

CATHOLIC CHARITIES WEST MICHIGAN

FINANCIAL STATEMENTS

Years Ended September 30, 2020 and 2019

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INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

Board of Directors
Catholic Charities West Michigan
Grand Rapids, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of Catholic Charities West Michigan, which comprise the statements of financial position as of September 30, 2020 and 2019, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Catholic Charities West Michigan as of September 30, 2020 and 2019, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 19, 2021, 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.

A handwritten signature in black ink that reads "Beene Garter LLP". The signature is written in a cursive, flowing style.

August 19, 2021
Grand Rapids, Michigan

FINANCIAL STATEMENTS

CATHOLIC CHARITIES WEST MICHIGAN

STATEMENTS OF FINANCIAL POSITION

September 30, 2020 and 2019

	2020	2019
ASSETS		
Cash and cash equivalents	\$ 3,660,070	\$ 2,163,878
Restricted cash	602	11,121
Accounts receivable, less allowance for doubtful accounts of \$19,958 in 2020 and \$117,000 in 2019	2,013,041	1,735,424
Promises to give	736,552	757,136
Prepaid expenses and other assets	195,515	225,422
Property and equipment	5,970,005	3,431,629
Beneficial interests in assets held by others	425,698	401,673
TOTAL ASSETS	\$ 13,001,483	\$ 8,726,283
Liabilities		
Accounts payable	\$ 887,267	\$ 412,863
Accrued liabilities		
Compensated absences	555,611	465,698
Salaries and wages	228,907	451,667
Other	216,949	253,235
Custodial funds - supplemental security income payments and guardianship program clients	602	11,121
Note payable	2,980,900	-
Long-term debt	2,536,631	-
TOTAL LIABILITIES	7,406,867	1,594,584
Net Assets		
Without Donor Restrictions		
Board designated	4,798,508	4,135,389
Undesignated	(515,405)	1,769,596
With Donor Restrictions	1,311,513	1,226,714
Total Net Assets	5,594,616	7,131,699
TOTAL LIABILITIES AND NET ASSETS	\$ 13,001,483	\$ 8,726,283

See accompanying notes

CATHOLIC CHARITIES WEST MICHIGAN

STATEMENT OF ACTIVITIES

Year Ended September 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Public Support and Revenue			
Governmental purchased service fees	\$ 15,540,615	\$ -	\$ 15,540,615
Contributions and nongovernment grants	677,909	723,290	1,401,199
United Way	27,279	239,456	266,735
Catholic Services Appeal	-	807,660	807,660
Special events, less expense of \$54,717	60,807	93,452	154,259
Program service fees	292,789	-	292,789
Miscellaneous	60,089	-	60,089
Loss on disposal of assets	(537,480)	-	(537,480)
Change in the value of beneficial interests in assets held by others	-	24,025	24,025
Net assets released from restrictions	1,803,084	(1,803,084)	-
TOTAL PUBLIC SUPPORT AND REVENUE	17,925,092	84,799	18,009,891
Expenses			
Program Services			
Child welfare	6,659,777	-	6,659,777
Family preservation	7,296,338	-	7,296,338
Behavioral health	1,868,593	-	1,868,593
Community outreach	1,253,450	-	1,253,450
Total Program Services	17,078,158	-	17,078,158
Supporting Services			
Management and general	2,195,039	-	2,195,039
Fundraising	273,777	-	273,777
Total Supporting Services	2,468,816	-	2,468,816
TOTAL EXPENSES	19,546,974	-	19,546,974
CHANGE IN NET ASSETS	(1,621,882)	84,799	(1,537,083)
Net Assets, Beginning of Year	5,904,985	1,226,714	7,131,699
NET ASSETS, END OF YEAR	\$ 4,283,103	\$ 1,311,513	\$ 5,594,616

See accompanying notes

CATHOLIC CHARITIES WEST MICHIGAN

STATEMENT OF ACTIVITIES (CONTINUED)

