

**CATHOLIC CHARITIES
OF TENNESSEE, INC.**

**Financial Statements and
Supplementary Information**

June 30, 2013 and 2012

(With Independent Auditors' Report Thereon)



LATTIMORE BLACK MORGAN & CAIN, PC
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

CATHOLIC CHARITIES OF TENNESSEE, INC.

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INDEPENDENT AUDITORS' REPORT

**The Board of Trustees of
Catholic Charities of Tennessee, Inc.:**

Report on the Financial Statements

We have audited the accompanying financial statements of Catholic Charities of Tennessee, Inc. (the "Organization"), which are comprised of the statements of financial position as of June 30, 2013 and 2012, 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.

Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditors' 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 of Tennessee, Inc. as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2013, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Lattimore Black Morgan & Cain, PC". The signature is written in a cursive, flowing style.

Brentwood, Tennessee
December 5, 2013

CATHOLIC CHARITIES OF TENNESSEE, INC.

Statements of Financial Position

June 30, 2013 and 2012

Assets	June 30, 2013	June 30, 2012
Cash	\$ 239,909	\$ 424,985
Receivable from the State of Tennessee	152,478	55,366
Receivable from United States Catholic Conference of Bishops	458,766	492,427
Receivable from Office of Refugee Resettlement	881,693	566,360
Receivable from United Way, net	289,640	287,449
Miscellaneous accounts receivable, net of allowance for doubtful accounts of \$14,760 at June 30, 2013 and June 30, 2012	149,597	138,678
Prepaid expenses	32,015	34,920
Equipment and leasehold improvements, net	92,576	128,753
Total assets	\$ 2,296,674	\$ 2,128,938
Liabilities and Net Assets		
Program advance	\$ 16,000	\$ 16,000
Accounts payable and accrued liabilities	828,070	640,765
Deferred revenues	35,818	5,187
Total liabilities	879,888	661,952
Net assets:		
Unrestricted:		
Designated for:		
Future operations	690,120	706,730
Physical plant equity	92,576	128,753
Renewal and replacement	87,221	87,221
Total unrestricted net assets	869,917	922,704
Temporarily restricted net assets	546,869	544,282
Total net assets	1,416,786	1,466,986
Total liabilities and net assets	\$ 2,296,674	\$ 2,128,938

See accompanying notes to the financial statements.

CATHOLIC CHARITIES OF TENNESSEE, INC.

Statements of Activities

Years Ended June 30, 2013 and 2012

	for the 12 Months ended June 30, 2013			for the 12 Months ended June 30, 2012		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and revenue:						
State of Tennessee grants	\$ 445,363	\$ -	\$ 445,363	\$ 458,416	\$ -	\$ 458,416
Service fees	1,714,289	-	1,714,289	1,550,450	-	1,550,450
Diocesan contributions and grants	546,960	-	546,960	573,380	-	573,380
United States Catholic Conference of Bishops grants	1,811,161	-	1,811,161	1,349,909	-	1,349,909
Miscellaneous program grants	231,186	-	231,186	451,279	-	451,279
Metropolitan Government of Nashville grants	-	-	-	50,114	-	50,114
Office of Refugee Resettlement grants	9,250,152	-	9,250,152	6,863,920	-	6,863,920
Reimbursement of occupancy expenses	364,836	-	364,836	364,836	-	364,836
Contributions and bequests	594,451	-	594,451	595,849	-	595,849
United Way allocation and designations	97,265	289,640	386,905	89,112	288,092	377,204
Other	34,946	1,039	35,985	32,919	531	33,450
In-Kind Donations	962,589	-	962,589	1,070,319	-	1,070,319
Net assets released from restrictions	288,092	(288,092)	-	297,726	(297,726)	-
Total support and revenue	16,341,290	2,587	16,343,877	13,748,229	(9,103)	13,739,126
Expenses:						
Program expenses	15,716,665	-	15,716,665	13,286,037	-	13,286,037
Management and general	49,446	-	49,446	139,461	-	139,461
Auxiliary services	390,195	-	390,195	490,885	-	490,885
Fundraising	237,771	-	237,771	196,699	-	196,699
Total expenses	16,394,077	-	16,394,077	14,113,082	-	14,113,082
Increase (decrease) in net assets	(52,787)	2,587	(50,200)	(364,853)	(9,103)	(373,956)
Net assets at beginning of year	922,704	544,282	1,466,986	1,287,557	553,385	1,840,942
Net assets at end of year	\$ 869,917	\$ 546,869	\$ 1,416,786	\$ 922,704	\$ 544,282	\$ 1,466,986

See accompanying notes to the financial statements.

