

Catholic Charities of Northeast Kansas, Inc. and Subsidiary

Consolidated Financial Report
June 30, 2020

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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, 2020 and 2019, 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, 2020 and 2019, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2020, 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 8, 2020

Catholic Charities of Northeast Kansas, Inc. and Subsidiary

**Consolidated Statements of Financial Position
June 30, 2020 and 2019**

	2020	2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 5,065,459	\$ 2,218,259
Promises to give—United Way funding for the next fiscal year	269,117	366,855
Grants receivable	189,733	151,957
Accounts receivable:		
Program fees, less allowance for doubtful accounts of \$33,885 and \$44,632, respectively	660,624	1,306,306
Inventories	262,312	256,565
Due from related parties	871,314	313,288
Prepaid expense	107,775	86,291
Total current assets	7,426,334	4,699,521
Restricted certificates of deposit	278,616	278,616
Interest in net assets of the Catholic Charities Foundation of Northeast Kansas, Inc.	7,367,544	6,788,612
Property and equipment:		
Land	113,972	113,972
Building	1,612,277	1,875,918
Furniture and equipment	894,594	761,882
Building and leasehold improvements	2,113,803	2,084,958
Vehicles	637,554	545,654
Art and collectibles	4,244	4,244
Construction in progress	146,644	-
	5,523,088	5,386,628
Less accumulated depreciation and amortization	3,691,535	3,599,143
	1,831,553	1,787,485
Total assets	\$ 16,904,047	\$ 13,554,234

See notes to consolidated financial statements.

	2020	2019
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 325,038	\$ 420,691
Accrued expenses	1,377,283	1,036,567
Deferred revenue	1,982,772	153,841
Total liabilities	3,685,093	1,611,099
Commitments and contingencies (Notes 6 and 7)		
Net assets:		
Without donor restrictions:		
Undesignated	3,651,513	4,109,234
Undesignated—Foundation	4,443,455	3,570,168
Designated—Foundation	606,758	873,287
Total net assets without donor restrictions	8,701,726	8,552,689
With donor restrictions:		
Other	2,065,008	913,506
Foundation	2,317,331	2,345,157
Endowments	134,889	131,783
Total net assets with donor restrictions	4,517,228	3,390,446
Total net assets	13,218,954	11,943,135
Total liabilities and net assets	\$ 16,904,047	\$ 13,554,234

Catholic Charities of Northeast Kansas, Inc. and Subsidiary

**Consolidated Statement of Activities
Year Ended June 30, 2020**

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:			
Contributions	\$ 2,463,338	\$ 3,106	\$ 2,466,444
Contributed goods	8,887,026	-	8,887,026
United Way	242,896	269,117	512,013
Grants	4,988,479	2,033,093	7,021,572
Program service fees, net of contractual adjustments of \$123 and bad-debt expense of \$27,196	6,721,727	-	6,721,727
Interest	23,925	-	23,925
Other revenues	33,802	-	33,802
Net assets released from restrictions	1,150,708	(1,150,708)	-
Total support and revenue	24,511,901	1,154,608	25,666,509
Expenses:			
Program services:			
Family Support	11,620,430	-	11,620,430
Respect Life	1,135,060	-	1,135,060
Asset Development	693,338	-	693,338
Hospice	4,684,277	-	4,684,277
Workforce	2,162,649	-	2,162,649
Supply Chain	894,986	-	894,986
Thrift stores	1,540,130	-	1,540,130
Supporting services:			
Management and general, net of management fee reimbursements of \$770,964	1,691,438	-	1,691,438
Fundraising	547,314	-	547,314
Total expenses	24,969,622	-	24,969,622
Change in net assets from operations	(457,721)	1,154,608	696,887
Change in interest in net assets of the Foundation	606,758	(27,826)	578,932
Change in net assets	149,037	1,126,782	1,275,819
Net assets:			
Beginning	8,552,689	3,390,446	11,943,135
Ending	\$ 8,701,726	\$ 4,517,228	\$ 13,218,954

See notes to consolidated financial statements.

