

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, 2018 and 2017

# SALESIAN MISSIONS, INC.

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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

### Report on the financial statements

We have audited the accompanying financial statements of Salesian Missions, Inc. (the “Organization”), which comprise the statements of financial position as of December 31, 2018 and 2017, 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, 2018 and 2017, 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.

#### *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 September 27, 2019, 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 solely 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 the Organization's 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.



Stamford, Connecticut  
September 27, 2019

**SALESIAN MISSIONS, INC.**  
**Statements of Financial Position**  
**As of December 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 5,797,511	\$ 3,989,347
Investments	38,784,554	35,231,917
Bequests, contributions and other receivables, net	997,262	764,245
Inventory, net	787,157	1,053,718
In-kind inventory	98,879	140,266
Prepaid expenses and other current assets	1,456,078	1,696,954
Assets held for others	<u>139,857</u>	<u>139,186</u>
Total current assets	48,061,298	43,015,633
Other receivables, net	350,725	637,031
Other non-current assets	330,655	384,882
Building and equipment, net	550,718	665,502
Beneficial interest in third-party trusts	<u>40,984,422</u>	<u>45,953,734</u>
Total assets	<u>\$ 90,277,818</u>	<u>\$ 90,656,782</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 1,171,595	\$ 1,112,321
Deferred revenue	416,003	95,169
Current portion of annuity obligations	590,144	572,750
Due to others	<u>139,857</u>	<u>139,186</u>
Total current liabilities	2,317,599	1,919,426
Annuity obligations	4,370,566	4,682,475
Line of credit	<u>350,725</u>	<u>634,431</u>
Total liabilities	<u>7,038,890</u>	<u>7,236,332</u>
Commitments		
<b>NET ASSETS</b>		
Without donor restrictions	25,400,952	22,872,504
With donor restrictions	<u>57,837,976</u>	<u>60,547,946</u>
Total net assets	<u>83,238,928</u>	<u>83,420,450</u>
Total liabilities and net assets	<u>\$ 90,277,818</u>	<u>\$ 90,656,782</u>

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

**SALESIAN MISSIONS, INC.**  
**Statement of Activities**  
**For the year ended December 31, 2018**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>REVENUES, GAINS AND OTHER SUPPORT</b>			
Contributions	\$ 34,240,769	\$ 6,964,029	\$ 41,204,798
Government grants	755,987	-	755,987
In-kind contributions and grants	10,496,245	-	10,496,245
Investment loss	(1,700,416)	(98,835)	(1,799,251)
Other income	308,659	-	308,659
Change in value of split interest agreements	-	(5,322,878)	(5,322,878)
Net assets released from restrictions	<u>4,252,286</u>	<u>(4,252,286)</u>	<u>-</u>
Total revenues, gains and other support	<u>48,353,530</u>	<u>(2,709,970)</u>	<u>45,643,560</u>
<b>EXPENSES</b>			
Program services:			
Mission support	20,828,228	-	20,828,228
Religious ministries	16,092,182	-	16,092,182
Government programs	<u>821,113</u>	<u>-</u>	<u>821,113</u>
Total program services	<u>37,741,523</u>	<u>-</u>	<u>37,741,523</u>
Support services:			
Management and general	3,027,950	-	3,027,950
Fundraising	<u>5,055,609</u>	<u>-</u>	<u>5,055,609</u>
Total support services	<u>8,083,559</u>	<u>-</u>	<u>8,083,559</u>
Total operating expenses	<u>45,825,082</u>	<u>-</u>	<u>45,825,082</u>
Change in net assets	<u>2,528,448</u>	<u>(2,709,970)</u>	<u>(181,522)</u>
Net assets, beginning of year	<u>22,872,504</u>	<u>60,547,946</u>	<u>83,420,450</u>
Net assets, end of year	<u>\$ 25,400,952</u>	<u>\$ 57,837,976</u>	<u>\$ 83,238,928</u>

