

**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, 2017 and 2016

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

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
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, 2017 and 2016, 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, 2017 and 2016, 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 23, 2018 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 to solely 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 23, 2018

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As of December 31, 2017 and 2016

ASSETS		
	2017	2016
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,279,730	\$ 1,147,206
Accounts receivable	121,676	122,147
Grants receivable	117,299	277,472
Unconditional promises to give	1,548,993	1,120,755
Other current assets	81,824	68,324
Total Current Assets	3,149,522	2,735,904
 PROPERTY AND EQUIPMENT		
	1,100,895	1,133,154
 OTHER ASSETS		
Investments	2,001,203	1,735,366
Long-term unconditional promises to give	25,000	50,000
Other long-term assets	52,000	52,000
Total Other Assets	2,078,203	1,837,366
 TOTAL ASSETS		
	\$ 6,328,620	\$ 5,706,424
 LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 215,477	\$ 48,259
Accounts payable	57,813	60,640
Accrued payroll	171,123	161,789
Accrued liabilities	32,660	31,082
Grant advance payable	98,325	81,700
Total Current Liabilities	575,398	383,470
 LONG-TERM LIABILITIES		
Long-term debt	405,572	621,048
Asset retirement obligation	33,458	32,737
Total Liabilities	1,014,428	1,037,255
 NET ASSETS		
Unrestricted	1,703,361	1,581,412
Temporarily restricted	2,052,902	1,529,828
Permanently restricted	1,557,929	1,557,929
Total Net Assets	5,314,192	4,669,169
 TOTAL LIABILITIES AND NET ASSETS		
	\$ 6,328,620	\$ 5,706,424

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, 2017 and 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Total	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total
PUBLIC SUPPORT								
Government grants	\$ 1,170,862	\$ -	\$ -	\$ 1,170,862	\$ 2,302,692	\$ -	\$ -	\$ 2,302,692
Archdiocese of Milwaukee	576,552	576,552	-	1,153,104	601,552	576,552	-	1,178,104
United Way	408,748	370,076	-	778,824	413,434	392,273	-	805,707
Contributions	1,617,191	585,031	-	2,202,222	1,403,040	351,459	-	1,754,499
In-kind contributions	51,420	-	-	51,420	102,160	-	-	102,160
Special events	30,750	-	-	30,750	30,575	-	-	30,575
Net assets released from restriction	1,272,376	(1,272,376)	-	-	1,204,640	(1,204,640)	-	-
Total Public Support	<u>5,127,899</u>	<u>259,283</u>	<u>-</u>	<u>5,387,182</u>	<u>6,058,093</u>	<u>115,644</u>	<u>-</u>	<u>6,173,737</u>
REVENUE								
Program fees	1,119,394	-	-	1,119,394	1,098,335	-	-	1,098,335
Investment income	7,003	263,791	-	270,794	5,126	126,510	-	131,636
Rental revenue	-	-	-	-	3,645	-	-	3,645
Other	4,989	-	-	4,989	9,962	-	-	9,962
Total Revenue	<u>1,131,386</u>	<u>263,791</u>	<u>-</u>	<u>1,395,177</u>	<u>1,117,068</u>	<u>126,510</u>	<u>-</u>	<u>1,243,578</u>
Total Public Support and Revenue	<u>6,259,285</u>	<u>523,074</u>	<u>-</u>	<u>6,782,359</u>	<u>7,175,161</u>	<u>242,154</u>	<u>-</u>	<u>7,417,315</u>
EXPENSES								
Program	5,711,817	-	-	5,711,817	6,458,210	-	-	6,458,210
Management and general	41,721	-	-	41,721	68,073	-	-	68,073
Fundraising	383,798	-	-	383,798	520,351	-	-	520,351
Total Expenses	<u>6,137,336</u>	<u>-</u>	<u>-</u>	<u>6,137,336</u>	<u>7,046,634</u>	<u>-</u>	<u>-</u>	<u>7,046,634</u>
CHANGE IN NET ASSETS	121,949	523,074	-	645,023	128,527	242,154	-	370,681
NET ASSETS - Beginning of Year	<u>1,581,412</u>	<u>1,529,828</u>	<u>1,557,929</u>	<u>4,669,169</u>	<u>1,452,885</u>	<u>1,287,674</u>	<u>1,557,929</u>	<u>4,298,488</u>
NET ASSETS - END OF YEAR	<u>\$ 1,703,361</u>	<u>\$ 2,052,902</u>	<u>\$ 1,557,929</u>	<u>\$ 5,314,192</u>	<u>\$ 1,581,412</u>	<u>\$ 1,529,828</u>	<u>\$ 1,557,929</u>	<u>\$ 4,669,169</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, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 645,023	\$ 370,681
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	129,632	97,408
Net realized and unrealized gains on investments	(245,172)	(108,623)
Accretion of asset retirement obligation	721	953
Provision for bad debts	36,805	28,545
Changes in assets and liabilities		
Receivables	123,839	(126,635)
Unconditional promises to give	(403,238)	(85,740)
Other current assets	(13,500)	(9,500)
Accounts payable	(2,827)	15,165
Accrued expenses	10,912	8,831
Pension reversion payments	-	(3,384)
Grant advance payable	<u>16,625</u>	<u>22,250</u>
Net Cash Flows from Operating Activities	<u>298,820</u>	<u>209,951</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(97,373)	(197,226)
Purchase of investments	<u>(20,665)</u>	<u>(17,887)</u>
Net Cash Flows from Investing Activities	<u>(118,038)</u>	<u>(215,113)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	(48,258)	(80,397)
Payment on asset retirement obligation	<u>-</u>	<u>(9,749)</u>
Net Cash Flows from Financing Activities	<u>(48,258)</u>	<u>(90,146)</u>
 Net Change in Cash and Cash Equivalents	 132,524	 (95,308)
 CASH AND CASH EQUIVALENTS - Beginning of Year	 <u>1,147,206</u>	 <u>1,242,514</u>
 CASH AND CASH EQUIVALENTS - END OF YEAR	 <u>\$ 1,279,730</u>	 <u>\$ 1,147,206</u>
 Cash paid for interest	 \$ 28,026	 \$ 38,738
 Noncash investing and financing activities		
Refinancing of mortgage payable	 \$ -	 \$ 272,000

