

Catholic Charities of the Archdiocese of Milwaukee, Inc. and Foundation

Consolidated Financial Statements

December 31, 2020 and 2019

Catholic Charities of the Archdiocese of Milwaukee, Inc. and Foundation

Table of Contents

December 31, 2020 and 2019

	<u>Page</u>
Independent Auditors' Report	1
Consolidated Financial Statements	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4
Consolidated Statements of Cash Flows	5
Consolidated Statement of Functional Expenses, Year Ended December 31, 2020	6
Consolidated Statement of Functional Expenses, Year Ended December 31, 2019	7
Notes to Consolidated Financial Statements	8

Independent Auditors' Report

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

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, 2020 and 2019, 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. 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, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Baker Tilly US, LLP

Milwaukee, Wisconsin
May 26, 2021

Catholic Charities of the Archdiocese of Milwaukee, Inc. and Foundation

Consolidated Statements of Financial Position
December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 3,909,140	\$ 1,673,175
Accounts receivable, net	45,898	65,244
Unconditional promises to give	958,420	1,045,350
Other current assets	97,666	109,352
Total current assets	<u>5,011,124</u>	<u>2,893,121</u>
Property and Equipment	<u>906,779</u>	<u>951,477</u>
Other Assets		
Investments	4,377,652	3,973,994
Long-term unconditional promises to give	50,000	75,000
Other long-term assets	52,000	52,000
Total other assets	<u>4,479,652</u>	<u>4,100,994</u>
Total assets	<u><u>\$ 10,397,555</u></u>	<u><u>\$ 7,945,592</u></u>
Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term debt	\$ 158,651	\$ 51,957
Current portion of Paycheck Protection Program loan	439,319	-
Accounts payable	2,430	29,075
Accrued payroll	166,060	142,829
Accrued liabilities	67,816	43,354
Total current liabilities	<u>834,276</u>	<u>267,215</u>
Long-term Liabilities		
Long-term debt	311,383	470,012
Paycheck Protection Program loan	127,281	-
Asset retirement obligation	37,178	35,324
Total liabilities	<u>1,310,118</u>	<u>772,551</u>
Net Assets		
Without donor restrictions	5,775,050	3,935,280
With donor restrictions	3,312,387	3,237,761
Total net assets	<u>9,087,437</u>	<u>7,173,041</u>
Total liabilities and net assets	<u><u>\$ 10,397,555</u></u>	<u><u>\$ 7,945,592</u></u>

See notes to consolidated financial statements

Catholic Charities of the Archdiocese of Milwaukee, Inc. and Foundation

Consolidated Statements of Activities
Years Ended December 31, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Public Support						
Archdiocese of Milwaukee	\$ 576,560	576,775	\$ 1,153,335	\$ 576,379	576,465	\$ 1,152,844
United Way	284,742	256,156	540,898	350,922	342,007	692,929
Contributions	4,001,481	93,969	4,095,450	4,024,236	210,994	4,235,230
In-kind contributions	42,630	-	42,630	120,077	-	120,077
Special events	45,836	-	45,836	37,100	-	37,100
Net assets released from restrictions	1,043,423	(1,043,423)	-	1,317,751	(1,317,751)	-
Total public support	5,994,672	(116,523)	5,878,149	6,426,465	(188,285)	6,238,180
Revenue						
Program fees	500,409	-	500,409	678,792	-	678,792
Investment income, net	223,339	191,149	414,488	41,198	310,131	351,329
Other	42,932	-	42,932	31,010	-	31,010
Total revenue	766,680	191,149	957,829	751,000	310,131	1,061,131
Total public support and revenue	6,761,352	74,626	6,835,978	7,177,465	121,846	7,299,311
Expenses						
Program	3,576,636	-	3,576,636	3,742,140	-	3,742,140
Management and general	871,251	-	871,251	813,407	-	813,407
Fundraising	473,695	-	473,695	458,401	-	458,401
Total expenses	4,921,582	-	4,921,582	5,013,948	-	5,013,948
Change in net assets	1,839,770	74,626	1,914,396	2,163,517	121,846	2,285,363
Net Assets, Beginning	3,935,280	3,237,761	7,173,041	1,771,763	3,115,915	4,887,678
Net Assets, Ending	\$ 5,775,050	\$ 3,312,387	\$ 9,087,437	\$ 3,935,280	\$ 3,237,761	\$ 7,173,041

