

CATHOLIC CHARITIES, INC.

FINANCIAL STATEMENTS

June 30, 2016 and 2015



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Catholic Charities, Inc.
Memphis, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of Catholic Charities, Inc. (a nonprofit organization) which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Other Matter

Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2016, on our consideration of Catholic Charities, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Catholic Charities, Inc.'s internal control over financial reporting and compliance.

Watkins Mikusall, PLLC

Memphis, Tennessee
December 13, 2016

CATHOLIC CHARITIES, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2016 and 2015

	<u>Assets</u>	
	2016	2015
Assets		
Cash and cash equivalents	\$ 116,806	\$ 213,273
Federal grants receivable	90,102	164,181
Non-federal grants receivable	22,816	-
Other receivables	305	-
Due from affiliates	636	741
Prepaid expenses	19,888	14,961
Investments	524,202	524,297
Property and equipment, net	509,266	838,976
	\$ 1,284,021	\$ 1,756,429
	<u>Liabilities and Net Assets (Deficit)</u>	
Liabilities		
Accounts payable	\$ 17,618	\$ 44,499
Accrued payroll	28,229	95,886
Accrued expenses	10,679	9,500
Due to Diocese of Memphis		
Cafeteria plan	1,037,183	1,076,254
Pension liability	2,441,725	1,663,936
	3,478,908	2,740,190
Note payable - Diocese of Memphis	-	82,579
Total liabilities	3,535,434	2,972,654
Net Assets (Deficit)		
Unrestricted	(2,251,413)	(1,216,225)
Total liabilities and net deficit	\$ 1,284,021	\$ 1,756,429

The accompanying notes are an integral part of the financial statements.

CATHOLIC CHARITIES, INC.

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and Other Revenues			
Support			
Federal grants	\$ 1,571,961	\$ -	\$ 1,571,961
Non-federal grants	36,500	-	36,500
United Way	294,493	-	294,493
Private contributions, foundations, and agencies	653,879	-	653,879
In-kind contributions	1,009,868	-	1,009,868
Special event contributions	43,979	-	43,979
Subsidy - Diocese of Memphis	100,000	-	100,000
Total support	<u>3,710,680</u>	<u>-</u>	<u>3,710,680</u>
Other Revenues			
Summer camp fees	33,389	-	33,389
Residential care fees	13,204	-	13,204
Other client fees	30,474	-	30,474
Administrative fees	187,275	-	187,275
Other	27,248	-	27,248
Total other revenues	<u>291,590</u>	<u>-</u>	<u>291,590</u>
Total support and other revenues	4,002,270	-	4,002,270
Expenses			
Program services	3,391,290	-	3,391,290
Management and general	518,894	-	518,894
Fundraising	220,319	-	220,319
Total expenses	<u>4,130,503</u>	<u>-</u>	<u>4,130,503</u>
Change in net assets from operations	(128,233)	-	(128,233)
Nonoperating Gains (Losses)			
Change in market value of investments	(4,057)	-	(4,057)
Gain on disposal of property and equipment	93,471	-	93,471
Pension-related changes other than net periodic pension costs	(996,369)	-	(996,369)
Total nonoperating gains	<u>(906,955)</u>	<u>-</u>	<u>(906,955)</u>
Change in net deficit	(1,035,188)	-	(1,035,188)
Net deficit, beginning of year	<u>(1,216,225)</u>	<u>-</u>	<u>(1,216,225)</u>
Net deficit, end of the year	<u>\$ (2,251,413)</u>	<u>\$ -</u>	<u>\$ (2,251,413)</u>

The accompanying notes are an integral part of the financial statements.

CATHOLIC CHARITIES, INC.

