

Catholic Charities of the East Bay

Financial Statements
and Supplementary Information
and Other Audit Report

April 30, 2019
(With Comparative Totals for 2018)



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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Catholic Charities of the East Bay
Oakland, California

We have audited the accompanying financial statements of Catholic Charities of the East Bay (a California nonprofit corporation) ("Catholic Charities"), which comprise the statement of financial position as of April 30, 2019, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Catholic Charities of the East Bay as of April 30, 2019, 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.

Change in Accounting Principle

As described in Note 2 to the financial statements, Catholic Charities has adopted ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to that matter.



An independent firm
associated with Moore
Global Network Limited

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The information on page 24 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2019, on our consideration of Catholic Charities 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 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 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 internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited Catholic Charities of the East Bay's 2018 financial statements, and our report dated October 30, 2018 expressed an unmodified opinion on those audited financial statements. As part of our audit of the 2019 financial statements, we also audited the adjustments to the 2018 financial statements to apply the change in accounting principle discussed above. In our opinion, the summarized comparative information presented herein as of and for the year ended April 30, 2018, adjusted for the change in accounting principle discussed above, is consistent, in all material respects, with the audited financial statements from which it has been derived. Also, in our opinion, such adjustments are appropriate and have been properly applied.



Armanino^{LLP}
San Ramon, California

October 9, 2019

Catholic Charities of the East Bay
Statement of Financial Position
April 30, 2019
(With Comparative Totals for 2018)

	2019	2018
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,321,114	\$ 1,706,115
Cash and cash equivalents held for other organizations	1,983,686	1,361,942
Grants receivable, net	846,288	906,545
Contributions receivable, net	540,726	605,599
Prepaid and other current assets	122,619	34,924
Total current assets	5,814,433	4,615,125
Noncurrent assets		
Investments	12,454,687	6,537,672
Receivable from charitable remainder trust	158,094	154,834
Contributions receivable, net of current portion	967,798	988,615
Property and equipment, net	2,352,852	2,346,926
Total noncurrent assets	15,933,431	10,028,047
Total assets	\$ 21,747,864	\$ 14,643,172
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 1,179,509	\$ 963,748
Funds held for other organizations	1,983,686	1,361,942
Current portion of note payable	43,439	41,579
Total current liabilities	3,206,634	2,367,269
Note payable, net of current portion	1,181,600	1,225,044
Total liabilities	4,388,234	3,592,313
Net assets		
Without donor restrictions		
Operating	1,499,264	1,285,109
Board designated	11,992,972	5,291,532
Total without donor restrictions	13,492,236	6,576,641
With donor restrictions	3,867,394	4,474,218
Total net assets	17,359,630	11,050,859
Total liabilities and net assets	\$ 21,747,864	\$ 14,643,172

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

Catholic Charities of the East Bay
Statement of Activities
For the Year Ended April 30, 2019
(With Comparative Totals for 2018)

	Without Donor Restrictions	With Donor Restrictions	2019 Total	2018 Total
Revenues, gains and other support				
Contributions	\$ 1,079,051	\$ 958,091	\$ 2,037,142	\$ 2,482,928
Bequests	5,860,179	-	5,860,179	454,553
Private grants	210,454	2,311,500	2,521,954	1,644,087
Government grants	4,048,808	56,000	4,104,808	3,315,695
Program services revenue	377,281	-	377,281	474,538
Fundraising and special events	419,642	-	419,642	853,473
Other revenue	627,164	3,260	630,424	694,519
Net assets released from restriction	<u>3,935,675</u>	<u>(3,935,675)</u>	<u>-</u>	<u>-</u>
Total revenues, gains and other support	<u>16,558,254</u>	<u>(606,824)</u>	<u>15,951,430</u>	<u>9,919,793</u>
Functional expenses				
Program services	<u>8,233,254</u>	<u>-</u>	<u>8,233,254</u>	<u>5,905,414</u>
Support services				
Management and general	1,511,637	-	1,511,637	1,412,856
Fundraising	<u>799,296</u>	<u>-</u>	<u>799,296</u>	<u>779,830</u>
Total support services	<u>2,310,933</u>	<u>-</u>	<u>2,310,933</u>	<u>2,192,686</u>
Total functional expenses	<u>10,544,187</u>	<u>-</u>	<u>10,544,187</u>	<u>8,098,100</u>
Change in net assets from operations	<u>6,014,067</u>	<u>(606,824)</u>	<u>5,407,243</u>	<u>1,821,693</u>
Non-operating activity				
Realized and unrealized gains, net of investment expenses of \$64,228 in 2019 and \$48,016 in 2018	665,544	-	665,544	417,640
Interest and dividends	<u>235,984</u>	<u>-</u>	<u>235,984</u>	<u>125,007</u>
Total non-operating activity	<u>901,528</u>	<u>-</u>	<u>901,528</u>	<u>542,647</u>
Change in net assets	6,915,595	(606,824)	6,308,771	2,364,340
Net assets, beginning of year	<u>6,576,641</u>	<u>4,474,218</u>	<u>11,050,859</u>	<u>8,686,519</u>
Net assets, end of year	<u>\$ 13,492,236</u>	<u>\$ 3,867,394</u>	<u>\$ 17,359,630</u>	<u>\$ 11,050,859</u>

