

Catholic Answers, Inc.
**Financial Statements
and Independent Auditor's Report**
June 30, 2021 and 2020

Catholic Answers, Inc.

Index

	<u>Page</u>
Independent Auditor's Report	2
Financial Statements	
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses	5
Statements of Cash Flows	7
Notes to Financial Statements	8

Independent Auditor's Report

To the Board of Directors
Catholic Answers, Inc.

We have audited the accompanying financial statements of Catholic Answers, Inc. (the "Organization"), which comprise the statements of financial position as of June 30, 2021 and 2020, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 Answers, Inc. as of June 30, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



San Diego, California
December 27, 2021

Catholic Answers, Inc.
Statements of Financial Position
June 30, 2021 and 2020

	<u>Assets</u>	
	2021	2020
Current assets		
Cash and cash equivalents	\$ 1,286,155	\$ 2,432,612
Accounts receivable, less allowance for doubtful accounts of \$7,458 and \$8,838, respectively	151,653	168,494
Inventories	412,237	457,358
Investments	1,500,318	-
Prepaid expenses and other current assets	192,011	159,188
Total current assets	3,542,374	3,217,652
Property and equipment, net	231,996	283,715
Deposits and other assets	14,150	26,024
Total assets	\$ 3,788,520	\$ 3,527,391
	<u>Liabilities and Net Assets</u>	
Current liabilities		
Accounts payable	\$ 221,830	\$ 328,437
Accrued expenses	480,477	479,202
Note payable	-	236,280
Deferred revenue, current portion	181,099	213,367
Total current liabilities	883,406	1,257,286
Deferred revenue, net of current portion	27,207	46,406
Deferred rent	56,107	42,812
Note payable	-	387,296
Total liabilities	966,720	1,733,800
Commitments and contingencies		
Net assets		
Without donor restrictions		
Undesignated	2,781,550	1,732,739
Total net assets without donor restrictions	2,781,550	1,732,739
With donor restrictions		
Restricted by purpose or time	40,250	60,852
Total net assets with donor restrictions	40,250	60,852
Total net assets	2,821,800	1,793,591
Total liabilities and net assets	\$ 3,788,520	\$ 3,527,391

See Notes to Financial Statements.

Catholic Answers, Inc.
Statements of Activities
Years Ended June 30, 2021 and 2020

	2021	2020
Change in net assets without donor restrictions		
Unrestricted revenue and support		
Contributions	\$ 6,195,236	\$ 5,979,787
Program related revenue	1,860,843	1,981,903
Sponsorships	52,565	69,322
Event revenue	17,475	318,382
Interest income	428	17,159
Net assets released from donor restrictions	55,861	160,416
Forgiveness of debt	692,126	-
Other income	78,158	26,805
	<u>8,952,692</u>	<u>8,553,774</u>
Expenses		
Program expenses		
Product development and sales	2,438,579	2,514,322
Special projects	316,953	358,175
Events	104,156	661,137
Radio and studios	1,393,146	1,332,992
Apologetics and evangelization	528,308	684,579
Magazine	361,502	355,369
Website	658,080	563,842
	<u>5,800,724</u>	<u>6,470,416</u>
Supporting services		
Management and general	495,412	483,605
Fundraising	1,607,745	1,699,487
	<u>2,103,157</u>	<u>2,183,092</u>
Total expenses	<u>7,903,881</u>	<u>8,653,508</u>
Change in net assets without donor restrictions	<u>1,048,811</u>	<u>(99,734)</u>
Change in net assets with donor restrictions		
Contributions	35,259	24,146
Net assets released from donor restrictions	(55,861)	(160,416)
Change in net assets with donor restrictions	<u>(20,602)</u>	<u>(136,270)</u>
Change in net assets	<u>1,028,209</u>	<u>(236,004)</u>
Net assets, beginning	<u>1,793,591</u>	<u>2,029,595</u>
Net assets, end	<u>\$ 2,821,800</u>	<u>\$ 1,793,591</u>

See Notes to Financial Statements.

