



CATHOLIC CHARITIES WEST MICHIGAN

FINANCIAL STATEMENTS

SEPTEMBER 30, 2023 and 2022

CATHOLIC CHARITIES WEST MICHIGAN

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR’S REPORT ON FINANCIAL STATEMENTS	1
FINANCIAL STATEMENTS	
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses	6
Statements of Cash Flows	8
Notes to Financial Statements	9

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

To the Board of Directors
Catholic Charities West Michigan

Opinion

We have audited the accompanying financial statements of Catholic Charities West Michigan, which comprise the statements of financial position as of September 30, 2023 and 2022, and the related statements of activities, changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Catholic Charities West Michigan as of September 30, 2023 and 2022, 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.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Catholic Charities and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter – Change in Accounting Principle

As discussed in Note 2 to the financial statements, Catholic Charities changed its method of accounting for leases as of October 1, 2022. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Catholic Charities' ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Catholic Charities' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Catholic Charities' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2024, on our consideration of Catholic Charities West Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 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 West Michigan's internal control over financial reporting and compliance.



Grand Rapids, Michigan
June 28, 2024

CATHOLIC CHARITIES WEST MICHIGAN

STATEMENTS OF FINANCIAL POSITION SEPTEMBER 30, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
<u>Assets</u>		
Cash and cash equivalents	\$ 3,283,551	\$ 2,778,553
Accounts receivable, less allowance for doubtful accounts of \$26,548 in 2023 and \$25,921 in 2022	1,502,412	1,223,656
Promises to give	1,030,582	1,024,543
Prepaid expenses and other assets	221,178	237,039
Property and equipment	6,712,333	6,927,200
Right-of-use assets, operating leases	900,323	-
Beneficial interests in assets held by others	1,107,162	1,000,377
Total assets	<u>\$ 14,757,541</u>	<u>\$ 13,191,368</u>
<u>Liabilities</u>		
Accounts payable	\$ 322,045	\$ 291,559
Accrued liabilities		
Compensated absences	450,315	550,529
Salaries and wages	172,549	199,993
Other	1,686,655	1,289,003
Lease liabilities - operating	906,145	-
Long-term debt	3,283,477	3,427,213
Total liabilities	6,821,186	5,758,297
Net assets		
Without donor restrictions		
Board designated	4,860,976	4,904,941
Undesignated	(22,829)	(82,800)
With donor restrictions	3,098,208	2,610,930
Total net assets	<u>7,936,355</u>	<u>7,433,071</u>
Total liabilities and net assets	<u>\$ 14,757,541</u>	<u>\$ 13,191,368</u>

See accompanying notes

CATHOLIC CHARITIES WEST MICHIGAN

STATEMENT OF ACTIVITIES YEAR ENDED SEPTEMBER 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Public support and revenue			
Governmental purchased service fees	\$ 15,237,872	\$ -	\$ 15,237,872
Contributions and nongovernment grants	1,014,771	885,852	1,900,623
Contributions of nonfinancial assets	131,287	-	131,287
United Way	12,490	67,002	79,492
Catholic Services Appeal	-	824,441	824,441
Special events, less expense of \$106,374	173,917	113,191	287,108
Program service fees	151,394	-	151,394
Other revenue	58,594	-	58,594
Change in the value of beneficial interests in assets held by others	-	106,785	106,785
Net assets released from restrictions	1,509,993	(1,509,993)	-
Total public support and revenue	18,290,318	487,278	18,777,596
Expenses			
Program services			
Child welfare	6,491,495	-	6,491,495
Family preservation	4,731,963	-	4,731,963
Behavioral health	1,076,605	-	1,076,605
Community outreach	3,075,872	-	3,075,872
Total program services	15,375,935	-	15,375,935
Supporting services			
Management and general	2,511,676	-	2,511,676
Fundraising	386,701	-	386,701
Total supporting services	2,898,377	-	2,898,377
Total expenses	18,274,312	-	18,274,312
Change in net assets	16,006	487,278	503,284
Net assets, beginning of year	4,822,141	2,610,930	7,433,071
Net assets, end of year	\$ 4,838,147	\$ 3,098,208	\$ 7,936,355

