

CATHOLIC CHARITIES OF TENNESSEE, INC.

Financial Statements and Supplementary Information

June 30, 2016 and 2015

(With Independent Auditors' Report Thereon)

CATHOLIC CHARITIES OF TENNESSEE, INC.

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Catholic Charities of Tennessee, Inc. (the "Organization"), which are comprised of the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Catholic Charities of Tennessee, Inc. as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal and state grant awards and related notes, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

The Schedule of Board of Trustees and Management has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on that information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2016, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

LBMC, PC

Brentwood, Tennessee
November 14, 2016

CATHOLIC CHARITIES OF TENNESSEE, INC.

Statements of Financial Position

June 30, 2016 and 2015

Assets	June 30, 2016	June 30, 2015
Cash	\$ 3,004,761	\$ 907,307
Annual fund deposits with CCIL	-	3,037,553
Receivable from the State of Tennessee	188,311	102,400
Receivable from United States Catholic Conference of Bishops	469,824	260,337
Receivable from Metropolitan Government of Nashville	48,928	-
Receivable from Office of Refugee Resettlement	941,835	918,524
Receivable from United Way	499,242	449,089
Miscellaneous accounts receivable, net of allowance for doubtful accounts of \$13,110 at June 30, 2016 and June 30, 2015	327,205	293,743
Prepaid expenses	48,608	23,041
Equipment and leasehold improvements, net	780,707	105,187
Total assets	\$ 6,309,421	\$ 6,097,181
Liabilities and Net Assets		
Program advance	\$ 16,000	\$ 16,000
Accounts payable and accrued liabilities	1,320,480	929,100
Deferred revenues	29,614	93,808
Total liabilities	1,366,094	1,038,908
Net assets		
Unrestricted		
Designated for:		
Future operations	3,576,310	4,416,776
Physical plant equity	780,707	105,187
Renewal and replacement	87,221	87,221
Total unrestricted net assets	4,444,238	4,609,184
Temporarily restricted net assets	499,089	449,089
Total net assets	4,943,327	5,058,273
Total liabilities and net assets	\$ 6,309,421	\$ 6,097,181

See accompanying notes to the financial statements.

CATHOLIC CHARITIES OF TENNESSEE, INC.

Statements of Activities

Years Ended June 30, 2016 and 2015

	for year ended June 30, 2016			for year ended June 30, 2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and revenue:						
State of Tennessee grants	\$ 590,124	\$ -	\$ 590,124	\$ 731,528	\$ -	\$ 731,528
Service fees	2,209,066	-	2,209,066	1,819,422	-	1,819,422
Diocesan contributions and grants	574,872	-	574,872	555,854	-	555,854
United States Catholic Conference of Bishops grants	1,443,581	-	1,443,581	1,513,501	-	1,513,501
Miscellaneous program grants	454,733	-	454,733	401,647	-	401,647
Metropolitan Government of Nashville grants	281,843	-	281,843	-	-	-
Office of Refugee Resettlement grants	9,992,721	-	9,992,721	9,875,761	-	9,875,761
Reimbursement of occupancy expenses	224,710	-	224,710	358,502	-	358,502
Contributions and bequests	496,348	-	496,348	632,653	-	632,653
United Way allocation and designations	72,066	499,089	571,155	85,060	449,089	534,149
Other	135,763	-	135,763	170,770	-	170,770
In-kind Donations	635,489	-	635,489	649,000	-	649,000
Net assets released from restrictions	449,089	(449,089)	-	705,372	(705,372)	-
Total support and revenue	17,560,405	50,000	17,610,405	17,499,070	(256,283)	17,242,787
Expenses:						
Program expenses	16,956,980	-	16,956,980	16,432,612	-	16,432,612
Management and general	104,558	-	104,558	56,496	-	56,496
Auxiliary services	367,230	-	367,230	383,621	-	383,621
Fundraising	296,583	-	296,583	210,549	-	210,549
Total expenses	17,725,351	-	17,725,351	17,083,278	-	17,083,278
Increase (decrease) in net assets	(164,946)	50,000	(114,946)	415,792	(256,283)	159,509
Net assets at beginning of year	4,609,184	449,089	5,058,273	4,193,392	705,372	4,898,764
Net assets at end of year	\$ 4,444,238	\$ 499,089	\$ 4,943,327	\$ 4,609,184	\$ 449,089	\$ 5,058,273

See accompanying notes to the financial statements.

