

CATHOLIC CHARITIES OF TENNESSEE, INC.

**Consolidated Financial Statements
and Supplementary Information**

June 30, 2005 and 2004

(With Independent Auditors' Report Thereon)



LATTIMORE BLACK MORGAN & CAIN, P.C.
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 consolidated statements of financial position of Catholic Charities of Tennessee, Inc. and Subsidiary (collectively "Catholic Charities") as of June 30, 2005 and 2004 and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended. These consolidated financial statements are the responsibility of Catholic Charities' management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Catholic Charities of Tennessee, Inc. and Subsidiary as of June 30, 2005 and 2004, and the changes in their net assets and their 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 February 10, 2006 on our consideration of Catholic Charities' 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 made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying schedule of expenditures of 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 consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

Lattimore, Black, Morgan & Cain, P.C.

Brentwood, Tennessee
February 10, 2006

Nashville

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CATHOLIC CHARITIES OF TENNESSEE, INC.

Consolidated Statements of Financial Position

June 30, 2005 and 2004

| Assets | 2005 | 2004 |
|--|---------------------|------------------|
| Cash | \$ 153,740 | 244,888 |
| Receivable from the State of Tennessee | 150,317 | 255,308 |
| Receivable from Metropolitan Government of Nashville and Davidson County | 101,669 | 197,694 |
| Receivable from United States Catholic Conference | 199,467 | 230,171 |
| Contributions receivable, net | 1,021,500 | 807,301 |
| Miscellaneous accounts receivable, net of allowance for doubtful accounts of \$16,941 in 2005 and \$13,029 in 2004 | 163,511 | 196,494 |
| Prepaid expenses | 11,383 | 23,733 |
| Equipment and leasehold improvements, net | 106,872 | 140,727 |
| Total assets | <u>\$ 1,908,459</u> | <u>2,096,316</u> |
| Liabilities and Net Assets | | |
| Program advance | \$ 16,000 | 16,000 |
| Accounts payable and accrued liabilities | 228,895 | 459,687 |
| Payable to the Governance and Service Offices of the Diocese of Nashville | 204,329 | 167,311 |
| Deferred revenues | 95,917 | 88,002 |
| Total liabilities | <u>545,141</u> | <u>731,000</u> |
| Net assets: | | |
| Unrestricted: | | |
| Undesignated | - | 349 |
| Designated for: | | |
| Future operations | 27,556 | 53,718 |
| Physical plant equity | 106,872 | 140,727 |
| Renewal and replacement | 99,727 | 99,727 |
| Total unrestricted net assets | <u>234,155</u> | <u>294,521</u> |
| Temporarily restricted net assets | <u>1,129,163</u> | <u>1,070,795</u> |
| Total net assets | <u>1,363,318</u> | <u>1,365,316</u> |
| Commitments and contingencies | | |
| Total liabilities and net assets | <u>\$ 1,908,459</u> | <u>2,096,316</u> |

See accompanying notes to consolidated financial statements.

CATHOLIC CHARITIES OF TENNESSEE, INC.

Consolidated Statements of Activities

Years ended June 30, 2005 and 2004

| | 2005 | | |
|--|----------------------------|--|---------------------|
| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
| Support and revenue: | | | |
| State of Tennessee grants | \$ 598,721 | - | 598,721 |
| United States Catholic Conference grants | 970,207 | - | 970,207 |
| Metropolitan Government of Nashville and Davidson County grants | 341,879 | - | 341,879 |
| Bishop Stewardship Appeal and parish contributions | 283,379 | 1,253,538 | 1,536,917 |
| Service fees | 840,096 | - | 840,096 |
| Contributions and bequests | — | 292,932 | 292,932 |
| United Way allocation | — | 279,253 | 279,253 |
| Other | 23,423 | 886 | 24,309 |
| In-Kind Donations | 796,299 | - | 796,299 |
| Net assets released from restrictions | 1,768,241 | (1,768,241) | - |
| Total support and revenue | <u>5,622,245</u> | <u>58,368</u> | <u>5,680,613</u> |
| Expenses: | | | |
| Program expenses | 5,020,300 | - | 5,020,300 |
| Management and general | 336,524 | - | 336,524 |
| Auxiliary services | 325,787 | - | 325,787 |
| Total expenses | <u>5,682,611</u> | <u>-</u> | <u>5,682,611</u> |
| Increase (decrease) in net assets | (60,366) | 58,368 | (1,998) |
| Net assets at beginning of year | <u>294,521</u> | <u>1,070,795</u> | <u>1,365,316</u> |
| Net assets at end of year | <u>\$ 234,155</u> | <u>1,129,163</u> | <u>1,363,318</u> |