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

Catholic Charities of the East Bay
Statement of Functional Expenses
For the Year Ended April 30, 2019
(With Comparative Totals for 2018)

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>2019 Total</u>	<u>2018 Total</u>
Personnel expenses					
Salaries and wages	\$ 4,144,472	\$ 832,091	\$ 413,321	\$ 5,389,884	\$ 4,246,966
Employee benefits	579,403	113,025	37,145	729,573	560,121
Payroll taxes	300,314	61,758	30,867	392,939	305,002
Total personnel expenses	<u>5,024,189</u>	<u>1,006,874</u>	<u>481,333</u>	<u>6,512,396</u>	<u>5,112,089</u>
Contract services	908,174	135,952	78,160	1,122,286	590,803
Financial assistance to individuals	960,642	-	-	960,642	425,584
Occupancy expense	394,881	-	24,825	419,706	327,718
Depreciation and amortization	170,736	34,218	16,357	221,311	236,171
Other expenses	94,329	107,768	45,864	247,961	328,865
In-kind expenses	300,261	100,737	42,157	443,155	351,164
Telephone	90,043	39,126	4,428	133,597	165,480
Printing and publications	23,998	24,362	45,389	93,749	79,071
Supplies	73,769	20,738	1,743	96,250	79,460
Travel	77,739	6,461	970	85,170	95,825
Interest expense	45,681	9,155	4,376	59,212	64,518
Events	16,980	6,992	50,972	74,944	115,182
Training and conferences	21,310	7,304	-	28,614	77,635
Postage and shipping	10,550	3,973	1,498	16,021	21,633
Equipment rental	<u>19,972</u>	<u>7,977</u>	<u>1,224</u>	<u>29,173</u>	<u>26,902</u>
Total 2019 functional expense	<u>\$ 8,233,254</u>	<u>\$ 1,511,637</u>	<u>\$ 799,296</u>	<u>\$ 10,544,187</u>	
Total 2018 functional expense	<u>\$ 5,905,414</u>	<u>\$ 1,412,856</u>	<u>\$ 779,830</u>		<u>\$ 8,098,100</u>

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

Catholic Charities of the East Bay
Statement of Cash Flows
For the Year Ended April 30, 2019
(With Comparative Totals for 2018)

	2019	2018
Cash flows from operating activities		
Change in net assets	\$ 6,308,771	\$ 2,364,340
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	221,311	236,171
Contributions restricted for long-term purposes	(478,480)	(14,924)
Net realized and unrealized gains on investments	(665,544)	(417,640)
Changes in operating assets and liabilities		
Grants receivable, net	60,257	(199,221)
Contributions receivable, net	85,690	(176,700)
Prepaid and other current assets	(87,695)	21,408
Receivable from charitable remainder trust	(3,260)	(30,049)
Accounts payable and accrued expenses	209,694	360,926
Funds held for other organizations	626,534	216,328
Net cash provided by operating activities	6,277,278	2,360,639
Cash flows from investing activities		
Purchases of investments	(5,437,353)	(570,211)
Redemption of investments	185,882	87,135
Payments made on construction in progress	(221,674)	(492,560)
Purchases of property and equipment	(4,286)	-
Net cash used in investing activities	(5,477,431)	(975,636)
Cash flows from financing activities		
Contributions restricted for long-term purposes	478,480	14,924
Principal payments on note payable	(41,584)	(15,709)
Net cash provided by (used in) financing activities	436,896	(785)
Net increase in cash, cash equivalents and cash held for other organizations	1,236,743	1,384,218
Cash, cash equivalents and cash held for other organizations, beginning of year	3,068,057	1,683,839
Cash, cash equivalents and cash held for other organizations, end of year	\$ 4,304,800	\$ 3,068,057
Cash, cash equivalents and cash held for other organizations consisted of the following:		
Cash and cash equivalents	\$ 2,321,114	\$ 1,706,115
Cash and cash equivalents held for other organizations	1,983,686	1,361,942
	\$ 4,304,800	\$ 3,068,057

