

**CATHOLIC CHARITIES
OF TENNESSEE, INC.**

**Financial Statements and
Supplementary Information**

June 30, 2011 and 2010

(With Independent Auditors' Report Thereon)



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

CATHOLIC CHARITIES OF TENNESSEE, INC.

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements:	
Statements of Financial Position	2
Statements of Activities	3
Statements of Functional Expenses	4
Statements of Cash Flows	5
Notes to the Financial Statements	6 - 14
Supplementary Information:	
Schedule of Expenditures of Federal and State Grant Awards	15 - 16
Notes to the Schedule of Expenditures of Federal and State Grant Awards	17
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	18 - 19
Independent Auditor's Report on Compliance with Requirements that could have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A- 133	20 - 21
Schedule of Findings and Questioned Costs	22 - 23

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, 2011 and 2010, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Catholic Charities of Tennessee, Inc. as of June 30, 2011 and 2010, 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 8, 2011 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 audits.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The accompanying schedule of expenditures of federal and state grant awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information 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 audits 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.

Lattimore Black Morgan & Cain, P.C.

Brentwood, Tennessee
November 8, 2011

CATHOLIC CHARITIES OF TENNESSEE, INC.

Statements of Financial Position

June 30, 2011 and 2010

Assets	2011	2010
Cash	\$ 1,211,427	1,218,837
Receivable from the State of Tennessee	109,078	120,008
Receivable from United States Catholic Conference of Bishops	230,807	376,900
Receivable from Metropolitan Government of Nashville	24,704	19,863
Receivable from Office of Refugee Resettlement	505,849	666,674
Receivable from United Way	298,023	298,099
Miscellaneous program grants receivable	-	128,067
Miscellaneous accounts receivable, net of allowance for doubtful accounts of \$14,760 at June 30, 2011 and 2010	107,687	58,587
Prepaid expenses	31,975	25,695
Equipment and leasehold improvements, net	123,378	94,828
Total assets	<u>\$ 2,642,928</u>	<u>3,007,558</u>
Liabilities and Net Assets		
Program advance	\$ 16,000	16,000
Accounts payable and accrued liabilities	730,450	1,155,971
Deferred revenues	55,536	58,400
Total liabilities	<u>801,986</u>	<u>1,230,371</u>
Net assets:		
Unrestricted:		
Designated for:		
Future operations	1,056,932	1,021,914
Physical plant equity	123,378	94,828
Renewal and replacement	107,247	107,247
Total unrestricted net assets	1,287,557	1,223,989
Temporarily restricted net assets	553,385	553,198
Total net assets	<u>1,840,942</u>	<u>1,777,187</u>
Total liabilities and net assets	<u>\$ 2,642,928</u>	<u>3,007,558</u>

CATHOLIC CHARITIES OF TENNESSEE, INC.

Statements of Activities

Years Ended June 30, 2011 and 2010

	2011			2010		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and revenue:						
State of Tennessee grants	\$ 572,161	-	572,161	565,534	-	565,534
Service fees	1,511,970	-	1,511,970	1,595,462	-	1,595,462
Diocesan contributions and grants	563,311	-	563,311	566,626	-	566,626
United States Catholic Conference of Bishops grants	1,499,820	-	1,499,820	1,329,794	-	1,329,794
Miscellaneous program grants	682,056	-	682,056	890,042	-	890,042
Metropolitan Government of Nashville grants	213,447	-	213,447	120,993	-	120,993
Office of Refugee Resettlement grants	6,428,961	-	6,428,961	8,172,331	-	8,172,331
Reimbursement of occupancy expenses	299,324	-	299,324	298,974	-	298,974
Contributions and bequests	695,329	-	695,329	623,129	-	623,129
United Way allocation and designations	279,663	297,726	577,389	134,761	297,477	432,238
Other	29,399	444	29,843	10,397	439	10,836
In-Kind Donations	1,050,157	-	1,050,157	1,313,210	-	1,313,210
Net assets released from restrictions	297,983	(297,983)	-	301,430	(301,430)	-
Total support and revenue	14,123,581	187	14,123,768	15,922,683	(3,514)	15,919,169
Expenses:						
Program expenses	13,508,395	-	13,508,395	15,210,126	-	15,210,126
Management and general	167,841	-	167,841	73,676	-	73,676
Auxiliary services	383,777	-	383,777	407,144	-	407,144
Total expenses	14,060,013	-	14,060,013	15,690,946	-	15,690,946
Increase (decrease) in net assets	63,568	187	63,755	231,737	(3,514)	228,223
Net assets at beginning of year	1,223,989	553,198	1,777,187	992,252	556,712	1,548,964
Net assets at end of year	\$ 1,287,557	553,385	1,840,942	1,223,989	553,198	1,777,187

See accompanying notes to financial statements.