CATHOLIC CHARITIES OF TENNESSEE, INC.

Statements of Functional Expenses

Years Ended June 30, 2013 and 2012

2013

	Catholic Social Services	Refugee Resettlement	Pregnancy Counseling and Adoptions	Other Social Service Programs	Services to Elderly	Child Abuse Prevention	Tennessee Office for Refugees	Total Program Expenses	Management and General	Auxiliary Services	Fundraising	Total
Total salaries/benefits	\$ 744,877	\$ 2,207,778	\$ 674,267	\$ 6,907	\$ 153,773	\$ 182,726	\$ 619,019	\$ 4,589,347	\$ 649,212	\$ 212,740	\$ 122,188	\$ 5,573,487
Purchased services	74,705	274,570	129,898	635	18,036	29,692	2,877,206	3,404,742	155,553	212,299	63,795	3,836,389
Supplies and materials	20,453	109,875	13,085	375	12,283	5,832	15,410	177,313	29,885	19,239	24,765	251,202
Depreciation and amortization	833	-	-	-	-	-	1,565	2,398	28,266	5,513	-	36,177
Conferences	1,410	2,758	5,835	-	165	725	8,110	19,003	11,974	345	3,536	34,858
Rent	102,393	66,131	83,041	-	1,768	11,034	67,877	332,244	23,306	62,922	4,387	422,859
Miscellaneous	486	660	626	20	90	150	939	2,971	13,840	3,073	590	20,474
Administrative expenses	176,442	340,764	140,476	2,030	34,825	39,799	80,349	814,685	(862,590)	30,439	17,466	-
Building occupancy	-	156,375	-	-	-	-	-	156,375	-	(156,375)	-	-
Subsidies/assistance	566,807	1,067,694	90,868	168,847	25,350	87,202	4,210,819	6,217,587	-	-	1,044	6,218,631
Total functional expenses	\$ 1,688,406	\$ 4,226,605	\$ 1,138,096	\$ 178,814	\$ 246,290	\$ 357,160	\$ 7,881,294	\$ 15,716,665	\$ 49,446	\$ 390,195	\$ 237,771	\$ 16,394,077

2012

	Catholic Social Services	Refugee Resettlement	Pregnancy Counseling and Adoptions	Other Social Service Programs	Services to Elderly	Child Abuse Prevention	Tennessee Office for Refugees	Total Program Expenses	Management and General	Auxiliary Services	Fundraising	Total
Total salaries/benefits	\$ 767,797	\$ 1,823,226	\$ 698,524	\$ 47,595	\$ 164,273	\$ 185,393	\$ 610,341	\$ 4,297,149	\$ 738,317	\$ 208,562	\$ 103,559	\$ 5,347,587
Purchased services	80,980	254,796	155,998	3,427	23,552	30,863	2,319,957	2,869,573	154,798	247,532	52,593	3,324,496
Supplies and materials	21,886	69,000	13,752	1,629	14,850	4,367	16,246	141,730	43,176	14,894	9,290	209,090
Depreciation and amortization	2,849	-	-	-	-	-	2,279	5,128	33,507	3,013	-	41,648
Conferences	2,059	2,447	18,687	450	282	1,107	5,404	30,436	4,211	309	346	35,302
Rent	100,107	44,429	79,453	634	1,730	10,526	64,598	301,477	33,631	56,241	1,730	393,079
Miscellaneous	3,504	2,196	3,551	185	1,063	690	3,382	14,571	29,549	4,500	2,231	50,851
Administrative expenses	233,670	281,713	163,170	12,292	57,018	34,467	-	782,330	(897,728)	100,448	14,950	-
Building occupancy	-	144,614	-	-	-	-	-	144,614	-	(144,614)	-	-
Subsidies/assistance	650,299	829,227	110,044	265,885	47,000	80,902	2,715,672	4,699,029	-	-	12,000	4,711,029
Total functional expenses	\$ 1,863,151	\$ 3,451,648	\$ 1,243,179	\$ 332,097	\$ 309,768	\$ 348,315	\$ 5,737,879	\$ 13,286,037	\$ 139,461	\$ 490,885	\$ 196,699	\$ 14,113,082

