

Independent Auditors' Reports as Required by Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and Government Auditing Standards* and Related Information

SALESIAN MISSIONS, INC.

December 31, 2017 and 2016

SALESIAN MISSIONS, INC.

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Trustees of
Salesian Missions, Inc.:

We have audited the accompanying financial statements of Salesian Missions, Inc. (the “Organization”), which comprise the statements of financial position as of December 31, 2017 and 2016, 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 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 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 Organization’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 Organization’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 Salesian Missions, Inc. as of December 31, 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.

Other matters

Supplementary information

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

Other reporting required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report, dated August 17, 2018, on our consideration of the Organization'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 the effectiveness of 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 Organization's internal control over financial reporting and compliance.



New York, New York
August 17, 2018

SALESIAN MISSIONS, INC.
Statements of Financial Position
As of December 31, 2017 and 2016

| | <u>2017</u> | <u>2016</u> |
|--|----------------------|----------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 3,989,347 | \$ 4,495,391 |
| Investments | 35,231,917 | 32,067,053 |
| Bequests, contributions and other receivables, net | 764,245 | 1,491,854 |
| Inventory, net | 1,053,718 | 1,152,600 |
| In-kind inventory | 140,266 | 2,755,112 |
| Prepaid expenses and other current assets | 1,696,954 | 1,727,361 |
| Assets held for others | <u>139,186</u> | <u>1,451,696</u> |
| Total current assets | 43,015,633 | 45,141,067 |
| Contributions and other receivable, net | 637,031 | 805,648 |
| Other non-current assets | 384,882 | 327,860 |
| Building and equipment, net | 665,502 | 753,889 |
| Beneficial interest in third-party trusts | <u>45,953,734</u> | <u>39,483,132</u> |
| Total assets | <u>\$ 90,656,782</u> | <u>\$ 86,511,596</u> |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Accounts payable and accrued expenses | \$ 1,112,321 | \$ 1,187,926 |
| Deferred revenue | 95,169 | 114,044 |
| Current portion of annuity obligations | 572,750 | 584,621 |
| Due to others | <u>139,186</u> | <u>1,451,696</u> |
| Total current liabilities | 1,919,426 | 3,338,287 |
| Annuity obligations | 4,682,475 | 5,025,900 |
| Line of credit | <u>634,431</u> | <u>978,648</u> |
| Total liabilities | <u>7,236,332</u> | <u>9,342,835</u> |
| Commitments | | |
| NET ASSETS | | |
| Unrestricted | 22,872,504 | 22,308,242 |
| Temporarily restricted | 8,155,182 | 10,222,250 |
| Permanently restricted | <u>52,392,764</u> | <u>44,638,269</u> |
| Total net assets | <u>83,420,450</u> | <u>77,168,761</u> |
| Total liabilities and net assets | <u>\$ 90,656,782</u> | <u>\$ 86,511,596</u> |

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

SALESIAN MISSIONS, INC.
Statement of Activities
For the year ended December 31, 2017

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|----------------------|-----------------------------------|-----------------------------------|----------------------|
| REVENUES, GAINS AND OTHER SUPPORT | | | | |
| Contributions | \$ 27,530,906 | \$ 3,353,474 | \$ 1,311,134 | \$ 32,195,514 |
| Government grants | 609,502 | - | - | 609,502 |
| In-kind contributions and grants | 10,884,501 | - | - | 10,884,501 |
| Investment income | 2,640,379 | 1,455,331 | - | 4,095,710 |
| Other income | 424,047 | - | - | 424,047 |
| Change in value of split interest agreements | (137,230) | - | 6,443,361 | 6,306,131 |
| Net assets released from restrictions | <u>6,875,873</u> | <u>(6,875,873)</u> | <u>-</u> | <u>-</u> |
| Total revenues, gains and other support | <u>48,827,978</u> | <u>(2,067,068)</u> | <u>7,754,495</u> | <u>54,515,405</u> |
| EXPENSES | | | | |
| Program services: | | | | |
| Mission support | 24,994,689 | - | - | 24,994,689 |
| Religious ministries | 14,807,407 | - | - | 14,807,407 |
| Government programs | <u>653,502</u> | <u>-</u> | <u>-</u> | <u>653,502</u> |
| Total program services | <u>40,455,598</u> | <u>-</u> | <u>-</u> | <u>40,455,598</u> |
| Support services: | | | | |
| Management and general | 2,901,638 | - | - | 2,901,638 |
| Fundraising | <u>4,906,480</u> | <u>-</u> | <u>-</u> | <u>4,906,480</u> |
| Total support services | <u>7,808,118</u> | <u>-</u> | <u>-</u> | <u>7,808,118</u> |
| Total operating expenses | <u>48,263,716</u> | <u>-</u> | <u>-</u> | <u>48,263,716</u> |
| Change in net assets | <u>564,262</u> | <u>(2,067,068)</u> | <u>7,754,495</u> | <u>6,251,689</u> |
| Net assets, beginning of year | <u>22,308,242</u> | <u>10,222,250</u> | <u>44,638,269</u> | <u>77,168,761</u> |
| Net assets, end of year | <u>\$ 22,872,504</u> | <u>\$ 8,155,182</u> | <u>\$ 52,392,764</u> | <u>\$ 83,420,450</u> |

The accompanying notes are an integral part of this financial statement.

