

**CATHOLIC CHARITIES  
OF TENNESSEE, INC.**

**Financial Statements and  
Supplementary Information**

**June 30, 2006 and 2005**

**(With Independent Auditors' Report Thereon)**



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

**CATHOLIC CHARITIES OF TENNESSEE, INC.**

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of Catholic Charities of Tennessee, Inc. (the "Organization") as of June 30, 2006 and 2005, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 Organization's 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 financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Catholic Charities of Tennessee, Inc. as of June 30, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2006 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audits were made for the purpose of forming an opinion on the basic 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 financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Brentwood, Tennessee  
November 2, 2006

### Nashville

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**CATHOLIC CHARITIES OF TENNESSEE, INC.**

Statements of Financial Position

June 30, 2006 and 2005

<b>Assets</b>	<b>2006</b>	<b>2005</b>
Cash	\$ 144,612	153,740
Contributions receivable	586,468	558,541
Receivable from the State of Tennessee	165,317	150,317
Receivable from United States Catholic Conference of Bishops	85,470	180,580
Receivable from Safety Net Consortium of Middle Tennessee	49,965	101,669
Receivable from Office of Refugee Resettlement	37,560	18,887
Receivable from United Way, net	229,949	240,619
Miscellaneous program grants receivable	198,402	222,340
Miscellaneous accounts receivable, net of allowance for doubtful accounts of \$6,732 in 2006 and \$16,941 in 2005	118,739	163,511
Prepaid expenses	12,375	11,383
Equipment and leasehold improvements, net	119,883	106,872
<b>Total assets</b>	<b>\$ 1,748,740</b>	<b>1,908,459</b>
 <b>Liabilities and Net Assets</b>		
Program advance	\$ 16,000	16,000
Accounts payable and accrued liabilities	95,583	228,895
Payable to the Governance and Service Offices of the Diocese of Nashville	23,591	204,329
Note payable to the Governance and Service Offices of the Diocese of Nashville	29,598	-
Deferred revenues	66,852	95,917
<b>Total liabilities</b>	<b>231,624</b>	<b>545,141</b>
Net assets:		
Unrestricted:		
Designated for:		
Future operations	211,195	99,174
Physical plant equity	119,883	106,872
Renewal and replacement	107,247	99,727
<b>Total unrestricted net assets</b>	<b>438,325</b>	<b>305,773</b>
Temporarily restricted net assets	1,078,791	1,057,545
<b>Total net assets</b>	<b>1,517,116</b>	<b>1,363,318</b>
Commitments and contingencies		
<b>Total liabilities and net assets</b>	<b>\$ 1,748,740</b>	<b>1,908,459</b>

See accompanying notes to financial statements.

**CATHOLIC CHARITIES OF TENNESSEE, INC.**

**Statements of Activities**

Years ended June 30, 2006 and 2005

	2006			2005		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and revenue:						
State of Tennessee grants	\$ 1,008,247	-	1,008,247	598,721	-	598,721
Service fees	969,881	-	969,881	977,847	-	977,847
Diocesan contributions and grants	-	675,371	675,371	-	649,127	649,127
United States Catholic Conference of Bishops grants	502,520	-	502,520	516,524	-	516,524
Miscellaneous program grants	508,519	-	508,519	321,151	-	321,151
Safety Net Consortium of Middle Tennessee grant	317,984	-	317,984	318,241	-	318,241
Office of Refugee Resettlement grants	156,449	-	156,449	453,682	-	453,682
Reimbursement of occupancy expenses	283,269	-	283,269	283,379	-	283,379
Contributions and bequests	448,612	-	448,612	359,949	-	359,949
United Way allocation and designations	-	280,476	280,476	-	102,129	102,129
Other	12,201	27	12,228	24,119	190	24,309
In-kind donations	1,099,366	-	1,099,366	796,299	-	796,299
Net assets released from restrictions	934,628	(934,628)	-	1,043,951	(1,043,951)	-
Total support and revenue	6,241,676	21,246	6,262,922	5,693,863	(13,250)	5,680,613
Expenses:						
Program expenses	5,588,299	-	5,588,299	5,020,300	-	5,020,300
Management and general	221,420	-	221,420	336,524	-	336,524
Auxiliary services	299,405	-	299,405	325,787	-	325,787
Total expenses	6,109,124	-	6,109,124	5,682,611	-	5,682,611
Increase (decrease) in net assets	132,552	21,246	153,798	11,252	(13,250)	(1,998)
Net assets at beginning of year	305,773	1,057,545	1,363,318	294,521	1,070,795	1,365,316
Net assets at end of year	\$ 438,325	1,078,791	1,517,116	305,773	1,057,545	1,363,318

See accompanying notes to financial statements.