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

Catholic Charities of the East Bay
Statement of Cash Flows
For the Year Ended April 30, 2019
(With Comparative Totals for 2018)

	2019	2018
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ 59,212	\$ 64,518
Supplemental schedule of noncash investing and financing activities		
Construction in progress included in accounts payable	\$ 1,277	\$ 11,363
Note payable refinancing	\$ -	\$ 1,300,000

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

Catholic Charities of the East Bay
Notes to Financial Statements
April 30, 2019

1. NATURE OF OPERATIONS

Catholic Charities of the Diocese of Oakland, Inc. dba Catholic Charities of the East Bay ("Catholic Charities") is a not-for-profit corporation, the Board members of which are elected subject to the approval of the Roman Catholic Bishop of the Diocese of Oakland.

Founded in 1935 by the Diocese of Oakland, Catholic Charities provides hope and healing to vulnerable children, youth and families in Alameda and Contra Costa Counties through compassionate services that transform lives and foster self-sufficiency. Catholic Charities works deeply to address the root causes of poverty and issues of social justice. Catholic Charities heeds the call of Pope Francis to serve the vulnerable. Catholic Charities serves people in need regardless of religious belief, race, national origin, gender, or sexual orientation.

As the social service arm of the Diocese of Oakland, Catholic Charities is a national recognized leader in healing trauma and providing evidence-based mental health services and restorative practices. Catholic Charities is also nationally accredited through the New York-based Council on Accreditation, demonstrating the implementation of best practice standards in the field of human services in all aspects of Catholic Charities' programs, services, management, and administration.

Our programs are organized under three service areas:

Welcoming the Stranger

Refugee Resettlement - welcoming refugees to our communities by meeting basic needs and assisting with new school systems, public institutions, housing, healthcare access, and culture.

Refugee Support Services - assisting refugees on the road to self-sufficiency through support services and access to English as a Second Language (ESL) classes and employment counseling services.

Immigration Legal Services - helping people navigate the complex immigration system to earn lawful working status and follow a path to citizenship. We offer low-cost legal services provided by the Department of Justice accredited representatives and licensed immigration attorneys.

Unaccompanied Minors - helping children and their families fleeing violence in Central America through direct legal representation and family reunification services (Parole Program).

Healing Trauma

Experience Hope - supporting healing and building relationships to improve educational outcomes and strengthen communities. Programs include school-based behavioral health services for children and youth as well as training and coaching activities for school communities and service providers.

Crisis Response - providing intensive grief counseling and family support services to victims of violent crime, including family and friends of homicide victims in Oakland and Alameda County.

Catholic Charities of the East Bay
Notes to Financial Statements
April 30, 2019

1. NATURE OF OPERATIONS (continued)

Healing Trauma (continued)

Family Preservation - home-based case management and clinical services to strengthen Contra Costa County families and keep children and young people safely in their homes.

Mental Health First Aid - training adults in West Contra Costa County to recognize and respond to signs and symptoms of mental health challenges in teens and to decrease stigma around mental illness.

Day Star Mentoring and CSEC Education - a community mentoring and education program developed to engage and empower those impacted by human trafficking through relationship building, increasing awareness, and advocacy.

Fostering Self-Sufficiency

Housing and Financial Services - rental and utilities assistance to families about to lose their homes.

Family Literacy - adult, parent and child literacy classes to promote life-long learning and improve language skills. Serving school families in North Richmond and surrounding communities.

Family to Family - parish-based program helping families move from poverty to self-sufficiency; includes parish refugee co-sponsorship through the People Organized to Welcome Refugees (POWR) initiative.

Better Employment Together - assist those looking for work overcome obstacles to employment through connecting them to Catholic Charities' programs and services and facilitating referral to other community resources and service providers.

Coming Soon

Claire's House - home of love, hope and healing for commercially sexually exploited children in the Bay Area.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement presentation

The financial statements of Catholic Charities are prepared on the accrual basis of accounting and in conformity with accounting principles generally accepted in the United States of America specific to nonprofit organizations. Catholic Charities is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Catholic Charities of the East Bay
Notes to Financial Statements
April 30, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of accounting and financial statement presentation (continued)

- *Net assets without donor restrictions* - consist of all resources that have not been restricted by a donor and are available to support Catholic Charities' activities. Net assets without donor restrictions may be designated for specific purposes by the board of directors of Catholic Charities.
- *Net assets with donor restrictions* - represent contributions that are limited in use in accordance with donor-imposed stipulations. These stipulations may expire with time or may be satisfied by the actions of Catholic Charities according to the intention of the donor. Upon satisfaction of such stipulations, the associated net assets are released from net assets with donor restrictions and reported as net assets without donor restrictions. This occurs by increasing one class of net assets and decreasing another in the statement of activities. These transactions are reported as net assets released from restriction and are reported separately from other transactions.

