

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

YEARS ENDED JUNE 30, 2020 AND 2019

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

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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, 2020 and 2019, 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 audit 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, 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.

Mahoney Sabol + Company, LLP

Certified Public Accountants
Glastonbury, Connecticut
February 12, 2021

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 87,968	\$ 47,214
Accounts receivable	27,856	68,600
Accrued interest receivable	3,638	4,703
Pledges receivable	89,867	124,691
Prepaid expenses	1,370	55,995
TOTAL CURRENT ASSETS	<u>210,699</u>	<u>301,203</u>
PROPERTY AND EQUIPMENT, net	924,601	953,909
OTHER ASSETS:		
Investments	858,807	950,615
Beneficial interest in perpetual trust	349,281	351,046
	<u>1,208,088</u>	<u>1,301,661</u>
	<u>\$ 2,343,388</u>	<u>\$ 2,556,773</u>
<u>LIABILITIES AND NET ASSETS (DEFICIT)</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 44,474	\$ 20,842
Accrued wages	23,444	27,921
Accrued compensated balances	20,494	46,768
Deferred revenue	2,700	700
Current portion of long-term debt	35,468	33,784
TOTAL CURRENT LIABILITIES	<u>126,580</u>	<u>130,015</u>
LONG-TERM LIABILITIES:		
long-term debt, net of current portion	196,450	231,055
Due to related party	2,362,284	2,153,270
	<u>2,558,734</u>	<u>2,384,325</u>
TOTAL LIABILITIES	2,685,314	2,514,340
NET ASSETS (DEFICIT):		
Without donor restrictions	(1,685,203)	(1,465,295)
With donor restrictions	1,343,277	1,507,728
TOTAL NET ASSETS (DEFICIT)	<u>(341,926)</u>	<u>42,433</u>
	<u>\$ 2,343,388</u>	<u>\$ 2,556,773</u>

See notes to financial statements.

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUE AND SUPPORT:			
Program service billings	\$ 702,630	\$ -	\$ 702,630
Less: charitable care	(152,476)	-	(152,476)
Program service fees, net	<u>550,154</u>	<u>-</u>	<u>550,154</u>
Norwich Diocese	409,296	-	409,296
Contributions	173,687	106,311	279,998
United Way	91,347	59,890	151,237
Foundations	158,599	-	158,599
Gifts in kind	49,176	-	49,176
Special events	47,873	-	47,873
Bequests	4,623	-	4,623
Investment income	11,260	21,267	32,527
Net realized and unrealized gains on investments	11,884	30,692	42,576
Change in value of perpetual trust	-	(1,765)	(1,765)
Released from restrictions	380,846	(380,846)	-
Total revenue and support	<u>1,888,745</u>	<u>(164,451)</u>	<u>1,724,294</u>
FUNCTIONAL EXPENSES:			
Program services	1,721,112	-	1,721,112
Administration and general	215,311	-	215,311
Fundraising	172,230	-	172,230
Total functional expenses	<u>2,108,653</u>	<u>-</u>	<u>2,108,653</u>
Change in net assets (deficit)	(219,908)	(164,451)	(384,359)
NET ASSETS (DEFICIT):			
Beginning of year	<u>(1,465,295)</u>	<u>1,507,728</u>	<u>42,433</u>
End of year	<u>\$ (1,685,203)</u>	<u>\$ 1,343,277</u>	<u>\$ (341,926)</u>

See notes to financial statements.