CATHOLIC CHARITIES OF TENNESSEE, INC.

Statements of Functional Expenses

Years Ended June 30, 2016 and 2015

	2016												
	Catholic Social Services	Refugee Resettlement	Pregnancy Counseling and Adoptions	Other Social Service Programs	Services to Elderly	Child Abuse Prevention	Workforce Development	Tennessee Office for Refugees	Total Program Expenses	Management and General	Auxiliary Services	Fundraising	Total
Total salaries/benefits	\$ 1,203,740	\$ 1,600,730	\$ 852,058	\$ 6,649	\$ 169,357	\$ 128,481	\$ 348,544	\$ 611,206	\$ 4,920,765	\$ 672,007	\$ 175,211	\$ 161,194	\$ 5,929,177
Purchased services	250,650	218,036	168,293	468	5,445	10,096	116,291	3,748,486	4,517,765	225,700	214,217	73,466	5,031,148
Supplies and materials	49,484	35,148	36,936	449	9,960	3,554	44,814	18,617	198,962	37,689	7,929	11,299	255,879
Depreciation and amortization	6,264	-	-	-	-	-	5,645	-	11,909	4,434	24,507	-	40,850
Conferences	7,906	4,706	10,904	2	328	674	219	-	24,739	3,496	3,028	2,042	33,305
Rent / Occupancy	153,200	166,652	62,533	479	14,961	6,297	19,436	52,546	476,104	42,417	(112,051)	10,778	417,248
Miscellaneous	382	528	705	-	44	144	-	476	2,279	5,636	25,363	484	33,762
Administrative expenses	204,182	268,875	143,154	1,096	28,206	21,319	57,377	106,571	830,780	(886,821)	29,026	27,015	-
Subsidies/assistance	235,056	917,669	53,957	265,918	13,375	9,305	23,450	4,454,947	5,973,677	-	-	10,305	5,983,982
Total functional expenses	\$ 2,110,864	\$ 3,212,344	\$ 1,328,540	\$ 275,061	\$ 241,676	\$ 179,870	\$ 615,776	\$ 8,992,849	\$ 16,956,980	\$ 104,558	\$ 367,230	\$ 296,583	\$ 17,725,351

	2015												
	Catholic Social Services	Refugee Resettlement	Pregnancy Counseling and Adoptions	Other Social Service Programs	Services to Elderly	Child Abuse Prevention	Workforce Development	Tennessee Office for Refugees	Total Program Expenses	Management and General	Auxiliary Services	Fundraising	Total
\$	999,289	\$ 1,590,096	\$ 806,385	\$ 7,658	\$ 149,880	\$ 197,730	\$ 267,235	\$ 590,902	\$ 4,609,175	\$ 663,436	\$ 224,825	\$ 112,787	\$ 5,610,223
Total salaries/benefits													
Purchased services	237,226	184,369	163,663	85	7,509	19,049	16,152	3,377,840	4,005,893	169,521	201,719	50,737	4,427,870
Supplies and materials	43,071	31,395	27,246	545	8,981	2,265	42,256	32,840	188,599	37,621	10,830	20,104	257,154
Depreciation and amortization	497	-	-	-	-	-	-	-	497	10,519	5,430	-	16,446
Conferences	7,833	498	5,035	-	185	661	-	199	14,411	7,415	3,917	2,100	27,843
Rent / Occupancy	143,410	197,108	72,049	-	1,947	13,625	18,440	63,509	510,088	21,334	(103,471)	4,868	432,819
Miscellaneous	1,710	958	357	-	96	51	-	299	3,471	7,540	1,104	390	12,505
Administrative expenses	174,578	275,487	140,386	1,391	26,154	34,379	46,707	102,978	802,060	(860,890)	39,267	19,563	-
Subsidies/assistance	299,393	900,307	70,918	196,127	22,450	84,812	500	4,723,911	6,298,418	-	-	-	6,298,418
Total functional expenses	\$ 1,907,007	\$ 3,180,218	\$ 1,286,039	\$ 205,806	\$ 217,202	\$ 352,572	\$ 391,290	\$ 8,892,478	\$ 16,432,612	\$ 56,496	\$ 383,621	\$ 210,549	\$ 17,083,278

See accompanying notes to the financial statements.