See notes to consolidated financial statements

Catholic Charities of the Archdiocese of Milwaukee, Inc. and Foundation

Consolidated Statements of Cash Flows
Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash Flows From Operating Activities		
Change in net assets	\$ 1,914,396	\$ 2,285,363
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	66,243	159,576
Net realized and unrealized gains on investments	(352,688)	(285,596)
Donated investments received	-	(1,443,282)
Accretion of asset retirement obligation	1,854	194
Changes in assets and liabilities:		
Accounts receivable	19,346	60,184
Unconditional promises to give	111,930	(72,552)
Other current assets	11,686	6,392
Accounts payable	(26,645)	(36,139)
Accrued expenses	47,693	(19,105)
	<u>1,793,815</u>	<u>655,035</u>
Cash Flows From Investing Activities		
Capital expenditures	(21,545)	-
Purchase of investments	(1,468,830)	(391,345)
Proceeds from sale of investments	1,417,860	342,847
	<u>(72,515)</u>	<u>(48,498)</u>
Cash Flows From Financing Activities		
Principal payments on long-term debt	(51,935)	(49,611)
Paycheck Protection Program loan proceeds	566,600	-
	<u>514,665</u>	<u>(49,611)</u>
Net cash flows from financing activities	<u>514,665</u>	<u>(49,611)</u>
Net change in cash and cash equivalents	2,235,965	556,926
Cash and Cash Equivalents, Beginning	<u>1,673,175</u>	<u>1,116,249</u>
Cash and Cash Equivalents, Ending	<u>\$ 3,909,140</u>	<u>\$ 1,673,175</u>
Cash Paid for Interest	<u>\$ 27,215</u>	<u>\$ 29,092</u>
Noncash Investing and Financing Activities		
Refinancing of debt	<u>\$ -</u>	<u>\$ 232,812</u>

See notes to consolidated financial statements

Catholic Charities of the Archdiocese of Milwaukee, Inc. and Foundation

Consolidated Statement of Functional Expenses

Year Ended December 31, 2020

	Program							Total Program	Management and General	Fundraising	Total
	Adult Day Service	Behavioral Health	Child Welfare	In-Home Support	Legal Services	Outreach	Parish Outreach				
Salaries and wages	\$ 157,624	\$ 682,296	\$ 227,251	\$ 242,915	\$ 414,047	\$ 271,927	\$ 45,378	\$ 2,041,438	\$ 328,460	\$ 211,211	\$ 2,581,109
Employee benefits	17,374	127,600	37,174	37,430	62,027	43,566	7,053	332,224	56,390	44,203	432,817
Payroll tax expense	9,506	36,926	15,935	17,226	29,078	17,621	3,115	129,407	24,198	14,804	168,409
Total salaries and related expenses	184,504	846,822	280,360	297,571	505,152	333,114	55,546	2,503,069	409,048	270,218	3,182,335
Operations	6,182	31,647	16,807	6,061	22,301	22,751	968	106,717	51,969	113,045	271,731
In-kind	1,428	16,556	1,172	6,805	15,276	195	-	41,432	-	1,198	42,630
Specific assistance to clients	10,683	-	252	5,600	1,628	98,834	-	116,997	2,554	-	119,551
Rent and occupancy	58,794	120,501	34,339	26,262	49,155	29,399	11,228	329,678	104,466	6,149	440,293
Supplies	19,103	55,278	23,471	13,943	23,751	44,800	2,150	182,496	121,453	10,318	314,267
Promotions and advertising	-	-	-	-	-	-	404	404	13,085	18,967	32,456
Professional fees	-	10,543	711	-	-	162	92,139	103,555	101,364	39,058	243,977
Travel and meetings	449	4,675	6,656	8,276	5,173	10,117	199	35,545	20,320	698	56,563
Information technology	10,405	42,104	15,865	17,574	19,661	18,179	3,373	127,161	10,617	13,460	151,238
Other expenses	1,349	9,090	3,222	779	13,036	2,106	-	29,582	36,375	584	66,541
Total expenses	\$ 292,897	\$ 1,137,216	\$ 382,855	\$ 382,871	\$ 655,133	\$ 559,657	\$ 166,007	\$ 3,576,636	\$ 871,251	\$ 473,695	\$ 4,921,582