# CATHOLIC CHARITIES OF TENNESSEE, INC.

## Statements of Functional Expenses

Years ended June 30, 2006 and 2005

	2006											
	Catholic Social Services	Refugee Resettlement	Pregnancy Counseling and Adoptions	Other Social Service Programs	Services to Elderly	Community Healthcare Access	Child Abuse Prevention	Welfare to Work	Total Program Expenses	Management and General	Auxiliary Services	Total
\$	738,089	524,025	452,758	139,694	142,648	263,473	155,934	124,926	2,541,547	515,302	131,393	3,188,242
Total salaries/benefits												
Purchased services	94,054	140,210	128,930	20,939	12,831	12,333	21,963	98,821	530,101	138,478	186,328	854,907
Supplies and materials	24,508	31,808	13,900	4,675	12,630	4,457	4,199	3,333	99,510	38,938	5,195	143,643
Depreciation and amortization												
Conferences	1,269								1,269	29,457	13,132	43,858
Rent	3,908	3,842	22,698		235	272	283		31,238	4,158	74	35,470
Miscellaneous	43,064	6,000	4,957	547			791		55,359	1,500	134,204	191,063
Administrative expenses	2,011	297	597	10		287		246	3,448	12,215	(569)	15,094
Building occupancy	187,596	84,882	137,492	29,752	34,997	23,317	20,135	18,607	536,778	(580,302)	43,524	
Subsidies/assistance	26,375	43,829	45,624	11,875	21,408	8,496	11,909	18,823	188,339	25,537	(213,876)	
Fundraising	338,318	535,403	153,564	522,874	120	2,204	44,389	3,838	1,600,710			1,600,710
												36,137
Total functional expenses	\$ 1,459,192	1,370,296	960,520	730,366	224,869	314,859	259,603	268,594	5,588,299	221,420	299,405	6,109,124

	2005											
	Catholic Social Services	Refugee Resettlement	Pregnancy Counseling and Adoptions	Other Social Service Programs	Services to Elderly	Community Healthcare Access	Child Abuse Prevention	Welfare to Work	Total Program Expenses	Management and General	Auxiliary Services	Total
Total salaries/benefits	\$ 750,177	386,813	489,095	20,610	152,903	250,988	153,030	154,847	2,358,463	545,672	135,721	3,039,856
Purchased services	94,198	47,669	139,050	705	12,693	15,425	18,734	103,746	432,220	145,596	189,645	767,461
Supplies and materials	19,943	13,920	17,684	580	9,672	1,868	3,346	5,598	72,611	31,711	14,143	118,465
Depreciation and amortization	—	—	—	—	—	—	—	—	—	42,550	13,132	55,682
Conferences	1,676	2,375	17,291	150	35	—	225	112	21,864	5,356	351	27,571
Rent	22,450	6,000	5,568	—	—	—	791	—	34,809	1,283	128,007	164,099
Miscellaneous	1,131	320	1,721	40	59	13	195	62	3,541	7,588	935	12,064
Administrative expenses	155,087	82,574	136,650	6,770	33,518	23,799	16,938	19,940	475,276	(514,241)	38,965	—
Building occupancy	26,221	31,598	40,238	1,312	22,418	12,214	13,406	25,655	173,062	22,050	(195,112)	—
Subsidies/assistance	233,889	869,023	167,317	129,007	6,334	14,162	26,845	1,877	1,448,454	—	—	1,448,454
Fundraising	—	—	—	—	—	—	—	—	—	48,959	—	48,959
Total functional expenses	\$ 1,304,772	1,440,292	1,014,614	159,174	237,632	318,469	233,510	311,837	5,020,300	336,524	325,787	5,682,611

See accompanying notes to financial statements.