SALESIAN MISSIONS, INC.
Statement of Activities
For the year ended December 31, 2016

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|----------------------|-----------------------------------|-----------------------------------|----------------------|
| REVENUES, GAINS AND OTHER SUPPORT | | | | |
| Contributions | \$ 27,554,482 | \$ 7,783,988 | \$ 3,667,369 | \$ 39,005,839 |
| Government grants | 484,784 | - | - | 484,784 |
| In-kind contributions and grants | 10,190,530 | - | - | 10,190,530 |
| Investment income | 1,538,673 | 423,060 | - | 1,961,733 |
| Other income | 454,560 | - | - | 454,560 |
| Change in value of split interest agreements | (405,335) | - | (2,256,650) | (2,661,985) |
| Net assets released from restrictions | <u>6,630,271</u> | <u>(6,630,271)</u> | <u>-</u> | <u>-</u> |
| Total revenues, gains and other support | <u>46,447,965</u> | <u>1,576,777</u> | <u>1,410,719</u> | <u>49,435,461</u> |
| EXPENSES | | | | |
| Program services: | | | | |
| Mission support | 19,363,692 | - | - | 19,363,692 |
| Religious ministries | 14,993,809 | - | - | 14,993,809 |
| Government programs | <u>490,275</u> | <u>-</u> | <u>-</u> | <u>490,275</u> |
| Total program services | <u>34,847,776</u> | <u>-</u> | <u>-</u> | <u>34,847,776</u> |
| Support services: | | | | |
| Management and general | 3,058,491 | - | - | 3,058,491 |
| Fundraising | <u>4,328,971</u> | <u>-</u> | <u>-</u> | <u>4,328,971</u> |
| Total support services | <u>7,387,462</u> | <u>-</u> | <u>-</u> | <u>7,387,462</u> |
| Total operating expenses | <u>42,235,238</u> | <u>-</u> | <u>-</u> | <u>42,235,238</u> |
| Change in net assets | <u>4,212,727</u> | <u>1,576,777</u> | <u>1,410,719</u> | <u>7,200,223</u> |
| Net assets, beginning of year | <u>18,095,515</u> | <u>8,645,473</u> | <u>43,227,550</u> | <u>69,968,538</u> |
| Net assets, end of year | <u>\$ 22,308,242</u> | <u>\$ 10,222,250</u> | <u>\$ 44,638,269</u> | <u>\$ 77,168,761</u> |

The accompanying notes are an integral part of this financial statement.

SALESIAN MISSIONS, INC.
Statement of Functional Expenses
For the year ended December 31, 2017

| | Program Services | | | | Support Services | | | |
|-----------------------------------|----------------------|----------------------|---------------------|----------------------|------------------------|---------------------|---------------------|----------------------|
| | Mission Support | Religious Ministries | Government Programs | Total | Management and General | Fundraising | Total | Total |
| Salaries | \$ 911,380 | \$ 932,988 | \$ 115,517 | \$ 1,959,885 | \$ 1,596,877 | \$ 487,114 | \$ 2,083,991 | \$ 4,043,876 |
| Payroll taxes and fringe benefits | <u>207,739</u> | <u>212,664</u> | <u>26,331</u> | <u>446,734</u> | <u>363,991</u> | <u>111,032</u> | <u>475,023</u> | <u>921,757</u> |
| | 1,119,119 | 1,145,652 | 141,848 | 2,406,619 | 1,960,868 | 598,146 | 2,559,014 | 4,965,633 |
| Distributions to missions | 6,909,656 | 600,261 | 471,370 | 7,981,287 | - | - | - | 7,981,287 |
| In-kind distribution to missions | 13,499,559 | - | - | 13,499,559 | - | - | - | 13,499,559 |
| Direct mail costs | 2,402,457 | 12,766,697 | - | 15,169,154 | 179,024 | 2,948,768 | 3,127,792 | 18,296,946 |
| Professional fees | 694,460 | 158,921 | 18,437 | 871,818 | 520,453 | 900,782 | 1,421,235 | 2,293,053 |
| Supplies and materials | 7,923 | 36,699 | 2,188 | 46,810 | 7,888 | 8,081 | 15,969 | 62,779 |
| Travel and communications | 54,324 | 4,097 | 12,382 | 70,803 | 16,654 | 4,097 | 20,751 | 91,554 |
| Office and occupancy expense | <u>274,074</u> | <u>62,719</u> | <u>7,277</u> | <u>344,070</u> | <u>205,399</u> | <u>355,501</u> | <u>560,900</u> | <u>904,970</u> |
| | 24,961,572 | 14,775,046 | 653,502 | 40,390,120 | 2,890,286 | 4,815,375 | 7,705,661 | 48,095,781 |
| Depreciation | <u>33,117</u> | <u>32,361</u> | <u>-</u> | <u>65,478</u> | <u>11,352</u> | <u>91,105</u> | <u>102,457</u> | <u>167,935</u> |
| | <u>\$ 24,994,689</u> | <u>\$ 14,807,407</u> | <u>\$ 653,502</u> | <u>\$ 40,455,598</u> | <u>\$ 2,901,638</u> | <u>\$ 4,906,480</u> | <u>\$ 7,808,118</u> | <u>\$ 48,263,716</u> |

The accompanying notes are an integral part of this financial statement.

SALESIAN MISSIONS, INC.
Statement of Functional Expenses
For the year ended December 31, 2016

