

**CATHOLIC CHARITIES OF THE ARCHDIOCESE OF
MILWAUKEE, INC. AND FOUNDATION**
Milwaukee, Wisconsin

CONSOLIDATED FINANCIAL STATEMENTS
Including Independent Auditors' Report
As of and for the Years Ended December 31, 2018 and 2017

CATHOLIC CHARITIES OF THE ARCHDIOCESE OF MILWAUKEE, INC. AND FOUNDATION

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Catholic Charities of the Archdiocese of Milwaukee, Inc. and Foundation
Milwaukee, Wisconsin

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Catholic Charities of the Archdiocese of Milwaukee, Inc. and Foundation (the "Agency"), which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and the related consolidated statements of activities, cash flows and functional expenses for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Agency as of December 31, 2018 and 2017, 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 April 22, 2019 on our consideration of the Agency'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

Milwaukee, Wisconsin
April 22, 2019

**CATHOLIC CHARITIES OF THE ARCHDIOCESE OF MILWAUKEE, INC. AND
FOUNDATION**

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As of December 31, 2018 and 2017

ASSETS		
	2018	2017
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,116,249	\$ 1,279,730
Accounts receivable, net	116,490	121,676
Grants receivable	8,938	117,299
Unconditional promises to give	1,047,798	1,548,993
Other current assets	115,744	81,824
Total Current Assets	2,405,219	3,149,522
PROPERTY AND EQUIPMENT	1,111,053	1,100,895
OTHER ASSETS		
Investments	2,196,618	2,001,203
Long-term unconditional promises to give	-	25,000
Other long-term assets	52,000	52,000
Total Other Assets	2,248,618	2,078,203
TOTAL ASSETS	\$ 5,764,890	\$ 6,328,620
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 46,130	\$ 215,477
Accounts payable	65,214	57,813
Accrued payroll	155,296	171,123
Accrued liabilities	49,992	32,660
Grant advance payable	-	98,325
Total Current Liabilities	316,632	575,398
LONG-TERM LIABILITIES		
Long-term debt	525,450	405,572
Asset retirement obligation	35,130	33,458
Total Liabilities	877,212	1,014,428
NET ASSETS		
Without donor restrictions	1,771,763	1,703,361
With donor restrictions	3,115,915	3,610,831
Total Net Assets	4,887,678	5,314,192
TOTAL LIABILITIES AND NET ASSETS	\$ 5,764,890	\$ 6,328,620

See accompanying notes to consolidated financial statements.

CATHOLIC CHARITIES OF THE ARCHDIOCESE OF MILWAUKEE, INC. AND FOUNDATION

CONSOLIDATED STATEMENTS OF ACTIVITIES For The Years Ended December 31, 2018 and 2017

	Without Donor Restrictions	With Donor Restrictions	2018 Total	Without Donor Restrictions	With Donor Restrictions	2017 Total
PUBLIC SUPPORT						
Government grants	\$ 529,097	\$ -	\$ 529,097	\$ 1,170,862	\$ -	\$ 1,170,862
Archdiocese of Milwaukee	576,552	576,552	1,153,104	576,552	576,552	1,153,104
United Way	394,789	360,250	755,039	408,748	370,076	778,824
Contributions	1,578,910	425,627	2,004,537	1,617,191	585,031	2,202,222
In-kind contributions	72,240	-	72,240	51,420	-	51,420
Special events	49,200	-	49,200	30,750	-	30,750
Net assets released from restriction	1,693,480	(1,693,480)	-	1,272,376	(1,272,376)	-
Total Public Support	<u>4,894,268</u>	<u>(331,051)</u>	<u>4,563,217</u>	<u>5,127,899</u>	<u>259,283</u>	<u>5,387,182</u>
REVENUE						
Program fees	966,531	-	966,531	1,119,394	-	1,119,394
Investment income, net	9,165	(163,865)	(154,700)	7,003	263,791	270,794
Other	17,146	-	17,146	4,989	-	4,989
Total Revenue	<u>992,842</u>	<u>(163,865)</u>	<u>828,977</u>	<u>1,131,386</u>	<u>263,791</u>	<u>1,395,177</u>
Total Public Support and Revenue	<u>5,887,110</u>	<u>(494,916)</u>	<u>5,392,194</u>	<u>6,259,285</u>	<u>523,074</u>	<u>6,782,359</u>
EXPENSES						
Program	4,548,022	-	4,548,022	4,972,170	-	4,972,170
Management and general	846,162	-	846,162	806,587	-	806,587
Fundraising	424,524	-	424,524	358,579	-	358,579
Total Expenses	<u>5,818,708</u>	<u>-</u>	<u>5,818,708</u>	<u>6,137,336</u>	<u>-</u>	<u>6,137,336</u>
CHANGE IN NET ASSETS						
	68,402	(494,916)	(426,514)	121,949	523,074	645,023
NET ASSETS - Beginning of Year	<u>1,703,361</u>	<u>3,610,831</u>	<u>5,314,192</u>	<u>1,581,412</u>	<u>3,087,757</u>	<u>4,669,169</u>
NET ASSETS - END OF YEAR	<u>\$ 1,771,763</u>	<u>\$ 3,115,915</u>	<u>\$ 4,887,678</u>	<u>\$ 1,703,361</u>	<u>\$ 3,610,831</u>	<u>\$ 5,314,192</u>

See accompanying notes to consolidated financial statements.

