

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

YEARS ENDED JUNE 30, 2017 AND 2016

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

YEARS ENDED JUNE 30, 2017 AND 2016

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Independent Auditor's Report

To the Board of Directors
Catholic Charities, Diocese of Norwich, Inc.
Norwich, Connecticut

We have audited the accompanying financial statements of Catholic Charities, Diocese of Norwich, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Catholic Charities, Diocese of Norwich, Inc. as of June 30, 2017 and 2016, and the changes in its net assets (deficiency) and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Mahoney Sabol & Company, LLP

Certified Public Accountants
Glastonbury, Connecticut
November 28, 2017

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 54,493	\$ 207,881
Accounts receivable	41,187	17,108
Accrued interest receivable	5,533	5,005
Pledges receivable	154,652	173,753
Prepaid expenses	28,016	21,555
TOTAL CURRENT ASSETS	<u>283,881</u>	<u>425,302</u>
PROPERTY AND EQUIPMENT, net	1,038,167	1,109,186
OTHER ASSETS:		
Investments	943,862	921,268
Beneficial interest in perpetual trust	344,659	352,767
TOTAL OTHER ASSETS	<u>1,288,521</u>	<u>1,274,035</u>
	<u>\$ 2,610,569</u>	<u>\$ 2,808,523</u>
<u>LIABILITIES AND NET ASSETS (DEFICIENCY)</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 15,404	\$ 38,285
Accrued wages	27,196	15,030
Accrued compensated balances	54,887	30,285
Deferred revenue	1,500	6,875
Current portion of long-term debt	52,146	50,172
TOTAL CURRENT LIABILITIES	<u>151,133</u>	<u>140,647</u>
LONG-TERM DEBT, net of current portion	295,877	347,329
DUE TO RELATED PARTY	1,709,072	1,506,165
NET ASSETS:		
Unrestricted (deficiency)	(1,118,082)	(824,828)
Temporarily restricted net assets	537,391	595,924
Permanently restricted net assets	1,035,178	1,043,286
TOTAL NET ASSETS	<u>454,487</u>	<u>814,382</u>
	<u>\$ 2,610,569</u>	<u>\$ 2,808,523</u>

See notes to financial statements.

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT:				
Program service billings	\$ 871,035	\$ -	\$ -	\$ 871,035
Less: charitable care	(196,811)	-	-	(196,811)
Program service fees, net	<u>674,224</u>	<u>-</u>	<u>-</u>	<u>674,224</u>
Norwich Diocese	393,222	-	-	393,222
Contributions	222,929	74,339	-	297,268
United Way	598	154,652	-	155,250
Foundations	170,852	-	-	170,852
Gifts in kind	116,803	-	-	116,803
Special events	50,077	-	-	50,077
Adoption	33,600	-	-	33,600
Investment income	11,013	31,648	-	42,661
Net realized and unrealized gain on investments	3,766	42,014	-	45,780
Change in value of perpetual trust Released from restrictions	-	-	(8,108)	(8,108)
Total revenue and support	<u>2,038,270</u>	<u>(58,533)</u>	<u>(8,108)</u>	<u>1,971,629</u>
FUNCTIONAL EXPENSES:				
Program services	1,846,757	-	-	1,846,757
Administration and general	344,326	-	-	344,326
Fundraising	140,441	-	-	140,441
Total functional expenses	<u>2,331,524</u>	<u>-</u>	<u>-</u>	<u>2,331,524</u>
Change in net assets (deficiency)	(293,254)	(58,533)	(8,108)	(359,895)
NET ASSETS (DEFICIENCY):				
Beginning of year	<u>(824,828)</u>	<u>595,924</u>	<u>1,043,286</u>	<u>814,382</u>
End of year	<u>\$ (1,118,082)</u>	<u>\$ 537,391</u>	<u>\$ 1,035,178</u>	<u>\$ 454,487</u>

See notes to financial statements.

