

CATHOLIC CHARITIES, INC.

FINANCIAL STATEMENTS

June 30, 2014 and 2013



Watkins Uiberall, PLLC
Certified Public Accountants & Financial Advisors
Independent Member of BKR International

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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, 2014 and 2013, 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, 2014 and 2013, 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.

Correction of Error

As discussed in Note 8 to the financial statements, certain errors resulting in an understatement in the amount previously reported for pension liability and an overstatement in the amount previously reported for pension-related changes other than net periodic pension costs as of June 30, 2013, were discovered by management of Catholic Charities, Inc. during the current year. Accordingly, amounts reported for pension liability and pension-related changes other than net periodic pension costs have been restated in the 2013 financial statements now presented, and an adjustment has been made to net assets as of June 30, 2013, to correct the error. Our opinion is not modified with respect to that matter.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 1, 2014, 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 1, 2014

CATHOLIC CHARITIES, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2014 and 2013

	<u>Assets</u>	
	<u>2014</u>	<u>(As Restated) 2013</u>
Assets		
Cash and cash equivalents	\$ 271,340	\$ 428,377
Federal grants receivable	141,077	35,107
Contributions receivable	100,000	200,000
Other receivables	15,393	725
Due from affiliates	453	4,791
Note receivable - Diocese of Memphis	-	47,458
Prepaid expenses	9,998	8,199
Investments	244,372	173,743
Property held-for-sale	356,433	-
Property and equipment, net	<u>963,926</u>	<u>1,454,738</u>
 Total assets	 <u><u>\$ 2,102,992</u></u>	 <u><u>\$ 2,353,138</u></u>
	 <u>Liabilities and Net Assets (Deficit)</u>	
Liabilities		
Accounts payable	\$ 15,060	\$ 18,411
Accrued payroll	47,684	30,039
Accrued expenses	9,500	17,000
Due to Diocese of Memphis		
Cafeteria plan	1,105,889	1,162,530
Pension liability	<u>1,257,724</u>	<u>1,426,600</u>
	2,363,613	2,589,130
Note payable - Diocese of Memphis	<u>367,118</u>	<u>448,009</u>
Total liabilities	2,802,975	3,102,589
 Net Assets (Deficit)		
Unrestricted	(799,983)	(964,451)
Temporarily restricted	<u>100,000</u>	<u>215,000</u>
Total net deficit	<u>(699,983)</u>	<u>(749,451)</u>
 Total liabilities and net deficit	 <u><u>\$ 2,102,992</u></u>	 <u><u>\$ 2,353,138</u></u>

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

CATHOLIC CHARITIES, INC.**STATEMENT OF ACTIVITIES**

For the Year Ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and Other Revenues			
Support			
Federal grants	\$ 1,136,047	\$ -	\$ 1,136,047
United Way	307,987	-	307,987
Private contributions, foundations, and agencies	590,826	-	590,826
In-kind contributions	830,364	-	830,364
Special event contributions	33,919	-	33,919
Subsidy - Diocese of Memphis	100,000	-	100,000
Net assets released from restrictions	115,000	(115,000)	-
Total support	<u>3,114,143</u>	<u>(115,000)</u>	<u>2,999,143</u>
Other Revenues			
Day care fees	24,457	-	24,457
Residential care fees	18,661	-	18,661
Other client fees	34,517	-	34,517
Administrative fees	203,081	-	203,081
Other	3,221	-	3,221
Total other revenues	<u>283,937</u>	<u>-</u>	<u>283,937</u>
Total support and other revenues	<u>3,398,080</u>	<u>(115,000)</u>	<u>3,283,080</u>
Expenses			
Program services	2,606,020	-	2,606,020
Management and general	654,232	-	654,232
Fundraising	160,579	-	160,579
Total expenses	<u>3,420,831</u>	<u>-</u>	<u>3,420,831</u>
Change in net assets from operations	(22,751)	(115,000)	(137,751)
Nonoperating Gains			
Change in market value of investments	18,344	-	18,344
Pension-related changes other than net periodic pension costs	168,875	-	168,875
Total nonoperating gains	<u>187,219</u>	<u>-</u>	<u>187,219</u>
Change in net assets	164,468	(115,000)	49,468
Net assets (deficit), beginning of year	<u>(964,451)</u>	<u>215,000</u>	<u>(749,451)</u>
Net assets (deficit), end of the year	<u>\$ (799,983)</u>	<u>\$ 100,000</u>	<u>\$ (699,983)</u>

