

Catholic Answers, Inc.
**Financial Statements
and Independent Auditor's Report**
June 30, 2019 and 2018

Catholic Answers, Inc.

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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, 2019 and 2018, and the related statements of activities and cash flows for the years then ended, and the related functional expenses for the year then ended June 30, 2019 (with summarized financial information for 2018), 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, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



San Diego, California
November 20, 2019

Catholic Answers, Inc.
Statements of Financial Position
June 30, 2019 and 2018

<u>Assets</u>		
	2019	2018
Current assets		
Cash and cash equivalents	\$ 1,247,174	\$ 1,341,673
Accounts receivable, less allowance for doubtful accounts of \$8,992 and \$6,742	171,443	126,479
Other receivables	-	199,529
Inventories	375,401	413,168
Investments	715,000	710,000
Prepaid expenses and other current assets	263,373	135,125
Total current assets	2,772,391	2,925,974
Property and equipment, net	380,624	325,080
Deposits and other assets	43,519	14,150
Total	\$ 3,196,534	\$ 3,265,204
<u>Liabilities and Net Assets</u>		
Current liabilities		
Accounts payable	\$ 290,887	\$ 305,314
Accrued expenses	406,784	377,330
Deferred revenue, current portion	360,429	292,970
Total current liabilities	1,058,100	975,614
Deferred revenue, net of current portion	54,013	67,290
Deferred rent	54,826	75,697
Total liabilities	1,166,939	1,118,601
Commitments		
Net assets		
Without donor restrictions		
Undesignated	1,832,473	2,052,051
Total net assets without donor restrictions	1,832,473	2,052,051
With donor restrictions		
Restricted by purpose or time	197,122	94,552
Total net assets with donor restrictions	197,122	94,552
Total net assets	2,029,595	2,146,603
Total liabilities and net assets	\$ 3,196,534	\$ 3,265,204

See Notes to Financial Statements.

Catholic Answers, Inc.

**Statements of Activities
Years Ended June 30, 2019 and 2018**

	2019	2018
Change in net assets without donor restrictions		
Unrestricted revenue and support		
Contributions	\$ 5,624,806	\$ 5,723,636
Program related revenue	1,800,491	1,972,097
Mailing list revenue, net of direct costs of \$25,023 and \$52,789	28,256	18,881
Sponsorships	77,357	42,182
Event revenue	379,634	909,766
Interest income	13,946	1,124
Net assets released from donor restrictions	174,437	26,842
Total revenues and support without donor restrictions	8,098,927	8,694,528
Expenses		
Program expenses		
Product development and sales	2,486,097	2,532,602
Special projects	278,325	94,641
Events	585,162	1,027,329
Radio and television	1,141,611	919,030
Apologetics and evangelization	683,925	636,213
Magazine	319,071	323,688
Website	570,791	458,870
Total program expenses	6,064,982	5,992,373
Supporting services		
Management and general	456,391	444,573
Fundraising	1,797,132	1,803,356
Total supporting services	2,253,523	2,247,929
Total expenses	8,318,505	8,240,302
Change in net assets without donor restrictions	(219,578)	454,226
Change in net assets with donor restrictions		
Contributions	277,007	65,956
Net assets released from donor restrictions	(174,437)	(26,842)
Change in net assets with donor restrictions	102,570	39,114
Change in net assets	(117,008)	493,340
Net assets, beginning	2,146,603	1,653,263
Net assets, end	\$ 2,029,595	\$ 2,146,603

See Notes to Financial Statements.

Catholic Answers, Inc.

**Statements of Functional Expenses
Year Ended June 30, 2019
(With Summarized Financial Information for 2018)**

	Program services	Supporting services		Total support services	Total expenses	
		Management and general	Fundraising		2019	2018
Expenses						
Personnel costs						
Salaries and wages	\$ 2,481,098	\$ 240,361	\$ 633,894	\$ 874,255	\$ 3,355,353	\$ 3,138,030
Payroll taxes and other	187,193	45,078	50,340	95,418	282,611	246,503
Health and retirement	557,950	54,340	147,331	201,671	759,621	732,711
Total personnel costs	3,226,241	339,779	831,565	1,171,344	4,397,585	4,117,244
Travel and event venue	281,502	1,590	29,145	30,735	312,237	720,377
Occupancy	198,945	14,790	53,144	67,934	266,879	262,169
Office expenses	182,892	17,644	37,653	55,297	238,189	225,871
Professional services	553,279	70,520	112,295	182,815	736,094	612,440
Depreciation	93,771	9,218	25,122	34,340	128,111	116,172
Selling and fundraising	1,359,259	260	678,389	678,649	2,037,908	2,031,741
Information technology	169,093	2,590	29,819	32,409	201,502	154,288
Total program and supporting services including depreciation	\$ 6,064,982	\$ 456,391	\$ 1,797,132	\$ 2,253,523	\$ 8,318,505	\$ 8,240,302

See Notes to Financial Statements.