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUE AND SUPPORT:			
Program service billings	\$ 869,455	\$ -	\$ 869,455
Less: charitable care	<u>(238,808)</u>	-	<u>(238,808)</u>
Program service fees, net	630,647	-	630,647
Norwich Diocese	532,753	-	532,753
Contributions	232,715	45,515	278,230
United Way	43,637	123,382	167,019
Foundations	123,695	-	123,695
Gifts in kind	47,392	-	47,392
Special events	52,042	-	52,042
Bequests	2,502	-	2,502
Investment income	15,318	23,271	38,589
Net realized and unrealized gain on investments	6,449	25,725	32,174
Change in value of perpetual trust	-	(1,325)	(1,325)
Released from restrictions	<u>287,088</u>	<u>(287,088)</u>	<u>-</u>
Total revenue and support	1,974,238	(70,520)	1,903,718
FUNCTIONAL EXPENSES:			
Program services	1,766,058	-	1,766,058
Administration and general	279,287	-	279,287
Fundraising	<u>165,340</u>	-	<u>165,340</u>
Total functional expenses	<u>2,210,685</u>	<u>-</u>	<u>2,210,685</u>
Change in net assets (deficit)	(236,447)	(70,520)	(306,967)
NET ASSETS (DEFICIT):			
Beginning of year	<u>(1,228,848)</u>	<u>1,578,248</u>	<u>349,400</u>
End of year	<u>\$ (1,465,295)</u>	<u>\$ 1,507,728</u>	<u>\$ 42,433</u>

See notes to financial statements.

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2020

	Program Services						Administration and General	Fundraising	Total
	Intensive Case Management	TANF	Behavioral Health	VOCA	Parenting Education Program	Total			
SALARIES AND RELATED EXPENSES:									
Salaries	\$ 167,403	\$ 38,550	\$ 446,632	\$ 34,470	\$ 21,487	\$ 708,542	\$ 151,531	\$ 100,604	\$ 960,677
Payroll taxes	11,836	3,156	44,976	3,156	2,367	65,491	8,680	4,734	78,905
Employee benefits	43,383	16,696	119,298	7,821	4,772	191,970	26,299	2,860	221,129
TOTAL SALARIES AND RELATED EXPENSES	222,622	58,402	610,906	45,447	28,626	966,003	186,510	108,198	1,260,711
OTHER EXPENSES									
Direct relief emergency services	235,202	5,690	-	-	-	240,892	-	-	240,892
Clinician fees	993	-	108,340	-	1,215	110,548	-	2,511	113,059
Occupancy	13,851	3,510	44,470	1,406	1,099	64,336	343	214	64,893
Insurance	8,770	1,512	30,336	1,380	1,134	43,132	3,686	10,613	57,431
Equipment rental and maintenance	12,257	2,048	26,004	1,441	1,113	42,863	4,300	2,346	49,509
Program expense	5,794	4,368	23,190	4,004	4,733	42,089	-	-	42,089
Utilities	6,984	1,999	23,706	2,155	667	35,511	2,074	1,296	38,881
Building repair and maintenance	9,316	3,666	16,901	1,351	376	31,610	1,539	861	34,010
Professional fees	5,984	978	18,784	978	974	27,698	2,844	1,746	32,288
Supplies and office expense	2,640	203	4,956	272	440	8,511	2,581	10,856	21,948
Telephone and internet	4,881	2,153	9,208	1,191	208	17,641	1,637	723	20,001
Special events	-	-	-	-	-	-	-	19,450	19,450
Dues and licenses	12,004	70	1,582	19	58	13,733	318	3,117	17,168
Interest expense	1,220	-	8,429	587	250	10,486	1,199	691	12,376
Other	1,089	227	3,720	162	189	5,387	1,034	2,243	8,664
Transportation	2,543	3,467	807	745	55	7,617	169	-	7,786
Postage	243	110	1,423	83	51	1,910	631	3,309	5,850
Conferences and conventions	1,370	-	260	-	-	1,630	-	-	1,630
Employee background check	224	-	590	-	-	814	36	146	996
Bad debt	-	-	949	-	-	949	-	-	949
Advertising	25	-	40	-	-	65	90	463	618
TOTAL OTHER EXPENSES	325,390	30,001	323,695	15,774	12,562	707,422	22,481	60,585	790,488
TOTAL EXPENSES BEFORE DEPRECIATION	548,012	88,403	934,601	61,221	41,188	1,673,425	208,991	168,783	2,051,199
Depreciation	8,618	2,298	32,749	2,298	1,724	47,687	6,320	3,447	57,454
TOTAL FUNCTIONAL EXPENSES	\$ 556,630	\$ 90,701	\$ 967,350	\$ 63,519	\$ 42,912	\$ 1,721,112	\$ 215,311	\$ 172,230	\$ 2,108,653

See notes to financial statements.

