

Catholic Charities of Northeast Kansas, Inc. and Subsidiary

Consolidated Financial Report
June 30, 2019

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RSM US LLP

Independent Auditor's Report

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, which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, 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 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Catholic Charities of Northeast Kansas, Inc. and Subsidiary as of June 30, 2019 and 2018, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the financial statements, Catholic Charities of Northeast Kansas, Inc. and Subsidiary adopted Accounting Standards Update No. 2016-14, *Not-for Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, during the current year. The new standard changes presentation and disclosure requirements with the intention of helping nonprofits provide more relevant information about their resources to donors, grantors, creditors and other financial statement users. The adoption was retrospectively applied to June 30, 2018, the earliest year presented. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2019, on our consideration of Catholic Charities of Northeast Kansas, Inc. and Subsidiary's internal control over financial reporting and on our tests of their 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 Catholic Charities of Northeast Kansas, Inc. and Subsidiary'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 Catholic Charities of Northeast Kansas, Inc. and Subsidiary's internal control over financial reporting and compliance.

RSM US LLP

Kansas City, Missouri
October 9, 2019

Catholic Charities of Northeast Kansas, Inc. and Subsidiary

**Consolidated Statements of Financial Position
June 30, 2019 and 2018**

	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,218,259	\$ 2,123,406
Promises to give—United Way funding for the next fiscal year (Note 3)	366,855	379,584
Grants receivable (Note 3)	151,957	152,238
Accounts receivable:		
Program fees, less allowance for doubtful accounts of \$44,632 and \$33,999, respectively	1,306,306	1,187,957
Inventories	256,565	203,948
Due from related parties (Note 4)	313,288	116,460
Prepaid expense	86,291	73,820
Total current assets	4,699,521	4,237,413
Restricted certificates of deposit (Note 1)	278,616	250,000
Interest in net assets of the Catholic Charities Foundation of Northeast Kansas, Inc. (Notes 1 and 4)	6,788,612	5,602,330
Property and equipment:		
Land	113,972	113,972
Building	1,875,918	1,799,096
Furniture and equipment	761,882	838,375
Building and leasehold improvements	2,084,958	2,030,280
Vehicles	545,654	534,694
Art and collectibles	4,244	4,244
	5,386,628	5,320,661
Less accumulated depreciation and amortization	3,599,143	3,468,966
	1,787,485	1,851,695
Total assets	\$ 13,554,234	\$ 11,941,438

See notes to consolidated financial statements.

	2019	2018
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 420,691	\$ 488,599
Accrued expenses	1,036,567	991,217
Deferred revenue	153,841	170,373
Total liabilities	1,611,099	1,650,189
Commitments and contingencies (Notes 6 and 7)		
Net assets:		
Without donor restrictions:		
Undesignated	4,109,234	4,019,032
Undesignated—Foundation (Note 4)	3,570,168	2,511,523
Designated—Foundation (Note 4)	873,287	750,174
Total net assets without donor restrictions	8,552,689	7,280,729
With donor restrictions:		
Other	913,506	543,563
Foundation (Note 4)	2,345,157	2,340,633
Endowments (Note 4)	131,783	126,324
Total net assets with donor restrictions	3,390,446	3,010,520
Total net assets	11,943,135	10,291,249
Total liabilities and net assets	\$ 13,554,234	\$ 11,941,438

Catholic Charities of Northeast Kansas, Inc. and Subsidiary

**Consolidated Statement of Activities
Year Ended June 30, 2019**

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:			
Contributions (Note 4)	\$ 2,065,048	\$ 5,459	\$ 2,070,507
Contributed goods	8,989,195	-	8,989,195
United Way	255,596	366,855	622,451
Grants	5,019,732	791,690	5,811,422
Program service fees, net of contractual adjustments of \$5,689 and bad-debt expense of \$33,194	8,685,184	-	8,685,184
Interest	22,978	-	22,978
Other revenues	31,515	-	31,515
Net assets released from restrictions (Note 9)	788,602	(788,602)	-
Total support and revenue	25,857,850	375,402	26,233,252
Expenses (Notes 5 and 6):			
Program services:			
Family support	11,972,545	-	11,972,545
Family and child care	915,778	-	915,778
Senior care	973,287	-	973,287
Hospice	5,683,293	-	5,683,293
Refugee and migrant assistance	2,427,687	-	2,427,687
Thrift stores	1,496,337	-	1,496,337
Supporting services:			
Management and general, net of management fee reimbursements of \$620,356	1,734,828	-	1,734,828
Fundraising	563,893	-	563,893
Total expenses	25,767,648	-	25,767,648
Change in net assets from operations	90,202	375,402	465,604
Change in interest in net assets of the Foundation (Note 4)	1,181,758	4,524	1,186,282
Change in net assets	1,271,960	379,926	1,651,886
Net assets:			
Beginning	7,280,729	3,010,520	10,291,249
Ending	\$ 8,552,689	\$ 3,390,446	\$ 11,943,135

See notes to consolidated financial statements.