See accompanying notes to consolidated financial statements.

| 2004 | | |
|---------------------|-----------------------------------|------------------|
| <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
| 1,358,790 | — | 1,358,790 |
| 1,058,561 | — | 1,058,561 |
| 524,457 | — | 524,457 |
| 240,092 | 1,013,885 | 1,253,977 |
| 496,708 | — | 496,708 |
| — | 363,352 | 363,352 |
| — | 335,438 | 335,438 |
| 11,970 | 587 | 12,557 |
| 558,117 | — | 558,117 |
| 1,703,611 | (1,703,611) | — |
| <u>5,952,306</u> | <u>9,651</u> | <u>5,961,957</u> |
| 5,482,726 | — | 5,482,726 |
| 228,805 | — | 228,805 |
| 281,027 | — | 281,027 |
| <u>5,992,558</u> | <u>—</u> | <u>5,992,558</u> |
| (40,252) | 9,651 | (30,601) |
| <u>334,773</u> | <u>1,061,144</u> | <u>1,395,917</u> |
| <u>294,521</u> | <u>1,070,795</u> | <u>1,365,316</u> |

CATHOLIC CHARITIES OF TENNESSEE, INC.

Consolidated Statements of Functional Expenses

Years ended June 30, 2005 and 2004

| | Catholic Social Services | Refugee Resettlement | Pregnancy Counseling and Adoptions | Other Social Service Programs | Services to Elderly |
|-------------------------------|---|---------------------------------|---|--|------------------------------------|
| Total salaries/benefits | \$ 750,177 | 386,813 | 489,095 | 20,610 | 152,903 |
| Purchased services | 94,198 | 47,669 | 139,050 | 705 | 12,693 |
| Supplies and materials | 19,943 | 13,920 | 17,684 | 580 | 9,672 |
| Depreciation and amortization | — | — | — | — | — |
| Conferences | 1,676 | 2,375 | 17,291 | 150 | 35 |
| Rent | 22,450 | 6,000 | 5,568 | — | — |
| Miscellaneous | 1,131 | 320 | 1,721 | 40 | 59 |
| Fiscal service expense | 155,087 | 82,574 | 136,650 | 6,770 | 33,518 |
| Building occupancy | 26,221 | 31,598 | 40,238 | 1,312 | 22,418 |
| Subsidies/assistance | 233,889 | 869,023 | 167,317 | 129,007 | 6,334 |
| Fundraising | — | — | — | — | — |
| Total functional expenses | <u>\$ 1,304,772</u> | <u>1,440,292</u> | <u>1,014,614</u> | <u>159,174</u> | <u>237,632</u> |

| | Catholic Social Services | Refugee Resettlement | Pregnancy Counseling and Adoptions | Other Social Service Programs | Services to Elderly |
|-------------------------------|---|---------------------------------|---|--|------------------------------------|
| Total salaries/benefits | \$ 686,431 | 380,890 | 275,724 | 20,950 | 157,432 |
| Purchased services | 94,023 | 50,188 | 121,392 | 1,104 | 15,307 |
| Supplies and materials | 14,239 | 15,413 | 17,452 | 629 | 6,787 |
| Depreciation and amortization | — | — | — | — | — |
| Conferences | 1,541 | 2,833 | 2,363 | — | 320 |
| Rent | 18,300 | 6,000 | 1,680 | — | — |
| Miscellaneous | 3,858 | 1,268 | 610 | 25 | 576 |
| Fiscal service expense | 143,896 | 57,383 | 121,158 | 8,293 | 36,855 |
| Building occupancy | 29,140 | 69,502 | 24,889 | 1,494 | 28,385 |
| Subsidies/assistance | 214,685 | 831,526 | 122,971 | 86,423 | 8,465 |
| Fundraising | — | — | — | — | — |
| Total functional expenses | <u>\$ 1,206,113</u> | <u>1,415,003</u> | <u>688,239</u> | <u>118,918</u> | <u>254,127</u> |

*Encompasses Families First and Welfare to Work programs.