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2019

	Program Services					Administration and General	Fundraising	Total
	Emergency Services	Intensive Case Management	Empowering People	Behavioral Health	Total			
SALARIES AND RELATED EXPENSES:								
Salaries	\$ 169,325	\$ 40,286	\$ 553,828	\$ 32,469	\$ 795,908	\$ 193,397	\$ 85,090	\$ 1,074,395
Payroll taxes	12,953	3,082	42,368	2,484	60,887	14,339	6,509	81,735
Employee benefits	60,019	16,980	134,911	5,130	217,040	34,663	18,936	270,639
TOTAL SALARIES AND RELATED EXPENSES	242,297	60,348	731,107	40,083	1,073,835	242,399	110,535	1,426,769
OTHER EXPENSES								
Direct relief emergency services	157,547	18,336	-	-	175,883	-	-	175,883
Clinician fees	-	-	118,805	-	118,805	-	-	118,805
Occupancy	15,645	2,970	43,003	3,463	65,081	437	193	65,711
Equipment rental and maintenance	9,946	3,213	27,084	1,220	41,463	6,325	1,650	49,438
Program expense	8,485	6,299	26,666	5,729	47,179	1,438	-	48,617
Utilities	10,260	1,721	26,746	1,166	39,893	2,527	983	43,403
Insurance	11,716	1,939	21,250	1,159	36,064	3,468	2,529	42,061
Professional fees	13,265	1,072	16,275	846	31,458	3,189	570	35,217
Building repair and maintenance	8,050	2,102	16,678	753	27,583	1,282	668	29,533
Supplies and office expense	2,262	507	6,336	351	9,456	1,261	17,646	28,363
Telephone and internet	3,588	2,179	10,964	461	17,192	1,995	506	19,693
Special events	-	-	-	-	-	-	16,605	16,605
Transportation	4,075	6,605	2,582	102	13,364	1,845	392	15,601
Interest expense	2,607	-	9,460	279	12,346	1,223	422	13,991
Other	1,565	463	3,370	353	5,751	643	2,001	8,395
Postage	465	144	1,332	65	2,006	513	5,861	8,380
Dues and licenses	726	93	1,852	66	2,737	446	23	3,206
Advertising	112	52	2,249	2	2,415	405	327	3,147
Employee background check	290	-	1,994	-	2,284	114	79	2,477
Conferences and conventions	-	-	383	-	383	-	-	383
Bad debt	-	-	120	20	140	-	-	140
TOTAL OTHER EXPENSES	250,604	47,695	337,149	16,035	651,483	27,111	50,455	729,049
TOTAL EXPENSES BEFORE DEPRECIATION	492,901	108,043	1,068,256	56,118	1,725,318	269,510	160,990	2,155,818
Depreciation	8,691	2,173	28,246	1,630	40,740	9,777	4,350	54,867
TOTAL FUNCTIONAL EXPENSES	\$ 501,592	\$ 110,216	\$ 1,096,502	\$ 57,748	\$ 1,766,058	\$ 279,287	\$ 165,340	\$ 2,210,685

See notes to financial statements.

