

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

YEARS ENDED JUNE 30, 2016 AND 2015

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

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CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS:	
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses	6
Statements of Cash Flows	8
Notes to Financial Statements	9

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, 2016 and 2015, 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, 2016 and 2015, 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.

Mahoney Sabol & Company, LLP

Certified Public Accountants
Glastonbury, Connecticut
January 24, 2017

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 207,881	\$ 258,988
Accounts receivable	17,108	48,334
Accrued interest receivable	5,005	5,019
Grants receivable	-	22,182
Pledges receivable	173,753	227,462
Prepaid expenses	21,555	-
TOTAL CURRENT ASSETS	<u>425,302</u>	<u>561,985</u>
PROPERTY AND EQUIPMENT, net	1,109,186	1,148,960
OTHER ASSETS:		
Security deposits	-	5,100
Investments	921,268	905,041
Beneficial interest in perpetual trust	352,767	306,158
TOTAL OTHER ASSETS	<u>1,274,035</u>	<u>1,216,299</u>
	<u>\$ 2,808,523</u>	<u>\$ 2,927,244</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 38,285	\$ 22,623
Accrued wages	15,030	27,284
Accrued compensated balances	30,285	59,123
Deferred revenue	6,875	-
Current portion of long-term debt	50,172	47,277
TOTAL CURRENT LIABILITIES	<u>140,647</u>	<u>156,307</u>
LONG-TERM DEBT, net of current portion	347,329	397,289
DUE TO RELATED PARTY	1,506,165	1,304,540
NET ASSETS:		
Unrestricted	(825,406)	(565,737)
Temporarily restricted	597,809	616,161
Permanently restricted	1,041,979	1,018,684
TOTAL NET ASSETS	<u>814,382</u>	<u>1,069,108</u>
	<u>\$ 2,808,523</u>	<u>\$ 2,927,244</u>

See notes to the financial statements.

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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 gain (loss) on investments	(1,157)	(10,283)	-	(11,440)
Investment income	1,380	45,371	-	46,751
Change in value of perpetual trust	-	23,295	23,295	46,590
Released from restrictions	340,400	(340,400)	-	-
Total revenue and support	2,193,821	(18,352)	23,295	2,198,764
FUNCTIONAL EXPENSES:				
Program services	1,430,494	-	-	1,430,494
Administration and general	865,014	-	-	865,014
Fundraising	127,264	-	-	127,264
Total functional expenses	2,422,772	-	-	2,422,772
UNFULFILLED DONOR RESTRICTIONS	30,718	-	-	30,718
Change in net assets	(259,669)	(18,352)	23,295	(254,726)
Net assets, beginning of year	(565,737)	616,161	1,018,684	1,069,108
Net assets, end of year	\$ (825,406)	\$ 597,809	\$ 1,041,979	\$ 814,382

See notes to the financial statements.

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT:				
Program service fees	\$ 648,402	\$ -	\$ -	\$ 648,402
Norwich Diocese	623,106	-	-	623,106
Contributions	380,785	-	-	380,785
United Way	1,060	225,462	-	226,522
Government grants	226,303	-	-	226,303
Foundations	74,194	115,784	-	189,978
Special events	60,563	-	-	60,563
Adoption	37,910	-	-	37,910
Bequests	3,710	-	-	3,710
Net realized and unrealized gain (loss) on investments	2,417	(17,056)	-	(14,639)
Investment income	1,669	51,074	-	52,743
Change in value of perpetual trust Released from restrictions	-	(2,466)	(2,466)	(4,932)
	406,638	(406,638)		-
Total revenue and support	2,466,757	(33,840)	(2,466)	2,430,451
FUNCTIONAL EXPENSES:				
Program services	2,129,879	-	-	2,129,879
Administration and general	360,145	-	-	360,145
Fundraising	138,678	-	-	138,678
Total functional expenses	2,628,702	-	-	2,628,702
Change in net assets	(161,945)	(33,840)	(2,466)	(198,251)
Net assets, beginning of year	(403,792)	650,001	1,021,150	1,267,359
Net assets, end of year	\$ (565,737)	\$ 616,161	\$ 1,018,684	\$ 1,069,108