Cash and cash equivalents

Catholic Charities considers all highly liquid investments with original maturity dates of three months or less to be cash equivalents.

Grants receivable

Grants receivable are primarily from government agencies. No allowance for uncollectible amounts has been provided because they are deemed collectible.

Contributions and contributions receivable

Contributions received are reported as net assets with donor restrictions or net assets without donor restrictions, depending upon donor restrictions, if any.

Contributions, including unconditional promises to give, are recognized as revenue in the period the promise is received. Conditional promises to give are not recognized until they become unconditional; that is, when the conditions on which they depend are substantially met. Contributions that are promised in one year but are not expected to be collected until after the end of that year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of any such discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for doubtful contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution and current aging of contributions receivable.

Catholic Charities of the East Bay
Notes to Financial Statements
April 30, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributed goods and services

Donated materials and equipment are recorded based on the estimated fair value at the date the contribution is made. Donated services are recognized as contribution revenue for certain services received at the fair value of those services, if the services (a) create or enhance non-financial assets, or (b) require specialized skills that are provided by individuals possessing those skills, and would be purchased if not donated. During the year ended April 30, 2019, Catholic Charities received \$443,155 worth of in-kind services.

Investments

Investments are stated at fair value. Investments in stocks which are listed on national securities exchanges, quoted on NASDAQ, or on the over-the-counter market are valued at the last reported sale price, or in the absence of a recorded sale, at a value between the most recent bid and asked prices. Investments in mutual funds, fixed annuities and charitable remainder trusts are valued at the net asset value of shares held by Catholic Charities at year-end. Any change in the carrying amount of investments held is included in the statement of activities as unrealized gain or loss. All investment income, gains and losses are reported as net assets without donor restrictions.

Investment transactions are recorded on trade date. Realized gains and losses on sales of investments are determined on the specific identification basis. Unrealized gains or losses on investments resulting from gain value fluctuations are recorded in the statement of activities net of investment expenses.

Fair value measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Catholic Charities determines the fair values of its assets and liabilities based on a fair value hierarchy that includes three levels of inputs that may be used to measure fair value (Level 1, Level 2 and Level 3).

This hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three levels:

- *Level 1* - Quoted market prices are available in active market for identical assets or liabilities as of the reporting date.
- *Level 2* - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Catholic Charities of the East Bay
Notes to Financial Statements
April 30, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurements (continued)

- *Level 3* - Pricing inputs are observable and shall be used to measure fair value to the extent that observable inputs are not available. The inputs into the determination of fair value are based upon the best information available and require significant management judgment or estimation.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The following methods and assumptions were used to estimate the fair value of assets and liabilities:

- Investments (Level 1 and Level 3). Investments in equity and debt securities are valued at their fair values as determined primarily by quoted market prices. Investments without quoted market prices, including real estate investments, are valued at fair value as determined by third-party appraisals, management's estimates or a combination of both.
- Contributions receivable (Level 3). Contributions receivable are valued based on unobservable inputs that are developed based on the best information available in the circumstances. Contributions receivable are not measured at fair value on a recurring basis subsequent to initial recognition.

Property and equipment

Catholic Charities capitalizes all property and equipment with a cost greater than \$2,500 with an estimated useful life in excess of one year. Property and equipment is carried at cost or, if donated, at the estimated fair value on the date of the contribution. Minor repairs and maintenance are charged against earnings as incurred. Major repairs and maintenance that extend the useful life of the respective asset are capitalized. Whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recovered, Catholic Charities, using its best estimates and projections, reviews for impairment the carrying value of long-lived identifiable assets to be held and used in the future. Catholic Charities will record impairment losses when determined.

Depreciation and amortization of property and equipment is computed using the straight-line method over the following estimated useful lives:

Buildings and improvements	10 - 30 years
Furniture and equipment	3 - 7 years

Catholic Charities of the East Bay
Notes to Financial Statements
April 30, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenues or support are reported as increases in net assets without donor restrictions unless subject to donor-imposed restrictions. If revenue is subject to donor restrictions it is included in net assets with donor restrictions and once restrictions are met release from restrictions and is recorded as revenue released to net assets without donor restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless restricted by explicit donor stipulation or by law.