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT:				
Program service fees	\$ 578,589	\$ -	\$ -	\$ 578,589
Norwich Diocese	421,713	-	-	421,713
Contributions	298,054	-	-	298,054
Government grants	272,613	-	-	272,613
United Way	9,243	173,753	-	182,996
Foundations	42,061	89,912	-	131,973
Gifts in kind	92,743	-	-	92,743
Special events	72,849	-	-	72,849
Bequests	44,933	-	-	44,933
Adoption	20,400	-	-	20,400
Net realized and unrealized (loss) on investments	(1,157)	(10,283)	-	(11,440)
Investment income	1,958	66,781	-	68,739
Change in value of perpetual trust	-	-	24,602	24,602
Released from restrictions	340,400	(340,400)	-	-
Total revenue and support	<u>2,194,399</u>	<u>(20,237)</u>	<u>24,602</u>	<u>2,198,764</u>
FUNCTIONAL EXPENSES:				
Program services	1,944,146	-	-	1,944,146
Administration and general	351,362	-	-	351,362
Fundraising	127,264	-	-	127,264
Total functional expenses	<u>2,422,772</u>	<u>-</u>	<u>-</u>	<u>2,422,772</u>
UNFULFILLED DONOR RESTRICTIONS	<u>30,718</u>	<u>-</u>	<u>-</u>	<u>30,718</u>
Change in net assets (deficiency)	(259,091)	(20,237)	24,602	(254,726)
NET ASSETS (DEFICIENCY):				
Beginning of year	<u>(565,737)</u>	<u>616,161</u>	<u>1,018,684</u>	<u>1,069,108</u>
End of year	<u>\$ (824,828)</u>	<u>\$ 595,924</u>	<u>\$ 1,043,286</u>	<u>\$ 814,382</u>

See notes to financial statements.

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2017

	Program Services								Administration and General	Fundraising	Total	
	Emergency Services	Intensive Case Management	Empowering People	Behavioral Health	Adoption	Parenting Education Program	Pregnancy	Immigration				Total
SALARIES AND RELATED EXPENSES:												
Salaries	\$ 158,097	\$ 8,101	\$ 39,618	\$ 493,020	\$ 49,134	\$ 25,280	\$ 33,420	\$ 35,742	\$ 842,412	\$ 202,101	\$ 70,340	\$ 1,114,853
Payroll Taxes	16,210	853	2,358	32,937	3,425	1,440	5,312	2,636	65,171	11,971	5,390	82,532
Employee benefits	37,324	2,006	6,826	66,327	10,862	4,042	15,082	7,789	150,258	47,894	16,652	214,804
TOTAL SALARIES AND RELATED EXPENSES	211,631	10,960	48,802	592,284	63,421	30,762	53,814	46,167	1,057,841	261,966	92,382	1,412,189
OTHER EXPENSES												
Direct relief emergency services	177,260	-	-	-	-	-	17,360	-	194,620	-	-	194,620
Clinician Fees	-	-	-	115,995	-	-	-	-	115,995	-	-	115,995
Insurance	17,921	2,223	2,371	32,902	3,566	1,667	6,056	2,825	69,531	12,903	585	83,019
Occupancy	14,780	2,792	2,760	32,256	378	2,844	5,231	3,612	64,653	694	-	65,347
Professional fees	6,415	356	1,783	21,588	2,229	255	2,696	2,359	37,681	20,328	-	58,009
Equipment rental and maintenance	11,673	1,627	1,634	18,470	1,752	2,447	4,219	1,589	43,411	7,180	-	50,591
Special events	-	-	-	-	-	-	-	-	-	-	46,669	46,669
Building repair and maintenance	6,271	426	700	27,224	1,734	1,237	2,258	647	40,497	5,616	-	46,113
Program expense	1,667	715	9,926	22,725	2,766	1,390	772	1,184	41,145	-	-	41,145
Utilities	7,491	594	530	18,303	1,013	1,007	1,655	562	31,155	3,304	-	34,459
Telephone and internet	4,113	638	877	13,059	879	784	1,580	549	22,479	2,101	-	24,580
Transportation	2,652	140	4,452	2,410	1,510	631	1,503	705	14,003	4,579	-	18,582
Supplies and office expense	2,638	139	397	5,940	857	770	881	393	12,015	2,876	313	15,204
Dues and licenses	2,272	108	192	5,862	916	72	1,868	1,486	12,776	1,655	-	14,431
Interest expense	1,068	56	-	9,628	563	70	563	-	11,948	2,109	-	14,057
Other	3,081	155	371	4,452	464	-	556	464	9,543	4,028	-	13,571
Employee background check	482	-	36	2,580	114	-	69	45	3,326	349	-	3,675
Conferences and conventions	369	-	25	304	525	101	51	163	1,538	1,612	-	3,150
Advertising	333	-	50	1,397	210	-	218	207	2,415	210	-	2,625
Postage	196	50	143	451	126	74	194	5	1,239	743	492	2,474
TOTAL OTHER EXPENSES	260,682	10,019	26,247	335,546	19,602	13,349	47,730	16,795	729,970	70,287	48,059	848,316
TOTAL EXPENSES BEFORE DEPRECIATION	472,313	20,979	75,049	927,830	83,023	44,111	101,544	62,962	1,787,811	332,253	140,441	2,260,505
Depreciation	10,120	533	2,841	34,089	4,261	-	4,261	2,841	58,946	12,073	-	71,019
TOTAL FUNCTIONAL EXPENSES	\$ 482,433	\$ 21,512	\$ 77,890	\$ 961,919	\$ 87,284	\$ 44,111	\$ 105,805	\$ 65,803	\$ 1,846,757	\$ 344,326	\$ 140,441	\$ 2,331,524

See notes to financial statements.

