

Catholic Charities of Southwestern Ohio and Subsidiary

**Consolidated Financial Statements with Supplementary Information
December 31, 2017 with Summarized Comparative Totals for 2016 and
Independent Auditors' Report**

CATHOLIC CHARITIES OF SOUTHWESTERN OHIO AND SUBSIDIARY

December 31, 2017

With Summarized Comparative Totals for December 31, 2016

CONTENTS

	<u>PAGE(S)</u>
Independent Auditors' Report	1 - 2
Financial Statements	
Consolidated Statement of Financial Position	3
Consolidated Statement of Activities	4
Consolidated Statement of Functional Expenses	5
Consolidated Statement of Cash Flows	6
Notes to Consolidated Financial Statements	7 – 20
Supplementary Information:	
Consolidating Schedules of Financial Position by Area Office	21
Consolidating Schedules of Activities by Area Office	22
Schedule of Expenditures of Federal Awards	23
Notes to the Schedule of Expenditures of Federal Awards	24
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	25 – 26
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance	27 – 28
Schedule of Findings and Questioned Costs	29
Summary Schedule of Prior Audit Findings	30

Independent Auditors' Report

The Board of Directors
Catholic Charities of Southwestern Ohio and Subsidiary
Cincinnati, Ohio

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Catholic Charities of Southwestern Ohio and Subsidiary (a nonprofit organization) which comprise the consolidated statement of financial position as of December 31, 2017, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Catholic Charities of Southwestern Ohio and Subsidiary as of December 31, 2017, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Independent Auditors' Report
(Continued)**

Report on Summarized Comparative Information

We have previously audited Catholic Charities of Southwestern Ohio and Subsidiary's 2016 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 21, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental consolidating schedules of financial position and activities by area offices and schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated 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 April 24, 2018, on our consideration of the Catholic Charities of Southwestern Ohio and Subsidiary's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 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 the Catholic Charities of Southwestern Ohio and Subsidiary's internal control over financial reporting and compliance.



Cincinnati, Ohio
April 24, 2018

CATHOLIC CHARITIES OF SOUTHWESTERN OHIO AND SUBSIDIARY

**Consolidated Statement of Financial Position
December 31, 2017 with Summarized Comparative Totals for December 31, 2016**

	<u>2017</u>	<u>2016</u>
Assets		
Cash and cash equivalents	\$ 507,972	\$ 244,428
Accounts receivable, net	476,047	586,989
Contributions receivable	744,187	912,682
Prepaid expenses	108,563	116,229
Inventory	1,220,771	1,488,076
Investments	5,015,683	4,318,898
Property and equipment, net	<u>1,572,034</u>	<u>1,681,447</u>
Total assets	<u><u>\$ 9,645,257</u></u>	<u><u>\$ 9,348,749</u></u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 463,971	\$ 465,271
Accrued retirement expenses	<u>3,380,273</u>	<u>3,515,880</u>
Total liabilities	<u>3,844,244</u>	<u>3,981,151</u>
Net Assets		
Unrestricted	4,363,970	3,903,622
Temporarily restricted	1,187,043	1,213,976
Permanently restricted	<u>250,000</u>	<u>250,000</u>
Total net assets	<u>5,801,013</u>	<u>5,367,598</u>
Total liabilities and net assets	<u><u>\$ 9,645,257</u></u>	<u><u>\$ 9,348,749</u></u>

See accompanying notes to consolidated financial statements

CATHOLIC CHARITIES OF SOUTHWESTERN OHIO AND SUBSIDIARY

**Consolidated Statement of Activities
Year Ended December 31, 2017 with Summarized Comparative Totals for Year Ended 2016**

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Total	2016 Total
Revenue, gains and other support					
Donations, grants and planned giving	\$ 4,080,659	\$ 212,139	\$ -	\$ 4,292,798	\$ 3,376,650
United Way	58,829	778,394	-	837,223	973,558
Donated food for distribution	8,141,304	-	-	8,141,304	9,309,520
Governmental grants and fees	2,863,732	-	-	2,863,732	2,980,792
Program service fees	338,015	-	-	338,015	342,795
Investment income	197,959	1,713	-	199,672	136,810
Special events	174,945	-	-	174,945	192,244
Other revenue and support	17,891	-	-	17,891	24,617
Net assets released from restriction	1,067,204	(1,067,204)	-	-	-
Total revenue, gains and other support	16,940,538	(74,958)	-	16,865,580	17,336,986
Expenses					
Donated food expense	8,468,739	-	-	8,468,739	9,253,294
Salaries and related expenses	5,779,933	-	-	5,779,933	5,135,760
Other direct	786,535	-	-	786,535	806,550
Senior volunteer costs	496,804	-	-	496,804	550,195
Individual assistance	622,575	-	-	622,575	706,197
Occupancy	475,238	-	-	475,238	462,116
Depreciation	140,279	-	-	140,279	171,755
Transportation	140,840	-	-	140,840	70,697
Total expenses	16,910,943	-	-	16,910,943	17,156,564
Change in net assets from operations	29,595	(74,958)	-	(45,363)	180,422
Non-operating gains:					
Net unrealized gains on investments	379,002	48,025	-	427,027	171,316
Actuarial gain on pension plan	51,751	-	-	51,751	285,000
Change in net assets	460,348	(26,933)	-	433,415	636,738
Net assets, beginning of year	3,903,622	1,213,976	250,000	5,367,598	4,730,860
Net assets, end of year	\$ 4,363,970	\$ 1,187,043	\$ 250,000	\$ 5,801,013	\$ 5,367,598