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

CATHOLIC CHARITIES, INC.**STATEMENT OF ACTIVITIES**

For the Year Ended June 30, 2013 (As Restated)

	Unrestricted	Temporarily Restricted	Total
Support and Other Revenues			
Support			
Federal grants	\$ 1,377,121	\$ -	\$ 1,377,121
United Way	381,650	-	381,650
Private contributions, foundations, and agencies	493,563	215,000	708,563
In-kind contributions	1,059,019	-	1,059,019
Special event contributions	34,500	-	34,500
Subsidy - Diocese of Memphis	100,000	-	100,000
Total support	<u>3,445,853</u>	<u>215,000</u>	<u>3,660,853</u>
Other Revenues			
Day care fees	6,225	-	6,225
Residential care fees	27,271	-	27,271
Other client fees	50,789	-	50,789
Administrative fees	205,823	-	205,823
Other	4,489	-	4,489
Total other revenues	<u>294,597</u>	<u>-</u>	<u>294,597</u>
Total support and other revenues	3,740,450	215,000	3,955,450
Expenses			
Program services	3,197,583	-	3,197,583
Management and general	635,509	-	635,509
Fundraising	101,988	-	101,988
Total expenses	<u>3,935,080</u>	<u>-</u>	<u>3,935,080</u>
Change in net assets from operations	(194,630)	215,000	20,370
Nonoperating Gains			
Change in market value of investments	7,851	-	7,851
Change in long term disability costs	47,652	-	47,652
Pension-related changes other than net periodic pension costs	1,058,865	-	1,058,865
Total nonoperating gains	<u>1,114,368</u>	<u>-</u>	<u>1,114,368</u>
Change in net assets	919,738	215,000	1,134,738
Net deficit, beginning of year	<u>(1,884,189)</u>	<u>-</u>	<u>(1,884,189)</u>
Net assets (deficit), end of the year	<u>\$ (964,451)</u>	<u>\$ 215,000</u>	<u>\$ (749,451)</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, 2014

	Program Services					Total Program Services	Management and General	Fundraising	Total
	Children Services	Immigration Services	Homeless Services	Emergency Service	Veterans Services				
Salaries	\$ 62,537	\$ 43,326	\$ 370,553	\$ 108,512	193,645	\$ 778,573	\$ 315,048	\$ 66,530	\$ 1,160,151
Payroll taxes	4,806	3,060	27,190	7,790	14,352	57,198	22,862	4,995	85,055
Employee benefits	207	9,055	96,157	19,528	42,725	167,672	69,526	14,064	251,262
Professional fees	6,500	1,024	168,869	4,171	34,550	215,114	63,076	16,996	295,186
Insurance	1,838	-	9,583	4,577	669	16,667	2,748	-	19,415
Occupancy	633	12,308	75,075	59,328	35,675	183,019	44,654	3,487	231,160
Supplies	27,519	1,435	60,585	641,033	14,942	745,514	11,379	415	757,308
Telephone	-	-	7,549	2,569	2,682	12,800	3,278	720	16,798
Postage and shipping	-	97	47	216	133	493	4,161	4,066	8,720
Special assistance to individuals	3,826	3,490	964	32,368	257,906	298,554	-	4,150	302,704
Rental and maintenance of equipment	-	-	13	-	-	13	1,079	-	1,092
Printing and publications	1,394	871	887	680	1,992	5,824	11,697	23,494	41,015
Transportation	-	-	3,876	7,845	851	12,572	-	-	12,572
Travel and entertainment	638	2,475	445	3,952	7,231	14,741	8,491	-	23,232
Conferences and meetings	-	2,585	283	11,833	3,960	18,661	8,716	977	28,354
Membership dues	-	800	1,439	-	191	2,430	4,586	409	7,425
Other	-	-	-	-	54	54	5,294	1,672	7,020
Direct costs of special events	-	-	-	-	-	-	-	18,604	18,604
Depreciation	-	-	41,403	34,718	-	76,121	58,437	-	134,558
Interest	-	-	-	-	-	-	19,200	-	19,200
Total	\$ 109,898	\$ 80,526	\$ 864,918	\$ 939,120	\$ 611,558	\$ 2,606,020	\$ 654,232	\$ 160,579	\$ 3,420,831