CATHOLIC CHARITIES OF TENNESSEE, INC.

Statements of Cash Flows

Years Ended June 30, 2016 and 2015

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ (114,946)	\$ 159,509
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	40,850	16,446
Loss on disposal of asset	23,991	-
Changes in assets and liabilities:		
Receivable from the State of Tennessee	(85,911)	113,562
Receivable from United States Catholic Conference of Bishops	(209,487)	(42,005)
Receivable from Metropolitan Government of Nashville	(48,928)	-
Receivable from Office of Refugee Resettlement	(23,311)	(122,270)
Receivable from United Way	(50,153)	(847)
Miscellaneous accounts receivable, net of allowance	(33,462)	(51,919)
Prepaid expenses	(25,567)	13,460
Accounts payable and accrued liabilities	391,380	214,428
Deferred revenues	(64,194)	(13,546)
Net cash provided (used) by operating activities	<u>(199,738)</u>	<u>286,818</u>
Cash flows provided (used) by investing activities:		
Redemptions of annual fund deposits with CCIL	3,037,553	-
Purchases of equipment and leasehold improvements	(740,361)	(62,638)
Net cash provided (used) by investing activities	<u>2,297,192</u>	<u>(62,638)</u>
Net increase in cash and equivalents	2,097,454	224,180
Cash and cash equivalents at beginning of year	<u>907,307</u>	<u>683,127</u>
Cash and cash equivalents at end of year	<u>\$ 3,004,761</u>	<u>\$ 907,307</u>

See accompanying notes to the financial statements.

CATHOLIC CHARITIES OF TENNESSEE, INC.

Notes to Financial Statements

June 30, 2016 and 2015

(1) Summary of Significant Accounting Policies

(a) Reporting Entity

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

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

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

The Organization has majority voting control and management responsibilities for St. Mary Villa, Inc. (the "Center"), a child care facility. Under the terms of a management agreement, the Organization is responsible for providing financial and administrative oversight of the Center. Additionally, the Organization has a seat on the board of trustees of the Center, the voting interest of which is equal to one more vote than all other trustees. However, management has determined that the Organization does not have an economic interest in the Center that would require consolidation of the Center with the Organization under generally accepted accounting principles in the United States of America.

(b) Basis of Presentation

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

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

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

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

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

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

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

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

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

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

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

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

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

(d) Cash, Cash Equivalents, and Annual Deposits with CCIL

Catholic Charities maintains cash balances on deposit with Catholic Community Investment and Loan, Inc. ("CCIL"). CCIL is a not-for-profit public benefit and charitable corporation established to loan funds to parishes and entities subject to the canonical jurisdiction of the Bishop of Nashville as well as to invest pooled deposits. These cash balances are not insured; however, 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 and equivalents or the annual fund deposits with CCIL.

Catholic Charities considers all cash and highly liquid investments held with original maturities of less than three months to be cash equivalents. Cash and cash equivalents includes checking and savings accounts on deposit with CCIL.

Annual fund deposits with CCIL have a one year maturity and paid 5.0% interest during 2016 and 2015. At maturity, annual deposits automatically renew for another one-year term at the then current interest rate unless, prior to renewal, the Organization instructs CCIL to disburse the funds. Early withdrawal charges are also incurred on the annual deposits if the deposits are withdrawn before the term has ended. The early withdrawal penalty is equal to three months of interest.

(e) Receivables and Credit Policies

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

(f) Equipment and Leasehold Improvements

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

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

(g) Functional Categories

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

(h) Income Taxes

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

As of June 30, 2016 and 2015, Catholic Charities had accrued no interest and no penalties related to uncertain tax positions. It is Catholic Charities' policy to recognize interest and/or penalties related to income tax matters in income tax expense. Catholic Charities files U.S. Federal information tax returns. Catholic Charities is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

(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) Fair Value Measurements

Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 820, *Fair Value Measurement*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The fair values of cash and highly liquid investments, included in cash and cash equivalents or annual fund deposits with CCIL, are determined based upon their quoted redemption prices and recent transaction prices of \$1.00 per share (Level 2 inputs), with no discounts for credit quality or liquidity restriction. The Organization does not have any fair value measurements using significant unobservable inputs (Level 3) as of June 30, 2016 or 2015.

