

**CATHOLIC CHARITIES
OF TENNESSEE, INC.**

**Financial Statements and
Supplementary Information**

June 30, 2008 and 2007

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

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of Catholic Charities of Tennessee, Inc. (the "Organization") as of June 30, 2008 and 2007, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2008 and 2007, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2008 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal and state grant awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Lattimore Black Morgan & Cain, PC

Brentwood, Tennessee
November 13, 2008

CATHOLIC CHARITIES OF TENNESSEE, INC.

Statements of Financial Position

June 30, 2008 and 2007

Assets	2008	2007
Cash	\$ 190,172	237,718
Contributions receivable	703,107	690,790
Receivable from the State of Tennessee	231,726	200,331
Receivable from United States Catholic Conference of Bishops	255,435	77,339
Receivable from Metropolitan Government of Nashville	171,569	-
Receivable from Office of Refugee Resettlement	128,197	8,078
Receivable from United Way, net	361,659	279,784
Miscellaneous program grants receivable	33,111	144,601
Miscellaneous accounts receivable, net of allowance for doubtful accounts of \$6,719 at June 30, 2008 and \$7,106 at June 30, 2007	191,311	238,328
Prepaid expenses	22,375	24,800
Equipment and leasehold improvements, net	80,954	99,772
Total assets	\$ 2,369,616	2,001,541
Liabilities and Net Assets		
Program advance	\$ 16,000	16,000
Accounts payable and accrued liabilities	182,121	79,595
Payable to the Governance and Service Offices of the Diocese of Nashville	49,753	-
Deferred revenues	65,757	73,072
Total liabilities	313,631	168,667
Net assets:		
Unrestricted:		
Designated for:		
Future operations	500,523	342,043
Physical plant equity	80,954	99,772
Renewal and replacement	107,247	107,247
Total unrestricted net assets	688,724	549,062
Temporarily restricted net assets	1,367,261	1,283,812
Total net assets	2,055,985	1,832,874
Total liabilities and net assets	\$ 2,369,616	2,001,541

CATHOLIC CHARITIES OF TENNESSEE, INC.

Statements of Activities

Years ended June 30, 2008 and 2007

	2008			2007		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and revenue:						
State of Tennessee grants	\$ 1,022,488	-	1,022,488	1,270,716	-	1,270,716
Service fees	1,673,876	-	1,673,876	1,160,692	-	1,160,692
Diocesan contributions and grants	74,550	703,107	777,657	43,626	690,790	734,416
United States Catholic Conference of Bishops grants	728,868	-	728,868	445,838	-	445,838
Miscellaneous program grants	628,217	-	628,217	978,612	-	978,612
Metropolitan Government of Nashville grants	365,392	-	365,392	-	-	-
Office of Refugee Resettlement grants	207,961	-	207,961	131,774	-	131,774
Reimbursement of occupancy expenses	295,673	-	295,673	292,875	-	292,875
Contributions and bequests	310,813	25,000	335,813	507,778	-	507,778
United Way allocation and designations	9,117	385,247	394,364	29,123	302,395	331,518
Other	12,368	19	12,387	24,287	15	24,302
In-Kind Donations	647,200	-	647,200	893,296	-	893,296
Net assets released from restrictions	1,029,924	(1,029,924)	-	788,179	(788,179)	-
Total support and revenue	7,006,447	83,449	7,089,896	6,566,796	205,021	6,771,817
Expenses:						
Program expenses	6,322,386	-	6,322,386	5,876,276	-	5,876,276
Management and general	185,766	-	185,766	281,386	-	281,386
Auxiliary services	358,633	-	358,633	298,397	-	298,397
Total expenses	6,866,785	-	6,866,785	6,456,059	-	6,456,059
Increase in net assets	139,662	83,449	223,111	110,737	205,021	315,758
Net assets at beginning of year	549,062	1,283,812	1,832,874	438,325	1,078,791	1,517,116
Net assets at end of period	\$ 688,724	1,367,261	2,055,985	549,062	1,283,812	1,832,874

CATHOLIC CHARITIES OF TENNESSEE, INC.