See notes to consolidated financial statements

Catholic Charities of the Archdiocese of Milwaukee, Inc. and Foundation

Consolidated Statement of Functional Expenses

Year Ended December 31, 2019

	Program							Total Program	Management and General	Fundraising	Total
	Adult Day Service	Behavioral Health	Child Welfare	In-Home Support	Legal Services	Outreach	Parish Outreach				
Salaries and wages	\$ 163,535	\$ 638,671	\$ 247,141	\$ 299,919	\$ 415,633	\$ 227,595	\$ 14,322	\$ 2,006,816	\$ 323,826	\$ 205,760	\$ 2,536,402
Employee benefits	16,692	113,664	38,046	43,934	52,306	36,447	1,303	302,392	54,575	40,672	397,639
Payroll tax expense	13,152	49,162	19,473	24,480	32,921	17,411	1,310	157,909	24,913	15,429	198,251
Total salaries and related expenses	193,379	801,497	304,660	368,333	500,860	281,453	16,935	2,467,117	403,314	261,861	3,132,292
Operations	2,338	19,946	9,447	5,254	35,582	4,456	1,332	78,355	43,372	105,852	227,579
In-kind	4,013	34,243	4,362	364	67,509	4,267	-	114,758	-	5,320	120,078
Specific assistance to clients	28,968	637	638	23	201	2,500	3,395	36,362	-	-	36,362
Rent and occupancy	89,793	157,924	65,164	52,065	62,154	55,852	3,411	486,363	42,150	8,069	536,582
Supplies	14,663	60,829	21,153	14,961	32,442	24,422	1,361	169,831	63,435	5,581	238,847
Promotions and advertising	-	-	13	-	24	-	600	637	13,468	5,797	19,902
Professional fees	4,192	20,398	2,847	952	6,402	1,250	109,108	145,149	122,939	29,404	297,492
Travel and meetings	222	9,078	10,576	18,622	1,952	8,039	170	48,659	20,404	1,253	70,316
Special events	-	-	-	-	-	-	9,059	9,059	150	18,852	28,061
Information technology	11,606	44,169	17,230	21,632	29,597	16,007	791	141,032	23,798	14,272	179,102
Other expenses	2,917	22,159	3,784	-	14,368	1,590	-	44,818	80,377	2,140	127,335
Total expenses	\$ 352,091	\$ 1,170,880	\$ 439,874	\$ 482,206	\$ 751,091	\$ 399,836	\$ 146,162	\$ 3,742,140	\$ 813,407	\$ 458,401	\$ 5,013,948

See notes to consolidated financial statements

Catholic Charities of the Archdiocese of Milwaukee, Inc. and Foundation

Notes to Consolidated Financial Statements
December 31, 2020 and 2019

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 Receivable

Accounts receivable are recorded at the anticipated net realizable value. The Agency determines the estimated net realizable value based on contractual agreements and historical experience. The expectation is that the time between the performance of a service for a client and the time when a third-party payer or the client pays for the service will be less than one year. Therefore, the Agency does not adjust the receivable for the effects of a significant financing component. Consistent with the Agency's mission, certain program services are provided to clients even if the clients' ability to pay for service is limited. See the discussion under "Revenue Recognition" in Note 1 for additional disclosures about material revenue streams and the determination of net realizable value based on the relevant factors.

Catholic Charities of the Archdiocese of Milwaukee, Inc. and Foundation

Notes to Consolidated Financial Statements
December 31, 2020 and 2019

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, 2020 and 2019 was \$0.

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.

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.

Catholic Charities of the Archdiocese of Milwaukee, Inc. and Foundation

Notes to Consolidated Financial Statements
December 31, 2020 and 2019

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 in perpetuity.

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. There were no board designations at December 31, 2020 and 2019.

Revenue Recognition

The Agency records program fees at the anticipated amount of actual payment which would be received, based on a contract and a review of recent history. The performance obligation within the contracts is to perform the indicated services for the customers under the contract. Program fees are most often billed on a monthly basis. Revenues are recognized at a point in time as services are provided to the customer, which are then billed by the Agency to the payor. The transaction prices are generally listed in the contracts or individual client agreements. Revenue streams were individually examined to determine a historical rate of realized revenue. The revenue streams included in program fees are adult day care, behavioral health, in home, adoption, legal and supporting parenting services.