(3) Equipment and Leasehold Improvements

Equipment and leasehold improvements consist of the following:

	<u>2016</u>	<u>2015</u>
Equipment	\$ 315,033	\$ 315,033
Furnishings	33,703	25,436
Vehicles	28,311	28,311
Leasehold improvements	<u>873,790</u>	<u>343,844</u>
	1,250,837	712,624
Less accumulated depreciation and amortization	<u>470,130</u>	<u>607,437</u>
Equipment and leasehold improvements, net	<u>\$ 780,707</u>	<u>\$ 105,187</u>

(4) Employee Benefit Plans

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

(a) Defined Benefit Pension Plan

Catholic Charities participates in a non-contributory defined benefit plan which is funded based on the required contribution each year as determined by the Diocesan Lay Retirement Board of Trust of the Diocese, and is calculated as a percentage of eligible employees' compensation. During 2016 and 2015, Catholic Charities contributed 5% of the eligible employees' compensation to the plan each year. Participants vest in all employer contributions to the plan as follows: after three years of service 20%, increasing 20% for each year of additional service until participants are fully vested after seven years of service.

The following table sets forth the benefit obligations, fair value of plan assets, funded status (in thousands) of the noncontributory pension plan in which Catholic Charities is a participant as of January 1, 2016 and 2015 and the changes in the benefit obligation for the year ended December 31, 2015:

	<u>2016</u>	<u>2015</u>
Pension benefits (in thousands):		
Benefit obligation at end of plan year	\$ (40,728)	\$ (37,970)
Plan assets at fair value at end of plan year	<u>39,801</u>	<u>39,913</u>
Funded Status	<u>\$ (927)</u>	<u>\$ 1,943</u>
Benefit obligation (in thousands):		
Balance at January 1, 2015		\$ 37,970
Benefits paid		(1,688)
Benefits accrued		1,408
Interest		2,794
Other		<u>244</u>
Balance at January 1, 2016		<u>\$ 40,728</u>

Contributions to the defined benefit retirement plan were \$207,875 and \$198,042 for the years ended June 30, 2016 and 2015, respectively.

(b) Defined Contribution Benefit Plan

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

Contributions to the defined contribution plan were \$101,370 and \$94,516 for the years ended June 30, 2016 and 2015, respectively.

(5) Temporarily Restricted Net Assets

As of June 30, 2016 and 2015, temporarily restricted net assets of \$499,089 and \$449,089, respectively, were available for subsequent year operations - programmatic restrictions.

During 2016 and 2015, net assets released from restrictions related to the utilization of funds restricted to programs.

(6) Lease Commitments

The Organization leases certain real property and equipment under arrangements classified as operating leases. Total rent expense under operating leases paid to lessors amounted to \$521,209 and \$533,508 in 2016 and 2015, respectively. Certain lease agreements are with the Diocese and affiliated entities.

A summary of total rental expenses to the Diocese and affiliated entities for fiscal years 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Catholic Diocese of Nashville	\$ 232,814	\$ 168,358
Holy Name Church	32,138	65,759
Our Lady of Guadalupe Church	<u>-</u>	<u>27,015</u>
	<u>\$ 264,952</u>	<u>\$ 261,132</u>

A summary of approximate net future minimum payments under operating leases as of June 30, 2016 is as follows:

<u>Year</u>	<u>Total</u>
2017	\$ 678,000
2018	637,000
2019	622,000
2020	537,000
2021	538,000
Thereafter	<u>5,124,000</u>
	<u>\$ 8,136,000</u>

The summary above includes all estimated extension periods for the office lease with the Catholic Diocese of Nashville which extend through 2035.

(7) 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.