See accompanying notes to consolidated financial statements.

2005

| Community Healthcare Access | Child Abuse Prevention | Contract Management | Welfare to Work* | Total Program Expenses | Management and General | Auxiliary Services | Total |
|-----------------------------------|------------------------------|------------------------|------------------------|------------------------------|------------------------------|-----------------------|-----------|
| 250,988 | 153,030 | — | 154,847 | 2,358,463 | 545,672 | 135,721 | 3,039,856 |
| 15,425 | 18,734 | — | 103,746 | 432,220 | 145,596 | 189,645 | 767,461 |
| 1,868 | 3,346 | — | 5,598 | 72,611 | 31,711 | 14,143 | 118,465 |
| — | — | — | — | — | 42,550 | 13,132 | 55,682 |
| — | 225 | — | 112 | 21,864 | 5,356 | 351 | 27,571 |
| — | 791 | — | — | 34,809 | 1,283 | 128,007 | 164,099 |
| 13 | 195 | — | 62 | 3,541 | 7,588 | 935 | 12,064 |
| 23,799 | 16,938 | — | 19,940 | 475,276 | (514,241) | 38,965 | — |
| 12,214 | 13,406 | — | 25,655 | 173,062 | 22,050 | (195,112) | — |
| 14,162 | 26,845 | — | 1,877 | 1,448,454 | — | — | 1,448,454 |
| — | — | — | — | — | 48,959 | — | 48,959 |
| 318,469 | 233,510 | — | 311,837 | 5,020,300 | 336,524 | 325,787 | 5,682,611 |

2004

| Community Healthcare Access | Child Abuse Prevention | Contract Management | Welfare to Work* | Total Program Expenses | Management and General | Auxiliary Services | Total |
|-----------------------------------|------------------------------|------------------------|------------------------|------------------------------|------------------------------|-----------------------|-----------|
| 329,883 | 154,795 | 87,049 | 620,282 | 2,713,436 | 523,513 | 172,826 | 3,409,775 |
| 25,883 | 17,656 | 11,336 | 247,367 | 584,256 | 119,029 | 168,509 | 871,794 |
| 4,378 | 3,075 | 3,948 | 9,357 | 75,278 | 38,321 | 15,372 | 128,971 |
| — | — | — | — | — | 44,687 | 13,132 | 57,819 |
| 60 | 914 | 157 | 571 | 8,759 | 4,119 | 20 | 12,898 |
| — | 420 | — | — | 26,400 | — | 107,386 | 133,786 |
| — | 93 | 221 | 366 | 7,017 | 10,778 | 1,002 | 18,797 |
| 30,418 | 17,168 | 28,902 | 89,238 | 533,311 | (574,346) | 41,035 | — |
| 16,241 | 12,352 | 11,747 | 18,937 | 212,687 | 25,568 | (238,255) | — |
| 26,774 | 30,738 | — | — | 1,321,582 | — | — | 1,321,582 |
| — | — | — | — | — | 37,136 | — | 37,136 |
| 433,637 | 237,211 | 143,360 | 986,118 | 5,482,726 | 228,805 | 281,027 | 5,992,558 |

CATHOLIC CHARITIES OF TENNESSEE, INC.