# CATHOLIC CHARITIES OF TENNESSEE, INC.

## Statements of Cash Flows

Years ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 153,798	(1,998)
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	43,858	55,682
Changes in assets and liabilities:		
Contributions receivable	(27,927)	(26,598)
Receivable from the State of Tennessee	(15,000)	104,991
Receivable from United States Catholic Conference of Bishops	95,110	(19,405)
Receivable from Safety Net Consortium of Middle Tennessee	51,704	96,025
Receivable from Office of Refugee Resettlement	(18,673)	50,110
Receivable from United Way	10,670	31,752
Miscellaneous program grants receivable	23,938	(219,354)
Miscellaneous accounts receivable	44,772	32,983
Prepaid expenses	(992)	12,350
Program advance, accounts payable and accrued liabilities	(133,312)	(230,792)
Payable to the Governance and Service Offices of the Diocese of Nashville	(180,738)	37,018
Deferred revenues	(29,065)	7,915
Net cash provided (used) by operating activities	<u>18,143</u>	<u>(69,321)</u>
Cash flows used in investing activities:		
Purchase of equipment and leasehold improvements	<u>(56,869)</u>	<u>(21,827)</u>
Cash flows provided in financing activities:		
Proceeds from note payable to the Governance and Service Offices of the Diocese of Nashville	32,757	—
Payments of note payable to the Governance and Service Offices of the Diocese of Nashville	<u>(3,159)</u>	<u>—</u>
Net cash provided by financing activities	<u>29,598</u>	<u>—</u>
Net decrease in cash	(9,128)	(91,148)
Cash at beginning of year	<u>153,740</u>	<u>244,888</u>
Cash at end of year	<u>\$ 144,612</u>	<u>153,740</u>

See accompanying notes to financial statements.

# CATHOLIC CHARITIES OF TENNESSEE, INC.

## Notes to the Financial Statements

June 30, 2006 and 2005

### (1) Summary of significant accounting policies

#### (a) Reporting entity

Catholic Charities of Tennessee, Inc. (the "Organization" or "Catholic Charities") is a Tennessee not-for-profit corporation which operates charitable and social service programs throughout Tennessee, but primarily Middle Tennessee. Catholic Charities was incorporated July, 1962. The accompanying 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 financial statements have been prepared on the accrual basis of accounting.

#### (b) Basis of Presentation

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

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

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

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

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

*Designated for future operations* – Cumulative results from activities which have been designated 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. Currently, Catholic Charities has no such permanently restricted net assets.



# **CATHOLIC CHARITIES OF TENNESSEE, INC.**

## **Notes to the Financial Statements**

**June 30, 2006 and 2005**

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

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

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

### **(d) Cash Risk**

Catholic Charities generally maintains cash on deposit at banks in excess of federally insured amounts. Catholic Charities also has funds on deposit in the Deposit and Loan Fund of the Governance and Service Office of the Diocese of Nashville (the "GSO"). See also Note 10. Catholic Charities has not experienced any losses in such accounts and management believes the Organization is not exposed to any significant credit risk related to cash.

### **(e) Receivables and Credit Policies**

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

### **(f) Equipment and Leasehold Improvements**

Equipment and leasehold improvements are stated at cost or fair market value at date of gift if acquired by donation, net of accumulated depreciation. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets. Leasehold improvements are amortized over the 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.

# **CATHOLIC CHARITIES OF TENNESSEE, INC.**

## **Notes to the Financial Statements**

**June 30, 2006 and 2005**

### **(h) Federal Income Taxes**

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

### **(i) Impairment of Long-Lived Assets**

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

### **(j) Change in Vacation Policy**

In 2006, Catholic Charities changed the vacation accrual policy and discontinued the policy of carrying forward any unused vacation time to the subsequent year. Employees were given the option to either use their accrued vacation time by June 30, 2006 or be paid 50% of unused vacation time. As a result of the elimination of the accrued vacation, expenses were reduced and net assets were increased approximately \$67,000 during 2006.

### **(k) Reclassifications**

Certain reclassifications have been made to the 2005 financial statements in order for them to conform to the 2006 presentation. These reclassifications have no effect on total net assets or total changes in net assets as previously reported. The following describes the significant reclassifications:

#### **1) Contributions Receivable on Statements of Financial Position**

In prior years, the Organization combined three items into the Contributions Receivable (\$1,021,500 for 2005). These balances were disclosed in separate line items in 2006.

