

# **Catholic Charities of Northeast Kansas, Inc. and Subsidiary**

Consolidated Financial Report  
June 30, 2016

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RSM US LLP

## Independent Auditor's Report

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

### 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, 2016 and 2015; 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, 2016 and 2015, 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 11, 2016

**Catholic Charities of Northeast Kansas, Inc. and Subsidiary**

**Consolidated Statements of Financial Position  
June 30, 2016 and 2015**

|   | 2016                 | 2015                 |
|---|----------------------|----------------------|
| <b>Assets</b>   |                      |                      |
| Current assets:   |                      |                      |
| Cash and cash equivalents   | \$ 2,199,728         | \$ 1,998,884         |
| Promises to give—United Way funding for the next fiscal year (Note 2)                           | 398,979              | 415,412              |
| Grants receivable (Note 2)  | 135,711              | 184,591              |
| Accounts receivable:  |                      |                      |
| Program fees, less allowance for doubtful accounts of \$47,237 and \$50,604                     | 626,775              | 689,939              |
| Inventories   | 143,058              | 190,159              |
| Due from related parties (Note 3)   | 321,512              | 287,695              |
| Prepaid expense   | 71,431               | 56,063               |
| <b>Total current assets</b>   | <b>3,897,194</b>     | <b>3,822,743</b>     |
| 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) | 4,187,855            | 4,199,515            |
| Property and equipment:   |                      |                      |
| Land  | 113,972              | 113,972              |
| Building  | 1,750,067            | 1,668,866            |
| Furniture and equipment   | 1,045,000            | 975,356              |
| Building and leasehold improvements   | 1,958,305            | 1,950,239            |
| Vehicles  | 410,276              | 369,495              |
| Art and collectibles  | 4,244                | 4,244                |
|   | 5,281,864            | 5,082,172            |
| Less accumulated depreciation and amortization  | 3,150,397            | 2,820,866            |
|   | 2,131,467            | 2,261,306            |
| <b>Total assets</b>   | <b>\$ 10,466,516</b> | <b>\$ 10,533,564</b> |

See notes to consolidated financial statements.

|   | 2016                 | 2015                 |
|---|----------------------|----------------------|
| <b>Liabilities and Net Assets</b>                 |                      |                      |
| Current liabilities:                              |                      |                      |
| Accounts payable                                  | \$ 312,480           | \$ 301,939           |
| Accrued expenses                                  | 742,599              | 648,661              |
| Refundable advances                               | 133,760              | 130,930              |
| <b>Total liabilities</b>                          | <b>1,188,839</b>     | <b>1,081,530</b>     |
| Commitments and contingencies (Notes 5 and 6)     |                      |                      |
| Net assets:                                       |                      |                      |
| Unrestricted                                      | 4,260,693            | 4,340,582            |
| Unrestricted—Foundation (Note 3)                  | 1,462,163            | 1,467,320            |
| Unrestricted—designated—Foundation                | 484,949              | 396,504              |
| <b>Total unrestricted</b>                         | <b>6,207,805</b>     | <b>6,204,406</b>     |
| Temporarily restricted (Notes 7 and 8)            | 829,129              | 911,937              |
| Temporarily restricted—Foundation (Notes 3 and 8) | 518,863              | 518,863              |
| <b>Total temporarily restricted</b>               | <b>1,347,992</b>     | <b>1,430,800</b>     |
| Permanently restricted—Foundation (Note 3)        | 1,721,880            | 1,816,828            |
| <b>Total net assets</b>                           | <b>9,277,677</b>     | <b>9,452,034</b>     |
| <b>Total liabilities and net assets</b>           | <b>\$ 10,466,516</b> | <b>\$ 10,533,564</b> |