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (384,359)	\$ (306,967)
Adjustments to reconcile change in net assets (deficit) to net cash used in operating activities:		
Depreciation	57,454	54,867
Net realized and unrealized gain on investments	(42,576)	(32,174)
Change in value of perpetual trust	1,765	1,325
(Increase) decrease in assets:		
Accounts receivable	40,744	(20,270)
Accrued interest receivable	1,065	1,006
Grants receivable	-	15,000
Pledges receivable	34,824	719
Prepaid expenses	54,625	(18,080)
Increase (decrease) in liabilities:		
Accounts payable	23,632	3,820
Accrued wages	(4,477)	1,964
Accrued compensated balances	(26,274)	1,205
Deferred revenue	2,000	-
NET CASH USED IN OPERATING ACTIVITIES	<u>(241,577)</u>	<u>(297,585)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of investments	411,679	126,042
Purchases of investments	(277,295)	(46,737)
Purchases of property and equipment	(28,146)	(14,055)
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>106,238</u>	<u>65,250</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of long-term debt	(32,921)	(31,368)
Advances from related party	209,014	238,870
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>176,093</u>	<u>207,502</u>
NET INCREASE (DECREASE) CASH AND CASH EQUIVALENTS	40,754	(24,833)
CASH AND CASH EQUIVALENTS:		
Beginning of year	<u>47,214</u>	<u>72,047</u>
End of year	<u>\$ 87,968</u>	<u>\$ 47,214</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	<u>\$ 12,376</u>	<u>\$ 13,991</u>

See notes to the financial statements.

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

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.

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 Organization reports information regarding its financial position and activities to two classes of net assets, as follows:

Net Assets Without Donor Restrictions – These net assets generally result from revenue generated by receiving contributions that have no donor restrictions, providing services, and receiving interest from operating investments, less expenses incurred in providing program related services, raising contributions, and performing administrative functions.

Net Assets with Donor Restrictions – These net assets result from gifts of cash and other assets that are received with donor stipulations that limit the use of the donated asset, either temporarily or permanently, until the donor restriction expires, that is until the stipulated time restriction ends or the purpose of the restriction is accomplished, the net assets are restricted (see Note 7).

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.

Recognition of Support and Revenue:

In May 2020, the Financial Accounting Standards Board (FASB) approved a one-year effective date deferral for the implementation of Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers*. As a result, the Organization will implement ASC Topic 606 during the year ended June 30, 2021.

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

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

Recognition of Support and Revenue (continued):

In June 2018, the FASB issued Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. The amendment clarifies guidance on how an entity determines whether a transfer of assets is a contribution or exchange transaction. The amendment also clarifies the determination of conditional contributions based on evaluating whether there is a right of return and a barrier to overcome. The Organization adopted this ASU for the year ended June 30, 2020 using the full retrospective method and there was no cumulative effect of applying the ASU.

The Organization derives revenue from program services, contributions, contributed services and fundraising events. Revenue is recognized as follows:

Program Services – The Organization charges fees for program services provided throughout the year. As a result, these transactions are considered to be exchange transactions and revenue is recognized over time as service is provided. Payments received in advance are recorded as deferred revenue.

Contributions – The Organization recognizes contributions received and made, including unconditional promises to give, as revenue in the period made or received. Contributions include contributions from the Norwich Diocese, United Way, foundations and the general public. Contributions received are reported as either revenues without donor restrictions or revenue with donor restrictions. Contributions with donor restrictions that are used for the purpose specified by the donor in the same year as the contribution is received are recognized as revenues without donor restrictions. Promises to contribute that stipulate conditions to be met before the contribution is made are not recorded until the conditions are met. There were no conditional promises to give for the years ended June 30, 2020 and 2019.

Contributed Services – Contributed services relating to fundraising efforts and assistance programs have been recognized as revenue and support in the amount of \$49,176 and \$47,392, respectively, for the years ended June 30, 2020 and 2019. 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.

Special Events – The Organization hosts fundraising special events throughout the year whereby the Organization receives special event revenue for the cost of the event. These special events revenues are considered to be a contribution and are recognized as revenue on the date of the event. Deposits received for future events are deferred until the date of the event.

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.

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

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

Accounts Receivable:

Accounts receivable are stated at the original amount due, less any allowance for uncollectible accounts. Allowances for receivables are determined by management based on an assessment of their collectability. Receivables are written off when management believes the amount will not be collected. Management believes all balances are collectible at June 30, 2020 and 2019; therefore no allowance has been established.