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and Other Revenues			
Support			
Federal grants	\$ 1,547,087	\$ -	\$ 1,547,087
United Way	286,133	-	286,133
Private contributions, foundations, and agencies	641,423	-	641,423
In-kind contributions	1,163,888	-	1,163,888
Special event contributions	30,149	-	30,149
Subsidy - Diocese of Memphis	100,000	-	100,000
Net assets released from restrictions	100,000	(100,000)	-
Total support	<u>3,868,680</u>	<u>(100,000)</u>	<u>3,768,680</u>
Other Revenues			
Summer camp fees	36,562	-	36,562
Residential care fees	17,262	-	17,262
Other client fees	30,109	-	30,109
Administrative fees	187,477	-	187,477
Other	9,202	-	9,202
Total other revenues	<u>280,612</u>	<u>-</u>	<u>280,612</u>
Total support and other revenues	4,149,292	(100,000)	4,049,292
Expenses			
Program services	3,477,278	-	3,477,278
Management and general	554,009	-	554,009
Fundraising	183,413	-	183,413
Total expenses	<u>4,214,700</u>	<u>-</u>	<u>4,214,700</u>
Change in net assets from operations	(65,408)	(100,000)	(165,408)
Nonoperating Gains			
Change in market value of investments	1,781	-	1,781
Loss on disposal of property held for sale	53,597	-	53,597
Pension-related changes other than net periodic pension costs	(406,212)	-	(406,212)
Total nonoperating gains	<u>(350,834)</u>	<u>-</u>	<u>(350,834)</u>
Change in net assets	(416,242)	(100,000)	(516,242)
Net assets (deficit), beginning of year	<u>(799,983)</u>	100,000	<u>(699,983)</u>
Net assets (deficit), end of the year	<u>\$ (1,216,225)</u>	<u>\$ -</u>	<u>\$ (1,216,225)</u>

The accompanying notes are an integral part of the financial statements.

CATHOLIC CHARITIES, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2016

	Program Services						Supporting Services			Total
	Children Services	Immigration Services	Homeless Services	Community Services	Veteran Services	Social Enterprises	Total Program Services	Management and General	Fundraising	
Salaries	\$ 106,104	\$ 74,898	\$ 434,879	\$ 141,607	\$ 303,045	\$ 27,576	\$ 1,088,109	\$ 240,655	\$ 69,468	\$ 1,398,232
Payroll taxes	8,126	5,448	32,104	10,316	22,252	1,967	80,213	17,527	5,216	102,956
Employee benefits	1,416	20,347	127,298	29,559	91,873	989	271,482	45,262	15,482	332,226
Professional fees	6,794	3,963	162,432	7,418	18,098	3,340	202,045	70,883	30,744	303,672
Insurance	2,230	-	5,432	4,590	-	-	12,252	705	-	12,957
Occupancy	1,626	15,494	61,096	53,511	53,057	-	184,784	35,417	5,456	225,657
Supplies	21,506	2,213	48,118	758,330	41,642	60,179	931,988	7,587	457	940,032
Telephone	-	223	6,300	2,160	5,785	-	14,468	1,483	720	16,671
Postage and shipping	6	277	15	1,035	239	213	1,785	3,418	3,677	8,880
Special assistance to individuals	15,498	-	533	45,080	445,509	-	506,620	-	-	506,620
Rental and maintenance of equipment	-	-	-	-	-	-	-	258	-	258
Printing and publications	2,743	210	35	160	221	3,801	7,170	1,040	43,090	51,300
Transportation	-	-	717	4,484	-	-	5,201	822	-	6,023
Travel and entertainment	809	3,415	148	3,068	3,746	-	11,186	4,124	-	15,310
Conferences and meetings	-	1,265	826	3,392	3,093	114	8,690	6,511	688	15,889
Membership dues	-	669	960	40	-	-	1,669	25,589	863	28,121
Other	-	-	-	-	240	-	240	3,890	3,217	7,347
Direct costs of special events	-	-	-	-	-	-	-	-	41,241	41,241
Depreciation	-	-	29,113	34,275	-	-	63,388	53,380	-	116,768
Interest	-	-	-	-	-	-	-	343	-	343
Total	\$ 166,858	\$ 128,422	\$ 910,006	\$ 1,099,025	\$ 988,800	\$ 98,179	\$ 3,391,290	\$ 518,894	\$ 220,319	\$ 4,130,503

The accompanying notes are an integral part of the financial statements.