**CATHOLIC CHARITIES OF THE ARCHDIOCESE OF MILWAUKEE, INC. AND
FOUNDATION**

CONSOLIDATED STATEMENTS OF CASH FLOWS
For The Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (426,514)	\$ 645,023
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	145,509	129,632
Net realized and unrealized (gains) loss on investments	207,347	(245,172)
Accretion of asset retirement obligation	1,672	721
Provision for bad debts	49,198	36,805
Changes in assets and liabilities		
Receivables	64,349	123,839
Unconditional promises to give	526,195	(403,238)
Other current assets	(33,920)	(13,500)
Accounts payable	7,401	(2,827)
Accrued expenses	1,505	10,912
Grant advance payable	(98,325)	16,625
Net Cash Flows from Operating Activities	<u>444,417</u>	<u>298,820</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(155,667)	(97,373)
Purchase of investments	(867,865)	(20,665)
Proceeds from sale of investments	465,103	-
Net Cash Flows from Investing Activities	<u>(558,429)</u>	<u>(118,038)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	(49,469)	(48,258)
 Net Change in Cash and Cash Equivalents	 (163,481)	 132,524
 CASH AND CASH EQUIVALENTS - Beginning of Year	 <u>1,279,730</u>	 <u>1,147,206</u>
 CASH AND CASH EQUIVALENTS - END OF YEAR	 <u>\$ 1,116,249</u>	 <u>\$ 1,279,730</u>
 Cash paid for interest	 \$ 26,616	 \$ 28,026
 Noncash investing and financing activities		
Refinancing of mortgage payable	\$ 349,896	\$ -

See accompanying notes to consolidated financial statements.

CATHOLIC CHARITIES OF THE ARCHDIOCESE OF MILWAUKEE, INC. AND FOUNDATION

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES For The Year Ended December 31, 2018

	Program										Total	Fundraising	Total
	Adult Day Service	Behavioral Health	Child Welfare	In-Home Support	Legal Services	MRS	Outreach	Parish Outreach	Program	Management and General			
Salaries and wages	\$ 172,729	\$ 752,672	\$ 253,539	\$ 346,298	\$ 298,515	\$ 374,134	\$ 270,657	\$ 54,733	\$ 2,523,277	\$ 445,123	\$ 149,073	\$ 3,117,473	
Employee benefits	13,361	122,690	48,958	60,333	50,716	51,405	57,122	10,462	415,047	76,755	39,142	530,944	
Payroll tax expense	13,942	55,183	22,139	23,958	22,803	29,431	19,436	4,116	191,008	29,988	10,756	231,752	
Total Salaries and Related Expenses	200,032	930,545	324,636	430,589	372,034	454,970	347,215	69,311	3,129,332	551,866	198,971	3,880,169	
Operations	3,885	37,055	2,881	5,305	43,773	11,189	3,103	1,541	108,732	28,320	124,478	261,530	
In-kind	7,710	24,501	7,687	-	13,990	12,230	-	-	66,118	961	5,161	72,240	
Specific assistance to clients	35,655	-	1,461	-	1,613	160,903	9,966	-	209,598	-	-	209,598	
Rent and occupancy	60,571	134,772	46,901	51,299	43,439	79,835	53,929	4,119	474,865	43,320	7,323	525,508	
Supplies	8,176	30,673	14,188	7,991	16,366	7,126	7,147	1,274	92,941	24,420	9,302	126,663	
Promotions and advertising	-	-	-	-	-	-	-	-	-	6,862	-	6,862	
Professional fees	250	19,260	2,207	-	7,827	563	-	124,554	154,661	91,669	55,881	302,211	
Travel and meetings	298	13,179	15,554	19,352	2,313	9,578	6,784	812	67,870	11,793	863	80,526	
Bad debt	-	43,670	2,000	3,528	-	-	-	-	49,198	-	-	49,198	
Special events	-	-	18	-	-	-	-	11,461	11,479	3,778	13,602	28,859	
Information technology	9,465	38,231	13,729	19,495	15,853	19,744	13,803	2,809	133,129	22,224	8,036	163,389	
Other expenses	488	22,693	6,418	882	13,605	1,551	4,262	200	50,099	60,949	907	111,955	
Total Expenses	\$ 326,530	\$ 1,294,579	\$ 437,680	\$ 538,441	\$ 530,813	\$ 757,689	\$ 446,209	\$ 216,081	\$ 4,548,022	\$ 846,162	\$ 424,524	\$ 5,818,708	

See accompanying notes to consolidated financial statements.