See accompanying notes

CATHOLIC CHARITIES WEST MICHIGAN

STATEMENT OF ACTIVITIES YEAR ENDED SEPTEMBER 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Public support and revenue			
Governmental purchased service fees	\$ 13,977,889	\$ -	\$ 13,977,889
Contributions and nongovernment grants	1,035,288	1,117,079	2,152,367
Contributions of nonfinancial assets	71,994	-	71,994
United Way	2,960	102,922	105,882
Catholic Services Appeal	-	792,732	792,732
Special events, less expense of \$35,385	129,792	136,910	266,702
Program service fees	161,910	-	161,910
Other revenue	35,181	-	35,181
Change in the value of beneficial interests in assets held by others	-	(146,511)	(146,511)
Net assets released from restrictions	1,621,865	(1,621,865)	-
Total public support and revenue	17,036,879	381,267	17,418,146
Expenses			
Program services			
Child welfare	5,753,848	-	5,753,848
Family preservation	5,525,308	-	5,525,308
Behavioral health	1,229,200	-	1,229,200
Community outreach	2,391,021	-	2,391,021
Total program services	14,899,377	-	14,899,377
Supporting services			
Management and general	2,362,186	-	2,362,186
Fundraising	332,166	-	332,166
Total supporting services	2,694,352	-	2,694,352
Total expenses	17,593,729	-	17,593,729
Change in net assets	(556,850)	381,267	(175,583)
Net assets, beginning of year	5,378,991	2,229,663	7,608,654
Net assets, end of year	\$ 4,822,141	\$ 2,610,930	\$ 7,433,071

See accompanying notes

CATHOLIC CHARITIES WEST MICHIGAN

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED SEPTEMBER 30, 2023

	Program Services					Supporting Services			
	Child Welfare	Family Preservation	Behavioral Health	Community Outreach Programs	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses
Salaries & related expenses									
Salaries	\$ 2,961,152	\$ 3,054,793	\$ 707,654	\$ 1,318,535	\$ 8,042,134	\$ 1,148,049	\$ 235,903	\$ 1,383,952	\$ 9,426,086
Health and retirement benefits	576,557	586,412	118,392	258,102	1,539,463	222,033	35,283	257,316	1,796,779
Payroll taxes and workers' compensation	239,868	251,166	57,786	107,175	655,995	101,215	19,406	120,621	776,616
Total salaries & related expenses	3,777,577	3,892,371	883,832	1,683,812	10,237,592	1,471,297	290,592	1,761,889	11,999,481
Professional fees and other									
purchased services	17,793	8,236	18,517	368,563	413,109	406,467	25,579	432,046	845,155
Supplies	20,373	18,682	2,450	350,891	392,396	10,361	1,207	11,568	403,964
Communication	73,782	103,846	16,060	33,453	227,141	57,961	4,658	62,619	289,760
Postage and shipping	5,755	1,281	857	1,588	9,481	2,416	2,523	4,939	14,420
Occupancy	168,845	234,781	32,701	192,052	628,379	57,200	5,033	62,233	690,612
Printing and publications	3,700	1,110	178	5,692	10,680	544	13,777	14,321	25,001
Travel	131,446	218,360	25,060	102,836	477,702	13,494	1,084	14,578	492,280
Conferences, conventions and meetings	6,698	4,334	7,595	11,320	29,947	6,751	1,963	8,714	38,661
Specific assistance to individuals	2,053,081	111,414	-	48,282	2,212,777	-	-	-	2,212,777
Organization dues	6,073	4,946	10,357	5,152	26,528	34,442	-	34,442	60,970
Equipment rental and repairs	54,342	33,584	28,157	45,045	161,128	98,421	8,884	107,305	268,433
Insurance	-	-	-	-	-	100,447	-	100,447	100,447
Advertising	-	-	-	3,205	3,205	-	26,572	26,572	29,777
Bad debts	1,057	-	530	-	1,587	300	-	300	1,887
Special events	-	-	-	-	-	-	106,374	106,374	106,374
Other including in-kind expense	1,633	1,052	93	69,890	72,668	63,726	538	64,264	136,932
Staff training and recruitment	41,921	9,900	4,819	62,650	119,290	128,215	1,038	129,253	248,543
Total expenses before depreciation and interest	6,364,076	4,643,897	1,031,206	2,984,431	15,023,610	2,452,042	489,822	2,941,864	17,965,474
Interest expense	32,830	25,054	28,103	20,778	106,765	3,819	-	3,819	110,584
Depreciation	94,589	63,012	17,296	70,663	245,560	55,815	3,253	59,068	304,628
Total expenses	6,491,495	4,731,963	1,076,605	3,075,872	15,375,935	2,511,676	493,075	3,004,751	18,380,686
Less expenses included with revenues on the statement of activities									
Special event expenses	-	-	-	-	-	-	(106,374)	(106,374)	(106,374)
Total expenses included in the expense section on the statement of activities	\$ 6,491,495	\$ 4,731,963	\$ 1,076,605	\$ 3,075,872	\$ 15,375,935	\$ 2,511,676	\$ 386,701	\$ 2,898,377	\$ 18,274,312