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2016

	Program Services									Administration and General	Fundraising	Total	
	Housing	Emergency Services	Intensive Case Management	Empowering People	Behavioral Health	Adoption	Parenting Education Program	Pregnancy	Immigration				Total
SALARIES AND RELATED EXPENSES:													
Salaries	\$ 60,992	\$ 157,252	\$ 8,408	\$ 36,000	\$ 530,118	\$ 66,265	\$ 11,044	\$ 44,177	\$ 44,176	\$ 958,432	\$ 206,972	\$ 70,914	\$ 1,236,318
Employee benefits	10,677	30,712	4,218	9,192	68,022	14,627	-	11,030	11,037	159,515	34,009	4,487	198,011
Payroll taxes	5,320	12,257	875	2,627	42,024	5,253	876	3,502	3,502	76,236	16,634	5,407	98,277
TOTAL SALARIES AND RELATED EXPENSES	76,989	200,221	13,501	47,819	640,164	86,145	11,920	58,709	58,715	1,194,183	257,615	80,808	1,532,606
OTHER EXPENSES													
Professional fees	12,900	16,668	-	3,334	145,290	6,667	-	6,667	8,728	200,254	17,942	-	218,196
Direct relief emergency services	-	150,922	-	-	-	2,957	-	15,000	-	168,879	-	-	168,879
Occupancy	2,194	9,905	3,426	3,587	58,265	1,534	247	3,807	4,407	87,372	9,567	-	96,939
Insurance	10,554	8,072	3,518	2,322	35,605	4,644	773	4,644	3,096	73,228	14,730	-	87,958
Special events	-	-	-	-	-	-	-	-	-	-	-	46,456	46,456
Building repair and maintenance	4,618	10,002	1,538	769	9,617	1,154	-	3,847	1,923	33,468	5,001	-	38,469
Equipment rental and maintenance	1,370	2,108	1,482	617	8,681	2,428	527	1,696	294	19,203	7,775	-	26,978
Other	4,433	4,285	8,079	-	-	-	-	-	-	16,797	6,786	-	23,583
Telephone and internet	1,896	3,152	-	1,882	9,999	1,210	100	1,352	746	20,337	2,169	-	22,506
Supplies and office expense	4,857	1,860	-	1,120	3,120	840	1,880	1,060	500	15,237	5,942	-	21,179
Transportation	1,586	464	828	7,080	4,962	1,124	-	1,440	707	18,191	1,833	-	20,024
Dues and licenses	1,034	2,728	-	541	8,295	1,081	180	1,081	721	15,661	3,406	-	19,067
Interest expense	1,976	4,117	658	329	4,117	869	198	869	580	13,713	2,753	-	16,466
Postage	856	1,056	70	35	1,056	106	135	176	35	3,525	6,143	-	9,668
Advertising	750	506	-	101	1,550	202	32	202	135	3,478	642	-	4,120
TOTAL OTHER EXPENSES	49,024	215,845	19,599	21,717	290,557	24,816	4,072	41,841	21,872	689,343	84,689	46,456	820,488
TOTAL EXPENSES BEFORE DEPRECIATION	126,013	416,066	33,100	69,536	930,721	110,961	15,992	100,550	80,587	1,883,526	342,304	127,264	2,353,094
Depreciation	8,361	17,420	2,787	1,394	17,420	2,090	2,787	6,967	1,394	60,620	9,058	-	69,678
TOTAL FUNCTIONAL EXPENSES	\$ 134,374	\$ 433,486	\$ 35,887	\$ 70,930	\$ 948,141	\$ 113,051	\$ 18,779	\$ 107,517	\$ 81,981	\$ 1,944,146	\$ 351,362	\$ 127,264	\$ 2,422,772

See notes to the financial statements.