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

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

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>REVENUES, GAINS AND OTHER SUPPORT</b>			
Contributions	\$ 27,530,906	\$ 4,664,608	\$ 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>
Total revenues, gains and other support	<u>48,827,978</u>	<u>5,687,427</u>	<u>54,515,405</u>
<b>EXPENSES</b>			
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>653,502</u>
Total program services	<u>40,455,598</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>4,906,480</u>
Total support services	<u>7,808,118</u>	<u>-</u>	<u>7,808,118</u>
Total operating expenses	<u>48,263,716</u>	<u>-</u>	<u>48,263,716</u>
Change in net assets	<u>564,262</u>	<u>5,687,427</u>	<u>6,251,689</u>
Net assets, beginning of year	<u>22,308,242</u>	<u>54,860,519</u>	<u>77,168,761</u>
Net assets, end of year	<u>\$ 22,872,504</u>	<u>\$ 60,547,946</u>	<u>\$ 83,420,450</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, 2018**

	Program Services				Support Services			Total
	Mission Support	Religious Ministries	Government Programs	Total	Management and General	Fundraising	Total	
Salaries	\$ 937,077	\$ 959,294	\$ 118,775	\$ 2,015,146	\$ 1,641,903	\$ 500,849	\$ 2,142,752	\$ 4,157,898
Payroll taxes and fringe benefits	<u>232,224</u>	<u>237,730</u>	<u>29,434</u>	<u>499,388</u>	<u>406,893</u>	<u>124,119</u>	<u>531,012</u>	<u>1,030,400</u>
	1,169,301	1,197,024	148,209	2,514,534	2,048,796	624,968	2,673,764	5,188,298
Distributions to missions	5,569,268	1,217,981	629,917	7,417,166	-	-	-	7,417,166
In-kind distribution to missions	10,522,227	-	-	10,522,227	-	-	-	10,522,227
Direct mail costs	2,455,724	13,360,930	-	15,816,654	182,993	3,014,147	3,197,140	19,013,794
Professional fees	716,093	163,872	19,011	898,976	536,666	928,842	1,465,508	2,364,484
Supplies and materials	10,377	48,065	2,866	61,308	10,331	10,584	20,915	82,223
Travel and communications	58,471	4,410	13,327	76,208	17,925	4,410	22,335	98,543
Office and occupancy expense	<u>293,196</u>	<u>67,095</u>	<u>7,783</u>	<u>368,074</u>	<u>219,731</u>	<u>380,303</u>	<u>600,034</u>	<u>968,108</u>
	20,794,657	16,059,377	821,113	37,675,147	3,016,442	4,963,254	7,979,696	45,654,843
Depreciation	<u>33,571</u>	<u>32,805</u>	<u>-</u>	<u>66,376</u>	<u>11,508</u>	<u>92,355</u>	<u>103,863</u>	<u>170,239</u>
	<u>\$ 20,828,228</u>	<u>\$ 16,092,182</u>	<u>\$ 821,113</u>	<u>\$ 37,741,523</u>	<u>\$ 3,027,950</u>	<u>\$ 5,055,609</u>	<u>\$ 8,083,559</u>	<u>\$ 45,825,082</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	207,739	212,664	26,331	446,734	363,991	111,032	475,023	921,757
	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	274,074	62,719	7,277	344,070	205,399	355,501	560,900	904,970
	24,961,572	14,775,046	653,502	40,390,120	2,890,286	4,815,375	7,705,661	48,095,781
Depreciation	33,117	32,361	-	65,478	11,352	91,105	102,457	167,935
	<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.**  
**Statements of Cash Flows**  
**For the years ended December 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (181,522)	\$ 6,251,689
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	170,239	167,935
Net unrealized and realized loss (gain) on investments	2,650,703	(3,468,769)
Contributions restricted for long-term investment	(100,000)	(1,311,134)
Change in inventory reserve	-	8,000
Changes in operating assets and liabilities		
Decrease in bequests, contributions and other receivables	53,289	896,226
Decrease in inventory	307,948	2,705,728
Decrease (increase) in prepaid expenses and other assets	295,103	(26,615)
Decrease (increase) in beneficial interest in third-party trusts	4,969,312	(6,470,602)
Increase (decrease) in accounts payable and accrued expenses	59,269	(75,605)
Increase (decrease) in deferred revenue	320,834	(18,875)
Decrease in annuity obligations	(294,515)	(355,296)
Net cash provided by (used in) operating activities	<u>8,250,660</u>	<u>(1,697,318)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of equipment	(55,450)	(79,548)
Sale of investments	17,424,851	13,489,913
Purchase of investments	<u>(23,628,191)</u>	<u>(13,186,008)</u>
Net cash (used in) provided by investing activities	<u>(6,258,790)</u>	<u>224,357</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from line of credit	18,735	-
Repayments of principal on line of credit	(302,441)	(344,217)
Contributions restricted for long-term investment	<u>100,000</u>	<u>1,311,134</u>
Net cash (used in) provided by financing activities	<u>(183,706)</u>	<u>966,917</u>
Increase (decrease) in cash and cash equivalents	1,808,164	(506,044)
Cash and cash equivalents, beginning of year	<u>3,989,347</u>	<u>4,495,391</u>
Cash and cash equivalents, end of year	<u>\$ 5,797,511</u>	<u>\$ 3,989,347</u>
Supplemental disclosure:		
Cash paid for interest	<u>\$ 20,961</u>	<u>\$ 28,130</u>