See accompanying notes

CATHOLIC CHARITIES WEST MICHIGAN

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED SEPTEMBER 30, 2022

	Program Services					Supporting Services			
	Child Welfare	Family Preservation	Behavioral Health	Community Outreach Programs	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses
Salaries & related expenses									
Salaries	\$ 2,720,678	\$ 3,571,630	\$ 777,326	\$ 1,152,201	\$ 8,221,835	\$ 1,101,898	\$ 164,567	\$ 1,266,465	\$ 9,488,300
Health and retirement benefits	623,405	732,828	150,262	264,903	1,771,398	190,163	28,689	218,852	1,990,250
Payroll taxes and workers' compensation	221,107	295,330	64,149	93,848	674,434	91,644	13,622	105,266	779,700
Total salaries & related expenses	3,565,190	4,599,788	991,737	1,510,952	10,667,667	1,383,705	206,878	1,590,583	12,258,250
Professional fees and other									
purchased services	16,663	6,555	12,367	273,570	309,155	396,829	51,089	447,918	757,073
Supplies	17,722	20,567	3,151	72,592	114,032	11,781	4,305	16,086	130,118
Communication	66,900	122,489	18,176	29,662	237,227	46,927	5,155	52,082	289,309
Postage and shipping	5,959	1,765	995	2,598	11,317	2,753	3,345	6,098	17,415
Occupancy	119,447	237,556	31,636	139,417	528,056	53,044	4,563	57,607	585,663
Printing and publications	2,889	2,031	599	4,720	10,239	1,307	1,910	3,217	13,456
Travel	168,472	246,336	5,006	83,073	502,887	11,964	527	12,491	515,378
Conferences, conventions and meetings	16,691	2,427	491	9,322	28,931	2,949	870	3,819	32,750
Specific assistance to individuals	1,557,101	116,410	-	39,181	1,712,692	-	-	-	1,712,692
Organization dues	5,923	4,242	15,103	6,003	31,271	33,461	-	33,461	64,732
Equipment rental and repairs	43,389	23,688	41,995	21,637	130,709	81,013	8,979	89,992	220,701
Insurance	-	-	-	-	-	104,706	-	104,706	104,706
Advertising	-	-	-	-	-	2,463	40,072	42,535	42,535
Bad debts	11,024	-	17,966	1,800	30,790	1,790	-	1,790	32,580
Special events	-	-	-	-	-	-	35,385	35,385	35,385
Other including in-kind expense	1,335	403	1,518	8,917	12,173	89,175	15	89,190	101,363
Staff training and recruitment	36,471	37,248	14,288	89,171	177,178	71,087	1,182	72,269	249,447
Total expenses before depreciation and interest	5,635,176	5,421,505	1,155,028	2,292,615	14,504,324	2,294,954	364,275	2,659,229	17,163,553
Interest expense	25,594	29,203	32,269	20,932	107,998	4,546	-	4,546	112,544
Depreciation	93,078	74,600	41,903	77,474	287,055	62,686	3,276	65,962	353,017
Total expenses	5,753,848	5,525,308	1,229,200	2,391,021	14,899,377	2,362,186	367,551	2,729,737	17,629,114
Less expenses included with revenues on the statement of activities									
Special event expenses	-	-	-	-	-	-	(35,385)	(35,385)	(35,385)
Total expenses included in the expense section on the statement of activities	\$ 5,753,848	\$ 5,525,308	\$ 1,229,200	\$ 2,391,021	\$ 14,899,377	\$ 2,362,186	\$ 332,166	\$ 2,694,352	\$ 17,593,729

See accompanying notes

CATHOLIC CHARITIES WEST MICHIGAN

STATEMENTS OF CASH FLOWS YEARS ENDED SEPTEMBER 30, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities		
Change in net assets	\$ 503,284	\$ (175,583)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	304,628	353,017
Bad debt expense	1,887	32,580
Beneficial interests in assets held by others	(106,785)	146,511
Changes in operating assets and liabilities		
Accounts receivable	(280,643)	141,088
Promises to give	(6,039)	(300,127)
Prepaid expenses and other assets	15,861	(45,023)
Accounts payable	16,999	(99,356)
Right-of-use assets and liabilities, operating leases	5,822	-
Accrued liabilities	<u>269,994</u>	<u>10,600</u>
Net cash provided by operating activities	725,008	63,707
Cash flows from investing activities		
Purchases of property and equipment	(76,274)	(17,731)
Cash flows from financing activities		
Payments on long-term debt	<u>(143,736)</u>	<u>(122,214)</u>
Net increase (decrease) in cash and cash equivalents	<u>504,998</u>	<u>(76,238)</u>
Cash and cash equivalents at beginning of year	<u>2,778,553</u>	<u>2,854,791</u>
Cash and cash equivalents at end of year	<u><u>\$ 3,283,551</u></u>	<u><u>\$ 2,778,553</u></u>

See accompanying notes

CATHOLIC CHARITIES WEST MICHIGAN

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2023 AND 2022

Note 1 - Summary of Significant Accounting Policies

Business Activity

Catholic Charities West Michigan (Organization) is a nonprofit organization affiliated with the Roman Catholic Diocese of Grand Rapids (Diocese) and the Diocese of Grand Rapids Deposit and Loan Program. The Organization provides child welfare, family preservation and behavioral health services under federal and state contracts. The Organization also provides counseling, voluntary adoption services, foster grandparents, senior companions, meal programs, parish enrichment, social justice and other community outreach initiatives.