See notes to the 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	\$ 114,420	\$ 8,408	\$ 40,592	\$ 302,710	\$ 51,586	\$ 33,146	\$ 30,769	\$ 23,918	\$ 666,541	\$ 498,863	\$ 70,914	\$ 1,236,318
Payroll taxes	5,320	7,208	875	4,059	23,708	4,104	3,840	3,150	3,128	55,392	37,478	5,407	98,277
Employee benefits	10,544	31,638	4,218	2,109	31,638	3,164	4,216	10,544	2,109	100,180	93,344	4,487	198,011
TOTAL SALARIES AND RELATED EXPENSES	76,856	153,266	13,501	46,760	358,056	58,854	41,202	44,463	29,155	822,113	629,685	80,808	1,532,606
OTHER EXPENSES													
Professional fees	-	381	-	381	94,178	385	381	381	1,140	97,227	120,969	-	218,196
Direct relief emergency services	-	150,922	-	-	-	2,957	-	15,000	-	168,879	-	-	168,879
Insurance	10,554	21,989	3,518	1,759	21,989	2,639	3,518	8,795	1,759	76,520	11,438	-	87,958
Occupancy	1,302	25,891	3,426	2,775	30,911	1,049	6,654	8,396	4,011	84,415	12,524	-	96,939
Special events	-	-	-	-	-	-	-	-	-	-	-	46,456	46,456
Building repair and maintenance	4,618	9,617	1,538	769	9,617	1,154	1,539	3,847	769	33,468	5,001	-	38,469
Miscellaneous	4,433	4,285	8,079	-	-	-	-	-	-	16,797	6,515	-	23,312
Equipment rental and maintenance	-	4,615	1,482	-	4,615	1,484	1,484	1,603	1,241	16,524	10,454	-	26,978
Telephone	1,896	-	-	335	535	355	-	355	-	3,476	19,030	-	22,506
Supplies and office expenses	4,857	1,860	-	1,120	3,120	840	1,880	1,060	500	15,237	5,942	-	21,179
Transportation	1,586	896	828	7,080	912	1,124	1,440	504	240	14,610	5,414	-	20,024
Dues and licenses	1,034	375	-	-	-	-	-	-	600	2,009	17,058	-	19,067
Interest expense	1,976	4,117	658	329	4,117	494	658	1,646	329	14,324	2,142	-	16,466
Postage	856	1,056	70	35	1,056	106	135	176	35	3,525	6,143	-	9,668
Advertising	750	-	-	-	-	-	-	-	-	750	3,370	-	4,120
Conferences and conventions	-	-	-	-	-	-	-	-	-	-	271	-	271
TOTAL OTHER EXPENSES	33,862	226,004	19,599	14,583	171,050	12,587	17,689	41,763	10,624	547,761	226,271	46,456	820,488
TOTAL EXPENSES BEFORE DEPRECIATION	110,718	379,270	33,100	61,343	529,106	71,441	58,891	86,226	39,779	1,369,874	855,956	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	\$ 119,079	\$ 396,690	\$ 35,887	\$ 62,737	\$ 546,526	\$ 73,531	\$ 61,678	\$ 93,193	\$ 41,173	\$ 1,430,494	\$ 865,014	\$ 127,264	\$ 2,422,772

See notes to the financial statements.