Pledges Receivable:

Pledges receivable represent unconditional promises to give. A contribution in the form of an unconditional promise to give is recognized as revenue by the Organization in the period in which the promise is received. Material pledges receivable that are expected to be collected in future years, if any, are recorded at the present value of estimated future cash flows. When necessary, an allowance for pledges receivable is recorded based on management's evaluation of potential uncollectible unconditional promises at year-end. All pledges receivable at June 30, 2020 and 2019 are expected to be fully collectible in the near term and therefore no allowance or discount for present value has been recorded.

Investments:

Investments in 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 assets without donor restrictions unless donor or relevant law directs otherwise. Any losses that are donor restricted for an endowment fund first reduce net assets with donor restrictions; any remaining losses reduce net assets without donor restrictions. Subsequent gains are recorded as increases in net assets without donor restrictions until the total amount of gains offsets the amount of the losses previously recorded as decreases in net assets without donor restrictions.

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. For assets sold or disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in the income for the period.

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 2017.

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

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, 2020 and 2019 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 (See Note 12).

Endowment:

The Organization follows FASB ASC 958-205 which provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). A key component of ASC 958-205 is a requirement to classify the portion of investment return from donor-restricted endowment funds as net assets with donor restrictions (see Note 8).

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.

Functional Allocation of Expenses:

The financial statements present expenses by function and natural classification. Expenses directly attributable to a specific function of the Organization are reported as expenses of those functional areas. A portion of general and administrative costs that benefit multiple functional areas (indirect costs) have been allocated across programs and other supporting services based on the basis of periodic time and expense studies.

Reclassifications:

Certain amounts as of June 30, 2019 have been reclassified to conform to the June 30, 2020 presentation. The reclassifications have no material effect on the financial statements.

Subsequent Events:

Management has evaluated subsequent events through February 12, 2021 the date which the financial statements were available for issue.

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

NOTE 2 – RELATED PARTY TRANSACTIONS/OPERATIONS:

Transactions:

The President of the Organization is also the Bishop of the Diocese of Norwich. The Diocese of Norwich allocated a subsidy of \$409,296 and \$532,753 during the fiscal years ended June 30, 2020 and 2019 respectively, for the Organization to provide charitable service throughout the Diocese consistent with the motto of the Bishop of Norwich, “Above All Charity”.

As of June 30, 2020 and 2019, the Organization owed the Norwich Diocese \$2,362,284 and \$2,153,270 respectively, for health and liability insurance, which is the accumulation of such insurance costs over the last several years.

Going Concern:

The accompanying financial statements have been prepared assuming the organization will continue as a going concern. The Organization has incurred decreases in net assets (deficit) in the past few years as well as negative cash flows from operations and consequently has a deficit in net assets without donor restriction. These conditions raised substantial doubt about the Organizations ability to continue as a going concern. 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. The Diocese has provided assurance for continued support of the Organization as it remains the largest ministry in the Diocese of Norwich that provides charitable care. Further, the Diocese guarantees the first mortgage on the building. The Organization’s management continues to implement the performance and quality improvement program initiated during 2017 and has ceased direct behavior health services which have negatively affected both net assets and cash flows for the last several years. Some behavioral health services are still being provided under the Intensive Case Management program offered by the organization. These factors, in their totality alleviated doubt about the organizations ability to continue as a going concern.

NOTE 3 – CONCENTRATION OF CREDIT RISK:

Concentrations of Contributions:

The Norwich Diocese provided approximately 24% and 28% of the Organization’s revenue and support for the years ended June 30, 2020 and 2019, respectively. Also, the amount due to the Norwich Diocese increased by \$209,014 and \$238,870 during 2020 and 2019, 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 this revenue 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, 2020 and 2019, deposit balances may have exceeded the Federal Deposit Insurance Corporation (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, 2020 and 2019.