| | Program Services | | | | Support Services | | | |
|-----------------------------------|----------------------|----------------------|---------------------|----------------------|------------------------|---------------------|---------------------|----------------------|
| | Mission Support | Religious Ministries | Government Programs | Total | Management and General | Fundraising | Total | Total |
| Salaries | \$ 874,981 | \$ 895,726 | \$ 110,904 | \$ 1,881,611 | \$ 1,533,101 | \$ 467,660 | \$ 2,000,761 | \$ 3,882,372 |
| Payroll taxes and fringe benefits | 191,537 | 196,078 | 24,277 | 411,892 | 335,602 | 102,373 | 437,975 | 849,867 |
| | 1,066,518 | 1,091,804 | 135,181 | 2,293,503 | 1,868,703 | 570,033 | 2,438,736 | 4,732,239 |
| Distributions to missions | 7,455,759 | 612,635 | 306,429 | 8,374,823 | - | - | - | 8,374,823 |
| In-kind distribution to missions | 7,562,648 | - | - | 7,562,648 | - | - | - | 7,562,648 |
| Direct mail costs | 2,411,193 | 12,859,184 | - | 15,270,377 | 180,970 | 2,933,127 | 3,114,097 | 18,384,474 |
| Professional fees | 557,194 | 184,024 | 18,666 | 759,884 | 543,055 | 636,616 | 1,179,671 | 1,939,555 |
| Supplies and materials | 8,304 | 38,467 | 2,293 | 49,064 | 8,268 | 8,471 | 16,739 | 65,803 |
| Travel and communications | 60,592 | 4,570 | 13,810 | 78,972 | 18,575 | 4,570 | 23,145 | 102,117 |
| Office and occupancy expense | 207,471 | 169,889 | 13,896 | 391,256 | 427,260 | 82,584 | 509,844 | 901,100 |
| | 19,329,679 | 14,960,573 | 490,275 | 34,780,527 | 3,046,831 | 4,235,401 | 7,282,232 | 42,062,759 |
| Depreciation | 34,013 | 33,236 | - | 67,249 | 11,660 | 93,570 | 105,230 | 172,479 |
| | <u>\$ 19,363,692</u> | <u>\$ 14,993,809</u> | <u>\$ 490,275</u> | <u>\$ 34,847,776</u> | <u>\$ 3,058,491</u> | <u>\$ 4,328,971</u> | <u>\$ 7,387,462</u> | <u>\$ 42,235,238</u> |

The accompanying notes are an integral part of this financial statement.

SALESIAN MISSIONS, INC.
Statements of Cash Flows
For the years ended December 31, 2017 and 2016

| | <u>2017</u> | <u>2016</u> |
|--|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ 6,251,689 | \$ 7,200,223 |
| Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities | | |
| Depreciation | 167,935 | 172,479 |
| Net unrealized and realized gain on investments | (3,468,769) | (1,418,197) |
| Contributions restricted for long-term investment | (1,311,134) | (3,667,369) |
| Change in inventory reserve | 8,000 | 22,000 |
| Changes in operating assets and liabilities | | |
| Decrease (increase) in bequests, contributions and other receivables | 896,226 | (991,545) |
| Decrease (increase) in inventory | 2,705,728 | (2,577,392) |
| Increase in prepaid expenses and other assets | (26,615) | (510,578) |
| (Increase) decrease in beneficial interest in third-party trusts | (6,470,602) | 2,226,895 |
| Decrease in accounts payable and accrued expenses | (75,605) | (269,850) |
| (Decrease) increase in deferred revenue | (18,875) | 90,229 |
| Decrease in annuity obligations | <u>(355,296)</u> | <u>(148,065)</u> |
| Net cash (used in) provided by operating activities | <u>(1,697,318)</u> | <u>128,830</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of equipment | (79,548) | (76,475) |
| Sale of investments | 13,489,913 | 5,316,910 |
| Purchase of investments | <u>(13,186,008)</u> | <u>(10,755,991)</u> |
| Net cash provided by (used in) investing activities | <u>224,357</u> | <u>(5,515,556)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from line of credit | - | 1,000,000 |
| Repayments of principal on line of credit | (344,217) | (21,352) |
| Contributions restricted for long-term investment | <u>1,311,134</u> | <u>3,667,369</u> |
| Net cash provided by financing activities | <u>966,917</u> | <u>4,646,017</u> |
| Decrease in cash and cash equivalents | (506,044) | (740,709) |
| Cash and cash equivalents, beginning of year | <u>4,495,391</u> | <u>5,236,100</u> |
| Cash and cash equivalents, end of year | <u>\$ 3,989,347</u> | <u>\$ 4,495,391</u> |
| Supplemental disclosure: | | |
| Cash paid for interest | <u>\$ 28,130</u> | <u>\$ 13,715</u> |

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

SALESIAN MISSIONS, INC.
Notes to Financial Statements
December 31, 2017 and 2016

1. NATURE OF ACTIVITIES

Salesian Missions, Inc. (the “Organization”) is the Mission Procure of the Salesian Society, Inc. in the United States. The Organization was incorporated in 2000 in the State of New York. Its purpose is to recruit and prepare vocations for the missions, to implement the religious and educational objectives of the Salesian Society and to support its missions in underdeveloped countries.

The Salesian Society, a Roman Catholic Religious Order, was founded in 1854 by John Bosco in Turin, Italy to serve the needs of disadvantaged youth. The Salesian Society, Inc. was incorporated in 1907 in the State of New York. Currently 34,000 Salesian Fathers, Brothers and Sisters work in 135 countries in orphanages, clinics, hospitals and schools that include vocational, technical, agricultural and academic schools and twenty-three colleges. Over two million children, of all races and creeds in third world countries, are welcomed into Salesian programs.

In a determination letter dated July 12, 2010, the Internal Revenue Service held that the agencies, instrumentalities and educational, charitable, and religious institutions operated, supervised, or controlled by, or in connection with the United States Conference of Catholic Bishops, its territories or possessions are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (the “Code”). Salesian Missions is a subordinate organization in the group exemption by virtue of its inclusion in “The Official Catholic Directory” which is updated annually. Accordingly, the Salesian Missions is exempt from income tax on revenues related to its charitable mission. The Organization has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) of the Code and qualifies for deductible contributions as provided in Section 170(b)(1)(A)(vi). Accordingly, the accompanying financial statements reflect no provision for income taxes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared under the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America (“US GAAP”) as applicable to not-for-profit organizations.

Net Assets

Net assets are classified based upon the existence or absence of donor-imposed restrictions, as follows:

Unrestricted - Net assets that are not subject to donor-imposed stipulations and, therefore, may be expended for any purpose in performing the primary objectives of the Organization.

