



Catholic Charities of Northeast Kansas, Inc. and Subsidiary

Consolidated Financial Report
June 30, 2017

Contents

Independent auditor's report	1-2
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Financial statements	
Consolidated statements of financial position	3-4
Consolidated statements of activities	5-6
Consolidated statements of program and supporting services expenses	7-8
Consolidated statements of cash flows	9
Notes to consolidated financial statements	10-17



RSM US LLP

Independent Auditor's Report

To the Audit Committee
Catholic Charities of Northeast Kansas, Inc.
and Subsidiary

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Catholic Charities of Northeast Kansas, Inc. and Subsidiary (the Organization), which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, the related consolidated statements of activities, program and supporting services expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, 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 the Organization as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

RSM US LLP

Kansas City, Missouri
October 18, 2017

Catholic Charities of Northeast Kansas, Inc. and Subsidiary

**Consolidated Statements of Financial Position
June 30, 2017 and 2016**

	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,873,192	\$ 2,199,728
Promises to give—United Way funding for the next fiscal year (Note 2)	403,306	398,979
Grants receivable (Note 2)	105,402	135,711
Accounts receivable:		
Program fees, less allowance for doubtful accounts of \$43,417 and \$47,237	830,505	626,775
Inventories	162,526	143,058
Due from related parties (Note 3)	531,728	321,512
Prepaid expense	106,534	71,431
Total current assets	4,013,193	3,897,194
Restricted certificates of deposit (Note 1)	250,000	250,000
Interest in net assets of the Catholic Charities Foundation of Northeast Kansas (Notes 1 and 3)	4,463,206	4,187,855
Property and equipment:		
Land	113,972	113,972
Building	1,720,713	1,750,067
Furniture and equipment	814,292	1,045,000
Building and leasehold improvements	2,013,535	1,958,305
Vehicles	490,293	410,276
Art and collectibles	4,244	4,244
	5,157,049	5,281,864
Less accumulated depreciation and amortization	3,239,052	3,150,397
	1,917,997	2,131,467
Total assets	\$ 10,644,396	\$ 10,466,516

See notes to consolidated financial statements.

	2017	2016
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 425,512	\$ 312,480
Accrued expenses	776,793	742,599
Refundable advances	123,899	133,760
Total liabilities	1,326,204	1,188,839
Commitments and contingencies (Notes 5 and 6)		
Net assets:		
Unrestricted	4,025,742	4,260,693
Unrestricted—Foundation (Note 3)	1,532,954	1,462,163
Unrestricted—designated—Foundation	621,182	484,949
Total unrestricted	6,179,878	6,207,805
Temporarily restricted (Notes 7 and 8)	829,244	829,129
Temporarily restricted—Foundation (Notes 3 and 8)	518,863	518,863
Total temporarily restricted	1,348,107	1,347,992
Permanently restricted—Foundation (Note 3)	1,790,207	1,721,880
Total net assets	9,318,192	9,277,677
Total liabilities and net assets	\$ 10,644,396	\$ 10,466,516

Catholic Charities of Northeast Kansas, Inc. and Subsidiary

**Consolidated Statement of Activities
Year Ended June 30, 2017**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue:				
Contributions (Note 3)	\$ 2,204,952	\$ -	\$ -	\$ 2,204,952
Contributed goods	11,577,632	-	-	11,577,632
United Way	333,624	403,306	-	736,930
Grants	5,252,220	545,973	-	5,798,193
Program service fees, net of contractual adjustments of \$4,582 and bad-debt expense of \$11,968	5,968,271	-	-	5,968,271
Interest	13,742	-	-	13,742
Net assets released from restrictions (Note 8):				
United Way funding	398,979	(398,979)	-	-
Other	550,185	(550,185)	-	-
Total support and revenue	26,299,605	115	-	26,299,720
Expenses (Note 4):				
Program services:				
Family support	14,785,201	-	-	14,785,201
Family and child care	1,240,119	-	-	1,240,119
Senior care	1,032,268	-	-	1,032,268
Hospice	3,626,224	-	-	3,626,224
Refugee and migrant assistance	2,487,303	-	-	2,487,303
Thrift stores	1,049,028	-	-	1,049,028
Supporting services:				
Management and general, net of management fee reimbursements of \$617,478	1,625,997	-	-	1,625,997
Fundraising	688,416	-	-	688,416
Total expenses	26,534,556	-	-	26,534,556
Change in net assets from operations	(234,951)	115	-	(234,836)
Change in interest in net assets of the Foundation (Note 3)	207,024	-	68,327	275,351
Change in net assets	(27,927)	115	68,327	40,515
Net assets:				
Beginning	6,207,805	1,347,992	1,721,880	9,277,677
Ending	\$ 6,179,878	\$ 1,348,107	\$ 1,790,207	\$ 9,318,192

See notes to consolidated financial statements.

