

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

YEARS ENDED JUNE 30, 2019 AND 2018

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

FINANCIAL STATEMENTS AND
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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 statement of financial position as of June 30, 2019 and 2018, 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, 2019 and 2018, 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
November 22, 2019

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 47,214	\$ 72,047
Accounts receivable	68,600	48,330
Accrued interest receivable	4,703	5,709
Grants receivable	-	15,000
Pledges receivable	124,691	125,410
Prepaid expenses	55,995	37,915
TOTAL CURRENT ASSETS	<u>301,203</u>	<u>304,411</u>
PROPERTY AND EQUIPMENT, net	953,909	994,721
OTHER ASSETS:		
Investments	950,615	997,746
Beneficial interest in perpetual trust	351,046	352,371
TOTAL OTHER ASSETS	<u>1,301,661</u>	<u>1,350,117</u>
	<u>\$ 2,556,773</u>	<u>\$ 2,649,249</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 20,842	\$ 17,022
Accrued wages	27,921	25,957
Accrued compensated balances	46,768	45,563
Deferred revenue	700	700
Current portion of long-term debt	33,784	33,287
TOTAL CURRENT LIABILITIES	<u>130,015</u>	<u>122,529</u>
LONG-TERM DEBT, net of current portion	231,055	262,920
DUE TO RELATED PARTY	2,153,270	1,914,400
NET ASSETS:		
Without donor restrictions	(1,465,295)	(1,228,848)
With donor restrictions	1,507,728	1,578,248
TOTAL NET ASSETS	<u>42,433</u>	<u>349,400</u>
	<u>\$ 2,556,773</u>	<u>\$ 2,649,249</u>

See notes to financial statements.

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT:			
Program service billings	\$ 869,455	\$ -	\$ 869,455
Less: charitable care	(238,808)	-	(238,808)
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 gains on investments	6,449	25,725	32,174
Change in value of perpetual trust	-	(1,325)	(1,325)
Released from restrictions	287,088	(287,088)	-
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	165,340	-	165,340
Total functional expenses	2,210,685	-	2,210,685
Change in net assets (deficiency)	(236,447)	(70,520)	(306,967)
NET ASSETS (DEFICIENCY):			
Beginning of year	(1,228,848)	1,578,248	349,400
End of year	\$ (1,465,295)	\$ 1,507,728	\$ 42,433

See notes to financial statements.

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUE AND SUPPORT:			
Program service billings	\$ 822,864	\$ -	\$ 822,864
Less: charitable care	<u>(189,550)</u>	<u>-</u>	<u>(189,550)</u>
Program service fees, net	633,314	-	633,314
Norwich Diocese	489,995	-	489,995
Contributions	204,933	114,900	319,833
United Way	43,101	123,071	166,172
Foundations	198,099	-	198,099
Gifts in kind	112,345	-	112,345
Special events	74,878	-	74,878
Bequests	8,673	-	8,673
Adoption	13,440	-	13,440
Investment income	14,636	24,278	38,914
Net realized and unrealized gain on investments	9,931	49,301	59,232
Change in value of perpetual trust	-	7,712	7,712
Released from restrictions	<u>313,583</u>	<u>(313,583)</u>	<u>-</u>
Total revenue and support	2,116,928	5,679	2,122,607
FUNCTIONAL EXPENSES:			
Program services	1,788,971	-	1,788,971
Administration and general	297,865	-	297,865
Fundraising	<u>140,858</u>	<u>-</u>	<u>140,858</u>
Total functional expenses	<u>2,227,694</u>	<u>-</u>	<u>2,227,694</u>
Change in net assets (deficiency)	(110,766)	5,679	(105,087)
NET ASSETS (DEFICIENCY):			
Beginning of year	<u>(1,118,082)</u>	<u>1,572,569</u>	<u>454,487</u>
End of year	<u>\$ (1,228,848)</u>	<u>\$ 1,578,248</u>	<u>\$ 349,400</u>

See notes to financial statements.

