

Oblate Missionary Society, Inc.

Financial Statements

June 30, 2018 and 2017

OBLATE MISSIONARY SOCIETY, INC.

INDEX TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

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Craig, Fitzsimmons & Michaels, LLP

Certified Public Accountants, Management and IT Consultants

20 Manor Road • Smithtown, New York 11787

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Audit Committee of the
Oblate Missionary Society, Inc.
391 Michigan Avenue, NE
Washington, DC 20017

We have audited the accompanying financial statements of Oblate Missionary Society, Inc., which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and changes in net assets without donor restrictions, statements of restricted activities and changes in net assets with donor restrictions, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Oblate Missionary Society, Inc. as of June 30, 2018 and 2017, and its changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules included on page 23 is presented for purposes of additional analysis and is not a required part of the financial statements. Such 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 audit of the financial statements and certain additional procedures, including comparing and reconciling such 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

Craig, Fitzsimmons & Michaels, LLP

Smithtown, NY
October 9, 2018

OBLATE MISSIONARY SOCIETY, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30,

	<u>2018</u>	<u>2017</u>
<u>ASSETS</u>		
Cash	\$ 2,995,682	\$ 4,496,246
Postage on deposit and prepaid expenses	90,579	121,862
Legacies and other receivables	2,095,095	3,093,891
Mailing supplies, net of reserve	571,751	510,433
Inventory of religious articles, net of reserve	941,490	1,056,385
Trust funds receivable	2,461,412	2,990,782
Property and equipment, net of accumulated depreciation	<u>1,821,195</u>	<u>1,971,993</u>
Total assets	<u>\$ 10,977,204</u>	<u>\$ 14,241,592</u>
 <u>LIABILITIES AND NET ASSETS</u>		
<u>Liabilities</u>		
Accounts payable	\$ 717,079	\$ 647,510
Accrued wages, taxes and benefits	771,650	762,319
Capital lease payable	129,271	221,742
Due to affiliated entities	<u>990,780</u>	<u>2,287,476</u>
Total liabilities	<u>\$ 2,608,780</u>	<u>\$ 3,919,047</u>
 <u>Net Assets</u>		
Without donor restrictions	\$ 5,907,012	\$ 7,331,763
With donor restrictions	<u>2,461,412</u>	<u>2,990,782</u>
Total net assets	<u>\$ 8,368,424</u>	<u>\$ 10,322,545</u>
Total liabilities and net assets	<u>\$ 10,977,204</u>	<u>\$ 14,241,592</u>

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

OBLATE MISSIONARY SOCIETY, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN
NET ASSETS WITHOUT DONOR RESTRICTIONS
FOR THE YEARS ENDED JUNE 30,

<u>Without donor restrictions</u>	<u>2018</u>	<u>2017</u>
Support from the Public:		
Fund raising contributions	\$ 22,409,835	\$23,935,999
Donor development contributions	1,399,302	1,650,766
Split interest gifts	150,696	223,292
Trust grants	20,329	17,557
Legacies and bequests	5,282,883	10,895,414
Total support from the public	<u>\$ 29,263,045</u>	<u>\$36,723,028</u>
Revenue:		
Grotto Spiritual Center	\$ 1,166,501	\$ 1,083,342
Name rental royalties	223,526	290,782
Contributed rent	1,220,820	1,220,820
Other revenues	150,656	104,879
Total revenue	<u>\$ 2,761,503</u>	<u>\$ 2,699,823</u>
Assets released from donor restrictions:	<u>\$ 185,644</u>	<u>\$ 19,497</u>
Total support and revenue	<u>\$ 32,210,192</u>	<u>\$39,442,348</u>
Expenses:		
Program Services:		
Support of Oblate Ministries	\$ 8,383,251	\$12,329,925
Grotto Spiritual Center	1,001,592	932,601
Evangelization	16,418,649	15,277,260
Total program services	<u>\$ 25,803,492</u>	<u>\$28,539,786</u>
Supporting Services:		
Fund raising	\$ 2,712,481	\$ 2,993,415
Donor development	3,506,687	3,215,480
Management and general	1,612,283	1,812,122
Total supporting services	<u>\$ 7,831,451</u>	<u>\$ 8,021,017</u>
Total program and supporting services	<u>\$ 33,634,943</u>	<u>\$36,560,803</u>
Change in net assets without donor restrictions for year	\$ (1,424,751)	\$ 2,881,545
Net assets without donor restrictions at beginning of year	<u>7,331,763</u>	<u>4,450,218</u>
Net assets without donor restrictions at end of year	<u>\$ 5,907,012</u>	<u>\$ 7,331,763</u>

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

OBLATE MISSIONARY SOCIETY, INC.
STATEMENTS OF RESTRICTED ACTIVITIES AND CHANGES IN
NET ASSETS WITH DONOR RESTRICTIONS
FOR THE YEARS ENDED JUNE 30.