Revenue for adult day care services was \$89,401 and \$257,159 for the years ended December 31, 2020 and 2019, respectively. Adult Day Care Services are paid through clients' insurance coverage at contracted rates, so no adjustments to the billed rates were necessary.

Revenue for behavioral health services was \$264,095 and \$157,825 for the years ended December 31, 2020 and 2019, respectively. Medicare and Medicaid revenue of \$115,166 and \$78,764 for the years ended December 31, 2020 and 2019, respectively, are net of a reduction to 60 percent of the billing rate, reflecting the experience of reimbursement rates of these two programs. Commercial insurance revenue was \$107,279 and \$40,785 for the years ended December, 31 2020 and 2019, respectively, and are net of a reduction to 50 percent of the billing rate based on reimbursement rates actually paid by the commercial insurers. \$37,050 and \$27,546 of revenue was received pursuant to a contract with a social services agency and no discount was applied for the years ended December 31, 2020 and 2019, respectively. The remaining amount of revenue in this revenue stream is immaterial.

Catholic Charities of the Archdiocese of Milwaukee, Inc. and Foundation

Notes to Consolidated Financial Statements
December 31, 2020 and 2019

Revenue for in home services was \$62,739 and \$128,746 for the years ended December 31, 2020 and 2019, respectively. Approximately half of the revenue was paid under annual contracts which fixed the amounts to be paid to the Agency for services rendered. Approximately half of the revenue was paid by the recipients of the services which were fixed at the commencement of services, therefore no adjustments to the billed rates were necessary.

Revenue for adoption services, legal services and supporting parenting totaled \$84,174 and \$135,062 for the years ended December 31, 2020 and 2019, respectively. The revenue is received from clients, with fees set at an initial meeting based on a number of factors specific to each individual client and their case.

Revenue From Contributions

Contributions, including unconditional promises to give, are recognized in the period received. Conditional promises, that is those with a measurable performance barrier and a right of return, are not recognized until they become unconditional, that is when the conditions on which they depend are met. When contributions of cash or securities are received, the Agency recognizes revenue at the net amount realized from the check, credit card payment, or liquidation of the securities. Pledges for contributions in the future are recognized net of a discount. Contributions are reported as restricted support if they are received with donor stipulations that limit the use of the donation. When donor restrictions expire, net assets with donor restrictions are reclassified to net assets without donor restrictions 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 a contribution without donor restrictions.

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 fair value on the date received.

The Agency reports gifts of land, buildings and equipment as support without donor 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 public 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 \$42,630 and \$120,077 for the years ended December 31, 2020 and 2019, 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.

Catholic Charities of the Archdiocese of Milwaukee, Inc. and Foundation

Notes to Consolidated Financial Statements
December 31, 2020 and 2019

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, rent, and occupancy are allocated based on square footage.

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.

Adopted Accounting Pronouncement

In 2020, the Agency adopted Accounting Standards Update (ASU) No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement* (ASU No. 2018-13). The new guidance modifies the disclosure requirements for fair value measurements in Topic 820, *Fair Value Measurement*. The amendments are based on the concepts in the Financial Accounting Standards Board (FASB) Concepts Statement, *Conceptual Framework for Financial Reporting - Chapter 8: Notes to Financial Statements*, which the Board finalized on August 28, 2018. Adopting ASU 2018-13 did not have a significant impact on the consolidated financial statements of the Agency.

New Accounting Pronouncements

In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)* (ASU No. 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, 2021 (2022). Early adoption is permitted. Management is currently evaluating the impact of ASU No. 2016-02 on the Agency's consolidated financial statements.

During September 2020, FASB issued ASU No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. ASU No. 2020-07 improves financial reporting by providing new presentation and disclosure requirements about contributed nonfinancial assets, including additional disclosure requirements for recognized contributed services. The standard will be required to be applied retrospectively for annual periods beginning after June 15, 2021 (2022). The Agency does not believe that the adoption of ASU No. 2020-07 will have a material effect on its consolidated financial statements.