Statements of Functional Expenses

Years ended June 30, 2008 and 2007

	2008											
	Catholic Social Services	Refugee Resettlement	Pregnancy Counseling and Adoptions	Other Social Service Programs	Services to Elderly	Community Healthcare Access	Child Abuse Prevention	Welfare to Work	Total Program Expenses	Management and General	Auxiliary Services	Total
\$	836,972	810,786	646,015	124,341	163,821	306,976	179,959	294,363	3,363,233	646,785	161,564	4,171,582
Total salaries/benefits												
Purchased services	78,134	176,682	184,790	32,633	15,520	34,039	25,899	39,023	586,720	126,937	190,393	904,050
Supplies and materials	26,675	64,901	19,135	2,263	12,366	3,518	4,010	2,039	134,907	33,406	12,745	181,058
Depreciation and amortization												
Depreciation	1,269	-	-	-	-	-	-	-	1,269	17,236	13,905	32,410
Amortization	2,735	7,148	24,590	552	278	290	1,069	1,471	38,133	121	103	38,357
Conferences	40,441	7,534	1,354	2,889	-	-	515	-	52,733	1,380	138,273	192,386
Rent												
Miscellaneous	1,080	3,127	1,755	18	299	44	121	327	6,771	8,560	1,594	16,925
Administrative expenses	189,719	115,727	147,965	17,280	42,632	28,217	27,619	37,526	606,685	(672,612)	65,927	-
Building occupancy	24,560	74,324	51,273	10,518	18,405	10,713	14,462	1,755	206,010	19,861	(225,871)	-
Subsidies/assistance	399,488	527,646	76,359	244,571	-	126	77,735	-	1,325,925	-	-	1,325,925
Fundraising										4,092	-	4,092
Total functional expenses	\$ 1,601,073	1,787,875	1,153,236	435,065	253,321	383,923	331,389	376,504	6,322,386	185,766	358,633	6,866,785

	2007											
	Catholic Social Services	Refugee Resettlement	Pregnancy Counseling and Adoptions	Other Social Service Programs	Services to Elderly	Community Healthcare Access	Child Abuse Prevention	Welfare to Work	Total Program Expenses	Management and General	Auxiliary Services	Total
Total salaries/benefits	\$ 712,296	710,390	531,979	230,183	148,261	285,553	160,327	146,947	2,925,936	614,128	128,385	3,668,449
Purchased services	68,594	152,179	183,715	37,213	12,973	9,863	24,925	91,577	581,039	134,693	187,126	902,858
Supplies and materials	21,523	25,877	18,759	3,013	9,212	5,598	2,943	2,676	89,601	38,868	9,262	137,731
Depreciation and amortization	1,269	-	-	-	-	-	-	-	1,269	25,552	13,368	40,189
Conferences	2,617	5,700	17,091	385	431	475	1,953	270	28,922	788	-	29,710
Rent	39,912	8,761	4,670	-	-	-	682	-	54,025	1,390	134,053	189,468
Miscellaneous	1,044	15,395	764	583	23	163	233	132	18,337	6,811	1,966	27,114
Administrative expenses	193,801	81,677	145,712	45,537	41,515	25,652	25,084	18,000	576,978	(635,623)	58,645	-
Building occupancy	20,884	57,933	43,478	24,574	19,659	6,400	13,401	26,031	212,360	22,048	(234,408)	-
Subsidies/assistance	542,581	301,834	180,547	304,069	-	544	57,130	1,104	1,387,809	-	-	1,387,809
Fundraising	-	-	-	-	-	-	-	-	-	72,731	-	72,731
Total functional expenses	\$ 1,604,521	1,359,746	1,126,715	645,557	232,074	334,248	286,678	286,737	5,876,276	281,386	298,397	6,456,059

See accompanying notes to consolidated financial statements.

CATHOLIC CHARITIES OF TENNESSEE, INC.