See accompanying notes to consolidated financial statements

CATHOLIC CHARITIES OF SOUTHWESTERN OHIO AND SUBSIDIARY

**Consolidated Statement of Functional Expenses
Year Ended December 31, 2017 with Summarized Comparative Totals for Year Ended December 31, 2016**

	Mental Health Services	Family Services	Refugee Resettlement	Su Casa Hispanic Center	Food Bank	Senior Services	Total Program Services	Management and General	Fundraising	2017 Totals	2016 Totals
Salaries and wages	\$ 903,825	\$ 284,505	\$ 529,860	\$ 518,727	\$ 552,593	\$ 184,866	\$ 2,974,376	\$ 605,545	\$ 218,935	\$ 3,798,856	\$ 3,396,417
Employee benefits	218,945	80,550	153,713	173,834	206,043	54,441	887,526	168,527	49,137	1,105,190	921,527
Professional fees	115,847	63,048	154,578	21,499	101,315	7,402	463,689	68,583	40,091	572,363	516,190
Payroll taxes	71,914	22,496	40,883	41,578	47,715	14,915	239,501	46,732	17,291	303,524	301,626
	1,310,531	450,599	879,034	755,638	907,666	261,624	4,565,092	889,387	325,454	5,779,933	5,135,760
Donated food	-	-	34,749	25,385	8,408,605	-	8,468,739	-	-	8,468,739	9,253,294
Other direct	56,049	35,596	63,431	152,584	220,631	17,945	546,236	153,336	86,963	786,535	806,550
Senior volunteer costs	-	-	-	-	-	496,804	496,804	-	-	496,804	550,195
Individual assistance	108	6,266	361,728	373	254,100	-	622,575	-	-	622,575	706,197
Occupancy	92,929	9,889	62,700	101,739	142,868	15,256	425,381	42,001	7,856	475,238	462,116
Transportation	35,774	11,523	28,126	10,647	40,745	3,628	130,443	8,193	2,204	140,840	70,697
	1,495,391	513,873	1,429,768	1,046,366	9,974,615	795,257	15,255,270	1,092,917	422,477	16,770,664	16,984,809
Depreciation	7,876	1,535	10,401	16,304	92,763	1,716	130,595	5,391	4,293	140,279	171,755
Total 2017 expenses	\$ 1,503,267	\$ 515,408	\$ 1,440,169	\$ 1,062,670	\$ 10,067,378	\$ 796,973	\$ 15,385,865	\$ 1,098,308	\$ 426,770	\$ 16,910,943	
Total 2016 expenses	\$ 1,308,614	\$ 453,211	\$ 1,428,368	\$ 900,459	\$ 10,899,280	\$ 812,679	\$ 15,802,611	\$ 973,488	\$ 380,465		\$ 17,156,564

See accompanying notes to consolidated financial statements

CATHOLIC CHARITIES OF SOUTHWESTERN OHIO AND SUBSIDIARY

Consolidated Statement of Cash Flows

Year Ended December 31, 2017 with Summarized Comparative Totals for Year Ended December 31, 2016

	2017	2016
Cash flows from operating activities		
Change in net assets	\$ 433,415	\$ 636,738
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	140,279	171,755
Net realized and unrealized gains on investments	(570,843)	(256,036)
In-kind donations of food for distribution	(8,141,304)	(9,309,520)
Distribution of food received in-kind	8,408,609	9,196,459
Gain on sale of property and equipment	-	(5,492)
Changes in:		
Accounts receivable, net	110,942	(276,045)
Contributions receivable	168,495	69,105
Prepaid expenses	7,666	(10,956)
Accounts payable and accrued expenses	(1,300)	62,571
Accrued retirement expenses	(135,607)	(358,257)
Net cash provided by (used in) operating activities	420,352	(79,678)
Cash flows from investing activities		
Purchase of property and equipment	(30,866)	(155,482)
Proceeds from sale of property and equipment	-	8,951
Purchase of investments	(880,348)	(404,882)
Proceeds from sale of investments	754,406	351,154
Net cash used in investing activities	(156,808)	(200,259)
Net change in cash and cash equivalents	263,544	(279,937)
Cash and cash equivalents, beginning of year	244,428	524,365
Cash and cash equivalents, end of year	\$ 507,972	\$ 244,428

See accompanying notes to consolidated financial statements

CATHOLIC CHARITIES OF SOUTHWESTERN OHIO AND SUBSIDIARY

Notes to the Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Catholic Charities of Southwestern Ohio and Subsidiary (the Organization) is a ministry of the Archdiocese of Cincinnati serving the poor and vulnerable of the community. The Organization's mission is to enlighten, serve and empower their clients, benefactors and others who join with the Organization in living the mission of Christ.

Su Casa Hispanic Center, LLC (an Ohio limited liability corporation) was formed in 2013 and is a wholly owned subsidiary of Catholic Charities of Southwestern Ohio. Su Casa Hispanic Center was formed for the purpose of separating the operations of the Su Casa Hispanic Center from the general operations of Catholic Charities of Southwestern Ohio.

The Organization seeks revenues adequate to support its programs. Principal providers of funds are the United Way, the Archdiocese of Cincinnati and the Catholic Ministries Appeal, the federal government in the form of grants, other governmental agencies and many legacies, bequests and donations.

Mental Health Services are provided to individuals that exhibit symptoms that could require mental health counseling. These services are provided to individuals, families and groups. A sliding cost of service is available to those who are eligible and meet certain income requirements to help subsidize the costs.

Family Services finds ways to heal broken families and hurting children by providing programs for early childhood mental health intervention, parenting education, personal and family growth, and postponing sexual involvement.