<u>With donor restrictions</u>	<u>2018</u>	<u>2017</u>
Support from the Public:		
Trust grants	\$ 50,000	\$ 120,364
Revenue:		
Unrealized gain (loss) in donor restricted assets	(393,726)	(198,710)
Other changes in donor restricted net assets:		
Assets released from restrictions	<u>(185,644)</u>	<u>(19,497)</u>
Change in net assets with donor restrictions for year	\$ (529,370)	\$ (97,843)
Net assets with donor restrictions at beginning of year	<u>2,990,782</u>	<u>3,088,625</u>
Net assets with donor restrictions at end of year	<u>\$ 2,461,412</u>	<u>\$ 2,990,782</u>
 <u>Change in net assets for year:</u>		
Without donor restrictions	\$ (1,424,751)	\$ 2,881,545
With donor restrictions	<u>(529,370)</u>	<u>(97,843)</u>
Total change in net assets	<u>\$ (1,954,121)</u>	<u>\$ 2,783,702</u>

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

OBLATE MISSIONARY SOCIETY, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2018

	-----Program Services-----			-----Supporting Services-----			
	Support of Oblate Ministries	Grotto Spiritual Center	Evangelization	Fund Raising	Donor Development	Management and General	Total
Grants in support of Oblates Ministries	\$ 8,383,251	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,383,251
Automobile and travel	-	1,152	160,313	22,516	31,964	18,995	234,940
Bank and service fees	-	24,525	-	-	-	291,706	316,231
Consultants and creative fees	-	-	84,206	26,577	38,423	99	149,305
Contributed rent expense	-	-	940,031	134,290	48,833	97,666	1,220,820
Depreciation	-	4,962	198,507	49,156	19,476	14,581	286,682
Equipment leases and rentals	-	470	78,902	19,483	7,717	5,812	112,384
Equipment repairs and maintenance	-	16,449	222,998	31,857	11,584	91,316	374,204
Maintenance, utilities and insurance	-	79,985	249,545	35,649	12,963	25,927	404,069
Mass stipends and charitable donations	-	65,764	-	12,461	-	35,729	113,954
Memberships, dues and subscriptions	-	75	32,810	4,749	6,739	4,141	48,514
Name rentals and exchanges	-	-	441,208	29,019	180,212	9,673	660,112
Postage and freight	-	10,858	3,213,290	659,616	978,024	75,727	4,937,515
Printing and production	-	-	3,839,213	669,626	1,005,411	114,517	5,628,767
Professional fees	-	-	88,476	13,385	18,981	12,219	133,061
Religious articles, worship aids and cards	-	355,946	2,167,111	-	-	-	2,523,057
Salaries, stipends and benefits	-	418,142	4,292,295	750,842	1,062,758	776,664	7,300,701
Space ads	-	-	204,867	24,916	38,759	8,305	276,847
Supplies	-	12,095	104,937	14,855	21,085	12,642	165,614
Telemarketing	-	-	-	196,714	-	-	196,714
Telephone	-	11,169	99,333	16,595	23,504	16,560	167,161
Website/E-mail expenses	-	-	607	175	254	4	1,040
Total expenses	<u>\$ 8,383,251</u>	<u>\$ 1,001,592</u>	<u>\$ 16,418,649</u>	<u>\$ 2,712,481</u>	<u>\$ 3,506,687</u>	<u>\$ 1,612,283</u>	<u>\$ 33,634,943</u>

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

OBLATE MISSIONARY SOCIETY, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2017