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	Total Program	Management and General				
Salaries and wages	\$ 181,047	\$ 711,532	\$ 303,470	\$ 302,390	\$ 272,823	\$ 661,801	\$ 308,884	\$ 50,774	\$ 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	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	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	559,299	43,819	4,073,101			
Operations	2,789	34,406	2,450	1,267	49,365	10,191	2,959	3,308	27,796	142,565	277,096			
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	-	-	-	443,568			
Rent and occupancy	50,452	113,759	40,080	39,344	40,802	108,069	48,903	1,239	108,019	8,904	559,571			
Supplies	4,620	16,560	15,300	5,773	12,644	6,940	6,007	61	34,141	4,358	106,404			
Promotions and advertising	-	-	-	-	-	-	-	-	11,718	-	28,511			
Professional fees	296	17,467	2,348	166	14,934	350	106	53,769	146,246	138,799	374,481			
Travel and meetings	221	14,244	19,340	14,357	4,620	26,524	9,530	1,032	11,753	376	101,997			
Bad debt	10,176	21,418	845	3,457	-	909	-	-	-	-	36,805			
Special events	-	59	73	-	-	6	106	-	1,653	16,662	18,559			
Other expenses	-	14,291	4,685	694	5,443	6,251	3,206	-	30,175	1,078	65,823			
Total	327,221	1,113,496	474,212	441,905	492,836	1,362,315	497,987	121,869	931,725	373,770	6,137,336			
Allocated expenses	57,324	220,979	96,919	96,099	87,642	207,748	96,960	16,305	(890,004)	10,028	-			
Total Expenses	\$ 384,545	\$ 1,334,475	\$ 571,131	\$ 538,004	\$ 580,478	\$ 1,570,063	\$ 594,947	\$ 138,174	\$ 41,721	\$ 383,798	\$ 6,137,336			