Refugee Resettlement provides services to resettle refugees who are fleeing war, persecution, and economically devastated lands. The goal is to provide these individuals with the resources they need to be self-sustainable through housing, employment and language skills.

Su Casa Hispanic Center is the primary provider of social, educational, language, employment and health care federal services to the Hispanic/Latino community in Greater Cincinnati. The mission of Su Casa is to promote self-sufficiency for the Hispanic/Latino immigrant community that comes to the U.S. looking for a better way of life for their families.

Food Bank serves individuals through food distribution to member agencies, including pantries, soup kitchens, and other agencies. It also operates two food pantries, a mobile food pantry and provides direct cash assistance to individuals in need.

Senior Services provides opportunities for meaning and value for seniors through five key programs: Caregiver Assistance Network, Foster Grandparent Program, Northern Brown Senior Center, Senior Companion Program and Retired Senior Volunteer Program.

Principles of Consolidation

The accompanying financial statements include the assets, liabilities and financial activities of Catholic Charities of Southwestern Ohio and Su Casa Hispanic Center, LLC (collectively, the Organization). All significant inter-organizational balances and transactions have been eliminated for purposes of this presentation.

CATHOLIC CHARITIES OF SOUTHWESTERN OHIO AND SUBSIDIARY

Notes to the Consolidated Financial Statements (Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Presentation

The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2016 from which the comparative information was derived.

The consolidated financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles (GAAP). The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets which have no donor-imposed restriction; temporarily restricted net assets which have donor-imposed restrictions that will expire in the future; and permanently restricted net assets which have donor-imposed restriction which do not expire.

Fair Value Measurements

GAAP has a three-level hierarchy for fair value measurements based on transparency of valuation inputs as of the measurement date. The hierarchy is based on the lowest level of input that is significant to the fair value measurement. The three levels are defined as follows: Level 1 inputs are unadjusted quoted prices for identical assets in active markets; Level 2 inputs are observable quoted prices for similar assets in active markets; Level 3 inputs are unobservable and reflect management's best estimate of what market participants would use as fair value.

Cash and Cash Equivalents

The Organization considers all liquid investments with original maturities of three months or less to be cash and cash equivalents. At December 31, 2017, cash and cash equivalents consisted primarily of deposits in the Archdiocese of Cincinnati pooled investment fund. The Archdiocese of Cincinnati maintains a cash management system in which certain parishes and related organizations of the Archdiocese of Cincinnati may participate. This money management system is administered by a bank trust department and funds deposited by each participant are swept into a pooled investment fund on a daily basis. The Archdiocese of Cincinnati pooled investment fund consisted of cash, money market funds and long-term securities. At December 31, 2016, cash and cash equivalents consisted primarily of cash.

The Organization maintains its cash in bank deposit accounts which, at times, exceed federally insured limits. The Organization has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk.

Account Receivable

The Organization states its accounts receivable net of an allowance for doubtful accounts. On a periodic basis, the Organization evaluates its accounts receivable and establishes an allowance for doubtful accounts, based on a history of past write-offs, collections and current credit conditions. No allowance for doubtful accounts is deemed necessary at December 31, 2017 and 2016.

CATHOLIC CHARITIES OF SOUTHWESTERN OHIO AND SUBSIDIARY

Notes to the Consolidated Financial Statements (Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventory and Donated Food for Distribution

Donated food for distribution is reflected as a contribution in the accompanying financial statements at their fair value at date of receipt. Receipt and subsequent disbursement of donated food for distribution is shown in the statement of activities at \$1.73 and \$1.67 per pound in 2017 and 2016, respectively, for revenue and expense resulting in zero gross margins. Donated food for distribution on hand at year end is reported as inventory in the statement of financial position at \$1.73 and \$1.67 per pound at December 31, 2017 and 2016, respectively.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and all debt securities are carried at fair value. Other investments are valued at the lower of cost or fair value. Investment return includes dividends, interest and realized and unrealized gains and losses on investments.

Interest in trust investments consist of investments in unregistered investment pools, which are not valued upon quoted market prices. The unregistered investment pools invest in various equity and debt securities and other vehicles to generate its investment return. These funds record investments at net asset value per share (NAV) as reported by fund managers, which represent the Organization's proportionate interest in the capital of the invested funds.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the statements of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

The Organization's investments do not have a significant concentration of credit or market risk within any industry, specific institution or group of investments.

Property and Equipment

Property and equipment are recorded at cost or, if donated or impaired, at fair value at the time of the gift or determination. Depreciation is calculated on a straight-line basis over the estimated useful lives of the respective assets. Major improvements are capitalized, while maintenance and repairs are expensed as incurred.

In accordance with GAAP, the Organization assesses the recoverability of the carrying amount of property and equipment if certain events or changes occur, such as a significant decrease in market value of the assets or a significant change in operating conditions. Based on its most recent analysis, the Organization believes no impairments existed at December 31, 2017 and 2016.

CATHOLIC CHARITIES OF SOUTHWESTERN OHIO AND SUBSIDIARY

Notes to the Consolidated Financial Statements (Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donations and Planned Giving

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as unrestricted revenue.

Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. In the absence of explicit donor stipulations about how long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Government Fees and Grants

Revenues of the Organization consist primarily of Federal, state, and local cost reimbursable grants. The grants are conditional on the Organization incurring allowable expenses in performance of the grants. Grant revenue is recognized as support to the extent that the related expenses are incurred. Grant funds received in excess of expenses incurred result in the recognition of a refundable advance (liability). Allowable expenses incurred in excess of grant funds received results in recognition of accounts receivable (asset).