Catholic Charities of Northeast Kansas, Inc. and Subsidiary

**Consolidated Statement of Activities
Year Ended June 30, 2016**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue:				
Contributions (Note 3)	\$ 2,020,571	\$ -	\$ -	\$ 2,020,571
Contributed goods	9,426,283	-	-	9,426,283
United Way	300,083	398,979	-	699,062
Grants	5,037,330	669,443	-	5,706,773
Program service fees, net of contractual adjustments of \$(3,999) and bad-debt expense of \$11,263	5,518,880	-	-	5,518,880
Interest	16,059	-	-	16,059
Net assets released from restrictions (Note 8):				
United Way funding	415,412	(415,412)	-	-
Other	735,818	(735,818)	-	-
Total support and revenue	23,470,436	(82,808)	-	23,387,628
Expenses (Note 4):				
Program services:				
Family support	12,457,952	-	-	12,457,952
Family and child care	1,371,239	-	-	1,371,239
Senior care	1,088,330	-	-	1,088,330
Hospice	3,786,746	-	-	3,786,746
Refugee and migrant assistance	1,995,944	-	-	1,995,944
Thrift stores	715,020	-	-	715,020
Supporting services:				
Management and general, net of management fee reimbursements of \$604,587	1,447,214	-	-	1,447,214
Fundraising	687,880	-	-	687,880
Total expenses	23,550,325	-	-	23,550,325
Change in net assets from operations	(79,889)	(82,808)	-	(162,697)
Change in interest in net assets of the Foundation (Note 3)				
	83,288	-	(94,948)	(11,660)
Change in net assets	3,399	(82,808)	(94,948)	(174,357)
Net assets:				
Beginning	6,204,406	1,430,800	1,816,828	9,452,034
Ending	\$ 6,207,805	\$ 1,347,992	\$ 1,721,880	\$ 9,277,677

See notes to consolidated financial statements.

Catholic Charities of Northeast Kansas, Inc. and Subsidiary

**Consolidated Statement of Program and Supporting Services Expenses
Year Ended June 30, 2017**

	Program Services	Supporting Services		Total
		Management and General	Fundraising	
Compensation	\$ 5,871,910	\$ 953,791	\$ 459,539	\$ 7,285,240
Employee benefits	720,309	124,334	46,801	891,444
Payroll taxes	457,436	71,533	35,386	564,355
Total compensation and related expenses	7,049,655	1,149,658	541,726	8,741,039
Assistance to individuals	1,893,593	444	-	1,894,037
Assistance—Care contracts	865,184	-	-	865,184
Continuing education	23,849	7,107	1,567	32,523
Contributed goods	11,513,651	400	89	11,514,140
Contract services	564,988	99,128	6,301	670,417
Depreciation	280,572	46,644	12,214	339,430
Dues and subscriptions	20,265	9,218	2,380	31,863
Insurance	30,578	29,050	102	59,730
Occupancy	703,633	112,794	29,345	845,772
Postage	30,072	3,943	2,043	36,058
Printing and public relations	61,747	6,864	57,385	125,996
Professional services	73,233	66,244	660	140,137
Rental and maintenance equipment	122,699	6,541	1,702	130,942
Supplies	370,943	22,858	9,282	403,083
Telephone	205,096	28,561	12,954	246,611
Mileage reimbursement and other travel	195,569	9,821	5,875	211,265
Miscellaneous	57,931	21,563	2,843	82,337
Vehicle	80,970	3,518	1,514	86,002
Volunteer	75,915	1,641	434	77,990
Total	\$ 24,220,143	\$ 1,625,997	\$ 688,416	\$ 26,534,556

See notes to consolidated financial statements.