Catholic Answers, Inc.

**Statement of Functional Expenses
Year Ended June 30, 2021**

	Supporting services			Total support services	Total expenses
	Program services	Management and general	Fundraising		
Expenses					
Personnel costs					
Salaries and wages	\$ 2,405,943	\$ 281,039	\$ 691,052	\$ 972,091	\$ 3,378,034
Retirement plan	70,055	6,775	20,442	27,217	97,272
Other employee benefits	482,485	55,521	141,321	196,842	679,327
Payroll taxes	185,681	21,986	54,204	76,190	261,871
	3,144,164	365,321	907,019	1,272,340	4,416,504
Fees for services (nonemployees) - legal	44,019	4,889	12,103	16,992	61,011
Fees for services (nonemployees) - accounting	-	45,050	-	45,050	45,050
Fees for services (nonemployees) - other	491,852	20,662	63,181	83,843	575,695
Advertising and promotion	276,657	43	2,340	2,383	279,040
Office expenses	667,177	12,742	454,111	466,853	1,134,030
Information technology	219,552	5,101	42,308	47,409	266,961
Royalties	178,624	-	3,731	3,731	182,355
Occupancy	227,311	26,891	66,308	93,199	320,510
Travel	32,975	1,413	22,748	24,161	57,136
Conferences, conventions and meetings	1,118	-	-	-	1,118
Depreciation	88,035	10,894	25,825	36,719	124,754
Insurance	16,746	1,988	4,881	6,869	23,615
Cost of sales	376,681	-	-	-	376,681
Licenses and dues	4,177	276	2,805	3,081	7,258
Continuing education	397	-	-	-	397
Other expenses	31,239	142	385	527	31,766
	31,239	142	385	527	31,766
Total program and supporting services including depreciation	\$ 5,800,724	\$ 495,412	\$ 1,607,745	\$ 2,103,157	\$ 7,903,881

See Notes to Financial Statements.

Catholic Answers, Inc.

**Statement of Functional Expenses
Year Ended June 30, 2020**

	Supporting services		Total support services	Total expenses
	Program services	Management and general		
Expenses				
Personnel costs				
Salaries and wages	\$ 2,558,564	\$ 269,630	\$ 690,673	\$ 3,518,867
Retirement plan	76,500	7,940	20,894	105,334
Other employee benefits	536,481	52,007	204,673	741,154
Payroll taxes	193,106	20,655	73,815	266,921
Total personnel costs	3,364,651	350,232	1,267,625	4,632,276
Fees for services (nonemployees) - legal	2,202	66	166	2,434
Fees for services (nonemployees) - accounting	-	51,977	-	51,977
Fees for services (nonemployees) - other	555,588	26,899	29,729	612,216
Advertising and promotion	345,953	48	2,175	348,176
Office expenses	750,301	10,220	568,136	1,328,657
Information technology	201,999	5,788	47,615	255,402
Royalties	203,105	-	13,874	216,979
Occupancy	212,398	22,671	58,515	293,584
Travel	50,196	1,977	22,054	74,227
Conferences, conventions and meetings	247,006	-	-	247,006
Depreciation	109,005	12,562	30,041	151,608
Insurance	11,802	1,265	3,134	16,201
Cost of sales	392,399	-	-	392,399
Licenses and dues	2,927	(500)	5,002	7,429
Continuing education	2,448	209	1,167	3,824
Other expenses	18,436	191	486	19,113
Total program and supporting services including depreciation	\$ 6,470,416	\$ 483,605	\$ 1,699,487	\$ 8,653,508

See Notes to Financial Statements.