Year Ended September 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Public Support and Revenue			
Governmental purchased service fees	\$ 15,772,609	\$ -	\$ 15,772,609
Contributions and nongovernment grants	1,348,274	457,843	1,806,117
United Way	6,660	278,829	285,489
Catholic Services Appeal	-	770,160	770,160
Special events, less expense of \$97,920	75,428	100,540	175,968
Program service fees	394,753	-	394,753
Miscellaneous	51,359	-	51,359
Loss on disposal of assets	(1,983)	-	(1,983)
Change in the value of beneficial interests in assets held by others	-	15,115	15,115
Net assets released from restrictions	1,932,621	(1,932,621)	-
TOTAL PUBLIC SUPPORT AND REVENUE	19,579,721	(310,134)	19,269,587
Expenses			
Program Services			
Child welfare	6,639,488	-	6,639,488
Family preservation	5,918,884	-	5,918,884
Behavioral health	2,012,847	-	2,012,847
Community outreach	1,462,187	-	1,462,187
Total Program Services	16,033,406	-	16,033,406
Supporting Services			
Management and general	2,532,274	-	2,532,274
Fundraising	325,648	-	325,648
Total Supporting Services	2,857,922	-	2,857,922
TOTAL EXPENSES	18,891,328	-	18,891,328
CHANGE IN NET ASSETS	688,393	(310,134)	378,259
Net Assets, Beginning of Year	5,216,592	1,536,848	6,753,440
NET ASSETS, END OF YEAR	\$ 5,904,985	\$ 1,226,714	\$ 7,131,699

See accompanying notes

	Program Services				
	Child Welfare	Family Preservation	Behavioral Health	Community Outreach Programs	Total Program Services
Salaries & Related Expenses					
Salaries	\$ 3,301,739	\$ 4,652,639	\$ 1,236,133	\$ 390,197	\$ 9,580,708
Health and retirement benefits	711,255	1,059,406	249,543	73,703	2,093,907
Payroll taxes and workers' compensation	270,035	382,623	100,390	31,761	784,809
Total Salaries & Related Expenses	4,283,029	6,094,668	1,586,066	495,661	12,459,424
Professional fees and other					
purchased services	9,672	28,487	13,981	346,380	398,520
Supplies	23,427	34,130	5,804	43,811	107,172
Communication	78,816	154,615	23,777	9,755	266,963
Postage and shipping	7,032	7,322	1,385	960	16,699
Occupancy	114,253	249,018	37,325	105,044	505,640
Printing and publications	3,067	1,266	154	71	4,558
Travel	169,949	309,314	22,030	57,037	558,330
Conferences, conventions and meetings	4,790	2,267	269	14,670	21,996
Specific assistance to individuals	1,786,749	260,190	2,100	95,724	2,144,763
Organization dues	5,687	8,983	62,826	737	78,233
Equipment rental and repairs	39,862	32,613	71,292	13,832	157,599
Insurance	-	-	-	893	893
Advertising	-	-	-	-	-
Bad debts	-	-	-	-	-
Special events	-	-	-	-	-
Miscellaneous	37,635	1,362	480	12,898	52,375
Staff training and recruitment	37,229	65,252	30,537	4,193	137,211
Total Expenses Before Depreciation	6,601,197	7,249,487	1,858,026	1,201,666	16,910,376
Depreciation	58,580	46,851	10,567	51,784	167,782
Total Expenses	6,659,777	7,296,338	1,868,593	1,253,450	17,078,158
Less expenses included with revenues on the statement of activities					
Special event expenses	-	-	-	-	-
TOTAL EXPENSES INCLUDED IN THE EXPENSE SECTION ON THE STATEMENT OF ACTIVITIES	\$ 6,659,777	\$ 7,296,338	\$ 1,868,593	\$ 1,253,450	\$ 17,078,158