CATHOLIC CHARITIES OF THE ARCHDIOCESE OF MILWAUKEE, INC. AND FOUNDATION

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES For The Year Ended December 31, 2017

	Program										Total Program	Management and General	Fundraising	Total
	Adult Day Service	Behavioral Health	Child Welfare	In-Home Support	Legal Services	MRS	Outreach	Parish Outreach	Outreach	Outreach				
Salaries and wages	\$ 181,047	\$ 711,532	\$ 303,470	\$ 302,390	\$ 272,823	\$ 661,801	\$ 308,884	\$ 50,774	\$ 308,884	\$ 308,884	\$ 451,687	\$ 33,015	\$ 3,277,423	
Employee benefits	17,047	114,046	54,452	52,146	55,610	86,649	67,544	7,674	67,544	67,544	75,945	8,081	539,194	
Payroll tax expense	17,680	53,442	25,465	22,311	21,733	53,878	23,637	3,948	23,637	23,637	31,667	2,723	256,484	
Total Salaries and Related Expenses	215,774	879,020	383,387	376,847	350,166	802,328	400,065	62,396	400,065	400,065	559,299	43,819	4,073,101	
Operations	2,789	34,406	2,450	1,267	49,365	10,191	2,959	3,308	2,959	2,959	17,360	142,565	266,660	
In-kind	5,740	2,232	4,800	-	14,311	22,932	-	64	-	-	925	416	51,420	
Specific assistance to clients	37,153	40	904	-	551	377,815	27,105	-	27,105	27,105	-	-	443,568	
Rent and occupancy	50,452	113,759	40,080	39,344	40,802	108,069	48,903	1,239	48,903	48,903	55,332	8,904	506,884	
Supplies	4,620	16,560	15,300	5,773	12,644	6,940	6,007	61	6,007	6,007	7,020	4,358	79,283	
Promotions and advertising	-	-	-	-	-	-	-	-	-	-	28,511	-	28,511	
Professional fees	296	17,467	2,348	166	14,934	350	106	53,769	106	106	71,189	138,799	299,424	
Travel and meetings	221	14,244	19,340	14,357	4,620	26,524	9,530	1,032	9,530	9,530	11,743	376	101,987	
Bad debt	10,176	21,418	845	3,457	-	909	-	-	-	-	36,805	-	36,805	
Special events	-	59	73	-	-	6	106	-	106	106	1,653	16,662	18,559	
Information technology	9,146	35,229	15,462	15,355	13,958	33,100	15,481	2,598	15,481	15,481	24,305	1,602	166,236	
Other expenses	-	14,291	4,685	694	5,443	6,251	3,206	-	3,206	3,206	29,250	1,078	64,898	
Total Expenses	\$ 336,367	\$ 1,148,725	\$ 489,674	\$ 457,260	\$ 506,794	\$ 1,395,415	\$ 513,468	\$ 124,467	\$ 513,468	\$ 513,468	\$ 806,587	\$ 358,579	\$ 6,137,336	

See accompanying notes to consolidated financial statements.

CATHOLIC CHARITIES OF THE ARCHDIOCESE OF MILWAUKEE, INC. AND FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

NOTE 1 - Summary of Significant Accounting Policies

Nature of Activities

The consolidated financial statements include the accounts of Catholic Charities of the Archdiocese of Milwaukee, Inc. ("Catholic Charities") and its related entity, Catholic Charities Foundation of the Archdiocese of Milwaukee, Inc. (the "Foundation"). The entities are collectively known as the Agency.

Catholic Charities is a nonprofit corporation whose mission ("a way of caring"), inspired by Christ's call to serve and Catholic social teachings is to help build a just and caring community by providing social services to those in need and by advocating for justice and equality in all societal structures. The mission is carried out primarily within the ten-county Archdiocese of Milwaukee area in response to local needs and in collaboration with other organizations.

The Foundation is a nonprofit corporation whose mission is to provide support to Catholic Charities through major donor development and investment management, thereby generating income which is used to further the mission and activities of Catholic Charities.

Basis of Accounting

The financial statements are presented on a consolidated basis, with all significant intercompany transactions eliminated in consolidation.

Cash and Cash Equivalents

The Agency defines cash and cash equivalents as highly liquid, short term investments with a maturity at the date of acquisition of three months or less.

Investments

Investments are generally recorded at fair value based upon quoted market prices, when available, or estimates of fair value. Donated assets are recorded at fair value at the date of donation, or, if sold immediately after receipt, at the amount of sales proceeds received (which are considered a fair measure of the value at the date of donation). The Agency records the change of ownership of bonds and stocks on the day a trade is made. Investment income or loss and unrealized gains or losses, net of investment expenses, are included in the consolidated statements of activities as increases or decreases in net assets without donor restrictions unless the income or loss is restricted by donor or law.