	-----As Restated-----						
	-----Program Services-----			-----Supporting Services-----			
	<u>Support of Oblate Ministries</u>	<u>Grotto Spiritual Center</u>	<u>Evangelization</u>	<u>Fund Raising</u>	<u>Donor Development</u>	<u>Management and General</u>	<u>Total</u>
Grants in support of Oblates Ministries	\$12,329,925	\$ -	\$ -	\$ -	\$ -	\$ -	\$12,329,925
Automobile and travel	-	1,623	128,835	24,022	23,703	27,993	206,176
Bank and service fees	-	33,829	-	-	-	267,165	300,994
Consultants and creative fees	-	-	86,658	30,459	35,625	580	153,322
Contributed rent expense	-	-	940,031	134,290	48,833	97,666	1,220,820
Depreciation	-	-	206,016	35,537	33,575	7,971	283,099
Equipment leases and rentals	-	1,785	35,314	6,268	4,930	1,640	49,937
Equipment repairs and maintenance	-	4,475	285,871	40,839	14,850	90,527	436,562
Maintenance, utilities and insurance	-	75,064	202,935	28,991	10,542	21,084	338,616
Mass stipends and charitable donations	-	21,534	-	15,955	-	27,634	65,123
Memberships, dues and subscriptions	-	145	26,918	5,893	6,147	6,846	45,949
Name rentals and exchanges	-	-	562,045	-	289,830	-	851,875
Postage and freight	-	12,222	3,098,205	801,723	875,483	72,084	4,859,717
Printing and production	-	-	3,529,394	825,267	875,285	97,857	5,327,803
Professional fees	-	-	79,619	17,978	18,926	20,868	137,391
Religious articles, worship aids and cards	-	342,842	1,675,730	-	-	-	2,018,572
Salaries, stipends and benefits	-	411,777	4,092,015	886,178	921,125	1,029,484	7,340,579
Space ads	-	-	149,769	24,287	22,263	6,072	202,391
Supplies	-	18,797	79,041	14,838	14,680	17,289	144,645
Telemarketing	-	-	-	81,330	-	-	81,330
Telephone	-	8,508	77,168	15,914	16,281	18,506	136,377
Website/E-mail expenses	-	-	21,696	3,646	3,402	856	29,600
	<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>
Total expenses	<u>\$12,329,925</u>	<u>\$ 932,601</u>	<u>\$ 15,277,260</u>	<u>\$ 2,993,415</u>	<u>\$ 3,215,480</u>	<u>\$ 1,812,122</u>	<u>\$36,560,803</u>

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

OBLATE MISSIONARY SOCIETY, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30,

	<u>2018</u>	<u>2017</u>
<u>Cash flows from operating activities:</u>		
Cash collected from donors	\$31,428,342	\$35,858,283
Cash paid to employees and other suppliers of goods and services	(23,592,345)	(22,305,256)
Cash paid to support Oblate Ministries	(9,662,015)	(10,794,365)
Other operating cash reserve	374,182	395,661
Interest paid	(6,017)	(8,981)
Income taxes paid	<u>-</u>	<u>-</u>
Net cash provided (used) by operating activities	<u>\$ (1,457,853)</u>	<u>\$ 3,145,342</u>
<u>Cash flows from investing activities:</u>		
Computer database in development	\$ -	\$ (17,700)
Purchase of property and equipment	(12,943)	(11,473)
Grotto improvement	(122,941)	(308,854)
Matured trust grants	<u>185,644</u>	<u>19,497</u>
Net cash provided (used) by investing activities	<u>\$ 49,760</u>	<u>\$ (318,530)</u>
<u>Cash flows from financing activities:</u>		
Capital lease	<u>\$ (92,471)</u>	<u>\$ (89,465)</u>
Net cash provided by financing activities	<u>\$ (92,471)</u>	<u>\$ (89,465)</u>
Net increase (decrease) in cash	\$ (1,500,564)	\$ 2,737,347
Cash at beginning of year	<u>4,496,246</u>	<u>1,758,899</u>
Cash at end of year	<u>\$ 2,995,682</u>	<u>\$ 4,496,246</u>
<u>Supplemental Cash Flows Disclosures</u>		
Non cash activities:		
Contributed rent	<u>\$ 1,220,820</u>	<u>\$ 1,220,820</u>

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

OBLATE MISSIONARY SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

1. Summary of Significant Accounting Policies

a. Mission

The Organization is a ministry of the United States Province of the Missionary Oblates of Mary Immaculate (the affiliate), an order of Catholic priests and brothers. The Organization was established to support the operations and missions of the United States Province of the Missionary Oblates of Mary Immaculate. The Organization gives witness to Jesus Christ through a genuine commitment for the evangelization of the poor and abandoned. The Organization pledges to raise the awareness of all God's people to the Gospel mandate to grow in personal holiness and to exercise service in the world.

The Organization accomplishes this ministry through the promotion of religious devotion to Jesus Christ and his Mother, religious education and faith formation (Evangelization). The Organization also furthers its mission through the sponsorship of the Lourdes Grotto of the Southwest and Tepeyac Shrine and the Grotto gift shop, collectively the Grotto Spiritual Center. The educational and devotional activities of the Organization are facilitated through the use of, and participation in, liturgies, novenas, prayer, and the distribution of religious articles. These activities are promoted through direct mail contacts, electronic and telephone communications, personal visitations, sponsorship of pilgrimages to holy places and participation in various sacramental activities.