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2019

	Program Services				Total	Administration and General		Fundraising	Total
	Intensive Case Management	Empowering People	Behavioral Health	Parenting Education Program		Administration and General	Fundraising		
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.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2018

	Program Services								Administration and General	Fundraising	Total	
	Emergency Services	Intensive Case Management	Empowering People	Behavioral Health	Adoption	Parenting Education Program	Pregnancy	Immigration				Total
SALARIES AND RELATED EXPENSES:												
Salaries	\$ 147,491	\$ 19,652	\$ 38,305	\$ 504,519	\$ 23,866	\$ 21,706	\$ 28,223	\$ 34,133	\$ 817,895	\$ 187,790	\$ 71,903	\$ 1,077,588
Payroll Taxes	11,682	1,947	3,245	37,030	1,949	3,245	1,947	2,596	63,641	11,682	5,475	80,798
Employee benefits	47,798	3,924	15,716	94,149	2,194	5,333	10,976	825	180,915	47,632	15,043	243,590
TOTAL SALARIES AND RELATED EXPENSES	206,971	25,523	57,266	635,698	28,009	30,284	41,146	37,554	1,062,451	247,104	92,421	1,401,976
OTHER EXPENSES												
Direct relief emergency services	195,924	-	-	-	-	-	8,044	-	203,968	-	-	203,968
Clinician Fees	-	-	-	65,929	-	-	-	-	65,929	-	-	65,929
Occupancy	11,046	1,396	2,970	38,618	204	823	4,935	4,928	64,920	763	-	65,683
Insurance	7,925	1,480	2,363	27,826	3,668	109	3,886	2,644	49,901	9,782	534	60,217
Equipment rental and maintenance	14,493	879	1,707	22,875	2,492	16	2,550	1,753	46,765	7,218	-	53,983
Program expense	6,289	95	8,677	27,681	255	3,329	1,215	1,244	48,785	1,438	-	50,223
Utilities	6,356	460	1,611	23,774	1,259	434	2,118	946	36,958	4,719	-	41,677
Supplies and office expense	1,559	350	466	5,980	644	229	668	340	10,236	1,595	20,279	32,110
Building repair and maintenance	6,880	147	2,409	16,538	612	451	1,370	724	29,131	2,279	-	31,410
Bad debt	-	-	-	28,071	-	-	-	-	28,071	-	-	28,071
Professional fees	3,263	112	867	13,176	1,398	-	1,476	903	21,195	3,963	-	25,158
Telephone and internet	2,951	242	1,818	14,247	855	250	1,305	741	22,409	1,905	-	24,314
Special events	-	-	-	-	-	-	-	-	-	-	20,385	20,385
Transportation	2,649	-	5,916	2,156	105	622	303	83	11,834	1,047	67	12,948
Other	5,248	132	250	2,910	374	288	382	252	9,836	383	1,818	12,037
Interest expense	961	-	-	8,168	481	60	481	-	10,151	1,778	-	11,929
Advertising	1,114	48	248	3,119	367	-	368	250	5,514	1,104	1,749	8,367
Postage	262	25	49	787	154	23	82	18	1,400	560	3,605	5,565
Dues and licenses	662	72	88	1,473	119	13	205	124	2,756	520	-	3,276
Employee background check	246	-	24	1,441	36	-	-	-	1,747	48	-	1,795
Conferences and conventions	178	-	121	410	26	-	32	21	788	552	-	1,340
TOTAL OTHER EXPENSES	268,006	5,438	29,584	305,179	13,049	6,647	29,420	14,971	672,294	39,654	48,437	760,385
TOTAL EXPENSES BEFORE DEPRECIATION	474,977	30,961	86,850	940,877	41,058	36,931	70,566	52,525	1,734,745	286,758	140,858	2,162,361
Depreciation	9,800	501	2,613	31,359	3,920	-	3,420	2,613	54,226	11,107	-	65,333
TOTAL FUNCTIONAL EXPENSES	\$ 484,777	\$ 31,462	\$ 89,463	\$ 972,236	\$ 44,978	\$ 36,931	\$ 73,986	\$ 55,138	\$ 1,788,971	\$ 297,865	\$ 140,858	\$ 2,227,694

See notes to financial statements.