- i. Contributions Receivable (Bishops Annual Appeal \$558,541 for 2005)
- ii. Receivable from United Way, net (\$240,619 for 2005)
- iii. Miscellaneous Program Grants Receivable (\$222,340 for 2005)

#### **2) Statements of Activities**

In order to conform with the 2006 presentation, management determined that certain reclassifications related to the Families First Partners program during 2005 were necessary.

# CATHOLIC CHARITIES OF TENNESSEE, INC.

## Notes to the Financial Statements

**June 30, 2006 and 2005**

	Support and Revenue, as Originally <u>Stated</u>	<u>Reclassifications</u>	Support and Revenue, as <u>Reclassified</u>
State of Tennessee grants	\$ 598,721	\$ -	\$ 598,721
United States Catholic Conference grants	970,207		516,524
Reclass to Office of Refugee Resettlement grants		(453,683)	
Metropolitan Government of Nashville and Davidson County grants	341,879		-
Reclass to Safety Net Consortium		(318,241)	
Reclass to Miscellaneous program grants		(23,638)	
Bishops Stewardship Appeal and parish contributions	1,536,917		649,127
Reclass Reimbursement of Occupancy to separate line		(283,379)	
Reclass Parish Grants to Service Fees		(137,751)	
Reclass Parish Grants to Contributions		(169,147)	
Reclass Program Grants to separate line		(297,513)	
Service Fees	840,096		977,847
Reclass from Parish grant		137,751	
Contributions and bequests	292,932		462,078
Reclass Contributions from Parish grants		169,146	
United Way	279,253	2	279,255
Other	24,309		24,309
In-kind donations	796,299		796,299
Office of Refugee Resettlement grants	-		453,682
Reclass from United States Catholic Conference grants		453,682	
Safety Net Consortium of Middle Tennessee Grant	-		318,241
Reclass from Metropolitan Government of Nashville and Davidson County grants		318,241	

# CATHOLIC CHARITIES OF TENNESSEE, INC.

## Notes to the Financial Statements

June 30, 2006 and 2005

Miscellaneous program grants	-		321,151
Reclass from Metropolitan Government of Nashville and Davidson County grants		23,638	
Reclass from Bishop Stewardship Appeal and parish contributions		297,513	
Reimbursement of occupancy expenses	-		<u>283,379</u>
Reclass from Bishop Stewardship Appeal and parish contributions		<u>283,379</u>	
Total Support and revenue	\$ <u>5,680,613</u>	\$ <u>-</u>	\$ <u>5,680,613</u>

### 3) Net Assets:

In order to conform with the 2006 presentation, management determined that certain reclassifications related to the Families First Partners program during 2005 were necessary.

	Net Assets as Originally <u>Stated</u>	<u>Reclassifications</u>	Net Assets as <u>Reclassified</u>
Unrestricted net assets designated for Future operations	\$ 27,556	\$ 71,618	\$ 99,174
Temporarily restricted net assets	\$ 1,129,163	\$ (71,618)	\$ 1,057,545

### (2) Contributions Receivable

Contributions receivable of \$586,468 and \$558,541 at June 30, 2006 and 2005, respectively, represents unconditional promises received from the Bishops Annual Appeal. The gross amount has been recorded, and is receivable in less than one year. The amount from the Bishops Annual Appeal is restricted for operations of the subsequent fiscal year.

Receivables from United Way of \$229,949 and \$240,619 at June 30, 2006 and 2005, respectively, represent pledges that have been designated to Catholic Charities as well as allocations for specific programs from United Way. The receivables are recorded at net realizable value and are receivable in less than one year. The gross amounts were recorded less a net allowance of \$10,987 and \$10,234 for 2006 and 2005, respectively, which represents an estimated uncollectible amount for United Way designations.