Catholic Answers, Inc.
Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	2019	2018
Operating activities		
Change in net assets	\$ (117,008)	\$ 493,340
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Bad debt expense	5,367	12
Depreciation and amortization	128,111	116,174
Change in operating assets and liabilities		
Accounts receivable	(50,331)	2,416
Inventories	37,767	(4,361)
Contributions receivable	-	-
Other receivables	199,529	(114,587)
Prepaid expenses and other current assets	(128,248)	80,156
Deposits and other assets	(29,369)	-
Accounts payable	(14,427)	21,169
Accrued expenses	29,454	9,341
Deferred revenue	54,182	38,334
Deferred rent	(20,871)	(13,268)
	94,156	628,726
Net cash provided by operating activities		
Investing activities		
Purchases of property and equipment	(183,655)	(137,224)
Purchases of investments	(5,000)	(710,000)
	(188,655)	(847,224)
Net cash used in investing activities		
Net decrease in cash and cash equivalents	(94,499)	(218,498)
Cash and cash equivalents, beginning	1,341,673	1,560,171
Cash and cash equivalents, end	\$ 1,247,174	\$ 1,341,673

See Notes to Financial Statements.

Catholic Answers, Inc.

Notes to Financial Statements June 30, 2019 and 2018

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 non-profit 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 2016 and 2015, 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, 2019.

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, 2019 and 2018

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 recognized when conditions are substantially met.

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 classifies investments as held-to-maturity as the Organization has the intent and ability to hold these investments to maturity. Held-to-maturity investments are reported at amortized cost with interest income and dividends recognized in income on an accrual basis. Premiums and discounts are amortized to interest income using the interest method. Investments are classified as current based on the timing of their maturities.

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.

Advertising

Advertising costs are expensed as incurred. For the years ended June 30, 2019 and 2018, advertising costs of \$318,977 and \$165,327, respectively, were allocated to various expense categories.

Catholic Answers, Inc.

Notes to Financial Statements June 30, 2019 and 2018

Shipping and handling

Costs for shipping and handling were allocated to program expenses in the "Product development and sales" category and were \$166,954 and \$204,576 for the years ended June 30, 2019 and 2018, 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, 2019 and 2018, no amounts were reflected in the financial statements for those services as the requirements for recognition were not met.

Reclassifications

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

Subsequent event

Subsequent events have been evaluated through November 20, 2019, which is the date the financial statements were available to be issued.

Adoption of new accounting pronouncement

For the year ended June 30, 2019, the Organization has adopted the Financial Accounting Standards Board's Accounting Standards Update ("ASU") No. 2016-14 - *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The update addressed the complexity and understandability of net asset clarification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return between not-for-profit entities. The changes required by the update have been applied retrospectively to all periods presented. A key change required by ASU 2016-14 are the net assets used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions, and amounts previously reported as temporarily restricted net assets and permanently restricted net assets are now reported as net assets with donor restrictions.

Catholic Answers, Inc.

**Notes to Financial Statements
June 30, 2019 and 2018**

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 \$1,058,000 at June 30, 2019. 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 two major vendors that represented approximately 14% and 10%, respectively, of the Organization's purchases during the year ended June 30, 2019. At June 30, 2019, the Organization's payables to the two major vendors were approximately 16% and 0% of total accounts payable, respectively.

The Organization had two major vendors that represented approximately 17% and 10% of the Organization's purchases during the year ended June 30, 2018. At June 30, 2018, the Organization's payables to the two major vendors were approximately 22% and 0% of total accounts payable.

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:

Cash and cash equivalents	\$ 1,247,174
Accounts receivable, net	171,443
Investments not encumbered by donor or board restrictions	<u>715,000</u>
	<u>\$ 2,133,617</u>

As part of our liquidity management plan, we invest cash in excess of daily requirements in CD's or other short-term investments. Occasionally, the board designates a portion of any operating surplus to the organization's operating reserve, which was \$1,000,000 as of June 30, 2019.

Note 4 - Net assets with donor restrictions

Net assets with donor restrictions are restricted for the following purposes as of June 30, 2019:

Subject to expenditure for specific purpose	
Catholic Answers Magazine for seminarians	\$ 22,494
School of Apologetics	111,638
Counter Culture film	30,000
Pamphlets for parishes	9,740
Chapel project	<u>23,250</u>
	<u>\$ 197,122</u>

Catholic Answers, Inc.