Income Taxes

The Organization is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of Ohio law. However, the Organization is subject to federal income tax on any unrelated business taxable income.

The Organization's IRS Form 990 is subject to review and examination by federal and state authorities. The Organization believes it has appropriate support for any tax positions taken, and therefore does not have any uncertain income tax positions that are material to the financial statements.

Functional Allocation of Expenses

Salaries and related expenses are charged to program services based on an estimate of time spent by personnel on the related programs. Direct expenses are charged to the program based on costs incurred when specifically identifiable with a program. All other expenses are allocated to programs based on full time equivalents.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of the revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

CATHOLIC CHARITIES OF SOUTHWESTERN OHIO AND SUBSIDIARY

Notes to the Consolidated Financial Statements (Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Standards

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers*. The standard’s core principle is that an organization will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the organization expects to be entitled in exchange for those goods or services. This standard also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity’s contract with customers. This standard will be effective for Catholic Charities of Southwestern Ohio and Subsidiary’s year ending December 31, 2019.

In February 2016, the FASB issued ASU 2016-02, *Leases*. The standard requires all leases with terms over 12 months to be capitalized as a right-of-use asset and lease liability on the statement of financial position at the date of lease commencement. Leases will be classified as either finance or operating, which will be relevant for the pattern of expense recognition in the statement of activities. This standard will be effective for Catholic Charities of Southwestern Ohio and Subsidiary’s year ending December 31, 2020.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The standard aims to improve nonprofit financial statements in an effort to provide more useful information to donors, grantors, creditors and other users. Major components of this standard include: net asset classifications, liquidity and availability of cash and consistency in reporting expenses. Net asset classifications will be reduced from three classes (unrestricted, temporarily restricted and permanently restricted) to two: net assets with donor restrictions and net assets without donor restrictions. Updated disclosure requirements will be presented regarding risk exposure and availability of cash for short term use. Expenses will be reported by both their natural and functional classification to aid in the usefulness of financial statements. This standard will be effective for Catholic Charities of Southwestern Ohio and Subsidiary’s year ending December 31, 2018.

Reclassifications

Certain 2016 amounts have been reclassified to conform to the 2017 presentation.

Subsequent Events

The Organization has evaluated subsequent events through April 24, 2018, which is the date the financial statements were available to be issued.

CATHOLIC CHARITIES OF SOUTHWESTERN OHIO AND SUBSIDIARY

Notes to the Consolidated Financial Statements (Continued)

NOTE 2 CONTRIBUTIONS RECEIVABLE

The Organization has recorded the following contribution receivables at December 31:

	2017	2016
United Way	\$ 728,980	\$ 901,058
Other	15,207	11,624
	\$ 744,187	\$ 912,682

All contributions receivable are expected to be collected within one year of the statement of financial position date.

NOTE 3 INVESTMENTS AT FAIR VALUE

Investments consisted of the following at December 31:

	2017	2016
Level 1:		
Common stocks	\$ 20,154	\$ 18,075
Level 2:		
Money market funds	39,603	41,115
Interest in The Springfield Foundation Charitable Trust	481,585	428,529
Total Level 2	521,188	469,644
Not subject to fair value hierarchy:		
Interest in Catholic United Investment Trust	4,474,341	3,831,179
	\$ 5,015,683	\$ 4,318,898

Fair values for common stocks are estimated by reference to quoted market prices available in an active market. Fair values for money market funds and interest in The Springfield Foundation Charitable Trust are estimated using pricing models or quoted prices of securities with similar characteristics. The Organization holds a portion of its investments in The Springfield Foundation Charitable Trust, which combines the assets for investment and administrative purposes of the Organization and other participating organizations. Net investment income of The Springfield Foundation Charitable Trust (representing interest and dividend income, net investment appreciation or depreciation and trust and administrative fees) is allocated to the participating organizations based on their respective share of The Springfield Foundation Charitable Trust's assets.

Included in the above investments are interests in a trust investment of \$4,474,341 and \$3,831,179 at December 31, 2017 and 2016, respectively, consisting of unregistered investment pools. The investment pools in turn invest in various equity and debt securities and other vehicles to generate its investment return. The fair value of these investment pools is reported by the Organization based on information provided by the investment managers. Values may be based on readily available public market data as well as estimates that require varying degrees of

CATHOLIC CHARITIES OF SOUTHWESTERN OHIO AND SUBSIDIARY

Notes to the Consolidated Financial Statements (Continued)

NOTE 3 INVESTMENTS AT FAIR VALUE (CONTINUED)

judgment. Generally, fair value reflects net contributions to the investee and an ownership share of realized and unrealized investment income and expense. The financial statements of the investee are prepared consistent with the measurement principles of an investment company or have the attributes of an investment company. The financial statements are audited annually by independent auditors as of December 31 with the most recent being as of December 31, 2017 and 2016, respectively.

Valuations for these investment pools provided by the investment managers are evaluated by the Organization, and management believes such values are reasonable for the years ended December 31, 2017 and 2016. The Organization used net asset value per share (NAV) as a practical expedient to determine the fair value of this investment. In accordance with ASU 2015-07, this investment is not required to be categorized using the fair value hierarchy.