Catholic Charities of the Archdiocese of Milwaukee, Inc. and Foundation

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

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:

	2020			
	Level 1	Level 2	Level 3	Total
Assets				
Money market funds	\$ -	\$ 155,343	\$ -	\$ 155,343
Equity securities	19,176	-	-	19,176
Equity mutual funds	1,625,898	-	-	1,625,898
Corporate bonds	-	338,454	-	338,454
Bond funds	912,797	-	-	912,797
Catholic Community Foundation	-	-	1,325,984	1,325,984
Total investments	<u>\$ 2,557,871</u>	<u>\$ 493,797</u>	<u>\$ 1,325,984</u>	<u>\$ 4,377,652</u>

Catholic Charities of the Archdiocese of Milwaukee, Inc. and Foundation

Notes to Consolidated Financial Statements
December 31, 2020 and 2019

	2019			
	Level 1	Level 2	Level 3	Total
Assets				
Money market funds	\$ -	\$ 68,750	\$ -	\$ 68,750
Equity securities	-	-	-	-
Equity mutual funds	1,891,565	-	-	1,891,565
Corporate bonds	-	332,261	-	332,261
Bond funds	448,232	-	-	448,232
Catholic Community Foundation	-	-	1,233,186	1,233,186
Total investments	<u>\$ 2,339,797</u>	<u>\$ 401,011</u>	<u>\$ 1,233,186</u>	<u>\$ 3,973,994</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 percent 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. In 2020 and 2019, the change in fair value is the result of net investment returns.

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.

Catholic Charities of the Archdiocese of Milwaukee, Inc. and Foundation

Notes to Consolidated Financial Statements
December 31, 2020 and 2019

3. Property and Equipment

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

	<u>2020</u>	<u>2019</u>
Land	\$ 124,318	\$ 124,318
Buildings and improvements	1,331,056	1,309,511
Leasehold improvements	227,935	227,935
Equipment	<u>676,503</u>	<u>676,503</u>
Total property and equipment	2,359,812	2,338,267
Less accumulated depreciation	<u>(1,453,033)</u>	<u>(1,386,790)</u>
Net property and equipment	<u>\$ 906,779</u>	<u>\$ 951,477</u>

4. Unconditional Promises to Give

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

	<u>2020</u>	<u>2019</u>
Amounts due in:		
Less than one year	\$ 958,420	\$ 1,045,350
One to five years	<u>50,000</u>	<u>75,000</u>
Total	<u>\$ 1,008,420</u>	<u>\$ 1,120,350</u>

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 \$1,153,335 and \$1,152,844 for the years ended December 31, 2020 and 2019, respectively. The unconditional promise to give from the Archdiocese was \$576,775 and \$576,465 at December 31, 2020 and 2019, respectively.

Catholic Charities of the Archdiocese of Milwaukee, Inc. and Foundation

Notes to Consolidated Financial Statements
December 31, 2020 and 2019

6. Long-Term Debt

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

	<u>2020</u>	<u>2019</u>
Mortgage payable secured by land and building with interest at 5%. Monthly principal and interest payments were \$2,026 through February 2021. The Agency refinanced the mortgage payable during February 2021 with interest at 4%. Monthly principal and interest payments are \$2,066 through February 2027.	\$ 133,290	\$ 150,372
Mortgage payable secured by land and building with interest at 5.77%. Monthly principal and interest payments were \$2,476. Due November 2021.	126,692	148,281
Mortgage payable secured by land and building with interest at 5.34%. Monthly principal and interest payments are \$2,093 and it is due March 2022.	<u>210,052</u>	<u>223,316</u>
Total	470,034	521,969
Less current portion	<u>(158,651)</u>	<u>(51,957)</u>
Long-term portion	<u>\$ 311,383</u>	<u>\$ 470,012</u>

Principal requirements on long-term debt for years ending after December 31, 2020 are reflective of the refinanced terms and are as follows:

Years ending December 30:	
2021	\$ 158,651
2022	216,436
2023	21,343
2024	22,216
Thereafter	<u>51,388</u>
Total	<u>\$ 470,034</u>

The Agency has a line of credit agreement establishing a credit level of \$250,000 through a bank with interest at prime plus .25 percent (4.75 percent at December 31, 2020). The Agency did not take any draws nor had any amounts outstanding on the line of credit agreement at December 31, 2020 and 2019.