The Organization provides God's people with the opportunity to support the religious, social, educational and charitable works of the Missionary Oblates and their co-workers throughout the world (Support of Oblate Ministries). This is accomplished by conducting fund raising and ministerial activities which offer personal invitations to recognize that all people are our brothers and sisters, and entitled to the human dignity announced in the Gospel. These activities also provide an opportunity for existing and potential benefactors to share in the spiritual benefits and well being, which flow from their financial and spiritual support.

b. Basis of Presentation

The accompanying financial statements have been prepared in accordance with the recommendations of the Financial Accounting Standards Board (FASB). In accordance with generally accepted accounting standards of the United States of America, the financial statements report amounts separately by class of net assets. Net assets are classified as follows:

OBLATE MISSIONARY SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

1. Summary of Significant Accounting Policies – continued

b. Basis of Presentation – continued

Without Donor restrictions amounts are those currently available at the discretion of the Affiliate for use in its operations and ministries.

With Donor restrictions amounts result from inflows whose use by the Affiliate is limited by donor-imposed stipulations that either expire with the passage of time or can be fulfilled and removed by actions of the Affiliate.

Contributions and in kind donations, valued at estimated market value as determined by management at the time of receipt, are recorded as support with or without donor restrictions, depending on the existence and/or nature of donor restrictions. When a restriction expires through the accomplishment of purpose or the passage of time, restricted assets are reclassified to unrestricted and reported in the statement of activities as net assets released from restrictions. Restrictions received and met in the same reporting period are recorded as activities without donor restrictions.

Restricted contributions transferred to the Affiliate during the reporting period are recorded in the unrestricted class in these financial statements. Restricted contributions, which have not been transferred during the reporting period, are recorded as increases within the donor restricted class depending upon the specific terms of the gifts received.

The Organization reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

For the years ended June 30, 2018 and 2017, there were no gifts of land, buildings and equipment received by the Organization other than purchases made by the Affiliate on behalf of the Organization. There were no restrictions as to the use for any of the purchases.

OBLATE MISSIONARY SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

1. Summary of Significant Accounting Policies – continued

c. Cash

Cash consists of cash and cash equivalents in demand deposit accounts, cash on hand and short term investments with an original maturity of twelve months or less.

d. Direct Mail Fund Raising and Donor Development

The Organization derives a significant portion of its public support from direct mail solicitations. Direct mail fund raising involves two distinct activities, fund raising and donor development. These activities are reported separately in the financial statements.

The fund raising function includes the costs of soliciting gifts from current donors listed on the internal database of the Organization. The donor development function includes similar costs, but these relate to contacting individuals who might be interested in the Organization's programs and ministries, but have not previously participated, or are no longer actively participating in the programs of the Organization.

The total fund raising expense, which includes both fund raising and donor development, for the years ended June 30, 2018 and 2017 was \$6,219,168 and \$6,208,895, respectively.

e. Impairment of Long-Lived Assets

The Organization reviews long-lived assets for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable. The Organization performs undiscounted cash flow analyses to determine if impairment exists. If the Organization determines impairment exists, any related impairment loss is calculated based upon fair value. Impairment losses on assets to be disposed of, if any, are based upon the estimated proceeds to be received, less the costs of disposal. There were no impairments losses on long-lived assets for the years ended June 30, 2018 and 2017, respectively.

f. Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (US GAAP). Under this method, revenues are recognized when earned and expenses are recognized when incurred.

OBLATE MISSIONARY SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

1. Summary of Significant Accounting Policies – continued

g. Receivables and Allowance for Doubtful Accounts

It is the Organization's policy to record as a receivable amounts due under legacies, which have cleared probate. Also included in receivables are billings for services provided to, or amounts paid on behalf of related entities. The Organization accounts for uncollectible receivables using the reserve method. No reserve was deemed necessary at June 30, 2018 and 2017.

h. Property and Equipment

It is the policy of the Organization to capitalize all major purchases of property and equipment valued at \$5,000 or more. All property and equipment valued in these financial statements are owned by the Affiliate and held for the exclusive use of the Organization in its administration and ministries. Historical basis of capitalized property and equipment is determined by cost if purchased or fair value at date of donation, if contributed.