Consolidated Statements of Cash Flows

Years ended June 30, 2005 and 2004

| | <u>2005</u> | <u>2004</u> |
|---|--------------------------|-----------------------|
| Cash flows from operating activities: | | |
| Increase (decrease) in net assets | \$ (1,998) | (30,601) |
| Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities: | | |
| Depreciation and amortization | 55,682 | 57,819 |
| Changes in assets and liabilities: | | |
| Receivable from the State of Tennessee | 104,991 | (112,889) |
| Receivable from Metropolitan Government of Nashville and Davidson County | 96,025 | 12,107 |
| Receivable from United States Catholic Conference | 30,704 | (58,436) |
| Contributions receivable | (214,199) | (35,104) |
| Miscellaneous accounts receivable | 32,983 | (47,680) |
| Prepaid expenses | 12,350 | (18,563) |
| Program advance, accounts payable and accrued liabilities | (230,792) | 234,327 |
| Payable to the GSO of the Diocese of Nashville | 37,018 | (156,772) |
| Deferred revenues | 7,915 | 46,096 |
| Net cash used by operating activities | <u>(69,321)</u> | <u>(109,696)</u> |
| Cash flows used in investing activities: | | |
| Purchase of equipment and leasehold improvements | <u>(21,827)</u> | <u>(29,687)</u> |
| Net increase (decrease) in cash | (91,148) | (139,383) |
| Cash at beginning of year | <u>244,888</u> | <u>384,271</u> |
| Cash at end of year | \$ <u><u>153,740</u></u> | <u><u>244,888</u></u> |

See accompanying notes to consolidated financial statements.

CATHOLIC CHARITIES OF TENNESSEE, INC.

Notes to Consolidated Financial Statements

June 30, 2005 and 2004

(1) Summary of Significant Accounting Policies

(a) Reporting Entity

Catholic Charities of Tennessee, Inc. and its subsidiary, Families First Partners, Inc. (collectively, "Catholic Charities" or the "Organization"), are Tennessee not-for-profit corporations which operate social services programs throughout Tennessee, but primarily in Middle Tennessee. Catholic Charities was incorporated July, 1962 and Families First Partners, Inc. was incorporated October, 1998 and is a dormant corporation as of June 30, 2005. The accompanying consolidated financial statements include all programs that are supported by grants from the State of Tennessee, the Metropolitan Government of Nashville and Davidson County, and the United States Catholic Conference of Bishops. These consolidated 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 in which collection is determined to be probable. Contributions with donor-imposed restrictions that are met in the same year as received are reported as revenues of the unrestricted net asset class.

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the 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 by the Board for specific future purposes.

Designated for physical plant equity – Net investment in land, buildings and equipment.

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 by Catholic Charities. Currently, Catholic Charities has no such permanently restricted net assets.

CATHOLIC CHARITIES OF TENNESSEE, INC.

Notes to Consolidated Financial Statements

June 30, 2005 and 2004

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 reclassifications between the applicable classes of net assets.

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

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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 and amortization. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets. Leasehold improvements are amortized over the life 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.

(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) *Federal Income Taxes*

Catholic Charities is exempt from federal income taxes; accordingly, no provision for income taxes has been made in the accompanying consolidated financial statements.

CATHOLIC CHARITIES OF TENNESSEE, INC.

Notes to Consolidated Financial Statements

June 30, 2005 and 2004

(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 \$1,021,500 and \$807,301 at June 30, 2005 and 2004, respectively, represent unconditional promises received from Bishop Stewardship Appeal, parishes, and United Way which are primarily restricted for operations of the subsequent fiscal year. Contributions are recorded at net realizable value and are receivable in less than one year. The gross amounts were recorded less a net allowance of \$10,234 and \$11,914 for 2005 and 2004, respectively, which represents an estimated uncollectible amount for United Way designations.

(3) **Equipment and Leasehold Improvements**

Equipment and leasehold improvements consist of the following:

| | 2005 | 2004 |
|--|------------|---------|
| Equipment | \$ 169,347 | 272,436 |
| Furnishings | 11,997 | 10,527 |
| Vehicles | 50,046 | 90,178 |
| Leasehold improvements | 138,980 | 135,172 |
| | 370,370 | 508,313 |
| Less accumulated depreciation and amortization | 263,498 | 367,586 |
| Equipment and leasehold improvements, net | \$ 106,872 | 140,727 |

(4) **Employee Benefit Plans**

Catholic Charities participates in two retirement plans currently sponsored by the Governance and Service Offices of the Diocese of Nashville ("GSO"). They are as follows:

(a) Defined Benefit Pension Plan

Catholic Charities participates in a noncontributory defined benefit plan which is funded based on the required contribution each year as determined by the joint Diocesan Lay Retirement Board of Trust of the GSO and the GSO of Knoxville, and is calculated as a percentage of eligible employees' salaries. Catholic Charities contributes 4% of 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.