CATHOLIC CHARITIES, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2015

	Program Services						Supporting Services			
	Children Services	Immigration Services	Homeless Services	Community Services	Veteran Services	Social Enterprises	Total Program Services	Management and General	Fundraising	Total
Salaries	\$ 106,649	\$ 58,678	\$ 434,938	\$ 135,583	\$ 299,835	\$ 6,585	\$ 1,042,268	\$ 276,807	\$ 67,866	\$ 1,386,941
Payroll taxes	8,137	4,112	31,871	9,973	22,020	355	76,468	19,868	5,096	101,432
Employee benefits	733	13,172	120,744	25,292	76,132	84	236,157	54,155	14,401	304,713
Professional fees	7,381	3,645	159,930	5,578	26,516	5,795	208,845	63,831	23,224	295,900
Insurance	1,839	-	9,655	4,571	-	-	16,065	525	-	16,590
Occupancy	4,657	14,401	76,603	54,966	52,281	-	202,908	34,634	4,773	242,315
Supplies	25,755	1,893	85,132	917,649	22,749	58,230	1,111,408	6,617	835	1,118,860
Telephone	-	-	8,622	1,660	5,868	-	16,150	1,851	720	18,721
Postage and shipping	197	310	-	149	54	206	916	4,943	2,115	7,974
Special assistance to individuals	20,713	3,850	173	46,851	373,270	-	444,857	-	-	444,857
Rental and maintenance of equipment	-	-	-	-	-	-	-	226	-	226
Printing and publications	746	373	-	2,877	2,538	2,171	8,705	974	36,403	46,082
Transportation	-	-	2,095	5,722	-	-	7,817	-	-	7,817
Travel and entertainment	1,026	3,441	245	2,618	8,280	-	15,610	4,856	-	20,466
Conferences and meetings	-	1,356	1,186	6,184	3,961	610	13,297	4,810	911	19,018
Membership dues	-	800	900	40	-	-	1,740	4,044	590	6,374
Other	-	-	-	-	4	-	4	2,244	868	3,116
Direct costs of special events	-	-	-	-	-	-	-	-	25,611	25,611
Depreciation	-	-	39,393	34,670	-	-	74,063	58,060	-	132,123
Interest	-	-	-	-	-	-	-	15,564	-	15,564
Total	\$ 177,833	\$ 106,031	\$ 971,487	\$ 1,254,383	\$ 893,508	\$ 74,036	\$ 3,477,278	\$ 554,009	\$ 183,413	\$ 4,214,700

The accompanying notes are an integral part of the financial statements.

CATHOLIC CHARITIES, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2016 and 2015

	2016	2015
Cash Flows Provided By (Used For) Operating Activities:		
Change in net deficit	\$ (1,035,188)	\$ (516,242)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided By (Used For) Operating Activities:		
Depreciation	116,768	132,123
Pension-related changes other than net periodic pension costs	996,369	406,212
Change in market value of investments	4,057	(1,781)
Gain on disposal of property and equipment	(93,471)	(53,597)
Increase (Decrease) in Cash and Cash Equivalents:		
Federal grants receivable	74,079	(23,104)
Non-federal grants receivable	(22,816)	-
Contributions receivable	-	100,000
Other receivables	(305)	15,393
Due from affiliates	105	(288)
Prepaid expenses	(4,927)	(4,963)
Accounts payable	(26,881)	29,439
Accrued payroll	(67,657)	48,202
Accrued expenses	1,179	-
Due to Diocese of Memphis	(257,651)	(29,635)
Total adjustments	718,849	618,001
Net cash provided by (used for) operating activities	(316,339)	101,759
Cash Flows From (Used For) Investing Activities:		
Proceeds from sale of investments	74,922	-
Reinvestment of earnings on investments	(2,884)	(3,144)
Purchases of investments	(76,000)	(275,000)
Proceeds from sale of property and equipment	338,700	410,030
Purchases of property and equipment	(32,287)	(7,173)
Net cash from investing activities	302,451	124,713
Cash Flows Used For Financing Activities:		
Principal payments on note payable	(82,579)	(284,539)
Net decrease in cash and cash equivalents	(96,467)	(58,067)
Cash and cash equivalents, beginning of the year	213,273	271,340
Cash and cash equivalents, end of the year	\$ 116,806	\$ 213,273
Supplemental Cash Flow Information:		
Cash paid during the year for interest	\$ 343	\$ 15,564