Catholic Charities of Northeast Kansas, Inc. and Subsidiary

**Consolidated Statement of Activities
Year Ended June 30, 2018**

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:			
Contributions (Note 4)	\$ 2,047,701	\$ 126,324	\$ 2,174,025
Contributed goods	10,955,063	-	10,955,063
United Way	267,389	379,584	646,973
Grants	4,918,155	218,615	5,136,770
Program service fees, net of contractual adjustments of \$3,800 and bad-debt expense of \$6,595	7,316,926	-	7,316,926
Interest	11,912	-	11,912
Other revenues	24,808	-	24,808
Net assets released from restrictions (Note 9)	883,880	(883,880)	-
Total support and revenue	26,425,834	(159,357)	26,266,477
Expenses (Notes 5 and 6):			
Program services:			
Family support	13,859,464	-	13,859,464
Family and child care	1,293,423	-	1,293,423
Senior care	998,529	-	998,529
Hospice	4,528,606	-	4,528,606
Refugee and migrant assistance	2,099,296	-	2,099,296
Thrift stores	1,332,444	-	1,332,444
Supporting services:			
Management and general, net of management fee reimbursements of \$626,747	1,610,453	-	1,610,453
Fundraising	710,329	-	710,329
Total expenses	26,432,544	-	26,432,544
Change in net assets from operations	(6,710)	(159,357)	(166,067)
Change in interest in net assets of the Foundation (Note 4)	1,107,561	31,563	1,139,124
Change in net assets	1,100,851	(127,794)	973,057
Net assets:			
Beginning	6,179,878	3,138,314	9,318,192
Ending	\$ 7,280,729	\$ 3,010,520	\$ 10,291,249

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, 2019**

	Program Services	Supporting Services		Total
		Management and General	Fundraising	
Compensation	\$ 6,515,653	\$ 1,033,264	\$ 372,284	\$ 7,921,201
Employee benefits	790,302	136,879	53,199	980,380
Payroll taxes	513,911	78,749	28,298	620,958
Total compensation and related expenses	7,819,866	1,248,892	453,781	9,522,539
Assistance to individuals	1,709,616	9,066	-	1,718,682
Assistance—Care contracts	1,387,415	-	-	1,387,415
Continuing education	37,317	11,366	894	49,577
Contributed goods	8,909,890	-	-	8,909,890
Contract services	715,961	117,149	3,729	836,839
Depreciation	248,349	29,915	1,366	279,630
Dues and subscriptions	27,211	13,025	2,849	43,085
Insurance	36,810	27,623	73	64,506
Occupancy	1,022,803	116,264	33,839	1,172,906
Postage	29,219	3,808	2,169	35,196
Printing and public relations	95,086	5,317	39,917	140,320
Professional services	68,124	68,786	645	137,555
Rental and maintenance equipment	218,285	6,413	1,882	226,580
Supplies	528,187	18,180	6,045	552,412
Telephone	193,359	20,957	8,824	223,140
Mileage reimbursement and other travel	241,065	9,163	4,603	254,831
Miscellaneous	63,188	23,030	1,619	87,837
Vehicle	80,986	4,265	1,490	86,741
Volunteer	36,190	1,609	168	37,967
Total	\$ 23,468,927	\$ 1,734,828	\$ 563,893	\$ 25,767,648