Accounts and Grants Receivable

The Agency uses the allowance method to account for uncollectible accounts and grants receivable. The allowance is based on historical collection experience and a review of the current status of accounts and grants receivable. Receivables deemed uncollectible are charged against the allowance. Accounts and grants receivable are presented net of an allowance for doubtful accounts of \$61,295 and \$17,625 at December 31, 2018 and 2017, respectively.

CATHOLIC CHARITIES OF THE ARCHDIOCESE OF MILWAUKEE, INC. AND FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

NOTE 1 - Summary of Significant Accounting Policies (continued)

Unconditional Promises to Give

Unconditional promises to give made to the Agency are recorded in the year the pledge is made. Amounts that are expected to be collected after one year are discounted and reflected in the consolidated financial statements at their net present value. An allowance for uncollectible promises to give is determined based on specific identification. The allowance for unconditional promises to give at December 31, 2018 and 2017 was \$4,800.

Other Current Assets

Other current assets consist of prepaid expenses, assets held for sale and a security deposit. In prior years, the Agency received donations of sixteen burial plots and one burial crypt located in five local cemeteries. These assets are listed for sale at a discounted value and are reported at this value.

Property and Equipment

Property and equipment are stated at cost if purchased or fair value at date of the gift, if donated. Acquisitions of property and equipment in excess of \$3,000 and expenditures for improvements and betterments that materially prolong the useful lives of assets are capitalized. Contributions that are received with donor restrictions for the purchase or acquisition of property and equipment are released from donor restrictions when the asset is placed in service, unless a donor explicitly states otherwise. Maintenance, repairs, and immaterial acquisitions funded through grants are expensed as incurred. When assets are retired or otherwise disposed of, their costs and related accumulated depreciation are removed from the accounts and resulting gains or losses are included in income.

Property and equipment are depreciated using the straight line method (half year convention) over their estimated useful lives. Estimated useful lives used in the calculation of depreciation are:

Buildings and improvements	30-35 years
Leasehold improvements	Life of lease or 20 years
Equipment	3-10 years

Impairment of Long-Lived Assets

The Agency reviews long lived assets, including property and equipment and intangible assets, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. To date, there have been no such losses.

Other Long-Term Assets

Other long-term assets consist of donated land. The land is not used in operations nor is it being held for sale.

CATHOLIC CHARITIES OF THE ARCHDIOCESE OF MILWAUKEE, INC. AND FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

NOTE 1 - Summary of Significant Accounting Policies (continued)

Asset Retirement Obligation

The asset retirement obligation consists of estimated costs and obligations associated with the retirement of long-lived assets. These liabilities are recorded at the estimated costs to remove asbestos.

Grant Advance Payable

Grant advance payable consists of a cash advance received on a government grant that is not fully earned. The revenue will be recognized in subsequent years when the expenses are incurred or returned to the grantor.

Tax-Exempt Status

Catholic Charities and the Foundation have received notification that they qualify as tax exempt organizations under Section 501(c)(3) covered by the U.S. Internal Revenue Service group exemption letter of the United States Conference of Catholic Bishops and corresponding provisions of state law and, accordingly, are not subject to federal or state income taxes.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets of the Agency are classified and reported as follows:

Net Assets Without Donor Restrictions - Net assets that are not subject to donor imposed stipulations.

Net Assets With Donor Restrictions - Net assets subject to donor imposed stipulations that either expire by passage of time, can be fulfilled and removed by actions of the Agency pursuant to those stipulations, or are to be maintained permanently.

Board Designated Net Assets

The Agency's Board of Directors has the ability to designate identified amounts of net assets without donor restrictions to be used by management for specific future projects or activities. These designations can be modified or removed by the Board of Directors at any time.

Revenue Recognition

Contributions, including unconditional promises to give, are recognized in the period received. Conditional promises are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met.

CATHOLIC CHARITIES OF THE ARCHDIOCESE OF MILWAUKEE, INC. AND FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

NOTE 1 - Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

The Agency reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, net assets with restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restriction. Donor restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

Revenue from federal and state grants is recognized to the extent of eligible accrual basis expenditures for each grant.

In-kind Contributions

The Agency reports various types of contributed goods and services as support, including supplies, professional services, and equipment. Donated supplies and equipment are recognized at their estimated values on the date received.

The Agency reports gifts of land, buildings, and equipment as support without restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long lived assets are reported as support with donor restrictions.

Contributions of services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

In-kind goods and services totaled \$72,240 and \$51,420 for the years ended December 31, 2018 and 2017, respectively, and are reflected as public support and expenses on the consolidated statements of activities.

The Agency also received contributed services for its various programs from volunteers which do not meet the recognition criteria described above. No amounts have been reflected in the consolidated financial statements for these contributed services.

Expense Allocation

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The program services function includes all expenses directly related to the Agency's activities and programs. The supporting services function includes management and general expenses not directly associated with activities and programs and fundraising expenses. The expenses that are allocated include salaries, related expenses, professional fees, and operations and are allocated based on estimated time and effort. Depreciation and occupancy are allocated based on square footage.