Statements of Cash Flows

Years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Increase in net assets	\$ 223,111	315,758
Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	32,410	40,189
Changes in assets and liabilities:		
Contributions receivable	(12,317)	(104,322)
Receivable from the State of Tennessee	(31,395)	(35,014)
Receivable from United States Catholic Conference of Bishops	(178,096)	8,131
Receivable from Metropolitan Government of Nashville	(171,569)	—
Receivable from Office of Refugee Resettlement	(120,119)	29,482
Receivable from United Way	(81,875)	(49,835)
Miscellaneous program grants receivable	111,490	94,672
Miscellaneous accounts receivable, net of allowance	47,017	(110,495)
Prepaid expenses	2,425	(12,425)
Program advance, accounts payable and accrued liabilities	102,526	(15,988)
Payable to the Governance and Service Offices of the Diocese of Nashville	49,753	(23,591)
Deferred revenues	(7,315)	6,220
Net cash provided (used) by operating activities	<u>(33,954)</u>	<u>142,782</u>
Cash flows used in investing activities:		
Purchase of equipment and leasehold improvements	<u>(13,592)</u>	<u>(20,078)</u>
Cash flows provided in financing activities:		
Payments of note payable to the Governance and Service Offices of the Diocese of Nashville	<u>—</u>	<u>(29,598)</u>
Net cash used by financing activities	<u>—</u>	<u>(29,598)</u>
Net increase (decrease) in cash	(47,546)	93,106
Cash at beginning of year	<u>237,718</u>	<u>144,612</u>
Cash at end of period	<u>\$ 190,172</u>	<u>237,718</u>

CATHOLIC CHARITIES OF TENNESSEE, INC.

Notes to the Financial Statements

June 30, 2008 and 2007

(1) Summary of significant accounting policies

(a) Reporting entity

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

(b) Basis of Presentation

Contributions, which include unconditional promises to give (pledges), are recognized as revenues in the period 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 the 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 either 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.

CATHOLIC CHARITIES OF TENNESSEE, INC.

Notes to the Financial Statements

June 30, 2008 and 2007

Support and revenue is 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 generally maintains cash on deposit at banks in excess of federally insured amounts. Catholic Charities also has funds on deposit in the Deposit and Loan Fund of the Governance and Service Office of the Diocese of Nashville (the "GSO"). See also Note 9. 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 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. 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.

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.

CATHOLIC CHARITIES OF TENNESSEE, INC.

Notes to the Financial Statements

June 30, 2008 and 2007

(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.

(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.

(2) Contributions Receivable

Contributions receivable of \$703,107 and \$690,790 at June 30, 2008 and 2007, respectively, represents unconditional promises received from the Bishops Annual Appeal. The gross amount, which approximates net realizable value, has been recorded, and is receivable in less than one year. The amount from the Bishops Annual Appeal is restricted for operations of the subsequent fiscal year.

Receivables from United Way of \$361,659 and \$279,784 at June 30, 2008 and 2007, respectively, represent pledges that have been designated to Catholic Charities as well as allocations for specific programs from United Way. The receivables are recorded at net realizable value and are receivable in less than one year. The gross amounts were recorded less a net allowance of \$5,572 and \$7,049 for 2008 and 2007, respectively, which represents an estimated uncollectible amount for United Way designations.

CATHOLIC CHARITIES OF TENNESSEE, INC.

Notes to the Financial Statements

June 30, 2008 and 2007

(3) Equipment and Leasehold Improvements

Equipment and leasehold improvements consist of the following:

	<u>2008</u>	<u>2007</u>
Equipment	\$ 205,236	\$ 197,670
Furnishings	16,497	13,096
Vehicles	20,316	20,316
Leasehold improvements	<u>189,129</u>	<u>186,504</u>
	431,178	417,586
Less accumulated depreciation and amortization	<u>350,224</u>	<u>317,814</u>
Equipment and leasehold improvements, net	<u>\$ 80,954</u>	<u>\$ 99,772</u>

(4) Employee Benefit Plans

Catholic Charities participates in two retirement plans currently sponsored by the GSO. 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 GSO, and is calculated as a percentage of eligible employees' salaries. Catholic Charities contributes 4% of the eligible employees' salaries to the plan. 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:

	<u>January 1,</u> <u>2008</u>	<u>January 1,</u> <u>2007</u>
	(in thousands)	
Pension benefits:		
Benefit obligation at end of plan year	\$ (20,925)	\$ (18,929)
Plan assets at fair value at end of plan year	<u>25,335</u>	<u>23,390</u>
Funded Status	<u>\$ 4,410</u>	<u>\$ 4,461</u>

CATHOLIC CHARITIES OF TENNESSEE, INC.