In accordance with this policy an allocation is made to current operations by depreciating property and equipment based upon the estimated useful life of the asset, which range from 3 to 20 years, using the straight-line method.

i. Inventory – Religious Articles

Inventory consists of religious articles promoted and distributed in relation to evangelization as well as those items for public resale at the Grotto Spiritual Center, which are distributed in support of spiritual ministries. Inventory is valued at the lower of cost or estimated net realizable value on a first in, first out basis.

j. Fair Value Measurement

Recent professional pronouncements established a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

OBLATE MISSIONARY SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

1. Summary of Significant Accounting Policies – continued

j. Fair Value Measurement - continued

Level 1 – There are active markets that have quoted prices for the investments.

Level 2 – There are quoted prices for similar assets or liabilities in active markets and inactive markets, inputs other than quoted prices that are observable for the assets or liabilities, or there are specified contractual terms for valuation basis for the assets or liabilities.

Level 3 – The valuation methodology is unobservable and significant to the fair value measurement calculation.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The Organization holds beneficial interests in temporary and irrevocable trusts which are administered by 3rd parties. These assets are classified on the Statement of Financial Position under the caption "Trust Funds Receivable." These receivables are considered to be Level 3 valuations. The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2018.

Beneficial interest in temporary and irrevocable trusts – donor restricted net assets: Valued at the fair value of the underlying trust investments, determined by the closing price reported in the active or observable market in which the individual marketable securities that are held within the trust are traded, as reported to the Organization by the 3rd party trustees.

Beneficial interest in irrevocable trusts – donor restricted net assets: Valued based upon the present value of future distributions to be received using current cash flows and an assumed rate of return on the underlying assets of 7%.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Note 10 details the Organization's net assets with donor restrictions that are considered to be Level 3 valuations according to the framework outlined above.

OBLATE MISSIONARY SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

1. Summary of Significant Accounting Policies – continued

k. Mailing Supplies

Mailing supplies consist primarily of material to be used for future mailings. These include paper stock, envelopes, shipping materials and printing supplies.

l. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenues and expenses. Actual results could differ from those estimates and assumptions.

The Organization records royalty receivables based on the present value of estimated future cash flows. This valuation is determined based on the collection history from the royalty or an expert's valuation of estimated income to be received. No asset is recorded where there is an uncertainty as to the future collections of the royalty.

m. Support from the Public

Certain amounts recorded as support from the public relate to the ministerial activities of the Organization. Management believes it is not cost effective to design and implement systems to quantify the associated costs of these activities.

n. Functional Allocation of Expenses and Significant Programs

The costs of providing the various programs and other 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. Principal programs are composed of:

Support of Oblate Ministries - The Organization provides spiritual and financial support for the Oblates' missionary humanitarian and evangelization efforts with the poor, the education of Oblate seminarians, and the general needs of the Oblates.

Grotto Spiritual Center - Our Lady of Lourdes Grotto of the Southwest and Tepeyac Shrine is the spiritual center of Oblate Missions. Ministerial services, which take place at the Grotto Spiritual Center, include the celebration of masses, novena services, healing services, the distribution of religious articles and other religious activities inviting participants to join in prayer and religious activities.

OBLATE MISSIONARY SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

1. Summary of Significant Accounting Policies – continued

n. Functional Allocation of Expenses and Significant Programs - continued

Evangelization - The Organization is committed to raising the consciousness of all God's people by promulgating awareness of the Gospel's mandate to growth in holiness and coordinated service to humankind. The Organization provides for special religious needs and opportunities for spiritual growth and healing to our friends. The Organization also offers opportunities for enhancement of religious devotion to Jesus Christ and his mother Mary by means of liturgies, novenas, prayer petitions, and provision of religious articles, prayer tools and facilitation of various sacramental activities.

o. Outstanding Legacies

The Organization is the beneficiary under various wills and other gift agreements. The Organization's share of such amounts is not recorded until the Organization has an irrevocable right to the bequest and the proceeds are measurable.

p. Pledges Receivable, Net

Contributions, including unconditional pledges, are recognized as revenues in the period in which they are received. Conditional pledges are not recognized until they are substantially met. Contributions of assets other than cash are reported at their estimated fair value at the date of receipt.

Pledges receivable represent contributions or legacies promised to the Organization, which will be received over an extended period of time. The Organization records these receivables net of applicable discount. No allowance is deemed necessary.

For the years ended June 30, 2018 and 2017, pledges receivable are calculated as follows:

	<u>2018</u>	<u>2017</u>
Pledges Receivable:		
1-5 years	\$ 101,271	\$ 135,495
6-17 years	<u>404,490</u>	<u>434,655</u>
Gross receivable	\$ 505,761	\$ 570,150
Less: Discount to present value @ 3%	<u>(93,369)</u>	<u>(108,551)</u>
Pledges receivable, net	<u>\$ 412,392</u>	<u>\$ 461,599</u>

The Organization considers these receivables to be level 3 valuations under the measurement methodologies outlined in Note 1(j).