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

**SALESIAN MISSIONS, INC.**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

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**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”). The Organization is a subordinate organization in the group exemption by virtue of its inclusion in “The Official Catholic Directory” which is updated annually. Accordingly, the Organization 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**

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 Statements of Not-for-Profit Entities* (“ASU 2016-14”). The ASU amends the current reporting model for not-for-profit organizations and requires certain additional disclosures. The significant changes include:

Requiring the presentation of two net asset classes classified as “net assets without donor restrictions” and “net assets with donor restrictions”;

Modifying the presentation of underwater endowment funds and related disclosures;

Requiring the use of the placed in service approach to recognize the satisfaction of restrictions on gifts used to acquire or construct long-lived assets, absent explicit donor stipulations otherwise;

Requiring that all not-for-profits present an analysis of expenses by function and nature in a separate statement or in the notes to the financial statements;

Requiring disclosure of quantitative and qualitative information on liquidity;

Presenting investment return net of external and direct internal investment expenses; and,

**SALESIAN MISSIONS, INC.**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

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Modifying other financial statement reporting requirements and disclosures intended to increase the usefulness to the reader.

As required by the standard, the Organization adopted ASU No. 2016-14 as of and for the year ended December 31, 2018.

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:

Without Donor Restriction - 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.

With Donor Restriction - 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Net assets with donor restrictions may also include gifts of cash and other 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.

**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

**SALESIAN MISSIONS, INC.**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

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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 the 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 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 both December 31, 2018 and 2017, the reserve for obsolete inventory was \$142,000.

**SALESIAN MISSIONS, INC.**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

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**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 net assets with or without donor restrictions, 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), net assets with donor restrictions are reclassified to net assets without donor restrictions 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.

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.

**SALESIAN MISSIONS, INC.**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

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**Income Taxes**

The Organization 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 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.

The Organization 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. The Organization 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. The Organization has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. In addition, the Organization has not recorded a provision for income taxes as it has no material tax liability from unrelated business income activities.

**Recent Accounting Pronouncements**

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 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. 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.

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which requires organizations to determine whether a contribution is conditional based on whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor’s obligation to transfer

**SALESIAN MISSIONS, INC.**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

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assets. If the agreement (or a referenced document) includes both, the recipient is not entitled to the transferred assets (or a future transfer of assets) until it has overcome the barriers in the agreement. The effective date of the standard will align with ASU No. 2015-14 and become effective for annual periods beginning after December 15, 2018. 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 2017 financial statements.