The accompanying notes are an integral part of the financial statements.

CATHOLIC CHARITIES, INC.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Catholic Charities, Inc., (“Catholic Charities”) an affiliated organization of the Roman Catholic Diocese of Memphis (the “Diocese”), is a non-profit Tennessee corporation. The purpose of Catholic Charities is to provide social services to the people of the Memphis Metropolitan and West Tennessee area. For over 40 years, Catholic Charities has provided services to those most desperate in the community with an emphasis in the following areas:

Children Services – Camp Love & Learn is an eight week program for at-risk children from the ages of 4-10, plus their older siblings who serve as “junior counselors” and which focuses on the three areas of academic enrichment, nutrition, and fun within a safe, secure environment.

Immigration Services – The program offers low cost, comprehensive immigration counseling services addressing the client’s basic needs, as well as their legal immigration concerns in order to help them integrate into the community.

Homeless Services – This program provides long term treatment for homeless men and women suffering from mental illness and addiction. Through a network of therapeutic and supportive services, residents are provided with the tools necessary to find gainful employment, permanent housing and the ability to make healthier long term choices.

Community Services – These services assist families in crisis with food and clothing through Fig Tree, a facility for walk-ins and referral clients located within the Catholic Charities headquarters as well, and the Mobile Food and Clothes Pantry which delivers nourishment, clothing, and other support to the most vulnerable populations of West Tennessee.

Veteran Services – The St. Sebastian Veteran Services program places homeless veterans (and those at risk of homelessness) and their families in more permanent housing situations thereby empowering the veteran to apply for jobs, create a budget, and be resourceful in how he or she plans to maintain stable housing.

Social Enterprises – Through Bouquets of Hope and St. Bernard’s Biscuits, hard-to-employ clients are paid a fair wage, learn valuable job skills, and build a demonstrated work history that can allow them to transition into external employment. All proceeds are reinvested into the programs.

Method of Accounting and Basis of Presentation

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

Catholic Charities reports its financial position and activities in three net asset categories according to the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein, are classified and reports as follows:

Permanently Restricted Net Assets – Permanently restricted net assets represent contributions subject to donor-imposed stipulations to be invested in perpetuity, for which only the income may be available for program operations. Currently, Catholic Charities has no permanently restricted net assets.

Temporarily Restricted Net Assets – Temporarily restricted net assets represent contributions or other revenues wherein donors have specified the purpose for which the net assets are to be spent or time restrictions imposed or implied by the nature of the gift. When a restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. There were no temporarily restricted net assets at June 30, 2016. Temporarily restricted net assets consisted of time restricted support of \$100,000 at June 30, 2015.

Unrestricted Net Assets – Unrestricted net assets are all the remaining net assets of Catholic Charities.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts in the financial statements and the accompanying notes. Actual results could differ from those estimates.

Fair Value Measurements

Catholic Charities applies U.S. GAAP for fair value measurements of financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. U.S. GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. U.S. GAAP also establishes a framework for measuring fair value and requires certain disclosures about fair value measurements. See Note 2 for additional disclosures.