The following table lists the investment in other investment companies by major category:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
December 31, 2017				
Interest in Catholic United Investment Trust	<u>\$ 4,474,341</u>	<u>\$ -</u>	daily	zero days
December 31, 2016				
Interest in Catholic United Investment Trust	<u>\$ 3,831,179</u>	<u>\$ -</u>	daily	zero days

Investment income on the statement of activities is comprised of the following:

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 55,856	\$ 52,090
Realized gains on investments	<u>143,816</u>	<u>84,720</u>
	<u>\$ 199,672</u>	<u>\$ 136,810</u>

CATHOLIC CHARITIES OF SOUTHWESTERN OHIO AND SUBSIDIARY

**Notes to the Consolidated Financial Statements
(Continued)**

NOTE 4 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	<u>2017</u>	<u>2016</u>
Building	\$ 1,771,148	\$ 1,764,648
Furniture and fixtures	394,803	385,484
Computer equipment	206,888	203,089
Warehouse equipment	124,600	124,600
Software license fee	71,862	71,862
Building improvements	25,453	14,206
Automobiles	<u>425,129</u>	<u>425,129</u>
	3,019,883	2,989,018
Less accumulated depreciation	<u>(1,517,849)</u>	<u>(1,377,571)</u>
	1,502,034	1,611,447
Land	<u>70,000</u>	<u>70,000</u>
	<u>\$ 1,572,034</u>	<u>\$ 1,681,447</u>

NOTE 5 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at December 31:

	<u>2017</u>	<u>2016</u>
For use in future periods	\$ 728,980	\$ 901,058
SuCasa	89,396	42,209
Accumulated endowment earnings	204,681	154,944
Other programs	128,067	79,117
Gifts of the Magi program	<u>35,919</u>	<u>36,648</u>
	<u>\$ 1,187,043</u>	<u>\$ 1,213,976</u>

NOTE 6 PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets are restricted to investment in perpetuity, the income from which is expendable to support counseling and direct assistance to women in poverty.

NOTE 7 RELATED PARTY

The Organization paid rent and other expenses of \$13,950 and \$19,130 in 2017 and 2016, respectively, to the Archdiocese of Cincinnati. The Organization received \$1,868,755 and \$2,132,473 in 2017 and 2016, respectively, of public support from the Archdiocese of Cincinnati.

CATHOLIC CHARITIES OF SOUTHWESTERN OHIO AND SUBSIDIARY

Notes to the Consolidated Financial Statements (Continued)

NOTE 8 FOOD BANK OPERATIONS

The Organization operates a food bank in Springfield, Ohio that serves approximately 100 nonprofit food pantries and other meal sites in the area. Food is either donated by various local and national businesses or purchased in large quantities at a discount. The food is then made available to various area pantries and non-profit organizations for a shared maintenance fee. Food bank operations are reported in the statement of functional expenses.

NOTE 9 EMPLOYEE BENEFIT PLANS

Effective January 1, 2012, the Organization began participation in the Archdiocese of Cincinnati 401(k) plan. Employees are able to make elective deferrals. In addition, the Organization makes a contribution of 2% of compensation for eligible employees. During 2017 and 2016, contributions expensed by the Organization were \$101,199 and \$71,535, respectively.

The Organization has a noncontributory, defined benefit pension plan covering substantially all lay employees. Benefits are based upon years of service and the employee's compensation. Normal retirement age is 65, but provision is made for earlier retirement. During 2011, the Organization froze the plan to new participants and ceased plan benefit accruals for existing participants as of December 31, 2011. On December 14, 2017 the plan received a ruling from the Internal Revenue Service in which they concluded that the plan qualifies as a church plan as defined in §414(e) of the Internal Revenue Code (Code).

The measurement dates used for calculating pension obligations were December 31, 2017 and 2016. The accumulated benefit obligation for the pension plan was \$11,736,749 and \$11,407,419 at December 31, 2017 and 2016, respectively.

CATHOLIC CHARITIES OF SOUTHWESTERN OHIO AND SUBSIDIARY

**Notes to the Consolidated Financial Statements
(Continued)**

NOTE 9 EMPLOYEE BENEFIT PLANS (CONTINUED)

The following table presents the changes in projected benefit obligation and changes in plan assets:

	<u>2017</u>	<u>2016</u>
Changes in benefit obligation:		
Benefit obligation, beginning of year	\$ 11,407,419	\$ 11,602,287
Service cost	25,778	26,183
Interest cost	431,665	450,935
Actuarial (gain) loss	642,845	(55,761)
Benefits paid	<u>(770,958)</u>	<u>(616,225)</u>
Benefit obligation, end of year	<u>\$ 11,736,749</u>	<u>\$ 11,407,419</u>
Changes in plan assets:		
Fair value of plan assets, beginning of year	\$ 7,891,539	\$ 7,728,150
Actual return on plan assets	985,895	529,614
Employer contributions	250,000	250,000
Benefits paid	<u>(770,958)</u>	<u>(616,225)</u>
Fair value of plan assets, end of year	<u>\$ 8,356,476</u>	<u>\$ 7,891,539</u>

The funded status and amounts recognized in our statement of financial position were:

	<u>2017</u>	<u>2016</u>
Projected benefit obligation	\$ 11,736,749	\$ 11,407,419
Fair value of plan assets	<u>8,356,476</u>	<u>7,891,539</u>
Pension liability	<u>\$ 3,380,273</u>	<u>\$ 3,515,880</u>

The components of net periodic benefit costs were as follows:

	<u>2017</u>	<u>2016</u>
Service cost	\$ 25,778	\$ 26,183
Interest cost	431,665	450,935
Actual return on plan assets	(985,895)	(529,614)
Net asset gain (loss) amortization and deferral	<u>694,596</u>	<u>229,239</u>
	<u>\$ 166,144</u>	<u>\$ 176,743</u>

The fair value of the Organization's defined benefit pension plan assets were as follows:

	<u>2017</u>	<u>2016</u>
Level 2:		
Equity securities and mutual funds in pooled separate accounts	\$ 4,275,910	\$ 4,146,439
Fixed income securities and mutual funds in pooled separate accounts	3,459,562	3,407,201
General account	<u>621,004</u>	<u>337,899</u>
	<u>\$ 8,356,476</u>	<u>\$ 7,891,539</u>

CATHOLIC CHARITIES OF SOUTHWESTERN OHIO AND SUBSIDIARY

Notes to the Consolidated Financial Statements (Continued)

NOTE 9 EMPLOYEE BENEFIT PLANS (CONTINUED)

Following is a description of the valuation approaches used for assets measured at fair value. There have been no changes in methodologies used at December 31, 2017 and 2016.