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets (deficiency)	\$ (359,895)	\$ (254,726)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	71,019	69,678
Net realized and unrealized (gain) loss on investments	(42,661)	11,440
Change in value of perpetual trust	8,108	(24,602)
(Increase) decrease in assets:		
Accounts receivable	(24,079)	31,226
Accrued interest receivable	(528)	14
Grants receivable	-	22,182
Pledges receivable	19,101	53,709
Prepaid expenses	(6,461)	(21,555)
Security deposits	-	5,100
Increase (decrease) in liabilities:		
Accounts payable	(22,881)	15,662
Accrued wages	12,166	(12,254)
Accrued compensated balances	24,602	(28,838)
Deferred revenue	(5,375)	6,875
NET CASH USED IN OPERATING ACTIVITIES	<u>(326,884)</u>	<u>(126,089)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of investments	366,349	16,021
Purchase of investments	(346,282)	(65,689)
Purchase of property and equipment	-	(29,910)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>20,067</u>	<u>(79,578)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of long-term debt	(49,478)	(47,065)
Advances from related party	202,907	201,625
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>153,429</u>	<u>154,560</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(153,388)	(51,107)
CASH AND CASH EQUIVALENTS:		
Beginning of year	<u>207,881</u>	<u>258,988</u>
End of year	<u>\$ 54,493</u>	<u>\$ 207,881</u>

See notes to the financial statements.

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization:

Catholic Charities, Diocese of Norwich, Inc. (the Organization) is a nonprofit organization which was organized by the Roman Catholic Diocese of Norwich (Norwich Diocese) to provide compassionate, high-quality counseling, education, research, advocacy and social services, and to engage in general organized charitable work for the physical, mental and moral welfare of all persons. Social services provided by the Organization include emergency financial assistance, case management, family support services, pregnancy services, adoption services, behavioral health services and housing assistance. These services are provided with special attention to the poor and disadvantaged.

The Organization generates revenue to support its operations through federal, state and local grants and subsidies, assistance from the Norwich Diocese, program service fees and contributions and bequests from local individuals and organizations.

Method of Accounting:

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“US GAAP”). Accordingly, revenues are recognized when earned and expenses are charged when incurred.

Financial Statement Presentation:

The financial statements are presented in accordance with Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 958-205. Under FASB ASC 958-205, net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor imposed restrictions.

Accordingly, the accounts of the Organization are reported in the following net asset categories:

Unrestricted Net Assets:

Unrestricted net assets represent available resources other than donor restricted contributions. Included in unrestricted net assets are grants and contracts which may be earmarked for specific purposes.

Temporarily Restricted Net Assets:

Temporarily restricted net assets represent contributions and grants that are restricted by the donor / grantor either as to purpose or time of expenditure (Note 7).

Permanently Restricted Net Assets:

Permanently restricted net assets were established by donor restricted gifts and bequests to provide a permanent source of income which could be used to fund general organization activities (Note 8).

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Use of Estimates:

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Promises to Give:

Contributions are recognized as revenue when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Contributions:

The Organization records contributions according to FASB ASC 958-605. In accordance with FASB ASC 958-605, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Investments:

Investments in equity securities with readily determinable fair values are measured at fair value in the statement of financial position. Investment income or expense, including gains and losses (both realized and unrealized) on investments, interest and dividends, are included in the statement of activities as increases or decreases in unrestricted net assets unless donor or relevant law directs otherwise. Any losses that are donor restricted for an endowment fund first reduce temporarily restricted net assets; any remaining losses reduce unrestricted net assets. Subsequent gains are recorded as increases in unrestricted net assets until the total amount of gains offsets the amount of the losses previously recorded as decreases in unrestricted net assets (Note 5).

Property and Equipment:

Expenditures for office equipment and furniture and the fair value of donated assets are capitalized on the statement of financial position. Depreciation is computed over the estimated useful lives of the assets, ranging from three to forty years using the straight-line method. Maintenance and repairs are charged to expense as incurred.

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Donated Property and Equipment:

Donations of property and equipment are recorded as support at their estimated fair market value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated assets to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. In the absence of donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. There was no donated property and equipment recorded during the years ended June 30, 2017 and 2016.

Income Tax:

The Organization is a Connecticut not-for-profit corporation exempt from state and federal income tax under Section 501(c)(3) of the United States of America Internal Revenue Code. Accordingly, no provision for income taxes has been provided in the accompanying financial statements. The Organization files an informational return in the U.S. Federal jurisdiction. The Organization is no longer subject to U.S. Federal income tax examinations by tax authorities for years before 2014.