Catholic Charities of Northeast Kansas, Inc. and Subsidiary

**Consolidated Statement of Program and Supporting Services Expenses
Year Ended June 30, 2016**

	Program Services	Supporting Services		Total
		Management and General	Fundraising	
Compensation	\$ 5,542,375	\$ 860,535	\$ 480,570	\$ 6,883,480
Employee benefits	637,255	98,286	48,542	784,083
Payroll taxes	459,045	66,162	38,889	564,096
Total compensation and related expenses	6,638,675	1,024,983	568,001	8,231,659
Assistance to individuals	1,742,367	-	-	1,742,367
Assistance—Care contracts	1,010,788	-	-	1,010,788
Continuing education	19,919	9,358	1,436	30,713
Contributed goods	9,424,232	-	-	9,424,232
Contract services	367,052	90,131	2,554	459,737
Depreciation	283,063	45,128	10,113	338,304
Dues and subscriptions	22,448	9,258	2,521	34,227
Insurance	24,263	33,230	457	57,950
Occupancy	655,624	99,385	22,265	777,274
Postage	28,396	4,062	1,963	34,421
Printing and public relations	89,679	3,048	52,121	144,848
Professional services	49,841	48,918	251	99,010
Rental and maintenance equipment	135,788	4,785	1,726	142,299
Supplies	382,518	20,342	9,027	411,887
Telephone	170,207	21,705	8,653	200,565
Mileage reimbursement and other travel	220,125	2,613	4,221	226,959
Miscellaneous	28,337	25,967	1,108	55,412
Vehicle	45,080	2,859	980	48,919
Volunteer	76,829	1,442	483	78,754
Total	\$ 21,415,231	\$ 1,447,214	\$ 687,880	\$ 23,550,325

See notes to consolidated financial statements.

Catholic Charities of Northeast Kansas, Inc. and Subsidiary

**Consolidated Statements of Cash Flows
Years Ended June 30, 2017 and 2016**

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ 40,515	\$ (174,357)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	339,430	338,304
Loss on disposal of assets	11,366	1,727
Change in interest in net assets of the Foundation	(275,351)	11,660
(Increase) decrease in operating assets:		
United Way funding for the next fiscal year	(4,327)	16,433
Inventories	(19,468)	47,101
Grants receivable	30,309	48,880
Accounts receivable	(203,730)	63,164
Prepaid expenses	(35,103)	(15,368)
Related party	(210,216)	(33,817)
Increase (decrease) in operating liabilities:		
Accounts payable	113,032	10,541
Accrued expenses	34,194	93,938
Refundable advances	(9,861)	2,830
Net cash (used in) provided by operating activities	(189,210)	411,036
Cash flows from investing activities:		
Purchases of property and equipment	(137,326)	(210,192)
Net cash used in investing activities	(137,326)	(210,192)
(Decrease) increase in cash and cash equivalents	(326,536)	200,844
Cash and cash equivalents:		
Beginning	2,199,728	1,998,884
Ending	\$ 1,873,192	\$ 2,199,728

See notes to consolidated financial statements.

Catholic Charities of Northeast Kansas, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies

Nature of organization: Catholic Charities of Northeast Kansas, Inc. and Subsidiary (the Organization) is a health and social service agency providing services for people of all faiths in 21 counties of northeast Kansas.

The Organization is partially supported by Catholic Charities Foundation of Northeast Kansas, Inc. (the Foundation). The accompanying consolidated financial statements include the Organization's interest in the net assets of the Foundation. The Foundation was established to support the Organization. The Organization provides management services to the Foundation under a management agreement. Grants are made annually to the Organization as determined by the Foundation's Board of Trustees.

The following is a summary of the Organization's significant accounting policies:

Principles of consolidation: The consolidated financial statements include the accounts of Catholic Charities of Northeast Kansas, Inc. and its wholly owned subsidiary, Catholic Neighborhood Outreach, Inc. All significant interagency transactions and accounts are eliminated in consolidation.

Basis of presentation: The Organization classifies its net assets for accounting and reporting purposes into three net asset categories according to externally (donor) imposed restrictions. As such, the consolidated financial statements are presented on the basis of unrestricted, temporarily restricted and permanently restricted net assets. The Organization may designate portions of its unrestricted net assets as board-designated for various purposes.

Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets: Net assets are not subject to donor-imposed stipulations.

Temporarily restricted net assets: Net assets are subject to donor-imposed stipulations that may or will be met either by actions of the Organization or the passage of time.

Permanently restricted net assets: Net assets are subject to donor-imposed stipulations that expire neither by the passage of time nor by actions of the Organization.

Contributions: Gifts of cash and other assets are presented as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.

Gifts of land, building and equipment are presented 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 asset is donated or as assets are acquired.

Gifts of materials and property are recorded as contributions at their estimated fair value at the date of donation. Such gifts are reported as unrestricted unless the donor has restricted the donated asset to a specific purpose. No amounts have been reflected in the consolidated financial statements for donated services. The Organization pays for most services requiring specific expertise. However, many individuals volunteer their time to perform a variety of tasks.

Catholic Charities of Northeast Kansas, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized.

Conditional promises to give are recognized when the conditions on which they depend are substantially met. There were no conditional pledges at June 30, 2017 and 2016.

Net program service fees: Net program service fees represent the estimated net realizable amounts from patients, third-party payors, and others for services rendered and are reported at the estimated net realizable amounts. A summary of the payment arrangements with major third-party payors follows:

Medicare: Services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors.

Medicaid: Services rendered to Medicaid program beneficiaries are reimbursed under a predetermined reimbursement fee.

The Organization also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Organization under these agreements includes prospectively determined rates per discharge and discounts from established rates.

At times, the Organization provides medical care without charge, or at a reduced cost, to residents of its community, primarily through (1) services provided at no charge to the uninsured and (2) no charge for the difference between public program payments (primarily Medicare and Medicaid) and the related costs of providing such services.

Use of estimates: The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. 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. Actual results could differ from those estimates.

Cash and cash equivalents: Cash and cash equivalents consist of cash on hand or deposits of all highly liquid investments that are unrestricted with an initial maturity of three months or less.

Promises to give: Pledges receivable are recognized as contributions revenue in the period that the unconditional promise to give is made and as assets, decreases of liabilities, or expenses, depending on the form of the benefits received. No allowance has been recorded on the books, as pledges receivable are expected to be collected in full. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Accounts receivable and net patient service revenue: Program fee receivables due directly from the patients are carried at the original charge for the service provided less amounts covered by third-party payors and less an estimated allowance for doubtful receivables.

Catholic Charities of Northeast Kansas, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Management determines the allowance for doubtful accounts by identifying troubled accounts, by historical experience applied to an aging of accounts, and by considering the patient's financial history and credit history and current economic conditions. The Organization does not charge interest on patient receivables. Patient receivables are written off as provision for bad debt when deemed uncollectible. Recoveries of receivables previously written off are recorded as a reduction of the provision for bad debt when received.

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Net patient service revenue is reported net of the provision for bad debts.

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectibility of accounts receivable, the Organization analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Organization analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary. For receivables associated with self-pay patients, the Organization records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible.

Uncollected accounts amounting to approximately \$15,423 and \$13,366 were written off against the existing allowance during the years ended June 30, 2017 and 2016, respectively.

Certificates of deposit: Certificates of deposit have original maturities greater than one year and are reported at fair value based on quoted market prices for those or similar investments. The Organization has restricted the certificates of deposit for collateral for the Kansas Loan Pool Project of Northeast Kansas.

Interest in net assets of Catholic Charities Foundation of Northeast Kansas, Inc.: The interest in net assets held by Catholic Charities Foundation of Northeast Kansas, Inc. is recorded similar to the equity method of accounting.

Catholic Charities of Northeast Kansas, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Property and equipment: Acquisitions of property and equipment are capitalized at cost. Major improvements or additions to these items are capitalized, while minor improvements and maintenance are charged against current operations. In accordance with grant awards, the Kansas Department of Transportation has a lien against certain vehicles owned by the Organization, whereby those vehicles will revert to the Kansas Department of Transportation in the event the program is discontinued. Depreciation is provided using the straight-line method over the shorter of the useful lives of the assets or the lease term. The estimated useful lives of the assets are as follows:

	<u>Years</u>
Building	40
Furniture and equipment	5-10
Building and leasehold improvements	10-20
Vehicles	5

Grant revenue and refundable advances: Grants are recorded as revenue when the related services or requirements have been performed.