**Subsequent Events**

Management has evaluated subsequent event transactions for the potential recognition or disclosure in the financial statements through September 27, 2019, 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, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Checking, savings and petty cash	\$ 4,043,542	\$ 2,776,011
Held by brokers	<u>1,753,969</u>	<u>1,213,336</u>
	<u>\$ 5,797,511</u>	<u>\$ 3,989,347</u>

**4. BEQUESTS, CONTRIBUTIONS AND OTHER RECEIVABLES, NET**

Bequests, contributions and other receivables, net consisted of the following at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Bequests receivables	\$ 593,095	\$ 419,766
Contributions receivable	2,000	7,000
Other receivables	<u>769,892</u>	<u>991,510</u>
	1,364,987	1,418,276
Less allowance for doubtful accounts	<u>(17,000)</u>	<u>(17,000)</u>
	<u>\$ 1,347,987</u>	<u>\$ 1,401,276</u>

**SALESIAN MISSIONS, INC.**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

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Bequests, contributions and other receivables expected to be collected within the next year as of December 31, 2018 are as follows:

Bequests due within one year	\$ 593,095
Contributions due within one year	2,000
Other receivables due within one year	<u>419,167</u>
Total current bequests, contributions and other receivables	1,014,262
Less allowance for doubtful accounts	<u>(17,000)</u>
	<u><u>\$ 997,262</u></u>

All bequests receivable and contributions receivable as of December 31, 2018 are scheduled to be collected within one year.

During 2018 and 2017, 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.

**5. INVESTMENTS**

The following table presents the Organization's investments classified within the fair value hierarchy as of December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Stocks	\$ 22,937,950	\$ 21,473,383
Foreign and corporate bonds	9,910,442	9,596,884
Mutual funds	2,819,918	224,637
U.S. Treasuries	<u>3,116,244</u>	<u>3,937,013</u>
	<u><u>\$ 38,784,554</u></u>	<u><u>\$ 35,231,917</u></u>

As of December 31, 2018 and 2017, all of the Organization's investments were classified as Level 1 within the fair value hierarchy.

**SALESIAN MISSIONS, INC.**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

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For the years ended December 31, 2018 and 2017, investment (loss) income consisted of the following:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 851,452	\$ 626,941
Net realized gain on investments	812,902	3,317,531
Net unrealized (loss) gain on investments	<u>(3,463,605)</u>	<u>151,238</u>
	<u>\$ (1,799,251)</u>	<u>\$ 4,095,710</u>

For the years ended December 31, 2018 and 2017, investment fees totaled \$494,159 and \$465,276, 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, 2018 and 2017 consisted of the following:

	<u>2018</u>	<u>2017</u>
Building and improvements	\$ 3,017,525	\$ 3,003,929
Furniture and fixtures	1,308,970	1,308,970
Equipment	1,724,880	1,723,544
Automobiles	85,018	60,500
Systems software	<u>1,336,742</u>	<u>1,320,742</u>
	7,473,135	7,417,685
Less: Accumulated depreciation	<u>(6,922,417)</u>	<u>(6,752,183)</u>
	<u>\$ 550,718</u>	<u>\$ 665,502</u>

Depreciation expense for the years ended December 31, 2018 and 2017 was \$170,239 and \$167,935, respectively.

**SALESIAN MISSIONS, INC.**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

**7. BENEFICIAL INTEREST IN THIRD-PARTY TRUSTS**

At December 31, 2018 and 2017, 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 \$698,962 and \$40,285,460, respectively, at December 31, 2018, and \$436,845 and \$45,516,889, respectively, at December 31, 2017, and is recorded as beneficial interest in third-party trusts on the accompanying statements of financial position. The perpetual and charitable remainder trusts have been reported as net assets with donor restrictions. 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, 2018 and 2017.

	<b>Perpetual Trust</b>	<b>Charitable Remainder Trusts</b>	<b>Total</b>
<b>Balance, January 1, 2017</b>	\$ 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>
<b>Balance, December 31, 2017</b>	45,516,889	436,845	45,953,734
(Distributions) contributions	(1,843,434)	255,941	(1,587,493)
(Depreciation) appreciation	<u>(3,387,995)</u>	<u>6,176</u>	<u>(3,381,819)</u>
<b>Balance, December 31, 2018</b>	<u>\$ 40,285,460</u>	<u>\$ 698,962</u>	<u>\$ 40,984,422</u>

**8. NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions, as of December 31, 2018 and 2017, were available for the following purposes:

	<b>2018</b>	<b>2017</b>
Masses	\$ 453,295	\$ 330,486
Seminary support	13,501,836	11,185,535
Missionaries	2,305,425	2,656,522
Time restrictions	1,291,960	858,514
Perpetual trust	<u>40,285,460</u>	<u>45,516,889</u>
Total net assets with donor restrictions	<u>\$ 57,837,976</u>	<u>\$ 60,547,946</u>

**SALESIAN MISSIONS, INC.**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

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**9. LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES**

The following reflects the Organization's financial assets as of December 31, 2018, reduced by amounts not available for general use within one year of the date of the statement of financial position because of contractual or donor-imposed restrictions:

Cash and cash equivalents	\$ 5,797,511
Investments	38,784,554
Bequests, contributions and other receivables, net	<u>997,262</u>
Total financial assets	<u>45,579,327</u>
Contractual or donor-imposed restrictions:	
Endowment funds	(10,736,957)
Other donor restrictions	(6,116,597)
Investments held for annuity obligations and related reserves	<u>(6,103,653)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 22,622,120</u>

The Organization is primarily supported by contributions (both with and without donor restriction). Because donor restrictions require resources to be used in a particular manner or in future periods, the Organization maintains sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. The Organization's largest annual expense are the grants it makes to various Salesian missionaries worldwide, especially those groups working to assist needy youth and families in underdeveloped countries. As part of the Organization's liquidity management, it has a policy to structure its level of annual grant expense to be covered by the support it receives from its donors.

**10. 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, 2018 and 2017 was \$139,857 and \$139,186, 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.

**11. 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, 2018 and 2017 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, 2018 and 2017 was \$120,898 and \$120,707, respectively.

**SALESIAN MISSIONS, INC.**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

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**12. LINE OF CREDIT**

The Organization has a \$4,951,789 available line of credit with Morgan Stanley, with a variable interest rate based on LIBOR (5.01988% at December 31, 2018). The Organization's investment securities secure the line of credit. As of December 31, 2018 and 2017, the Organization's line of credit had an outstanding balance of \$350,725 and \$634,431, exclusive of accrued interest of \$1,486 of \$10,757, respectively.

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 - New Delhi programs for the poor. A memorandum of understanding was executed requiring Salesians - New Delhi to repay the balance, including projected interest to be incurred by the Organization, to the Organization by 2021, as follows:

2019	\$	-
2020		260,000
2021		<u>92,211</u>
Total	\$	<u>352,211</u>

At December 31, 2018, the Organization has an amount due from the Salesians - New Delhi totaling \$350,725, which is included in contributions and other receivable, net on the accompanying statement of financial position.

**13. 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.

**14. 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 donor 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.

**SALESIAN MISSIONS, INC.**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

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 endowment funds within net assets with donor restrictions (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 remaining portion of the net assets with donor restrictions within the endowment fund are those net assets that have not yet been 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, 2018 and 2017:

<b>2018</b>				
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>		<b>Total Endowment Funds</b>
		<b>Original Gift</b>	<b>Accumulated Gains</b>	
Donor-restricted endowment funds	\$ -	\$ 3,308,504	\$ 7,428,453	\$ 10,736,957
Total endowment funds	<u>\$ -</u>	<u>\$ 3,308,504</u>	<u>\$ 7,428,453</u>	<u>\$ 10,736,957</u>
<b>2017</b>				
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>		<b>Total Endowment Funds</b>
		<b>Original Gift</b>	<b>Accumulated Gains</b>	
Donor-restricted endowment funds	\$ -	\$ 3,208,504	\$ 8,178,994	\$ 11,387,498
Total endowment funds	<u>\$ -</u>	<u>\$ 3,208,504</u>	<u>\$ 8,178,994</u>	<u>\$ 11,387,498</u>

**SALESIAN MISSIONS, INC.**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

Changes in endowment net assets during the years ended December 31, 2018 and 2017 were as follows:

	<b>2018</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>Endowment net assets, beginning of year</b>	\$ -	\$ 11,387,498	\$ 11,387,498
Interest and dividend income	-	239,627	239,627
Net depreciation (realized and unrealized)	-	(603,960)	(603,960)
Contributions	-	100,000	100,000
Amounts appropriated for expenditures	-	(386,208)	(386,208)
<b>Endowment net assets, end of year</b>	<u>\$ -</u>	<u>\$ 10,736,957</u>	<u>\$ 10,736,957</u>
	<b>2017</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>Endowment net assets, beginning of year</b>	\$ -	\$ 9,078,597	\$ 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)
<b>Endowment net assets, end of year</b>	<u>\$ -</u>	<u>\$ 11,387,498</u>	<u>\$ 11,387,498</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.