Concentrations of Credit Risks

Catholic Charities' credit risks relate primarily to cash and cash equivalents and receivables. Cash and cash equivalents are primarily held in bank accounts. Accounts are insured by the Federal Deposit Insurance Corporation up to an aggregate of \$250,000. No amounts exceeded insured limits during the years ended June 30, 2016 and 2015.

Catholic Charities is economically dependent upon federal government grants and subsidies to finance its operations. For the years ended June 30, 2016 and 2015, Catholic Charities received 53% and 54%, respectively, of its support and other revenues, excluding in-kind contributions, from federal grants. Additionally, for each of the years ended June 30, 2016 and 2015, United Way accounted for 10% of total support and other revenues.

Revenue Recognition

Catholic Charities receives revenue from a variety of sources including federal grants, private contributions, including private foundation grants, and service fees. Service fees and federal grant revenue are recognized when the services are performed. Contributions, including private foundation grants, are recognized when a donor makes a promise to give to Catholic Charities that is, in substance, unconditional. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending upon the existence or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Cash and Cash Equivalents

For purposes of the statements of cash flows, Catholic Charities considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. Money market funds held in investment accounts have been excluded.

Accounts Receivable

Grants receivable are due from federal and local agencies under contract agreements requiring payment within 30 – 90 days from the billing date. Receivables are stated at the amount management expects to collect from outstanding balances. Management closely monitors outstanding balances and writes off amounts that are considered uncollectible through a charge to earnings. Based upon management's assessment of the credit history with contributors and grantors having outstanding balances, an allowance for uncollectible accounts is not considered necessary.

Investments

Investments are stated at fair market value in the statements of financial position. Changes in market value, including realized gains and losses and unrealized appreciation and depreciation, are included in the statement of activities.

Property and Equipment

Title to property and equipment vest with the Bishop of the Diocese. Property and equipment is reflected in the accompanying financial statements as the Bishop has authorized the use of such assets by Catholic Charities.

Certain land, in the absence of cost records, is stated at its appraised value of \$290,000 at the time of the founding of the Diocese in 1971.

Catholic Charities' policy is to capitalize all assets with a cost in excess of \$5,000. Property and equipment are recorded at cost if purchased or the estimated fair value on the date received, if donated. If the donor stipulates how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support. Asset improvements and repairs that significantly extend the life of an asset are capitalized. Catholic Charities provides for depreciation using the straight-line method over the estimated useful lives of the respective assets, generally five to forty years for buildings and improvements, and three to ten years for furnishings, equipment, and automobiles.

Donated Materials and Services

Donated materials and services are recorded as contributions at their estimated fair values at the date of donation. Contributions of services are recognized in the financial statements if the services enhance or create nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Catholic Charities received in-kind contributions of clothing, food, and supplies valued at \$842,292 and \$981,986 for the years ended June 30, 2016 and 2015, respectively. Contributed professional services such as medical services, counseling services, educational services, and support services totaled \$167,576 and \$181,902 for the years ended June 30, 2016 and 2015.

To operate its programs and services, Catholic Charities depends on strong volunteer support. Although these donated services do not require specific expertise, the services are nonetheless central to its operations. During the years ended June 30, 2016, management estimates that volunteers worked approximately 18,400 hours and 15,400 hours, respectively, on Catholic Charities behalf. The estimated fair value of these services, based on a rate of \$17 per hour, was \$312,800 and \$261,800 for the years ended June 30, 2016 and 2015, respectively. The value of these services is not reflected in the financial statements since the criteria for recognition of such volunteer effort have not been satisfied.

Functional Allocation of Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the statement of functional expenses. Expenses that are identified with a specific program or support service are charged directly according to their natural expense classification. Other shared costs have been allocated among the programs and supporting services benefited based on usage or other estimates made by management.

Income Taxes

Catholic Charities is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and, therefore, no provision has been made for such taxes. Catholic Charities files an exempt organization return in the U.S. federal jurisdiction.