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	\$ 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	788,602	(788,602)	-
Total support and revenue	25,857,850	375,402	26,233,252
Expenses:			
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	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 Program and Supporting Services Expenses
Year Ended June 30, 2020**

	Program Services	Supporting Services		Total
		Management and General	Fundraising	
Compensation	\$ 6,752,934	\$ 1,026,223	\$ 361,065	\$ 8,140,222
Employee benefits	865,605	137,490	57,860	1,060,955
Payroll taxes	469,660	74,369	26,815	570,844
Total compensation and related expenses	8,088,199	1,238,082	445,740	9,772,021
Assistance to individuals	1,717,978	-	-	1,717,978
Assistance—Care contracts	935,268	-	-	935,268
Continuing education	23,217	5,744	220	29,181
Contributed goods	8,854,745	-	-	8,854,745
Contract services	477,957	113,335	3,635	594,927
Depreciation	252,427	29,822	1,020	283,269
Dues and subscriptions	24,330	11,561	4,591	40,482
Insurance	40,914	28,566	95	69,575
Occupancy	1,027,360	112,908	31,557	1,171,825
Postage	27,669	3,711	2,296	33,676
Printing and public relations	48,249	3,876	29,896	82,021
Professional services	71,225	64,524	831	136,580
Rental and maintenance equipment	179,347	4,866	2,626	186,839
Supplies	414,840	15,036	8,388	438,264
Telephone	190,536	20,163	7,615	218,314
Mileage reimbursement and other travel	193,491	6,525	4,394	204,410
Miscellaneous	73,120	25,810	1,860	100,790
Vehicle	68,353	5,781	2,363	76,497
Volunteer	21,645	1,128	187	22,960
Total	\$ 22,730,870	\$ 1,691,438	\$ 547,314	\$ 24,969,622

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 Statements of Cash Flows
Years Ended June 30, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ 1,275,819	\$ 1,651,886
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	284,824	278,582
Change in interest in net assets of the Foundation	(578,932)	(1,186,282)
(Increase) decrease in operating assets:		
United Way funding for the next fiscal year	97,738	12,729
Inventories	(5,747)	(52,617)
Grants receivable	(37,776)	281
Accounts receivable	645,682	(118,349)
Prepaid expenses	(21,484)	(12,471)
Restricted certificates of deposit	-	(28,616)
Due from related parties	(558,026)	(196,828)
Increase (decrease) in operating liabilities:		
Accounts payable	(95,653)	(67,908)
Accrued expenses	340,716	45,350
Deferred revenue	1,828,931	(16,532)
Net cash provided by operating activities	3,176,092	309,225
Cash flows from investing activities:		
Purchases of property and equipment	(328,892)	(214,372)
Net cash used in investing activities	(328,892)	(214,372)
Increase in cash and cash equivalents	2,847,200	94,853
Cash and cash equivalents:		
Beginning	2,218,259	2,123,406
Ending	\$ 5,065,459	\$ 2,218,259

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 help, hope and hospitality to 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 (collectively, the 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).

Net assets: Net assets, revenue, gains and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets 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.

Catholic Charities of Northeast Kansas, Inc. and Subsidiary

Notes to Consolidated Financial Statements

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

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.

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, 2020 and 2019.

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.

Catholic Charities of Northeast Kansas, Inc. and Subsidiary

Notes to Consolidated Financial Statements

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

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.

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 \$30,747 and \$11,636 were written off against the existing allowance during the years ended June 30, 2020 and 2019, 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.

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 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.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed into law and is meant to address the economic fallout from the COVID-19 pandemic. In connection with the CARES Act, the Organization received a Small Business Administration (SBA) Paycheck Protection Plan (PPP) loan for \$1,874,936 on April 11, 2020. The Organization determined they qualified for the PPP loan because the Organization has less than 500 employees. The loan is unsecured, bears interest at 1.00%, and matures on April 11, 2022. Under the provisions of the CARES Act and related loans, this loan will be forgiven if certain conditions are met related to the use of the proceeds and maintenance of employment with the Organization employees. Should the Organization be required to repay some portion of these funds because conditions for loan forgiveness are not met, it is the intent of the Organization leadership to repay any such funds to the lender in accordance with the terms of the agreement. The Organization has elected to account for the loan as deferred revenue.

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, 2020 or 2019.

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

Catholic Charities of Northeast Kansas, Inc. and Subsidiary

Notes to Consolidated Financial Statements

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

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 26% and 33% of the Organization's revenue sources for the years ended June 30, 2020 and 2019, respectively.

Recent accounting pronouncements: Accounting Standards Update (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 June 2020, the FASB issued ASU No. 2020-05, which defers the effective date of ASU 2014-09, making it effective for annual reporting periods beginning after December 15, 2019. 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 Financial Accounting Standards Board (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, 2022, 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. The adoption was retrospectively applied to June 30, 2019, the earliest year presented. There was no impact to the financial statements as a result of the adoption of this standard.