Contributed Services:

Contributed services relating to fundraising efforts and assistance programs have been recognized as revenue and support in the amount of \$116,803 and \$92,743, respectively, for the years ended June 30, 2017 and 2016. In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific assistance programs and special events. No amounts have been recorded in the financial statements for these donated volunteer services as no specialized skills are required. Nevertheless, a substantial number of volunteers have donated significant amounts of time in the operations and fundraising efforts of the Organization.

Cash and Cash Equivalents:

The Organization considers all unrestricted highly liquid investments with an original maturity of three months or less to be cash equivalents.

Functional Expenses:

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to the appropriate programs and supporting services on the basis of an estimate of periodic time and expense studies. Administration and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Fair Value of Financial Instruments:

The Organization has a number of financial instruments and none are held for trading purposes. The Organization estimates that the fair value of all financial instruments as of June 30, 2017 and 2016 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statements of financial position. The Organization, using available market information and appropriate valuation methodologies, has determined the estimated fair value amounts. Considerable judgment is required in interpreting market data to develop the estimates of fair value and, accordingly, the estimates are not necessarily indicative of the amounts that the Organization could realize in a current market exchange (Note 13).

Advertising:

Advertising costs are charged to expense as incurred. Advertising costs for the years ended June 30, 2017 and 2016 were \$2,625 and \$4,120, respectively.

Leases:

Leases which meet certain criteria are classified as capital leases, and corresponding assets and liabilities are recorded at amounts equal to the lesser of the present value of the minimum lease payments or the fair value of the leased properties at the beginning of the respective lease terms. Leases that do not meet such criteria are classified as operating leases and related rental fees are charged to expense as incurred.

Reclassifications:

Certain amounts as of June 30, 2016 have been reclassified to conform to the June 30, 2017 presentation. The reclassifications have no material effect on the financial statements.

Subsequent Events:

Management has evaluated subsequent events through November 28, 2017 the date which the financial statements were available for issue.

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

NOTE 2 – RELATED PARTY TRANSACTIONS/OPERATIONS:

The President of the Organization is also the Bishop of the Norwich Diocese. The Norwich Diocese provided a subsidy in the amount of \$393,222 and \$421,713 during the fiscal years ended June 30, 2017 and 2016, respectively. As of June 30, 2017 and 2016, the Organization owed the Norwich Diocese \$1,709,072 and \$1,506,165, respectively, for health and liability insurance.

The Organization has incurred losses in the past few years as well as negative cash flow from operations and consequently has a deficit in unrestricted net assets. The Diocese does not intend to force the Organization to pay the insurance related liability until and unless the Organization is able to arrive at a healthier cash position. Further, the Diocese guarantees the first mortgage on the building and has provided assurance for continued support of the Organization.

The Organization's management has initiated and begun the implementation of a performance and quality improvement program. The Organization also underwent a reaccreditation during 2017 and the accreditation was awarded in September 2017.

NOTE 3 – CONCENTRATION OF CREDIT RISK:

Concentrations of Contributions:

The Norwich Diocese provided approximately 20% and 19% of the Organization's revenue and support for the years ended June 30, 2017 and 2016, respectively. Also, the amount due to the Norwich Diocese increased by \$202,907 and \$201,625 during 2017 and 2016, respectively. Loss of this support would have a significant impact on the Organization's operations.

Concentration of Credit Risk Due to Geographical Location:

The Organization receives a substantial amount of its revenue from businesses and individuals located in Eastern Connecticut. Collection of these pledges is therefore affected by local economic conditions.

Concentration of Credit Risk Arising From Cash Deposits in Excess of Insured Limits:

The Organization maintains its cash and cash equivalents at several financial institutions in New London County, Connecticut and with high-quality investment firms. At various times during the years ended June 30, 2017 and 2016, deposit balances may have exceeded FDIC limits. However, the Organization has not experienced any losses in this area and management believes its cash deposits are not subject to significant credit risk. There were no uninsured balances as of June 30, 2017 and 2016.