Temporarily Restricted - net assets that are subject to donor-imposed stipulations that will be met by the actions of the Organization and/or the passage of time. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted - net assets that are subject to donor-imposed stipulations requiring the corpus of the gift to be retained in perpetuity. Generally, donors of such resources allow the use of income to be used for general or specific purposes.

SALESIAN MISSIONS, INC.
Notes to Financial Statements
December 31, 2017 and 2016

Cash and Cash Equivalents

Cash and cash equivalents include all monies in banks and highly liquid investments with original maturities of less than three months. The carrying value of cash and cash equivalents approximates fair value because of the short-term maturities of those financial instruments.

Investments

Investments in publicly traded debt and equity securities are recorded at fair value, generally determined on the basis of quoted market values. Purchases and sales of securities are reflected on a trade-date basis. Gains and losses on sales of securities are determined based on average cost and are recorded in the statement of activities in the period in which the securities are sold. Dividends and interest are recognized as earned.

Fair Value Measurements

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. As required by US GAAP for fair value measurement, the Organization uses a fair value hierarchy that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available.

Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The hierarchy is categorized into three levels based on the transparency of inputs as follows:

- Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the date of statements of financial position. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.
- Level 2 - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the date of the statements of financial position. The nature of these securities includes investments for which quoted prices are available but traded less frequently and investments that are fair valued using other securities, the parameters of which can be directly observed.
- Level 3 - Securities that have little to no pricing observability. These securities are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the Organization. The Organization considers observable data to be that

SALESIAN MISSIONS, INC.
Notes to Financial Statements
December 31, 2017 and 2016

market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the Organization's perceived risk of that instrument.

Inventory

Inventory consists of mailing and religious ministry supplies and are stated at the lower of cost or market using the first-in, first-out ("FIFO") method. In-kind inventory consists of equipment and supplies received from government and private sources that have not been distributed for program purposes at the date of the statements of financial position. They are reported as contributions at their estimated fair value on the date of receipt and reported as expenses when utilized. The Organization maintains a reserve for obsolete inventory based upon its ability to utilize such items for purposes of fulfilling its mission. At December 31, 2017 and 2016, the reserve for obsolete inventory was \$142,000 and \$134,000, respectively.

Building and Equipment

Acquisitions of property and equipment in excess of \$1,000 are capitalized. Property and equipment are stated at cost or, if donated, at the approximate fair value at date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, as follows:

| | |
|-----------------------------------|--------------|
| Buildings and improvements | 5 - 50 years |
| Furniture, fixtures and equipment | 5 - 10 years |
| Automobiles | 5 years |
| Software | 5 years |

Use of Estimates

The preparation of financial statements in conformity with US GAAP 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.

The most significant estimates relate to the valuation of beneficial interest in third-party trusts, valuation of annuity obligations, the determination of allowances on receivables and inventory balances as well as the useful lives assigned to the Organization's fixed assets. Actual results could differ from these estimates.

Revenue Recognition

Contributions are recorded as increases in unrestricted, temporarily restricted or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends and/or a 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. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Those expected to be collected in future years are recorded at the present value of their estimated future cash flows.

SALESIAN MISSIONS, INC.
Notes to Financial Statements
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Revenue from government grants are recognized when earned, that is, generally as the related costs are incurred under the grant or contract agreements. Amounts expended in excess of reimbursements are reported as government grants receivable. Amounts received in advance are reported as deferred revenue.

The carrying value of receivables has been reduced by an appropriate allowance for uncollectible accounts, based on historical collection experience and therefore approximates net realizable value. Receivables are written-off when deemed uncollectible.

Functional Allocation of Expenses

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

Income Taxes

Salesian Missions follows guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance provides that the tax effects from an uncertain tax position can only be recognized in the consolidated financial statements if the position is “more-likely-than-not” to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

Salesian Missions is exempt from federal income tax under IRC section 501(c)(3), though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. Salesian Missions has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated business income; to determine its filing and tax obligations in jurisdictions for which it was nexus; and to identify and evaluate other matters that may be considered tax positions. Salesian Missions has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. In addition, Salesian Missions has not recorded a provision for income taxes as it has no material tax liability from unrelated business income activities.

Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statement of Not-for-Profit Entities*. The new guidance improves and simplifies the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit’s liquidity, financial performance and cash flows. The guidance is effective for fiscal years beginning after December 15, 2017. ASU 2016-14 is to be applied retroactively with transition provisions. The Organization is in the process of evaluating the impact this standard will have on the financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which supersedes most of the current revenue recognition requirements. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The guidance provides a five-step analysis

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of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of time value of money in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers: Deferral of the Effective Date*, which deferred the effective date of ASU 2014-09 by one year. The guidance is effective for non-public entities fiscal years beginning after December 15, 2018 for non-public entities. The Organization is in the process of evaluating the impact this standard will have on the financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires organizations that lease assets (lessees) to recognize the assets and related liabilities for the rights and obligations created by the leases on the statements of financial position for leases with terms exceeding 12 months. ASU No. 2016-02 defines a lease as a contract or part of a contract that conveys the right to control the use of identified assets for a period of time in exchange for consideration. The lessee in a lease will be required to initially measure the right-of-use asset and the lease liability at the present value of the remaining lease payments, as well as capitalize initial direct costs as part of the right-of-use asset. The guidance is effective for fiscal years beginning after December 15, 2019 for non-public entities. The Organization is in the process of evaluating the impact this standard will have on the financial statements.

Reclassifications

Certain reclassifications of prior year amounts have been made to conform to the current year presentation. Such reclassifications did not change total assets, liabilities, revenues, expenses or changes in net assets as reflected in the fiscal 2016 financial statements.