Catholic Answers, Inc.
Statements of Cash Flows
Years Ended June 30, 2021 and 2020

	2021	2020
Operating activities		
Change in net assets	\$ 1,028,209	\$ (236,004)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Bad debt expense	(1,067)	2,353
Depreciation and amortization	124,753	151,608
Change in operating assets and liabilities		
Accounts receivable	17,908	596
Inventories	45,121	(81,957)
Prepaid expenses and other current assets	(32,823)	104,185
Deposits and other assets	11,874	17,495
Accounts payable	(106,608)	37,550
Accrued expenses	1,275	72,418
Deferred revenue	(51,467)	(154,669)
Deferred rent	13,295	(12,014)
	1,050,470	(98,439)
Net cash provided by (used in) operating activities		
Investing activities		
Purchases of property and equipment	(73,033)	(54,699)
Sale of investments	-	715,000
Purchase of investments	(1,500,318)	-
	(1,573,351)	660,301
Net cash (used in) provided by investing activities		
Financing activities		
Proceeds from note payable	(623,576)	623,576
	(623,576)	623,576
Net cash (used in) provided by financing activities		
Net (decrease) increase in cash and cash equivalents	(1,146,457)	1,185,438
Cash and cash equivalents, beginning	2,432,612	1,247,174
Cash and cash equivalents, end	\$ 1,286,155	\$ 2,432,612

See Notes to Financial Statements.

Catholic Answers, Inc.

Notes to Financial Statements June 30, 2021 and 2020

Note 1 - Organization and summary of significant accounting policies

Nature of organization

The financial statements reflect the financial results of Catholic Answers, Inc. ("CA" or the "Organization"), a nonprofit California corporation. CA was organized in 1982 and is an apostolate dedicated to serving Christ by bringing the fullness of Catholic truth to the world. CA, among other things, sells religious books, audio and video products, software and pamphlets throughout the United States. CA also conducts seminars, publishes magazines, conducts religious and pilgrimage cruises, and airs radio shows in several U.S. markets.

Income tax status

CA is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC") and Section 23701(d) of the Revenue and Taxation Code of California.

The Organization believes that it has appropriate support for any tax positions taken and, as such, does not have any uncertain tax provisions that are material to the financial statements. The federal and state information returns for CA prior to fiscal years 2018 and 2017, respectively, are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

Basis of accounting

The Organization's financial statements are prepared on the accrual basis of accounting.

Financial statement presentation

The Organization records resources for accounting and reporting purposes based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions - Net assets for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board may designate, from net assets without donor restrictions, net assets for an operating reserve through a board-designated endowment. No such endowments existed as of June 30, 2021.

Net assets with donor restrictions - Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time, purpose or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Contributions

Contributions received, as well as collectible unconditional promises to give, are recognized in the period the contribution is received. Contributions receivable are recorded in the period the Organization is notified that the receivable is valid, and an estimated value is provided by the trustee. Contributions with donor-imposed restrictions are reported as net assets with donor restrictions. Net assets with donor restrictions are reclassified to net assets without donor restrictions when the donor restrictions are satisfied. Contributions received with donor-imposed restrictions that are satisfied within the same reporting period are reported as net assets released

Catholic Answers, Inc.

Notes to Financial Statements June 30, 2021 and 2020

from donor restrictions support in that period. The Organization considers contributions receivable to be fully collectible; accordingly, no allowance for uncollectible contributions receivable is required. Conditional promises to give are those that include a barrier that must be overcome and either a right of return of assets received by the Organization or a right of release of the donor's obligation to transfer assets to the Organization. Conditional promises to give are not recognized as contributions until such time as the conditions upon which they depend are substantially met or explicitly waived by the donor. Proceeds received from conditional contributions are recorded as deferred revenue until such time that the conditional barriers to revenue recognition have been overcome.

Revenue recognition

Program related revenue includes product sales, magazine subscription revenue and seminar fees. Product sales are recognized when products are shipped. Magazine subscription revenue is deferred and recognized evenly over the subscription term. Seminar fees are recognized when the seminar takes place. Sponsorship and radio program fees are deferred and recognized evenly over the contract period. Mailing list revenue is recognized upon rental of the list. Cruise revenue is recognized when the services are provided.

Cash and cash equivalents

The Organization considers all highly liquid investments with an original maturity of three months or less when acquired to be cash equivalents.