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

NOTE 4 – PROPERTY AND EQUIPMENT:

Property and equipment consists of the following at June 30:

	<u>2017</u>	<u>2016</u>
Building and improvements	1,740,797	1,740,797
Furniture and equipment	236,370	236,370
Land	15,750	15,750
	<u>1,992,917</u>	<u>1,992,917</u>
Accumulated depreciation	<u>(954,750)</u>	<u>(883,731)</u>
	<u>\$ 1,038,167</u>	<u>\$ 1,109,186</u>

NOTE 5 – INVESTMENTS:

The Organization's investments are carried at fair market value and consist of the following at June 30:

	<u>Building Fund</u>	<u>Geary Fund</u>	<u>Grimes Fund</u>	<u>Total</u>
<u>2017</u>				
Fixed income securities:				
Bonds and preferred stock	\$ -	\$ 360,427	\$ 79,653	\$ 440,080
Mutual funds	-	75,284	-	75,284
Equities:				
Mutual funds	25,839	377,533	25,126	428,498
	<u>\$ 25,839</u>	<u>\$ 813,244</u>	<u>\$ 104,779</u>	<u>\$ 943,862</u>
<u>2016</u>				
Fixed income securities:				
Bonds and preferred stock	\$ -	\$ 357,533	\$ 84,130	\$ 441,663
Mutual funds	-	67,318	-	67,318
Equities:				
Stocks	6,790	-	-	6,790
Mutual funds	23,402	359,957	22,138	405,497
	<u>\$ 30,192</u>	<u>\$ 784,808</u>	<u>\$ 106,268</u>	<u>\$ 921,268</u>

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

NOTE 5 – INVESTMENTS (Continued):

Fair value and unrealized appreciation are summarized as follows at June 30:

2017	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation</u>
Building Fund	\$ 19,818	\$ 25,839	\$ 6,021
Grimes Fund	94,428	104,779	10,351
Geary Fund	<u>666,704</u>	<u>813,244</u>	<u>146,540</u>
	<u>\$ 780,950</u>	<u>\$ 943,862</u>	<u>\$ 162,912</u>

2016	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation</u>
Building Fund	\$ 19,656	\$ 30,192	\$ 10,536
Grimes Fund	93,199	106,268	13,069
Geary Fund	<u>648,470</u>	<u>784,808</u>	<u>136,338</u>
	<u>\$ 761,325</u>	<u>\$ 921,268</u>	<u>\$ 159,943</u>

NOTE 6 – LONG-TERM DEBT:

The Organization has a mortgage note payable to Joanne and Gladys Gallicchio in the original amount of \$215,000 dated July 29, 1998. This mortgage note matures in July 2018 and requires monthly payments of \$1,732 including interest at the rate of 7.5%. The note is secured by a mortgage deed on property with a net book value of approximately \$1,050,000, located at 331 Main Street, Norwich, CT.

<u>2017</u>	<u>2016</u>
\$ 19,962	\$ 38,488

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

NOTE 6 – LONG-TERM DEBT (Continued):

The Organization has a mortgage note payable to Dime Bank in the original amount of \$596,000, dated May 12, 2006 with a maturity date of May 2026. Under this mortgage note, interest is adjusted every three years. At June 30, 2016 and 2015, the interest rate was 3.000% and 3.375%, respectively. The current monthly payment required under this mortgage note is \$3,562, including principal and interest. The note is secured by a mortgage deed on property with a net book value of \$1,050,000, located at 331 Main Street, Norwich, CT and also guaranteed by the Norwich Diocese.

	<u>328,061</u>	<u>359,013</u>
	348,023	397,501
Less current portion of long-term debt	<u>(52,146)</u>	<u>(50,172)</u>
	<u>\$ 295,877</u>	<u>\$ 347,329</u>

Future maturities of long-term debt are as follows for each of the years following June 30, 2017:

<u>Years</u>	<u>Principal Payments</u>
2018	\$ 52,146
2019	33,287
2020	34,428
2021	35,608
2022	36,828
Thereafter	<u>155,726</u>
	<u>\$ 348,023</u>

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets were available for the following purposes or periods as of June 30:

	<u>2017</u>	<u>2016</u>
New London district	\$ 251,088	\$ 293,726
United Way of Southeastern Connecticut	154,652	173,753
Special assistance to clients - New London district	102,930	109,403
Special assistance to clients - Willimantic district	22,801	2,235
Special assistance to clients - Norwich district	5,920	16,807
	<u>\$ 537,391</u>	<u>\$ 595,924</u>

NOTE 8 – PERMANENTLY RESTRICTED NET ASSETS:

Permanently restricted net assets consist of the following at June 30:

	<u>2017</u>	<u>2016</u>
Endowment funds	\$ 690,519	\$ 690,519
Beneficial interest in trust	344,659	352,767
	<u>\$ 1,035,178</u>	<u>\$ 1,043,286</u>

Endowment funds consist of donations that were permanently restricted by the donor, the income from which is available to support the Organization. The funds are currently being held by Janney Montgomery Scott.

