

CATHOLIC CHARITIES WEST MICHIGAN

FINANCIAL STATEMENTS

Years Ended September 30, 2021 and 2020

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INDEPENDENT AUDITOR'S 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, 2021, and the related statements of activities, functional expenses, and cash flows for the year 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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, 2021, 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.

Prior Period Financial Statements

The financial statements of Catholic Charities West Michigan as of and for the year ended September 30, 2020 were audited by Beene Garter LLP whose report dated August 19, 2021 expressed an unmodified opinion on those statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2022, 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.



Beene Garter
A Doeren Mayhew Firm
Grand Rapids, Michigan
June 27, 2022

FINANCIAL STATEMENTS

CATHOLIC CHARITIES WEST MICHIGAN

STATEMENTS OF FINANCIAL POSITION

September 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and cash equivalents	\$ 2,854,791	\$ 3,660,070
Restricted cash	-	602
Accounts receivable, less allowance for doubtful accounts of \$34,422 in 2021 and \$19,958 in 2020	1,397,324	2,013,041
Promises to give	724,416	736,552
Prepaid expenses and other assets	192,016	195,515
Property and equipment	7,262,486	5,970,005
Beneficial interests in assets held by others	1,146,888	425,698
TOTAL ASSETS	\$ 13,577,921	\$ 13,001,483
Liabilities		
Accounts payable	\$ 390,915	\$ 887,267
Accrued liabilities		
Compensated absences	577,252	555,611
Salaries and wages	262,026	228,907
Other	1,189,647	216,949
Custodial funds	-	602
Note payable	-	2,980,900
Long-term debt	3,549,427	2,536,631
TOTAL LIABILITIES	5,969,267	7,406,867
Net Assets		
Without Donor Restrictions		
Board designated	5,097,107	4,798,508
Undesignated	281,884	(515,405)
With Donor Restrictions	2,229,663	1,311,513
Total Net Assets	7,608,654	5,594,616
TOTAL LIABILITIES AND NET ASSETS	\$ 13,577,921	\$ 13,001,483

See accompanying notes

CATHOLIC CHARITIES WEST MICHIGAN

STATEMENT OF ACTIVITIES

Year Ended September 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Public Support and Revenue			
Governmental purchased service fees	\$ 14,615,562	\$ -	\$ 14,615,562
Contributions and nongovernment grants	621,130	718,710	1,339,840
United Way	5,860	178,848	184,708
Catholic Services Appeal	-	807,660	807,660
Special events, less expense of \$15,479	217,047	115,560	332,607
Program service fees	216,982	-	216,982
Other revenue	3,259,536	-	3,259,536
Gain on sale of assets	46,852	-	46,852
Change in the value of beneficial interests in assets held by others	-	721,190	721,190
Net assets released from restrictions	1,623,818	(1,623,818)	-
TOTAL PUBLIC SUPPORT AND REVENUE	20,606,787	918,150	21,524,937
Expenses			
Program Services			
Child welfare	6,479,196	-	6,479,196
Family preservation	6,866,458	-	6,866,458
Behavioral health	2,154,713	-	2,154,713
Community outreach	1,251,139	-	1,251,139
Total Program Services	16,751,506	-	16,751,506
Supporting Services			
Management and general	2,409,349	-	2,409,349
Fundraising	350,044	-	350,044
Total Supporting Services	2,759,393	-	2,759,393
TOTAL EXPENSES	19,510,899	-	19,510,899
CHANGE IN NET ASSETS	1,095,888	918,150	2,014,038
Net Assets, Beginning of Year	4,283,103	1,311,513	5,594,616
NET ASSETS, END OF YEAR	\$ 5,378,991	\$ 2,229,663	\$ 7,608,654

See accompanying notes

CATHOLIC CHARITIES WEST MICHIGAN

STATEMENT OF ACTIVITIES (CONTINUED)

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
Other revenue	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