Accounts receivable

Accounts receivable are recorded when products are sold or services are rendered, and are presented in the statements of financial position net of an allowance for doubtful accounts. Credit terms for payment of products and services are extended to customers in the normal course of business and no collateral is required. The allowance for estimated uncollectible accounts is based on past experience and on an analysis of current accounts receivable. Accounts deemed uncollectible are written-off in the year deemed uncollectible.

Inventories

Inventories consist of books, audio and video products, pamphlets, and software that are stated at the lower of cost (first-in, first-out method) or market.

Investments

The Organization records investment purchases at cost. Thereafter, investments are reported at their fair values in the statements of financial position. Net investment return/(loss) is reported in the statements of activity and consists of interest income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

Property and equipment

It is the Organization's policy to capitalize purchased and donated assets greater than \$1,500 that have a useful life of more than one year. Purchased assets are recorded at cost or, if donated, at fair value at the date of donation. Depreciation on equipment, computers and peripherals, and furniture and fixtures is computed using the straight-line method over the estimated useful life of the assets, generally five to seven years. Leasehold improvements are amortized over the shorter of the useful life of the asset or the lease term.

Catholic Answers, Inc.

Notes to Financial Statements June 30, 2021 and 2020

Advertising

Advertising costs are expensed as incurred. For the years ended June 30, 2021 and 2020 advertising costs of \$279,043 and \$348,205, respectively, were allocated to various expense categories.

Shipping and handling

Costs for shipping and handling were allocated to program expenses in the "Product development and sales" category and were \$117,040 and \$128,370 for the years ended June 30, 2021 and 2020, respectively.

Functional allocation of expense

The costs of program and supporting services activities have been summarized on a functional basis in the statement of functional expenses. The statement of functional expenses presents the natural classification detail of expenses by function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and wages, payroll taxes, employee benefits, occupancy, transportation, office expenses, professional services, information technology, depreciation, advertising and mailing expenses. Allocations are made primarily based on time and effort.

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 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 revenues and expenses during the reporting period. Accordingly, actual amounts may differ from these estimates.

Contributed services

Contributions of services are recognized when received if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The Organization receives a certain amount of services donated by community members. During the years ended June 30, 2021 and 2020, no amounts were reflected in the financial statements for those services as the requirements for recognition were not met.

Reclassifications

Certain amounts in the 2020 financial statements have been reclassified to conform to the 2021 presentation.

Subsequent event

Subsequent events have been evaluated through December 27, 2021, which is the date the financial statements were available to be issued.

Recent accounting standard adopted

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which replaces most existing revenue recognition guidance in U.S. GAAP and requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. Additionally, the new standard requires an entity to disclose additional quantitative and qualitative information regarding the nature and amount of revenues arising from contracts with customers, as well as other information about the significant judgments and estimates used in recognizing revenues from contracts with customers.

Catholic Answers, Inc.

Notes to Financial Statements June 30, 2021 and 2020

The Company adopted the new revenue recognition guidance as of July 1, 2020 using the modified retrospective method of transition for all contracts that were not completed as of that date. The Company's revenue for reporting periods ended after June 30, 2020 are presented under the new guidance, while financial results for prior periods will continue to be reported in accordance with the prior guidance and the Company's historical accounting policy. The Company has not experienced changes to the pattern of revenue recognition for its contracts, the identification of contracts and performance obligations or the measurement of variable consideration. Adopting the new standard did not have a material effect on the timing of the Company's revenue recognition or disclosure.

Recent accounting pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, *Leases (Topic 842)*, which establishes the principles to report transparent and economically neutral information about the assets and liabilities that arise from leases. This guidance results in a more faithful representation of the rights and obligations arising from operating and capital leases by requiring lessees to recognize the lease assets and lease liabilities that arise from leases in the balance sheet and to disclose qualitative and quantitative information about lease transaction, such as information about variable lease payments and options to renew and terminate leases.

On April 21, 2020, the FASB issued ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*. The amendments in this update defer the required effective date of ASC 606 and ASC 842 for certain entities that have not issued their consolidated financial statements (or made consolidated financial statements available for issuance). The Company adopted ASC 606 in 2021 and has elected to defer its adoption of ASC 842 which is now effective for fiscal years beginning after December 15, 2021. The Company is currently evaluating the impact of the pending adoption of the new standard on the consolidated financial statements.