CATHOLIC CHARITIES WEST MICHIGAN

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended September 30, 2020

Supporting Services			
Management and General	Fundraising	Total Supporting Services	Total Expenses
\$ 1,256,923	\$ 136,093	\$ 1,393,016	\$ 10,973,724
182,834	23,012	205,846	2,299,753
93,295	11,400	104,695	889,504
1,533,052	170,505	1,703,557	14,162,981
166,666	22,144	188,810	587,330
22,482	6,612	29,094	136,266
53,479	1,814	55,293	322,256
1,465	1,900	3,365	20,064
42,579	750	43,329	548,969
1,453	6,779	8,232	12,790
17,276	1,165	18,441	576,771
4,939	-	4,939	26,935
-	-	-	2,144,763
28,052	95	28,147	106,380
91,742	3,812	95,554	253,153
91,982	-	91,982	92,875
2,639	53,513	56,152	56,152
6,433	-	6,433	6,433
-	54,717	54,717	54,717
19,451	4,575	24,026	76,401
58,227	113	58,340	195,551
2,141,917	328,494	2,470,411	19,380,787
53,122	-	53,122	220,904
2,195,039	328,494	2,523,533	19,601,691
-	(54,717)	(54,717)	(54,717)
\$ 2,195,039	\$ 273,777	\$ 2,468,816	\$ 19,546,974

See accompanying notes

	Program Services				Total Program Services
	Child Welfare	Family Preservation	Behavioral Health	Community Outreach Programs	
Salaries & Related Expenses					
Salaries	\$ 3,080,047	\$ 3,694,995	\$ 1,324,873	\$ 463,954	\$ 8,563,869
Health and retirement benefits	666,780	868,746	231,575	118,269	1,885,370
Payroll taxes and workers' compensation	258,118	312,498	110,734	38,482	719,832
Total Salaries & Related Expenses	4,004,945	4,876,239	1,667,182	620,705	11,169,071
Professional fees and other					
purchased services	12,719	15,722	16,872	322,653	367,966
Supplies	27,018	39,207	11,825	65,966	144,016
Communication	86,892	102,632	39,027	19,858	248,409
Postage and shipping	8,588	7,750	3,810	2,785	22,933
Occupancy	120,836	174,046	88,155	102,503	485,540
Printing and publications	8,670	1,150	335	411	10,566
Travel	264,732	408,219	45,201	96,639	814,791
Conferences, conventions and meetings	9,585	12,080	1,088	13,241	35,994
Specific assistance to individuals	1,836,417	111,094	6,755	103,654	2,057,920
Organization dues	5,548	9,125	50,932	967	66,572
Equipment rental and repairs	56,512	17,767	55,856	12,223	142,358
Insurance	-	-	-	1,599	1,599
Advertising	-	-	-	-	-
Bad debts	-	-	-	-	-
Special events	-	3,555	-	-	3,555
Miscellaneous	43,237	14,798	514	20,860	79,409
Staff training and recruitment	91,755	85,774	4,030	14,016	195,575
Total Expenses Before Depreciation	6,577,454	5,879,158	1,991,582	1,398,080	15,846,274
Depreciation	62,034	43,281	21,265	64,107	190,687
Total Expenses	6,639,488	5,922,439	2,012,847	1,462,187	16,036,961
Less expenses included with revenues on the statement of activities					
Special event expenses	-	(3,555)	-	-	(3,555)
TOTAL EXPENSES INCLUDED IN THE EXPENSE SECTION ON THE STATEMENT OF ACTIVITIES	\$ 6,639,488	\$ 5,918,884	\$ 2,012,847	\$ 1,462,187	\$ 16,033,406

CATHOLIC CHARITIES WEST MICHIGAN

STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)