OBLATE MISSIONARY SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

1. Summary of Significant Accounting Policies – continued

q. Advertising Costs

Advertising costs are expensed as incurred. For the years ending June 30, 2017 and 2016, advertising expense was \$276,847 and \$202,391, respectively.

r. Tax Exempt Status

Oblate Missionary Society, Inc., is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) through its inclusion in the Group Ruling issued annually to the United States Conference of Catholic Bishops. It has been classified as an organization that is not a private foundation under Section 509(a) of the IRC. Contributions to the organization qualify for charitable contribution deductions as stated in Section 170 of the IRC.

All the activities of Oblate Missionary Society, Inc. are related to the tax exempt purpose. Management has taken the position that they are not required to file any federal or state income tax returns and have not accrued any tax expense or provision for income taxes on the financial statements.

U.S. generally accepted accounting principles require tax effects from an uncertain tax position to be recognized in the financial statements only if the position is more likely than not to be sustained in 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 the position may be challenged. If an uncertain tax position meets the more-likely-than-not threshold, the largest amount of the tax benefit that is greater than 50% likely to be recognized upon ultimate settlement with the taxing authority is recorded. Since the Organization is considered to be tax exempt from income taxes and all activities are considered to be related to its exempt purpose, management does not believe that any material uncertain tax positions exist.

s. Reclassifications

Certain amounts in the 2017 financial statements have been reclassified for comparative purposes to conform to the presentation of the financial statements in the current year.

2. Risks and Uncertainties

- a. Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash balances in excess of \$250,000 (FDIC insured), held in financial institutions. At June 30, 2018, cash balances exceeded FDIC insurance limits by \$997,000.

OBLATE MISSIONARY SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

2. Risks and Uncertainties – continued

- b. The Organization receives the majority of its public support in the form of donations from numerous individuals, foundations, corporations and other entities. The vast majority of these donations are received through the United States Postal Service. If delivery through the United States Postal Service were impaired it could have a material negative impact on the Organization's operations.
- c. The Organization is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; injuries to employees, errors and omissions; natural disasters, etc. These risks are covered by commercial insurance purchased from independent third parties.

3. Related Party Transactions

The net amount due to the affiliated entities consists of the following at June 30,

	<u>2018</u>	<u>2017</u>
<u>Due to affiliated entities</u>		
Oblate Annuity Trust - Annuity Contracts	\$ 73,043	\$ 25,000
Due to Province	917,737	2,236,884
Cash held in trust - annuity	<u>-</u>	<u>25,592</u>
Total	<u>\$ 990,780</u>	<u>\$ 2,287,476</u>

Legacies and other receivables of \$3,093,891 and \$1,145,804 for 2018 and 2017, respectively, included the following amounts due from affiliated entities:

	<u>2018</u>	<u>2017</u>
National Shrine of Our Lady of the Snows	\$ 12,249	\$ 18,300
Province	13,669	1,723
Other affiliated entities	<u>14,731</u>	<u>22,487</u>
Total	<u>\$ 40,649</u>	<u>\$ 42,510</u>

4. Pension Plan

Non-religious personnel participate in the Oblate Service Corporation Retirement Savings Plan. The Plan contains employee elective salary deferral options with employer matching, up to 3%, and discretionary contribution provisions. The total pension expense for the years ended June 30, 2018 and 2017 was approximately \$161,000 and \$148,800, respectively.

OBLATE MISSIONARY SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

5. Split Interest Gifts

Charitable gift annuities and other split interest agreements are recorded at their net present value in the financial statements. Discounts are taken using the Applicable Federal Rate (AFR) at the time the gift is made. The net value is calculated as follows:

	<u>2018</u>	<u>2017</u>
Face value of new split interest agreements	\$ 297,430	\$ 405,447
Less: Discount to present value using AFR	<u>(146,734)</u>	<u>(182,155)</u>
Amount reported as support from public	<u>\$ 150,696</u>	<u>\$ 223,292</u>

These contributions are transferred to a Trust, which is considered an affiliated entity.

6. Operating Leases

The Organization leases various equipment under non-cancelable operating leases. The net rental expense under operating leases were \$33,900 for the years ended June 30, 2018 and 2017.