CATHOLIC CHARITIES OF THE ARCHDIOCESE OF MILWAUKEE, INC. AND FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

NOTE 1 - Summary of Significant Accounting Policies (continued)

Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassification

For comparability, certain 2017 amounts have been reclassified to conform with classifications adopted in 2018. The reclassifications have no effect on reported amounts of net assets or change in net assets.

Adopted Accounting Pronouncement

In August 2016, the Financial Accounting Standards Board ("FASB") issued Financial Accounting Standards Update ("ASU") No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. In 2018, the Agency adopted ASU No. 2016-14 and has applied the changes retrospectively to all periods presented, except for the disclosures around liquidity. This disclosure has been presented for 2018 only, as allowed by ASU No. 2016-14. The adoption of ASU No. 2016-14 did not cause a reclassification or restatement of net assets or to change in net assets. The new standard changed the following aspects of the consolidated financial statements:

- The unrestricted net asset class has been renamed net assets without donor restrictions
- The temporarily and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions
- The consolidated financial statements include a disclosure about liquidity and availability of resources (Note 15)
- ASU No. 2016-14 clarified how certain expenses should be classified as program, management and general and fundraising. The 2017 consolidated statement of functional expenses has been presented using the same methodology as 2018 based on the guidance in ASU No. 2016-14.

New Accounting Pronouncements

In May 2014, FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU No. 2014-09 establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. Additional updates defer the effective date of ASU No. 2014-09, clarify the implementation guidance on principal versus agent considerations, clarify the identification of performance obligations and the licensing implementation guidance and affect other narrow aspects of Topic 606. Topic 606 (as amended) is effective for annual periods beginning after December 15, 2018 (2019). The changes may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. Management is currently assessing the effect that Topic 606 (as amended) will have on its consolidated financial statements.

CATHOLIC CHARITIES OF THE ARCHDIOCESE OF MILWAUKEE, INC. AND FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

NOTE 1 - Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements (continued)

In June 2018, FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new guidance is intended to clarify and improve accounting guidance for contributions received and contributions made. The amendments in ASU No. 2018-08 should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. ASU No. 2018-08 is effective for contributions received during annual periods beginning after December 15, 2018 (2019) and contributions made during annual periods beginning after December 15, 2019 (2020). Management is currently assessing the effect that ASU No. 2018-08 will have on its consolidated financial statements.

In November 2016, FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. This standard will require cash flow statements to explain the change during a reporting period of the totals for cash, cash equivalents, restricted cash, and restricted cash equivalents. Amounts reported as restricted cash should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The update also includes a requirement that the footnotes to the financial statements explain the nature of the restrictions. The Agency will be required to apply the standard for annual periods beginning after December 15, 2018 (2019). Early adoption will be permitted and the standard should be applied retrospectively upon adoption. Management is currently assessing the effect that ASU No. 2016-18 will have on its consolidated financial statements.

In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)* that amends the treatment for leases. The new accounting model for leases capitalizes all leases greater than twelve months, both capital and operating, as assets and liabilities on the statement of financial position. During 2018, additional updates were issued which address narrow aspects of the guidance originally issued and provide entities with an additional (and optional) transition method whereby an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of net assets in the period of adoption. For not-for-profit entities that have issued, or are a conduit bond obligor for, securities that are traded, listed or quoted on an exchange or an over-the counter market, ASU No. 2016-02 (as amended) is effective for annual periods beginning after December 15, 2018 (2019). All other entities will be required to apply the standard for annual periods beginning after December 15, 2019 (2020). Early adoption is permitted. Management is currently assessing the effect that ASU No. 2016-02 will have on its consolidated financial statements.

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NOTE 2 - Fair Value of Financial Instruments

As defined by current authoritative guidance, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Agency uses various valuation methods including the market, income and cost approaches. The assumptions used in the application of these valuation methods are developed from the perspective of market participants pricing the asset or liability. Inputs used in the valuation methods can be either readily observable, market corroborated, or generally unobservable inputs. Whenever possible, the Agency attempts to utilize valuation methods that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the inputs used in the valuation methods, the Agency is required to provide certain information, which is set forth below, according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the inputs used to determine fair values. Assets and liabilities measured, reported and/or disclosed at fair value will be classified and disclosed in one of the following three categories:

- Level 1 Quoted market prices in active markets for identical assets or liabilities.
- Level 2 Observable market based inputs or unobservable inputs that are corroborated by market data.
- Level 3 Unobservable inputs that are not corroborated by market data.