Year Ended September 30, 2019

Supporting Services			
Management and General	Fundraising	Total Supporting Services	Total Expenses
\$ 1,241,466	\$ 169,252	\$ 1,410,718	\$ 9,974,587
220,821	22,704	243,525	2,128,895
106,053	14,431	120,484	840,316
1,568,340	206,387	1,774,727	12,943,798
177,279	19,722	197,001	564,967
21,889	12,045	33,934	177,950
22,197	1,115	23,312	271,721
1,517	1,772	3,289	26,222
38,235	4,606	42,841	528,381
4,696	949	5,645	16,211
28,068	1,392	29,460	844,251
17,811	-	17,811	53,805
-	-	-	2,057,920
30,908	425	31,333	97,905
181,380	3,841	185,221	327,579
99,277	-	99,277	100,876
16,750	72,768	89,518	89,518
137,307	-	137,307	137,307
-	94,365	94,365	97,920
44,899	538	45,437	124,846
86,851	88	86,939	282,514
2,477,404	420,013	2,897,417	18,743,691
54,870	-	54,870	245,557
2,532,274	420,013	2,952,287	18,989,248
-	(94,365)	(94,365)	(97,920)
\$ 2,532,274	\$ 325,648	\$ 2,857,922	\$ 18,891,328

See accompanying notes

CATHOLIC CHARITIES WEST MICHIGAN

STATEMENTS OF CASH FLOWS

Years Ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities		
Change in net assets	\$ (1,537,083)	\$ 378,259
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	220,904	245,557
Loss on sale of property and equipment	537,480	1,983
Donated property included in contributions	(28,394)	(125,000)
Bad debt expense	6,433	137,307
Beneficial interests in assets held by others	(24,025)	(15,115)
Changes in operating assets and liabilities		
Accounts receivable	(284,050)	(607,081)
Promises to give	20,584	54,677
Prepaid expenses and other assets	29,907	9,328
Accounts payable	(77,511)	71,503
Accrued liabilities	(169,133)	68,791
Custodial funds	(10,519)	(222,569)
NET CASH USED BY OPERATING ACTIVITIES	(1,315,407)	(2,360)
Cash Flows from Investing Activities		
Proceeds from sale of property and equipment	-	5,584
Purchases of property and equipment	(179,820)	(172,135)
NET CASH USED BY INVESTING ACTIVITIES	(179,820)	(166,551)
Cash Flows from Financing Activities		
Proceeds from note payable	2,980,900	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,485,673	(168,911)
Cash and Cash Equivalents at Beginning of Year	2,174,999	2,343,910
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 3,660,672	\$ 2,174,999
Cash and cash equivalents	\$ 3,660,070	\$ 2,163,878
Restricted cash	602	11,121
	\$ 3,660,672	\$ 2,174,999
Non-Cash Transactions		
Property and equipment in accounts payable	\$ 551,915	\$ 78,448
Property and equipment financed with long-term debt	\$ 2,536,631	\$ -

See accompanying notes

CATHOLIC CHARITIES WEST MICHIGAN

NOTES TO FINANCIAL STATEMENTS

September 30, 2020 and 2019

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 \$2,497,870 and \$1,340,092 at September 30, 2020 and 2019, 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.

Restricted Cash

Restricted cash consists of funds held in trust for the Supplementary Security Income payee program. The Organization is responsible for paying bills and providing a small spending allowance out of the trust to clients depending on client needs and any applicable court orders. Custodial funds represent amounts held in deposit on behalf of clients. Corresponding liabilities of \$602 and \$11,121 are recorded for these amounts at September 30, 2020 and 2019, respectively. This program has been discontinued as of October 1, 2019 and custodial funds are being distributed to another agency.

CATHOLIC CHARITIES WEST MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2020 and 2019

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.

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. Promises to give are anticipated to be collected within one year.

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. No such losses were recognized during 2020 or 2019.

CATHOLIC CHARITIES WEST MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2020 and 2019

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 interest income without donor restrictions and with donor restrictions in the statements of activities. These distributions are used based on specified donor restrictions.