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

NOTE 4 – PROPERTY AND EQUIPMENT:

Property and equipment consists of the following at June 30:

	2020	2019
Building and improvements	\$ 1,749,316	\$ 1,739,107
Furniture and equipment	118,845	100,908
Vehicle	21,886	21,886
Land	15,750	15,750
	1,905,797	1,877,651
Less: accumulated depreciation	(981,196)	(923,742)
	\$ 924,601	\$ 953,909

NOTE 5 – INVESTMENTS:

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

	2020	Building Fund	Geary Fund	Grimes Fund	Total
Fixed income securities:					
Bonds	\$ -	\$ -	\$ 304,484	\$ 79,672	\$ 384,156
Preferred stock	-	-	76,780	-	76,780
Mutual funds	-	-	19,840	-	19,840
Equities:					
Mutual funds		24,605	322,552	30,874	378,031
		\$ 24,605	\$ 723,656	\$ 110,546	\$ 858,807
	2019	Building Fund	Geary Fund	Grimes Fund	Total
Fixed income securities:					
Bonds	\$ -	\$ -	\$ 336,083	\$ 77,793	\$ 413,876
Preferred stock	-	-	26,200	-	26,200
Equities:					
Mutual funds		23,154	456,488	30,897	510,539
		\$ 23,154	\$ 818,771	\$ 108,690	\$ 950,615

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

NOTE 5 – INVESTMENTS (Continued):

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

	<u>2020</u>	Cost	Fair Value	Unrealized Appreciation
Building fund		\$ 18,989	\$ 24,605	\$ 5,616
Grimes fund		101,669	110,546	8,877
Geary fund		512,125	723,656	211,531
		\$ 632,783	\$ 858,807	\$ 226,024
	<u>2019</u>	Cost	Fair Value	Unrealized Appreciation
Building fund		\$ 17,959	\$ 23,154	\$ 5,195
Grimes fund		97,488	108,690	11,202
Geary fund		655,704	818,771	163,067
		\$ 771,151	\$ 950,615	\$ 179,464

Investment return is as follows for the years ended June 30:

	2020	2019
Interest and dividend income	\$ 24,674	\$ 39,852
Net unrealized gain (loss) on investments	16,137	(9,003)
Net realized gain on sale of investments	32,527	38,589
	\$ 73,338	\$ 69,438

NOTE 6 – LONG-TERM DEBT:

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, 2020 and 2019, the interest rate was 4.875%. The current monthly payment required under this mortgage note is \$3,778, including principal and interest. The note is secured by a mortgage lien on property located at 331 Main Street, Norwich CT and also guaranteed by the Norwich Diocese.

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

NOTE 6 – LONG-TERM DEBT (Continued):

Long-term debt is summarized as follows at June 30:

	<u>2020</u>	<u>2019</u>
Mortgage note payable	\$ 231,918	\$ 264,839
Less current portion of long-term debt	<u>(35,468)</u>	<u>(33,784)</u>
	<u>\$ 196,450</u>	<u>\$ 231,055</u>

Future maturities of long-term debt are as follows for each of the years following June 30, 2020:

<u>Years</u>	<u>Principal Payments</u>
2021	\$ 35,468
2022	37,237
2023	39,093
2024	41,042
2025	43,088
Thereafter	<u>35,990</u>
	<u>\$ 231,918</u>

NOTE 7 – NET ASSETS WITH DONOR RESTRICTIONS:

Net assets with donor restrictions as of June 30, 2020 and 2019 are available for the following purposes:

	<u>2020</u>	<u>2019</u>
Endowment funds	\$ 690,519	\$ 690,519
Beneficial interest in trust	349,281	351,046
Cumulative endowment earnings - New London district	188,703	247,234
United Way of Southeastern Connecticut	55,760	124,691
Special assistance to clients - New London district	48,375	86,508
Special assistance to clients - Norwich district	3,677	7,730
Special assistance to clients - Willimantic district	5,219	-
Special assistance to clients - Middletown	<u>1,743</u>	<u>-</u>
	<u>\$ 1,343,277</u>	<u>\$ 1,507,728</u>

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

NOTE 7 – NET ASSETS WITH DONOR RESTRICTIONS (Continued):

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 net assets with donor restrictions. The trust is recorded at fair value as determined by the trustee. During the years ended June 30, 2020 and 2019, distributions of \$18,633 and \$19,952, respectively, were received from the trust and recorded as unrestricted investment income. The change in fair value in excess of the distribution of \$(1,765) and \$(1,325) for the years ended June 30, 2020 and 2019, respectively, is recorded in net assets with donor restrictions as change in value of perpetual trust.