The table below presents the balances of assets measured at fair value on a recurring basis by level within the hierarchy at December 31:

	2018			
	Level 1	Level 2	Level 3	Total
Assets				
Money market funds	\$ -	\$ 78,248	\$ -	\$ 78,248
Equity mutual funds	360,782	-	-	360,782
Corporate bonds	-	311,724	-	311,724
Bond funds	395,604	-	-	395,604
Catholic Community Foundation	-	-	1,050,260	1,050,260
Total Assets	<u>\$ 756,386</u>	<u>\$ 389,972</u>	<u>\$ 1,050,260</u>	<u>\$ 2,196,618</u>
	2017			
	Level 1	Level 2	Level 3	Total
Assets				
Money market funds	\$ -	\$ 29,538	\$ -	\$ 29,538
Equity securities	10,105	-	-	10,105
Equity mutual funds	468,793	-	-	468,793
Bond funds	249,241	-	-	249,241
Catholic Community Foundation	-	-	1,243,526	1,243,526
Total Assets	<u>\$ 728,139</u>	<u>\$ 29,538</u>	<u>\$ 1,243,526</u>	<u>\$ 2,001,203</u>

CATHOLIC CHARITIES OF THE ARCHDIOCESE OF MILWAUKEE, INC. AND FOUNDATION

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NOTE 2 - Fair Value of Financial Instruments (continued)

The changes in Level 3 assets measured at fair value on a recurring basis are summarized as follows:

Balance, December 31, 2017	\$	1,243,526
Net losses (realized and unrealized) included in change in net assets		(128,122)
Interest and dividends		24,063
Less fees		(14,207)
Distributions		(75,000)
Balance, December 31, 2018	<u>\$</u>	<u>1,050,260</u>
Balance, December 31, 2016	\$	1,060,224
Net gains (realized and unrealized) included in change in net assets		174,284
Interest and dividends		22,100
Less fees		(13,082)
Balance, December 31, 2017	<u>\$</u>	<u>1,243,526</u>

The following methods and assumptions were used to estimate the fair value for each class of financial instrument measured at fair value:

Equity securities, equity mutual funds and bond funds - These investments are measured at fair value using quoted market prices. They are classified as Level 1 as they are traded in an active market for which closing prices are readily available.

Corporate bonds - These investments are measured at fair value using multiple sources of information that are corroborated by market data and are considered Level 2 items.

Money market funds - The fair value of short-term investments, consisting primarily of money market funds is classified as Level 2 as these funds are not traded on a regular basis.

Catholic Community Foundation - The Agency classifies investments which are held at the Archdiocese of Milwaukee Catholic Community Foundation, Inc. ("CCF") as Level 3. It is not possible to determine a daily value of the Agency's portion of the commingled investment portfolio. The portfolio is divided among a group of investment managers to achieve diversification. CCF's policy requires a written distribution request to be submitted at least 60 days prior to the required distribution date. If a request is for more than 50% of the account balance at the time of the request, CCF reserves the right to defer payment of the amount for up to six months after receipt of the written distribution request.

While the Agency believes its valuation methods are appropriate and consistent with those used by other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Investment securities are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect the amounts reported in the consolidated financial statements.

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NOTE 3 - Property and Equipment

The major categories of property and equipment at December 31 are summarized as follows:

	2018	2017
Land	\$ 124,318	\$ 119,350
Buildings and improvements	1,309,511	1,309,511
Leasehold improvements	227,935	227,935
Equipment	676,503	525,804
Total Property and Equipment	2,338,267	2,182,600
Less: Accumulated depreciation	(1,227,214)	(1,081,705)
Net Property and Equipment	<u>\$ 1,111,053</u>	<u>\$ 1,100,895</u>

NOTE 4 - Unconditional Promises to Give

Unconditional promises to give are expected to be realized in the following periods as of December 31:

	2018	2017
Amounts due in:		
Less than one year	\$ 1,052,598	\$ 1,553,793
One to five years	-	25,000
	1,052,598	1,578,793
Less: Unamortized discount and allowance	4,800	4,800
Totals	<u>\$ 1,047,798</u>	<u>\$ 1,573,993</u>

NOTE 5 - Affiliate

The Agency is one of the grant recipients of funds raised by the Archdiocese of Milwaukee ("Archdiocese") in the Catholic Stewardship Appeal. The Stewardship grant is a primary source of funding for the Agency. Such contributions were \$1,153,104 for the years ended December 31, 2018 and 2017. The unconditional promise to give from the Archdiocese was \$576,572 at December 31, 2018 and 2017.

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NOTE 6 - Long-Term Debt

Long-term debt consists of the following at December 31:

	2018	2017
Mortgage payable secured by land and building with interest at 4.45%. Monthly principal and interest payments were \$2,026, which was due February 2018. In February 2018, the principle balance of \$179,569 was refinanced. Monthly principal and interest payments are \$2,026, the interest rate is 5.00% and it is due February 2021.	\$ 166,616	\$ 182,230
Mortgage payable secured by land and building with interest at 4.25%. Monthly principal and interest payments were \$2,353, which was due November 2018. In November 2018, the principal balance of \$170,327 was refinanced. Monthly principal and interest payments are \$2,476, the interest rate is 5.77% and it is due November 2021.	168,669	189,063
Mortgage payable secured by land and building with interest at 4.00%. Monthly principal and interest payments of \$1,945. Due March 2019.	236,295	249,756
Totals	571,580	621,049
Less: Current portion	(46,130)	(215,477)
Long-Term Portion	\$ 525,450	\$ 405,572

In March 2019, the Agency refinanced its 4.00%, \$272,000 mortgage. The new mortgage, through a bank, has a fixed interest rate of 5.349%, is due March 2022 and monthly payments of principal and interest are \$2,093.