**Notes to Financial Statements
June 30, 2019 and 2018**

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 year ended June 30, 2019:

Purpose or period restrictions accomplished	
Catholic Answers Magazine for seminarians	\$ 23,318
School of Apologetics	140,119
Video Expansion Project	10,000
Chapel project	<u>1,000</u>
	<u>\$ 174,437</u>

Net assets with donor restrictions are restricted for the following purposes as of June 30, 2018:

Subject to expenditure for specific purpose	
Catholic Answers Magazine for seminarians	\$ 20,812
Video Expansion Project	10,000
Counter Culture film	30,000
Pamphlets for parishes	9,740
Chapel project	<u>24,000</u>
	<u>\$ 94,552</u>

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 year ended June 30, 2019:

Purpose or period restrictions accomplished	
Catholic Answers Magazine for seminarians	\$ 14,050
Video Expansion Project	9,792
Chapel project	<u>3,000</u>
	<u>\$ 26,842</u>

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.

Catholic Answers, Inc.

**Notes to Financial Statements
June 30, 2019 and 2018**

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 certificates of deposit and other interest-bearing securities held during the year ended June 30, 2019 and 2018, which is included in interest income in the statements of activities, totaled \$13,946 and \$1,124, respectively.

Financial assets carried at fair value at June 30, 2019 are classified in the tables below in one of the three categories described above:

	Level 1	Level 2	Level 3	Total
Certificates of deposit	\$ -	\$ 715,000	\$ -	\$ 715,000
Total	\$ -	\$ 715,000	\$ -	\$ 715,000

Certificates of deposit ("CDs") have been classified according to management's intent. All CDs with a maturity of 12 months or less are classified as current on the consolidated balance sheet. The amortized cost of the CDs and their approximate fair values are as follows:

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Certificates of deposit	\$ 715,000	\$ 1,174	\$ -	\$ 716,174
	\$ 715,000	\$ 1,174	\$ -	\$ 716,174

Financial assets carried at fair value at June 30, 2018 are classified in the tables below in one of the three categories described above:

	Level 1	Level 2	Level 3	Total
Certificates of deposit	\$ -	\$ 710,000	\$ -	\$ 710,000
Total	\$ -	\$ 710,000	\$ -	\$ 710,000

Certificates of deposit ("CDs") have been classified according to management's intent. All CDs with a maturity of 12 months or less are classified as current on the consolidated balance sheet. The amortized cost of the CDs and their approximate fair values are as follows:

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Certificates of deposit	\$ 710,000	\$ -	\$ (1,144)	\$ 708,856
	\$ 710,000	\$ -	\$ (1,144)	\$ 708,856

Catholic Answers, Inc.

**Notes to Financial Statements
June 30, 2019 and 2018**

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 Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

At June 30, 2019, the CDs with unrealized gains have appreciated 0.16% from the amortized cost basis. As management has the ability to hold debt securities until maturity, no declines are deemed to be other-than-temporary.

Note 6 - Property and equipment

Property and equipment consist of the following:

	<u>2019</u>	<u>2018</u>
Software and equipment	\$ 101,145	\$ 101,144
Leasehold improvements	409,042	398,163
Computers and peripherals	450,170	315,395
Furniture and fixtures	<u>211,220</u>	<u>173,220</u>
	1,171,577	987,922
Less accumulated depreciation and amortization	<u>790,953</u>	<u>662,842</u>
Total	<u><u>\$ 380,624</u></u>	<u><u>\$ 325,080</u></u>

Depreciation and amortization expense was \$128,111 and \$116,172 for the years ended June 30, 2019 and 2018, respectively.

Note 7 - 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, 2019 and 2018 include \$51,460 and \$53,188, 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>2019</u>	<u>2018</u>
Program expenses - special projects	\$ 44,903	\$ 42,200
Fundraising	<u>6,557</u>	<u>10,988</u>
Total	<u><u>\$ 51,460</u></u>	<u><u>\$ 53,188</u></u>

Catholic Answers, Inc.

**Notes to Financial Statements
June 30, 2019 and 2018**

Note 8 - Rental expense and lease commitment

CA leases its facilities under a noncancelable lease through March 2021. 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 each of the two years subsequent to June 30, 2019 are as follows:

2020	\$	232,536
2021		<u>178,938</u>
Total	\$	<u><u>411,474</u></u>

Rent expense, including common area maintenance, for the years ended June 30, 2019 and 2018 was \$272,962 and \$270,232, respectively. Deferred rent represents the excess of recognized rent expense over scheduled lease payments.

Note 9 - 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, 2019 and 2018, the Organization contributed \$93,751 and \$87,550, respectively.

Note 10 - 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 \$50,003 and \$11,003 for the years ended June 30, 2019 and 2018, respectively.



Independent Member of Nexia International

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