Refundable advances include grants where cash has been received in advance of related expenditures and achievement of specific contractual requirements is required for revenue recognition.

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

Income tax status: The Organization is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying consolidated financial statements. In addition, the Organization qualifies for the charitable contribution deduction under section 170(c)(2)(B) and has been classified as an organization that is not a private foundation. Uncertain tax positions, if any, are recorded in accordance with *FASB Accounting Standards Codification* (ASC) Topic 740, Income Taxes, which requires the recognition of a liability for tax positions taken that do not meet the more-likely-than-not standard that the position will be sustained upon examination by the taxing authorities. There is no liability for uncertain tax positions recorded at June 30, 2017 or 2016.

Fundraising costs: Fundraising costs are expensed as incurred and are included as a component of supporting services on the consolidated statements of activities.

Concentration of credit risk: The Organization occasionally maintains cash balances in excess of federally insured amounts. Management believes that the risk of loss is minimal due to the strength of the institutions.

Primarily all of the Organization's patients and program recipients reside in the northeastern region of Kansas. A majority of the billings associated with the health care services provided are submitted to third-party insurers and Medicare. Total revenues recognized by program services, less discounts, comprised approximately 23 percent and 24 percent of the Organization's revenue sources for the years ended June 30, 2017 and 2016, respectively.

Catholic Charities of Northeast Kansas, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Recent accounting pronouncements: In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for Profit Entities*. The new standard changes presentation and disclosure requirements with the intention of helping not-for-profits provide more relevant information about their resources to donors, grantors, creditors and other financial statement users. This pronouncement decreases the number of net assets classes from three to two. The new classes will be *net assets with donor restrictions* and *net assets without donor restrictions*. The standard will take effect for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Therefore, this ASU will be effective for the Organization's fiscal year ending June 30, 2019. Management is in the process of evaluating the impact of this new guidance.

ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. This guidance will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard permits the use of either the retrospective or cumulative-effect transition method. In August 2015, the FASB issued ASU No. 2015-14, which defers the effective date of ASU 2014-09 one year, making it effective for annual reporting periods beginning after December 15, 2018. The Organization is evaluating the effect the standard will have on its consolidated financial statements and related disclosures. The Organization has not yet selected a transition method and has not determined the effect of the standard on ongoing financial reporting.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective-interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The ASU is expected to impact the Organization's consolidated financial statements as the Organization has certain operating and land lease arrangements for which it is the lessee. The standard is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Therefore, this ASU will be effective for the Organization beginning with the fiscal year ending June 30, 2021, with early adoption permitted. The Organization is in the process of evaluating the impact of this new guidance.

Catholic Charities of Northeast Kansas, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 2. Promises to Give and Grants Receivable

The amount due from the United Way pledges and grants receivable consists of the following as of June 30, 2017 and 2016:

	2017	2016
United Way allocation for the next fiscal year:		
General allocation	\$ 195,797	\$ 183,582
Donor designations	207,509	215,397
	<u>403,306</u>	<u>398,979</u>
Grants receivable	105,402	135,711
	<u>\$ 508,708</u>	<u>\$ 534,690</u>

Note 3. Related Parties

The members of the Organization are the Archbishop, the Chancellor and all Vicars General of the Archdiocese of Kansas City in Kansas.

Included in contributions are contributions from individuals received through the Archbishop's Annual Appeal, amounting to \$450,000 and \$400,000 for the years ended June 30, 2017 and 2016, respectively, and through church Christmas collections, amounting to \$507,866 and \$531,831 for the years ended June 30, 2017 and 2016, respectively.

The Organization paid the Archdiocese of Kansas City in Kansas premium expense for dental, health and life insurance of \$744,398 and \$634,953 for the years ended June 30, 2017 and 2016, respectively.