Principal requirements on long-term debt for years ending after December 31, 2018 are reflective of the refinanced terms and are as follows:

2019	\$ 46,130
2020	51,957
2021	274,041
2022	199,452
Total	\$ 571,580

The Agency has a line of credit agreement establishing a credit level of \$250,000 through a bank with interest at prime plus .25% (5.75% at December 31, 2018). The Agency did not take any draws nor had any amounts outstanding on the line of credit agreement at December 31, 2018 and 2017.

Interest on long-term debt and the line of credit was \$26,616 and \$28,026 for the years ended December 31, 2018 and 2017, respectively.

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NOTE 7 - Asset Retirement Obligation

Following is a reconciliation of the asset retirement obligation associated with the Agency's removal of asbestos.

	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 33,458	\$ 32,737
Increase in present value of obligation	<u>1,672</u>	<u>721</u>
Ending Balance	<u>\$ 35,130</u>	<u>\$ 33,458</u>

NOTE 8 - Employee Benefit Plans

403(b) Plan

The Agency has a defined contribution retirement savings plan covering substantially all eligible employees. The Agency makes a 4% contribution based on employees' salaries. Additionally, a 2% discretionary contribution to the plan is provided. Pension expense was \$128,481 and \$151,697 for the years ended December 31, 2018 and 2017, respectively.

CATHOLIC CHARITIES OF THE ARCHDIOCESE OF MILWAUKEE, INC. AND FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 9 - Net Assets

Net assets with donor restrictions consist of the following as of December 31:

	<u>2018</u>	<u>2017</u>
Restricted as to timing:		
United Way Allocation		
Behavioral Health Program	\$ 170,667	\$ 185,960
Outreach	62,579	50,623
Migrant & Refugee Services Program	10,000	11,300
In-Home Support Services Program	70,400	73,530
Child Welfare Program	<u>46,604</u>	<u>48,664</u>
	<u>360,250</u>	<u>370,077</u>
Archdiocese of Milwaukee		
Adult Day Services Program	25,000	25,000
Behavioral Health Program	162,500	162,500
Outreach	125,000	125,000
Migrant & Refugee Services Program	26,552	26,552
In-Home Support Services Program	75,000	75,000
Child Welfare Program	100,000	100,000
Legal Services for Immigrants	<u>62,500</u>	<u>62,500</u>
	<u>576,552</u>	<u>576,552</u>
Pledges Receivable	<u>111,370</u>	<u>629,003</u>
Restricted as to purpose:		
Legal Services	236,000	-
Outreach	4,785	6,028
Miscellaneous Restrictions by Purpose	18,772	20,592
Earnings on Endowment Funds	<u>151,785</u>	<u>450,650</u>
	<u>411,342</u>	<u>477,270</u>
Restricted in perpetuity:		
Pregnancy counseling and support	9,422	9,422
Endowment fund	<u>1,646,979</u>	<u>1,548,507</u>
	<u>1,656,401</u>	<u>1,557,929</u>
Total net assets with donor restrictions	<u>\$ 3,115,915</u>	<u>\$ 3,610,831</u>

NOTE 10 - Endowment

The Agency follows the provisions of current authoritative guidance relating to endowments of not-for-profit organizations, which provides guidance on classifying net assets associated with donor restricted and board designated endowment funds held by an organization. A key component of the guidance is a requirement to classify the portion of a donor restricted endowment fund as net assets with donor restrictions until appropriated for expenditure. As is the policy of the Agency, restrictions on investment income which are met in the current period are reported as net assets without donor restrictions.

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NOTE 10 - Endowment (continued)

Interpretation of Relevant Law – The Agency has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. The Agency classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowment fund is also classified as net assets with donor restrictions until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA as adopted by the state of Wisconsin. If the fair value of the net assets with donor restrictions at year end is below the original fair value, the deficit is recorded as an unrealized loss with donor restrictions

Fund Objectives and Policies – The endowment fund was established to assist the Agency in its mission by providing support for the operations and activities of the Agency’s programs and services. The endowment fund consists of donor restricted gifts. The endowment fund is invested in a manner which attempts to provide a stream of funding for the purposes supported by the endowment as well as maintaining the purchasing power of the endowment assets. The fund is currently invested with investment advisors in a manner intended to assume a moderate level of investment risk while pursuing a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Agency investments are screened to comply with socially responsible investment principles consistent with Catholic Social Teaching. The Agency spending policy is that under normal circumstances only the income and appreciation of the fund are to be used for the fund’s support purposes. This is consistent with the objective to maintain the principal of the endowment assets as well as to provide additional real growth through new gifts.