Method of Accounting

The Organization maintains its records on the accrual basis of accounting.

Cash and Cash Equivalents

Cash and cash equivalents consist of bank deposit accounts, money market funds, cash on hand and cash on deposit with the Diocese of Grand Rapids Deposit and Loan Program and the Diocese. Funds deposited at the Diocese of Grand Rapids Deposit and Loan Program and the Diocese were \$1,780,404 and \$1,746,632 at September 30, 2023 and 2022, respectively. The Organization considers all highly liquid investments with original maturities of three months or less to be cash equivalents. The Organization maintains cash accounts at two financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation. From time to time the Organization's cash balances may exceed the FDIC insured amount.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts, management's best estimate of amounts that will be collected, and historical experience or from billings for counseling services due to capitation of service fees imposed by various health insurance companies. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Management may find that estimates are subject to change due to contract rate changes, rejection of claims by funder and/or billings in excess of predetermined rate authorizations. Accounts receivable are expected to be received within one year. Accounts receivable was \$1,397,324 at October 1, 2021.

Promises to Give

Promises to give are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. When balances are deemed uncollectible, they are written off through a charge to the valuation allowance and a credit to promises to give. The Organization considers promises to give to be fully collectible. As such, no allowance for doubtful promises has been recorded. If amounts become uncollectible, a provision for the potential loss will be charged to operations when that determination is made.

CATHOLIC CHARITIES WEST MICHIGAN

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2023 AND 2022

Property and Equipment

The Organization follows the practice of capitalizing, at cost, all expenditures of property and equipment in excess of \$5,000. Donations of property and equipment are recorded as support at the estimated fair market value at the time received. Such donations are reported as without donor restriction support unless the donor has restricted the donated asset to a specific purpose. Depreciation is recorded on the straight-line method at rates based on the estimated useful life of the asset.

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the expected future cash flow from the use of the asset and its eventual disposition is less than the carrying amount of the asset, an impairment loss is recognized and measured using the asset's fair value. The Organization identified property and equipment related to one of its facilities that is currently idle. See Note 6. No impairment losses were recognized during 2023 or 2022.

Beneficial Interests in Assets Held by Others

The Organization is the income beneficiary of endowment funds held and administered by The Catholic Foundation of West Michigan (CFWM) and unrelated third parties. The beneficial interests are recorded at fair value as determined based on the underlying investments held by CFWM and the unrelated trust and the unrelated foundation.

Gains and losses in the underlying investments are reported as change in the value of beneficial interests in assets held by others in the statements of activities. Earnings, as defined by the trusts, are available to be distributed annually and are included in other revenue without donor restrictions and with donor restrictions in the statements of activities. These distributions are used based on specified donor restrictions.

Leases

The Organization recognizes right-of-use assets and lease liabilities for leases with terms greater than 12 months. Leases are classified as either finance or operating leases. This classification dictates whether lease expense is recognized based on an effective interest method (finance leases) or on a straight-line basis over the term of the lease (operating leases). Lease and non-lease components of a contract are accounted for as separate lease components. The Organization's right-of-use assets and lease liabilities primarily relate to program facilities and office space. Renewal periods are included in the expected lease term if they are reasonably certain of being exercised.

Right-of-use assets and lease liabilities are recorded at the net present value of future lease payments and include any initial direct costs incurred at lease commencement. The risk-free rate is used to determine the net present value of the lease when the rate implicit in the lease is not readily determinable. Right-of-use assets under finance leases are amortized over the life of the lease or, if shorter, the life of the leased asset, on a straight-line basis. Right-of-use assets under operating leases are reduced as lease expense is incurred.

Short-term leases (initial terms less than 12 months) are expensed on a straight-line basis over the lease term.

CATHOLIC CHARITIES WEST MICHIGAN

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2023 AND 2022

Compensated Absences

The Organization has recorded an estimate of its anticipated obligation for compensated absences related to unused paid time off (PTO) as of September 30, 2023 and 2022. Such benefits vest for eligible employees after three months of service. Estimates associated with the calculation of this obligation include assumptions related to employee attrition and patterns of PTO use. Management evaluates these assumptions based upon historical trends and current employee census. A reduction in the obligation of approximately \$100,000 was recorded in 2023 to reflect policy revisions and updated attrition rate and use patterns.