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, 2020 and 2019. 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.

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 11.

CATHOLIC CHARITIES WEST MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2020 and 2019

- 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 recognized as revenue 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 expire (that is, when a stipulated time restriction ends, or purpose restriction is accomplished) 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.

The following table summarizes the Organization's disaggregated revenue based on timing of revenue recognition:

Governmental purchased service fees	\$ 15,540,615
Program service fees	<u>292,789</u>
Revenue recognized at a point in time	<u>15,833,404</u>
Revenue from contracts with customers	<u><u>\$ 15,833,404</u></u>

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.

CATHOLIC CHARITIES WEST MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2020 and 2019

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.

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.

Subsequent Events

Management has evaluated significant events or transactions occurring subsequent to September 30, 2020 for potential recognition or disclosure in these financial statements. The evaluation was performed through August 19, 2021 the date the financial statements were available for issuance. Subsequent events are disclosed in Notes 6 and 9.

CATHOLIC CHARITIES WEST MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2020 and 2019

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 disclosure of contingent assets and liabilities, 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 and the obligation for compensated absences could change over the course of the next year.

Recently Issued Accounting Pronouncements

In February 2016, FASB issued ASU No. 2016-02, Leases (Topic 842), which provides guidance for accounting for leases. The new guidance requires organizations to recognize the assets and liabilities for the rights and obligations created by leased assets, initially measured at the present value of the lease payments. The accounting guidance for lessors is largely unchanged. The ASU is effective for annual periods beginning after December 15, 2021.

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

NOTE 2 - IMPLEMENTATION OF NEW ACCOUNTING PRONOUNCEMENT

The Financial Accounting Standards Board (FASB) issued new guidance that created Topic 606, Revenue from Contracts with Customers, in the Accounting Standards Codification (ASC). Topic 606 supersedes the revenue recognition requirements in FASB ASC 605, Revenue Recognition. It requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The new guidance also added Subtopic 340-40, Other Assets and Deferred Costs – Contracts with Customers, to the ASC to require the deferral of incremental costs of obtaining a contract with a customer. Collectively, the new Topic 606 and Subtopic 340-40 are referred to as the “new guidance.” Contribution and lease revenue is not subject to the new guidance. The Organization applied the new guidance using the practical expedient provided in Topic 606 that allows the guidance to be applied only to the contracts that were not complete as of October 1, 2019.

The Organization adopted FASB ASU 2018-08, Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made as of October 1, 2019. ASU 2018-08 provides guidance on distinguishing between contributions and exchange transactions and guidance to determine whether a contribution is restricted.

CATHOLIC CHARITIES WEST MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2020 and 2019

The Organization adopted the requirements of these standards as of October 1, 2019, utilizing the modified retrospective method of transition. The effect of applying the new guidance was not significant to the financial statements.

NOTE 3 - LIQUIDITY

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

	<u>2020</u>	<u>2019</u>
Cash	\$ 2,324,269	\$ 1,495,322
Accounts receivable	2,013,041	1,735,424
Promises to give	<u>736,552</u>	<u>757,136</u>
	<u>\$ 5,073,862</u>	<u>\$ 3,987,882</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. The Organization also maintains 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.

CATHOLIC CHARITIES WEST MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2020 and 2019

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable is comprised of the following:

	2020	2019
Client fees	\$ 183,797	\$ 281,395
Allowance for uncollectible client fees	(19,958)	(20,000)
Child welfare	945,281	836,401
Allowance for uncollectible child welfare	-	(97,237)
Government grants and contracts	903,921	734,865
Total Accounts Receivable	\$ 2,013,041	\$ 1,735,424

NOTE 5 - PROMISES TO GIVE

Unconditional promises to give are comprised of the following:

	2020	2019
United Way allocations and designations	\$ 158,932	\$ 174,516
Diocese of Grand Rapids - Catholic Services Appeal	577,620	577,620
Pledges	-	5,000
Total Promises to Give	\$ 736,552	\$ 757,136