	Program Services				Total Program Services
	Child Welfare	Family Preservation	Behavioral Health	Community Outreach Programs	
Salaries & Related Expenses					
Salaries	\$ 3,148,930	\$ 4,381,463	\$ 1,396,433	\$ 373,294	\$ 9,300,120
Health and retirement benefits	667,299	966,282	218,894	66,602	1,919,077
Payroll taxes and workers' compensation	258,084	360,202	116,188	30,514	764,988
Total Salaries & Related Expenses	4,074,313	5,707,947	1,731,515	470,410	11,984,185
Professional fees and other purchased services	62,393	33,642	40,526	396,587	533,148
Supplies	20,348	24,033	18,914	33,342	96,637
Communication	79,649	144,541	28,435	8,194	260,819
Postage and shipping	5,922	4,770	940	367	11,999
Occupancy	144,333	239,707	48,938	105,115	538,093
Printing and publications	2,342	1,232	2,369	425	6,368
Travel	188,646	343,234	5,969	44,001	581,850
Conferences, conventions and meetings	2,857	756	722	4,259	8,594
Specific assistance to individuals	1,705,823	230,462	10,000	76,490	2,022,775
Organization dues	5,820	8,354	55,594	587	70,355
Equipment rental and repairs	46,515	28,318	53,655	19,328	147,816
Insurance	-	-	-	798	798
Advertising	-	-	-	-	-
Bad debts	(1,787)	-	60,504	-	58,717
Special events	-	-	-	-	-
Miscellaneous	39,580	1,265	525	34,566	75,936
Staff training and recruitment	19,531	40,131	71,177	8,421	139,260
Total Expenses Before Depreciation	6,396,285	6,808,392	2,129,783	1,202,890	16,537,350
Interest expense	3,930	4,589	3,498	444	12,461
Depreciation	78,981	53,477	21,432	47,805	201,695
Total Expenses	6,479,196	6,866,458	2,154,713	1,251,139	16,751,506
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	\$ 6,479,196	\$ 6,866,458	\$ 2,154,713	\$ 1,251,139	\$ 16,751,506



CATHOLIC CHARITIES WEST MICHIGAN

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended September 30, 2021

<u>Supporting Services</u>			
<u>Management and General</u>	<u>Fundraising</u>	<u>Total Supporting Services</u>	<u>Total Expenses</u>
\$ 1,265,574	\$ 178,545	\$ 1,444,119	\$ 10,744,239
200,325	29,259	229,584	2,148,661
102,032	14,645	116,677	881,665
1,567,931	222,449	1,790,380	13,774,565
273,929	43,558	317,487	850,635
15,362	10,547	25,909	122,546
36,474	7,641	44,115	304,934
1,473	7,172	8,645	20,644
45,664	-	45,664	583,757
392	5,071	5,463	11,831
18,618	1,301	19,919	601,769
3,333	-	3,333	11,927
-	-	-	2,022,775
45,715	-	45,715	116,070
83,112	6,142	89,254	237,070
100,583	-	100,583	101,381
-	45,641	45,641	45,641
32,374	-	32,374	91,091
-	15,479	15,479	15,479
82,671	209	82,880	158,816
45,247	43	45,290	184,550
2,352,878	365,253	2,718,131	19,255,481
303	-	303	12,764
56,168	270	56,438	258,133
2,409,349	365,523	2,774,872	19,526,378
-	(15,479)	(15,479)	(15,479)
\$ 2,409,349	\$ 350,044	\$ 2,759,393	\$ 19,510,899

See accompanying notes

	Program Services				Total Program Services
	Child Welfare	Family Preservation	Behavioral Health	Community Outreach Programs	
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 (CONTINUED)

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

CATHOLIC CHARITIES WEST MICHIGAN

STATEMENTS OF CASH FLOWS

Years Ended September 30, 2021 and 2020

	2021	2020
Cash Flows from Operating Activities		
Change in net assets	\$ 2,014,038	\$ (1,537,083)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	258,133	220,904
Paycheck Protection Program loan forgiveness	(2,980,900)	-
Diocese contribution applied to long-term debt	(1,000,000)	-
(Gain) loss on sale/disposal of assets	(46,852)	537,480
Donated property included in contributions	-	(28,394)
Bad debt expense	91,091	6,433
Beneficial interests in assets held by others	(721,190)	(24,025)
Changes in operating assets and liabilities		
Accounts receivable	524,626	(284,050)
Promises to give	12,136	20,584
Prepaid expenses and other assets	3,499	29,907
Accounts payable	55,563	(77,511)
Accrued liabilities	1,027,458	(169,133)
Custodial funds	(602)	(10,519)
NET CASH USED BY OPERATING ACTIVITIES	(763,000)	(1,315,407)
Cash Flows from Investing Activities		
Proceeds from sale of property and equipment	172,201	-
Purchases of property and equipment	(169,158)	(179,820)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	3,043	(179,820)
Cash Flows from Financing Activities		
Proceeds from note payable	-	2,980,900
Payments on long-term debt	(45,924)	-
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(805,881)	1,485,673
Cash and Cash Equivalents at Beginning of Year	3,660,672	2,174,999
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 2,854,791	\$ 3,660,672
Cash and cash equivalents	\$ 2,854,791	\$ 3,660,070
Restricted cash	-	602
	\$ 2,854,791	\$ 3,660,672
Non-Cash Transactions		
Property and equipment in accounts payable	\$ -	\$ 551,915
Property and equipment financed with long-term debt	\$ 2,058,720	\$ 2,536,631