Notes to the Financial Statements

June 30, 2008 and 2007

(b) Defined Contribution Benefit Plan

Catholic Charities participates in a defined contribution plan as a supplement to the defined benefit pension plan. In order to participate in the plan, employees are required to contribute a minimum of 3% of salary. Catholic Charities contributes a 3% match to the accounts of the employees that are participating in the plan. Participants are 100% vested in their contributions and the employers' matching contributions.

Contributions to both retirement plans were \$184,552 and \$162,848 for the years ended June 30, 2008 and 2007, respectively.

(5) Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 2008 and 2007 are available for the following purposes or periods:

	<u>2008</u>	<u>2007</u>
Subsequent year operations - program unrestricted	\$ 789,267	\$ 782,609
Subsequent year operations - programmatic restrictions	310,095	210,576
Other restricted programmatic purposes	<u>267,899</u>	<u>290,627</u>
	<u>\$ 1,367,261</u>	<u>\$ 1,283,812</u>

(6) Utilization of Temporarily Restricted Net Assets

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the passage of time as follows:

	<u>2008</u>	<u>2007</u>
Utilization of funds restricted to current year	\$ 782,609	\$ 612,770
Utilization of funds restricted to programs for current year	210,576	152,472
Utilized to satisfy donor-specified purpose	<u>36,739</u>	<u>22,937</u>
	<u>\$ 1,029,924</u>	<u>\$ 788,179</u>

(7) Leases

Catholic Charities utilized facilities under operating lease agreements during the fiscal years ended June 30, 2008 and 2007.

The Loaves and Fishes, Refugee, Families First, and various other programs operate from offices owned by Holy Name Catholic Church. A letter of agreement dated July 1, 1999, between the lessor and Catholic Charities outlines the basic terms of the lease for the programs. This agreement calls for a five year lease with a five year renewal option, with lease payments based on Catholic Charities' portion of actual facility expenses. The agreement also contains a clause which would allow Catholic Charities to reduce its lease payments in the event of a significant decrease in program activity. The Loaves and Fishes lease was entered into on July 1, 2003 and has the option to renew annually. Lease expense for 2008 and 2007 was \$49,609 and \$45,811, respectively.

CATHOLIC CHARITIES OF TENNESSEE, INC.

Notes to the Financial Statements

June 30, 2008 and 2007

The Refugee Resettlement programs lease warehouse space from East Nashville Cooperative Ministry on a month-to-month basis for \$500 per month. Total rental payments were \$6,000 in 2008 and 2007.

A 21st Century Community Learning Center – refugee service program operated out of space leased from Second Presbyterian Church for a payment of \$150 a month. Total rent payments were \$1,800 in 2008 and \$150 in 2007.

Two social service programs operated out of space leased from Immaculate Conception Catholic Church in Clarksville, Tennessee, for a lease payment of \$175 a month. Total rent payments were \$2,100 in 2008 and 2007.

Woodbine Community Organization was paid \$3,000 in 2008 for the social service program - Southeast Nashville Latino Services starting April 23, 2008.

Effective May 1, 2005, the North Nashville Outreach program entered into a three year lease arrangement with Buchanan Plaza Center for \$1,650 per month with a 7% increase beginning with the first day of the third year of the lease. Lease expense for 2008 and 2007 was \$21,186 and \$20,031, respectively.