Note 2 - Concentrations

Credit risk for cash and cash equivalents held in bank

The Organization maintains its cash and cash equivalents in bank deposit accounts which, at times, may exceed federally insured deposit limits. Cash deposits in excess of federally insured limits totaled approximately \$1,036,000 at June 30, 2021. The risk associated with these deposits is considered low as they are held in highly rated financial institutions. The Organization has not experienced any losses in such accounts, and believes it is not exposed to any significant credit risk.

Major vendors

The Organization had one vendor that represented approximately 10% of the Organization's purchases during the year ended June 30, 2021, and four vendors that represented approximately 47% of the Organization's purchases during the year ended June 30, 2020.

At June 30, 2021 and 2020, the Organization had two vendors that represented approximately 50% of the Organization's accounts payable and two vendors that represented approximately 60% of the Organization's accounts payable, respectively.

Catholic Answers, Inc.

**Notes to Financial Statements
June 30, 2021 and 2020**

Note 3 - Liquidity and availability

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	2021	2020
Cash and cash equivalents	\$ 1,286,155	\$ 2,432,612
Accounts receivable, net	151,653	168,494
Current investments not encumbered by donor or board restrictions	1,500,318	-
Less: Net assets with donor restrictions	(40,250)	(60,852)
	\$ 2,897,876	\$ 2,540,254

The Organization's liquid assets are mainly cash and cash equivalents and current investments; any future investment is expected to be invested in highly liquid investments. As a part of its liquidity management, the Organization's management performs and routinely reviews budgets to anticipate cash flows. Excess cash is used to purchase treasury bills with tiered maturities that can be utilized to fund liquidity needs.

Note 4 - Net assets with donor restrictions

Net assets with donor restrictions are restricted for the following purposes as of June 30, 2021 and 2020:

	2021	2020
Subject to expenditure for specific purpose		
Catholic Answers Magazine for seminarians	\$ -	\$ 862
Radio Studio Redesign	17,000	-
Counter Culture film	-	10,000
Radio App	-	17,000
Pamphlets for parishes	-	9,740
Chapel project	23,250	23,250
	\$ 40,250	\$ 60,852

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of the passage of time or other events specified by the donors as follows for the years ended June 30, 2021 and 2020:

	2021	2020
Purpose or period restrictions accomplished		
Catholic Answers Magazine for seminarians	\$ 862	\$ 21,632
School of Apologetics	1,876	138,784
Radio Studio Redesign	16,383	-
Counter Culture Film	10,000	-
20 Answers to Parish vestibules	9,740	-
Radio App	17,000	-
	\$ 55,861	\$ 160,416

Catholic Answers, Inc.

Notes to Financial Statements June 30, 2021 and 2020

Note 5 - Fair value measurements

The Organization values its financial assets and liabilities based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy that prioritizes observable and unobservable inputs is used to measure fair value into three broad levels, which are described below:

- Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
- Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.
- Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

There were no changes in the valuation methodology used by the Organization.

The income from U.S. Treasury Securities and other interest-bearing securities held during the years ended June 30, 2021 and 2020, which is included in interest income in the statements of activities, totaled \$428 and \$17,159, respectively.

Financial assets carried at fair value at June 30, 2021 are classified in the tables below in one of the three categories described above:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
U.S. Treasury Securities	\$ 1,500,318	\$ -	\$ -	\$ 1,500,318
Total	<u>\$ 1,500,318</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,500,318</u>

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Organization to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Catholic Answers, Inc.