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2015

	Program Services							Total	Administration and General		Fundraising	Total
	Substance Abuse	Emergency Services	Behavioral Health	Adoption	Pregnancy	Intensive Case Management	Office of Family Life		Administration and General	Fundraising		
SALARIES AND RELATED EXPENSES												
Salaries	\$ 17,283	\$ 126,417	\$ 626,514	\$ 49,718	\$ 23,595	\$ 239,673	\$ 47,658	\$ 1,130,858	\$ 175,804	\$ 68,852	\$ 1,375,514	
Payroll taxes	1,441	9,382	55,636	3,865	1,628	19,565	3,730	95,247	19,534	5,833	120,614	
Employee benefits	3,428	26,505	105,732	7,439	8,450	87,655	17,028	256,237	59,841	7,039	323,117	
TOTAL SALARIES AND RELATED EXPENSES	22,152	162,304	787,882	61,022	33,673	346,893	68,416	1,482,342	255,179	81,724	1,819,245	
OTHER EXPENSES												
Professional fees	2,512	19,288	170,538	5,601	2,536	29,075	4,841	234,391	24,535	-	258,926	
Occupancy	2,060	14,034	67,822	4,219	2,177	25,930	4,219	120,461	31,086	-	151,547	
Special assistance	-	92,021	-	980	786	-	-	93,787	400	-	94,187	
Special events	8	1,253	124	23	12	594	2,978	4,992	409	45,546	50,947	
Supplies and office expenses	290	3,976	10,257	893	1,716	10,118	2,509	29,759	6,809	567	37,135	
Transportation	18	4,453	2,221	598	56	21,497	243	29,086	2,031	-	31,117	
Miscellaneous	4	630	1,856	2	(1)	244	2	2,737	19,993	1,160	23,890	
Equipment rental and maintenance	601	1,485	7,729	972	404	4,210	972	16,373	3,371	2,296	22,040	
Interest expense (income)	494	818	7,290	1,240	404	4,156	1,240	15,642	2,078	-	17,720	
Telephone	236	1,813	6,478	952	789	3,584	420	14,272	1,809	-	16,081	
Membership dues	130	1,890	5,643	388	210	3,015	653	11,929	1,874	-	13,803	
Postage	107	296	924	179	63	1,765	119	3,453	604	7,385	11,442	
Advertising	98	395	1,722	1,545	91	823	127	4,801	718	-	5,519	
Conferences and conventions	2	19	4,401	5	3	505	5	4,940	251	-	5,191	
Public relations and printing	-	-	45	20	-	-	-	65	154	-	219	
TOTAL OTHER EXPENSES	6,560	142,371	287,050	17,617	9,246	105,516	18,328	586,688	96,122	56,954	739,764	
TOTAL EXPENSES BEFORE DEPRECIATION	28,712	304,675	1,074,932	78,639	42,919	452,409	86,744	2,069,030	351,301	138,678	2,559,009	
Depreciation	-	2,617	31,023	4,866	1,432	16,045	4,866	60,849	8,844	-	69,693	
TOTAL FUNCTIONAL EXPENSES	\$ 28,712	\$ 307,292	\$ 1,105,955	\$ 83,505	\$ 44,351	\$ 468,454	\$ 91,610	\$ 2,129,879	\$ 360,145	\$ 138,678	\$ 2,628,702	

See notes to the financial statements.

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (254,726)	\$ (198,251)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	69,678	69,693
Realized and unrealized loss on investments	11,440	14,639
Change in value of perpetual trust	(46,590)	4,932
(Increase) decrease in assets:		
Accounts receivable	31,226	(17,810)
Accrued interest receivable	14	(628)
Grants receivable	22,182	15,907
Pledges receivable	53,709	6,618
Prepaid expenses	(21,555)	15,032
Security deposits	5,100	-
Increase (decrease) in liabilities:		
Accounts payable	15,662	(17,783)
Accrued wages	(12,254)	(7,207)
Accrued compensated balances	(28,838)	(2,890)
Deferred revenue	6,875	(36,599)
NET CASH USED IN OPERATING ACTIVITIES	<u>(148,077)</u>	<u>(154,347)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of investments	16,021	58,000
Purchase of investments	(43,701)	(37,881)
Purchase of property and equipment	<u>(29,910)</u>	<u>(54,309)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(57,590)</u>	<u>(34,190)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of long-term debt	(47,065)	(46,777)
Advances from related party	<u>201,625</u>	<u>258,053</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>154,560</u>	<u>211,276</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(51,107)	22,739
CASH AND CASH EQUIVALENTS, beginning of year	<u>258,988</u>	<u>236,249</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 207,881</u>	<u>\$ 258,988</u>

See notes to the financial statements.

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

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, 2016 AND 2015

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, 2016 AND 2015

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, 2016 and 2015.

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 2013.

Contributed Services:

Contributed services relating to fundraising efforts and assistance programs have been recognized in the amount of \$82,798 and \$64,777, respectively, for the years ended June 30, 2016 and 2015. 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:

For purposes of the statement of cash flows, 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. 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, 2016 AND 2015

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, 2016 and 2015 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, 2016 and 2015 were \$4,120 and \$5,519, 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, 2015 have been reclassified to conform to the June 30, 2016 presentation. The reclassifications have no material effect on the financial statements.