See accompanying notes to the financial statements

CATHOLIC CHARITIES OF TENNESSEE, INC.

Statements of Cash Flows

Years Ended June 30, 2013 and 2012

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ (50,200)	\$ (373,956)
Adjustments to reconcile increase (decrease) in net assets to net cash used by operating activities:		
Depreciation and amortization	36,177	41,648
Changes in assets and liabilities:		
Receivable from the State of Tennessee	(97,112)	53,712
Receivable from United States Catholic Conference of Bishops	33,661	(261,620)
Receivable from Metropolitan Government of Nashville	-	24,704
Receivable from Office of Refugee Resettlement	(315,333)	(60,511)
Receivable from United Way	(2,191)	10,574
Miscellaneous accounts receivable, net of allowance	(10,919)	(30,991)
Prepaid expenses	2,905	(2,945)
Program advance, accounts payable and accrued liabilities	187,305	102,947
Deferred revenues	30,631	(50,349)
Net cash used by operating activities	<u>(185,076)</u>	<u>(546,787)</u>
Cash flows used in investing activities -		
purchase of equipment and leasehold improvements	<u>-</u>	<u>(47,023)</u>
Net decrease in cash	(185,076)	(593,810)
Cash at beginning of year	<u>424,985</u>	<u>1,018,795</u>
Cash at end of year	<u><u>\$ 239,909</u></u>	<u><u>\$ 424,985</u></u>

See accompanying notes to the financial statements.

CATHOLIC CHARITIES OF TENNESSEE, INC.

Notes to Financial Statements

June 30, 2013 and 2012

(1) Summary of Significant Accounting Policies

(a) Reporting Entity

Catholic Charities of Tennessee, Inc. (the “Corporation” or “Organization” or “Catholic Charities”) is a Tennessee not-for-profit corporation which operates charitable and social service programs throughout Tennessee, but primarily Middle Tennessee. Catholic Charities was incorporated in July 1962. The members of the Corporation are the Bishop, the Vicars General, and the Moderator of the Curia for the Catholic Diocese of Nashville. The business and affairs of the Organization are supervised by its Board of Trustees. The Trustees of the Board are appointed by the members of the Corporation.

The accompanying financial statements include programs that are supported by grants from the State of Tennessee, the Metropolitan Government of Nashville and Davidson County, Office of Refugee Resettlement and the United States Catholic Conference of Bishops. These financial statements have been prepared on the accrual basis of accounting.

Catholic Charities was designated by the Office of Refugee Resettlement, a division of U.S. Department of Health and Human Services, to administer refugee resettlement programs in the state of Tennessee. The Tennessee Office for Refugees was created as a program within Catholic Charities of Tennessee to administer Refugee Cash Assistance, Refugee Medical Assistance, Medical Screenings, Social Services, School Impact Grants, and Targeted Assistance Grants to sub-grantee agencies across the state.

(b) Basis of Presentation

Contributions, which include unconditional promises to give (pledges), are recognized as revenues in the period an unconditional promise is received. Contributions with donor-imposed restrictions that are met in the same year as received are reported as revenues of the unrestricted net asset class.

Grant revenue is recognized as expenses are incurred in accordance with the terms of the grant.

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of Catholic Charities and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations. Catholic Charities has chosen to provide further classification information about unrestricted net assets as follows:

Undesignated – Cumulative results from activities which have not been designated by Catholic Charities for specific purposes.

Designated for future operations – Cumulative results from activities which have been designated for future purposes.

Designated for physical plant equity – Net investment in equipment and leasehold improvements.