CATHOLIC CHARITIES OF TENNESSEE, INC.

Notes to Consolidated Financial Statements

June 30, 2005 and 2004

(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 contribution.

Contributions to both retirement plans were \$136,604 and \$130,663 for the years ended June 30, 2005 and 2004, respectively.

(5) **Temporarily Restricted Net Assets**

Temporarily restricted net assets are available for the following purposes or periods as follows:

| | <u>2005</u> | <u>2004</u> |
|--|---------------------|------------------|
| Subsequent year operations – program unrestricted | \$ 558,541 | 531,944 |
| Subsequent year operations – programmatic restrictions | 279,255 | 335,438 |
| Other restricted programmatic purposes | 291,367 | 203,413 |
| | <u>\$ 1,129,163</u> | <u>1,070,795</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>2005</u> | <u>2004</u> |
|--|---------------------|------------------|
| Utilization of funds restricted to current year | \$ 531,944 | 591,600 |
| Utilization of funds restricted to programs for current year | 335,438 | 189,626 |
| Utilized to satisfy donor-specified purpose | 900,859 | 922,385 |
| | <u>\$ 1,768,241</u> | <u>1,703,611</u> |

(7) **Leases**

Catholic Charities operated facilities under operating lease agreements during the fiscal years ended June 30, 2005 and 2004.

The Loaves and Fishes, Refugee and Families First 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 Refugee and Families First 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 2005 and 2004 was \$54,366 and \$59,008, respectively.

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 2005 and 2004.

CATHOLIC CHARITIES OF TENNESSEE, INC.

Notes to Consolidated Financial Statements

June 30, 2005 and 2004

The North Nashville Outreach program operated until April 30, 2005 in a space provide by Holy Name Catholic Church at no cost under a letter of agreement. Effective May 1, 2005 the North Nashville Outreach program relocated and 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. Total lease expense for 2005 was \$3,300.

The other Catholic 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, 2005 and 2004, Catholic Charities' portion of the occupancy expense totaled \$108,926 and \$107,618, respectively. Total occupancy revenues received from Catholic entities (St. Mary Villa Child Daycare Center, Mary Queen of Angels, and several Diocesan offices) were approximately \$283,000 and \$240,000 in 2005 and 2004, respectively.

In addition to the above leased facilities, Catholic Charities also has several leased automobiles and office equipment. Total rental payments in fiscal years 2005 and 2004 for automobiles and office equipment were \$31,050 and \$38,281, respectively. The amount of rental expense also includes expense from automobile rentals.

Future minimum rental commitments under noncancelable leases are:

| | | |
|------|----|---------------|
| 2006 | \$ | 26,560 |
| 2007 | | 20,661 |
| 2008 | | 4,406 |
| 2009 | | 1,794 |
| | \$ | <u>53,421</u> |

(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 consolidated financial statements.

(9) Transactions with the Governance and Service Office 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. Cash includes \$82,060 and \$144,255 on deposit with the Deposit and Loan Fund of the GSO of the Diocese of Nashville at June 30, 2005 and 2004 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 statements of functional expense.

(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 consolidated financial statements for these donated services since the volunteers' time does not meet the criteria for recognition under SFAS No. 116.

CATHOLIC CHARITIES OF TENNESSEE, INC.

Notes to Consolidated Financial Statements

June 30, 2005 and 2004

Donated goods and space are recognized in the consolidated financial statements at fair market value when received.

(11) Commitments and Contingencies

Catholic Charities has two major programs that are subject to grant matching requirements, the Families First program and the Match Grant/Free Case Resettlement program. The Families First program requires a match proportionate to grant funds expended up to a maximum cash match of \$5,401 in 2005 and \$29,969 in 2004.

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 2005 grant was \$262,700, with at least \$52,540 consisting of a cash or cash equivalent match. The required match for the 2004 grant was \$292,300, with at least \$58,460 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 or statement of activities.