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, 2016

	Program										Fundraising	Total
	Adult Day Service	Behavioral Health	Child Welfare	In-Home Support	Legal Services	MRS	Outreach	Total Program	Management and General			
Salaries and wages	\$ 177,077	\$ 721,132	\$ 225,614	\$ 294,061	\$ 268,407	\$ 858,469	\$ 291,892	\$ 2,836,652	\$ 355,466	\$ 109,734	\$ 3,301,852	
Employee benefits	39,874	116,716	41,909	55,532	40,382	170,017	40,233	504,663	54,660	17,043	576,366	
Payroll tax expense	17,175	58,760	19,430	28,299	24,545	78,465	24,312	250,986	25,690	8,453	285,129	
Total Salaries and Related Expenses	234,126	896,608	286,953	377,892	333,334	1,106,951	356,437	3,592,301	435,816	135,230	4,163,347	
Operations	3,097	35,682	1,966	572	43,106	7,964	2,767	95,154	54,338	184,235	333,727	
In-kind	-	19,947	9,637	-	22,498	33,962	-	86,044	16,116	-	102,160	
Specific assistance to clients	39,660	700	1,223	10	1,109	1,169,037	7,279	1,219,018	-	-	1,219,018	
Rent and occupancy	53,064	113,874	35,261	40,505	38,506	130,948	47,457	459,615	75,023	10,281	544,919	
Supplies	4,951	14,123	4,861	2,797	9,762	19,833	3,421	59,748	11,230	1,035	72,013	
Promotions and advertising	-	-	-	489	-	448	-	937	11,200	13,834	25,971	
Professional fees	-	18,109	1,772	-	14,619	23,775	-	58,275	163,401	142,348	364,024	
Travel and meetings	74	8,648	12,679	13,773	3,041	39,227	7,820	85,262	18,537	318	104,117	
Bad debt	4,557	19,199	-	3,012	-	-	1,250	28,018	527	-	28,545	
Special events	-	-	-	-	-	-	-	-	228	10,856	11,084	
Other expenses	4,728	10,823	5,068	427	12,703	15,423	2,819	51,991	24,883	835	77,709	
Total	344,257	1,137,713	359,420	439,477	478,678	2,547,568	429,250	5,736,363	811,299	498,972	7,046,634	
Allocated expenses	52,395	151,888	56,372	99,278	58,838	234,263	68,813	721,847	(743,226)	21,379	-	
Total Expenses	\$ 396,652	\$ 1,289,601	\$ 415,792	\$ 538,755	\$ 537,516	\$ 2,781,831	\$ 498,063	\$ 6,458,210	\$ 68,073	\$ 520,351	\$ 7,046,634	

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, 2017 and 2016

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 are included in the consolidated statements of activities as increases or decreases in unrestricted net assets 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 \$17,625 at December 31, 2017 and 2016.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

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, 2017 and 2016 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. 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, 2017 and 2016

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.

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:

Unrestricted Net Assets - Net assets that are not subject to donor imposed stipulations.

Temporarily Restricted Net Assets - Net assets subject to donor imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Agency pursuant to those stipulations.

Permanently Restricted Net Assets - Net assets subject to donor imposed stipulations that they be maintained permanently by the Agency. The donors of these assets permit the Agency to use all or part of the income earned on related investments for general or specific purposes.

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.

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, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions. Donor restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 1 - Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

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 unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long lived assets are reported as restricted support.

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 \$51,420 and \$102,160 for the years ended December 31, 2017 and 2016, 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.

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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 1 - Summary of Significant Accounting Policies (continued)

Reclassification

For comparability, certain 2016 amounts have been reclassified to conform with classifications adopted in 2017. The reclassifications have no effect on reported amounts of net assets or change in net assets.

New Accounting Pronouncements

Financial Accounting Standards Board ("FASB") has issued Accounting Standards Update ("ASU") 2016-14, "Not-for-Profit Entities (Subtopic 958): Presentation of Financial Statements of Not-for-Profit Entities" ("ASU 2016-14"). ASU 2016-14 is intended to simplify and improve current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance, expense classifications and cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017 (2018), with early adoption permitted. Management is still evaluating the impact ASU 2016-14 will have on the consolidated financial statements.

FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2014-09"). ASU 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. The amendments defer the effective date of ASU 2014-09, clarify the implementation guidance on principal versus agent considerations, and clarify the identification of performance obligations and the licensing implementation guidance. Topic 606 (as amended) is effective for calendar year 2019. The amendments may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. The Agency is currently assessing the effect that Topic 606 (as amended) will have on its consolidated statements of activities, financial position and cash flows.

In February 2016, FASB issued ASU 2016-02, "Leases (Topic 842)" ("ASU 2016-02") 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. The Agency will be required to apply the standard for fiscal years and reporting periods beginning after December 15, 2019 (2020). Early adoption is permitted. Management is currently evaluating the impact of ASU 2016-02 on the Agency's consolidated financial statements.