CATHOLIC CHARITIES OF TENNESSEE, INC.

Statements of Functional Expenses

Years Ended June 30, 2011 and 2010

2011

	Catholic Social Services	Refugee Resettlement	Pregnancy Counseling and Adoptions	Other Social Service Programs	Services to Elderly	Child Abuse Prevention	Welfare to Work	Tennessee Office for Refugees	Total Program Expenses	Management and General	Auxiliary Services	Total
Total salaries/benefits	\$ 808,577	1,693,147	641,517	352,684	155,905	203,130	-	616,883	4,471,843	658,670	210,317	5,340,830
Purchased services	115,132	258,656	267,482	46,388	20,907	34,543	-	1,801,748	2,544,856	137,086	210,096	2,892,038
Supplies and materials	18,028	45,593	17,219	6,237	11,195	2,995	490	17,054	118,811	35,689	17,612	172,112
Depreciation and amortization	2,849	-	-	-	-	-	-	3,017	5,866	48,631	2,239	56,736
Conferences	2,582	6,639	21,883	843	249	850	-	5,562	38,608	11,254	2,606	52,468
Rent	70,014	17,263	3,918	-	-	10,207	-	40,240	141,642	-	150,804	292,446
Miscellaneous	3,049	2,780	3,298	271	921	352	-	1,659	12,330	25,744	2,242	40,316
Administrative expenses	201,666	226,178	159,860	38,574	46,567	29,793	-	-	702,638	(793,345)	90,707	-
Building occupancy	22,284	151,309	75,796	2,923	19,313	-	-	10,400	282,025	20,821	(302,846)	-
Subsidies/assistance	644,389	930,460	93,681	526,445	28,073	76,396	-	2,890,332	5,189,776	-	-	5,189,776
Fundraising	-	-	-	-	-	-	-	-	-	23,291	-	23,291
Total functional expenses	\$ 1,888,570	3,332,025	1,284,654	974,365	283,130	358,266	490	5,386,895	13,508,395	167,841	383,777	14,060,013

2010

	Catholic Social Services	Refugee Resettlement	Pregnancy Counseling and Adoptions	Other Social Service Programs	Services to Elderly	Child Abuse Prevention	Welfare to Work	Tennessee Office for Refugees	Total Program Expenses	Management and General	Auxiliary Services	Total
Total salaries/benefits	\$ 897,081	1,506,819	716,453	67,835	171,821	199,280	-	597,509	4,156,798	585,184	222,566	4,964,548
Purchased services	106,797	241,361	268,898	13,603	21,482	32,090	60	1,887,988	2,572,279	158,740	182,888	2,913,907
Supplies and materials	34,229	42,637	24,853	6,772	11,328	4,645	457	12,462	137,383	42,153	21,454	200,990
Depreciation and amortization	2,470	-	-	-	-	-	-	1,714	4,184	31,377	3,875	39,436
Conferences	2,378	13,135	17,496	-	235	1,399	-	10,430	45,073	3,435	12,300	60,808
Rent	62,744	10,350	4,015	-	-	10,011	-	37,835	124,955	86	145,132	270,173
Miscellaneous	346	1,314	1,119	171	449	80	-	475	3,954	8,621	2,267	14,842
Administrative expenses	216,526	214,906	163,122	9,969	52,929	28,677	-	-	686,129	(775,184)	89,055	-
Building occupancy	22,378	133,189	74,441	855	18,491	-	-	5,699	255,053	17,340	(272,393)	-
Subsidies/assistance	641,051	1,259,194	67,079	716,490	45,243	70,430	-	4,424,831	7,224,318	-	-	7,224,318
Fundraising	-	-	-	-	-	-	-	-	-	1,924	-	1,924
Total functional expenses	\$ 1,986,000	3,422,905	1,337,476	815,695	321,978	346,612	517	6,978,943	15,210,126	73,676	407,144	15,690,946

See accompanying notes to financial statements.