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, 2020 and 2019, the following financial assets are available to meet annual operating needs of the 2021 and 2020 fiscal year:

	2020	2019
Financial assets at year-end:		
Cash and cash equivalents	\$ 5,065,459	\$ 2,218,259
Promises to give—United Way	269,117	366,855
Grant receivable	189,733	151,957
Accounts receivable, net	660,624	1,306,306
Due from related parties	871,314	313,288
Prepaid expenses	107,775	86,291
Inventories	262,312	256,565
Restricted certificates of deposit	278,616	278,616
Interest in net assets of Catholic Charities Foundation of Northeast Kansas, Inc.	7,367,544	6,788,612
Total financial assets	<u>15,072,494</u>	<u>11,766,749</u>
Contractual or donor-imposed restrictions:		
Designated—Foundation	606,758	873,287
Restriction by donor with time or purpose restriction	4,382,339	3,258,663
Endowment	134,889	131,783
Total contractual or donor-imposed restrictions	<u>5,123,986</u>	<u>4,263,733</u>
Financial assets not available to be used within one year	<u>5,772,689</u>	<u>3,880,134</u>
Financial assets available to meet general expenditures within one year	<u>\$ 9,299,805</u>	<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. 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, 2020 and 2019:

	2020	2019
United Way allocation for the next fiscal year:		
General allocation	\$ 95,514	\$ 188,380
Donor designations	173,603	178,475
	<u>269,117</u>	<u>366,855</u>
Grants receivable	189,733	151,957
	<u>\$ 458,850</u>	<u>\$ 518,812</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 \$430,000 and \$450,000 for years ended June 30, 2020 and 2019, respectively, and through church Christmas collections, amounting to \$491,567 and \$519,937 for the years ended June 30, 2020 and 2019, respectively.

The Organization paid the Archdiocese of Kansas City in Kansas premium expense for dental, health and life insurance of \$847,942 and \$808,909 for the years ended June 30, 2020 and 2019, respectively.

As described in Note 1, the Organization is supported by Catholic Charities Foundation of Northeast Kansas, Inc. Grant revenue from the Foundation was \$2,000,000 and \$1,523,036 for the years ended June 30, 2020 and 2019, respectively. The Organization also had receivables of \$869,571 and \$297,823 recorded for amounts due from the Foundation as of June 30, 2020 and 2019, respectively. Condensed financial data of the Foundation as of and for the years ended June 30, 2020 and 2019, is as follows:

	June 30	
	2020	2019
Assets:		
Cash	\$ 4,286,256	\$ 3,880,112
Other current assets	36,555	35,350
Investments, at fair value	4,406,603	3,836,623
	<u>\$ 8,729,414</u>	<u>\$ 7,752,085</u>
Total liabilities	<u>\$ 1,361,870</u>	<u>\$ 963,473</u>
Net assets:		
Without donor restrictions:		
Undesignated	4,443,455	3,570,168
Designated	989,501	873,287
With donor restrictions:		
Donor restricted	2,317,331	2,345,157
	<u>7,750,287</u>	<u>6,788,612</u>
	<u>\$ 9,112,157</u>	<u>\$ 7,752,085</u>

Catholic Charities of Northeast Kansas, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 4. Related Parties (Continued)

	Years Ended June 30	
	2020	2019
Contributions and contributed goods	\$ 3,266,919	\$ 3,211,669
Interest income	130,467	32,659
Change in value of split-interest agreement	571,255	129,352
Other revenue	(569,486)	5,695
Operating expenses	(2,820,223)	(2,193,093)
Change in net assets	<u>\$ 578,932</u>	<u>\$ 1,186,282</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, 2020 and 2019, amounted to \$182,370 and \$128,762, 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, 2025. 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, 2020 and 2019, totaled \$828,229 and \$822,848, 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, 2020:

Years ending June 30:	
2021	\$ 1,171,255
2022	766,510
2023	543,662
2024	378,000
2025	378,000
	<u>\$ 3,237,427</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, 2020 and 2019:

	2020	2019
Time restrictions:		
Education loans to employees	\$ 23,469	\$ 23,469
Time restriction on promises to give	269,116	366,855
Restrictions as to use:		
Organizational support	494,794	494,794
Program support	1,795,892	546,651
Indefinitely restricted	1,799,068	1,826,894
Program restricted	134,889	131,783
Total net assets with donor restrictions	<u>\$ 4,517,228</u>	<u>\$ 3,390,446</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, 2020 and 2019, as follows:

	2020	2019
Time restrictions on promises to give	\$ 366,856	\$ 379,584
Program support and general operations	783,852	409,018
	<u>\$ 1,150,708</u>	<u>\$ 788,602</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, 2020, 2019 or 2018.