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

CATHOLIC CHARITIES, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2013

	Program Services					Total Program Services	Management and General	Fundraising	Total
	Children Services	Immigration Services	Homeless Services	Emergency Service	Veterans Services				
Salaries	\$ 27,219	\$ 125,056	\$ 839,530	\$ 115,640	\$ -	\$ 1,107,445	\$ 335,240	\$ 41,230	\$ 1,483,915
Payroll taxes	2,081	9,724	63,301	8,340	-	83,446	17,400	3,255	104,101
Employee benefits	-	39,294	204,409	27,474	-	271,177	65,575	4,441	341,193
Professional fees	16,715	7,750	440,598	5,574	-	470,637	39,166	7,505	517,308
Insurance	750	816	15,653	-	-	17,219	5,655	-	22,874
Occupancy	1,139	18,921	164,520	72,995	-	257,575	25,535	-	283,110
Supplies	9,463	2,039	132,978	615,016	-	759,496	21,662	358	781,516
Telephone	-	1,087	18,856	1,380	-	21,323	4,598	360	26,281
Postage and shipping	-	122	43	796	-	961	3,066	2,092	6,119
Special assistance to individuals	280	26,309	3,425	11,836	-	41,850	-	-	41,850
Rental and maintenance of equipment	-	-	3,070	-	-	3,070	2,448	-	5,518
Printing and publications	1,546	166	125	207	-	2,044	9,808	16,959	28,811
Transportation	-	2,465	16,910	3,136	-	22,511	-	-	22,511
Travel and entertainment	300	1,114	504	5,581	-	7,499	5,582	1,039	14,120
Conferences and meetings	550	226	1,745	11,969	-	14,490	7,205	1,030	22,725
Membership dues	-	600	1,200	530	-	2,330	4,512	1,540	8,382
Other	-	-	-	-	-	-	-	2,500	2,500
Direct costs of special events	-	-	-	-	-	-	-	19,679	19,679
Depreciation	-	-	114,510	-	-	114,510	57,183	-	171,693
Bad debts	-	-	-	-	-	-	6,942	-	6,942
Interest	-	-	-	-	-	-	23,932	-	23,932
Total	\$ 60,043	\$ 235,689	\$ 2,021,377	\$ 880,474	\$ -	\$ 3,197,583	\$ 635,509	\$ 101,988	\$ 3,935,080