Designated for renewal and replacement – Amounts designated for future acquisitions of fixed assets or for renewals and repairs.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may be met by actions of Catholic Charities and/or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained in perpetuity. Currently, Catholic Charities has no such permanently restricted net assets.

Support and revenue are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Realized gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions between the applicable classes of net assets.

(c) Use of Estimates in the Preparation of the Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(d) Cash Risk

Catholic Charities maintains funds on deposit with Catholic Community Investment and Loan, Inc. (“CCIL”). See also Note 8. Catholic Charities has not experienced any losses in such accounts and management believes the Organization is not exposed to any significant credit risk related to cash.

(e) Receivables and Credit Policies

Accounts receivable are from grantors and clients. The carrying amount of accounts receivable is reduced by a valuation allowance, if necessary, which reflects management’s best estimate of the amounts that will not be collected. The allowance is estimated based on management’s knowledge of grantors and clients, historical loss experience and existing economic conditions.

(f) Equipment and Leasehold Improvements

Equipment and leasehold improvements are stated at cost or fair market value at the date of gift, if acquired by donation, net of accumulated depreciation. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets. Equipment, furnishings and vehicles are generally depreciated over a period between three and ten years. Leasehold improvements are amortized over the shorter of the estimated useful lives or the term of the lease. Estimated salvage value of assets is zero. The Organization’s capitalization policy is to capitalize any expenditures over \$5,000 with a useful life greater than two years.

Expenditures for maintenance and repairs are expensed when incurred. Expenditures for renewals or betterments are capitalized. When assets are retired or sold, the cost and the related accumulated depreciation and amortization are removed from the accounts, and the resulting gain or loss is included in operations.

(g) Functional Categories

The allocation of salaries and other direct and indirect expenditures into functional categories is based upon the amount of time spent in the various functions by Catholic Charities’ personnel, space utilized for various functions, and other appropriate bases of allocation.

(h) Income Taxes

Catholic Charities is exempt from federal and state income taxes; accordingly, no provision for income taxes has been made in the accompanying financial statements. A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. Catholic Charities does not believe there are any material uncertain tax positions and, accordingly, it has not recognized any asset or liability for unrecognized tax benefits.

As of June 30, 2013 and 2012, Catholic Charities had accrued no interest and no penalties related to uncertain tax positions. It is Catholic Charities’ policy to recognize interest and/or penalties related to income tax matters in income tax expense. Catholic Charities files U.S. Federal information tax returns and is currently open to audit under the statute of limitations by the Internal Revenue Service for the years ended after June 30, 2008.

(i) Impairment of Long-lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

(j) Events occurring after the reporting date

The Organization has evaluated events and transactions that occurred between June 30, 2013 and December 5, 2013 which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

(2) **Equipment and Leasehold Improvements**

Equipment and leasehold improvements consist of the following:

	<u>2013</u>	<u>2012</u>
Equipment	\$ 315,033	\$ 315,033
Furnishings	25,436	25,436
Vehicles	28,311	28,311
Leasehold improvements	<u>291,508</u>	<u>291,508</u>
	660,288	660,288
Less accumulated depreciation and amortization	<u>567,712</u>	<u>531,535</u>
Equipment and leasehold improvements, net	<u>\$ 92,576</u>	<u>\$ 128,753</u>

(3) **Employee Benefit Plans**

Catholic Charities participates in two retirement plans currently sponsored by the Catholic Diocese of Nashville (the “Diocese”). They are as follows:

(a) **Defined Benefit Pension Plan**

Catholic Charities participates in a non-contributory defined benefit plan which is funded based on the required contribution each year as determined by the Diocesan Lay Retirement Board of Trust of the Diocese, and is calculated as a percentage of eligible employees’ compensation. During 2013 and 2012, Catholic Charities contributed 5% of the eligible employees’ compensation to the plan each year. Participants vest in all employer contributions to the plan as follows: after three years of service 20%, increasing 20% for each year of additional service until participants are fully vested after seven years of service.