Capital Lease

The Organization has entered into two capital leases for equipment in the amount of \$453,072. The term of these leases are for 60 months at an annual percentage rate of 3.22%. The approximate future minimum lease payments under the operating and capital lease agreements are as follows:

	<u>Operating</u>	<u>Capital</u>	<u>Total</u>
2019	\$ 11,300	\$ 98,446	\$ 109,746
2020	<u>-</u>	<u>42,324</u>	<u>42,324</u>
Total	<u>\$ 11,300</u>	<u>\$ 140,770</u>	<u>\$ 152,070</u>

7. Contributed Rent

During the year, an affiliated entity provided the Organization with the use of buildings and warehouse facilities at no cost. The fair value of the contributed rent amounted to approximately \$1,220,820 for the years ended June 30, 2018 and 2017.

The use of the rent-free facilities is provided on a year-to-year basis. No long-term commitment exists, but the agreement is automatically renewed for each successive fiscal year unless the Organization is notified by May 30th of the current fiscal year.

OBLATE MISSIONARY SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

8. Accounting for Costs of Activities that Include Fund Raising

The Organization conducted fund raising activities during the years ended June 30, 2018 and 2017 that also supported evangelization efforts. Typically, joint promotions provide the Organization's supporters with the opportunity to participate in certain intangible spiritual benefits, such as prayer and liturgies, provide religious education and offer opportunities for spiritual growth, healing and sacrificial giving.

Joint costs are allocated using the physical units' method. Direct and indirect costs of the joint activity have been allocated among Evangelization, Fund Raising and Donor Development. Package components allocated and amounts allocated are as follows:

	<u>Evangelization</u>	<u>Fund Raising</u>	<u>Donor Development</u>	<u>Management & General</u>	<u>Amount Allocated 2018</u>
Postage & freight	\$ 3,213,290	\$ 659,616	\$ 978,024	\$ 75,727	\$ 4,926,657
Name rentals & exchanges	441,208	29,019	180,212	9,673	660,112
Consultants & creative fees	84,206	26,577	38,423	99	149,305
Printing & production	<u>3,839,213</u>	<u>669,626</u>	<u>1,005,411</u>	<u>114,517</u>	<u>5,628,767</u>
Totals	<u>\$ 7,577,917</u>	<u>\$ 1,384,838</u>	<u>\$ 2,202,070</u>	<u>\$ 200,016</u>	<u>\$ 11,364,841</u>

	<u>Evangelization</u>	<u>Fund Raising</u>	<u>Donor Development</u>	<u>Management & General</u>	<u>Amount Allocated 2017</u>
Postage & freight	\$ 3,098,205	\$ 801,723	\$ 875,483	\$ 72,084	\$ 4,847,495
Name rentals & exchanges	562,045	-	289,830	-	851,875
Consultants & creative fees	86,658	30,459	35,625	580	153,322
Printing & production	<u>3,529,394</u>	<u>825,267</u>	<u>875,285</u>	<u>97,857</u>	<u>5,327,803</u>
Totals	<u>\$ 7,276,302</u>	<u>\$ 1,657,449</u>	<u>\$ 2,076,223</u>	<u>\$ 170,521</u>	<u>\$ 11,180,495</u>

9. Inventory – Religious Articles

Inventory – religious articles as shown on the Statement of Financial Position, consists of the following at June 30:

	<u>2018</u>	<u>2017</u>
Premium items	\$ 1,191,680	\$ 1,242,942
Less: net reserve	<u>(250,190)</u>	<u>(186,557)</u>
Net inventory	<u>\$ 941,490</u>	<u>\$ 1,056,385</u>

OBLATE MISSIONARY SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

10. Composition of Net Assets

Without donor restrictions

The composition of net assets without donor restrictions is as follows for June 30,

	<u>2018</u>	<u>2017</u>
Undesignated	\$ 3,144,327	\$ 4,303,385
Invested in inventory of religious articles	941,490	1,056,385
Invested in property and equipment	<u>1,821,195</u>	<u>1,971,993</u>
Total net assets without donor restrictions	<u>\$ 5,907,012</u>	<u>\$ 7,331,763</u>

With donor restrictions

Net assets with donor restrictions are composed of trust interests receivable and other income contracts at year-end. These gifts are considered to be donor restricted because they are not currently available for use by the Organization or the Affiliate. There are two types of restrictions for these net assets; Time restriction (T) or Purpose restriction (P). The composition is as follows (trust assets – Level 3 fair value measurement):

	Restriction Type	<u>2018</u>	<u>2017</u>
Trust interest receivable	T	\$ 1,996,019	\$ 2,529,183
Pledges and other	T	<u>465,393</u>	<u>461,599</u>
Total net assets with donor restrictions		<u>\$ 2,461,412</u>	<u>\$ 2,990,782</u>

The changes in the value of these Level 3 assets of \$(529,370) and \$(97,843) for the years ended June 30, 2018 and 2017, respectively, are detailed in the Statements of Activities and Changes in Net Assets with donor restrictions.