The Organization has a beneficial interest in a perpetual trust. The trust agreement indicates the Organization has an irrevocable right to receive the income earned on the trust assets in perpetuity. The Organization will never receive the assets of the trust as such the trust is classified as a permanently restricted net asset. The trust is recorded at fair value as determined by the trustee. During 2017, a distribution of \$10,000 was received from the trust and recorded as unrestricted investment income. There were no distributions during 2016. The change in fair value in excess of the distribution of \$(8,108) and \$24,602, respectively, is recorded in permanently restricted net assets as change in value of perpetual trust.

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

NOTE 9 – ENDOWMENT FUNDS:

The Board of Trustees of the Organization have interpreted the State of Connecticut Uniform Prudent Management of Institutional Funds Act (CTUPMIFA) 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. As a result of this interpretation, the Organization 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 in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by CTUPMIFA.

In accordance with CTUPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. the purpose of the organization and the donor-restricted endowment fund,
3. general economic conditions
4. the possible effect of inflation and deflation
5. the expected total return from income and appreciation in value
6. other resources of the organization,
7. the investment policies of the organization

The following table summarizes changes in endowment net assets for the years ended June 30, 2016 and 2017:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2015	\$ 237,228	\$ 690,519	\$ 927,747
Investment income, net	56,498	-	56,498
Amounts appropriated for programs	-	-	-
Endowment net assets, June 30, 2016	293,726	690,519	984,245
Investment income, net	73,662	-	73,662
Amounts appropriated for programs	(116,300)	-	(116,300)
Endowment net assets, June 30, 2017	<u>\$ 251,088</u>	<u>\$ 690,519</u>	<u>\$ 941,607</u>

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

NOTE 10 – EMPLOYEE RETIREMENT PLAN:

All full time lay employees are covered by “Christian Brothers Employee Retirement Plan” as administered by the Norwich Diocese. For the years ended June 30, 2017 and 2016 the plan was funded by the Organization at 8.42% of each eligible employee’s gross salary. The employee is vested after 4 years and 9 months of continuous service and may retire at age 55. Normal retirement age is 65. Employer contributions for the years ended June 30, 2017 and 2016 were \$40,881 and \$58,957, respectively.

The Organization also maintains a tax-deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code. The plan covers all employees of the Organization. Employees have the option to make contributions to the plan up to the maximum amount allowed by the Internal Revenue Code.

The Organization is not obligated to make any matching contributions to this Plan.

NOTE 11 – OPERATING LEASES:

The Organization has a non-cancelable lease agreement for the purpose of renting office space to operate their New London programs originally dated November 1, 2009. This lease agreement was renegotiated during 2016 under a month-to-month basis. The monthly payment is \$2,800. Rent expense for this lease was \$33,600 for both the years ended June 30, 2017 and 2016. The lease also requires the Organization to pay 50% of the utility expense and maintain certain insurance.

The Organization has a lease dated May 1, 2012 for offices in Middletown, Connecticut for their Portland programs. The term of the lease is five years and requires monthly rental payments of \$1,500. Rent expense for this lease was \$18,000 for both the years ended June 30, 2017 and 2016. This lease expired April 30, 2017 and is now under a month-to-month basis.

The Organization had an operating lease agreement for an office copier originally dated March 2005 with a term of 60 months. This lease agreement was renegotiated in November 2010 and the monthly lease payment was reduced from \$1,216 to \$553 for an additional 60 months. Total expense under this agreement was \$4,185 for the year ended June 30, 2016. The lease expired in January 2016.

The Organization has an operating lease agreement for an office copier dated January 2016 with a term of 60 months. The monthly payment varies each month based on the usage. Total expense under this agreement was \$1,254 and \$932 for the years ended June 30, 2017 and 2016, respectively.

The Organization has a maintenance agreement for the service of an elevator in its Norwich location effective April 17, 2006. Under the agreement, the Organization makes minimum monthly payments of \$424 plus additional charges for service calls. Total expense under this agreement was \$5,517 and \$5,363 for the years ended June 30, 2017 and 2016, respectively.

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

NOTE 11 – OPERATING LEASES (Continued):

The Organization utilizes a facility in Willimantic, CT which is owned by the Norwich Diocese. The Organization pays no rent for the use of this facility, but is responsible for the utility costs related to its occupancy. The estimated fair market rent for this facility is \$750 per month. As such, contributed facilities and corresponding rent expense in the amount of \$9,000 have been included in occupancy expense the financial statements for each of the years ended June 30, 2017 and 2016 to account for this arrangement.

The Organization's total rent expense for the years ended June 30, 2017 and 2016 was \$65,347 and \$66,438, which is included in occupancy in the accompanying statements of functional expenses.