In November 2016, FASB issued ASU 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 fiscal years beginning after December 15, 2018 (2019). Early adoption will be permitted and the standard should be applied retrospectively upon adoption. Management is currently evaluating the impact of the ASU 2016-18 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:

	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	\$ 728,139	\$ 29,538	\$ 1,243,526	\$ 2,001,203

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NOTE 2 - Fair Value of Financial Instruments (continued)

	2016			
	Level 1	Level 2	Level 3	Total
Assets				
Money market funds	\$ -	\$ 24,780	\$ -	\$ 24,780
Equity securities	32,115	-	-	32,115
Equity mutual funds	363,246	-	-	363,246
Bond funds	255,001	-	-	255,001
Catholic Community Foundation	-	-	1,060,224	1,060,224
Total Assets	\$ 650,362	\$ 24,780	\$ 1,060,224	\$ 1,735,366

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

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>\$ 1,243,526</u>
Balance, December 31, 2015	\$ 970,633
Net gains (realized and unrealized) included in change in net assets	82,107
Interest and dividends	19,229
Less fees	(11,745)
Balance, December 31, 2016	<u>\$ 1,060,224</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.

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 Foundation'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.

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NOTE 2 - Fair Value of Financial Instruments (continued)

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.

NOTE 3 - Investment Income

Net investment income (loss) for Agency investments for the years ended December 31:

	2017	2016
Net realized gains (losses) on investments	\$ 76,553	\$ (25,677)
Net unrealized gains on investments	168,619	134,300
Interest and dividends	47,513	42,889
Less investment fees	(21,891)	(19,876)
Total	\$ 270,794	\$ 131,636

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.

NOTE 4 - Property and Equipment

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

	2017	2016
Land	\$ 119,350	\$ 119,350
Buildings and improvements	1,309,511	1,292,605
Leasehold improvements	227,935	227,935
Equipment	525,804	445,337
Total Property and Equipment	2,182,600	2,085,227
Less: Accumulated depreciation	(1,081,705)	(952,073)
Net Property and Equipment	\$ 1,100,895	\$ 1,133,154

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NOTE 5 - Unconditional Promises to Give

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

Amounts due in:	<u>2017</u>	<u>2016</u>
Less than one year	\$ 1,553,793	\$ 1,125,555
One to five years	<u>25,000</u>	<u>50,000</u>
	1,578,793	1,175,555
Less: Unamortized discount and allowance	<u>4,800</u>	<u>4,800</u>
Totals	<u>\$ 1,573,993</u>	<u>\$ 1,170,755</u>

NOTE 6 - 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 and \$1,178,104 for the years ended December 31, 2017 and 2016, respectively. The unconditional promise to give from the Archdiocese was \$576,552 at December 31, 2017 and 2016.

NOTE 7 - Long-Term Debt

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

	<u>2017</u>	<u>2016</u>
Mortgage payable secured by land and building with interest at 4.45%. Monthly principal and interest payments of \$2,026. Due February 2018.	\$ 182,230	\$ 197,939
Mortgage payable secured by land and building with interest at 4.25%. Monthly principal and interest payments of \$2,353. Due November 2018.	189,063	208,687
Mortgage payable secured by land and building with interest at 4.00%. Monthly principal and interest payments of \$1,945. Due March 2019.	<u>249,756</u>	<u>262,681</u>
Totals	621,049	669,307
Less: Current portion	<u>(215,477)</u>	<u>(48,259)</u>
Long-Term Portion	<u>\$ 405,572</u>	<u>\$ 621,048</u>

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NOTE 7 - Long-Term Debt (continued)

In February 2018, the Agency refinanced its 4.45%, \$225,000 mortgage, due February 2018. The new mortgage, through a bank, has a fixed interest rate of 5.00%, is due February 2021 and monthly payments of principal and interest are \$2,026. Principal requirements on long-term debt for years ending after December 31, 2017 are reflective of the refinanced terms and are as follows:

2018	\$ 215,477
2019	252,540
2020	17,067
2021	<u>135,965</u>
Total	<u>\$ 621,049</u>

The Agency is currently in negotiations with a bank regarding the refinancing of its 4.25% mortgage payable due November 2018.

Interest on long-term debt and the line of credit was \$28,026 and \$38,738 for the years ended December 31, 2017 and 2016, respectively.

The Agency has a line of credit agreement establishing a credit level of \$250,000 through a bank with interest at prime plus .25% (4.75% at December 31, 2017). The Agency did not take any draws nor had any amounts outstanding on the line of credit agreement at December 31, 2017 and 2016.

NOTE 8 - Asset Retirement Obligation

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

	2017	2016
Beginning balance	\$ 32,737	\$ 41,533
Increase in present value of obligation	721	953
Asbestos removal	<u>-</u>	<u>(9,749)</u>
Ending Balance	<u>\$ 33,458</u>	<u>\$ 32,737</u>

NOTE 9 - 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 \$151,697 and \$139,467 for the years ended December 31, 2017 and 2016, respectively.