The following table sets forth the benefit obligations, fair value of plan assets, and funded status (in thousands) of the noncontributory pension plan in which Catholic Charities is a participant as of January 1, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Pension benefits: (in thousands)		
Benefit obligation at end of plan year	\$ (32,062)	\$ (29,620)
Plan assets at fair value at end of plan year	<u>31,010</u>	<u>27,621</u>
Funded Status	<u>\$ (1,052)</u>	<u>\$ (1,999)</u>

Contributions to the defined benefit plan retirement plan were \$196,965 and \$190,952 for the years ended June 30, 2013 and 2012, respectively

(b) Defined Contribution Benefit Plan

Catholic Charities participates in a defined contribution plan as a supplement to the defined benefit pension plan. Employees are permitted to contribute 100% of their compensation to the defined contribution plan subject to certain Internal Revenue Code limitations. For those employees who contribute at least 3% of their compensation to the plan, Catholic Charities contributes a 100% match of 3% of the employee's compensation. Participants are 100% vested in their elective contributions and the employers' matching contributions.

Contributions to the defined contribution plan were \$89,102 and \$93,006 for the years ended June 30, 2013 and 2012, respectively.

(4) Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 2013 and 2012 are available for the following purposes or periods:

	<u>2013</u>	<u>2012</u>
Subsequent year operations - programmatic restrictions	\$ 289,640	\$ 288,092
Other restricted programmatic purposes	<u>257,229</u>	<u>256,190</u>
	<u>\$ 546,869</u>	<u>\$ 544,282</u>

During 2013 and 2012, net assets released from restrictions related to the utilization of funds restricted to programs.

(5) Lease commitments

The Organization leases certain real property and equipment under arrangements classified as operating leases. Total rent expense under operating leases paid to lessors amounted to \$561,698 and \$538,031 in 2013 and 2012, respectively. Certain lease agreements are with affiliated entities. Rental expense to affiliated entities totaled \$258,375 and \$255,014, respectively, in 2013 and 2012.

A summary of total rental expenses to affiliated entities for fiscal years 2013 and 2012 is as follows:

<u>Affiliated entities</u>	<u>2013</u>	<u>2012</u>
Catholic Diocese of Nashville	\$ 169,207	\$ 168,358
Holy Name Church	62,153	60,428
Our Lady of Guadalupe Church	<u>27,015</u>	<u>26,228</u>
	<u>\$ 258,375</u>	<u>\$ 255,014</u>

A summary of total net future minimum payments and rental income under these leases as of June 30, 2013 is as follows:

Year	Related Parties	Other	Total
2014	\$ 63,930	\$216,018	\$279,948
2015	-	88,830	88,830
2016	-	51,653	51,653
2017	-	8,281	8,281
2018	-	643	643
	<u>\$ 63,930</u>	<u>\$365,425</u>	<u>\$429,355</u>

(6) **Grants and Contracts**

Expenditures related to federal and state grants and contracts are subject to adjustment based upon review by the granting agencies. Catholic Charities does not anticipate that adjustments, if any, arising from such reviews will have a material effect on the statement of financial position.

(7) **Transactions with the Catholic Diocese of Nashville**

Catholic Charities purchases certain services from the Diocese, under separate operating agreements including human resources, software support and maintenance, and payroll services. Fees for these services totaled \$48,668 in 2013 and 2012 and are reflected as Purchased Services in the statements of functional expenses.

(8) **Funds on deposit with Catholic Community Investment and Loan, Inc.**

At June 30, 2013 and 2012, cash consisted primarily of funds on deposit with CCIL. CCIL is a not-for-profit public benefit and charitable corporation established to loan funds to parishes and entities subject to the canonical jurisdiction of the Bishop of Nashville as well as to invest pooled deposits.

(9) **In-Kind Donations**

Many individuals volunteer their time and perform a variety of tasks that assist the agency with program services. No amounts have been reflected in the financial statements for these donated services since the volunteers' time does not meet the criteria for recognition under Accounting Standards Codification ("ASC") Topic 958, *Not for Profit Entities*. Donated goods and space are recognized in the financial statements at fair market value when received.