NOTE 8 – ENDOWMENT FUNDS:

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 Board of Directors of the Organization have interpreted the 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 perpetually restricted endowment, (b) the original value of subsequent gifts to the perpetually restricted endowment, and (c) accumulations to the perpetually restricted 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

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

NOTE 8 – ENDOWMENT FUNDS (Continued):

The following table summarizes changes in endowment net assets for the years ended June 30, 2020 and 2019:

	Cumulative Endowment Earnings	Perpetual Restriction	Total
Endowment net assets, July 1, 2018	\$ 294,408	\$ 690,519	\$ 984,927
Investment income, net	48,996	-	48,996
Amounts appropriated for programs	<u>(96,170)</u>	<u>-</u>	<u>(96,170)</u>
Endowment net assets, June 30, 2019	\$ 247,234	\$ 690,519	\$ 937,753
Investment income, net	51,959	-	51,959
Amounts appropriated for programs	<u>(110,490)</u>	<u>-</u>	<u>(110,490)</u>
Endowment net assets, June 30, 2020	<u>\$ 188,703</u>	<u>\$ 690,519</u>	<u>\$ 879,222</u>

NOTE 9 – FINANCIAL ASSETS AND LIQUIDITY RESOURCES:

Financial assets are considered unavailable when illiquid or not convertible to cash within one year, investments restricted for specific designation, beneficial interest in trust, and perpetual endowments and accumulated earnings net of appropriations within one year. The following table reflects the Organization's financial assets as of June 30, 2020 and 2019, reduced by amounts not available for general expenditure within one year:

	2020	2019
Financial assets:		
Cash and cash equivalents	\$ 87,968	\$ 47,214
Accounts receivable	27,856	68,600
Accrued interest receivable	3,638	4,703
Pledges receivable	89,867	124,691
Investments	<u>858,807</u>	<u>950,615</u>
Financial assets, at year-end	1,068,136	1,195,823
Less those unavailable for general expenditure within one year, due to:		
Endowment funds	(690,519)	(690,519)
Net assets restricted for specific designation	<u>(303,477)</u>	<u>(466,163)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 74,140</u>	<u>\$ 39,141</u>

The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

NOTE 10 – EMPLOYEE RETIREMENT PLANS:

Multiple Employer Plan:

The Organization participates in the Christian Brothers Employee Retirement Plan, a multiple employer plan, administered by the Norwich Diocese. For the years ended June 30, 2020 and 2019 the plan was funded by the Organization at 8.42% of each eligible employee's gross salary. Each 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, 2020 and 2019 were \$52,494 and \$50,410, respectively. The risks of participating in multiple employer plans are different from single employer plans as assets contributed are available to provide benefits to employees of other employers and unfunded obligations from an employer that discontinues contributions are the responsibility of all remaining employers. In addition, in the event of the plan's termination or the Organization's withdrawal from the plan, the Organization may be liable for a portion of the plan's unfunded vested benefits. The Organization does not anticipate withdrawal from the plan, nor is the Organization aware of any expected plan termination. The Organization's contributions to the plan were less than 5% of the plan's total contributions. As of June 30, 2020 the plan was underfunded by greater than 65%.

Tax-Deferred Annuity Plan:

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, 2020 and 2019. The lease also requires the Organization to pay 50% of the utility expense and maintain certain insurance.

The Organization has a month-to-month lease for offices in Middletown, Connecticut for their Portland programs. Rent expense for this lease was \$18,000 for both the years ended June 30, 2020 and 2019.