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2020	2019
Land	\$ 299,500	\$ 201,500
Leasehold and land improvements	381,364	347,603
Building and building improvements	3,296,497	4,507,190
Equipment, furniture and vehicles	1,332,719	1,279,468
Construction in progress	3,370,449	172,818
Asset held for sale	125,000	125,000
	8,805,529	6,633,579
Accumulated depreciation	(2,835,524)	(3,201,950)
	\$ 5,970,005	\$ 3,431,629

CATHOLIC CHARITIES WEST MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2020 and 2019

In 2020, the Organization entered into an agreement with a contractor to construct a new location and detox center in Muskegon. As of September 30, 2020, the Organization has incurred costs of \$3,230,000 on the \$4,550,000 total contract amount.

During 2019, the Organization received a house donation valued at \$125,000. The property was sold in December 2020 for \$175,000.

NOTE 7 - 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, 2020 and 2019, 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, 2020 and 2019 for assets measured at fair value based on significant unobservable (Level 3) information.

Balance at September 30, 2018	\$ 386,558
Change in value of beneficial interests (net)	<u>15,115</u>
Balance at September 30, 2019	401,673
Change in value of beneficial interests (net)	<u>24,025</u>
Balance at September 30, 2020	<u>\$ 425,698</u>

CATHOLIC CHARITIES WEST MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2020 and 2019

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 8 - NOTE PAYABLE

In April 2020, the Organization secured a note payable with a bank and the U.S. Small Business Administration in the amount of \$2,980,900. The note was obtained pursuant to the Paycheck Protection Program (PPP) of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, with payment and maturity terms as defined in the Act. Proceeds from the loan are to be used for qualifying expenses as defined by the CARES Act and Economic Aid Act. Under the terms of the PPP, certain amounts of the loan may be forgiven if the proceeds are used for qualifying expenses. The Organization has used the entire loan proceeds for qualifying expenses and has applied for forgiveness under the terms of the PPP, CARES Act and Economic Aid Act.

NOTE 9 - LONG-TERM DEBT

During 2020, the Organization secured long-term debt with the Diocese of Grand Rapids Deposit and Loan Program to construct the new Muskegon office and detox center. Interest is due monthly at a 3.00% annual rate. Interest of \$18,077 was capitalized as part of the projects through September 30, 2020.

Subsequent to September 30, 2020, the Organization borrowed an additional \$2,058,000 from Diocese of Grand Rapids Deposit and Loan Program.

Repayment terms for the long-term debt, including the additional borrowings after year-end, were determined for the Muskegon office building and Kolbe Detox Center and are provided in the table below.

CATHOLIC CHARITIES WEST MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2020 and 2019

Years ending September 30:

2021	\$	31,804
2022		129,622
2023		133,565
2024		137,628
2025		141,814
Thereafter		<u>3,020,919</u>
	\$	<u>3,595,352</u>

Subsequent to September 30, 2020, the Diocese has pledged \$1,000,000 of financial support which is to be applied to the Muskegon office loan. This contribution has been factored into the payment schedule provided above.

NOTE 10 - LINE OF CREDIT

The Organization had available a \$500,000 unsecured line of credit with a bank that matured in May 2021. There were no funds borrowed at September 30, 2020 or 2019. The line of credit was not renewed.

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>2020</u>	<u>2019</u>
Lottie Brown Seaton Fund for client personal enhancement and self development opportunities	\$ 29,333	\$ 35,204
Facilities reserve (Muskegon building fund)	1,335,801	668,556
Net investment in property and equipment	<u>3,433,374</u>	<u>3,431,629</u>
Total Board Designated Unrestricted Net Assets	<u>\$ 4,798,508</u>	<u>\$ 4,135,389</u>

The Board designates net assets, when beneficial, to show commitment to a certain plan, program, or strategy. The purpose of the Muskegon building fund is to designate net assets to purchase property and build a new facility in Muskegon.