(10) Commitments and Contingencies

Catholic Charities has one major program that is subject to grant matching requirements, the Match Grant/Free Case Resettlement program. This program is eligible for a 50% matching requirement, 20% of which must be cash or cash equivalent. The required match for fiscal year 2013 grant was \$324,893 with at least \$64,979 consisting of a cash or cash equivalent match. The required match for fiscal year 2012 was \$358,642, with at least \$71,728 consisting of a cash or cash equivalent match.

Catholic Charities is involved in various legal actions arising in the normal course of business. In the opinion of management, after consultation with legal counsel, such matters will not have a material adverse effect on the Organization's statement of financial position.

(11) Related party transactions

The Organization, on certain occasions, purchases goods or services from companies or organizations that are affiliated with or owned, directly or indirectly, by members of the board of directors. In the opinion of management, such matters are consistent with the application of the conflict of interest policies and procedures adopted by the board and reviewed annually by the audit committee.

CATHOLIC CHARITIES OF TENNESSEE, INC.
Schedule of Expenditures of Federal and State Grant Awards
Year Ended June 30, 2013

CFDA#	Grant Description	Grant Number	Receivable Balance June 30, 2012	Receipts and Other Reductions	Expenditures	Receivable Balance June 30, 2013
FEDERAL AWARDS						
16.575	U.S. Dept. of Justice: Crime Victim Assistance					
	Pass-through from State of Tennessee Department of Finance and Administration					
	Child Abuse Prevention Program - VOCA	Edison # 4018	\$ 9,398	\$ 9,398	\$ -	\$ -
	Child Abuse Prevention Program - VOCA	Edison # 18825	-	61,599	83,663	22,064
	Total Program		9,398	70,997	83,663	22,064
16.726	U.S. Dept. of Justice					
	Pass-through from Catholic Charities USA					
	National Mentoring Program	2012-JU-FX-0005	-	-	11,444	11,444
	Total Program		-	-	11,444	11,444
* 19.510	U.S. Dept. of Health and Human Services: Refugee Assistance					
	Pass-through from United States Catholic Conference:					
	Reception & Placement - Nashville	USCCB	180,552	180,552	-	-
	Reception & Placement - Nashville	USCCB	-	779,653	1,001,535	221,882
			180,552	960,205	1,001,535	221,882
	Reception & Placement - Memphis	USCCB	-	94,994	159,839	64,845
	Safe Passage	USCCB	-	4,000	6,400	2,400
	Total Program		180,552	1,059,199	1,167,774	289,127
84.287	US Dept. of Education-Office of Elementary and Secondary Education					
	Pass-through from State of Tennessee Department of Education					
	21st Century Community Learning Centers	EDISON 2847R	15,856	15,856	-	-
	21st Century Community Learning Centers	EDISON 30816	-	90,530	132,213	41,683
	Total Program		15,856	106,386	132,213	41,683
93.254	U.S. Dept. of Health and Human Services - Administration for Children and Families					
	Infant Adoption Awareness Training	90-CG-266701	-	10,123	10,123	-
	Total Program		-	10,123	10,123	-
93.566	U.S. Dept. of Health and Human Services: Refugee Resettlement Social Service					
	Tennessee Office for Refugees	12A1TNRRSS	140,139	140,139	-	-
	Tennessee Office for Refugees	12A1TNRRSS	-	1,162,288	1,371,925	209,637
	Total Program		140,139	1,302,427	1,371,925	209,637
93.567	U.S. Dept. of Health and Human Services: Refugee Assistance					
	Pass-through from United States Catholic Conference:					
	Match Grant/Free Case Resettlement - Nashville	USCCB	310,225	310,225	-	-
	Match Grant/Free Case Resettlement - Nashville	USCCB	-	418,174	547,737	129,563
	Match Grant/Free Case Resettlement - Nashville	USCCB	-	63,624	102,050	38,426
	Total Program		310,225	792,023	649,787	167,989
93.576	U.S. Dept. of Health and Human Services - Refugee and Entrant Assistance-Discretionary Grants					
	Tennessee Office for Refugees	90ZE0141/01	36,705	36,705	-	-
	Tennessee Office for Refugees	90ZE0141/02	-	263,218	324,166	60,948
	Tennessee Office for Refugees	90RX0213/01	16,085	16,085	-	-
	Tennessee Office for Refugees	90RX0213/01	-	127,396	149,151	21,755
	Tennessee Office for Refugees	90RT0159/01	13	13	-	-
	Tennessee Office for Refugees	90RT0159/01	-	2,658	2,658	-
	Tennessee Office for Refugees	90RL016/01	-	33,697	47,560	13,863
	Total Program		52,803	479,772	523,535	96,566
* 93.583	U.S. Dept. of Health and Human Services: Refugee Resettlement Social Service					
	Tennessee Office for Refugees	90RW0043-01	75,017	75,017	-	-
	Tennessee Office for Refugees	90RW0043-01/02	-	1,126,827	1,227,826	100,999
	Tennessee Office for Refugees	90RW0043-01	4,562	4,562	-	-
	Tennessee Office for Refugees	90RW0043-01/02	-	1,582,930	1,582,930	-
	Tennessee Office for Refugees	90RW0043-01	-	-	-	-
	Tennessee Office for Refugees	90RW0043-01/02	-	2,627,889	2,627,889	-
	Tennessee Office for Refugees	90RW0043-01	233,483	233,483	-	-
	Tennessee Office for Refugees	90RW0043-01/02	-	767,552	1,139,979	372,427
	Total Program		313,062	6,418,260	6,578,624	473,426
* 93.584	U.S. Dept. of Health and Human Services: Refugee Resettlement Social Service					
	Tennessee Office for Refugees	10A1TNRRTA	72,086	72,086	-	-
	Tennessee Office for Refugees	11A1TNRRTA	-	674,004	776,069	102,065
	Total Program		72,086	746,090	776,069	102,065