(8) Transactions with Related Parties

Catholic Charities purchases certain services from the Diocese, under separate operating agreements including human resources, software support and maintenance, and payroll services. Fees for these services totaled \$48,668 in 2016 and 2015 and are included in Purchased Services in the statements of functional expenses.

The Organization receives management fees from St. Mary Villa, Inc. Management fees amounted to \$36,000 in 2016 and 2015.

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

(9) In-Kind Donations

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

(10) Commitments and Contingencies

Catholic Charities has one program that is subject to grant matching requirements, the Match Grant/Free Case Resettlement program. This program is eligible for a 50% matching requirement, 20% of which must be cash or cash equivalent. The required match for fiscal year 2016 grant was \$262,999 with at least \$52,600 consisting of a cash or cash equivalent match. The required match for fiscal year 2015 was \$235,019, with at least \$47,004 consisting of a cash or cash equivalent match.

(11) Subsequent Event

The Organization has evaluated events and transactions that occurred between June 30, 2016 and November 14, 2016 which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

CATHOLIC CHARITIES OF TENNESSEE, INC.
Schedule of Expenditures of Federal and State Grant Awards
Year Ended June 30, 2016

CFDA#	Grant Description	Grant Number	Receivable Balance June 30, 2015	Receipts and Other Reductions	Expenditures	Receivable Balance June 30, 2016
FEDERAL AWARDS						
14.231	U.S. Department of Housing and Urban Development Pass-through from Metropolitan Development and Housing Agency Emergency Solutions Grant Total Program	MDHA	- - -	15,850 15,850	26,250 26,250	10,400 10,400
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 Child Abuse Prevention Program - VOCA Total Program	Edison # 18825 Edison # 18825 6,754	6,754 - 6,754	65,267 72,021	- 86,268 86,268	- 21,001 21,001
16.726	U.S. Dept. of Justice Pass-through from Catholic Charities USA National Mentoring Program National Mentoring Program Total Program	2012-JU-FX-0005 & 2015-JU-FX-0013 2012-JU-FX-0005 & 2015-JU-FX-0013 9,772	9,772 - 9,772	9,772 28,144 37,916	- 36,031 36,031	- 7,887 7,887
19.510	U.S. Dept. of Health and Human Services: Refugee Assistance Pass-through from United States Catholic Conference: Reception & Placement - Nashville Reception & Placement - Nashville Safe Passage Safe Passage Total Program	USCCB USCCB USCCB USCCB 168,044	168,044 - - - 168,044	168,044 610,492 778,536 4,498 2,013 6,511 785,047	- 912,915 912,915 6,545 2,513 9,058 921,973	- 302,423 302,423 2,047 500 2,547 304,970
84.287C	US Dept. of Education-Office of Elementary and Secondary Education Pass-through from State of Tennessee Department of Education 21st Century Community Learning Centers 21st Century Community Learning Centers Total Program	DG13-C000058 DG13-C000058 17,588	17,588 - 17,588	17,588 76,118 93,706	- 131,561 131,561	- 55,443 55,443
84.4198	US Dept. of Education-Preschool Development Grants Pass-through from Metropolitan Government of Nashville and Davidson County Pre-K Family Support Services Total Program	2-173226-00 -	- -	217,064 217,064	255,593 255,593	38,529 38,529
93.505	U.S. Dept. of Health and Human Services: Affordable Care Act Pass-through from State of Tennessee Department of Health Maternal, Infant, and Early Childhood Home Visiting Program (MIHOW) Maternal, Infant, and Early Childhood Home Visiting Program (MIHOW) Total Program	EDISON 39087 EDISON 39087 45,586	45,586 - 45,586	45,586 201,260 246,846	- 273,331 273,331	- 72,071 72,071

