



Catholic Answers, Inc.
**Financial Statements
and Independent Auditor's Report**
June 30, 2017 and 2016

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, 2017 and 2016, and the related statements of activities 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, 2017 and 2016, 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 27, 2017

Catholic Answers, Inc.
Statements of Financial Position
June 30, 2017 and 2016

	<u>Assets</u>	
	2017	2016
Current assets		
Cash and cash equivalents	\$ 1,560,171	\$ 1,540,970
Accounts receivable, less allowance for doubtful accounts of \$6,781 and \$6,784	128,907	128,897
Contributions receivable	-	20,849
Other receivables	84,942	-
Inventories	408,807	387,428
Prepaid expenses and other current assets	215,281	129,231
	2,398,108	2,207,375
Property and equipment, net	304,030	301,676
Deposits and other assets	14,150	14,150
	\$ 2,716,288	\$ 2,523,201
	2,716,288	2,523,201
	<u>Liabilities and Net Assets</u>	
Current liabilities		
Accounts payable	\$ 284,145	\$ 205,111
Accrued expenses	367,989	338,215
Deferred revenue, current portion	250,515	209,277
	902,649	752,603
Deferred revenue, net of current portion	71,411	14,004
Deferred rent	88,965	94,896
	1,063,025	861,503
Commitments		
Net assets		
Unrestricted	1,597,825	1,368,973
Temporarily restricted	55,438	292,725
	1,653,263	1,661,698
Total	\$ 2,716,288	\$ 2,523,201
	2,716,288	2,523,201

See Notes to Financial Statements.

Catholic Answers, Inc.
Statements of Activities
Years Ended June 30, 2017 and 2016

	2017	2016
Changes in unrestricted net assets		
Unrestricted revenue and support		
Contributions	\$ 5,248,572	\$ 4,649,341
Program related revenue	1,865,844	1,846,373
Mailing list revenue, net of direct costs of \$60,241 and \$106,604	6,895	44,775
Sponsorships	41,222	45,308
Event revenue, net of costs of direct benefit to donors of \$72,935 and \$36,979	214,420	299,397
Net assets released from donor restrictions	267,027	261,998
Total unrestricted revenue and support	7,643,980	7,147,192
Expenses		
Program expenses		
Product development and sales	2,382,839	2,656,262
Special projects	473,785	629,544
Radio and television	872,133	601,154
Apologetics and evangelization	603,504	595,034
Magazine	359,162	401,136
Website	462,433	436,032
Total program expenses	5,153,856	5,319,162
Supporting services		
Management and general	429,988	417,375
Fundraising	1,831,284	1,674,240
Total supporting services	2,261,272	2,091,615
Total expenses	7,415,128	7,410,777
Change in unrestricted net assets	228,852	(263,585)
Change in temporarily restricted net assets		
Contributions	29,740	396,745
Net assets released from donor restrictions	(267,027)	(261,998)
Change in temporarily restricted net assets	(237,287)	134,747
Change in net assets	(8,435)	(128,838)
Net assets, beginning	1,661,698	1,790,536
Net assets, end	\$ 1,653,263	\$ 1,661,698

See Notes to Financial Statements.

Catholic Answers, Inc.
Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	2017	2016
Operating activities		
Change in net assets	\$ (8,435)	\$ (128,838)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Bad debt expense	2,844	405
Depreciation and amortization	98,086	59,154
Change in operating assets and liabilities		
Accounts receivable	(2,854)	18,504
Inventories	20,849	(67,559)
Contributions receivable	(21,379)	454,551
Other receivables	(84,942)	-
Prepaid expenses and other current assets	(86,050)	40,256
Accounts payable	79,034	(39,186)
Accrued expenses	29,774	(83,054)
Deferred revenue	98,645	(36,798)
Deferred rent	(5,931)	37,161
	119,641	254,596
Net cash provided by operating activities		
Investing activities		
Purchases of property and equipment	(100,440)	(269,110)
	(100,440)	(269,110)
Net cash used in investing activities		
Net increase (decrease) in cash and cash equivalents	19,201	(14,514)
Cash and cash equivalents, beginning	1,540,970	1,555,484
Cash and cash equivalents, end	\$ 1,560,171	\$ 1,540,970

See Notes to Financial Statements.

Catholic Answers, Inc.

Notes to Financial Statements June 30, 2017 and 2016

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 income tax returns for CA prior to fiscal years 2013 and 2012, 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

Net assets are classified as unrestricted, temporarily restricted and permanently restricted based on the following criteria:

Unrestricted net assets represent expendable funds available for operations, which are not otherwise limited by donor restrictions.