CATHOLIC CHARITIES WEST MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2020 and 2019

NOTE 12 - NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2020</u>	<u>2019</u>
United Way-funding for future time periods	\$ 158,933	\$ 174,519
Catholic Services Appeal-funding for future time periods	577,620	577,620
God's Kitchen-purpose restrictions	149,262	72,902
Beneficial Interest in Trusts	113,769	111,323
Catholic Foundation West Michigan	251,947	237,286
Muskegon Community Funds	59,982	53,064
	<u>\$ 1,311,513</u>	<u>\$ 1,226,714</u>

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

	<u>2020</u>	<u>2019</u>
Time restricted release - United Way	\$ 255,040	\$ 278,055
Time restricted release - Catholic Services Appeal	807,660	770,160
Purpose restricted release - God's Kitchen	740,384	884,406
	<u>\$ 1,803,084</u>	<u>\$ 1,932,621</u>

NOTE 13 - MAJOR FUNDING SOURCES

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 71% and 67% 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, 2020 and 2019, respectively. Amounts due from these two major funding sources comprise 86% and 77% of accounts receivable at September 30, 2020 and 2019, respectively.

CATHOLIC CHARITIES WEST MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2020 and 2019

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.

NOTE 14 - OPERATING LEASES

The Organization leases facilities and certain office equipment under various operating leases that expire through October 2023. Total rent expense under these operating leases was \$284,754 and \$244,309 for the years ended September 30, 2020 and 2019, respectively.

Future minimum lease payments under these non-cancelable leases for facilities and equipment are as follows:

Years ending September 30:

2021	\$	196,000
2022		154,000
2023		67,000
2024		8,000
		<u>8,000</u>
	\$	<u>425,000</u>

NOTE 15 - 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. As approved by the Board of Directors, the Organization may make a discretionary matching contribution of 100% of the first 3% of eligible employee earnings and an additional 50% on the next 2% of eligible employee earnings to be paid each pay period. The Organization made contributions of \$195,972 and \$186,464 for the years ended September 30, 2020 and 2019, respectively.

CATHOLIC CHARITIES WEST MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2020 and 2019

NOTE 16 - CONTINGENCIES

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, 2020 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, if any, of expenditures that may be disallowed by granting agencies cannot be determined at this time, although the Organization expects such amounts, if any, to be immaterial. Accordingly, no provision has been made for any liabilities that may arise from these circumstances.

On April 25, 2019, attorneys filed a lawsuit on behalf of Catholic Charities West Michigan challenging Michigan Department of Health and Human Services' new policies in the foster care and adoption programs. The outcome of this case is not yet known.

In the normal course of its activities, Catholic Charities West Michigan may become party to various legal actions. Catholic Charities West Michigan carries commercial insurance to cover material conceivable losses. Management of Catholic Charities West Michigan is of the opinion that the outcomes of such actions will not have a material effect on the financial position of the organization and, therefore, has not included a reserve for such losses in the accompanying financial statements.

NOTE 17 - RISKS AND UNCERTAINTIES

During March 2020, a global pandemic was declared by the World Health Organization related to the rapidly growing outbreak of a novel strain of coronavirus (COVID-19). The pandemic has significantly impacted the economic conditions in the U.S. and globally. On March 23, 2020, the Governor of the State of Michigan issued an Executive Order to "stay in place and suspend nonessential activities". The stay-in-place order was lifted on June 1, 2020. The circumstances surrounding the widespread outbreak of COVID-19 are unknown at this time but management does not anticipate significant disruptions to the Organizations' operations. At this time, given the uncertainty of the lasting effect of this outbreak, the financial impact to the Organization cannot be determined.

NOTE 18 - RECLASSIFICATIONS

Certain reclassifications have been made to the 2019 financial statements to conform to the 2020 presentation.