The Organization has an operating lease agreement for an office copier dated December 2015 with a term of 60 months. Under the lease the Organization makes monthly payments of \$548 plus additional charges. Total expense under this agreement was \$6,580 and \$7,587 for the years ended June 30, 2020 and 2019, respectively.

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 \$854 and \$1,277 for the years ended June 30, 2020 and 2019, respectively.

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

NOTE 11 – OPERATING LEASES (Continued):

The Organization has a maintenance agreement for the service of an elevator in its Norwich location dated April 2001. Under the agreement, the Organization makes minimum monthly payments of \$518 plus additional charges for service calls. Total expense under this agreement was \$5,699 and \$5,526 for the years ended June 30, 2020 and 2019, respectively.

The Organization utilizes a facility in Willimantic, Connecticut 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 in the financial statements for each of the years ended June 30, 2020 and 2019. Future minimum contributed facilities expense under this lease is expected to be \$9,000 per year until termination.

The Organization's expense for the above agreements totaled \$73,733 and \$74,990 for the years ended June 30, 2020 and 2019, respectively. Rent expense totaled \$60,600 for both of the year ended June 30, 2020 and 2019 and is included within occupancy in the accompanying statements of functional expenses. Equipment rental expense totaled \$7,434 and \$8,864 for the years ended June 30, 2020 and 2019 and is included within equipment rental and maintenance in the accompanying statements of functional expenses. Maintenance expense under these agreements totaled \$5,699 and \$5,526 for the years ended June 30, 2020 and 2019 and is included within building repairs and maintenance in the accompanying statements of functional expenses.

NOTE 12 – 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, 2020 AND 2019

NOTE 12 – 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 the 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, 2020 or 2019.

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 in 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.

The following tables present information about the Organization’s respective assets measured at fair value on a recurring basis at June 30, 2020 and 2019, including the fair value measurements and the level of inputs used in determining those fair values:

June 30, 2020:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 397,871	\$ -	\$ -	\$ 397,871
Beneficial interest in perpetual trust	-	-	349,281	349,281
Municipal bonds	-	335,735	-	335,735
Corporate bonds	-	48,421	-	48,421
Preferred stock	76,780	-	-	76,780
	<u>\$ 474,651</u>	<u>\$ 384,156</u>	<u>\$ 349,281</u>	<u>\$ 1,208,088</u>

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

NOTE 12 – FAIR VALUE MEASUREMENTS (Continued):

June 30, 2019:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 510,539	\$ -	\$ -	\$ 510,539
Beneficial interest in perpetual trust	-	-	351,046	351,046
Municipal bonds	-	341,400	-	341,400
Corporate bonds	-	72,476	-	72,476
Preferred stock	26,200	-	-	26,200
	<u>\$ 536,739</u>	<u>\$ 413,876</u>	<u>\$ 351,046</u>	<u>\$ 1,301,661</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, 2020 and 2019, there were no significant transfers into and out of each level of the fair value hierarchy for assets measured at fair value.

The following table presents additional information about Level 3 assets measured at fair value. Both observable and unobservable inputs may be used to determine the fair value positions that the Organization has classified within the Level 3 category. As a result, unrealized gains and losses for assets within the Level 3 category may include changes in fair value that were attributable to both observable and unobservable inputs.

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

Balance, July 1, 2018	\$ 352,371
Net decrease in trust values	<u>(1,325)</u>
Balance, June 30, 2019	351,046
Net decrease in trust values	<u>(1,765)</u>
Balance, June 30, 2020	<u>\$ 349,281</u>

NOTE 13 – RISKS AND UNCERTAINTIES:

In early March 2020, there was a global outbreak of COVID-19 that resulted in an economic downturn, changes in global supply and demand, and the temporary closure of non-essential businesses in many states. In connection with the outbreak, the Organization continues to monitor its potential impact, which may materially impact the Organization's finances and operations. Due to the uncertainties surrounding COVID-19, the full impact of the outbreak and the scope of any cumulative adverse impact on the Organization's finances and operations cannot be fully determined at this time and largely depends on the ongoing severity, duration and spread of COVID-19.