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (306,967)	\$ (105,087)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	54,867	65,333
Net realized and unrealized gain on investments	(32,174)	(59,232)
Change in value of perpetual trust	1,325	(7,712)
(Increase) decrease in assets:		
Accounts receivable	(20,270)	(7,143)
Accrued interest receivable	1,006	(176)
Grants receivable	15,000	(15,000)
Pledges receivable	719	29,242
Prepaid expenses	(18,080)	(9,899)
Increase (decrease) in liabilities:		
Accounts payable	3,820	1,618
Accrued wages	1,964	(1,239)
Accrued compensated balances	1,205	(9,324)
Deferred revenue	-	(800)
NET CASH USED IN OPERATING ACTIVITIES	<u>(297,585)</u>	<u>(119,419)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of investments	126,042	52,989
Purchases of investments	(46,737)	(47,641)
Purchases of property and equipment	(14,055)	(21,887)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>65,250</u>	<u>(16,539)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of long-term debt	(31,368)	(51,816)
Advances from related party	238,870	205,328
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>207,502</u>	<u>153,512</u>
NET INCREASE (DECREASE) CASH AND CASH EQUIVALENTS	(24,833)	17,554
CASH AND CASH EQUIVALENTS:		
Beginning of year	<u>72,047</u>	<u>54,493</u>
End of year	<u>\$ 47,214</u>	<u>\$ 72,047</u>

See notes to the financial statements.

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

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 Organization reports information regarding its financial position and activities to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

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

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

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

Contributions:

The Organization recognizes contributions received and made, including unconditional promises to give, as revenue in the period made or received. 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, 2019 and 2018.

Contributed Services:

Contributed services relating to fundraising efforts and assistance programs have been recognized as revenue and support in the amount of \$47,392 and \$112,345, respectively, for the years ended June 30, 2019 and 2018. In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific assistance programs and special events. No amounts have been recorded in the financial statements for these donated volunteer services as no specialized skills are required. Nevertheless, a substantial number of volunteers have donated significant amounts of time in the operations and fundraising efforts of the Organization.

Cash and Cash Equivalents:

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

Accounts Receivable:

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probably uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Management believe all balances are collectible at June 30, 2019 and 2018, 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, 2019 are expected to be fully collectible in the near term and therefore no allowance or discount for present value has been recorded.

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

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

Investments:

Investments in debt and 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 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.

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 2016.

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, 2019 and 2018 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 13).

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.

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

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

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.

Accounting Pronouncement Adopted:

In August 2016, the FASB issues ASU No. 2016-14, "Presentation of Financial Statements of Not-for-Profit Entities" (Topic 958). The Organization has adjusted the presentation of its financial statements accordingly, applying the changes retrospectively to the comparative period presented. The new standard changes the following aspects of the Organization's financial statements:

- The temporarily restricted and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions.
- The unrestricted net asset class have been renamed net assets without donor restrictions.
- The financial statements include a new disclosure of quantitative and qualitative information regarding liquidity and availability of recourses (see Note 9).

The changes have the following effect on net assets at June 30, 2018:

	<u>As Originally Presented</u>	<u>Adoption of ASU 2016-14</u>
Net Asset Class:		
Unrestricted net assets	\$ (1,228,848)	
Temporarily restricted net assets	535,358	-
Permanently restricted net assets	1,042,890	-
Net assets without donor restrictions	-	(1,228,848)
Net assets with donor restrictions	-	1,578,248
	<u>\$ 349,400</u>	<u>\$ 349,400</u>

In addition, certain amounts in the prior-year financial statements have been reclassified for comparative purposes to confirm with the presentation in the current year financial statements.

Reclassifications:

Certain amounts as of June 30, 2018 have been reclassified to conform to the June 30, 2019 presentation. The reclassifications have no material effect on the financial statements.

Subsequent Events:

Management has evaluated subsequent events through November 22, 2019 the date which the financial statements were available for issue.

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 2 – RELATED PARTY TRANSACTIONS/OPERATIONS:

The President of the Organization is also the Bishop of the Diocese of Norwich. The Diocese of Norwich allocated a subsidy of \$532,753 and \$489,995 during the fiscal years ended June 30, 2019 and 2018 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, 2019 and 2018, the Organization owed the Norwich Diocese \$2,153,270 and \$1,914,400 respectively, for health and liability insurance, which is the accumulation of such insurance costs over the last several years.

The Organization has incurred losses in the past few years as well as negative cash flow from operations and consequently has a deficit in net assets without donor restriction. 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 implementation the performance and quality improvement program initiated during 2017.