CATHOLIC CHARITIES OF TENNESSEE, INC.

Statements of Cash Flows

Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Increase in net assets	\$ 63,755	228,223
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	56,736	39,436
Changes in assets and liabilities:		
Receivable from the State of Tennessee	10,930	22,658
Receivable from United States Catholic Conference of Bishops	146,093	(200,219)
Receivable from Metropolitan Government of Nashville	(4,841)	25,876
Receivable from Office of Refugee Resettlement	160,825	(241,564)
Receivable from United Way	76	3,331
Miscellaneous program grants receivable	128,067	(115,929)
Miscellaneous accounts receivable, net of allowance	(49,100)	114,064
Prepaid expenses	(6,280)	(6,666)
Accounts payable and accrued liabilities	(425,521)	637,754
Deferred revenues	(2,864)	(62,427)
Net cash provided by operating activities	<u>77,876</u>	<u>444,537</u>
Cash flows used in investing activities-		
purchase of equipment and leasehold improvements	<u>(85,286)</u>	<u>(18,653)</u>
Net increase (decrease) in cash	(7,410)	425,884
Cash at beginning of year	<u>1,218,837</u>	<u>792,953</u>
Cash at end of year	\$ <u><u>1,211,427</u></u>	<u><u>1,218,837</u></u>

See accompanying notes to financial statements.

CATHOLIC CHARITIES OF TENNESSEE, INC.

Notes to Financial Statements

June 30, 2011 and 2010

(1) Summary of Significant Accounting Policies

(a) Reporting Entity

Catholic Charities of Tennessee, Inc. (the “Organization” or “Catholic Charities”) is a Tennessee not-for-profit corporation which operates charitable and social service programs throughout Tennessee, but primarily Middle Tennessee. Catholic Charities was incorporated in July 1962. The accompanying financial statements include programs that are supported by grants from the State of Tennessee, the Metropolitan Government of Nashville and Davidson County, 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 is the replacement designee for the state of Tennessee for the refugee resettlement program under the Office of Refugee Resettlement, a division of U.S. Department of Health and Human Services. Tennessee Office for Refugees was created as a program within Catholic Charities of Tennessee. This program administers Refugee Cash Assistance, Refugee Medical Assistance, Medical Screenings, Social Services, School Impact Grants and Targeted Assistance Grants to sub grantee agencies across the state.

(b) Basis of Presentation

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

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

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

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

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

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

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

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

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may be met 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 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 maintains funds on deposit with Catholic Community Investment and Loan, Inc. (“CCIL”). See also Note 9. Catholic Charities has not experienced any losses in such accounts and management believes the Organization is not exposed to any significant credit risk related to cash.

(e) Receivables and Credit Policies

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

(f) Equipment and Leasehold Improvements

Equipment and leasehold improvements are stated at cost or fair market value at the date of gift if acquired by donation, net of accumulated depreciation. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets. Equipment, furnishings and vehicles are generally depreciated over a period between three and ten years. Leasehold improvements are amortized over the shorter of the estimated useful lives or the term of the lease. Estimated salvage value of assets is zero. The Organization's capitalization policy is to capitalize any expenditures over \$1,000 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, 2011 and 2010, Catholic Charities had accrued no interest and no penalties related to uncertain tax positions. It is Catholic Charities' policy to recognize interest and/or penalties related to income tax matters in income tax expense. Catholic Charities files U.S. Federal information tax returns and is currently open to audit under the statute of limitations by the Internal Revenue Service for the years ended after June 30, 2007.

(i) Reclassifications

Certain reclassifications have been made to the 2010 presentation in order for them to conform to the 2011. These reclassifications have no effect on net assets or changes therein as previously reported.

(j) 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.