**Catholic Charities of Northeast Kansas, Inc. and Subsidiary**

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

|  | Unrestricted        | Temporarily<br>Restricted | Permanently<br>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<br>adjustments of \$(3,999) and bad-debt expense<br>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)                 | -                         | -                   |
| <b>Total support and revenue</b>   | <b>23,470,436</b>   | <b>(82,808)</b>           | <b>-</b>                  | <b>23,387,628</b>   |
| 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<br>fee reimbursements of \$604,587                             | 1,447,214           | -                         | -                         | 1,447,214           |
| Fundraising  | 687,880             | -                         | -                         | 687,880             |
| <b>Total expenses</b>  | <b>23,550,325</b>   | <b>-</b>                  | <b>-</b>                  | <b>23,550,325</b>   |
| <b>Change in net assets from operations</b>  | <b>(79,889)</b>     | <b>(82,808)</b>           | <b>-</b>                  | <b>(162,697)</b>    |
| Change in interest in net assets of the Foundation<br>(Note 3)   | 83,288              | -                         | (94,948)                  | (11,660)            |
| <b>Change in net assets</b>  | <b>3,399</b>        | <b>(82,808)</b>           | <b>(94,948)</b>           | <b>(174,357)</b>    |
| Net assets:  |                     |                           |                           |                     |
| Beginning  | 6,204,406           | 1,430,800                 | 1,816,828                 | 9,452,034           |
| Ending   | <b>\$ 6,207,805</b> | <b>\$ 1,347,992</b>       | <b>\$ 1,721,880</b>       | <b>\$ 9,277,677</b> |

See notes to consolidated financial statements.

**Catholic Charities of Northeast Kansas, Inc. and Subsidiary**

**Consolidated Statement of Activities  
Year Ended June 30, 2015**

|   | Unrestricted      | Temporarily<br>Restricted | Permanently<br>Restricted | Total             |
|---|-------------------|---------------------------|---------------------------|-------------------|
| <b>Support and revenue:</b>   |                   |                           |                           |                   |
| Contributions (Note 3)  | \$ 1,887,940      | \$ 100,000                | \$ -                      | \$ 1,987,940      |
| Contributed goods   | 6,393,221         | -                         | -                         | 6,393,221         |
| United Way  | 357,232           | 415,412                   | -                         | 772,644           |
| Grants  | 4,726,017         | 507,604                   | -                         | 5,233,621         |
| Program service fees, net of contractual discounts<br>of \$1,271 and bad-debt expense of \$64,000 | 5,758,356         | -                         | -                         | 5,758,356         |
| Contributions from special events, net of direct<br>costs of \$97                                 | 403               | -                         | -                         | 403               |
| Interest  | 14,462            | -                         | -                         | 14,462            |
| Other revenue   | 2,014             | -                         | -                         | 2,014             |
| Net assets released from restrictions (Note 8):   |                   |                           |                           |                   |
| United Way funding  | 429,148           | (429,148)                 | -                         | -                 |
| Other   | 495,580           | (495,580)                 | -                         | -                 |
| <b>Total support and revenue</b>  | <b>20,064,373</b> | <b>98,288</b>             | <b>-</b>                  | <b>20,162,661</b> |
| <b>Expenses (Note 4):</b>   |                   |                           |                           |                   |
| <b>Program services:</b>  |                   |                           |                           |                   |
| Family support  | 9,746,704         | -                         | -                         | 9,746,704         |
| Family and child care   | 807,409           | -                         | -                         | 807,409           |
| Senior care   | 998,592           | -                         | -                         | 998,592           |
| Hospice   | 3,889,612         | -                         | -                         | 3,889,612         |
| Refugee and migrant assistance  | 1,711,019         | -                         | -                         | 1,711,019         |
| Thrift stores   | 678,801           | -                         | -                         | 678,801           |
| <b>Supporting services:</b>   |                   |                           |                           |                   |
| Management and general, net of management<br>fee reimbursements of \$472,518                      | 1,326,640         | -                         | -                         | 1,326,640         |
| Fundraising   | 537,207           | -                         | -                         | 537,207           |
| <b>Total expenses</b>   | <b>19,695,984</b> | <b>-</b>                  | <b>-</b>                  | <b>19,695,984</b> |
| <b>Change in net assets from operations</b>   | <b>368,389</b>    | <b>98,288</b>             | <b>-</b>                  | <b>466,677</b>    |
| Change in interest in net assets of the Foundation<br>(Note 3)                                    | 4,691             | -                         | (86,362)                  | (81,671)          |
| <b>Change in net assets</b>   | <b>373,080</b>    | <b>98,288</b>             | <b>(86,362)</b>           | <b>385,006</b>    |
| <b>Net assets:</b>  |                   |                           |                           |                   |
| Beginning   | 5,831,326         | 1,332,512                 | 1,903,190                 | 9,067,028         |
| Ending  | \$ 6,204,406      | \$ 1,430,800              | \$ 1,816,828              | \$ 9,452,034      |