- *Government grants* - Catholic Charities recognizes revenue from grants for programmatic purposes in the period the services are provided.
- *Private grants* - Private grants are recognized when the grantor makes a promise to give to Catholic Charities that is, in substance, unconditional. Conditional promises to give are recognized only when the conditions on which they depend are substantially met.
- *Program services revenue* - Program services revenue consists primarily of fees for housing, counseling, and immigration services and are recognized as services are performed.
- *Bequests* - Bequests are recognized as income at the time an assailable right to the gift has been established and the proceeds are measurable in amount. The Board has designated that funds received by bequest shall not be used for current operations, but be transferred in the investment fund for long-term use.

Functional expenses

The costs of providing program and supporting services activities 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. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Direct identification of specific expenses is Catholic Charities' preferable method of charging expenses to various functions. Catholic Charities has a number of expenses which relate to more than one program or supporting activity, or to a combination of programs and supporting activities. Expenses, such as payroll and benefits, have been allocated among program services and supporting services based upon the employees' time spent by function. Facility related costs such as depreciation and amortization and insurance have been allocated based on estimated percent of payroll by each functional classification.

Concentration of credit risk

Catholic Charities maintains its cash balances with a high quality institution. Periodically, such amounts may exceed Federal Deposit Insurance Corporation ("FDIC") limits. Risks associated with cash are mitigated by banking with creditworthy institutions. Catholic Charities has not experienced any losses in such accounts.

Catholic Charities of the East Bay
Notes to Financial Statements
April 30, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax status

Catholic Charities is exempt from Federal income and California franchise taxes under provisions of Section 501(c)(3) of the Internal Revenue Code and Section 27301d of the California Revenue and Taxation Code. As such, there is no provision for income taxes.

Catholic Charities has evaluated its current tax positions and has concluded that as of April 30, 2019 Catholic Charities does not have any significant uncertain tax positions for which a reserve would be necessary.

Summarized comparative financial information

The financial statements include certain prior-year summarized comparative information in total but not by net asset classification. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Catholic Charities' financial statements for the year ended April 30, 2018, from which the summarized information was derived.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Change in accounting principle

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Presentation of Financial Statements of Not-for-Profit Entities. Catholic Charities adopted the provisions of this new standard during the year ended April 30, 2019. ASU 2016-14 makes certain improvements to current reporting requirements, including:

1. Reducing the classes of net assets from three (unrestricted, temporarily restricted, and permanently restricted) to two (with donor restrictions and without donor restrictions).
2. Enhancing disclosures about:
 - a. Amounts and purposes of governing board designations, appropriations, and similar actions that result in self-imposed limits on the use of resources without donor-imposed restrictions.
 - b. Composition of net assets with donor restrictions and how the restrictions affect the use of resources.

Catholic Charities of the East Bay
Notes to Financial Statements
April 30, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Change in accounting principle (continued)

- c. Qualitative information about management of liquid resources and quantitative information about the availability of liquid resources to meet cash needs for general expenditures within one year of the statement of financial position date.
 - d. Amounts of expenses by both their natural classification and their functional classification in one location as a separate statement or in the notes to the financial statements.
 - e. Methods used to allocate costs among program and support functions.
3. Reporting investment return net of external and direct internal investment expenses.
 4. Use, in the absence of explicit donor stipulations, of the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset and reclassify any amounts from net assets with donor restrictions to net assets without donor restrictions for such long-lived assets that have been placed in service as of the beginning of the period of adoption (thus eliminating the current option to release the donor-imposed restriction over the estimated useful life of the acquired asset).

The amendments have been applied on a retrospective basis in 2019. The 2018 comparative financial information has been adjusted to apply the change in accounting principle for comparative purposes.

Upcoming accounting pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with customers* (Topic 606). The core principle of ASU 2014-09 is to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity is expected to be entitled for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing U.S. GAAP, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each performance obligation. Revenue from contributions and investment income are not impacted by this new standard. ASU 2014-09 will be effective for annual reporting periods beginning after December 15, 2019 using either of two methods: (a) retrospective to each prior reporting period presented with the option to elect certain practical expedients as defined within ASU 2014-09; or (b) retrospective with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application and providing certain additional disclosures as defined in ASU 2014-09. Catholic Charities is in process of evaluating the impact of the new guidance on the financial statements.