CFDA#	Grant Description	Grant Number	Receivable Balance June 30, 2015	Receipts and Other Reductions	Expenditures	Receivable Balance June 30, 2016
93.566	U.S. Dept. of Health and Human Services: Refugee Resettlement Social Service Pass-through from Office of Refugee Resettlement: Tennessee Office for Refugees Tennessee Office for Refugees	1401TNRSOC & 1501TNRSOC 1401TNRSOC & 1501TNRSOC	216,258 -	216,258 954,150	- 1,213,915	- 259,765
			216,258	1,170,408	1,213,915	259,765
	Tennessee Office for Refugees	90RW0043-05 & 90RW0054-01-02	257,698	257,698	-	-
	Tennessee Office for Refugees	15A1TNRDMA	-	1,377,183	1,653,628	276,445
			257,698	1,634,881	1,653,628	276,445
	Total Program		473,956	2,805,289	2,867,543	536,210
93.567	U.S. Dept. of Health and Human Services: Refugee Assistance Pass-through from United States Catholic Conference: Match Grant/Free Case Resettlement - Nashville Match Grant/Free Case Resettlement - Nashville	90RV0070-01 & 90RV0070-02 90RV0070-01 & 90RV0070-02	92,293 -	92,293 363,299	- 528,153	- 164,854
			92,293	455,592	528,153	164,854
93.576	U.S. Dept. of Health and Human Services - Refugee and Entrant Assistance-Discretionary Grants Tennessee Office for Refugees Tennessee Office for Refugees Tennessee Office for Refugees Tennessee Office for Refugees Tennessee Office for Refugees Tennessee Office for Refugees	90ZE0187-01-00 90ZE0187-02-00 90RX0272-01-00 90RX0272-02-00 90RL016 90RL016	55,757 - 21,471 - 19,883 -	55,757 291,850 21,471 105,116 19,883 75,688	- 368,881 - 121,793 - 90,867	- 77,031 - 16,677 - 15,179
	Total Program		97,111	569,765	581,541	108,887
93.583	U.S. Dept. of Health and Human Services: Refugee Resettlement Social Service Tennessee Office for Refugees Tennessee Office for Refugees Tennessee Office for Refugees Tennessee Office for Refugees Tennessee Office for Refugees	90RW0043-05 & 90RW0054-01-02 90RW0043-05 & 90RW0054-01-02 90RW0043-05 & 90RW0054-01-02 90RW0043-05 & 90RW0054-01-02 90RW0043-05 & 90RW0054-01-02	247,904 - 5,903 - -	247,903 1,325,814 5,903 1,736,267 2,718,411	- 1,535,274 - 1,740,186 2,714,761	1 209,460 - 3,919 (3,650)
	Total Program		253,807	6,034,298	5,990,221	209,730
93.584	U.S. Dept. of Health and Human Services: Refugee Resettlement Social Service Tennessee Office for Refugees Tennessee Office for Refugees	14A1TNRTAG & 15A1TNRTAG 14A1TNRTAG & 15A1TNRTAG	93,650 -	93,650 471,510	- 553,416	- 81,906
	Total Program		93,650	565,160	553,416	81,906
93.590	U.S. Dept. of Justice: Crime Victim Assistance Pass-through from State of Tennessee Department of Children's Services Child Abuse Prevention Service's	EDISON 39404	6,021 6,021	6,021 6,021	- -	- -
	Child Abuse Prevention Program-Davidson Co.	EDISON 39388	4,984 4,984	4,984 4,984	- -	- -
	Child Abuse Prevention Services Child Abuse Prevention Services	EDISON 39481 EDISON 45114	5,926 -	5,926 22,345	- 27,743	- 5,398
			5,926	28,271	27,743	5,398
	Child Abuse Prevention Services	EDISON 39387	4,636	4,636	-	-