The other Charities operations leased facilities at Saint Mary Villa, under annual lease agreements with the GSO. Catholic Charities manages the Saint Mary Villa facility for the GSO under a separate agreement. The annual amount paid is based on reimbursement of occupancy expense for the percentage of building space actually used by the various programs. For the years ended June 30, 2008 and 2007, Catholic Charities' portion of the occupancy expense totaled \$128,840 and \$130,101, respectively. Total occupancy revenues received from related entities (St Mary Villa Child Daycare Center, Mary Queen of Angels, and several Diocesan offices) were \$295,673 and \$292,875 in 2008 and 2007, respectively.

In addition to the above leased facilities, Catholic Charities also has several leased automobiles and office equipment. Total lease payments in fiscal years 2008 and 2007 for automobiles and office equipment were \$92,020 and \$72,954, respectively. The amount of lease expense also includes expense from automobile rentals.

Future minimum commitments under noncancelable leases as of June 30, 2008 are:

	<u>Amount</u>
2009	\$ 240,396
2010	194,145
2011	155,850
2012	133,558
2013	<u>6,236</u>
	<u>\$ 730,185</u>

CATHOLIC CHARITIES OF TENNESSEE, INC.

Notes to the Financial Statements

June 30, 2008 and 2007

(8) 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.

(9) Transactions with the Governance and Service Offices of the Roman Catholic Diocese of Nashville

The GSO performs the cash management function for Catholic Charities. Consequently, Catholic Charities' cash transactions flow through the "Receivable/Payable to the GSO of the Roman Catholic Diocese of Nashville" account of Catholic Charities. Any payable items to the GSO are due upon receipt of invoice. Cash includes \$237,535 and \$286,004 on deposit with the Deposit and Loan Fund of the GSO of the Diocese of Nashville at June 30, 2008 and 2007, respectively.

Under a separate operating agreement, Catholic Charities purchases certain services from the GSO, including human resources, software support and maintenance, and payroll services. Such fees are reflected as fiscal services expenses in the statement of functional expenses.

(10) 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 Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 116, *Accounting for Contributions Received and Contributions Made*. Donated goods and space are recognized in the financial statements at estimated fair market value when received.

(11) Commitments and Contingencies

Catholic Charities has one major program that is subject to grant matching requirements, the Match Grant/Free Case Resettlement program.

The Match Grant/Free Case Resettlement program is based upon a calendar year and is subject to a 50% match requirement, 20% of which must be cash or cash equivalent. The required match for the 2008 grant was \$230,000, with at least \$46,000 consisting of a cash or cash equivalent match. The required match for the 2007 grant was \$184,500, with at least \$36,900 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.

(12) Related party transactions

The Organization on rare 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, 2008