Equity and fixed income securities and mutual funds in pooled separate accounts: The net asset value ("NAV") of the pooled separate account is based on the market value of its underlying investments. The pooled separate account is not a publicly-quoted price in an active market.

General account: Valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the creditworthiness of the issuer. The carrying value approximates fair value.

Significant assumptions used in accounting for the pension plan were:

	<u>2017</u>	<u>2016</u>
Discount rate	3.40%	3.85%
Expected return on plan assets	6.50%	7.00%
Rate of compensation increase	N/A	N/A

The expected long-term rate of return on plan assets assumption of 6.50% was selected in accordance with Actuarial Standards Board in Actuarial Standards of Practice No. 27 – Selection of Economic Assumptions for Measuring Pension Obligations. Based on investment policy for the pension plan in effect as of the beginning of the fiscal year, a best estimate range was determined for both the real rate of return (net of inflation and investment expense) and for inflation based on long term historical return on the applicable asset classes. An average inflation rate within the range equal to 3.25% was selected and added to the real rate of return range to arrive at a net estimate range of 6.41% - 9.10%. A rate of 6.50%, which is within the best estimate range, was selected.

Because the assumptions used in the accounting for the defined benefit plan are significant estimates, it is at least reasonably possible the amounts may change in the future, and these changes could be significant. Because of the unfunded status of the plan, a change in the assumed discount rate can have a significant impact on the resulting liability recorded on the financial statements.

The overall investment philosophy of the plan is to manage plan assets in a prudent, conservative yet productive manner. Fiduciaries with any discretionary authority to manage plan assets seek to increase the value of plan assets while recognizing the need to preserve asset value in order to enhance the ability of the plan to meet its obligations to plan participants and their beneficiaries when due. Preservation of capital is of prime importance and within the stated investment objectives for the plan's assets. Risks, including excessive volatility in the value of plan assets, are minimized. Plan assets are managed to achieve stated objectives over a long-term time horizon.

The Organization does not expect to contribute to the plan during the next fiscal year.

CATHOLIC CHARITIES OF SOUTHWESTERN OHIO AND SUBSIDIARY

Notes to the Consolidated Financial Statements (Continued)

NOTE 9 EMPLOYEE BENEFIT PLANS (CONTINUED)

Benefits expected to be paid by the plan during the ensuing five years and the five years thereafter are approximately as follows:

2018	\$ 638,000
2019	638,000
2020	642,000
2021	700,000
2022	703,000
2023 - 2027	<u>3,506,000</u>
	<u>\$ 5,424,000</u>

NOTE 10 LEASES

The Organization maintains operating leases under varying terms for office space and equipment through 2025.

Future minimum lease payments are as follows:

2018	\$ 320,399
2019	323,822
2020	301,652
2021	250,646
2022	214,648
After	<u>618,961</u>
	<u>\$ 2,030,128</u>

Total rent expense was approximately \$355,000 and \$320,000 in 2017 and 2016, respectively.

NOTE 11 ENDOWMENT FUNDS

The Organization's endowment consists of donor-restricted and board designated funds established to provide income to operations. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

CATHOLIC CHARITIES OF SOUTHWESTERN OHIO AND SUBSIDIARY

Notes to the Consolidated Financial Statements (Continued)

NOTE 11 ENDOWMENT FUNDS (CONTINUED)

Interpretation of Relevant Law

The Organization follows the Ohio Prudent Management of Institutional Funds Act (OPMIFA). The Organization has interpreted OPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted permanent endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by OPMIFA.

In accordance with OPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: the duration and preservation of the fund; the purposes of the Organization and the donor-restricted endowment fund; general economic conditions; the possible effect of inflation and deflation; the expected total return from income and the appreciation of investments; other resources of the Organization; and the investment policies of the Organization.

Investment Policy

The Organization has adopted investment and spending policies for endowment assets that attempt to provide consistent long-term growth of capital, without undue exposure to risk. A secondary focus shall be to achieve annualized total return (net of fees and expenses), through appreciation and income, greater than the rate of inflation plus fund distributions. The return objective shall be accomplished using a strategy of cash equivalents, fixed income securities and equities in a mix which is conducive to participation in rising markets while allowing for protection in falling markets. The performance objectives will be measured against appropriate industry benchmarks such as the S&P 500 Index, Russell 2000 Stock Index, MSCI EAFE Index, and the Barclays US Aggregate Bond Index.