Net Assets

The financial statements of the Organization have been prepared in accordance with U.S. generally accepted accounting principles (US GAAP), which require the Organization to report information regarding its financial position and activities according to the following net asset classifications:

- Net assets without donor restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for purposes as described in Note 12.
- Net assets with donor restrictions – Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are released from restriction when the assets are placed in service. The Organization reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions are met in the same reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor-restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Revenue Recognition

The Organization recognizes revenue from contracts with customers through three primary revenue streams. These include governmental purchased service fees, foster care fees and program service fees. Governmental purchased service fees, excluding foster care, are recognized each month as services are provided and billed to the state agency. Foster care is provided on a per diem basis; revenues are generally recognized on a daily basis as the services are provided. Program service fees are recognized when the service is provided. Deferred revenue (contract liability) as of October 1, 2021 was \$223,344.

The following table summarizes the Organization's disaggregated revenue based on timing of revenue recognition for the years ended September 30:

	2023	2022
Governmental purchased service fees	\$ 15,237,872	\$ 13,977,889
Program service fees	151,394	161,910
Revenue from contracts with customers recognized at a point in time	<u>\$ 15,389,266</u>	<u>\$ 14,139,799</u>

CATHOLIC CHARITIES WEST MICHIGAN

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2023 AND 2022

Grant Revenue and Conditional Grants

Grant revenue is recognized under the terms of each grant, typically when actual expenditures are incurred or services are provided that meet the specific terms of a grant.

In 2023, the Organization was awarded several grants totaling \$627,000 as part of its annual contract with West Michigan Partnership for Children. Use of these funds must comply with the applicable federal and funder requirements, and the funds must be used by September 30, 2024. The Organization received these funds in advance and has recorded a contract liability (other accrued liability) in the statement of financial position.

Total contract liabilities associated with grant revenue were approximately \$628,000 and \$250,000 as of September 30, 2023 and 2022, respectively.

Contributions and Conditional Contributions

Contributions received and unconditional promises to give are recorded as without donor restriction or with donor restriction support depending on the existence and/or nature of donor restrictions. All contributions are considered to be available for use unless specifically restricted by the donor. Donor restricted contributions are reported as restricted support and are then reclassified to net assets without donor restrictions upon expiration of the donor restriction. If the restriction will be met in the same reporting period, the support will be reported as without donor restrictions. Contributions are reported as revenue at the time the contribution is promised.

During 2023, the Organization received a conditional promise to give of approximately \$1,110,000 that is not recognized as an asset or contribution revenue in the accompanying financial statements, as the associated conditions have not been met. This conditional promise is intended to fund a reserve for potential funding shortfalls in fiscal year 2024.

Contributions for future fundraising events are recorded as contract liabilities until the event occurs. These contract liabilities were approximately \$34,000 and \$75,000 as of September 30, 2023 and 2022, respectively.

Income Taxes

The Internal Revenue Service has determined that the Organization is exempt from federal income taxes under provisions of Code Section 501(c)(3). In addition, the Organization qualifies for charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under 509(a)(2). Tax positions taken are assessed for uncertainty and a provision may be recorded if a tax position is not likely to be sustained upon examination.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited as detailed in the statement of functional expenses. Salaries and benefits are allocated based on estimates of time and effort. Utilities and maintenance expenses are allocated based on the number of budgeted full-time equivalents at each location.

CATHOLIC CHARITIES WEST MICHIGAN

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2023 AND 2022

In 2023, management evaluated the functional expense allocation and determined that certain activities were better aligned with the Community Outreach group of programs. As such, the associated costs were moved from Family Preservation to Community Outreach within program service expenses. The 2022 functional expenses were reclassified in order to provide comparable presentation.

Subsequent Events

Management has evaluated significant events or transactions occurring subsequent to September 30, 2023 for potential recognition or disclosure in these financial statements. The evaluation was performed through June 28, 2024, the date the financial statements were available for issuance. Subsequent events are disclosed in Note 16.

Use of Estimates

Management uses estimates and assumptions in preparing these financial statements in accordance with U.S. generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the allocation of expenses, the disclosure of contingent assets and liabilities (including reserves), and the reported revenues and expenses. Actual results could vary from the estimates that were used. It is at least reasonably possible that the estimates used in calculating the accounts receivable allowance, the value of idle property, and the various accruals including the obligation for compensated absences could change over the course of the next year.

Recently Issued Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326). The main provisions of this pronouncement include requiring financial assets to be presented at the net amount expected to be collected utilizing an allowance for credit losses. The ASU is effective for annual periods beginning after December 15, 2022.