See accompanying notes to the Schedule of Expenditures of Federal and State Grant Awards

CFDA#	Grant Description	Grant Number	Receivable Balance June 30, 2012	Receipts and Other Reductions	Expenditures	Receivable Balance June 30, 2013
93.590	U.S. Dept. of Justice: Crime Victim Assistance					
	Pass-through from State of Tennessee Department of Children's Services					
	Child Abuse Prevention Service's	GR-10-29382-00	3,755	3,755	-	-
	Child Abuse Prevention Service's	EDISON 31711	-	20,325	49,841	29,516
			3,755	24,080	49,841	29,516
	Child Abuse Prevention Program-Davidson Co.	GR-10-29127-00	3,216	3,216	-	-
	Child Abuse Prevention Program-Davidson Co.	EDISON 31632	-	20,211	30,900	10,689
			3,216	23,427	30,900	10,689
	Child Abuse Prevention Services	EDISON 31759	-	15,041	36,874	21,833
			-	15,041	36,874	21,833
	Child Abuse Prevention Services	EDISON 31635	-	14,607	29,139	14,532
	Total Program		6,971	77,155	146,754	76,570
93.643	U.S. Department of Health and Human Services: Child Abuse and Neglect State Grants					
	Pass-through from State of Tennessee Department of Children's Services					
	Chap Plus	GR-09-25594-00	2,543	2,543	-	-
	Total Program		2,543	2,543	-	-
93.652	U.S. Dept. of Health and Human Services - Administration for Children and Families					
	Adoption Opportunities					
	Pass through from Harmony Adoptions of Tennessee, Inc.					
	Administration for Children and Families Adoption Opportunities	GR1133061	114,495	114,495	-	-
	Administration for Children and Families Adoption Opportunities	GR1235051	-	458,166	554,885	96,719
	Total Program		114,495	572,661	554,885	96,719
	Sub-total Federal Awards		1,218,130	11,637,636	12,006,796	1,587,290
STATE AWARDS						
N/A	State of Tennessee Department of Education					
	Lottery for Education: Afterschool Program (LEAP)	EDISON 25406	20,597	20,597	-	-
	Lottery for Education: Afterschool Program (LEAP)	EDISON 25406	-	70,532	82,695	12,163
	Total Program		20,597	91,129	82,695	12,163
N/A	State of Tennessee Department of Children's Services					
	Pass through from Harmony Adoptions of Tennessee, Inc.	GR1133061	8,759	8,759	-	-
	Pass through from Harmony Adoptions of Tennessee, Inc.	GR-1235051	-	51,216	62,043	10,827
	Total Program		8,759	59,975	62,043	10,827
	Sub-total State Awards		29,356	151,104	144,738	22,990
	Grand total Federal and State Awards		\$ 1,247,486	\$ 11,788,740	\$ 12,151,534	\$ 1,610,280

See accompanying notes to the Schedule of Expenditures of Federal and State Grant Awards

CATHOLIC CHARITIES OF TENNESSEE, INC.