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<br>Services  | Supporting Services       |                   | Total                |
|--|----------------------|---------------------------|-------------------|----------------------|
|  |                      | Management<br>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              |
| <b>Total compensation and related expenses</b> | <b>6,638,675</b>     | <b>1,024,983</b>          | <b>568,001</b>    | <b>8,231,659</b>     |
| 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               |
| <b>Total</b>                                   | <b>\$ 21,415,231</b> | <b>\$ 1,447,214</b>       | <b>\$ 687,880</b> | <b>\$ 23,550,325</b> |

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, 2015**

|  | Program<br>Services  | Supporting Services       |                   | Total                |
|--|----------------------|---------------------------|-------------------|----------------------|
|  |                      | Management<br>and General | Fundraising       |                      |
| Compensation                                   | \$ 5,193,178         | \$ 814,509                | \$ 355,610        | \$ 6,363,297         |
| Employee benefits                              | 565,935              | 101,480                   | 30,361            | 697,776              |
| Payroll taxes                                  | 463,967              | 67,166                    | 32,892            | 564,025              |
| <b>Total compensation and related expenses</b> | <b>6,223,080</b>     | <b>983,155</b>            | <b>418,863</b>    | <b>7,625,098</b>     |
| Assistance to individuals                      | 1,848,443            | 475                       | -                 | 1,848,918            |
| Assistance—Care contracts                      | 957,445              | -                         | -                 | 957,445              |
| Continuing education                           | 18,249               | 10,561                    | 619               | 29,429               |
| Contributed goods                              | 6,298,059            | -                         | -                 | 6,298,059            |
| Contract services                              | 305,352              | 67,914                    | 10,739            | 384,005              |
| Depreciation                                   | 274,480              | 41,439                    | 9,985             | 325,904              |
| Dues and subscriptions                         | 22,930               | 10,264                    | 2,456             | 35,650               |
| Insurance                                      | 22,828               | 39,454                    | 44                | 62,326               |
| Occupancy                                      | 644,585              | 76,880                    | 21,335            | 742,800              |
| Postage  | 24,962               | 4,508                     | 1,726             | 31,196               |
| Printing and public relations                  | 103,521              | 5,127                     | 47,583            | 156,231              |
| Professional services                          | 96,193               | 19,328                    | 246               | 115,767              |
| Rental and maintenance equipment               | 120,043              | 3,104                     | 1,842             | 124,989              |
| Supplies                                       | 388,681              | 17,951                    | 10,225            | 416,857              |
| Telephone                                      | 138,216              | 19,818                    | 5,940             | 163,974              |
| Mileage reimbursement and other travel         | 195,618              | 2,574                     | 3,583             | 201,775              |
| Miscellaneous                                  | 40,731               | 18,583                    | 911               | 60,225               |
| Vehicle  | 42,224               | 4,474                     | 971               | 47,669               |
| Volunteer                                      | 66,497               | 1,031                     | 139               | 67,667               |
| <b>Total</b>                                   | <b>\$ 17,832,137</b> | <b>\$ 1,326,640</b>       | <b>\$ 537,207</b> | <b>\$ 19,695,984</b> |

See notes to consolidated financial statements.