(k) Events occurring after the reporting date

The Organization has evaluated events and transactions that occurred between June 30, 2011 and November 8, 2011 which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

(2) Equipment and Leasehold Improvements

Equipment and leasehold improvements consist of the following:

	<u>2011</u>	<u>2010</u>
Equipment	\$ 299,427	\$ 261,837
Furnishings	24,336	23,179
Vehicles	28,311	28,311
Leasehold improvements	<u>261,191</u>	<u>214,653</u>
	613,265	527,980
Less accumulated depreciation and amortization	<u>489,887</u>	<u>433,152</u>
Equipment and leasehold improvements, net	<u>\$ 123,378</u>	<u>\$ 94,828</u>

(3) **Employee Benefit Plans**

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

(a) **Defined Benefit Pension Plan**

Catholic Charities participates in a non-contributory defined benefit plan which is funded based on the required contribution each year as determined by the Diocesan Lay Retirement Board of Trust of the Diocese, and is calculated as a percentage of eligible employees’ compensation. During 2011 and 2010, Catholic Charities contributed 5% of the eligible employees’ compensation to the plan each year. Participants vest in all employer contributions to the plan as follows: after three years of service 20%, increasing 20% for each year of additional service until participants are fully vested after seven years of service.

The following table sets forth the benefit obligations, fair value of plan assets, and funded status (in thousands) of the noncontributory pension plan in which Catholic Charities is a participant as of January 1, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Pension benefits: (in thousands)		
Benefit obligation at end of plan year	\$ (27,151)	\$ (24,934)
Plan assets at fair value at end of plan year	<u>27,034</u>	<u>24,044</u>
Funded Status	<u>\$ (117)</u>	<u>\$ (890)</u>

(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 eligible compensation. Catholic Charities contributes a 3% match to the accounts of the employees that are participating in the plan. Participants are 100% vested in their elective contributions and the employers’ matching contributions.

Contributions to both retirement plans were \$281,365 and \$259,544 for the years ended June 30, 2011 and 2010, respectively.

(4) **Temporarily Restricted Net Assets**

Temporarily restricted net assets as of June 30, 2011 and 2010 are available for the following purposes or periods:

	<u>2011</u>	<u>2010</u>
Subsequent year operations - programmatic restrictions	\$ 297,726	\$ 297,477
Other restricted programmatic purposes	<u>255,659</u>	<u>255,721</u>
	<u>\$ 553,385</u>	<u>\$ 553,198</u>

(5) **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>2011</u>	<u>2010</u>
Utilization of funds restricted to programs – current year	\$ 297,477	\$ 301,430
Utilized to satisfy donor-specified purpose	<u>506</u>	<u>-</u>
	<u>\$ 297,983</u>	<u>\$ 301,430</u>

(6) **Leases**

Catholic Charities utilized facilities under operating lease agreements during the fiscal years ended June 30, 2011 and 2010.

The Loaves and Fishes 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 July 1, 2003 and has the option to renew annually. Lease expense for 2011 and 2010 was \$ 57,184 and \$ 47,730, respectively.

The Refugee Resettlement programs leased warehouse space from East Nashville Cooperative Ministry on a month-to-month basis for \$750 per month for July, 2010 through June, 2011. Total rental payments were \$9,000 in 2011 and \$9,000 in 2010.

On July 1, 2008, the Hispanic Family Services program entered into a five year lease agreement with St. Edward Catholic Church for office space located on Nolensville Road for \$2,000 per month with 3% increases annually. During 2011, the lease was assigned to, and assumed by, Our Lady of Guadalupe Catholic Church. Total rental payments were \$25,464 in 2011 and \$24,720 in 2010.

Effective July 1, 2008, the North Nashville Outreach program entered into a three year lease agreement with Buchanan Plaza Center for \$1,871 per month with 2% increases annually. Total rental payments were \$23,364 and \$22,906, for 2011 and 2010, respectively. Per the terms of the lease agreement, monthly rent increases 2% each anniversary date and was \$1,947 per month at June 30, 2011.

On August 15, 2008, Catholic Charities entered into an agreement with Post Square Shopping Center, GP for a five and one-half year lease for office space located at 21 White Bridge Road for the TOR and child abuse prevention programs. The lease payments are broken down by year with Lease Year 1 through Lease Year 3 being \$30,844, and Lease Year 4 and 5 to be \$33,648. In addition to the lease payments, Catholic Charities will also be responsible for the proportionate share of taxes, insurance premiums, and all common area maintenance costs for the preceding calendar year. Total rental payments were \$45,227 in 2011 and \$42,185 in 2010.