The Organization is currently evaluating the impact this guidance will have on the financial statements.

Note 2 - Adoption of New Accounting Standard

On October 1, 2022, the Organization adopted new guidance under Accounting Standards Codification (ASC) Topic 842, Leases. Under the new guidance the Organization recognizes right of-use assets and lease liabilities for leases with terms greater than 12 months. Leases are now classified as either finance or operating leases which dictates whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease.

The Organization adopted Topic 842 using the modified retrospective method. Accordingly, the new guidance was applied retrospectively to leases that existed as of October 1, 2022 (the date of initial application). As result, the Organization recorded right-of-use assets of \$488,957 and liabilities of \$488,957. The adoption did not have a significant impact on the Organization's net assets, results of operations or cash flows.

CATHOLIC CHARITIES WEST MICHIGAN

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2023 AND 2022

The Organization elected the following practical expedients and accounting policy elections:

1. Expired or existing contracts were not reassessed to determine whether they are or contain leases upon adoption.
2. Previous classification of existing leases (operating or finance) was retained as of the date of adoption.
3. Initial direct costs were not reassessed upon adoption.
4. Lease and non-lease components of a contract are accounted for separately.

Note 3 - Liquidity

The Organization's financial assets available within one year of the balance sheet date for general expenditure are as follows:

	2023	2022
Cash	\$ 1,880,480	\$ 1,402,097
Accounts receivable	1,502,412	1,223,656
Promises to give	930,582	924,543
	<u>\$ 4,313,474</u>	<u>\$ 3,550,296</u>

The Organization's normal operations as a social service organization have predictable and consistent monthly cash outlays and cash inflows from monthly billing for services. An exception to this can be the bureaucratic delays and budget eliminations inherent in being funded by government contracts. Cash inflow from contributions and donations is concentrated in November and December, which is when government grant funding can be delayed. There are occasional but significant expenses such as major facility repairs. The Diocese of Grand Rapids shall be a financial resource and lend the Organization funds for some of these financial situations. Included in the Organization's annual budget is an emergency contingency plan to be used in the event of unanticipated circumstances resulting in a severe financial downturn. Included in the table above are funds maintained in an operating reserve account to support operations through delays in payments of committed funding and to support confidence in the long-term sustainability of the Organization.

Note 4 - Accounts Receivable

Accounts receivable is comprised of the following:

	2023	2022
Client fees	\$ 152,842	\$ 120,147
Allowance for uncollectible client fees	(17,673)	(17,046)
Child welfare	571,825	411,530
Government grants and contracts	804,293	717,900
Allowance for uncollectible contracts	(8,875)	(8,875)
Total accounts receivable	<u>\$ 1,502,412</u>	<u>\$ 1,223,656</u>

CATHOLIC CHARITIES WEST MICHIGAN

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2023 AND 2022

Note 5 - Promises to Give

Unconditional promises to give are comprised of the following:

	<u>2023</u>	<u>2022</u>
United Way allocations and designations	\$ 92,251	\$ 104,994
Diocese of Grand Rapids - Catholic Services Appeal	618,331	594,549
Pledges	<u>320,000</u>	<u>325,000</u>
Total Promises to Give	<u>\$ 1,030,582</u>	<u>\$ 1,024,543</u>

Promises to give of \$930,582 are expected to be received within one year, and \$100,000 is expected to be received within two to four years.

Note 6 - Property and Equipment

Property and equipment consist of the following:

	<u>2023</u>	<u>2022</u>
Land	\$ 299,500	\$ 299,500
Leasehold and land improvements	394,666	386,413
Building and building improvements	7,246,829	7,195,067
Equipment, furniture and vehicles	1,522,349	1,522,349
Construction in progress	29,750	-
Idle facilities	<u>862,561</u>	<u>862,561</u>
	10,355,655	10,265,890
Accumulated depreciation	<u>(3,643,322)</u>	<u>(3,338,690)</u>
	<u>\$ 6,712,333</u>	<u>\$ 6,927,200</u>

In 2022, the Organization paused detox center operations. Management is evaluating the best future use for the facility, which is idle as of September 30, 2023. Depreciation expense of \$0 and \$12,564 for this facility was recorded during 2023 and 2022, respectively. The facility has a net book value of \$849,997 at September 30, 2023 and 2022. Management believes that the fair value of the facility does not materially differ from the recorded value.

CATHOLIC CHARITIES WEST MICHIGAN

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2023 AND 2022

Note 7 - Lease Agreements

The Organization leases facilities to provide family preservation, behavioral health, and child welfare services under long-term, non-cancellable operating leases that expire at various dates through 2028. Monthly payments range from \$500 to \$5,433, through the lease term.