Interest on long-term debt and the line of credit was \$27,215 and \$29,092 for the years ended December 31, 2020 and 2019, respectively.

Catholic Charities of the Archdiocese of Milwaukee, Inc. and Foundation

Notes to Consolidated Financial Statements
December 31, 2020 and 2019

7. Paycheck Protection Program Loan

On April 14, 2020, the Agency received loan proceeds in the amount of \$566,600 under the Paycheck Protection Program (PPP) which was established as part of the Coronavirus Aid, Relief and Economic Security (CARES) Act and is administered through the Small Business Administration (SBA). The PPP provides loans to qualifying businesses in amounts up to 2.5 times their average monthly payroll expenses and was designed to provide a direct financial incentive for qualifying businesses to keep their workforce employed during the Coronavirus crisis. PPP loans are uncollateralized and guaranteed by the SBA and are forgivable after a "covered period" (eight or twenty-four weeks) as long as the borrower maintains its payroll levels and uses the loan proceeds for eligible expenses, including payroll, benefits, mortgage interest, rent, and utilities. The forgiveness amount will be reduced if the borrower terminates employees or reduces salaries and wages more than 25% during the covered period. Any unforgiven portion is payable over 2 years if issued before, or 5 years if issued after, June 5, 2020 at an interest rate of 1% with payments deferred until the SBA remits the borrower's loan forgiveness amount to the lender, or, if the borrower does not apply for forgiveness, 6 months after the date of the agreement. PPP loan terms provide for customary events of default, including payment defaults, breaches of representations and warranties, and insolvency events and may be accelerated upon the occurrence of one or more of these events of default. Additionally, PPP loan terms do not include prepayment penalties.

The Agency met the PPP's loan forgiveness requirements, and therefore, applied for forgiveness during March of 2021. When legal release is received, the Agency will record the amount forgiven as forgiveness income within its statements of activities. If any portion of the Agency's PPP loan is not forgiven, the Agency will be required to repay that portion, plus interest, over 2 years in 18 installments with the repayment term beginning at the time that the SBA remits the amount forgiven to the Agency's lender. On April 16, 2021, the Agency received legal release from the SBA, and therefore, will record the amount forgiven, \$566,600, as forgiveness income in its 2021 statement of activities.

The SBA reserves the right to audit any PPP loan, regardless of size. These audits may occur after forgiveness has been granted. In accordance with the CARES Act, all borrowers are required to maintain their PPP loan documentation for six years after the PPP loan was forgiven or repaid in full and to provide that documentation to the SBA upon request. The Agency does not believe the results of any audits or reviews by the SBA would have a material impact on the consolidated financial statements.

8. Asset Retirement Obligation

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

	<u>2020</u>	<u>2019</u>
Beginning balance	\$ 35,324	\$ 35,130
Increase in present value of obligation	<u>1,854</u>	<u>194</u>
Ending balance	<u>\$ 37,178</u>	<u>\$ 35,324</u>

Catholic Charities of the Archdiocese of Milwaukee, Inc. and Foundation

Notes to Consolidated Financial Statements
December 31, 2020 and 2019

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 percent contribution based on employees' salaries. Additionally, a 2 percent discretionary contribution to the plan is provided. Pension expense was \$112,748 and \$113,849 for the years ended December 31, 2020 and 2019, respectively.

10. Net Assets

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

	<u>2020</u>	<u>2019</u>
Restricted as to timing:		
United Way allocation:		
Behavioral health program	\$ 123,348	\$ 181,164
Outreach	44,534	60,533
Supported parenting program	15,131	-
In-home support services program	52,349	59,486
Child welfare program	20,794	40,824
	<u>256,156</u>	<u>342,007</u>
Archdiocese of Milwaukee:		
Adult day services program	25,000	25,000
Behavioral health program	162,500	162,411
Outreach	125,000	125,000
Migrant and refugee services program	26,775	-
In-home support services program	75,000	75,000
Child welfare program	-	100,000
Adoption and pregnancy support program	50,000	-
Supported parenting program	50,000	-
Legal services for immigrants	62,500	89,054
	<u>576,775</u>	<u>576,465</u>
Other unconditional promises to give	<u>158,912</u>	<u>196,344</u>
Restricted as to purpose:		
Miscellaneous restrictions by purpose	11,078	4,628
Earnings on endowment fund	653,065	461,916
	<u>664,143</u>	<u>466,544</u>
Restricted in perpetuity:		
Pregnancy counseling and support	9,422	9,422
Endowment fund	1,646,979	1,646,979
	<u>1,656,401</u>	<u>1,656,401</u>
Total net assets with donor restrictions	<u>\$ 3,312,387</u>	<u>\$ 3,237,761</u>