In April, 2011, Catholic Charities entered into an agreement with 29 Hermitage Company, Robert Lipman Trustee, to lease space for a new Refugee Training Center on Lea Avenue. The term of the lease is for one year, plus fifteen days commencing on April 15, 2011 for \$2,800 per month. Total rental payments were \$7,000 for 2011.

The other Catholic Charities' operations leased facilities at Saint Mary Villa under annual lease agreements with the Diocese. Catholic Charities manages the Saint Mary Villa facility for the Diocese 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, 2011 and 2010, Catholic Charities' portion of the occupancy expense totaled \$153,368 and \$138,349, respectively. Total occupancy revenues received from related entities (Saint Mary Villa Child Daycare Center, Mary Queen of Angels, and several Diocesan offices) were \$299,324 and \$298,974 in 2011 and 2010, respectively.

As Managing Agent for the Saint Mary Villa facility for the Diocese, Catholic Charities remits monthly payments collected from the tenants for repair and replacement. Those amounts in fiscal years 2011 and 2010 were \$102,252 and \$101,257, respectively.

In addition to the above leased facilities, Catholic Charities also has several leased automobiles and office equipment. Total lease payments in fiscal years 2011 and 2010 for automobiles and office equipment were \$179,531 and \$162,543, respectively. The amount of lease expense also includes expense from automobile rentals.

Approximate future minimum commitments under non-cancelable leases as of June 30, 2011 are:

	<u>Amount</u>
2012	\$ 400,000
2013	141,000
2014	46,000
2015	8,800
2016	<u>8,000</u>
	<u>\$ 603,800</u>

(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 the Governance and the Catholic Diocese of Nashville**

Catholic Charities purchases certain services from the Diocese, under separate operating agreements including human resources, software support and maintenance, and payroll services. Such fees are reflected as Purchased Services in the statements of functional expenses.

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

At June 30, 2011, cash consisted primarily of funds on deposit with the 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.

(10) **In-Kind Donations**

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

(11) Commitments and Contingencies

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

The Match Grant/Free Case Resettlement program is subject to a 50% match requirement, 20% of which must be cash or cash equivalent. The required match for fiscal year 2011 grant was \$268,345 with at least \$53,669 consisting of a cash or cash equivalent match. The required match for fiscal year 2010 was \$246,383, with at least \$49,277 consisting of a cash or cash equivalent match.

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

(12) Related party transactions

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

CATHOLIC CHARITIES OF TENNESSEE, INC.
Schedule of Expenditures of Federal and State Grant Awards