The Organization's lease expense consists of the following for the year ended September 30, 2023:

Operating lease cost	\$ 272,314
Short-term lease cost	41,004
Total lease cost	<u>\$ 313,318</u>

Lease expense totaled approximately \$282,000 for the year ended September 30, 2022.

Supplemental lease information is as follows for the year ended September 30, 2023:

Cash paid for amounts included in measurement of lease liabilities	
Operating cash flows from operating leases	\$ 260,697
Right-of-use assets obtained in exchange for operating lease liabilities	1,140,728
Weighted-average remaining lease term - operating leases	3.64
Weighted-average discount rate - operating leases	4.18%

Remaining lease payments are as follows:

<u>Years ending September 30</u>	<u>Operating Leases</u>
2024	\$ 341,588
2025	226,337
2026	189,756
2027	135,795
2028	84,037
Total minimum lease payments	977,513
Less: present value discount	<u>(71,368)</u>
Present value of lease liabilities	<u>\$ 906,145</u>

CATHOLIC CHARITIES WEST MICHIGAN

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2023 AND 2022

Note 8 - Beneficial Interests

Investments are recorded at fair value. Accounting standards provide a framework for establishing fair value. The framework for determining fair value is based on a hierarchy which prioritizes the use of inputs to various valuation techniques. The three levels of the fair value hierarchy, with Level 1 given the highest priority, are as follows:

- Level 1 unadjusted quoted prices in active markets for identical assets or liabilities
- Level 2 quoted prices in active markets for similar assets or liabilities, identical or similar assets or liabilities that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly
- Level 3 significant unobservable inputs which may include the Organization's own assumptions in determining fair value

The fair value of the beneficial interests in perpetual trusts at September 30, 2023 and 2022, is based upon the fair value of the underlying investments held by The Catholic Foundation of West Michigan and unrelated third parties. The underlying assets cannot be liquidated or redeemed by Catholic Charities of West Michigan. As such, no quoted prices or active markets are available for this asset (Level 3). Management reviews and evaluates the values provided by the fund managers and agrees with the valuation methods and assumptions used in determining the fair value. These assets are considered net assets with donor restrictions.

Following is a reconciliation of activity for the years ended September 30, 2023 and 2022 for assets measured at fair value based on significant unobservable (Level 3) information.

Balance at October 1, 2021	\$ 1,146,888
Change in value of beneficial interests (net)	<u>(146,511)</u>
Balance at September 30, 2022	1,000,377
Change in value of beneficial interests (net)	<u>106,785</u>
Balance at September 30, 2023	<u><u>\$ 1,107,162</u></u>

The various investments underlying the beneficial interests are in equity and fixed income securities and other investments and are exposed to a variety of uncertainties, including interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is possible that changes in the values of these interests could occur in the near term. Such changes could materially affect the amounts reported in the financial statements of the Organization.

Note 9 - Long-Term Debt

Long-term debt consists of a note payable to the Diocese of Grand Rapids Deposit and Loan Program. Interest is due monthly at a 3.50% annual rate. Cash paid for interest expense was approximately \$111,000 and \$98,000 for the years ended September 30, 2023 and 2022, respectively.

CATHOLIC CHARITIES WEST MICHIGAN

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2023 AND 2022

Maturities of long-term debt are provided in the table below.

Years ending September 30:

2024	\$ 121,162
2025	125,471
2026	129,933
2027	134,555
2028	139,341
Thereafter	<u>2,633,015</u>
	<u>\$ 3,283,477</u>

Note 10 - Line of Credit

The Organization has available a \$500,000 unsecured line of credit with a bank that matures in July 2024. The line of credit bears interest at 2.05% above SOFR, with a minimum rate of 3.75%. There were no funds borrowed at September 30, 2023 or 2022.

Note 11 - Board Designated Net Assets

Net assets without donor restrictions designated for specific purposes by the Board of Directors consist of cash and cash equivalents and property and equipment as follows:

	<u>2023</u>	<u>2022</u>
Lottie Brown Seaton Fund for client personal enhancement and self development opportunities	\$ 29,049	\$ 28,498
Facilities reserve	1,403,071	1,376,456
Net investment in property and equipment	<u>3,428,856</u>	<u>3,499,987</u>
Total Board Designated Unrestricted Net Assets	<u>\$ 4,860,976</u>	<u>\$ 4,904,941</u>

The Board designates net assets, when beneficial, to show commitment to a certain plan, program, or strategy.