Catholic Charities of the Archdiocese of Milwaukee, Inc. and Foundation

Notes to Consolidated Financial Statements
December 31, 2020 and 2019

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 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.

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 perpetual endowment, (b) the original value of subsequent gifts to the perpetual endowment, and (c) accumulations to the perpetual 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:

	2020		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor restricted	\$ -	\$ 2,300,044	\$ 2,300,044
	2019		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor restricted	\$ -	\$ 2,108,895	\$ 2,108,895

Catholic Charities of the Archdiocese of Milwaukee, Inc. and Foundation

Notes to Consolidated Financial Statements
December 31, 2020 and 2019

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

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets, December 31, 2019	\$ -	\$ 2,108,895	\$ 2,108,895
Investment Return			
Investment income net of fees	-	21,110	21,110
Net appreciation realized and unrealized	-	170,039	170,039
Total investment return	-	191,149	191,149
Endowment net assets, December 31, 2020	\$ -	\$ 2,300,044	\$ 2,300,044
	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets, December 31, 2018	\$ -	\$ 1,798,764	\$ 1,798,764
Investment Return:			
Investment income net of fees	-	24,979	24,979
Net appreciation realized and unrealized	-	285,152	285,152
Total investment return	-	310,131	310,131
Endowment net assets, December 31, 2019	\$ -	\$ 2,108,895	\$ 2,108,895

12. Operating Leases

The Agency leases facilities and equipment under lease agreements expiring at various dates through November 2024. Two leases require lease payments plus pro-rata increases on real estate taxes and operating expenses.

Future minimum lease payments as of December 31, 2020 are as follows:

Years ending December 30:	
2021	\$ 43,178
2022	34,005
2023	34,005
2024	25,980
Total	\$ 137,168

Rent expense on the operating leases was \$108,577 and \$96,669 for the years ended December 31, 2020 and 2019, respectively.

Catholic Charities of the Archdiocese of Milwaukee, Inc. and Foundation

Notes to Consolidated Financial Statements
December 31, 2020 and 2019

13. Concentrations

The Agency maintains a cash balance in two institutions which exceed the federally insured limit of \$250,000. The Agency has not experienced any losses in the accounts and believes they are not exposed to any significant credit risk on cash.

The Agency has a collective bargaining agreement which covers approximately 38 percent and 34 percent of employees for 2020 and 2019, respectively. The agreement will expire on December 31, 2022.

Approximately 49 percent of contributions were from a single donor for the year ended December 31, 2020 and 58 percent of contributions were from bequests for the year ended December 31, 2019.

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.

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:

	<u>2020</u>	<u>2019</u>
Financial assets:		
Cash and cash equivalents	\$ 3,909,140	\$ 1,673,175
Accounts receivable, net	45,898	65,244
Unconditional promises to give	958,420	1,045,350
Investments	<u>4,377,652</u>	<u>3,973,994</u>
Total	9,291,110	6,757,763
Less purpose restricted unconditional promises to give:		
United Way	(256,156)	(342,007)
Archdiocese of Milwaukee	(576,775)	(576,465)
Less amounts restricted for endowment (including earnings)	<u>(2,300,044)</u>	<u>(2,108,895)</u>
Financial assets available to meet cash needs for general use within one year	<u>\$ 6,158,135</u>	<u>\$ 3,730,396</u>

The Agency relies on public support and program fees to meet operational needs. The practice of the Agency 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. The Agency could also draw upon a bank line of credit of \$250,000.

Catholic Charities of the Archdiocese of Milwaukee, Inc. and Foundation

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

16. Subsequent Events

The Agency has evaluated subsequent events through May 26, 2021 which is the date that the consolidated financial statements were approved and available to be issued.