See accompanying notes

CATHOLIC CHARITIES WEST MICHIGAN

NOTES TO FINANCIAL STATEMENTS

September 30, 2021 and 2020

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 \$2,103,875 and \$2,497,870 at September 30, 2021 and 2020, 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.

CATHOLIC CHARITIES WEST MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2021 and 2020

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 2021 or 2020.

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

CATHOLIC CHARITIES WEST MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2021 and 2020

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, 2021 and 2020. 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.
- 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.

CATHOLIC CHARITIES WEST MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2021 and 2020

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 for the years ended September 30:

	<u>2021</u>	<u>2020</u>
Governmental purchased service fees	\$ 14,615,562	\$ 15,540,615
Program service fees	<u>216,982</u>	<u>292,789</u>
Revenue recognized at a point in time	<u>14,832,544</u>	<u>15,833,404</u>
Revenue from contracts with customers	<u>\$ 14,832,544</u>	<u>\$ 15,833,404</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.

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.

CATHOLIC CHARITIES WEST MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2021 and 2020

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, 2021 for potential recognition or disclosure in these financial statements. The evaluation was performed through June 27, 2022 the date the financial statements were available for issuance. A subsequent event is disclosed in Note 5.

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 (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 and the various accruals including 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.

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.

CATHOLIC CHARITIES WEST MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2021 and 2020

In September 2020, the FASB issued ASU 2020-07, Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets. Upon implementation of this guidance, contributed nonfinancial assets will be presented as a separate line item in the statement of activities. Added disclosures will provide information to describe the nature of the assets, how they are valued, the intended use, and donor restrictions attached to the gift (if any). The purpose of this update is to increase transparency. This ASU is effective for annual periods beginning after June 15, 2021. It will be implemented retrospectively.

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

NOTE 2- LIQUIDITY

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

	<u>2021</u>	<u>2020</u>
Cash	\$ 1,498,815	\$ 2,324,269
Accounts receivable	1,397,324	2,013,041
Promises to give	<u>724,416</u>	<u>736,552</u>
	<u>\$ 3,620,555</u>	<u>\$ 5,073,862</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.

CATHOLIC CHARITIES WEST MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2021 and 2020

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable is comprised of the following:

	2021	2020
Client fees	\$ 199,694	\$ 183,797
Allowance for uncollectible client fees	(34,422)	(19,958)
Child welfare	539,974	945,281
Government grants and contracts	692,078	903,921
Total Accounts Receivable	\$ 1,397,324	\$ 2,013,041

NOTE 4 - PROMISES TO GIVE

Unconditional promises to give are comprised of the following:

	2021	2020
United Way allocations and designations	\$ 141,796	\$ 158,932
Diocese of Grand Rapids - Catholic Services Appeal	577,620	577,620
Pledges	5,000	-
Total Promises to Give	\$ 724,416	\$ 736,552

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2021	2020
Land	\$ 299,500	\$ 299,500
Leasehold and land improvements	381,364	381,364
Building and building improvements	8,044,948	3,296,497
Equipment, furniture and vehicles	1,522,349	1,332,719
Construction in progress	-	3,370,449
Asset held for sale	-	125,000
	10,248,161	8,805,529
Accumulated depreciation	(2,985,675)	(2,835,524)
	\$ 7,262,486	\$ 5,970,005

CATHOLIC CHARITIES WEST MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2021 and 2020

During 2019, the Organization received a house donation valued at \$125,000. The property was sold in December 2020 for approximately \$172,000.

During 2021, the Organization opened its Muskegon administration building and detox center.

Subsequent to year end, the Organization paused operations at the detox center due to a shortage of staffing and referrals.

NOTE 6 - 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, 2021 and 2020, 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, 2021 and 2020 for assets measured at fair value based on significant unobservable (Level 3) information.