Subsequent Events

Management has evaluated subsequent event transactions for the potential recognition or disclosure in the financial statements through August 17, 2018, the day the financial statements were available to be issued.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consisted of the following at December 31, 2017 and 2016:

| | <u>2017</u> | <u>2016</u> |
|----------------------------------|---------------------|---------------------|
| Checking, savings and petty cash | \$ 2,776,011 | \$ 3,403,805 |
| Held by brokers | <u>1,213,336</u> | <u>1,091,586</u> |
| | <u>\$ 3,989,347</u> | <u>\$ 4,495,391</u> |

The Organization is required to maintain separate bank accounts for each of the government grants for which it receives funding.

SALESIAN MISSIONS, INC.
Notes to Financial Statements
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4. BEQUESTS, CONTRIBUTIONS AND OTHER RECEIVABLES, NET

Bequests, contributions and other receivables, net consisted of the following at December 31, 2017 and 2016:

| | <u>2017</u> | <u>2016</u> |
|--------------------------------------|---------------------|---------------------|
| Bequests receivables | \$ 419,766 | \$ 896,005 |
| Contributions receivable | 7,000 | 11,400 |
| Other receivables | <u>991,510</u> | <u>1,407,097</u> |
| | 1,418,276 | 2,314,502 |
| Less allowance for doubtful accounts | <u>(17,000)</u> | <u>(17,000)</u> |
| | <u>\$ 1,401,276</u> | <u>\$ 2,297,502</u> |

Bequests, contributions and other receivables expected to be collected within the next year as of December 31, 2017 are as follows:

| | <u>2017</u> |
|---|-------------------|
| Bequests due within one year | \$ 419,766 |
| Contributions due within one year | 4,400 |
| Other receivables due within one year | <u>357,079</u> |
| Total current bequests, contributions and other receivables | 781,245 |
| Less allowance for doubtful accounts | <u>(17,000)</u> |
| | <u>\$ 764,245</u> |

Contributions receivable are scheduled to be collected as follows at December 31, 2017:

| | |
|--|-----------------|
| Contributions receivable due within one year | \$ 4,400 |
| One to five years | <u>2,600</u> |
| Total contributions receivable | <u>\$ 7,000</u> |

During 2017 and 2016, the Organization was notified of certain intentions to give. Consistent with US GAAP, such amounts have not been reflected in the accompanying financial statements due to their conditional nature.

SALESIAN MISSIONS, INC.
Notes to Financial Statements
December 31, 2017 and 2016

5. INVESTMENTS

The following table presents the Organization's investments classified within the fair value hierarchy as of December 31, 2017 and 2016:

| | <u>2017</u> | <u>2016</u> |
|-----------------------------|----------------------|----------------------|
| Stocks | \$ 21,473,383 | \$ 20,315,095 |
| Foreign and corporate bonds | 9,596,884 | 8,365,547 |
| Mutual funds | 224,637 | 229,827 |
| U.S. Treasuries | <u>3,937,013</u> | <u>3,156,584</u> |
| | <u>\$ 35,231,917</u> | <u>\$ 32,067,053</u> |

As of December 31, 2017 and 2016, all of the Organization's investments were classified as Level 1 within the fair value hierarchy.

For the years ended December 31, 2017 and 2016, investment income consisted of the following:

| | <u>2017</u> | <u>2016</u> |
|------------------------------------|---------------------|---------------------|
| Interest and dividends | \$ 626,941 | \$ 543,536 |
| Net realized gain on investments | 3,317,531 | 342,499 |
| Net unrealized gain on investments | <u>151,238</u> | <u>1,075,698</u> |
| | <u>\$ 4,095,710</u> | <u>\$ 1,961,733</u> |

For the years ended December 31, 2017 and 2016, investment fees totaled \$465,276 and \$360,538, respectively, and are included in professional fees on the accompanying statements of functional expenses.

6. BUILDING AND EQUIPMENT, NET

Building and equipment, net at December 31, 2017 and 2016 consisted of the following:

| | <u>2017</u> | <u>2016</u> |
|--------------------------------|--------------------|--------------------|
| Building and improvements | \$ 3,003,929 | \$ 2,995,359 |
| Furniture and fixtures | 1,308,970 | 1,308,970 |
| Equipment | 1,723,544 | 1,662,565 |
| Automobiles | 60,500 | 57,345 |
| Systems software | <u>1,320,742</u> | <u>1,320,742</u> |
| | 7,417,685 | 7,344,981 |
| Less: Accumulated depreciation | <u>(6,752,183)</u> | <u>(6,591,092)</u> |
| | <u>\$ 665,502</u> | <u>\$ 753,889</u> |

SALESIAN MISSIONS, INC.
Notes to Financial Statements
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Depreciation expense for the years ended December 31, 2017 and 2016 was \$167,935 and \$172,479, respectively.

7. BENEFICIAL INTEREST IN THIRD-PARTY TRUSTS

At December 31, 2017 and 2016, the Organization has a beneficial interest in several irrevocable charitable remainder trusts and one perpetual trust. The present value of the Organization's future interests in these charitable remainder trusts and the perpetual trust totaled \$436,845 and \$45,516,889, respectively, at December 31, 2017, and \$409,604 and \$39,073,528, respectively, at December 31, 2016, and is recorded as beneficial interest in third-party trusts on the accompanying statements of financial position. The charitable remainder trusts have been reported as temporarily restricted net assets, and the perpetual trust has been reported as permanently restricted net assets. The Organization's beneficial interest in the charitable remainder trusts and perpetual trust have been classified as Level 3 within the fair value hierarchy. The following table summarizes the changes in fair values associated with the Level 3 assets for the years ended December 31, 2017 and 2016.