Subsequent Events:

Management has evaluated subsequent events through January 24, 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, 2016 AND 2015

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 \$421,713 and \$623,106 during the fiscal years ended June 30, 2016 and 2015, respectively. As of June 30, 2016 and 2015, the Organization owed the Norwich Diocese \$1,506,165 and \$1,304,540, respectively, for health and liability insurance. During the years ended June 30, 2016 and 2015, the Norwich Diocese forgave certain debt and related accrued interest payable totaling \$- and \$154,367, respectively.

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.

NOTE 3 – CONCENTRATION OF CREDIT RISK:

Concentrations of Contributions:

The Norwich Diocese provided approximately 19% and 25% of the Organization's support and revenue for the years ended June 30, 2016 and 2015, respectively. Also, the amount due to the Norwich Diocese increased by \$201,625 and \$258,053 during 2016 and 2015, 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, 2016 and 2015, 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, 2016 and 2015.

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 4 – PROPERTY AND EQUIPMENT:

Property and equipment consists of the following at June 30:

	<u>2016</u>	<u>2015</u>
Building and improvements	\$ 1,740,797	\$ 1,710,891
Furniture and equipment	236,370	238,391
Land	15,750	15,750
	<u>1,992,917</u>	<u>1,965,032</u>
Accumulated depreciation	<u>(883,731)</u>	<u>(816,072)</u>
	<u>\$ 1,109,186</u>	<u>\$ 1,148,960</u>

NOTE 5 – INVESTMENTS:

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

<u>2016</u>	<u>Building Fund</u>	<u>Geary Fund</u>	<u>Grimes Fund</u>	<u>Total</u>
Fixed income securities:				
Bonds and preferred	\$ -	\$ 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>
<u>2015</u>	<u>Building Fund</u>	<u>Geary Fund</u>	<u>Grimes Fund</u>	<u>Total</u>
Fixed income securities:				
Bonds and preferred	\$ -	\$ 343,645	\$ 81,297	\$ 424,942
Mutual funds	-	68,231	-	68,231
Equities:				
Stocks and options	6,451	-	-	6,451
Mutual funds	22,017	362,585	20,815	405,417
	<u>\$ 28,468</u>	<u>\$ 774,461</u>	<u>\$ 102,112</u>	<u>\$ 905,041</u>

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 5 – INVESTMENTS (Continued):

Fair value and unrealized appreciation are summarized as follows at June 30, 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	648,470	784,808	136,338
	<u>\$ 761,325</u>	<u>\$ 921,268</u>	<u>\$ 159,943</u>

Fair value and unrealized appreciation are summarized as follows at June 30, 2015:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation</u>
Building Fund	\$ 17,588	\$ 28,468	\$ 10,880
Grimes Fund	92,215	102,112	9,897
Geary Fund	624,870	774,461	149,591
	<u>\$ 734,673</u>	<u>\$ 905,041</u>	<u>\$ 170,368</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>2016</u>	<u>2015</u>
	\$ 38,488	\$ 55,679

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

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>359,013</u>	<u>388,887</u>
	397,501	444,566
Less current portion of long-term debt	<u>(50,172)</u>	<u>(47,277)</u>
	<u>\$ 347,329</u>	<u>\$ 397,289</u>

Future maturities of long-term debt are as follows for each of the years following June 30, 2016:

<u>Years</u>	<u>Principal Payments</u>
2017	\$ 50,172
2018	52,692
2019	33,852
2020	35,013
2021	36,213
Thereafter	<u>189,559</u>
	<u>\$ 397,501</u>

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS:

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

	<u>2016</u>	<u>2015</u>
New London district	\$ 295,611	\$ 237,228
United Way of Southeastern Connecticut	173,753	194,389
Special assistance to clients - New London district	109,403	130,547
United Way of Central and Northeastern Connecticut	-	31,074
Special assistance to clients - Norwich district	16,807	18,847
Special assistance to clients - Willimantic district	2,235	4,076
	<u>\$ 597,809</u>	<u>\$ 616,161</u>

NOTE 8 – PERMANENTLY RESTRICTED NET ASSETS:

Permanently restricted net assets consist of assets held in trust indefinitely for the benefit of the New London District. The Organization's trust funds are as follows:

	<u>2016</u>	<u>2015</u>
<u>John C. and Delia A. Geary Fund:</u>		
Income from the Geary Fund is available for use by the New London District to aid the needy and poor in New London and Waterford.		
Total Geary Fund	\$ 603,852	\$ 603,852
<u>Branigan Trust – Beneficial Interest:</u>		
The Branigan Trust assets are controlled by the Mary E. Branigan Trust, a separate organization. A portion investment income can be used to purchase food and clothing for needy New London residents.		
Total Branigan Trust	351,460	328,165
<u>Isabel Grimes Fund:</u>		
Income from the Grimes Fund is available for the general purposes of the New London District.		
Total Grimes Fund	<u>86,667</u>	<u>86,667</u>
	<u>\$ 1,041,979</u>	<u>\$ 1,018,684</u>

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

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 Catholic Charities
7. the investment policies of Catholic Charities

The following table summarizes changes in endowment net assets for the years ended June 30, 2016 and 2015:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2014	\$ 295,676	\$ 1,021,150	\$ 1,316,826
Investment income, net	32,437	(2,466)	29,971
Investment management fees	(885)	-	(885)
Amounts appropriated for programs	<u>(90,000)</u>	<u>-</u>	<u>(90,000)</u>
Endowment net assets, June 30, 2015	237,228	1,018,684	1,255,912
Investment income, net	59,283	23,295	82,578
Investment management fees	(900)	-	(900)
Amounts appropriated for programs	<u>-</u>	<u>-</u>	<u>-</u>
Endowment net assets, June 30, 2016	<u>\$ 295,611</u>	<u>\$ 1,041,979</u>	<u>\$ 1,337,590</u>

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

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, 2016 and 2015 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, 2016 and 2015 were \$58,957 and \$66,664, 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 entered into a non-cancelable lease agreement for the purpose of renting office space to operate their New London programs, effective November 1, 2009. The term of the lease is ten years and began with an annual rent of \$30,000, increasing by \$900 every year. This lease agreement was renegotiated during 2016 to rent office space under a month-to-month basis. The monthly payment is \$2,800. Rent expense under the New London lease for the years ended June 30, 2016 and 2015 was \$33,900 and \$34,200, respectively. 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 under this lease was \$18,000 for both the years ended June 30, 2016 and 2015.

The Organization has an operating lease agreement for an office copier which originated in 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 and \$6,636 for the years ended June 30, 2016 and 2015. The lease expired in January 2016.

The Organization has an operating lease agreement for an office copier which originated in January 2016 with a term of 60 months. The monthly payment varies each month based on the usage. Total expense under this agreement was \$932 for the year ended June 30, 2016.

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 in exchange for regular safety and functionality inspections and any repairs which may be required. The monthly payment under this agreement may be altered based on service personnel’s hourly rates. Total expense under this agreement was \$5,363 and \$5,230 for the years ended June 30, 2016 and 2015, respectively.

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 11 – OPERATING LEASES (Continued):

Future minimum lease payments under these agreements are \$15,000 for the year ending June 30, 2017.

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, 2016 and 2015 to account for this arrangement.

The Organization's total rent expense for the years ended June 30, 2016 and 2015 was \$66,438 and \$68,821, 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, 2016 and 2015 was \$16,466 and \$17,720 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, derivatives and certain U.S. government treasury securities.

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

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, 2016 or 2015.

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 fair value of the beneficial interest in perpetual trust is based on the fair value of the assets held in the trust.

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

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, 2016 and 2015, including the fair value measurements and the level of inputs used in determining those fair values:

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
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>\$ -</u>	<u>\$ 1,274,035</u>

June 30, 2015:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 473,649	\$ -	\$ -	\$ 473,649
Municipal bonds	-	318,731	-	318,731
Beneficial interest in perpetual trust	-	306,157	-	306,157
Corporate bonds	-	62,829	-	62,829
Preferred stock	43,382	-	-	43,382
Equities stocks	-	6,451	-	6,451
	<u>\$ 517,031</u>	<u>\$ 694,168</u>	<u>\$ -</u>	<u>\$ 1,211,199</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, 2016 and 2015, there were no significant transfers into and out of each level of the fair value hierarchy for assets measured at fair value.