(12) Related Party Transactions

The Organization sometimes 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

Schedule of Expenditures of Grant Awards

Year Ended June 30, 2005

| CFDA# | Grant Description | Grant Number | Receivable Balance June 30, 2004 | Receipts | Expenditures | Receivable Balance June 30, 2005 |
|----------|---|----------------------------------|----------------------------------|------------------|--------------|----------------------------------|
| 14.231 | Emergency Shelter Grants Program Pass-through from Metropolitan Development and Housing Agency Loaves and Fishes | N/A | \$ — | 10,910 | 10,910 | — |
| 16.540 | U.S. Dept. of Justice: Juvenile Justice and Delinquency Prevention Pass-through from Metro Social Services | GR-0516703-00 | — | 17,565 | 32,368 | 14,802 |
| 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 | Z-00-099324-01 | 45,141 | 106,053 | 84,513 | 23,601 |
| | Pass-through from State of Tennessee Department of Children's Services | | | | | |
| | Child Abuse Prevention Program-Mid Cumb. | GR-0415423-00 | 4,010 | 4,010 | — | — |
| | Child Abuse Prevention Program-Mid Cumb. | GR-0516415-00 | — | 11,721 | 11,721 | — |
| | Child Abuse Prevention Program-Mid Cumb. | GR-0516886-00 | — | 6,334 | 11,925 | 5,591 |
| | Child Abuse Prevention Program-Davidson Co. | GR-0415441-00 | 3,931 | 3,931 | — | — |
| | Child Abuse Prevention Program-Davidson Co. | GR-0516412-00 | — | 9,675 | 9,675 | — |
| | Child Abuse Prevention Program-Davidson Co. | GR-0516814-00 | — | 3,723 | 8,855 | 5,132 |
| | Total Program | | 53,082 | 145,447 | 126,689 | 34,324 |
| 93.235 | U.S. Department of Health and Human Services: Abstinence Education Pass-through from State of Tennessee Department of Health Abstinence Education Services | Z-04-016347-00 Z-05-021457-00 | 15,695 — | 15,695 90,549 | — 121,900 | — 31,351 |
| | Abstinence Education Services | | — | — | — | — |
| | Total Program | | 15,695 | 106,244 | 121,900 | 31,351 |
| * 93.252 | U.S. Dept. of Health and Human Services: Temporary Assistance for Needy Families Pass-through from Metropolitan Government of Nashville and Davidson Community Access Program | | 183,196 | 248,538 | 65,342 | — |
| | Community Access Program | | — | 152,953 | 252,900 | 99,947 |
| | Total Program | | 183,196 | 401,491 | 318,242 | 99,947 |
| 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 | GR-02-14066-03 | 90,931 | 90,931 | — | — |
| | Families First | Subrecipient match | 2,293 | 2,293 | — | — |
| | Data Operator Tech. Specialists | GR-02-14066-03 | 84,700 | 84,700 | — | — |
| | Families First | GR-516170-00 | — | 196,146 | 245,947 | 49,802 |
| | U.S. Dept. of Health and Human Services: Temporary Assistance for Needy Families Relative Caregiver Program (Kinship Care) | | 1,810 | 26,110 | 24,300 | — |
| | Pass-through from Family and Children Services, Inc. | | — | — | — | — |
| | Total Program | | 179,734 | 400,180 | 270,247 | 49,802 |
| 93.567 | U.S. Dept. of Health and Human Services: Refugee Assistance Pass-through from United States Catholic Conference: | | | | | |
| | Match Grant/Free Case Resettlement | USCC | 118,922 | 281,524 | 179,902 | 17,300 |
| | Match Grant/Free Case Resettlement | USCC | — | 6,197 | 110,084 | 103,887 |
| | Total Program | | 118,922 | 287,721 | 289,986 | 121,187 |
| * 93.576 | U.S. Dept. of Health and Human Services - Refugee and Entrant Assistance Pass-through from United States Catholic Conference: | | | | | |
| | Reception & Placement | USCC | 10,126 | 60,445 | 50,319 | — |
| | Reception & Placement | USCC | — | 27,325 | 64,904 | 37,579 |
| | Refugee Subsidies | USCC | 22,337 | 75,325 | 53,280 | 291 |
| | Refugee Subsidies | USCC | — | 20,980 | 41,642 | 20,662 |
| | U.S. Dept. of Health and Human Services - Refugee and Entrant Assistance Pass-through from United States Catholic Conference: | | | | | |
| | Strengthening Refugee Families and Marriages | USCC | 9,791 | 25,322 | 15,531 | — |
| | U.S. Dept. of Health and Human Services - Refugee and Entrant Assistance Administration for Children and Families | | | | | |
| | Individual Development Accounts Program | 90ZI0034 | 56,688 | 405,289 | 367,487 | 18,886 |
| | Services for Arriving Refugees with Special Condition | 90ZC0037 | 12,308 | 98,504 | 86,196 | — |
| | Pass-through from Metro Social Services | | 9,800 | 16,000 | 6,200 | — |
| | Total Program | | 121,050 | 729,190 | 685,558 | 77,418 |
| 93.658 | U.S. Department of Health and Human Services: Foster Care Grants Pass-through from State of Tennessee Department of Children's Services Foster Care | FA-0416027 | — | 17,727 | 22,159 | 4,432 |
| 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 | GR-0415706-00 | 8,412 | 8,412 | — | — |
| | Chap Plus | GR-05-16417-00 | — | 34,052 | 49,658 | 15,606 |
| | Total Program | | 8,412 | 42,464 | 49,658 | 15,606 |
| 97.024 | Federal Emergency Management Agency: Emergency Food and Shelter Pass-through from United Way of Middle Tennessee Emergency Food and Shelter | N/A | — | 15,551 | 15,551 | — |
| | Total Program | | — | 15,551 | 15,551 | — |
| | Grand total | | \$ 680,091 | 2,174,490 | 1,943,268 | 448,869 |