| | Perpetual Trust | Charitable Remainder Trusts | Total |
|-----------------------------------|----------------------------|--|----------------------|
| Balance, January 1, 2016 | \$ 41,330,178 | \$ 379,849 | \$ 41,710,027 |
| Distributions | (2,000,283) | (1,891) | (2,002,174) |
| (Depreciation) appreciation | <u>(256,367)</u> | <u>31,646</u> | <u>(224,721)</u> |
| Balance, December 31, 2016 | 39,073,528 | 409,604 | 39,483,132 |
| Distributions | (1,782,779) | (3,112) | (1,785,891) |
| Appreciation | <u>8,226,140</u> | <u>30,353</u> | <u>8,256,493</u> |
| Balance, December 31, 2017 | <u>\$ 45,516,889</u> | <u>\$ 436,845</u> | <u>\$ 45,953,734</u> |

8. RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets, as of December 31, 2017 and 2016, were available for the following purposes:

| | 2017 | 2016 |
|---|---------------------|----------------------|
| Masses | \$ 272,765 | \$ 377,525 |
| Seminary support | 4,530,816 | 4,666,092 |
| Missionaries | 2,493,087 | 2,864,952 |
| Time restrictions | <u>858,514</u> | <u>2,313,681</u> |
| Total temporarily restricted net assets | <u>\$ 8,155,182</u> | <u>\$ 10,222,250</u> |

SALESIAN MISSIONS, INC.
Notes to Financial Statements
December 31, 2017 and 2016

Permanently restricted net assets, as of December 31, 2017 and 2016, were restricted to:

| | <u>2017</u> | <u>2016</u> |
|---|----------------------|----------------------|
| Masses | \$ 57,721 | \$ 57,721 |
| Seminary support | 6,654,719 | 5,372,183 |
| Missionaries | 163,435 | 134,837 |
| Perpetual trust | <u>45,516,889</u> | <u>39,073,528</u> |
| Total permanently restricted net assets | <u>\$ 52,392,764</u> | <u>\$ 44,638,269</u> |

9. ASSETS HELD FOR OTHERS

The Organization has custody over several bank accounts that are maintained on behalf of certain Salesian provinces in foreign countries as directed by the Office of the Director General of Don Bosco Missions in Rome, Italy. The fair value of the assets held at December 31, 2017 and 2016 was \$139,186 and \$1,451,696, respectively. These assets are restricted for the exclusive use of these foreign provinces. As a result, these amounts are included as assets held for others and a corresponding due to others liability on the accompanying statements of financial position.

10. RETIREMENT PLANS

The Organization also sponsors a 401(k) plan, which covers substantially all employees with one year of service and one-thousand or more hours of service per annum, with the exception of temporary and seasonal employees. Participating employees may elect to contribute, on a tax-deferred basis, a portion of their compensation, in accordance with Section 401(k) of the Code and all other controlling pieces of federal or local legislation. The Organization's matching contribution rate for the years ended December 31, 2017 and 2016 was 75% of the employee's contribution up to the first 6% deducted from their compensation. The Organization's matching contribution expense for the years ended December 31, 2017 and 2016 was \$120,707 and \$107,027, respectively.

11. LINE OF CREDIT

The Organization has a \$5,300,000 available line of credit with Morgan Stanley, with a variable interest rate based on LIBOR (4.06375% at December 31, 2017). The Organizations investment securities secure the line of credit. During May through June 2016, the Organization utilized \$1,000,000 to assist the Salesian Missions New Delhi, India ("Salesians – New Delhi") (a separate, unconsolidated, legal entity) in retiring their local outstanding line of credit with an outstanding balance of \$1,000,000 at an unfavorable interest rate of 11%. The 8% rate differential from refinancing is used to help support Salesian Missions, New Delhi India programs for the poor. A memorandum of understanding was executed requiring the

SALESIAN MISSIONS, INC.
Notes to Financial Statements
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Salesians - New Delhi to repay the balance, including projected interest to be incurred by the Organization, to the Organization by 2021, as follows:

| | |
|-------|-------------------|
| 2018 | \$ - |
| 2019 | 285,000 |
| 2020 | 260,000 |
| 2021 | <u>100,188</u> |
| Total | <u>\$ 645,188</u> |

At December 31, 2017, the Organization's line of credit had an outstanding balance of \$634,431, inclusive of accrued interest of \$10,757. At December 31, 2017, the Organization has an amount due from the Salesians – New Delhi totaling \$634,431, which is included in other receivables on the accompanying statement of financial position.

12. CONCENTRATION OF CREDIT RISK

Financial instruments which potentially subject the Organization to concentrations of credit risk consist of cash and cash equivalents, equity and fixed-income securities and mutual funds. The Organization maintains its cash and cash equivalents in various bank deposit accounts which, at times, may exceed federally insured limits. The Organization's accounts were placed with high credit quality financial institutions. The Organization has not experienced, nor does it anticipate, any losses with respect to such accounts. The Organization has a significant investment in equity and fixed-income securities and mutual funds, and is therefore subject to concentrations of credit risk.

13. ENDOWMENTS

The Organization's endowments consist of various individual donor-restricted funds established for various purposes including support for recruiting and preparing vocations for the missions, to implement the religious and educational objectives of the Salesian Society and to support its missions in underdeveloped countries. As required under US GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

On September 17, 2010, New York State enacted the New York Prudent Management of Institutional Funds Act ("NYPMIFA"). NYPMIFA applies to all the institutional funds of the Organization, unless the donor has specifically directed otherwise. As required by NYPMIFA, the Organization sent letters to living donors of permanently restricted endowment funds so that these donors can elect whether to adopt NYPMIFA or retain historical dollar value. The law updates prior rules regarding investment conduct, expenditure of funds, delegation of management and investment, and release or modification of restrictions. The most significant change made by the new law is the elimination of the concept of "historic dollar value" for endowment funds. Under NYPMIFA, a detailed prudence standard governs appropriation from endowment funds, and there is no longer a requirement to maintain historic dollar value.