Catholic Charities of the East Bay
Notes to Financial Statements
April 30, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Upcoming accounting pronouncements (continued)

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The new guidance requires lessees to recognize a right-to-use asset and a lease liability for virtually all leases (other than leases that meet the definition of a short-term lease). The new guidance is effective for years beginning after December 15, 2019 and interim periods beginning the following year. Early application is permitted. Catholic Charities is in process of evaluating the impact of the new guidance on the financial statements.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope of the Accounting Guidance for Contributions Received and Contributions Made*, (Topic 958), which is a clarifying standard. The accounting for contributions has been modified to make it more clear and distinguishing whether grants or contracts should be accounted for as non-reciprocal contributions, or as exchange transactions that follow revenue recognition accounting. For exchange transactions, the standard clarifies when each party directly receives commensurate value in the transaction, and how to deal with third party payers to a transaction. Additionally, the criteria for determining whether a contribution is conditional has been changed from a probability-based approach to one focused on barriers in an arrangement. The changes in this standard are likely going to result in more transactions being treated as conditional contributions, including those that were previously considered earned revenue from exchange transactions. ASU 2018-08 is effective for annual reporting periods beginning after December 15, 2019 with early adoption permitted. Catholic Charities is in process of evaluating the impact of the new guidance on the financial statements.

Reclassifications

Certain amounts in the 2018 financial statements have been reclassified to conform to the 2019 presentation.

Subsequent events

Subsequent events have been evaluated through October 9, 2019, which is the date the financial statements were available to be issued. No subsequent events, except as noted in Note 7, have occurred that would have a material impact on the presentation of Catholic Charities' financial statements.

3. CONTRIBUTIONS RECEIVABLE, NET

Unconditional promises to give, which are not expected to be collected until after the year promised, are reflected in the accompanying financial statements as contributions receivable and revenue in the appropriate net asset category.

Catholic Charities of the East Bay
Notes to Financial Statements
April 30, 2019

3. CONTRIBUTIONS RECEIVABLE, NET (continued)

Contributions receivable, net consisted of the following:

Receivable in less than one year	\$ 596,207
Receivable in one to five years	957,251
Receivable in more than five years	<u>10,547</u>
	1,564,005
Less allowance for doubtful accounts	<u>(55,481)</u>
	<u><u>\$ 1,508,524</u></u>

4. INVESTMENTS

The following table sets forth by level, within the fair value hierarchy, the Catholic Charities' investment assets at fair value as of April 30, 2019:

	Level 1	Level 2	Level 3	Fair Value
Fixed income	\$ 4,503,539	\$ -	\$ -	\$ 4,503,539
Equities	7,951,148	-	-	7,951,148
Receivable from charitable remainder trust	<u>-</u>	<u>-</u>	<u>158,094</u>	<u>158,094</u>
	<u><u>\$ 12,454,687</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 158,094</u></u>	<u><u>\$ 12,612,781</u></u>

The following table sets forth a summary of changes in the fair value of Level 3 investments for the year ended April 30, 2019:

Balance, beginning of year	\$ 154,834
Unrealized gains	<u>3,260</u>
Balance, end of year	<u><u>\$ 158,094</u></u>

Catholic Charities of the East Bay
Notes to Financial Statements
April 30, 2019

5. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consisted of the following:

Land	\$ 374,224
Buildings and improvements	3,876,991
Furniture and equipment	396,265
Construction in progress	<u>1,277</u>
	4,648,757
Accumulated depreciation and amortization	<u>(2,295,905)</u>
	<u><u>\$ 2,352,852</u></u>

Depreciation and amortization expense for the year ended April 30, 2019 was \$221,311.

6. FUNDS HELD ON BEHALF OF OTHER ORGANIZATIONS

Catholic Charities collects money from Catholic parishes to benefit other Catholic charitable organizations. Catholic Charities also acts as a fiscal agent for disbursing the San Francisco Chronicle's Season of Sharing fund in Alameda and Contra Costa Counties. The Season of Sharing funds are used primarily for housing assistance to individuals. Alameda County Department of Social Services and Contra Costa County administer the program, which involves county social services agencies and other community organizations it designates to screen and direct disbursements to eligible individuals. Catholic Charities is one of the designated organizations.

7. LINE OF CREDIT

Catholic Charities had entered into a line of credit agreement with a major lending organization. The line had a borrowing limit of \$2,500,000 and bore interest at the LIBOR rate plus 2.5%. The line of credit was terminated during the year ended April 30, 2019.

During May 2019, Catholic Charities entered into a liquidity access line agreement ("the line") with a major lending organization. The line has a borrowing limit of \$4,000,000 and bears interest at the LIBOR rate plus 1.5%.