Advertising

Catholic Charities expenses advertising costs as incurred. Advertising expense totaled \$19,471 and \$12,515 for the years ended June 30, 2016 and 2015, respectively.

Date of Management's Review

Catholic Charities evaluated its June 30, 2016 financial statements for subsequent events through December 13, 2016, the date the financial statements were available to be issued. Catholic Charities is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

NOTE 2 – FAIR VALUE MEASUREMENTS

U.S. GAAP establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, as described below:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities Catholic Charities has the ability to access.

Level 2 – Inputs (other than quoted prices with level 1) that are observable for the asset or liability, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Inputs which are unobservable for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability.

In determining fair values, Catholic Charities utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible.

The following is a description of the valuation methodologies used for assets measured at fair value:

Money market funds – Valued based on the current yields of similar instruments with comparable durations considering the credit-worthiness of the issuer.

Common/collective fixed income mutual funds – Valued at the fair value of the shares in the collective trust, as determined by the fair value of the underlying investments/mutual funds.

The following tables present assets that are measured at fair value on a recurring basis at June 30:

	<u>2016</u>	<u>2015</u>
	<u>Level 2</u>	<u>Level 2</u>
Investments:		
Money market funds	\$ 354,608	\$ 350,393
Common/collective fixed income mutual funds	169,594	173,904
	<u>\$ 524,202</u>	<u>\$ 524,297</u>

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	<u>2016</u>	<u>2015</u>
Land	\$ 290,000	\$ 290,000
Buildings and Improvements		
Genesis house	-	504,967
Genesis house improvements	-	313,281
Leasehold Improvements		
Dozier house improvements	593,340	593,340
1325 Jefferson improvements	472,782	472,782
Furnishings and equipment	210,569	213,069
Automobiles	32,288	21,500
	<u>1,598,979</u>	<u>2,408,939</u>
Less accumulated depreciation	<u>(1,089,713)</u>	<u>(1,569,963)</u>
	<u>\$ 509,266</u>	<u>\$ 838,976</u>

NOTE 4 – NOTE PAYABLE

Catholic Charities had an unsecured note payable to the Diocese that was paid in full during 2016. The note had an outstanding balance of \$82,579 at June 30, 2015 and was due on demand. The debt was part of the Diocese's line of credit with a financial institution. Catholic Charities paid monthly installments in the amount of \$8,341 to the Diocese to reduce the outstanding balance on the note. Payments included interest calculated at a variable rate based on the incremental borrowing rate of the Diocese.

NOTE 5 – RELATED PARTY TRANSACTIONS

Catholic Charities participates in a defined benefit pension plan sponsored by the Diocese. The plan provides certain retirement benefits to employees of Catholic Charities who meet certain eligibility requirements. In order to defray the cost incurred by the Diocese to provide these benefits, the Diocese charged Catholic Charities eight percent (8%) of eligible wages for each of the years ended June 30, 2016 and 2015, amounting to \$101,099 and \$93,445, respectively. The plan's projected benefit obligation increased during the years ended June 30, 2016 and 2015, and, accordingly, the Diocese allocated a loss from the change in the benefit obligation to Catholic Charities in the amounts of \$996,369 and \$406,212, respectively. Total amounts owed to the Diocese for retirement benefits were \$2,441,725 and \$1,663,936 at June 30, 2016 and 2015, respectively.

The Diocese periodically pays certain expenses including employee benefits on behalf of Catholic Charities. At June 30, 2016 and 2015, amounts due to the Diocese for these expenses totaled \$1,037,183 and \$1,076,254, respectively.

Catholic Charities receives from the Diocese a direct Diocesan subsidy which amounted to \$100,000 for each of the years ended June 30, 2016 and 2015, respectively.