Temporarily restricted net assets consist of contributed funds, subject to specific donor-imposed restrictions, contingent upon specific performance of a future event or a specific passage of time before the Organization may spend the funds. At June 30, 2017, the Organization had \$55,438 of temporarily restricted net assets, \$15,906 used for Catholic Answers Magazine for seminarians, \$9,792 for the video expansion project, \$20,000 for the Counter Culture film, and \$9,740 used for pamphlets for parishes. At June 30, 2016, the Organization had \$292,725 of temporarily restricted net assets, \$46,850 used for Catholic Answers Magazine for seminarians, \$10,000 used for pamphlets for parishes, and \$235,875 for the video studio expansion.

Permanently restricted net assets are subject to irrevocable donor restrictions, requiring the assets be maintained in perpetuity, usually for the purpose of generating investment income to fund current operations. At June 30, 2017 and 2016, the Organization had no permanently restricted net assets.

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 temporarily restricted revenues. Temporarily restricted net assets are reclassified to unrestricted net assets when the donor restrictions are satisfied. Contributions received with donor-imposed restrictions that are satisfied within the same reporting period are reported as unrestricted support in that period. The

Catholic Answers, Inc.

**Notes to Financial Statements
June 30, 2017 and 2016**

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.

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, 2017 and 2016, advertising costs of \$143,860 and \$165,280, 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 \$180,912 and \$160,589 for the years ended June 30, 2017 and 2016, respectively.

Functional allocation of expense

The expenses of the Organization have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the various programs and supporting services benefited.

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**Notes to Financial Statements
June 30, 2017 and 2016**

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, 2017 and 2016, no amounts were reflected in the financial statements for those services as the requirements for recognition were not met.

Subsequent event

Subsequent events have been evaluated through November 27, 2017, which is the date the financial statements were available to be issued.

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 \$1,259,000 at June 30, 2017. 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

As of and for the years ended June 30, 2017 and 2016, the Organization had one major vendor that accounted for 17% and 15%, respectively, of the Organization's purchases. At June 30, 2017 and 2016, the Organization's payables to the major vendor were 19% and 32% of total accounts payable, respectively.

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**Notes to Financial Statements
June 30, 2017 and 2016**

Note 3 - Property and equipment

Property and equipment consist of the following:

	2017	2016
Software and equipment	\$ 101,144	\$ 101,144
Leasehold improvements	396,562	379,510
Computers and peripherals	179,772	159,100
Furniture and fixtures	173,220	110,504
	850,698	750,258
Less accumulated depreciation and amortization	546,668	448,582
Total	\$ 304,030	\$ 301,676

Depreciation and amortization expense was \$98,086 and \$59,154 for the years ended June 30, 2017 and 2016, respectively.

Note 4 - Allocation of costs of activities that include fundraising

CA 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, 2017 and 2016 include \$60,247 and \$51,281, 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:

	2017	2016
Program expenses - special projects	\$ 50,342	\$ 43,774
Fundraising	9,905	7,507
Total	\$ 60,247	\$ 51,281

Note 5 - 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 four years subsequent to June 30, 2017 are as follows:

2018	\$	217,068
2019		224,670
2020		232,536
2021		178,938
Total	\$	853,212

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**Notes to Financial Statements
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Rent expense, including common area maintenance, for the years ended June 30, 2017 and 2016 was \$272,442 and \$258,717, respectively. Deferred rent represents the excess of recognized rent expense over scheduled lease payments.

Note 6 - 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, 2017 and 2016, the Organization contributed \$82,238 and \$79,767, respectively.

Note 7 - 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 \$50,000 and \$51,250 for the years ended June 30, 2017 and 2016, respectively.

Note 8 - Contributions receivable

The Organization was the beneficiary of assets held in two irrevocable split-interest agreement trusts, for which the Organization was not the trustee, as of June 30, 2016. The assets of the trusts are recorded at fair value, and the remainder interest was based on the Organization's share of the account balance at June 30, 2017 and 2016.

The Organization had receivables of approximately \$0 and \$16,000 from two estates administered by a third party trustee as of June 30, 2017 and 2016, respectively. The estates terminated upon the death of the donors between August 2013 and August 2015, at which time the remainders of the estates were due to charitable beneficiaries. The Organization's share in the estates ranged from 6.5% to 50% of the fair value of the estates. The remaining trust assets have been fully liquidated and were distributed by the trustees during the year ended June 30, 2017.

The portion of the estates attributable to the fair value of the future benefits to be received by the Organization was reflected in the statement of financial position as of June 30, 2016. Contribution revenue received from the estates totaled approximately \$459,000 for the year ended June 30, 2016, and was reflected in the statement of activities. There was no change in the value of split-interest agreements for the year ended June 30, 2016.

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