CFDA#	Grant Description	Grant Number	Receivable Balance June 30, 2015	Receipts and Other Reductions	Expenditures	Receivable Balance June 30, 2016
93.652	U.S. Dept. of Health and Human Services - Administration for Children and Families Adoption Opportunities Pass through from Harmony Adoptions of Tennessee, Inc. Administration for Children and Families Adoption Opportunities Administration for Children and Families Adoption Opportunities Total Program		4,636	4,636	-	-
			21,567	43,912	27,743	5,398
		EDISON 36901	136,248	136,248	-	-
		EDISON 36901	-	599,546	738,023	138,477
			136,248	735,794	738,023	138,477
97.010	U.S. Department of Homeland Security Pass through from Nashville Adult Literacy Council Citizenship and Integration Direct Services Grant Program Citizenship and Integration Direct Services Grant Program Total Program	2012-CS-010-000020	5,775	5,775	-	-
		2014-CS-010-000026	-	16,005	20,790	4,785
			5,775	21,780	20,790	4,785
97.024	U.S. Department of Homeland Security Pass through from Emergency Food and Shelter National Board Program Emergency Food and Shelter Program Emergency Food and Shelter Program Emergency Food and Shelter Program Emergency Food and Shelter Program Total Program	762500-005	-	3,338	3,338	-
		762500-005	-	10,000	10,000	-
		762500-005	-	5,033	5,033	-
		762500-005	-	3,338	3,338	-
			-	21,709	21,709	-
Sub-total Federal Awards			1,422,151	12,721,749	13,060,146	1,760,548
STATE AWARDS						
N/A	State of Tennessee Department of Education Lottery for Education: Afterschool Program (LEAP) Lottery for Education: Afterschool Program (LEAP) Total Program	EDISON 30816	10,903	10,903	-	-
		EDISON 30816	-	36,823	71,221	34,398
			10,903	47,726	71,221	34,398
N/A	State of Tennessee Department of Children's Services Pass through from Harmony Adoptions of Tennessee, Inc. Harmony Family Center, Inc. - FOCUS Recruitment Harmony Family Center, Inc. - FOCUS Recruitment Total Program	EDISON 36901	10,386	10,387	-	(1)
		EDISON 36901	-	50,258	60,253	9,995
			10,386	60,645	60,253	9,994
Sub-total State Awards			21,289	108,371	131,474	44,392
Grand total Federal and State Awards			1,443,440	12,830,120	13,191,620	1,804,940

CATHOLIC CHARITIES OF TENNESSEE, INC.

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

Year ended June 30, 2016

(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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

For new awards or modifications of existing awards after December 26, 2014, the expenditures reported in the SEFA follow the cost principles contained in the Uniform Guidance. For existing awards prior to December 26, 2014, the expenditures follow the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*. The cost principles indicate that certain types of expenditures are not allowable or reimbursements of allowable costs are limited as to reimbursement.

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

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

The Organization elected to not use the 10% de minimis indirect cost rate.

CATHOLIC CHARITIES OF TENNESSEE, INC.

Schedule of Board of Trustees and Management

Year ended June 30, 2016

Board of Trustees

**Fran Bedard, President
Frederick Strobel, Vice President
Portia Wells, Secretary
Dwayne Dillard, Treasurer**

**Allen Arender
Steve Bachus
Clark Baker
Anne Blaufuss
Steve Brophy
Stefan Caulfield
Matt Curley
Kevin Doherty
Katherine Duck
Fr. Eric Fowlkes
Sister Mary Cecilia Goodrum, O.P.
Shandy Husmann
Christopher Kelly
Greg Mays
Kim Molnar
Diane Mulloy
Mike Nunan
Rochelle Reding
John Rodgers
Liz Schatzlein
Michael Veinbergs**

Members of Management

**William Sinclair, Executive Director
Richard Neal, Chief Financial Officer**

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Catholic Charities of Tennessee, Inc. (the "Organization"), which are comprised of the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated November 14, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

L B M C, P C

Brentwood, Tennessee
November 14, 2016

Independent Auditors' Report on Compliance for Each Major
Program and on Internal Control Over Compliance
Required by the Uniform Guidance

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

Report on Compliance for Each Major Federal Program

We have audited the compliance of Catholic Charities of Tennessee, Inc. (the "Organization") with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2016. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

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

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

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

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

L B M C, PC

Brentwood, Tennessee
November 14, 2016

CATHOLIC CHARITIES OF TENNESSEE, INC.

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

(1) Summary of Auditors' Results

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

CFDA#	Grantor	Program
19.510	U.S. Department of Health and Human Services	Refugee Assistance
93.566	U.S. Department of Health and Human Services	Refugee and Entrant Assistance - State Administered Program
93.584	U.S. Department of Health and Human Services	Refugee Resettlement Social Service

- (h) The threshold used to distinguish between Type A and Type B programs was \$750,000.
- (i) The Organization qualified as a low-risk auditee.

CATHOLIC CHARITIES OF TENNESSEE, INC.

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

(2) Findings - Financial Statement Audit

None

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

None