NOTE 3 – CONCENTRATION OF CREDIT RISK:

Concentrations of Contributions:

The Norwich Diocese provided approximately 22% and 23% of the Organization’s revenue and support for the years ended June 30, 2019 and 2018, respectively. Also, the amount due to the Norwich Diocese increased by \$238,871 and \$205,328 during 2019 and 2018, 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, 2019 and 2018, 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, 2019 and 2018.

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 4 – PROPERTY AND EQUIPMENT:

Property and equipment consists of the following at June 30:

	2019	2018
Building and improvements	\$ 1,739,107	\$ 1,739,107
Furniture and equipment	100,908	86,853
Vehicle	21,886	21,886
Land	15,750	15,750
	1,877,651	1,863,596
Less: accumulated depreciation	(923,742)	(868,875)
	\$ 953,909	\$ 994,721

NOTE 5 – INVESTMENTS:

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

	2019	Building Fund	Geary Fund	Grimes Fund	Total
Fixed income securities:					
Bonds and preferred stock	\$ -	\$ 362,283	\$ 77,793	\$ 440,076	
Equities:					
Mutual funds	23,154	456,488	30,897	510,539	
	\$ 23,154	\$ 818,771	\$ 108,690	\$ 950,615	
	2018	Building Fund	Geary Fund	Grimes Fund	Total
Fixed income securities:					
Bonds and preferred stock	\$ -	\$ 349,059	\$ 77,797	\$ 426,856	
Mutual funds	-	77,448	-	77,448	
Equities:					
Mutual funds	28,221	437,066	28,155	493,442	
	\$ 28,221	\$ 863,573	\$ 105,952	\$ 997,746	

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 5 – INVESTMENTS (Continued):

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

	<u>2019</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation</u>
Building fund	\$	17,959	\$ 23,154	\$ 5,195
Grimes fund		97,488	108,690	11,202
Geary fund		655,704	818,771	163,067
		<u>\$ 771,151</u>	<u>\$ 950,615</u>	<u>\$ 179,464</u>
	<u>2018</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation</u>
Building fund	\$	21,230	\$ 28,221	\$ 6,991
Grimes fund		96,053	105,952	9,899
Geary fund		695,948	863,573	167,625
		<u>\$ 813,231</u>	<u>\$ 997,746</u>	<u>\$ 184,515</u>

NOTE 6 – LONG-TERM DEBT:

	<u>2019</u>	<u>2018</u>
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, 2019 and 2018, the interest rate was 4.875% and 3.375%, respectively. The current monthly payment required under this mortgage note is \$3,778, including principal and interest. The note is secured by a mortgage deed on property located at 331 Main Street, Norwich CT and also guaranteed by the Norwich Diocese.	<u>\$ 264,839</u>	<u>\$ 296,207</u>
	264,839	296,207
Less current portion of long-term debt	<u>(33,784)</u>	<u>(33,287)</u>
	<u>\$ 231,055</u>	<u>\$ 262,920</u>

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 6 – LONG-TERM DEBT (Continued):

Future maturities of long-term debt are as follows for each of the years following June 30, 2019:

<u>Years</u>	<u>Principal Payments</u>
2019	\$ 33,784
2020	35,468
2021	37,237
2022	39,093
2023	41,042
Thereafter	<u>78,215</u>
	<u>\$ 264,839</u>

NOTE 7 – NET ASSET MANAGEMENT AND RESTRICTIONS:

Net assets with donor restrictions as of June 30, 2019 and 2018 are available for the following purposes:

	<u>2019</u>	<u>2018</u>
Endowment funds	\$ 690,519	\$ 690,519
Beneficial interest in trust	351,046	352,371
New London district	247,235	294,408
United Way of Southeastern Connecticut	124,691	125,410
Special assistance to clients - New London district	86,507	104,627
Special assistance to clients - Norwich district	7,730	9,983
Special assistance to clients - Willimantic district	-	930
	<u>\$ 1,507,728</u>	<u>\$ 1,578,248</u>

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, 2019 and 2018, distributions of \$19,952 and \$23,434, respectively, were received from the trust and recorded as unrestricted investment income. The change in fair value in excess of the distribution of \$(1,325) and \$7,712, respectively, is recorded in net assets with donor restrictions as change in value of perpetual trust.

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

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 State of Connecticut Uniform Prudent Management of Institutional Funds Act (CTUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by CTUPMIFA.