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, 2020, as follows:

	Program Services					Supporting Services				Total
	Family Support	Respect Life	Asset Development	Hospice	Workforce	Supply Chain	Thrift Stores	Fund Raising	Management and General	
Salaries	\$ 1,217,498	\$ 554,865	\$ 311,966	\$ 2,505,031	\$ 1,258,504	\$ 313,827	\$ 591,243	\$ 361,065	\$ 1,026,223	\$ 8,140,222
Payroll taxes	87,743	43,195	24,525	174,544	77,340	23,556	38,757	26,815	74,369	570,844
Benefits	126,771	81,046	32,427	361,813	152,277	44,765	66,506	57,860	137,490	1,060,955
Contract services	79,085	13,732	8,277	203,906	127,646	13,640	31,671	3,635	113,335	594,927
Assistance to individuals	1,101,009	7,454	259,098	-	278,234	72,723	-	-	-	1,718,518
Assistance—Care contracts	-	266,504	-	668,764	-	-	-	-	-	935,268
Contributed goods	8,493,470	62,792	-	-	23,697	239,321	35,465	-	-	8,854,745
Professional services	4,618	6,344	1,588	47,183	5,264	955	5,273	831	64,524	136,580
Occupancy	265,888	35,641	8,533	52,126	65,687	32,330	567,155	31,557	112,908	1,171,825
Depreciation	102,442	7,211	4,007	1,980	34,139	65,615	37,033	1,020	29,822	283,269
Insurance	4,092	212	97	8,469	14,127	11,042	2,875	95	28,566	69,575
Equipment rent and maintenance	8,658	2,228	342	160,851	6,077	304	887	2,626	4,866	186,839
Telephone	34,164	10,285	9,398	63,994	36,898	12,187	23,610	7,615	20,163	218,314
Supplies	42,420	11,147	6,476	252,543	35,350	24,943	41,961	8,388	15,036	438,264
Printing	2,804	1,849	1,946	27,556	3,590	869	9,635	29,896	3,876	82,021
Postage	1,263	2,042	320	1,959	6,366	113	15,606	2,296	3,711	33,676
Local travel	19,793	10,587	11,775	130,585	14,917	3,460	2,374	4,394	6,525	204,410
Vehicle expense	12,626	1,911	248	3,508	4,300	33,043	12,717	2,363	5,781	76,497
Staff development	368	949	5,665	9,313	5,802	830	290	220	5,744	29,181
Dues and subscriptions	7,123	617	5,320	3,092	3,410	175	4,593	4,591	11,561	40,482
Volunteer expense	1,891	13,690	1,005	2,414	861	388	1,396	187	1,128	22,960
Miscellaneous	6,704	759	325	4,646	8,163	900	51,083	1,860	25,810	100,250
	<u>\$ 11,620,430</u>	<u>\$ 1,135,060</u>	<u>\$ 693,338</u>	<u>\$ 4,684,277</u>	<u>\$ 2,162,649</u>	<u>\$ 894,986</u>	<u>\$ 1,540,130</u>	<u>\$ 547,314</u>	<u>\$ 1,691,438</u>	<u>\$ 24,969,622</u>

Catholic Charities of Northeast Kansas, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 11. Functional Expense Allocation (Continued)

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	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>

Catholic Charities of Northeast Kansas, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 12. Subsequent Events

Management has evaluated and disclosed subsequent events up to and including October 8, 2020, which is the date the financial statements were available to be issued.

The spread of COVID-19, a novel strain of coronavirus, is altering the behavior of businesses and people throughout the United States. Further, financial markets have recently experienced a significant decline attributed to COVID-19 concerns. The continued spread of COVID-19 may adversely impact the local, regional and national economies. The extent to which COVID-19 impacts the Organization's results will depend on future developments, which are highly uncertain and cannot be predicted. The impact is highly dependent on the breadth and duration of the outbreak, and could be affected by other factors that cannot currently be predicted. Accordingly, management cannot presently estimate the overall operational and financial impact to the Organization, but such an impact could have a material adverse effect on the financial condition of the Organization.