As described in Note 1, the Organization is supported by Catholic Charities Foundation of Northeast Kansas, Inc. Grant revenue from the Foundation was \$1,850,000 and \$1,880,000 for the years ended June 30, 2017 and 2016, respectively. The Organization also had receivables of \$531,728 and \$321,512 recorded for amounts due from the Foundation as of June 30, 2017 and 2016, respectively. Condensed financial data of the Foundation as of and for the years ended June 30, 2017 and 2016, is as follows:

	June 30	
	2017	2016
Assets:		
Cash	\$ 1,534,543	\$ 1,279,896
Other current assets	45,894	56,385
Investments, at fair value	3,476,178	3,237,887
	<u>\$ 5,056,615</u>	<u>\$ 4,574,168</u>
Total liabilities	<u>\$ 593,409</u>	<u>\$ 386,313</u>
Net assets:		
Unrestricted	1,532,954	1,462,163
Unrestricted—designated	621,182	484,949
Temporarily restricted	518,863	518,863
Permanently restricted	1,790,207	1,721,880
	<u>4,463,206</u>	<u>4,187,855</u>
	<u>\$ 5,056,615</u>	<u>\$ 4,574,168</u>

Catholic Charities of Northeast Kansas, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 3. Related Parties (Continued)

	Years Ended June 30	
	2017	2016
Contributions and contributed goods	\$ 2,531,689	\$ 2,546,158
Interest income	11,624	11,768
Change in value of split-interest agreement	234,983	(43,175)
Other revenue (expense)	5,207	(2,462)
Operating expenses	(2,508,152)	(2,523,949)
Change in net assets	<u>\$ 275,351</u>	<u>\$ (11,660)</u>

The temporarily restricted net assets are restricted for program support and educational loans to employees. The income on the permanently restricted net assets is unrestricted.

Note 4. Retirement Plan

The Organization has a defined contribution plan for all full-time employees with at least three years of service. Under the plan, the Organization may elect to make discretionary contributions up to 5 percent of the eligible employee's salary to an insurance company to be invested in a tax-sheltered annuity. Employees are eligible to make voluntary contributions up to certain amounts as stated in the plan document. Employer retirement contributions for the years ended June 30, 2017 and 2016, amounted to \$121,861 and \$122,200, respectively.

Note 5. Lease Commitments and Expense

The Organization leases offices for its programs and administrative services under lease agreements that expire at various times through October 31, 2022. The Organization is responsible under certain of the agreements for maintenance, insurance and taxes.

Rental expense related to these lease commitments for the years ended June 30, 2017 and 2016, totaled \$552,365 and \$517,218, respectively. The amounts include approximately \$50,000 in annual rentals to other organizations of the Archdiocese of Kansas City in Kansas under month-to-month lease arrangements.

Following is a schedule of future minimum annual rental commitments required under the operating leases at June 30, 2017:

Years ending June 30:	
2018	\$ 498,306
2019	404,307
2020	404,307
2021	406,973
2022	151,909
Thereafter	16,000
	<u>\$ 1,881,802</u>

Catholic Charities of Northeast Kansas, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 6. Contingencies

The Organization receives certain revenue from government grants and contracts. These grants and contracts are subject to audit by the grantor agency. The ultimate determination of amounts received under these programs generally is based upon allowable costs reported to and audited by the government and, until such audits have been completed and final settlement reached, there exists a contingency to refund any amount received in excess of allowable costs. The Organization believes that no liability will result from such audits.

Note 7. Temporarily Restricted Net Assets

Temporarily restricted net assets (excluding those of the Foundation) are available for the following purposes or periods at June 30, 2017 and 2016:

	2017	2016
Time restrictions:		
Time restriction on promises to give	\$ 403,306	\$ 398,979
Restrictions as to use:		
Program support	425,938	430,150
Total temporarily restricted net assets	<u>\$ 829,244</u>	<u>\$ 829,129</u>

Note 8. Net Assets Released From Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose specified by donors during the years ended June 30, 2017 and 2016, as follows:

	2017	2016
Time restrictions on promises to give	\$ 398,979	\$ 415,412
Program support and general operations	550,185	735,818
	<u>\$ 949,164</u>	<u>\$ 1,151,230</u>

Note 9. Malpractice Claims

The Organization purchases professional and general liability insurance to cover malpractice claims with no deductible and a claim limitation of \$10,000,000, which the Organization has not exceeded during the years ended June 30, 2017, 2016 or 2015.

Note 10. Subsequent Events

Management has evaluated and disclosed subsequent events up to and including October 18, 2017, which is the date the consolidated financial statements were available to be issued.