# CATHOLIC CHARITIES OF TENNESSEE, INC.

## Notes to the Financial Statements

June 30, 2006 and 2005

### (3) Equipment and Leasehold Improvements

Equipment and leasehold improvements consist of the following:

	<u>2006</u>	<u>2005</u>
Equipment	\$ 185,321	\$ 169,347
Furnishings	13,096	11,997
Vehicles	50,046	50,046
Leasehold improvements	<u>178,775</u>	<u>138,980</u>
	427,238	370,370
Less accumulated depreciation and amortization	<u>307,355</u>	<u>263,498</u>
Equipment and leasehold improvements, net	<u>\$ 119,883</u>	<u>\$ 106,872</u>

### (4) Note Payable

The Organization has a note payable to the Governance and Service Offices of the Diocese of Nashville ("GSO") of \$29,598 at June 30, 2006. The unsecured note bears interest at the prime rate less 1.0% per annum (7.25% at June 30, 2006) and matures in November 2010. The minimum monthly payment is \$633. The note was issued to finance certain leasehold improvements at the St. Mary Villa location.

A summary of future maturities of long-term debt as of June 30, 2006 is as follows:

<u>Year</u>	<u>Amount</u>
2007	\$ 6,121
2008	6,466
2009	6,831
2010	7,216
2011	<u>2,964</u>
	<u>\$ 29,598</u>

### (5) Employee Benefit Plans

Catholic Charities participates in two retirement plans currently sponsored by the GSO. They are as follows:

#### (a) *Defined Benefit Pension Plan*

Catholic Charities participates in a non-contributory defined benefit plan which is funded based on the required contribution each year as determined by the 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 the eligible employees' salaries to the plan. Participants vest in all employer contributions to the plan as follows: after three years of service 20%, increasing 20% for each year of additional service until participants are fully vested after seven years of service.

# CATHOLIC CHARITIES OF TENNESSEE, INC.

## Notes to the Financial Statements

June 30, 2006 and 2005

### **(b) Defined Contribution Benefit Plan**

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

Contributions to both retirement plans were \$142,289 and \$136,604 for the years ended June 30, 2006 and 2005, respectively.

### **(6) Temporarily Restricted Net Assets**

Temporarily restricted net assets as of June 30, 2006 and 2005 are available for the following purposes or periods:

	<u>2006</u>	<u>2005</u>
Subsequent year operations - program unrestricted	\$ 586,468	\$ 558,541
Subsequent year operations - programmatic restrictions	280,476	279,255
Other restricted programmatic purposes	<u>211,847</u>	<u>219,749</u>
	<u>\$ 1,078,791</u>	<u>\$ 1,057,545</u>

### **(7) 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>2006</u>	<u>2005</u>
Utilization of funds restricted to current year	\$ 558,541	\$ 531,944
Utilization of funds restricted to programs for current year	279,255	335,438
Utilized to satisfy donor-specified purpose	<u>96,832</u>	<u>176,569</u>
	<u>\$ 934,628</u>	<u>\$ 1,043,951</u>

### **(8) Leases**

Catholic Charities operated facilities under operating lease agreements during the fiscal years ended June 30, 2006 and 2005.

The Loaves and Fishes, Refugee, Families First, and various other programs operate from offices owned by Holy Name Catholic Church. A letter of agreement dated July 1, 1999, between the lessor and Catholic Charities outlines the basic terms of the lease for the programs. This agreement calls for a five year lease with a five year renewal option, with lease payments based on Catholic Charities' portion of actual facility expenses. The agreement also contains a clause which would allow Catholic Charities to reduce its lease payments in the event of a significant decrease in program activity. The Loaves and Fishes lease was entered into on July 1, 2003 and has the option to renew annually. Lease expense for 2006 and 2005 was \$49,366 and \$48,366, respectively.

# CATHOLIC CHARITIES OF TENNESSEE, INC.

## Notes to the Financial Statements

### June 30, 2006 and 2005

The Refugee Resettlement programs lease warehouse space from East Nashville Cooperative Ministry on a month-to-month basis for \$500 per month. Total rental payments were \$6,000 in 2006 and 2005.

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 2006 and 2005.

The North Nashville Outreach program operated until April 30, 2005 in a space provided by Assumption 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. Lease expense for 2006 and 2005 was \$19,800 and \$3,300, respectively.

The other Charities operations leased facilities at Saint Mary Villa, under annual lease agreements with the GSO. Catholic Charities manages the Saint Mary Villa facility for the GSO under a separate agreement. The annual amount paid is based on reimbursement of occupancy expense for the percentage of building space actually used by the various programs. For the years ended June 30, 2006 and 2005, Catholic Charities' portion of the occupancy expense totaled \$125,447 and \$108,926, respectively. Total occupancy revenues received from related entities (St Mary Villa Child Daycare Center, Mary Queen of Angels, and several Diocesan offices) were approximately \$283,000 in 2006 and 2005.