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

CATHOLIC CHARITIES, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>(As Restated) 2013</u>
Cash Flows Provided By (Used For) Operating Activities:		
Change in net assets	\$ 49,468	\$ 1,134,738
Adjustments to Reconcile Change in Net Assets to Net Cash Provided By (Used For) Operating Activities:		
Bad debts	-	6,942
Depreciation	134,558	171,693
Change in long term disability costs	-	(47,652)
Pension-related changes other than net periodic pension costs	(168,875)	(1,058,865)
Change in market value of investments	(18,344)	(7,851)
Increase (Decrease) in Cash and Cash Equivalents:		
Federal grants receivable	(105,970)	225,658
Contributions receivable	100,000	(200,000)
Other receivables	(14,668)	(725)
Due from affiliates	4,338	11,983
Prepaid expenses	(1,799)	13,050
Accounts payable	(3,351)	(1,764)
Accrued payroll	17,645	(17,530)
Accrued expenses	(7,500)	(96)
Due to Diocese of Memphis	(56,642)	101,424
Total adjustments	<u>(120,608)</u>	<u>(803,733)</u>
Net cash provided by (used for) operating activities	(71,140)	331,005
Cash Flows From (Used For) Investing Activities:		
Reinvestment of earnings on investments	(3,097)	(3,873)
Purchases of investments	(50,000)	-
Principal receipts on note receivable	48,091	82,500
Purchases of property and equipment	-	(48,997)
Net cash from (used for) investing activities	<u>(5,006)</u>	<u>29,630</u>
Cash Flows From (Used For) Financing Activities:		
Principal payments on note payable	<u>(80,891)</u>	<u>(76,159)</u>
Net increase (decrease) in cash and cash equivalents	(157,037)	284,476
Cash and cash equivalents, beginning of the year	<u>428,377</u>	<u>143,901</u>
Cash and cash equivalents, end of the year	<u>\$ 271,340</u>	<u>\$ 428,377</u>
Noncash Investing Activities:		
Transfer of building and improvements to property held for sale	<u>\$ 356,433</u>	<u>\$ -</u>
Supplemental Cash Flow Information:		
Cash paid during the year for interest	<u>\$ 19,200</u>	<u>\$ 23,932</u>

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

CATHOLIC CHARITIES, INC.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014 and 2013

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 – Through Genesis House, long term treatment is provided 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.

Emergency 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 – Launched in October 2013, 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.

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.

Catholic Charities reports its financial position and activities into 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. Temporarily restricted net assets consisted of time restricted support totaling \$100,000 and \$215,000 at June 30, 2014 and 2013, respectively.

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 accounting principles generally accepted in the United States of America 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 generally accepted accounting principles (“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. 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. 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, 2014 and 2013.

Catholic Charities is economically dependent upon federal government grants and subsidies to finance its operations. For the years ended June 30, 2014 and 2013, Catholic Charities received 46% and 47%, respectively, of its support and other revenues, excluding in-kind contributions, from federal grants. Additionally, for the year ended June 30, 2014 and 2013, United Way accounted for 13% and 20%, respectively, 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

Federal grants receivable are due from federal 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.

Contributions receivable consists of long-term unconditional promises to give. For the year ended June 30, 2014, all contributions receivable are expected to be collected within one year.

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.

Property Held-For-Sale

Property held-for-sale is valued at the lower of carrying value or fair value less cost to sell.

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 \$650,090 and \$631,670 for the years ended June 30, 2014 and 2013, respectively. Contributed professional services such as medical services, counseling services, educational services, and support services totaled \$180,274 and \$427,349 for the years ended June 30, 2014 and 2013.

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, 2014 and 2013, management estimates that volunteers worked approximately 8,700 hours and 8,000 hours, respectively, on Catholic Charities behalf. The estimated fair value of these services, based on a rate of \$17 per hour, was \$147,900 and \$136,000 for the years ended June 30, 2014 and 2013, 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. The federal returns for 2010 and beyond remain subject to examination by the taxing authorities.

Advertising

Catholic Charities expenses advertising costs as incurred. Advertising expense totaled \$7,890 and \$6,885 for the years ended June 30, 2014 and 2013, respectively.

Reclassification

Certain amounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements. These changes had no effect on previously reported total net assets.

Date of Management's Review

Catholic Charities evaluated its June 30, 2014 financial statements for subsequent events through December 1, 2014, 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

Generally accepted accounting principles 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>2014</u>	<u>2013</u>
	<u>Level 2</u>	<u>Level 2</u>
Investments:		
Money market funds	\$ 72,248	\$ 19,965
Common/collective fixed income mutual funds	172,124	153,778
	<u>\$ 244,372</u>	<u>\$ 173,743</u>