**Catholic Charities of Northeast Kansas, Inc. and Subsidiary**

**Consolidated Statements of Cash Flows  
Years Ended June 30, 2016 and 2015**

|   | <b>2016</b>         | <b>2015</b>         |
|---|---------------------|---------------------|
| Cash flows from operating activities:   |                     |                     |
| Change in net assets  | \$ (174,357)        | \$ 385,006          |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: |                     |                     |
| Depreciation  | 338,304             | 325,904             |
| (Gain) loss on disposal of assets   | 1,727               | (1,832)             |
| Change in interest in net assets of the Foundation  | 11,660              | 81,671              |
| (Increase) decrease in operating assets:  |                     |                     |
| United Way funding for the next fiscal year   | 16,433              | 13,736              |
| Inventories   | 47,101              | (61,500)            |
| Grants receivable   | 48,880              | (27,165)            |
| Accounts receivable   | 63,164              | 43,298              |
| Prepaid expenses  | (15,368)            | 6,608               |
| Related party   | (33,817)            | 239,306             |
| Increase (decrease) in operating liabilities:   |                     |                     |
| Accounts payable  | 10,541              | (130,467)           |
| Accrued expenses  | 93,938              | (24,069)            |
| Refundable advances   | 2,830               | 15,362              |
| <b>Net cash provided by operating activities</b>  | <b>411,036</b>      | <b>865,858</b>      |
| Cash flows from investing activities:   |                     |                     |
| Purchase of certificates of deposit   | -                   | (250,000)           |
| Purchases of property and equipment   | (210,192)           | (326,214)           |
| <b>Net cash used in investing activities</b>  | <b>(210,192)</b>    | <b>(576,214)</b>    |
| <b>Increase in cash and cash equivalents</b>  | <b>200,844</b>      | <b>289,644</b>      |
| Cash and cash equivalents:  |                     |                     |
| Beginning   | 1,998,884           | 1,709,240           |
| Ending  | <b>\$ 2,199,728</b> | <b>\$ 1,998,884</b> |

See notes to consolidated financial statements.

## Catholic Charities of Northeast Kansas, Inc. and Subsidiary

### Notes to Consolidated Financial Statements

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#### 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 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 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

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#### 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, 2016 and 2015.

**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 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

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#### **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 \$13,366 and \$62,016 were written off against the existing allowance during the years ended June 30, 2016 and 2015, 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 the 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

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#### 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.

**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 statement 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) 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, 2016 or 2015.

**Fundraising costs:** Fundraising costs are expensed as incurred and are included as a component of supporting services on the consolidated statement 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 24 percent and 28 percent of the Organization's revenue sources for the years ended June 30, 2016 and 2015, respectively.

## Catholic Charities of Northeast Kansas, Inc. and Subsidiary

### Notes to Consolidated Financial Statements

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#### 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.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This guidance is intended to improve comparability of accounting treatment for revenue recognition across geographies and industries, and to provide more useful information to financial statement readers through enhanced disclosure requirements. It replaces industry-specific guidance with a principles-based approach for revenue recognition, and is a step toward convergence of U.S. GAAP and International Financial Reporting Standards. In general, it requires revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU, as deferred one year by ASU No. 2015-14, is effective for annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 31, 2019. Therefore, this ASU will be effective for the Organization for the fiscal year ending June 30, 2020. The ASU permits the use of either of two methods: a full retrospective, or a retrospective with the cumulative effect and additional disclosures. Management has not yet selected a transition method, as the Organization is currently evaluating the impact of the new standard on its sources of support and consolidated financial statements, and is reviewing its revenue recognition policies and processes for any necessary amendments.

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

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#### 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, 2016 and 2015:

|   | 2016              | 2015              |
|---|-------------------|-------------------|
| United Way allocation for the next fiscal year: |                   |                   |
| General allocation                              | \$ 183,582        | \$ 200,422        |
| Donor designations                              | 215,397           | 214,990           |
|   | <u>398,979</u>    | <u>415,412</u>    |
| Grants receivable                               | 135,711           | 184,591           |
|   | <u>\$ 534,690</u> | <u>\$ 600,003</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 \$400,000 and \$450,000 for the years ended June 30, 2016 and 2015, respectively, and through church Christmas collections, amounting to \$531,831 and \$501,957 for the years ended June 30, 2016 and 2015, respectively.