As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of the 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

SALESIAN MISSIONS, INC.
Notes to Financial Statements
December 31, 2017 and 2016

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 NYPMIFA.

In accordance with NYPMIFA, the Board of Trustees considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purpose of the Organization and the donor-restricted endowment fund
- General economic conditions
- The possible effects of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Organization
- The investment policies of the Organization

The following tables summarize endowment net asset composition by type of fund as of December 31, 2017 and 2016:

| | 2017 | | | |
|----------------------------------|---------------------|-------------------------------|-------------------------------|----------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Donor-restricted endowment funds | \$ - | \$ 4,511,623 | \$ 6,875,875 | \$ 11,387,498 |
| Board-designated endowment funds | - | - | - | - |
| Total endowment funds | <u>\$ -</u> | <u>\$ 4,511,623</u> | <u>\$ 6,875,875</u> | <u>\$ 11,387,498</u> |

| | 2016 | | | |
|----------------------------------|---------------------|-------------------------------|-------------------------------|---------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Donor-restricted endowment funds | \$ - | \$ 3,513,856 | \$ 5,564,741 | \$ 9,078,597 |
| Board-designated endowment funds | - | - | - | - |
| Total endowment funds | <u>\$ -</u> | <u>\$ 3,513,856</u> | <u>\$ 5,564,741</u> | <u>\$ 9,078,597</u> |

SALESIAN MISSIONS, INC.
Notes to Financial Statements
December 31, 2017 and 2016

Changes in endowment net assets during the years ended December 31, 2017 and 2016 were as follows:

| | 2017 | | | |
|--|---------------------|-------------------------------|-------------------------------|----------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Endowment net assets, beginning of year | \$ - | \$ 3,513,856 | \$ 5,564,741 | \$ 9,078,597 |
| Interest and dividend income | - | 170,922 | - | 170,922 |
| Net appreciation (realized and unrealized) | - | 1,008,502 | - | 1,008,502 |
| Contributions | - | - | 1,311,134 | 1,311,134 |
| Amounts appropriated for expenditures | - | (181,657) | - | (181,657) |
| Endowment net assets, end of year | <u>\$ -</u> | <u>\$ 4,511,623</u> | <u>\$ 6,875,875</u> | <u>\$ 11,387,498</u> |
| | 2016 | | | |
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Endowment net assets, beginning of year | \$ - | \$ 3,216,015 | \$ 1,897,372 | \$ 5,113,387 |
| Interest and dividend income | - | 129,533 | - | 129,533 |
| Net appreciation (realized and unrealized) | - | 293,877 | - | 293,877 |
| Contributions | - | - | 3,667,369 | 3,667,369 |
| Amounts appropriated for expenditures | - | (125,569) | - | (125,569) |
| Endowment net assets, end of year | <u>\$ -</u> | <u>\$ 3,513,856</u> | <u>\$ 5,564,741</u> | <u>\$ 9,078,597</u> |

The Organization has adopted investment and spending policies, approved by the Board of Trustees, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve a total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 3%, while growing the funds if possible. In establishing this policy, the Organization considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, which are maintained in perpetuity because of donor-restrictions, and the possible effects of inflation.

14. CHARITABLE GIFT ANNUITIES

Under its Segregated Immediate Charitable Gift Annuity program, the Organization agrees to pay annuitants an actuarially determined sum certain for life in exchange for lump-sum donations from applicable donors. The interest rate used to calculate the fair value of annuity obligations is 2.6% and 2.0% at December 31, 2017 and 2016, the 2012 IAR Mortality Table was used to calculate life expectancy. During 2017 and 2016, the Organization recognized \$710,433 and \$910,710, respectively, as contributions

SALESIAN MISSIONS, INC.
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derived from its charitable gift annuities program. The Organization is mandated by New York State Insurance Law to keep, as a reserve, an additional 26.5% of its outstanding annuity contracts, which equaled \$1,106,377 and \$1,175,327 at December 31, 2017 and 2016, respectively. The Organization has classified charitable gift annuity liability as a Level 2 liability within the fair value hierarchy.

Liabilities associated with these agreements were \$5,255,225 and \$5,610,521 and were included within liabilities as annuity obligations on the accompanying statements of financial position as of December 31, 2017 and 2016, respectively. Assets of the charitable gift annuities of \$9,690,290 and \$9,652,601 were included in cash and cash equivalents, other receivables and investments in the accompanying statements of financial position at December 31, 2017 and 2016, respectively, as follows:

| | <u>2017</u> | <u>2016</u> |
|-----------------------------|---------------------|---------------------|
| Stocks | \$ 5,686,900 | \$ 5,853,925 |
| Foreign and corporate bonds | 3,199,098 | 2,676,228 |
| U.S. Treasuries | 558,387 | 793,915 |
| Accrued interest | 38,080 | 46,576 |
| Cash and cash equivalents | <u>207,825</u> | <u>281,957</u> |
| | <u>\$ 9,690,290</u> | <u>\$ 9,652,601</u> |

Stocks, foreign and corporate bonds and U.S. Treasuries were classified as Level 1 assets within the fair value hierarchy.

15. ALLOCATION OF JOINT COSTS

For the years ended December 31, 2017 and 2016, the Organization incurred joint costs of \$18,296,946 and \$18,384,474, respectively, for information materials and activities that included fundraising appeals. Of these amounts, for the years ended December 31, 2017 and 2016, the Organization allocated \$3,127,792 and \$3,114,097 to support services, respectively, and \$15,169,154 and \$15,270,377 to program expenses, respectively.