In addition to the above leased facilities, Catholic Charities also has several leased automobiles and office equipment. Total lease payments in fiscal years 2006 and 2005 for automobiles and office equipment were \$46,405 and \$47,981, respectively. The amount of lease expense also includes expense from automobile rentals.

Future minimum commitments under noncancelable leases as of June 30, 2006 are:

	<u>Amount</u>
2007	\$ 185,598
2008	170,158
2009	132,274
2010	122,905
2011	<u>122,566</u>
	<u>\$ 733,501</u>

#### (9) 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 financial statements.

# **CATHOLIC CHARITIES OF TENNESSEE, INC.**

## **Notes to the Financial Statements**

**June 30, 2006 and 2005**

### **(10) Transactions with the Governance and Service Offices of the Roman Catholic Diocese of Nashville**

The GSO performs the cash management function for Catholic Charities. Consequently, Catholic Charities' cash transactions flow through the "Receivable/Payable to the GSO of the Roman Catholic Diocese of Nashville" account of Catholic Charities. Cash includes \$159,316 and \$118,042 on deposit with the Deposit and Loan Fund of the GSO of the Diocese of Nashville at June 30, 2006 and 2005, respectively.

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

### **(11) 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 SFAS No. 116. Donated goods and space are recognized in the financial statements at fair market value when received.

### **(12) 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 \$8,738 in 2006 and \$5,401 in 2005.

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 2006 grant was \$194,810, with at least \$33,300 consisting of a cash or cash equivalent match. The required match for the 2005 grant was \$262,700, with at least \$52,540 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.