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

CATHOLIC CHARITIES OF SOUTHWESTERN OHIO AND SUBSIDIARY

Notes to the Consolidated Financial Statements (Continued)

NOTE 11 ENDOWMENT FUNDS (CONTINUED)

Spending Policy

The Organization has a policy of appropriating for distribution each year four percent of its previous three year moving average of the market value of the endowment assets. The Board of Trustees can authorize additional spending from the unrestricted endowment as it deems appropriate. In establishing this policy, the Organization considered the long-term expected return on its endowment. Accordingly, this spending policy should, over time, protect the inflation-adjusted value of the endowment and, consequently, allow inflation-adjusted spending to occur into the distant future. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Endowment asset composition by type of fund is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
2017				
Donor restricted endowment	\$ -	\$ 204,681	\$ 250,000	\$ 454,681
Board designated endowment	4,474,341	-	-	4,474,341
	<u>\$ 4,474,341</u>	<u>\$ 204,681</u>	<u>\$ 250,000</u>	<u>\$ 4,929,022</u>
2016				
Donor restricted endowment	\$ -	\$ 154,944	\$ 250,000	\$ 404,944
Board designated endowment	3,831,179	-	-	3,831,179
	<u>\$ 3,831,179</u>	<u>\$ 154,944</u>	<u>\$ 250,000</u>	<u>\$ 4,236,123</u>

Changes in endowment net assets are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
December 31, 2015	\$ 3,553,914	\$ 139,851	\$ 250,000	\$ 3,943,765
Investment return:				
Interest and dividends, net of fees	44,061	709	-	44,770
Gains on investments	233,204	18,384	-	251,588
Distributions	-	(4,000)	-	(4,000)
December 31, 2016	3,831,179	154,944	250,000	4,236,123
Investment return:				
Interest and dividends, net of fees	48,119	1,713	-	49,832
Gains on investments	515,043	54,024	-	569,067
Contributions	80,000	-	-	80,000
Distributions	-	(6,000)	-	(6,000)
December 31, 2017	<u>\$ 4,474,341</u>	<u>\$ 204,681</u>	<u>\$ 250,000</u>	<u>\$ 4,929,022</u>

SUPPLEMENTARY INFORMATION

CATHOLIC CHARITIES OF SOUTHWESTERN OHIO AND SUBSIDIARY

**Consolidating Schedule of Financial Position by Area Office
December 31, 2017**

	<u>Cincinnati</u>	<u>Springfield</u>	<u>Eliminations</u>	<u>Total</u>
Assets				
Cash and cash equivalents	\$ 476,759	\$ 31,213	\$ -	\$ 507,972
Accounts receivable, net	438,298	37,749	-	476,047
Contributions receivable	623,119	121,068	-	744,187
Prepaid expenses	108,563	-	-	108,563
Amounts due from area office	1,066,586	-	(1,066,586)	-
Inventory	-	1,220,771	-	1,220,771
Investments	4,493,453	522,230	-	5,015,683
Property and equipment, net	291,910	1,280,124	-	1,572,034
	<u>\$ 7,498,688</u>	<u>\$ 3,213,155</u>	<u>\$ (1,066,586)</u>	<u>\$ 9,645,257</u>
Liabilities and Net Assets				
Liabilities				
Accounts payable and accrued expenses	\$ 463,971	\$ -	\$ -	\$ 463,971
Amounts due to area office	-	1,066,586	(1,066,586)	-
Accrued retirement expenses	2,549,415	830,858	-	3,380,273
	<u>3,013,386</u>	<u>1,897,444</u>	<u>(1,066,586)</u>	<u>3,844,244</u>
Net Assets				
Unrestricted	3,276,739	1,087,231	-	4,363,970
Temporarily restricted	958,563	228,480	-	1,187,043
Permanently restricted	250,000	-	-	250,000
	<u>4,485,302</u>	<u>1,315,711</u>	<u>-</u>	<u>5,801,013</u>
Total net assets	<u>4,485,302</u>	<u>1,315,711</u>	<u>-</u>	<u>5,801,013</u>
Total liabilities and net assets	<u>\$ 7,498,688</u>	<u>\$ 3,213,155</u>	<u>\$ (1,066,586)</u>	<u>\$ 9,645,257</u>

See independent auditors' report

CATHOLIC CHARITIES OF SOUTHWESTERN OHIO AND SUBSIDIARY

**Consolidating Schedule of Activities by Area Office
December 31, 2017**

	<u>Cincinnati</u>	<u>Springfield</u>	<u>Total</u>
Revenue, gains and other support			
Donations, grants and planned giving	\$ 3,673,117	\$ 619,681	\$ 4,292,798
United Way	681,506	155,717	837,223
Donated food for distribution	-	8,141,304	8,141,304
Governmental grants and fees	2,707,311	156,421	2,863,732
Program service fees	147,194	190,821	338,015
Investment income	170,207	29,465	199,672
Special events	102,791	72,154	174,945
Other revenue and support	16,060	1,831	17,891
	<u>7,498,186</u>	<u>9,367,394</u>	<u>16,865,580</u>
Expenses			
Donated food expense	60,130	8,408,609	8,468,739
Salaries and related expenses	4,923,025	856,908	5,779,933
Other direct	538,095	248,440	786,535
Senior volunteer costs	496,804	-	496,804
Individual assistance	489,916	132,659	622,575
Occupancy	347,370	127,868	475,238
Depreciation	50,019	90,260	140,279
Transportation	121,606	19,234	140,840
	<u>7,026,965</u>	<u>9,883,978</u>	<u>16,910,943</u>
Change in net assets from operations	471,221	(516,584)	(45,363)
Non-operating gains:			
Net unrealized gain on investments	395,759	31,268	427,027
Actuarial gain on pension plan	51,751	-	51,751
	<u>918,731</u>	<u>(485,316)</u>	<u>433,415</u>
Change in net assets	918,731	(485,316)	433,415
Net assets, beginning of year	<u>3,566,571</u>	<u>1,801,027</u>	<u>5,367,598</u>
Net assets, end of year	<u>\$ 4,485,302</u>	<u>\$ 1,315,711</u>	<u>\$ 5,801,013</u>