Catholic Charities charges administrative and occupancy overhead expenses to the Diocese. For the years ended June 30, 2016 and 2015, administrative fee revenue from the Diocese totaled \$7,563 and \$7,765, respectively, and the receivable balance was \$636 and \$741, respectively.

See Note 4 for additional related party transactions.

NOTE 6 – COMMITMENTS

Catholic Charities leases equipment through operating leases expiring in various years through 2020. Total equipment lease expense was \$14,492 and \$13,675 for the years ended June 30, 2016 and 2015, respectively.

Future minimum payments under the operating leases for the years ending June 30 are as follows:

2017	\$	12,552
2018		12,552
2019		12,552
2020		11,310
	\$	<u>48,966</u>

SUPPLEMENTAL INFORMATION

CATHOLIC CHARITIES, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2016

Federal Grantor/Pass-Through Agency/Program	CFDA Number	Award Number	Receivable June 30, 2015	Amount Received	Amount Expended	Receivable June 30, 2016
U.S Department of Housing and Urban Development Direct Award/Continuum of Care Program	14.267	TN0023B4J011004	\$ 35,033	\$ 420,294	\$ 455,327	\$ -
U.S Department of Veteran's Affairs Direct Award/VA Homeless Providers Grant and Per Diem Program	64.024	VA249P1150	9,881	58,138	68,019	-
Direct Award/VA Supportive Services for Veteran Families Program	64.033	14-TN-287	119,267	981,950	1,011,115	90,102
Total U.S Department of Veteran's Affairs			<u>129,148</u>	<u>1,040,088</u>	<u>1,079,134</u>	<u>90,102</u>
U.S. Department of Homeland Security United Way/Emergency Food and Shelter National Board Program	97.024	778200-001	-	37,500	37,500	-
<i>Total Federal Awards</i>			<u>\$ 164,181</u>	<u>\$ 1,497,882</u>	<u>\$ 1,571,961</u>	<u>\$ 90,102</u>

See independent auditor's report and accompanying notes to the schedule.

CATHOLIC CHARITIES, INC.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2016

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Catholic Charities, Inc. under programs of the federal government for the year ended June 30, 2016. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Catholic Charities, Inc., it is not intended to and does not present the financial position, changes in net assets or cash flows of Catholic Charities, Inc.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, or the Uniform Guidance, as applicable, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

NOTE C – INDIRECT COST RATE

Catholic Charities, Inc. has elected not to use the 10% de minimis indirect cost rate as described in the Uniform Guidance.

NOTE D – SUBRECIPIENTS

Catholic Charities, Inc. did not pass any awards through to subrecipients for the year ended June 30, 2016.

**INDEPENDENT AUDITOR'S 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**

To the Board of Directors
Catholic Charities, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Catholic Charities, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 13, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Watkins Mikusall, PLLC

Memphis, Tennessee

December 13, 2016

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
Catholic Charities, Inc.

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

Management of Catholic Charities, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Catholic Charities, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Catholic Charities, Inc.'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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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



Memphis, Tennessee
December 13, 2016

CATHOLIC CHARITIES, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2016

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on whether the financial statements of Catholic Charities, Inc. ("Catholic Charities") were prepared in accordance with U.S. GAAP.
2. No significant deficiencies or material weaknesses relating to the audit of the financial statements are reported in the Independent Auditor's 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*.
3. No instances of noncompliance material to the financial statements of Catholic Charities, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies or material weaknesses relating to the audit of the major federal award programs are reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award program for Catholic Charities, Inc. expresses an unmodified opinion.
6. There were no audit findings required to be reported in accordance with 2 CFR section 200.516(a).
7. The program tested as a major program was U.S. Department of Veterans Affairs – VA Supportive Services for Veteran Families Program, CFDA number 64.033.
8. The threshold used for distinguishing Type A and B programs was \$750,000.
9. Catholic Charities, Inc. was not determined to be a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

None

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

CATHOLIC CHARITIES, INC.

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS

For the Year Ended June 30, 2016

None