**15. 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 3.6% and 2.6% at December 31, 2018 and 2017, respectively, and the 2012 IAR Mortality Table was used to calculate life

**SALESIAN MISSIONS, INC.**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

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expectancy. During 2018 and 2017, the Organization recognized \$590,144 and \$710,433, respectively, as contributions 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 \$1,142,943 and \$1,106,377 at December 31, 2018 and 2017, 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 \$4,960,710 and \$5,255,225 and were included within liabilities as annuity obligations on the accompanying statements of financial position as of December 31, 2018 and 2017, respectively. Assets of the charitable gift annuities of \$9,065,020 and \$9,690,290 were included in cash and cash equivalents, other receivables and investments in the accompanying statements of financial position at December 31, 2018 and 2017, respectively, as follows:

	<u>2018</u>	<u>2017</u>
Stocks	\$ 5,425,083	\$ 5,686,900
Foreign and corporate bonds	2,536,936	3,199,098
U.S. Treasuries	630,616	558,387
Accrued interest	31,800	38,080
Cash and cash equivalents	440,585	207,825
	<u>\$ 9,065,020</u>	<u>\$ 9,690,290</u>

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

**16. ALLOCATION OF JOINT COSTS**

For the years ended December 31, 2018 and 2017, the Organization incurred joint costs of \$18,005,695 and \$18,296,946, respectively, for information materials and activities that included fundraising appeals. Of these amounts, for the years ended December 31, 2018 and 2017, the Organization allocated \$3,083,561 and \$3,127,792 to support services, respectively, and \$14,922,134 and \$15,169,154 to program expenses, respectively.

**17. COMMITMENTS**

The Organization had a space lease in New York City that expired on April 30, 2018. The cost of this space lease was based upon the tenants rental value percentage to the owners estimated building costs, which was reevaluated annually. The Organization also has several equipment leases, including copiers, a phone system, and a postage meter. The Organization accounts for its space and equipment leases as operating leases. Rent expense for the years ended December 31, 2018 and 2017 was \$87,988 and \$87,116,

**SALESIAN MISSIONS, INC.**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

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respectively, and was included in office and occupancy expense in the accompanying statements of functional expenses. Future minimum annual rental commitments under operating leases are approximately as follows for years subsequent to December 31, 2018:

2019	\$	86,565
2020		47,592
2021		19,159
2022		<u>2,600</u>
Total	\$	<u>155,916</u>

**SALESIAN MISSIONS, INC.**  
**Schedule of Expenditures of Federal Awards**  
**For the year ended December 31, 2018**

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	\$ 15,471	\$ -	\$ -
Foreign Assistance to American Schools and Hospitals Abroad - El Salvador	N/A: Direct	98.006	17,084	17,084	-
Food for Peace Cluster:					
Food for Peace Emergency Program - Haiti I	N/A: Direct	98.008	(5,185)	(7,252)	-
Food for Peace Emergency Program - Haiti II	N/A: Direct	98.008	<u>664,659</u>	<u>118,254</u>	<u>532,985</u>
Total Food for Peace Cluster			<u>659,474</u>	<u>111,002</u>	<u>532,985</u>
Total U.S. Agency for International Development			<u>692,029</u>	<u>128,086</u>	<u>532,985</u>
U.S. Department of State:					
Overseas Refugee Assistance Programs for Africa - Cairo III	N/A: Direct	19.517	267,385	209,547	-
Overseas Refugee Assistance Programs for Africa - Cairo IV	N/A: Direct	19.517	91,141	56,720	-
Drug Prevention in Honduras	N/A: Direct	19.704	<u>56,630</u>	<u>53,296</u>	<u>-</u>
Total U.S. Department of State			<u>415,156</u>	<u>319,563</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 1,107,185</u>	<u>\$ 447,649</u>	<u>\$ 532,985</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 of Expenditures of Federal Awards**

**For the year ended December 31, 2018**

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#### **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, 2018 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, 2018, 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 September 27, 2019.