CFDA#	Grant Description	Grant Number	Receivable Balance June 30, 2007	Receipts and Other Reductions	Expenditures	Receivable Balance June 30, 2008
FEDERAL AWARDS						
14.856	U.S. Department of Housing and Urban Development Lower Income Housing Assistance Program-Section 8 Moderate Rehabilitation Disaster Relief (Katrina) (MDHA) Total Program	None	\$ - -	33,195 33,195	101,619 101,619	68,424 68,424
16.540	U.S. Dept. of Justice: Juvenile Justice and Delinquency Prevention-Allocation to States Pass-through from Metro Social Services Pass-through from Metro Social Services Total Program	GR-0617669-00 GR-07-18417-00	468 10,456 10,924	468 21,162 21,630	- 10,706 10,706	- - -
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 Pass-through from State of Tennessee Department of Children's Services Child Abuse Prevention Service's Child Abuse Prevention Program-Davidson Co. Child Abuse Prevention Program-Davidson Co. Total Program	Z-07-033123-00 GR-08-21361-00 GR-0617717-01 GR-08-21281-00	8,860 - 967 - 9,827	94,317 48,000 967 25,626 168,910	87,320 48,000 - 27,000 162,320	1,863 - - 1,374 3,237
84.184	US Dept of Education - Safe and Drug-Free Schools and Communities Refugee Youth Mentoring Program Total Program	Q184B070127	- -	42,849 42,849	51,658 51,658	8,809 8,809
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 Total Program	GR-08-22353-00	- -	133,357 133,357	174,392 174,392	41,035 41,035
93.235	U.S. Department of Health and Human Services: Abstinence Education Pass-through from State of Tennessee Department of Health Abstinence Education Services Total Program	Z-07-18327-00	2,423 2,423	2,423 2,423	- -	- -
93.254	U.S. Dept. of Health and Human Services - Administration for Children and Families Infant Adoption Awareness Training Pass through from Harmony Adoptions of Tennessee, Inc. Pass through from Harmony Adoptions of Tennessee, Inc. Total Program	90-CG-265901	9,166 2,835 12,001	145,724 34,030 179,754	136,558 34,030 170,588	- 2,835 2,835
* 93.558	U.S. Dept. of Health and Human Services: Temporary Assistance for Needy Families Pass-through from State of Tennessee Department of Human Services: Families First Pass through from Maximus, Inc. Total Program	GR-16170-02 OPS-275-99-0178	12,287 25,514 37,801	71,287 302,576 373,863	59,000 322,896 381,896	- 45,834 45,834
* 93.566	U.S. Dept. of Health and Human Services: Refugee Resettlement Social Service Tennessee Refugee Program Pass-through from State of Tennessee Department of Human Services: Refugee Social Services Refugee Elderly Services Total Program	GR - 08A1TNCMAR GR-08-22295-00 GR-08-22300-00	- 55,043 545 55,588	- 254,858 20,424 275,282	61,357 288,397 21,972 371,726	61,357 88,582 2,093 152,032
* 93.567	U.S. Dept. of Health and Human Services: Refugee Assistance Pass-through from United States Catholic Conference: Match Grant/Free Case Resettlement Match Grant/Free Case Resettlement Total Program	USCC	47,643 - 47,643	340,070 - 340,070	347,407 123,817 471,224	54,980 123,817 178,797
* 93.576	U.S. Dept. of Health and Human Services - Refugee and Entrant Assistance-Discretionary Grants Reception & Placement Reception & Placement Refugee Subsidies Refugee Subsidies	USCC USCC USCC USCC	5,530 - 5,530 24,166 - 24,166	83,540 12,022 95,562 97,129 16,166 113,295	78,010 43,100 121,110 72,963 61,726 134,689	- 31,078 31,078 - 45,560 45,560

* Indicates major program

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

See accompanying notes to the auditor's report

CATHOLIC CHARITIES OF TENNESSEE, INC.