Year Ended June 30, 2011

CFDA#	Grant Description	Grant Number	Receivable Balance June 30, 2010	Receipts and Other Reductions	Expenditures	Receivable Balance June 30, 2011
FEDERAL AWARDS						
14.257	U.S. Dept. of Housing and Urban Development Pass-through from Metropolitan Development and Housing Agency ("MDHA") American Recovery and Reinvestment Act of 2009 (ARRA) Funded Homelessness Prevention and Rapid Re-Housing Program - HPRP Homelessness Prevention and Rapid Re-Housing Program - HPRP	None None	\$ 19,863 -	\$ 19,863 188,743	\$ - 213,447	\$ - 24,704
	Total Program		19,863	208,606	213,447	24,704
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	Edison # 4018 Edison # 4018	10,419 -	10,419 76,172	- 87,320	- 11,148
	Total Program		10,419	86,591	87,320	11,148
16.803	U.S. Dept. of Justice: Crime Victim Assistance Pass-through from State of Tennessee Department of Finance and Administration American Recovery and Reinvestment Act of 2009 (ARRA) Funded Child Abuse Prevention Program - Justice Assistance Grant Child Abuse Prevention Program - Justice Assistance Grant	Edison # 3654 Edison # 3654	4,721 -	4,721 23,628	- 27,605	- 3,977
	Total Program		4,721	28,349	27,605	3,977
84.184	US Dept. of Education - Safe and Drug-Free Schools and Communities Refugee Youth Mentoring Program Refugee Youth Mentoring Program	Q184B070127-08 Q184B070127-08	15,567 -	15,567 26,283	- 26,283	- -
	Total Program		15,567	41,850	26,283	-
84.287	US Dept. of Education-Office of Elementary and Secondary Education Pass-through from State of Tennessee Department of Education 21st Century Community Learning Centers 21st Century Community Learning Centers	Edison # 2847R Edison # 2847R	43,063 -	43,063 113,423	- 134,034	- 20,611
	Total Program		43,063	156,486	134,034	20,611
93.254	U.S. Dept. of Health and Human Services - Administration for Children and Families Infant Adoption Awareness Training Pass through from Harmony Adoptions of Tennessee, Inc.	90-CG-265901	-	115,222	122,532	7,310
	Total Program		-	115,222	122,532	7,310
93.566	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 Tennessee Office for Refugees Tennessee Office for Refugees Tennessee Office for Refugees Tennessee Office for Refugees Tennessee Office for Refugees Tennessee Office for Refugees	GR - 10A1TNCMAR GR - 10A1TNCMAR GR - 10A1TNCMAR GR - 10A1TNCMAR GR - 10A1TNCMAR GR - 10A1TNCMAR GR - 10A1TNCMAR GR - 10A1TNCMAR GR - 10A1TNCMAR G - 10A1TNRSS G - 11A1TNRSS	22,758 - 15,728 - 132 - 200,885 - 121,259 - -	22,758 245,901 15,728 350,647 132 520,921 200,885 221,762 121,259 883,373	- 245,901 - 350,647 - 520,921 - 221,762 - 1,051,308	- - - - - - - - - 167,935
	Total Program		360,762	2,583,366	2,390,539	167,935
* 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	USCC USCC	110,846 -	110,846 428,518	- 542,656	- 114,138
	Total Program		110,846	539,364	542,656	114,138
* 93.576	U.S. Dept. of Health and Human Services - Refugee and Entrant Assistance-Discretionary Grants Tennessee Office for Refugees Tennessee Office for Refugees Reception & Placement Reception & Placement	90ZE0106/01/02 90ZE0141/01 USCC USCC	22,809 - 265,808 -	22,809 286,578 265,808 824,131	- 340,887 - 939,355	- 54,309 - 115,224
			288,617	1,399,326	1,280,242	169,533
	Safe Passage	USCC	275 275	275 275	- -	- -
	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	90Z10060 90Z10060	229,423 -	229,423 4,310	- 4,310	- -
	Total Program		229,423	233,733	4,310	169,533
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	90RW0043-01 90RW0043-01 90RW0043-01 90RW0043-01	- - - -	583,018 786,088 1,229,957 439,165	691,235 788,688 1,230,076 547,533	108,217 2,600 119 108,368
	Total Program		-	3,038,228	3,257,532	219,304
93.584	U.S. Dept. of Health and Human Services: Refugee Resettlement Social Service Tennessee Office for Refugees Tennessee Office for Refugees	09A1TNRRTA 10A1TNRRTA	53,680 -	53,680 371,390	- 435,693	- 64,303
	Total Program		53,680	425,070	435,693	64,303