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, 2018**

	Program Services	Supporting Services		Total
		Management and General	Fundraising	
Compensation	\$ 6,047,509	\$ 942,457	\$ 498,911	\$ 7,488,877
Employee benefits	742,094	145,651	64,234	951,979
Payroll taxes	477,862	70,710	38,626	587,198
Total compensation and related expenses	7,267,465	1,158,818	601,771	9,028,054
Assistance to individuals	1,548,001	1,304	-	1,549,305
Assistance—Care contracts	1,139,171	-	-	1,139,171
Continuing education	52,305	9,699	1,818	63,822
Contributed goods	10,887,023	-	-	10,887,023
Contract services	606,054	94,406	2,364	702,824
Depreciation	255,027	20,789	4,050	279,866
Dues and subscriptions	23,990	10,915	2,247	37,152
Insurance	33,741	28,380	76	62,197
Occupancy	894,191	111,606	32,768	1,038,565
Postage	28,095	4,002	2,666	34,763
Printing and public relations	95,690	3,545	34,132	133,367
Professional services	64,185	84,912	133	149,230
Rental and maintenance equipment	185,404	5,456	1,582	192,442
Supplies	463,744	22,147	7,538	493,429
Telephone	172,791	18,659	9,074	200,524
Mileage reimbursement and other travel	190,060	8,092	6,929	205,081
Miscellaneous	43,695	24,084	1,769	69,548
Vehicle	78,195	2,335	1,077	81,607
Volunteer	82,935	1,304	335	84,574
Total	\$ 24,111,762	\$ 1,610,453	\$ 710,329	\$ 26,432,544

See notes to consolidated financial statements.

Catholic Charities of Northeast Kansas, Inc. and Subsidiary

**Consolidated Statements of Cash Flows
Years Ended June 30, 2019 and 2018**

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ 1,651,886	\$ 973,057
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	278,582	279,866
Loss on disposal of assets	-	2,693
Change in interest in net assets of the Foundation	(1,186,282)	(1,139,124)
(Increase) decrease in operating assets:		
United Way funding for the next fiscal year	12,729	23,722
Inventories	(52,617)	(41,422)
Grants receivable	281	(46,836)
Accounts receivable	(118,349)	(357,452)
Prepaid expenses	(12,471)	32,714
Restricted certificates of deposit	(28,616)	-
Due from related party	(196,828)	415,268
Increase (decrease) in operating liabilities:		
Accounts payable	(67,908)	63,087
Accrued expenses	45,350	214,424
Deferred revenue	(16,532)	46,474
Net cash provided by operating activities	309,225	466,471
Cash flows from investing activities:		
Purchases of property and equipment	(214,372)	(216,257)
Net cash used in investing activities	(214,372)	(216,257)
Increase in cash and cash equivalents	94,853	250,214
Cash and cash equivalents:		
Beginning	2,123,406	1,873,192
Ending	\$ 2,218,259	\$ 2,123,406

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 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 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 accompanying financial statements are presented using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). In 2019, the Foundation adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 985): Presentation of Financial Statements of Not-for-Profit Entities*. The new standard changes presentation and disclosure requirements with the intention of helping nonprofits provide more relevant information about their resources to donors, grantors, creditors and other financial statement users. This pronouncement decreases the number of net asset classes from three to two. The new classes are net assets without donor restrictions and net assets with donor restrictions. The changes in this standard have been reflected in the financial statements for all years presented.

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

Net assets without donor restrictions: Net assets are not subject to donor-imposed stipulations.

Net assets with donor restrictions: Net assets are subject to donor-imposed stipulations that may expire or may be met either by actions of the Organization or the passage of time.

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, net assets with donor restrictions are reclassified to net assets without donor restrictions 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 without donor restriction unless the donor has restricted the donated asset to a specific purpose. No amounts have been reflected in the 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 net assets without donor restrictions 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, 2019 and 2018.

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 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 \$11,636 and \$9,417 were written off against the existing allowance during the years ended June 30, 2019 and 2018, 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 certificates of deposit are restricted 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.

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

Catholic Charities of Northeast Kansas, Inc. and Subsidiary

Notes to Consolidated Financial Statements

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

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

Deferred revenue includes 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 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, 2019 or 2018.

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 33% and 28% of the Organization's revenue sources for the years ended June 30, 2019 and 2018, respectively.

Recent accounting pronouncements: In August 2016, the Financial Accounting Standards Board (FASB) issued 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 nonprofits 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. The Foundation has adopted the standard and retrospectively applied the changes to the 2018 classifications.

Catholic Charities of Northeast Kansas, Inc. and Subsidiary

Notes to Consolidated Financial Statements

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

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 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 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.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) with the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. ASU 2018-08 is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Therefore, this ASU will be effective for the Organization on July 1, 2020. The Organization is currently evaluating the impact the adoption of this guidance will have on its financial statements.