NOTE 12 – SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid for interest during the years ended June 30, 2017 and 2016 was \$14,057 and \$16,466 respectively.

NOTE 13 – FAIR VALUE MEASUREMENTS:

The Organization follows FASB ASC 820, *Fair Value Measurements and Disclosures*, which establishes a framework for identifying and measuring fair value and provides a fair value hierarchy, giving the highest priority to quoted prices in active markets, and is expected to be applied to fair value measurements of derivative contracts that are subject to mark to market accounting and other assets and liabilities reported at fair value.

FASB ASC 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. 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.

FASB ASC 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and establishes a fair value hierarchy that distinguishes between assumptions based on market data obtained by independent sources and those based on the entity's own assumptions. The hierarchy prioritizes the inputs to fair value measurements into three levels:

Level 1 – measurements utilize unadjusted quoted prices in active markets for identical assets or liabilities that the entity has the ability to access. These consist primarily of listed equity securities, exchange traded fixed income securities, derivatives and certain U.S. government treasury securities.

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

NOTE 13 – FAIR VALUE MEASUREMENTS (Continued):

Level 2 – measurements include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and other observable inputs such as interest rates and yield curves that are observable at commonly quoted intervals. These consist primarily of non-exchange traded derivatives such as swaps, forward contracts of options and most fixed income securities.

Level 3 – measurements use unobservable inputs for assets or liabilities, are based on the best information available and might include the entity's own data. In some valuations, the inputs used may fall into different levels of hierarchy. In these cases, the financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. These consist mainly of assets and liabilities valued through an internal modeling process.

The following section describes the valuation methodologies used by the Organization to measure different financial instruments at fair value, including an indication of the level in the fair value hierarchy in which each instrument is generally classified. Where appropriate, the description includes the details of the valuation models, the key inputs to those models, and any significant assumptions. There have been no changes to valuation methodologies used at June 30, 2017 or 2016.

Generally, for all equity securities and, to the extent possible, for debt securities, fair value is determined by reference to quoted market prices and other relevant information generated by market transactions.

For certain debt securities, fair value is estimated as the present value of future cash inflows, taking into account (1) the type of security, its terms, and any underlying collateral, (2) the seniority level of the debt security, and (3) quotes received from brokers and pricing services. In applying the valuation model, significant inputs include the probability of default for debt securities, the estimated prepayment rate, and the projected yield based on estimated future market rates for similar securities.

The Organization values the investments in the beneficial interest trust based on the value of their interest in the portfolio held by the trust. A substantial portion of the underlying assets in the portfolio are measured at fair value using Level 1 and Level 2 inputs.

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

NOTE 13 – FAIR VALUE MEASUREMENTS (Continued):

The following table presents information about the Organization’s respective assets measured at fair value on a recurring basis at June 30, 2017 and 2016, including the fair value measurements and the level of inputs used in determining those fair values:

June 30, 2017:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 503,782	\$ -	\$ -	\$ 503,782
Beneficial interest in perpetual trust	-	-	344,659	344,659
Municipal bonds	-	321,350	-	321,350
Corporate bonds	-	92,340	-	92,340
Preferred stock	26,390	-	-	26,390
Equities stocks	-	-	-	-
	<u>\$ 530,172</u>	<u>\$ 413,690</u>	<u>\$ 344,659</u>	<u>\$ 1,288,521</u>

June 30, 2016:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 472,815	\$ -	\$ -	\$ 472,815
Beneficial interest in perpetual trust	-	352,767	352,767	705,534
Municipal bonds	-	333,340	-	333,340
Corporate bonds	-	61,431	-	61,431
Preferred stock	46,892	-	-	46,892
Equities stocks	-	6,790	-	6,790
	<u>\$ 519,707</u>	<u>\$ 754,328</u>	<u>\$ 352,767</u>	<u>\$ 1,626,802</u>

Transfers between Levels 1 and 2 generally relate to whether a market becomes active or inactive. Transfers between Levels 2 and 3 generally relate to whether, for various reasons, significant inputs become observable or unobservable. During the years ended June 30, 2017 and 2016, there were no significant transfers into and out of each level of the fair value hierarchy for assets measured at fair value.

Changes in Level 3 assets measured at fair value were as follows for the years ended June 30:

Balance, July 1, 2015	\$ 328,165
Net increase in trust values	24,602
Balance, June 30, 2016	<u>352,767</u>
Net decrease in trust values	<u>(8,108)</u>
	<u>\$ 344,659</u>