11. Liquidity and Availability

The Organization regularly monitors the liquidity required to meet its operating needs and other commitments, while also striving to maximize the investment of its available funds. The Organization has various sources of liquidity at its disposal, including cash and cash equivalents, Legacies and other receivables, Mailing supplies and Inventory of religious articles. For purposes of analyzing resources to meet general expenditures over the next year, the Organization considers all expenses related to its ongoing program service activities and those costs incurred in the support of these program services to be general expenditures.

OBLATE MISSIONARY SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

11. Liquidity and Availability – continued

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of June 30, 2018 and 2017, comprise of the following:

	<u>2018</u>	<u>2017</u>
Cash	\$ 2,995,682	\$ 4,496,246
Legacies and other receivables	2,095,095	3,093,891
Mailing supplies, net	571,751	510,433
Inventory of religious articles - net	<u>941,490</u>	<u>1,056,385</u>
Total financial assets available	<u>\$ 6,604,018</u>	<u>\$ 9,156,955</u>

In addition to the financial assets available to meet general expenditures over the next twelve (12) months listed above, the Organization operates with a balanced budget and anticipates collecting sufficient public support and revenue to cover general expenditures, not covered by donor-restricted resources. Please refer to the statement of cash flows which shows a reduction in cash of \$1,500,564 for the year ended June 30, 2018, which was significantly less than the resources available of \$9,156,955 at June 30, 2017. Further, the Organization has the ability to curtail its support of the Oblate Ministries if its cash flow is not sufficient to meet the anticipated annual funding.

12. Property and Equipment

Property and equipment as shown on the Statement of Financial Position consists of the following at June 30:

	<u>2018</u>	<u>2017</u>
Buildings and improvements	\$ 815,765	\$ 692,824
Equipment, machinery and furnishings	5,331,293	5,318,350
Vehicles	<u>78,197</u>	<u>78,197</u>
Totals	\$ 6,225,255	\$ 6,089,371
Less: Accumulated depreciation	<u>(4,404,060)</u>	<u>(4,117,378)</u>
Property and equipment, net	<u>\$ 1,821,195</u>	<u>\$ 1,971,993</u>

OBLATE MISSIONARY SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

13. Royalties

Income from legacies and bequests includes oil and gas royalties for the years ended June 30, 2018 and 2017. The underlying asset that generates this income is reflected under the caption Trust funds receivable in the statement of financial position. The valuation method used is the average monthly income valuation from 2014 and discounted by 10% each year after. For the years ended June 30, 2018 and 2017 the asset value decreased by \$478,600 and \$210,300, respectively.

14. Donated Services

The Organization benefits from personal services provided by religious personnel who volunteer their time to perform various functions that would normally have warranted payment of salaries. The value of these services is not included in these financial statements as they do not meet the generally accepted criteria of (a) providing services that create or enhance non-financial assets or (b) the services would have been purchased if not provided by contribution, require specialized skills, and are provided by individuals possessing those skills. While the value of these volunteer services has not been recognized, they are considered by management to be significant to the operation of the Organization.

15. Subsequent Events

Reporting under U.S. generally accepted accounting principles requires management to evaluate the impact of certain events that occur after the statement of financial position date, but before the financial statements are issued or available to be issued.

The date through which management has evaluated the impact of subsequent events on these financial statements is October 9, 2018.

OBLATE MISSIONARY SOCIETY, INC.

SUPPLEMENTAL SCHEDULES

JUNE 30, 2018

Grotto Spiritual Center

	<u>2018</u>	<u>2017</u>
Gross Support	\$ 1,166,501	\$ 1,083,342
Gross Expenses	<u>(1,001,592)</u>	<u>(932,600)</u>
Net Support of Oblate Ministries	<u>\$ 164,909</u>	<u>\$ 150,742</u>

Missionary Oblates Partnership

	<u>2018</u>	<u>2017</u>
Gross Support (this only includes US Province only)	\$ 332,415	\$ 736,309
Gross Expenses	<u>(252,388)</u>	<u>(252,210)</u>
Net support of Oblate Ministries	<u>\$ 80,027</u>	<u>\$ 484,099</u>