The Organization paid the Archdiocese of Kansas City in Kansas premium expense for dental, health and life insurance of \$634,953 and \$557,167 for the years ended June 30, 2016 and 2015, respectively.

As described in Note 1, the Organization is supported by Catholic Charities Foundation of Northeast Kansas, Inc. (the Foundation). Grant revenue from the Foundation was \$1,880,000 and \$1,869,381 for the years ended June 30, 2016 and 2015, respectively. The Organization also had receivables of \$321,512 and \$287,695 recorded for amounts due from the Foundation as of June 30, 2016 and 2015, respectively. Condensed financial data of the Foundation as of and for the years ended June 30, 2016 and 2015, is as follows:

|                            | June 30             |                     |
|----------------------------|---------------------|---------------------|
|                            | 2016                | 2015                |
| Assets:                    |                     |                     |
| Cash                       | \$ 1,279,896        | \$ 1,236,248        |
| Other current assets       | 56,385              | 41,514              |
| Investments, at fair value | 3,237,887           | 3,276,239           |
|                            | <u>\$ 4,574,168</u> | <u>\$ 4,554,001</u> |
| Total liabilities          | <u>\$ 386,313</u>   | <u>\$ 354,486</u>   |
| Net assets:                |                     |                     |
| Unrestricted               | 1,462,163           | 1,467,320           |
| Unrestricted—designated    | 484,949             | 396,504             |
| Temporarily restricted     | 518,863             | 518,863             |
| Permanently restricted     | 1,721,880           | 1,816,828           |
|                            | <u>4,187,855</u>    | <u>4,199,515</u>    |
|                            | <u>\$ 4,574,168</u> | <u>\$ 4,554,001</u> |

## Catholic Charities of Northeast Kansas, Inc. and Subsidiary

### Notes to Consolidated Financial Statements

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#### Note 3. Related Parties (Continued)

|   | Years Ended June 30 |                    |
|---|---------------------|--------------------|
|   | 2016                | 2015               |
| Contributions and contributed goods         | \$ 2,546,158        | \$ 2,321,452       |
| Interest income                             | 11,768              | 10,674             |
| Change in value of split-interest agreement | (43,175)            | (31,769)           |
| Other revenue (expense)                     | (2,462)             | (2,505)            |
| Operating expenses                          | (2,523,949)         | (2,379,523)        |
| Change in net assets                        | <u>\$ (11,660)</u>  | <u>\$ (81,671)</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, 2016 and 2015, amounted to \$122,200 and \$118,187, 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 September 30, 2021. 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, 2016 and 2015, totaled \$491,868 and \$460,865, 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, 2016:

|                       |                     |
|-----------------------|---------------------|
| Years ending June 30: |                     |
| 2017                  | \$ 439,560          |
| 2018                  | 337,876             |
| 2019                  | 342,631             |
| 2020                  | 342,631             |
| 2021                  | 342,631             |
| Thereafter            | 85,675              |
|                       | <u>\$ 1,891,004</u> |

## Catholic Charities of Northeast Kansas, Inc. and Subsidiary

### Notes to Consolidated Financial Statements

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#### 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, 2016 and 2015:

|   | 2016              | 2015              |
|---|-------------------|-------------------|
| Time restrictions:                      |                   |                   |
| Time restriction on promises to give    | \$ 398,979        | \$ 415,412        |
| Restrictions as to use:                 |                   |                   |
| Program support                         | 430,150           | 496,525           |
| Total temporarily restricted net assets | <u>\$ 829,129</u> | <u>\$ 911,937</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, 2016 and 2015, as follows:

|  | 2016                | 2015              |
|--|---------------------|-------------------|
| Time restrictions on promises to give  | \$ 415,412          | \$ 429,148        |
| Program support and general operations | 735,818             | 495,580           |
|  | <u>\$ 1,151,230</u> | <u>\$ 924,728</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, 2016, 2015 or 2014.

#### Note 10. Subsequent Events

Management has evaluated and disclosed subsequent events up to and including October 11, 2016, which is the date the consolidated financial statements were available to be issued.