CFDA#	Grant Description	Grant Number	Receivable Balance June 30, 2010	Receipts and Other Reductions	Expenditures	Receivable Balance June 30, 2011
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 Child Abuse Prevention Service's	GR-08-21361-00 GR-10-29382-00	6,256 -	6,256 37,598	- 50,000	- 12,402
			6,256	43,854	50,000	12,402
	Child Abuse Prevention Program-Davidson Co. Child Abuse Prevention Program-Davidson Co.	GR-08-21281-00 GR-10-29127-00	8,481 -	8,481 42,622	- 50,000	- 7,378
			8,481	51,103	50,000	7,378
	Total Program		14,737	94,957	100,000	19,780
93.643	U.S. Department of Health and Human Services: Child Abuse and Neglect State Grants Pass-through from State of Tennessee Department of Children's Services Chap Plus Chap Plus	GR-08-22257-00 GR-09-25594-00	9,666 -	9,666 41,244	- 49,658	- 8,414
	Total Program		9,666	50,910	49,658	8,414
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	GR07183200 GR1133061	51,001 -	51,001 531,401	- 587,300	- 55,899
			51,001	582,402	587,300	55,899
	Pass through from Harmony Adoptions of Tennessee, Inc. Pass through from Harmony Adoptions of Tennessee, Inc.	90-CG-265901 90-CG-265901	3,871 -	3,871 23,952	- 26,502	- 2,550
			3,871	27,823	26,502	2,550
	Total Program		54,872	610,225	613,802	58,449
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 Emergency Food and Shelter	765200-015 765200-015 965200-005	- - -	6,414 5,000 4,514	6,414 5,000 4,514	- - -
	Total Program		-	15,928	15,928	-
	Sub-total Federal Awards		1,216,511	9,628,486	9,301,581	889,606
STATE AWARDS						
N/A	State of Tennessee Commission on Aging and Disability Tennessee Tenn Care	H445082	1,077 1,077	1,077 1,077	- -	- -
93.558	State of Tennessee Department of Education Youth Empowerment Initiative	GR1134078	- -	47,787 47,787	74,962 74,962	27,175 27,175
N/A	State of Tennessee Department of Education Lottery for Education: Afterschool Program (LEAP) Lottery for Education: Afterschool Program (LEAP) - Food Program	Z-08-23333-00 DGA-C000041	36,324 -	36,324 80,609	- 98,582	- 17,973
	Total Program		36,324	116,933	98,582	17,973
N/A	State of Tennessee Department of Children's Services Adoption Home Recruitment (from Harmony Adoptions)	GR-07-18492	3,148 -	3,148 51,990	- 56,719	- 4,729
N/A	Adoption Home Recruitment (from Harmony Adoptions)	GR1133061	-	55,138	56,719	4,729
	Total Program		3,148	55,138	56,719	4,729
	Sub-total State Awards		40,549	220,935	230,263	49,877
	Grand total Federal and State Awards		\$ 1,257,060	\$ 9,849,421	\$ 9,531,844	\$ 939,483

CATHOLIC CHARITIES OF TENNESSEE, INC.

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

Year ended June 30, 2011

(1) Basis of Presentation

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

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

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

**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, 2011, and have issued our report thereon dated November 8, 2011. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A 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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance

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

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

A handwritten signature in black ink that reads "Catherine Black Morgan, P.C." The signature is written in a cursive, flowing style.

Brentwood, Tennessee
November 8, 2011



**Independent Auditor's Report on Compliance with Requirements
that could have a Direct and Material Effect on Each
Major Program and on Internal Control Over Compliance
in Accordance with OMB Circular A-133**

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

Compliance

We have audited the compliance of Catholic Charities of Tennessee, Inc. (the "Organization") with the types of compliance requirements described in the *U.S. Office of Management and Budget OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. 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 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, 2011.

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 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, 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

Latimore Black Morgan & Cain, P.C.

Brentwood, Tennessee
November 8, 2011

CATHOLIC CHARITIES OF TENNESSEE, INC.

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

(1) Summary of Auditors' Results

- (a) The independent auditors' report expressed an unqualified opinion on the financial statements.
- (b) No significant deficiencies relating to the audit of the financial statements are reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
- (c) No instances of noncompliance material to the financial statements of the Organization, which would be required to be reported in accordance with *Government Accounting Standards*, were disclosed during the audit.
- (d) No deficiencies in internal control over major federal award programs are reported in the Internal Auditor's Report on Compliance with Requirements that could have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.
- (e) The independent auditor's 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>
14.257	U.S. Department of Housing and Urban Development (pass-through from the Metropolitan Development and Housing Agency)	Homelessness Prevention and Rapid Re-Housing Program
93.566	U.S. Department of Health and Human Services	Refugee and Entrant Assist Assistance - State Administered Program
93.576	U.S. Department of Health and Human Services	Refugee and Entrant Assistance - Discretionary Grants
93.583	U.S. Department of Health and Human Services	Refugee and Entrant Assistance - Wilson-Fish Program
93.652	U.S. Department of Health and Human Services	Adoption Opportunities

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

CATHOLIC CHARITIES OF TENNESSEE, INC.

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

(2) Findings - Financial Statement Audit

None

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

None