Schedule of Expenditures of Federal and State Grant Awards

Year ended June 30, 2008

CFDA#	Grant Description	Grant Number	Receivable Balance June 30, 2007	Receipts and Other Reductions	Expenditures	Receivable Balance June 30, 2008
	U.S. Dept. of Health and Human Services - Refugee and Entrant Assistance Administration for Children and Families Individual Development Accounts Program Total Program	90Z10060	8,076 37,772	88,059 296,916	146,822 402,621	66,839 143,477
* 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. Pass through from Harmony Adoptions of Tennessee, Inc. Total Program	GR07183200	151,272 - 151,272	151,272 423,016 574,288	- 532,799 532,799	- 109,783 109,783
93.669	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 Chap Plus Total Program	GR-07-18046-00 GR-08-22257-00	8,126 - 8,126	8,126 47,161 55,287	- 49,658 49,658	- 2,497 2,497
97.024	Federal Emergency Management Agency: Emergency Food and Shelter Pass-through from United Way of Middle Tennessee Emergency Food and Shelter Emergency Food and Shelter Total Program	25-7652-00-005 26-7652-00-005 25-7652-00-015 26-7652-00-015	7,087 - 5,907 - 12,994	7,087 9,131 5,907 3,653 25,778	- 9,131 - 7,305 16,436	- - - 3,652 3,652
97.084	U.S. Department of Homeland Security Hurricane Katrina Case Management Initiative Program Pass-through from Catholic Charities USA passed-through from United Methodist Committee on Relief (UMCOR) Total Program Sub-total Federal Awards	EMW-2006-GR-0056	41,080 41,080 427,451	87,064 87,064 2,610,666	45,984 45,984 2,943,627	- - 760,412
STATE AWARDS						
N/A	State of Tennessee Department of Human Services Department of Human Services Total Program		- - -	20 20 20	20 20 20	- - -
N/A	State of Tennessee Department of Health Hispanic Health Services Hispanic Health Education Services Total Program	GR-07-18482-00 GR-08-20838-00	5,758 - 5,758	5,758 56,378 62,136	- 75,000 75,000	- 18,622 18,622
N/A	Tennessee Department of Education Lottery for Education: Afterschool Program (LEAP) Lottery for Education: Afterschool Program (LEAP) Lottery for Education: Afterschool Program (LEAP) - Food Program Total Program	Z-05-027744-00 Z-07-034314-01 DA07-00143/DA-0821473	51,228 - - 51,228	51,228 64,000 2,014 117,242	- 121,500 2,014 123,514	- 57,500 - 57,500
	Test Prep Lottery for Education: Afterschool Program (LEAP) Total Program	Z-07-034314-00 Z-07-034314-01	44,165 - 44,165	44,165 31,822 75,987	- 49,976 49,976	- 18,154 18,154
N/A	State of Tennessee Department of Children's Services Department of Children's Services Total Program		- - -	7,500 7,500 7,500	7,500 7,500 7,500	- - -
N/A	Adoption Home Recruitment (from Harmony Adoptions) Adoption Home Recruitment (from Harmony Adoptions) Total Program	GR-07-18492	32,673 - 32,673	32,673 73,883 106,556	- 89,517 89,517	- 15,634 15,634
	Sub-total State Awards		133,824	369,441	345,527	109,910
	Grand total Federal and State Awards		\$ 561,275	2,980,107	3,289,154	870,322

* Indicates major program

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

See accompanying notes to the auditor's report

CATHOLIC CHARITIES OF TENNESSEE, INC.

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

Year ended June 30, 2008

(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 Catholic Charities.

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

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



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

**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 the financial statements of Catholic Charities of Tennessee, Inc. (the "Organization") as of and for the year ended June 30, 2008, and have issued our report thereon dated November 13, 2008. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Organization's internal control over financial reporting in order to determine our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A control deficiency 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 and detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the Organization's financial statements that is more than inconsequential will not be prevented or detected by the Organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Organization's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance

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*.

This report is intended solely for the information and use of the Board of Trustees, management, and state and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Lattimore Black Morgan + Cain, PC

Brentwood, Tennessee
November 13, 2008



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

Independent Auditors' Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control Over Compliance
in Accordance with OMB Circular A-133

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

Compliance

We have audited the compliance of Catholic Charities of Tennessee, Inc. (the "Organization") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2008. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization's compliance based on our audit.

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. Our audit does not provide a legal determination on the Organization's compliance with those requirements.

In our opinion, the Organization complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Organization's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 control deficiency 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Organization's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Organization's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

This report is intended for the information of the Board of Trustees, management, and state and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Lattiman Black Morgan + Cain, PC

Brentwood, Tennessee
November 13, 2008

CATHOLIC CHARITIES OF TENNESSEE, INC.

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

(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*.
- (c) No instances of noncompliance material to the basic 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 significant deficiencies relating to the audit of the major federal award programs are reported in the Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.
- (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>
84.287	U.S. Department of Education (pass-through from State of Tennessee Department of Education)	21st Century Community Learning Centers
93.254	U.S. Department of Health and Human Services (pass-through from Harmony Adoptions of Tennessee, Inc.)	Infant Adoption Awareness
93.558	U.S. Department of Health and Human Services (pass-through from State of Tennessee Department of Human Services)	Temporary Assistance for Needy Families
93.576	U.S. Department of Health and Human Services	Refugee and Entrant Assistance
93.652	U.S. Department of Health and Human Services (pass-through from Harmony Adoptions of Tennessee, Inc.)	Adoption Opportunities

- (h) The threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The Organization qualified as a low-risk auditee.

(2) Findings - Financial Statement Audit

None

CATHOLIC CHARITIES OF TENNESSEE, INC.

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

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

None