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NOTE 10 - Net Assets

Temporarily restricted net assets consist of the following as of December 31:

	<u>2017</u>	<u>2016</u>
Temporarily restricted as to timing:		
United Way Allocation		
Behavioral Health Program	\$ 185,960	\$ 194,627
Outreach	50,623	60,578
Migrant & Refugee Services Program	11,300	12,000
In-Home Support Services Program	73,530	75,186
Child Welfare Program	<u>48,664</u>	<u>49,882</u>
	<u>370,077</u>	<u>392,273</u>
Archdiocese of Milwaukee		
Adult Day Services Program	25,000	25,000
Behavioral Health Program	162,500	125,000
Outreach	125,000	150,000
Migrant & Refugee Services Program	26,552	75,000
In-Home Support Services Program	75,000	125,000
Child Welfare Program	100,000	26,552
Legal Services for Immigrants Operations	62,500	-
	<u>-</u>	<u>50,000</u>
	<u>576,552</u>	<u>576,552</u>
Pledges Receivable	629,003	170,768
Miscellaneous Restrictions due to Timing	<u>-</u>	<u>7,673</u>
	<u>629,003</u>	<u>178,441</u>
Temporarily restricted as to purpose:		
Behavioral Health Program	-	31,250
Child Welfare Program	-	56,000
In-Home Support Services Program	-	2,000
Legal Services	-	10,000
Outreach	6,028	26,250
Miscellaneous Restrictions by Purpose	20,592	70,203
Earnings on Endowment Funds	<u>450,650</u>	<u>186,859</u>
	<u>477,270</u>	<u>382,562</u>
Total Temporarily Restricted Net Assets	<u>\$ 2,052,902</u>	<u>\$ 1,529,828</u>

Permanently restricted net assets consist of the following as of December 31:

	<u>2017</u>	<u>2016</u>
Pregnancy counseling and support	\$ 9,422	\$ 9,422
Endowment fund	<u>1,548,507</u>	<u>1,548,507</u>
Total Permanently Restricted Net Assets	<u>\$ 1,557,929</u>	<u>\$ 1,557,929</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2017 and 2016

NOTE 11 - 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 that is not classified as permanently restricted net assets as temporarily restricted net assets 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 unrestricted.

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 permanently restricted net assets (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 that is not classified as permanently restricted net assets is classified as temporarily restricted net assets 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 permanently restricted net assets at year end is below the original fair value, the deficit is recorded as an unrestricted unrealized loss after all temporarily restricted earnings are exhausted.

Fund Objectives and Policies – The endowment fund is 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). Foundation 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.

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NOTE 11 - Endowment (continued)

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

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	\$ -	\$ 450,650	\$ 1,548,507	\$ 1,999,157
	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	\$ -	\$ 186,859	\$ 1,548,507	\$ 1,735,366

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

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, December 31, 2016	\$ -	\$ 186,859	\$ 1,548,507	\$ 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	\$ -	\$ 450,650	\$ 1,548,507	\$ 1,999,157

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 11 - Endowment (continued)

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment Net Assets, December 31, 2015	\$ -	\$ 60,349	\$ 1,548,507	\$ 1,608,856
Investment Return				
Investment income net of fees	-	17,887	-	17,887
Net appreciation realized and unrealized	-	108,623	-	108,623
Total investment return	-	126,510	-	126,510
Endowment Net Assets, December 31, 2016	\$ -	\$ 186,859	\$ 1,548,507	\$ 1,735,366

NOTE 12 - Operating Leases

The Agency leases facilities and equipment under lease agreements expiring at various dates through December 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, 2017 are as follows:

2018	\$ 54,931
2019	13,822
2020	10,006
2021	9,172
	<u>\$ 87,931</u>

Rent expense on the operating leases was \$95,610 and \$94,401 for the years ended December 31, 2017 and 2016, respectively.

NOTE 13 - 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 46% and 44% of employees for 2017 and 2016, respectively. The agreement will expire on December 31, 2019.

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NOTE 13 - Concentrations (continued)

Approximately 38% and 52% of revenues were from three different funding sources for the years ended December 31, 2017 and 2016, respectively. Receivables from these funding sources totaled \$1,022,369 and \$1,200,407 as of December 31, 2017 and 2016, respectively. A significant reduction in funds received from these funding sources could have a negative impact on the Agency's operations.

NOTE 14 - 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.

NOTE 15 - 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.

NOTE 16 - Subsequent Events

The Agency has evaluated subsequent events through April 23, 2018 which is the date that the financial statements were approved and available to be issued.