Catholic Charities of Northeast Kansas, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 2. Liquidity and Availability of Resources

The Organization regularly monitors liquidity to meet its annual operating needs and other commitments while also striving to maximize the return on investment of its funds not required for annual operations. As of June 30, 2019, the following financial assets are available to meet annual operating needs of the 2020 fiscal year:

Financial assets at year-end:

Cash and cash equivalents	\$	2,218,260
Promises to give—United Way		366,855
Grant receivable		151,957
Accounts receivable, net		1,306,306
Due from related parties		313,288
Prepaid expenses		86,291
Inventories		256,565
Restricted certificates of deposit		278,615
Interest in net assets of Catholic Charities Foundation of Northeast Kansas, Inc.		6,788,612
Total financial assets		<u>11,766,749</u>

Contractual or donor-imposed restrictions:

Restriction by donor with time or purpose restriction		3,126,880
Endowment		131,783
Total contractual or donor-imposed restrictions		<u>3,258,663</u>

Financial assets not available to be used within one year		3,880,134
Financial assets available to meet general expenditures within one year	\$	<u>7,886,615</u>

The Organization's governing board has established certain metrics as a guide for determining appropriate cash and working capital levels; maintaining three weeks' worth of operating expenses in cash and short-term investments, and maintaining one month's worth of operating expenses in working capital. Both of these metrics were satisfied throughout the fiscal year ended June 30, 2019. The Organization has various sources of liquidity at its disposal, including cash and cash equivalents and investments.

Note 3. 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, 2019 and 2018:

	2019	2018
United Way allocation for the next fiscal year:		
General allocation	\$ 188,380	\$ 192,201
Donor designations	178,475	187,383
	<u>366,855</u>	<u>379,584</u>
Grants receivable	151,957	152,238
	<u>\$ 518,812</u>	<u>\$ 531,822</u>

Catholic Charities of Northeast Kansas, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 4. 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 for both years ended June 30, 2019 and 2018, and through church Christmas collections, amounting to \$519,937 and \$494,838 for the years ended June 30, 2019 and 2018, respectively.

The Organization paid the Archdiocese of Kansas City in Kansas premium expense for dental, health and life insurance of \$808,909 and \$767,376 for the years ended June 30, 2019 and 2018, respectively.

As described in Note 1, the Organization is supported by Catholic Charities Foundation of Northeast Kansas, Inc. Grant revenue from the Foundation was \$1,523,036 and \$1,702,690 for the years ended June 30, 2019 and 2018, respectively. The Organization also had receivables of \$313,288 and \$116,460 recorded for amounts due from the Foundation as of June 30, 2019 and 2018, respectively. Condensed financial data of the Foundation as of and for the years ended June 30, 2019 and 2018, is as follows:

	June 30	
	2019	2018
Assets:		
Cash	\$ 3,880,112	\$ 2,274,745
Other current assets	35,350	57,382
Investments, at fair value	3,836,623	3,654,053
	<u>\$ 7,752,085</u>	<u>\$ 5,986,180</u>
Total liabilities	<u>\$ 963,473</u>	<u>\$ 383,850</u>
Net assets:		
Without donor restrictions:		
Undesignated	3,570,168	2,511,523
Designated	873,287	750,174
With donor restrictions:		
Donor restricted	2,345,157	2,340,633
	<u>6,788,612</u>	<u>5,602,330</u>
	<u>\$ 7,752,085</u>	<u>\$ 5,986,180</u>

Catholic Charities of Northeast Kansas, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 4. Related Parties (Continued)

	Years Ended June 30	
	2019	2018
Contributions and contributed goods	\$ 3,211,669	\$ 3,337,988
Interest income	32,659	15,027
Change in value of split-interest agreement	129,352	178,024
Other revenue	5,695	2,300
Operating expenses	(2,193,093)	(2,394,215)
Change in net assets	<u>\$ 1,186,282</u>	<u>\$ 1,139,124</u>

Net assets with donor restrictions are restricted for program support and educational loans to employees. The income on the net assets with donor restrictions is unrestricted.

Note 5. 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% 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, 2019 and 2018, amounted to \$128,762 and \$148,998, respectively.