Endowment net asset composition by type of fund for the years ended December 31 consists of the following:

	2018		
	Without donor restrictions	With donor restrictions	Total
Donor restricted	\$ -	\$ 1,798,764	\$ 1,798,764
	2017		
	Without donor restrictions	With donor restrictions	Total
Donor restricted	\$ -	\$ 1,999,157	\$ 1,999,157

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NOTE 10 - Endowment (continued)

Changes in endowment net assets for the years ended December 31 are as follows:

	2018		
	Without donor restrictions	With donor restrictions	Total
Endowment Net Assets, December 31, 2017	\$ -	\$ 1,999,157	\$ 1,999,157
Investment Return			
Investment income net of fees	-	17,501	17,501
Net depreciation realized and unrealized	-	(181,366)	(181,366)
Total investment return	-	(163,865)	(163,865)
Contributions	-	98,472	98,472
Distribution	-	(135,000)	(135,000)
Endowment Net Assets, December 31, 2018	\$ -	\$ 1,798,764	\$ 1,798,764
	2017		
	Without donor restrictions	With donor restrictions	Total
Endowment Net Assets, December 31, 2016	\$ -	\$ 1,735,366	\$ 1,735,366
Investment Return			
Investment income net of fees	-	18,619	18,619
Net appreciation realized and unrealized	-	245,172	245,172
Total investment return	-	263,791	263,791
Endowment Net Assets, December 31, 2017	\$ -	\$ 1,999,157	\$ 1,999,157

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NOTE 11 - Operating Leases

The Agency leases facilities and equipment under lease agreements expiring at various dates through November 2021. Two leases require lease payments plus pro-rata increases on real estate taxes and operating expenses.

Future minimum lease payments as of December 31, 2018 are as follows:

2019	\$ 43,823
2020	10,007
2021	<u>9,173</u>
	<u>\$ 63,003</u>

Rent expense on the operating leases was \$96,660 and \$95,610 for the years ended December 31, 2018 and 2017, respectively.

NOTE 12 - Concentrations

The Agency maintains a cash balance in one institution which exceeds the federally insured limit of \$250,000. The Agency has not experienced any losses in the account and believes it is not exposed to any significant credit risk on cash.

The Agency has a collective bargaining agreement which covers approximately 34% and 46% of employees for 2018 and 2017, respectively. The agreement will expire on December 31, 2019.

Approximately 40% and 38% of revenues were from four different funding sources for the years ended December 31, 2018 and 2017, respectively. Receivables from these funding sources totaled \$938,631 and \$1,022,369 as of December 31, 2018 and 2017, respectively. A significant reduction in funds received from these funding sources could have a negative impact on the Agency's operations.

NOTE 13 - Protected Self-Insurance Program

The Agency participates in a protected self-insurance program along with various other Catholic entities operating within the boundaries of the Archdiocese. Premiums and loss reserves are determined and claims are processed by a service agency on a contractual basis.

Losses are paid from the loss fund of the protected self-insurance program to which premiums are paid by the Agency. No single claim from the loss fund may exceed a specified maximum. Claims in excess of this maximum are fully covered by insurance.

CATHOLIC CHARITIES OF THE ARCHDIOCESE OF MILWAUKEE, INC. AND FOUNDATION

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NOTE 14 - Commitments and Contingencies

Financial Awards from Grantors

Financial awards from federal, state and local governments in the form of grants are subject to special audit. Such audits could result in claims against the Agency for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this time.

Litigation

The Agency is party to various legal actions that are incidental to its activities, the outcomes of which cannot be predicted with certainty net of insurance proceeds. Management believes the outcomes of these legal proceedings, either individually or combined, will not have a materially adverse impact on the Agency's financial position or activities.

NOTE 15 - Availability of Financial Assets

The following reflects the Agency's financial assets available to meet cash needs for operating expenses and scheduled principal payments on debt within one year of December 31, 2018:

Financial assets:		
Cash and cash equivalents	\$	1,116,249
Net accounts receivable		116,490
Grant receivable		8,938
Unconditional promises to give		1,047,798
Investments		<u>2,196,618</u>
Total	\$	<u>4,486,093</u>
Less purpose restricted unconditional promises to give:		
United Way		(360,250)
Archdiocese of Milwaukee		(576,552)
Less amounts restricted for endowment (including earnings)		<u>(1,798,764)</u>
Financial assets available to meet cash needs for general use within one year	\$	<u>1,750,527</u>

Catholic Charities relies on public support and program fees to meet operational needs. The practice of Catholic Charities is to structure financial assets to be available as general expenditures, liabilities, and other obligations come due. Cash in excess of daily requirements is invested in short-term investments. Catholic Charities could also draw upon a bank line of credit of \$250,000.

NOTE 16 - Subsequent Events

The Agency has evaluated subsequent events through April 22, 2019 which is the date that the consolidated financial statements were approved and available to be issued.