See independent auditors' report

CATHOLIC CHARITIES OF SOUTHWESTERN OHIO AND SUBSIDIARY

**Schedule of Expenditures of Federal Awards
Year Ended December 31, 2017**

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures	Passed through to Subrecipients
Corporation for National and Community Service:				
Foster Grandparent/Senior Companion Cluster:				
Foster Grandparent Program	94.011	N/A	\$ 349,517	\$ -
Senior Companion Program	94.016	N/A	271,957	-
Total Foster Grandparent/Senior Companion Cluster			621,474	-
Retired and Senior Volunteer Program	94.002	N/A	54,978	-
<i>Passed through Catholic Charities USA</i>				
Americorps National Direct Program	94.006	16NDHVA001	17,060	-
Total Corporation for National and Community Service			693,512	-
Department of Health and Human Services				
<i>Passed through Council on Aging of Southwestern Ohio</i>				
National Family Caregiver Support, Title III, Part E	93.052	N/A	38,703	-
<i>Passed through United States Conference of Catholic Bishops</i>				
Voluntary Agencies Matching Grant Program	93.567	MGCIN16 / MGCIN17	68,005	-
Unaccompanied Children's Services Program	93.676	90U0191	84,129	-
<i>Passed through Ohio Department of Job and Family Services</i>				
Refugee Social Service Program	93.566	G-1617-17-0620	167,591	-
Refugee Health Promotion Program	93.576	G-1617-17-0621	10,365	-
Refugee Targeted Assistance Program	93.584	G-1617-17-0622	69,355	-
<i>Passed through Lutheran Immigration and Refugee Service</i>				
Foster Care and Safe Release Support Services	93.676	90ZU0103-03	95,911	-
Total Department of Health and Human Services			534,059	-
Department of Agriculture				
Food Distribution Cluster:				
<i>Passed through Ohio Department of Job and Family Services</i>				
Commodity Supplemental Food Program	10.565	G-1617-17-1037	79,181	-
<i>Passed through Shared Harvest Foodbank</i>				
Emergency Food Assistance Program Cluster (TEFAP):				
Emergency Food Assistance Program (Administrative Costs)	10.568	N/A	42,478	-
Emergency Food Assistance Program (Food Commodities)	10.569	N/A	2,065,256	1,209,465
Total Department of Agriculture / Food Distribution Cluster			2,186,915	1,209,465
Department of State				
<i>Passed through Untied States Conference of Catholic Bishops</i>				
U.S. Refugee Admissions Program	19.510	RPCIN16 / RPCIN17	544,635	-
Total Federal Awards			\$ 3,959,121	\$ 1,209,465

CATHOLIC CHARITIES OF SOUTHWESTERN OHIO AND SUBSIDIARY

Notes to the Schedule of Expenditures of Federal Awards Year Ended December 31, 2017

NOTE 1 BASIS OF PRESENTATION

The supplementary schedule of expenditures of federal awards includes the federal grant activity of Catholic Charities of Southwestern Ohio and Subsidiary for the year ended December 31, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting in accordance with generally accepted accounting principles. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 INDIRECT COST RATE

Catholic Charities of Southwestern Ohio and Subsidiary has elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 4 FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of commodities disbursed. For the year ended December 31, 2017, the Organization reported food commodities expended in the amount of \$2,065,256.

**INDEPENDENT AUDITORS' 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**

The Board of Directors
Catholic Charities of Southwestern Ohio and Subsidiary
Cincinnati, Ohio

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Catholic Charities of Southwestern Ohio and Subsidiary (the Organization) (a nonprofit organization), which comprise the consolidated statement of financial position as of December 31, 2017, and the related consolidated statement of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 24, 2018.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Organization's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is 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 would not necessarily 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 the Organization's consolidated financial statements are free of 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 consolidated 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*.

**INDEPENDENT AUDITORS' 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
(CONTINUED)**

Purpose of this Report

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

Barnes, Dennig & Co., Ltd.

Cincinnati, Ohio
April 24, 2018

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

The Board of Directors
Catholic Charities of Southwestern Ohio and Subsidiary
Cincinnati, Ohio

Report on Compliance for Each Major Federal Program

We have audited Catholic Charities of Southwestern Ohio and Subsidiary's (the Organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended December 31, 2017. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Program

In our opinion, Catholic Charities of Southwestern Ohio and Subsidiary complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE
(CONTINUED)**

Report on Internal Control over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered the Organization's internal control over compliance with the requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Barnes, Dennig & Co., Ltd.

Cincinnati, Ohio
April 24, 2018

CATHOLIC CHARITIES OF SOUTHWESTERN OHIO AND SUBSIDIARY

**Schedule of Findings and Questioned Costs
Year Ended December 31, 2017**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes x No
- Significant deficiency(ies) identified that is not considered to be a material weakness? _____ Yes x None reported
- Noncompliance material to financial statements noted? _____ Yes x No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ Yes x No
- Significant deficiency(ies) identified that are not considered to be a material weakness? _____ Yes x None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with *Title 2 U.S. CFR Section 200.516(a)*? _____ Yes x No

Identification of Major Program

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.565/10.568/10.569	Food Distribution Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee _____ Yes x No

Section II – Financial Statement Findings

No matters are reportable

Section III – Federal Award Findings and Questioned Costs

No matters are reportable

CATHOLIC CHARITIES OF SOUTHWESTERN OHIO AND SUBSIDIARY

**Summary Schedule of Prior Audit Findings
Year Ended December 31, 2017**

Reference Number	Summary of Finding	Status
	No matters are reportable	