**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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2018-001, 2018-002, and 2018-003 that we consider to be significant deficiencies in the Organization’s internal control.

#### 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*.

#### Organization's response to findings

The Organization's response to our findings, which is described in the accompanying schedule of findings and questioned costs, was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on the Organization's response.

#### 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.



Stamford, Connecticut  
September 27, 2019

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**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS  
ON COMPLIANCE FOR THE 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 the 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’s *OMB Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended December 31, 2018. 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 the major federal program**

In our opinion, the Organization 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, 2018.

### **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.



Stamford, Connecticut  
September 27, 2019

**SALESIAN MISSIONS, INC.**  
**Schedule of Findings and Questioned Costs**  
**For the year ended December 31, 2018**

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**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:**

<b>Federal Grantor/Program or Cluster Title</b>	<b>Federal CFDA #</b>
U.S. Agency for International Development: IFRP - Hunger for Education - 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, 2018**

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**SECTION II - FINANCIAL STATEMENT FINDINGS**

***2018-001 Financial Reporting (Significant Deficiency)***

**Criteria or Specific Requirements:**

Entities that are recipients of federal awards have a responsibility to design, implement and maintain an internal control environment to achieve effective and efficient operations; reliability of financial reporting; and, compliance with applicable laws and regulations. The control environment sets the tone of an organization, which influences the control consciousness of its people. The key factors impacting the control environment include, among other things, management's philosophy and operating style, organizational structure, assignment of authority and responsibility and policies and practices with respect to human resources.

**Condition, Cause, and Effect:**

The initial draft of the financial statements prepared by the Organization was not reflective of the final trial balance that was provided to us, but rather included top sided entries to adjust balances to actual. Further, there did not appear to be a complete listing of client-prepared adjustments to bridge the opening and final trial balances. We also noted during our discussions with management that there are several accounts (inventory, third party trusts, etc...) that, due to a MIP system limitation, began the fiscal year with the incorrect opening account balance. This required manual entries to be made to true-up the balances.

**Questioned Costs:**

None identified.

**Recommendation:**

We recommend that management upgrade its general ledger software to minimize opening balance errors and adjustments. We recommend that the Organization then records all the fiscal year activity directly within the general ledger.

**Views of Responsible Officials:**

Management agrees with this finding and recommendation and estimates implementing the necessary corrective active plan in fiscal 2019 for the employee control-related findings and fiscal year 2020 for the general ledger system-related findings. Management refers the reader to the Corrective Action Plan.

***2018-002 Net Asset Release Treatment (Significant Deficiency)***

**Criteria or Specific Requirements:**

Entities that are recipients of federal awards have a responsibility to design, implement and maintain an internal control environment to achieve effective and efficient operations; reliability of financial reporting; and, compliance with applicable laws and regulations. The control environment sets the tone of an organization, which influences the control consciousness of its people. The key factors impacting the control environment include, among other things, management's philosophy and operating style, organizational structure, assignment of authority and responsibility and policies and practices with respect to human resources.

**Condition, Cause, and Effect:**

During our review of the annual activity of the split interest agreements, we noted that the appreciation/depreciation and distributions were not being flowed through the appropriate accounts as reflected on the final trial balance provided to us. This resulted in an overstatement of the Organization's change in value of

**SALESIAN MISSIONS, INC.**  
**Schedule of Findings and Questioned Costs**  
**For the year ended December 31, 2018**

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split interest agreements and a corresponding understatement of the Organization's contributions with donor restrictions and by approximately \$5.1 million as of December 31, 2018.

**Questioned Costs:**

None identified.

**Recommendation:**

We recommend that management record distributions and appreciation/depreciation of split interest agreements in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

**Views of Responsible Officials:**

Management agrees with this finding and recommendation and estimates implementing the necessary corrective action plan in fiscal 2019. Management refers the reader to the Corrective Action Plan.