### **(13) Related party transactions**

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



**CATHOLIC CHARITIES OF TENNESSEE, INC.**

**Schedule of Expenditures of Grant Awards**

**Year Ended June 30, 2006**

<b>CFDA#</b>	<b>Grant Description</b>	<b>Grant Number</b>	<b>Receivable Balance June 30, 2005</b>	<b>Receipts</b>	<b>Expenditures</b>	<b>Receivable Balance June 30, 2006</b>
14.231	Emergency Shelter Grants Program Pass-through from Metropolitan Development and Housing Agency Loaves and Fishes	N/A	—	6,000	6,000	—
16.540	U.S. Dept. of Justice: Juvenile Justice and Delinquency Prevention Pass-through from Metro Social Services Pass-through from Metro Social Services	GR-0516703-00 GR-0617669-00	14,803 — <u>14,803</u>	29,883 22,898 <u>52,781</u>	15,080 33,769 <u>48,849</u>	— 10,871 <u>10,871</u>
16.575	U.S. Dept. of Justice: Crime Victim Assistance Pass-through from State of Tennessee Department of Finance and Administration Child Abuse Prevention Program - VOCA Pass-through from State of Tennessee Department of Children's Services Child Abuse Prevention Program-Mid Cumb. Child Abuse Prevention Program-Mid Cumb. Child Abuse Prevention Program-Mid Cumb. Child Abuse Prevention Program-Davidson Co. Child Abuse Prevention Program-Davidson Co. Child Abuse Prevention Program-Davidson Co.	Z-00-099324-01 Z-00-099324-01 GR-0516886-00 GR-0617222-00 GR-0617709-00 GR-0516814-00 GR-0617215-00 GR-0617717-00	23,600 5,591 — — 5,132 — — —	93,557 5,591 11,925 10,428 5,132 9,675 9,723	84,777 — 11,925 17,500 — 9,675 13,150	14,820 — — 7,072 — — 3,427
	<b>Total Program</b>		<u>34,323</u>	<u>146,031</u>	<u>137,027</u>	<u>25,319</u>
93.235	U.S. Department of Health and Human Services: Abstinence Education Pass-through from State of Tennessee Department of Health Abstinence Education Services Abstinence Education Services	Z-05-021457-00 Z-06-002674-00	31,351 — <u>31,351</u>	31,351 85,017 <u>116,368</u>	— 118,502 <u>118,502</u>	— 33,485 <u>33,485</u>
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 Community Access Program		99,947 — <u>99,947</u>	152,523 211,444 <u>363,967</u>	52,576 261,408 <u>313,984</u>	— 49,964 <u>49,964</u>
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-05-16170-00	49,802	265,599	243,851	28,054
* 93.566	U.S. Dept. of Health and Human Services: Refugee Resettlement Social Service Pass-through from State of Tennessee Department of Human Services Refugee Social Services	GR-06-17004-00	—	267,707	294,864	27,157
* 93.567	U.S. Dept. of Health and Human Services: Refugee Assistance Pass-through from United States Catholic Conference: Match Grant/Free Case Resettlement Match Grant/Free Case Resettlement Match Grant/Free Case Resettlement Match Grant/Free Case Resettlement	USCC USCC USCC USCC	17,300 103,887 — — <u>121,187</u>	17,000 100,842 232,922 56,568 <u>407,332</u>	— 234,016 96,202 <u>330,218</u>	300 3,045 1,094 39,634 <u>44,073</u>
* 93.576	U.S. Dept. of Health and Human Services - Refugee and Entrant Assistance Pass-through from United States Catholic Conference: Reception & Placement Reception & Placement Reception & Placement Refugee Subsidies Refugee Subsidies Refugee Subsidies Refugee Subsidies	USCC USCC USCC USCC USCC USCC USCC USCC	37,579 — — 291 20,662 — — — <u>77,418</u>	30,558 40,000 25,885 — 20,662 53,549 18,791	— 42,256 40,991 — — 53,565 35,499	7,021 2,256 15,106 291 — 16 16,708
	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	—	—	—	—
	U.S. Dept. of Health and Human Services - Refugee and Entrant Assistance Administration for Children and Families Individual Development Accounts Program Individual Development Accounts Program Service for arriving Refugees with Special Condition	90ZI0034 90ZI00060/01 90RE0110/01	18,886 — — <u>77,418</u>	32,489 30,621 70,336 <u>322,891</u>	13,603 53,587 84,929 <u>324,430</u>	— 22,966 14,593 <u>78,957</u>
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	4,432	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 Chap Plus	GR-05-16417-00 GR-06-17279-00	15,606 — <u>15,606</u>	15,606 42,838 <u>58,444</u>	— 49,658 <u>49,658</u>	— 6,820 <u>6,820</u>
97.024	Federal Emergency Management Agency: Emergency Food and Shelter Pass-through from United Way of Middle Tennessee Emergency Food and Shelter Emergency Food and Shelter	23-7652-00-015 24-7652-00-015	— — <u>—</u>	3,148 8,568 <u>11,716</u>	3,148 17,136 <u>20,284</u>	— 8,568 <u>8,568</u>
	<b>Grand total</b>		<u>\$ 448,869</u>	<u>2,023,268</u>	<u>1,887,667</u>	<u>313,268</u>

\* Indicates major program

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

See accompanying independent auditors' report.

**CATHOLIC CHARITIES OF TENNESSEE, INC.**

**Notes to the Schedule of Expenditures of Grant Awards**

**June 30, 2006**

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

**(2) Summary of Significant Accounting Policies for Federal Expenditures**

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

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

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

We have audited the financial statements of Catholic Charities of Tennessee, Inc. (the "Organization") as of and for the year ended June 30, 2006, and have issued our report thereon dated November 2, 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 the Organization's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements 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 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 the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

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

Brentwood, Tennessee  
November 2, 2006

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**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. (the "Organization") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Organization's compliance with those requirements.

In our opinion, the Organization complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

**Internal Control Over Compliance**

The management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Organization's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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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 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 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, 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  
November 2, 2006

**CATHOLIC CHARITIES OF TENNESSEE, INC.**

**Schedule of Findings and Questioned Costs**

**Year ended June 30, 2006**

**(1) Summary of Auditors' Results**

- (a) The independent auditors' report expressed an unqualified opinion on the financial statements.**
- (b) No reportable conditions or material weaknesses were disclosed by the audit of the financial statements.**
- (c) No instances of noncompliance material to the 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>
93.566	U.S. Department of Health and Human Services (pass-through from State of Tennessee Department of Human Services)	Refugee Social Services
93.567	U.S. Department of Health and Human Services (pass-through from United States Catholic Conference)	Match Grant/Free Case Resettlement
93.576	U.S. Department of Health and Human Services (pass-through from United States Catholic Conference)	Reception and Placement/ 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**