8. NOTE PAYABLE

In December 2012, Catholic Charities entered into a note payable agreement with a corporation for the purchase of a building in Richmond, California, with the payments being amortized over a 20 year period. During the year ended April 30, 2018, Catholic Charities refinanced the mortgage note. The note bears interest at a fixed rate of 4.68% with principal and interest payments due monthly. The note is secured by a first deed of trust on the property and the remaining unpaid balance with any interest is repayable on June 29, 2037.

Catholic Charities of the East Bay
Notes to Financial Statements
April 30, 2019

8. NOTE PAYABLE (continued)

The future maturities of the note payable are as follows:

<u>Year ending April 30,</u>	
2020	\$ 43,439
2021	45,702
2022	47,918
2023	50,242
2024	52,547
Thereafter	<u>985,191</u>
	<u><u>\$ 1,225,039</u></u>

9. NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions consisted of the following:

Operating	\$ 1,499,264
Board designated - endowment	11,245,997
Board designated - care for the elderly	<u>746,975</u>
	<u><u>\$ 13,492,236</u></u>

10. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

Housing Counseling and CFN Case Management	\$ 445,231
Immigration and Refugee Resettlement	73,923
Barrier removal	7,502
CSEC	160,270
Cassidy assistance fund for seniors	2,500
Youth: Restorative Justice & Violence Prevention	144,321
Financial assistance	40,699
Family literacy program	143,335
Care for the elderly	1,182,994
General support	1,508,525
Charitable remainder trust	<u>158,094</u>
	<u><u>\$ 3,867,394</u></u>

For the year ended April 30, 2019, net assets released from restriction were \$3,935,675, which were released from purpose restrictions.

Catholic Charities of the East Bay
Notes to Financial Statements
April 30, 2019

11. COMMITMENTS AND CONTINGENCIES

Catholic Charities leases commercial space and equipment under operating lease agreements which expire at varying dates through April 2022. Rent expense for the year ended April 30, 2019 amounted to \$87,655.

The scheduled minimum lease payments under the lease terms are as follows:

<u>Year ending April 30,</u>	
2020	\$ 135,036
2021	134,208
2022	<u>125,792</u>
	<u>\$ 395,036</u>

12. RELATED PARTY

Catholic Charities receives its organizational insurance coverage from the Roman Catholic Diocese of Oakland, a corporation, which is headed by the Bishop of the Diocese of Oakland, who also serves as the President of Catholic Charities. For the year ended April 30, 2019, the total cost of coverage was \$63,540.

On May 12, 2017, Catholic Charities entered in a 5 year lease with The Roman Catholic Bishop of Oakland for the use of a property in Oakland, California. During the year ended April 30, 2019, the total rental cost was \$91,280.

13. RETIREMENT PLAN

On November 1, 2008, Catholic Charities adopted a 403(b) plan. Employees are eligible to participate. There is no minimum age or service requirements for employees to make salary reduction contributions to the plan. Eligibility for employer base and matching contributions are offered only to employees age 18 and older who have completed 1,000 hours of service within any 12-month period of employment with Catholic Charities or other members of the Catholic Charities USA network and the Roman Catholic Diocese of Oakland. The established base contribution rate is 3% of compensation. Contributions paid to the plan for the year ended April 30, 2019 amounted to \$48,201.

14. CONCENTRATIONS

For the year ended April 30, 2019, Catholic Charities' largest funders were Catholic Charities of California, the State of California and Contra Costa County. These organizations accounted for approximately 70% of government grant revenue during 2019. The State of California and Contra Costa County accounted for approximately 66% of grants receivable at April 30, 2019.

Catholic Charities of the East Bay
Notes to Financial Statements
April 30, 2019

14. CONCENTRATIONS (continued)

During the year ended April 30, 2019, one donor accounted for approximately 38% of total revenue. As of April 30, 2019, one donor accounted for approximately 28% of contributions receivable.

15. LIQUIDITY AND FUNDS AVAILABLE

As part of Catholic Charities' liquidity management, it structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. To meet liquidity needs, Catholic Charities has cash and cash equivalents available. Additionally, grants receivable consist primarily of amounts due from third parties that have been historically collected within 60 days of the year-end. Contributions receivable that are considered current will be collected from donors within one year from the date of the statement of financial position.

Monthly, the Finance and Investment Committee of the Board of Directors reviews Catholic Charities' statement of financial position and discusses what may be a reasonable cash position to maintain. The Finance and Investment Committee has set 30 days in cash as the minimum for fiscal year 2019 and 2020, with the expectation that Catholic Charities will continue to build toward a minimum of 60 days in cash.