CATHOLIC CHARITIES WEST MICHIGAN

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2023 AND 2022

Note 12 - Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes at September 30:

	<u>2023</u>	<u>2022</u>
United Way-funding for future time periods	\$ 92,252	\$ 104,994
Catholic Services Appeal-funding for future time periods	618,331	594,549
Various program support - funding for future time periods	230,141	-
God's Kitchen-purpose restrictions	750,322	517,500
Child welfare programs - purpose restrictions	300,000	393,510
Beneficial Interest in Trusts	112,092	103,919
Catholic Foundation West Michigan	929,577	838,419
Muskegon Community Funds	65,493	58,039
	<u>\$ 3,098,208</u>	<u>\$ 2,610,930</u>

Net assets released from restrictions are as follows for the years ended September 30:

	<u>2023</u>	<u>2022</u>
Time restricted release - United Way	\$ 79,743	\$ 139,724
Time restricted release - Catholic Services Appeal	800,660	775,803
Purpose restricted release - God's Kitchen	536,080	706,338
Purpose restricted release - child welfare programs	93,510	-
	<u>\$ 1,509,993</u>	<u>\$ 1,621,865</u>

Note 13 - Contributed Nonfinancial Assets

The Organization received approximately \$74,000 and \$12,000 in contributions of nonfinancial assets during the years ended September 30, 2023 and 2022 related to donated supplies. These donated items are recorded at their estimated fair value as an in-kind contribution and expense. The Organization estimates the fair value on the basis of estimates of wholesale values that would be received for selling similar products.

The Organization received approximately \$60,000 in contributions of nonfinancial assets relating to accounting services during each of the years ended September 30, 2023 and 2022. Contributed accounting services are comprised of professional services received from a certified public accounting firm. These specialized services are recorded at their estimated fair value as an in-kind contribution and expense. The estimated fair value is provided by the certified public accounting firm and is based on current rates for similar accounting services.

CATHOLIC CHARITIES WEST MICHIGAN

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2023 AND 2022

Note 14 - Retirement Plan

The Organization has a retirement plan under Internal Revenue Code Section 401(k) maintained for eligible employees. Under the plan, eligible employees are permitted to contribute up to 85% of their compensation into the plan, limited to the Internal Revenue Service maximums. Effective January 1, 2022, as approved by the Board of Directors, the Organization may make a discretionary matching contribution of 100% of the first 2% of eligible employee earnings and an additional 50% on the next 6% of eligible employee earnings to be paid each pay period. The Organization made contributions of \$272,508 and \$259,203 for the years ended September 30, 2023 and 2022, respectively.

Note 15 - Concentrations and Contingencies

Catholic Charities West Michigan, which operates exclusively in the State of Michigan, receives a substantial portion of its funding and support from government agencies. Approximately 67% and 69% of the public support and revenue was provided by two primary funding sources (U.S. Department of Health and Human Services and the State of Michigan Department of Health and Human Services) during the years ended September 30, 2023 and 2022, respectively. Amounts due from these two major funding sources comprise 83% and 89% of accounts receivable at September 30, 2023 and 2022, respectively.

While certain of the arrangements under which the Organization receives funding are for multiple years, other arrangements are one year contracts that are renewed annually. General uncertainties exist associated with economic conditions that could impact future federal and state governmental appropriations. In the event of a significant reduction in funding, the Organization could be challenged to substantially reduce service offerings, eliminate costs and/or find alternative funding sources.

In the normal course of its activities, Catholic Charities West Michigan becomes party to various legal actions. The Organization carries commercial insurance to cover material conceivable losses.

Catholic Charities West Michigan participates in federally funded programs. Financial awards from federal, state, and local governmental entities in the form of grants are subject to the single audit requirements of the Uniform Guidance. The single audit of the federal programs for September 30, 2023 has been conducted and the required reports have been issued. However, the compliance audit reports have not yet been accepted by the grantors. The amount of expenditures disallowed by granting agencies has been determined at this time to be approximately \$54,000 relating to funding reviewed by the awarding agency for the period April 1, 2022 through December 31, 2022. Accordingly, a provision in that amount has been recorded as of September 30, 2023. Management does not anticipate disallowed expenditures of a material amount beyond the provision recorded.

While management believes the outcome of these circumstances will not have a material effect on the financial position of the Organization, a reserve in the amount of \$800,000 was established in 2021 to provide for uncertainties with respect to these conditions. This amount is included in accrued liabilities as of September 30, 2023 and 2022.

CATHOLIC CHARITIES WEST MICHIGAN

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2023 AND 2022

Note 16 - Subsequent Events

In May 2024, the Organization became aware that funding of the Transitional Foster Care Program would terminate as of June 30, 2024. The funding source associated with this program has agreed to provide financial support for the start-up of a new program related to Home Studies and Post Release Services. Funds were awarded in March 2024 in the amount of \$816,595 and can be expended through December 2024.

Note 17 - Reclassifications

Certain reclassifications have been made to the 2022 financial statements to conform to the 2023 presentation.