16. COMMITMENTS

The Organization has a space lease in New York City that expires on April 30, 2018. The cost of this space lease is based upon the tenants rental value percentage to the owners estimated building costs, which is reevaluated annually. The Organization also has several equipment leases, including copiers, a phone system, a postage meter and a motor vehicle expiring through fiscal 2019. The Organization accounts for its space and equipment leases as operating leases. Rent expense for the years ended December 31, 2017 and 2016 was \$87,116 and \$116,127, respectively, and was included in office and occupancy expense in the

SALESIAN MISSIONS, INC.
Notes to Financial Statements
December 31, 2017 and 2016

accompanying statements of functional expenses. Future minimum annual rental commitments under operating leases are approximately as follows for years subsequent to December 31, 2017:

| | | |
|-------|----|----------------|
| 2018 | \$ | 110,972 |
| 2019 | | 86,565 |
| 2020 | | 47,592 |
| 2021 | | 19,159 |
| 2022 | | <u>2,600</u> |
| Total | \$ | <u>266,888</u> |

SALESIAN MISSIONS, INC.
Schedule of Expenditures of Federal Awards
For the year ended December 31, 2017

| Federal Grantor/Pass-through Grantor/Program Title | Pass-through Entity Identifying No. | Federal CFDA Number | Federal Expenditures | Amounts Provided to Subrecipients | Noncash Assistance |
|--|---|---------------------------|-------------------------|---|-----------------------|
| U.S. Agency for International Development: | | | | | |
| Ocean Freight Reimbursement Program | N/A: Direct | 98.003 | \$ 47,090 | \$ - | \$ - |
| Foreign Assistance to American Schools and Hospitals Abroad - Cambodia | N/A: Direct | 98.006 | 22,320 | 22,320 | - |
| Foreign Assistance to American Schools and Hospitals Abroad - El Salvador | N/A: Direct | 98.006 | 12,475 | 9,238 | - |
| Food for Peace Cluster: | | | | | |
| Food for Peace Emergency Program - Haiti I | N/A: Direct | 98.008 | 512,669 | 143,582 | 367,500 |
| Food for Peace Emergency Program - Haiti II | N/A: Direct | 98.008 | <u>9,975</u> | <u>7,862</u> | <u>-</u> |
| Total Food for Peace Cluster | | | <u>522,644</u> | <u>151,444</u> | <u>367,500</u> |
| Total U.S. Agency for International Development | | | <u>604,529</u> | <u>183,002</u> | <u>367,500</u> |
| U.S. Department of State: | | | | | |
| Overseas Refugee Assistance Programs for Africa - Cairo II | N/A: Direct | 19.517 | 225,023 | 175,273 | - |
| Overseas Refugee Assistance Programs for Africa - Cairo III | N/A: Direct | 19.517 | <u>132,615</u> | <u>97,405</u> | <u>-</u> |
| Total U.S. Department of State | | | <u>357,638</u> | <u>272,678</u> | <u>-</u> |
| Total Expenditures of Federal Awards | | | <u>\$ 962,167</u> | <u>\$ 455,680</u> | <u>\$ 367,500</u> |

The accompanying notes to the schedule of expenditures of federal awards should be read in conjunction with this schedule

SALESIAN MISSIONS, INC.
Notes to the Schedule Expenditures of Federal Awards
For the year ended December 31, 2017

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of Salesian Missions, Inc. (the “Organization”) under programs of the federal government for the year ended December 31, 2017 and is prepared on the accrual basis of accounting. The information in this Schedule is presented in accordance with the 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). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

2. COST RATE

The Organization has a finalized Negotiated Indirect Cost Rate Agreement (“NICRA”). Accordingly, the Organization has elected not to use the 10-percent de minimis indirect cost rate allowed under Uniform Guidance.



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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees of
Salesian Missions, Inc.:

We have audited, 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, the financial statements of Salesian Missions, Inc. (the “Organization”), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 17, 2018.

Internal control over financial reporting

In planning and performing our audit of the financial statements, we considered the Organization’s internal control over financial reporting (“internal control”) to design audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization’s financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in the Organization’s 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 financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Intended purpose

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 report is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Grant Thornton LLP".

New York, New York
August 17, 2018



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**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON
COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Trustees of
Salesian Missions, Inc.:

Report on compliance for each major federal program

We have audited the compliance of Salesian Missions, Inc. (the “Organization”) with the types of compliance requirements described in the U.S. *Office of Management and Budget (“OMB”) Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended December 31, 2017. The Organization’s major federal program is 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 the Organization’s federal programs.

Auditor’s responsibility

Our responsibility is to express an opinion on compliance for the Organization’s major federal program 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 the 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 the major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on each major federal program

In our opinion, the Organization has complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2017.

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 of compliance, we considered the Organization's internal control over compliance with the types of compliance requirements that could have a direct and material effect on the major federal program to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 a 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. Given these limitations, during our audit we did not identify any deficiencies in the Organization's 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.

Grant Thornton LLP

New York, New York
September 20, 2018

SALESIAN MISSIONS, INC.
Schedule of Findings and Questioned Costs
For the year ended December 31, 2017

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements:

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weaknesses identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes none reported
- Noncompliance material to financial statements noted? yes no

Federal Awards:

Internal control over the major programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes none reported

Type of auditors' report issued on compliance for the major program: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Subpart F, section 200.516 of the Uniform Guidance yes no

Identification of the major program:

| Federal Grantor/Program or Cluster Title | Federal CFDA # |
|--|---|
| U.S. Agency for International Development: Food for Peace Emergency Program - Haiti | 98.008 |
| Dollar threshold used to distinguish between type A and type B programs: | \$750,000 |
| Auditee qualified as low-risk auditee? | <input type="checkbox"/> yes <input checked="" type="checkbox"/> no |

SALESIAN MISSIONS, INC.
Schedule of Findings and Questioned Costs
For the year ended December 31, 2017

SECTION II - FINANCIAL STATEMENT FINDINGS

None noted.

SECTION III - FEDERAL AWARD FINDING AND QUESTIONED COSTS

None noted.