June 30, 2018				
Pooled Investments	\$ -	\$ 2,639,374	\$ -	\$ 2,639,374

NOTE 5 – FAIR VALUE MEASUREMENTS (Continued)

Risks and Uncertainties

Catholic Charities invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credits risks. Due to the level of risks associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect account balances and amounts reported in the consolidated statements of financial position.

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment and related accumulated depreciation consist of the following:

	June 30,	
	2019	2018
Building	\$ 2,417,886	\$ 1,950,741
Furniture and Equipment	211,439	211,439
Leasehold Improvements	380,640	359,124
Autos	17,099	17,099
	<u>3,027,064</u>	<u>2,538,403</u>
Less Accumulated Depreciation	<u>1,066,405</u>	<u>991,499</u>
Total Property and Equipment	<u>\$ 1,960,659</u>	<u>\$ 1,546,904</u>

NOTE 7 – NOTE PAYABLE

Catholic Charities has a note payable that was incurred for the purchase of rental property. Principal payments of \$771 are required monthly through December 1, 2020, when all unpaid principal and accrued but unpaid interest, if any, becomes due. No interest on the outstanding balance of the note shall accrue so long as the principal is repaid as required. The note is not collateralized.

\$ 13,103 \$ 22,354

The remaining maturities on the note payable are as follows:

Years Ending June 30,	
2020	\$ 9,252
2021	<u>3,851</u>
	<u>\$ 13,103</u>

NOTE 8 – TRUST FUNDS

Catholic Charities is the beneficiary of two trust funds (Langhammer Brothers Trust and The EOK Trust for the Benefit of the Parish Kitchen) which are under the control of US Bank. Accounting standards for recording trust funds do not apply and therefore these trusts are not recorded on the financial statements of Catholic Charities. The cost and fair market value of these trust funds are as follows:

	June 30,			
	2019		2018	
	Cost	Fair Market Value	Cost	Fair Market Value
Langhammer Brothers Trust	\$ 698,470	\$ 953,607	\$ 726,887	\$ 962,168
EOK Trust	338,352	334,203	347,908	344,469
	<u>\$ 1,036,822</u>	<u>\$ 1,287,810</u>	<u>\$ 1,074,795</u>	<u>\$ 1,306,637</u>

NOTE 9 – GRANTS

Grants from the United Way are reviewed and revised annually by the United Way Board of Directors. The Board awarded grants of \$193,222 and \$289,315 to Catholic Charities for the years ended June 30, 2019 and 2018, respectively.

Contributions from the Diocese are applied for annually and approved by the Bishop. The contributions from the Diocese for each of the years ended June 30, 2019 and 2018 was \$262,000.

Government grants normally cover a period of one year and are applied for annually.

NOTE 10 – RETIREMENT PLAN EXPENSE

Contributions to Catholic Charities' tax sheltered annuity plan are based upon a percentage of all eligible employees' salaries. The contributions for the years ended June 30, 2019 and 2018 were \$56,705 and \$68,853, respectively.

NOTE 11 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	June 30,	
	2019	2018
Subject to Expenditure for Specified Purpose:		
Counseling Fund	\$ 500	\$ -
Parents of Addicted Love Fund	2,725	-
Parish Kitchen Capital Campaign Fund	35,000	-
St. Joseph Laundry Fund	7,329	7,329
Total Net Assets with Donor Restrictions	<u>\$ 45,554</u>	<u>\$ 7,329</u>

NOTE 11 – NET ASSETS WITH DONOR RESTRICTIONS (Continued)

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows:

	June 30,	
	2019	2018
Net Assets Released from Restrictions		
Satisfaction of Purpose Restrictions		
St. Joseph Laundry Fund	\$ <u> -</u>	\$ <u> 1,335</u>

NOTE 12 – SPECIAL FUNDRAISING EVENTS

Fundraising events included raffles and sporting events, and incurred gross revenues and expenses as follows:

	Years Ended June 30,	
	2019	2018
Gross Revenues	\$ 100,503	\$ 108,410
Fundraising Expenses	(40,624)	(44,572)
Net Fundraising Income	\$ 59,879	\$ 63,838

NOTE 13 – OPERATING LEASES

Catholic Charities leases office equipment under non-cancelable operating leases from unrelated parties. The leases expire at various dates through January, 2022. Total lease expense for the years ended June 30, 2019 was \$5,835 and \$6,183, respectively.

Minimum future lease payments under non-cancelable operating leases having remaining terms in excess of one year as of June 30, 2019, for the remainder of the leases are as follows:

Years Ending June 30,	
2020	\$ 5,719
2021	5,719
2022	477
	\$ 11,915