* Indicates major program

See accompanying notes to the Schedule of Expenditures of Grant Awards.

See accompanying independent auditors' report.

CATHOLIC CHARITIES OF TENNESSEE, INC.

Notes to the Schedule of Expenditures of Grant Awards

June 30, 2005

(1) Basis of Presentation

The accompanying Schedule of Expenditures of Grant Awards (the Schedule) includes the federal grant activity of Catholic Charities of Tennessee, Inc., including its subsidiary, Families First Partners, Inc. (collectively, "Catholic Charities"). 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 Catholic Charities, it is not intended to and does not present the consolidated financial position, changes in net assets, or cash flows of Catholic Charities.

(2) Summary of Significant Accounting Policies for Federal 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 consolidated financial statements of Catholic Charities of Tennessee, Inc. and Subsidiary (Catholic Charities) as of and for the year ended June 30, 2005, and have issued our report thereon dated February 10, 2006. 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 Catholic Charities' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the consolidated financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Catholic Charities' consolidated 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*.

Nashville

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Knoxville

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This report is intended solely for the information and use of the Board of Trustees, management, others within Catholic Charities, 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 & Co., P.C.

**Brentwood, Tennessee
February 10, 2006**



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 and Other Matters

We have audited the compliance of Catholic Charities of Tennessee, Inc. and Subsidiary (Catholic Charities) 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, 2005. Catholic Charities' 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 Catholic Charities' management. Our responsibility is to express an opinion on Catholic Charities' 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 Catholic Charities' 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 Catholic Charities' compliance with those requirements.

In our opinion, Catholic Charities 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, 2005.

Internal Control Over Compliance

The management of Catholic Charities 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 Catholic Charities' 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Nashville

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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the Board of Trustees, management, others within Catholic Charities, 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, P.C.

Brentwood, Tennessee
February 10, 2006

CATHOLIC CHARITIES OF TENNESSEE, INC.

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

(1) Summary of Auditors' Results

- (a) The independent auditors' report expressed an unqualified opinion on the consolidated financial statements.
- (b) No reportable conditions or material weaknesses were disclosed by the audit of the consolidated financial statements.
- (c) No instances of noncompliance material to the consolidated financial statements of the Organization, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
- (d) No reportable conditions or material weaknesses were disclosed during the audit of internal control over major federal award programs.
- (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> |
|--------------|--|--|
| 93.252 | U.S. Department of Health and Human Services | Community Access Program |
| 93.576 | U.S. Department of Health and Human Services (pass-through from United States Catholic Conference) | Refugee and Entrant Assistance - Reception and Placement and Refugee Subsidies |

- (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

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

None