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

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

The following table summarizes changes in endowment net assets for the years ended June 30, 2019 and 2018:

	<u>Designated Restriction</u>	<u>Perpetual Restriction</u>	<u>Total</u>
Endowment net assets, July 1, 2017	\$ 251,088	\$ 690,519	\$ 941,607
Investment income, net	73,579	-	73,579
Amounts appropriated for programs	<u>(30,259)</u>	<u>-</u>	<u>(30,259)</u>
Endowment net assets, June 30, 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	<u>\$ 247,234</u>	<u>\$ 690,519</u>	<u>\$ 937,753</u>

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 9 – FINANCIAL ASSET AND LIQUIDITY RESOURCES:

Financial assets are considered unavailable when illiquid or not convertible to cash within one year, investment 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 School's financial assets as of June 30, 2019, reduced by amounts not available for general expenditure within one year.

Financial assets:	
Cash and cash equivalents	\$ 47,214
Accounts receivable	68,600
Accrued interest receivable	4,703
Pledges receivable	124,691
Investments	<u>950,615</u>
Financial assets, at year-end	1,195,823
Less those unavailable for general expenditure within one year, due to:	
Endowment funds	(690,519)
Net assets restricted for specific designation	<u>(466,163)</u>
Financial assets available to meet cash needs for general expenditures within one year	<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.

NOTE 10 – EMPLOYEE RETIREMENT PLANS:

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, 2019 and 2018 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, 2019 and 2018 were \$57,410 and \$50,275, respectively. The risks of participating in multi-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 a plan's termination or the Organization's withdrawal from a plan, the Organization may be liable for a portion of the plan's unfunded vested benefits. The Organization does not anticipate withdrawal from the plans, nor is the Organization aware of any expected plan terminations. The Organization's contributions to these plans were less than 5% of each such plan's total contributions.

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 10 – EMPLOYEE RETIREMENT PLANS (Continued):

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, 2019 and 2018. 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, 2019 and 2018.

The Organization has an operating lease agreement for an office copier dated January 2016 with a term of 60 months. The monthly payment varies each month based on the usage. Total expense under this agreement was \$1,196 and \$1,254 for the years ended June 30, 2018 and 2017, respectively.

The Organization has a maintenance agreement for the service of an elevator in its Norwich location effective April 17, 2006. Under the agreement, the Organization makes minimum monthly payments of \$424 plus additional charges for service calls. Total expense under this agreement was \$5,526 and \$7,651 for the years ended June 30, 2019 and 2018, 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 the financial statements for each of the years ended June 30, 2019 and 2018. Future minimum contributed facilities expense under this lease is expected to be \$9,000 per year until termination.

The Organization's total rent expense for the years ended June 30, 2019 and 2018 was \$64,348 and \$65,683, which is included in occupancy in the accompanying statements of functional expenses.

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 12 – SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid for interest during the years ended June 30, 2019 and 2018 was \$13,991 and \$11,929 respectively.

NOTE 13 – FAIR VALUE MEASUREMENTS:

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

FASB ASC 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

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

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.

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 13 – FAIR VALUE MEASUREMENTS (Continued):

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, 2019 or 2018.

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

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

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

The following tables present information about the Organization's respective assets measured at fair value on a recurring basis at June 30, 2019 and 2018, including the fair value measurements and the level of inputs used in determining those fair values:

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>

CATHOLIC CHARITIES, DIOCESE OF NORWICH, INC.

NOTES TO FINANCIAL STATEMENTS

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NOTE 13 – FAIR VALUE MEASUREMENTS (Continued):

June 30, 2018:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 570,890	\$ -	\$ -	\$ 570,890
Beneficial interest in perpetual trust	-	-	352,371	352,371
Municipal bonds	-	313,454	-	313,454
Corporate bonds	-	86,822	-	86,822
Preferred stock	26,580	-	-	26,580
	<u>\$ 597,470</u>	<u>\$ 400,276</u>	<u>\$ 352,371</u>	<u>\$ 1,350,117</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, 2019 and 2018, there were no significant transfers into and out of each level of the fair value hierarchy for assets measured at fair value.

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

Balance, July 1, 2017	\$ 344,659
Net decrease in trust values	<u>7,712</u>
Balance, June 30, 2018	352,371
Net increase in trust values	<u>(1,325)</u>
Balance, June 30, 2019	<u>\$ 351,046</u>