Notes to the Schedule of Expenditures of Federal and State Grant Awards

Year ended June 30, 2013

(1) Basis of Presentation

The accompanying Schedule of Expenditures of Federal and State Grant Awards (the "Schedule") includes the federal and state grant activity of Catholic Charities of Tennessee, Inc. (the "Organization"). The information in the Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

(2) Summary of Significant Accounting Policies for Federal and State Expenditures

For purposes of the Schedule, expenditures of federal and state awards are recognized on the accrual basis of accounting.

**Independent Auditors' Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with Government Auditing Standards**

The Board of Trustees of
Catholic Charities of Tennessee, Inc.:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Catholic Charities of Tennessee, Inc. (the "Organization"), which are comprised of the statement of financial position as of June 30, 2013, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated December 5, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

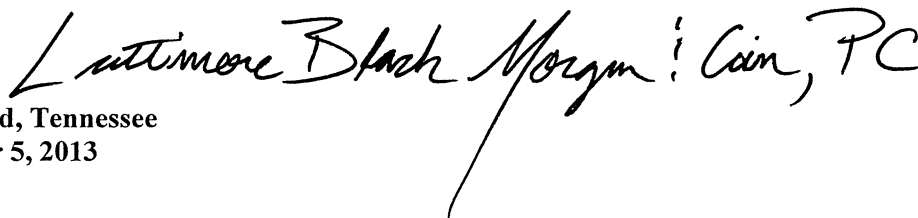
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Brentwood, Tennessee
December 5, 2013

A handwritten signature in black ink that reads "Lattimore Black Morgan & Cain, PC". The signature is written in a cursive, flowing style. The "L" is large and loops around the first part of the name. The "PC" is written at the end of the signature.

**Independent Auditors' Report on Compliance for Each Major
Program and on Internal Control Over Compliance
Required by OMB Circular A-133**

The Board of Trustees of
Catholic Charities of Tennessee, Inc.:

Report on Compliance for Each Major Federal Program

We have audited the compliance of Catholic Charities of Tennessee, Inc. (the "Organization") with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2013. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Lattimore Black Morgan & Cain, PC". The signature is written in a cursive, flowing style.

Brentwood, Tennessee
December 5, 2013

CATHOLIC CHARITIES OF TENNESSEE, INC.

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

(1) Summary of Auditors' Results

- (a) The independent auditors' report expressed an unqualified opinion on the financial statements.
- (b) No significant deficiencies relating to the audit of the financial statements are reported in the Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. No material weaknesses are reported.
- (c) No instances of noncompliance material to the financial statements of the Organization, which would be required to be reported in accordance with *Government Accounting Standards*, were disclosed during the audit.
- (d) No deficiencies in internal control over major federal award programs are reported in the Internal Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133. No material weaknesses are reported.
- (e) The independent auditors' report on compliance for the major federal award programs for the Organization expresses an unqualified opinion on all the major federal programs.
- (f) There are no audit findings relative to the federal award programs for the Organization which are required to be reported under Section 510(a) of OMB Circular A-133.
- (g) The programs tested as major programs included:

<u>CFDA#</u>	<u>Grantor</u>	<u>Program</u>
19.510	U.S. Department of Health and Human Services	Refugee Assistance
93.583	U.S. Department of Health and Human Services	Refugee Resettlement Social Service
93.584	U.S. Department of Health and Human Services	Refugee Resettlement Social Service

- (h) The threshold used to distinguish between Type A and Type B programs was approximately \$357,000.
- (i) The Organization qualified as a low-risk auditee.

(2) Findings - Financial Statement Audit

None

(3) Findings and Questioned Costs - Major Federal Award Program Audit

None