The following is a quantitative disclosure which describes assets that are available within one year of April 30, 2019 to fund general expenditures and other obligations when they become due:

Financial assets	
Cash and cash equivalents	\$ 2,321,114
Grants receivable, net	846,288
Contributions receivable, net	540,726
Investments	<u>12,454,687</u>
	<u>16,162,815</u>
Less: amounts unavailable for general expenditure within one year	
Board designated investments	(11,992,972)
Donor restricted investments	<u>(1,189,446)</u>
	<u>(13,182,418)</u>
Financial assets available to meet cash needs for general expenditure within one year	<u>\$ 2,980,397</u>

Catholic Charities' has financial assets and cash and cash equivalents available at April 30, 2019 to cover approximately 89 days and 46 days, respectively, of operating expenses based on the fiscal year 2020 daily budgeted run rate for all program and support services expense of approximately \$34,360, excluding depreciation.

Catholic Charities of the East Bay
Notes to Financial Statements
April 30, 2019

15. LIQUIDITY AND FUNDS AVAILABLE (continued)

It is highly probable that net assets with time and purpose restrictions of \$1,558,508 (Note 10) at April 30, 2019 (total net assets with donor restrictions excluding donor-restricted investments of \$1,182,994, long-term contributions receivable of \$967,798, and charitable remainder trust of \$158,094) will be released within one year given Catholic Charities has budgeted total program service expense of \$10,406,257 for fiscal year 2020.

In the event of an unanticipated liquidity need, Catholic Charities may draw upon its \$4,000,000 available operating line of credit. See Note 7 for further description of the line of credit.

SUPPLEMENTARY INFORMATION

Catholic Charities of the East Bay
Schedule of Activities for Contracts with Alameda County
For the Year Ended April 30, 2019

Contract 1 Number	17150	15501	SSGTAFO15012015	19-0105
	8/15/2018-	7/01/17-		7/01/2018-
Contract Period 1	8/14/2019	6/30/19	10/01/2017-9/30/2018	6/30/2019
Contract Period 1 Amount	\$ 159,000	\$ 57,000	\$ 96,465	\$ 279,954
Contract Period 2			10/01/2018-9/30/2019	
Contract Period 2 Amount	\$ -	\$ -	\$ 96,465	\$ -

Contract/Program Description	Juvenile Justice Crime Prevention Act - Community Supervision Programs	Alameda County Immigration and Refugee Support	Targeted Assistance	Oakland USD Crisis Counseling	Total
Revenue					
Grants	<u>\$ 18,682</u>	<u>\$ 41,088</u>	<u>\$ 94,033</u>	<u>\$ 279,946</u>	<u>\$ 433,749</u>
Expenses					
Employee compensation					
Salaries	\$ 13,833	\$ 29,319	\$ 25,070	\$ 173,889	\$ 242,111
Employee benefits	1,940	5,091	170	25,253	32,454
Payroll taxes	<u>1,031</u>	<u>2,184</u>	<u>1,866</u>	<u>12,966</u>	<u>18,047</u>
	<u>16,804</u>	<u>36,594</u>	<u>27,106</u>	<u>212,108</u>	<u>292,612</u>
Other operating expenses					
Financial assistance to individuals	-	-	7,301	140	7,441
Contracted services	-	-	-	37,702	37,702
Occupancy cost	-	536	1,548	5,623	7,707
Other	-	-	-	1,179	1,179
Telephone	137	54	748	3,083	4,022
Printing and publications	-	-	-	128	128
Supplies	22	-	1,418	5,136	6,576
Travel expenses	20	-	799	2,895	3,714
Training and conferences	-	-	-	293	293
Equipment leases	1	157	4	491	653
Indirect	<u>1,698</u>	<u>2,141</u>	<u>-</u>	<u>48,238</u>	<u>52,077</u>
	<u>1,878</u>	<u>2,888</u>	<u>11,818</u>	<u>104,908</u>	<u>121,492</u>
	<u>\$ 18,682</u>	<u>\$ 39,482</u>	<u>\$ 38,924</u>	<u>\$ 317,016</u>	<u>\$ 414,104</u>

OTHER AUDIT REPORT

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*

Board of Directors
Catholic Charities of the East Bay
Oakland, California

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 of the East Bay (a California nonprofit corporation) ("Catholic Charities"), which comprise the statement of financial position as of April 30, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 9, 2019.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Catholic Charities' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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



Armanino^{LLP}
San Ramon, California

October 9, 2019