***2018-003 Split Interest Treatment (Significant Deficiency)***

**Criteria or Specific Requirements:**

Entities that are recipients of federal awards have a responsibility to design, implement and maintain an internal control environment to achieve effective and efficient operations; reliability of financial reporting; and, compliance with applicable laws and regulations. The control environment sets the tone of an organization, which influences the control consciousness of its people. The key factors impacting the control environment include, among other things, management's philosophy and operating style, organizational structure, assignment of authority and responsibility and policies and practices with respect to human resources.

**Condition, Cause, and Effect:**

During our review of the net asset amounts released for restriction, we noted that there were certain releases recorded during the year that included amounts for expenditures unrelated to donor restricted net assets. This resulted in an overstatement of the Organization's net assets released with donor restrictions by approximately \$1.8 million for the year ended December 31, 2018.

**Questioned Costs:**

None identified.

**Recommendation:**

We recommend that management perform a detailed analysis each year of donor restricted balances, and update coding in the general ledger, as needed, to properly track donor restricted and agency restricted assets and related expenditures on a real-time basis, to ensure appropriate compliance with donor wishes.

**Views of Responsible Officials:**

Management agrees with this finding and recommendation and estimates implementing the necessary corrective action plan in fiscal 2019. Management refers the reader to the Corrective Action Plan.

**SECTION III - FEDERAL AWARD FINDING AND QUESTIONED COSTS**

None noted.



# SALESIAN MISSIONS

Our mission gives hope to millions of youth around the globe.



*What's your mission?*

**Internal Control Matters Response -3 pgs**  
**CORRECTIVE ACTION PLAN**

**Salesian Missions, Inc.**  
**Financial Statement Adjustments**  
**Fiscal Year 2018**

<p><b>Index 1</b></p>	<p>2018-001</p> <p>We will aim to book all top side entries into the general ledger as required to report audited financials and footnotes in conformity with US GAAP. We will research upgrading our general ledger to facilitate capturing all transactions including; due -to - due-from intercompany accounts, inventory, bequests, beneficial interest in third party trusts, net asset releases, split interest activity, Charitable Gift Annuity obligations as regulated by the NYS Dept. of Finance, international In-kind contributions and grant activities. SMOIP uses salesforce software to track / analyze In-kind activity which at this time does not interface with Abila-MIP GL, so related manual entries are created, analyzed and posted to GL.</p>
<p><b>Estimated Implementation Date(s)</b></p>	<p>Estimated fiscal 2019 for the employee control-related findings. Fiscal year 2020 for the general ledger system-related findings.</p>
<p><b>Name and Phone # of Person Responsible for Implementation</b></p>	<p>Daniel DeFilippis Controller (914) 633-8344 2 LEFEVRE LANE, NEW ROCHELLE NY 10801-5710</p>

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## CORRECTIVE ACTION PLAN

**Salesian Missions, Inc.**  
**Split Interest Activity Treatment**

**Fiscal Year 2018**

<b>Index 2</b>	2018-002  We agree that distributions and appreciation /depreciation of split interest agreements associated with charitable remainder and perpetual trusts must flow properly through pertinent accounts based on US GAAP and be reflected on the final trial balance e.g. Eunice Gardiner endowment, Estelle Rogers CRT.
<b>Estimated Implementation Date</b>	Estimated for fiscal year 2019
<b>Name and Phone # of Person Responsible for Implementation</b>	Daniel DeFilippis Controller (914) 633-8344

## CORRECTIVE ACTION PLAN

Salesian Missions, Inc.  
Net Asset Release Treatment

Fiscal Year 2018

<b>Index 3</b>	2018-003  We will ensure that timely detailed donor restricted net assets analyses occur, be reviewed / reconciled and accurately reflected in GL based on donor wishes. Inactive restrictive program codes to be reviewed and deleted in iMIS and GL.
<b>Estimated Implementation Date</b>	Estimated for fiscal year 2019
<b>Name and Phone # of Person Responsible for Implementation</b>	Daniel DeFilippis Controller (914) 633-8344