NOTE 3 – NOTE RECEIVABLE

Catholic Charities has a note receivable from the Diocese with an outstanding balance of \$47,458 at 2013. The note was due on demand, and interest was earned on the balance based on the five-year daily treasury rate, currently 1.40%. The note was paid in full at June 30, 2014.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Land	\$ 290,000	\$290,000
Buildings and Improvements		
Genesis house	504,967	504,967
Genesis house improvements	313,281	313,281
Sophia house	-	532,635
Sophia house improvements	-	424,124
Leasehold Improvements		
Dozier house improvements	593,340	593,340
1325 Jefferson improvements	472,782	472,782
Furnishings and equipment	210,967	210,787
Automobiles	21,500	21,500
	<u>2,406,837</u>	<u>3,363,416</u>
Less accumulated depreciation	<u>(1,442,911)</u>	<u>(1,908,678)</u>
	<u>\$ 963,926</u>	<u>\$ 1,454,738</u>

NOTE 5 – NOTE PAYABLE

Catholic Charities has an unsecured note payable to the Diocese with an outstanding balance of \$367,118 and \$448,009 at June 30, 2014 and 2013, respectively. The debt is part of the Diocese's line of credit with a financial institution. Catholic Charities pays monthly installments in the amount of \$8,341 to the Diocese to reduce the outstanding balance on the note. Payments include interest calculated at a variable rate based on the incremental borrowing rate of the Diocese, currently 5.05%. The note is due on demand.

NOTE 6 – 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, 2014 and 2013, amounting to \$83,885 and \$110,170, respectively. The plan's projected benefit obligation decreased during the years ended June 30, 2014 and 2013, and, accordingly, the Diocese has allocated gains from the change in the benefit obligation to Catholic Charities. Such allocations totaled \$168,875 and \$1,058,865 for the years ended June 30, 2014 and 2013, respectively. Total amounts owed to the Diocese for retirement benefits were \$1,257,724 and \$1,426,600 at June 30, 2014 and 2013, respectively.

The Diocese periodically pays certain expenses including employee benefits on behalf of Catholic Charities. At June 30, 2014 and 2013, amounts due to the Diocese for these expenses totaled \$1,105,889 and \$1,162,530, respectively.

Catholic Charities receives from the Diocese a direct Diocesan subsidy which amounted to \$100,000 for each of the years ended June 30, 2014 and 2013, respectively.

Catholic Charities charges administrative and occupancy overhead expenses to the Diocese and the Diocese of Memphis Housing Corporation ("DMHC"). For the years ended June 30, 2014 and 2013, administrative fee revenue from the Diocese totaled \$15,869 and \$38,771, respectively, and the balance receivable was \$453 and \$4,791, respectively. The administrative fee revenue from DMHC totaled \$9,978 for 2013. There was no administrative fee revenue from DMHC in 2014.

See Notes 3 and 5 for additional related party transactions.

NOTE 7 – COMMITMENTS

Catholic Charities leases equipment through operating leases expiring in various years through 2016. Total equipment lease expense was \$19,618 and \$17,710 for the years ended June 30, 2014 and 2013, respectively.

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

2015	\$ 10,470
2016	1,940
	<u>\$ 12,410</u>

NOTE 8 – CORRECTION OF AN ERROR

For the year ended June 30, 2013, the gain in pension-related changes other than net periodic pension costs was overstated and the related pension liability was understated by \$218,635. The 2013 financial statements have been restated to correct this error. The following table details the effects of the correction on the statements of financial position and activities for the year ended June 30, 2013:

	2013 As Originally Reported	Correction	2013 As Restated
Pension liability	<u>\$ 1,207,965</u>	<u>\$ 218,635</u>	<u>\$ 1,426,600</u>
Unrestricted net deficit	\$ (745,816)	\$ (218,635)	\$ (964,451)
Temporarily restricted net assets	215,000	-	215,000
Net deficit	<u>\$ (530,816)</u>	<u>\$ (218,635)</u>	<u>\$ (749,451)</u>
Pension-related changes other than net periodic pension costs	<u>\$ 1,277,500</u>	<u>\$ (218,635)</u>	<u>\$ 1,058,865</u>
Change in net assets	<u>\$ 1,353,373</u>	<u>\$ (218,635)</u>	<u>\$ 1,134,738</u>

NOTE 9 – FEDERAL AWARD PROGRAM CONTINGENCY

Catholic Charities, Inc.'s federal awards programs were audited for the year ended June 30, 2014 in accordance with the requirements included in OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. As a result of this audit, certain findings and questioned costs were identified related to the major federal program tested (see "Supplemental Information"). As of the date of this report, the U.S. Department of Veterans Affairs (the "VA") has not reviewed the findings included in this report. Upon their review, the VA may determine that certain reimbursements paid under the grant program are disallowed and request repayment of these amounts by Catholic Charities. As the amount is determined at the discretion of the VA, no amounts have been reflected as liabilities in the financial statements.