Balance at October 1, 2019	\$ 401,673
Change in value of beneficial interests (net)	<u>24,025</u>
Balance at September 30, 2020	425,698
Change in value of beneficial interests (net)	<u>721,190</u>
Balance at September 30, 2021	<u>\$ 1,146,888</u>

CATHOLIC CHARITIES WEST MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2021 and 2020

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 7 - 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 were used for qualifying expenses as defined by the CARES Act and Economic Aid Act. The Organization applied for forgiveness under the Paycheck Protection Program and received full forgiveness during 2021. The Organization has recorded forgiveness of debt of \$2,980,900 within other revenue on the statement of activities.

NOTE 8 - 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. During 2021, an additional \$2,058,000 was borrowed to complete the Muskegon office and detox center. Interest of \$82,965 and \$18,077 was capitalized as part of the projects for the years ended September 30, 2021 and 2020. Cash paid for interest expense was about \$12,800 for the year ended September 30, 2021.

During 2021, the Diocese contributed \$1,000,000 to the Organization. This contribution was used to reduce the outstanding loan balance associated with the Muskegon office.

CATHOLIC CHARITIES WEST MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2021 and 2020

Maturities of long-term debt associated with the Muskegon office building and Kolbe Detox Center and are provided in the table below.

Years ending September 30:

2022	\$	129,622
2023		133,565
2024		137,628
2025		141,814
2026		146,127
Thereafter		<u>2,860,671</u>
	\$	<u><u>3,549,427</u></u>

NOTE 9 - LINE OF CREDIT

The Organization had available a \$500,000 unsecured line of credit with a bank that matured in May 2022. There were no funds borrowed at September 30, 2021 or 2020. The line of credit was not renewed.

NOTE 10 - 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>2021</u>	<u>2020</u>
Lottie Brown Seaton Fund for client personal enhancement and self development opportunities	\$ 28,072	\$ 29,333
Facilities reserve	1,355,976	1,335,801
Net investment in property and equipment	<u>3,713,059</u>	<u>3,433,374</u>
Total Board Designated Unrestricted Net Assets	<u><u>\$ 5,097,107</u></u>	<u><u>\$ 4,798,508</u></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 (CONTINUED)

September 30, 2021 and 2020

NOTE 11 - NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2021</u>	<u>2020</u>
United Way-funding for future time periods	\$ 141,797	\$ 158,933
Catholic Services Appeal-funding for future time periods	577,620	577,620
God's Kitchen-purpose restrictions	363,358	149,262
Beneficial Interest in Trusts	136,591	113,769
Catholic Foundation West Michigan	937,805	251,947
Muskegon Community Funds	72,492	59,982
	<u>\$ 2,229,663</u>	<u>\$ 1,311,513</u>

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

	<u>2021</u>	<u>2020</u>
Time restricted release - United Way	\$ 195,984	\$ 255,040
Time restricted release - Catholic Services Appeal	807,660	807,660
Purpose restricted release - God's Kitchen	620,174	740,384
	<u>\$ 1,623,818</u>	<u>\$ 1,803,084</u>

NOTE 12 - OPERATING LEASES

The Organization leases facilities and certain office equipment under various operating leases that expire through 2026. Total rent expense under these operating leases was \$281,992 and \$284,754 for the years ended September 30, 2021 and 2020, respectively.

CATHOLIC CHARITIES WEST MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2021 and 2020

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

Years ending September 30:

2022	\$	188,000
2023		90,000
2024		26,000
2025		7,000
2026		4,000
	\$	<u>315,000</u>

NOTE 13 - 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 \$221,419 and \$195,972 for the years ended September 30, 2021 and 2020, respectively.

NOTE 14 - 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 58% and 71% 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, 2021 and 2020, respectively. Amounts due from these two major funding sources comprise 85% and 88% of accounts receivable at September 30, 2021 and 2020, 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.

CATHOLIC CHARITIES WEST MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2021 and 2020

In the normal course of its activities, Catholic Charities West Michigan may become 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, 2021 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.

While management believes the outcome of these circumstances will not have a material effect on the financial position of the Organization, a reserve has been established to provide for uncertainties with respect to these conditions.

NOTE 15 - 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 significantly impacted the economic conditions in the U.S and globally throughout 2020 and 2021. While many industries have returned to normal operating conditions, there is still uncertainty around future outbreaks and related economic effects. At this time management does not anticipate significant disruptions in the Organization's operations.