**Notes to Financial Statements
June 30, 2021 and 2020**

Note 6 - Property and equipment

Property and equipment consist of the following:

	<u>2021</u>	<u>2020</u>
Software and equipment	\$ 101,145	\$ 101,145
Leasehold improvements	412,236	409,042
Computers and peripherals	569,377	503,216
Furniture and fixtures	<u>216,552</u>	<u>212,873</u>
	1,299,310	1,226,276
Less accumulated depreciation and amortization	<u>1,067,314</u>	<u>942,561</u>
Total	<u>\$ 231,996</u>	<u>\$ 283,715</u>

Depreciation and amortization expense was \$124,753 and \$151,608 for the years ended June 30, 2021 and 2020, respectively.

Note 7 - Note payable

In conjunction with the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") being passed by Congress in March 2020, the Organization applied for a Small Business Administration ("SBA") loan as outlined in the Small Business Debt Relief Program. This program provides immediate relief to small businesses with nondisaster SBA loans. In April 2020, the Organization was granted a loan (the "Loan") from Wells Fargo in the aggregate amount of \$623,576, pursuant to the Paycheck Protection Program ("PPP"). The Loan and accrued interest may be prepaid by the Organization at any time prior to maturity with no prepayment penalties. Funds from the Loan may only be used for payroll costs, costs used to continue group health care benefits, mortgage payments, rent, utilities, and interest on other debt obligations.

Under the CARES Act, PPP Loan recipients meeting certain criteria set by the SBA may be eligible for full or partial forgiveness of such loans. During the year ended June 30, 2021, the Company submitted its application for PPP Loan forgiveness and received notice from its lender on March 2, 2021 that the SBA approved forgiveness of the PPP Loan in the amount of \$623,576 and the related interest thereon, which is presented as forgiveness of debt on the accompanying statements of activities.

Catholic Answers, Inc.

**Notes to Financial Statements
June 30, 2021 and 2020**

Note 8 - Allocation of costs of activities that include fundraising

The Organization achieves some of its programmatic goals in direct mail campaigns that include requests for contributions. The costs of conducting those campaigns for the years ended June 30, 2021 and 2020 include \$43,066 and \$47,484, respectively, of joint costs that are not directly attributable to either the program component or the fundraising component of the activities. Those joint costs were allocated as follows:

	<u>2021</u>	<u>2020</u>
Program expenses - special projects	\$ 36,451	\$ 40,701
Fundraising	6,615	6,783
Total	<u>\$ 43,066</u>	<u>\$ 47,484</u>

Note 9 - Lease commitments and contingencies

Leases

CA leases its facilities under a noncancelable lease through March 2026. The minimum annual rentals under these leases are being charged to expense on a straight-line basis over the lease terms. Future minimum lease obligations under this agreement in the five years subsequent to June 30, 2021 and thereafter are as follows:

2022	\$ 246,936
2023	202,786
2024	200,400
2025	207,420
2026	159,615
Thereafter	<u>-</u>
Total	<u>\$ 1,017,157</u>

Rent expense, including common area maintenance, for the years ended June 30, 2021 and 2020 was \$320,510 and \$293,584, respectively. Deferred rent represents the excess of recognized rent expense over scheduled lease payments.

COVID-19

In December 2019 and early 2020, the coronavirus that causes COVID-19 was reported to have surfaced in China. The spread of the virus globally including in early 2020 has caused business disruption domestically in the United States, the area in which the Organization primarily operates. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of this uncertainty. Therefore, while the Organization expects this matter to negatively impact the Organization's financial condition, results of operations, or cash flows, the extent of the financial impact duration cannot be reasonably estimated at this time.

Note 10 - Retirement plan

The Organization sponsors a 401(k) retirement plan which covers employees age 21 or older. Employees may defer salaries into the plan up to the maximum allowed by the Internal Revenue Code. For the years ended June 30, 2021 and 2020, the Organization contributed \$97,272 and \$105,334, respectively.

Catholic Answers, Inc.

**Notes to Financial Statements
June 30, 2021 and 2020**

Note 11 - Incentive plan

CA has an incentive plan, which provides bonuses to employees based upon profits, hours worked, and other criteria. CA has reserved the right to amend or terminate this plan at any time. There was incentive plan expense of \$9,795 and \$13,499 for the years ended June 30, 2021 and 2020, respectively.



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