Note 6. Lease Commitments and Expense

The Organization leases offices for its programs and administrative services under lease agreements that expire at various times through February 28, 2023. 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, 2019 and 2018, totaled \$822,848 and \$698,849, 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, 2019:

Years ending June 30:	
2020	\$ 745,187
2021	749,827
2022	382,816
2023	157,760
	<u>\$ 2,035,590</u>

Catholic Charities of Northeast Kansas, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 7. 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 8. Net Assets With Donor Restrictions

Net assets with donor restrictions (excluding those of the Foundation) are available for the following purposes or periods at June 30, 2019 and 2018:

	2019	2018
Time restrictions:		
Education loans to employees	\$ 23,469	\$ 23,469
Time restriction on promises to give	366,855	379,584
Restrictions as to use:		
Organizational support	494,794	494,794
Program support	546,651	163,979
Indefinitely restricted	1,826,894	1,822,370
Program restricted	131,783	126,324
Total net assets with donor restrictions	<u>\$ 3,390,446</u>	<u>\$ 3,010,520</u>

Note 9. 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, 2019 and 2018, as follows:

	2019	2018
Time restrictions on promises to give	\$ 379,584	\$ 403,306
Program support and general operations	409,018	480,574
	<u>\$ 788,602</u>	<u>\$ 883,880</u>

Note 10. 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, 2019, 2018 or 2017.

Catholic Charities of Northeast Kansas, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 11. Functional Expense Allocation

The Organization classified expenses for the year ended June 30, 2019, as follows:

	Program Services				Supporting Services				Total
	Family Stabilization	Family Strengthening	Senior Care	Hospice	Refugee and Immigrant Services	Thrift Stores & Aspire	Fund Raising	Management and General	
Salaries	\$ 1,283,967	\$ 439,183	\$ 416,664	\$ 2,720,516	\$ 1,147,956	\$ 507,367	\$ 372,284	\$ 1,033,264	\$ 7,921,201
Payroll taxes	104,108	34,460	34,506	209,949	89,402	41,486	28,298	78,749	620,958
Benefits	147,573	52,394	58,140	353,701	122,885	55,609	53,199	136,879	980,380
Contract services	111,184	19,745	8,952	329,046	181,002	66,032	3,729	117,149	836,839
Assistance to individuals	956,150	171,770	-	-	581,696	-	-	9,066	1,718,682
Assistance—Care contracts	-	-	283,074	1,104,341	-	-	-	-	1,387,415
Contributed goods	8,675,223	68,066	71,091	-	47,236	48,274	-	-	8,909,890
Professional services	6,585	3,217	11,813	30,772	6,881	8,856	645	68,786	137,555
Occupancy	285,663	49,660	28,009	55,570	55,753	548,148	33,839	116,264	1,172,906
Depreciation	166,598	10,650	6,439	2,511	28,360	33,791	1,366	29,915	279,630
Insurance	13,366	234	162	6,781	14,587	1,680	73	27,623	64,506
Equipment rent and maintenance	9,335	1,977	1,442	199,663	5,362	506	1,882	6,413	226,580
Telephone	44,127	20,032	7,788	66,291	35,925	19,196	8,824	20,957	223,140
Supplies	67,046	8,767	5,832	350,045	38,499	57,998	6,045	18,180	552,412
Printing	2,364	3,882	546	54,504	3,199	30,591	39,917	5,317	140,320
Postage	1,223	1,638	1,996	2,390	7,872	14,100	2,169	3,808	35,196
Local travel	26,390	19,485	9,280	169,207	15,419	1,284	4,603	9,163	254,831
Vehicle expense	54,137	458	1,064	2,205	12,479	10,643	1,490	4,265	86,741
Staff development	2,077	5,603	838	15,569	13,119	111	894	11,366	49,577
Dues and subscriptions	7,365	142	317	5,296	10,877	3,214	2,849	13,025	43,085
Volunteer expense	3,379	1,036	24,433	2,876	957	3,509	168	1,609	37,967
Miscellaneous	4,685	3,379	901	2,060	8,221	43,942	1,619	23,030	87,837
	<u>\$ 11,972,545</u>	<u>\$ 915,778</u>	<u>\$ 973,287</u>	<u>\$ 5,683,293</u>	<u>\$ 2,427,687</u>	<u>\$ 1,496,337</u>	<u>\$ 563,893</u>	<u>\$ 1,734,828</u>	<u>\$ 25,767,648</u>

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Notes to Consolidated Financial Statements

Note 12. Subsequent Events

Management has evaluated and disclosed subsequent events up to and including October 9, 2019, which is the date the financial statements were available to be issued.