SUPPLEMENTAL INFORMATION

CATHOLIC CHARITIES, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2014

Federal Grantor/Pass-Through Agency/Program	CFDA Number	Award Number	Receivable June 30, 2013	Amount Received	Amount Expended	Receivable June 30, 2014
U.S Department of Housing and Urban Development						
Direct Award/Supportive Housing Program/Dozier House	14.235	TN0019B4J011004	\$ 35,107	\$ 35,107	-	\$ -
Direct Award/Supportive Housing Program/Genesis House	14.235	TN0023B4J011004	-	420,300	455,327	35,027
Total - CFDA 14.235			<u>35,107</u>	<u>455,407</u>	<u>455,327</u>	<u>35,027</u>
U.S Department of Veteran's Affairs						
Direct Award/Transitional Housing for VAMC	64.024	VA249P1150	-	48,906	57,646	8,740
Direct Award/Supportive Services for Veteran Families	64.033	14-TN-287	-	446,627	543,937	97,310
Total U.S Department of Veteran's Affairs			<u>-</u>	<u>495,533</u>	<u>601,583</u>	<u>106,050</u>
U.S. Conference of Catholic Bishops Migration and Refugee Services						
Refugee and Entrant Assistance - Voluntary Agency Programs/ Safe Passage	93.567	n/a	-	4,137	4,137	-
U.S. Department of Homeland Security						
United Way/Emergency Food and Shelter National Board Program	97.024	778200-001	-	75,000	75,000	-
<i>Total Federal Awards</i>			<u>\$ 35,107</u>	<u>\$ 1,030,077</u>	<u>\$ 1,136,047</u>	<u>\$ 141,077</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, 2014

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, 2014. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*. 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 in OMB Circular A-122, *Cost Principles for Non-profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.



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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, 2014, 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 1, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit, 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 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2014-001.

Catholic Charities, Inc.'s Response to Finding

Catholic Charities, Inc.'s response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Catholic Charities, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

A handwritten signature in black ink that reads "Watkins Mikusall, PLLC". The signature is written in a cursive, flowing style.

Memphis, Tennessee
December 1, 2014



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Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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 Circular A-133 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, 2014. 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 the requirements of laws, regulations, contracts, and grants 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Catholic Charities, 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, 2014.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2014-001. Our opinion on each major federal program is not modified with respect to this matter.

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 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 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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2014-002 to be a material weakness.

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.

Catholic Charities, Inc.'s Response to Findings

Catholic Charities, Inc.'s responses to the compliance and internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Catholic Charities, Inc.'s responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Purpose of this Report

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Watkins Mikusall, PLLC

Memphis, Tennessee

December 1, 2014

CATHOLIC CHARITIES, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2014

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on the financial statements of Catholic Charities, Inc. ("Catholic Charities").
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. A material weakness in internal control over major federal award programs is reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133. No additional significant deficiencies are reported.
5. The independent auditor's report on compliance for the major federal award program for Catholic Charities, Inc. expresses an unmodified opinion.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The program tested as a major program was U.S. Department of Veterans Affairs – Supportive Services for Veteran Families Program, CFDA number 64.033.
8. The threshold used for distinguishing Type A and B programs was \$300,000.
9. Catholic Charities, Inc. was determined to be a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

None

CATHOLIC CHARITIES, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

For the Year Ended June 30, 2014

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

U.S. Department of Veterans Affairs

2014-001 Supportive Services for Veteran Families Program – CFDA No. 64.033; Grant No. 14-TN-287; Grant period 10/1/2013 to 9/30/2014

Condition: Based on the Organization's intake form, three individuals were misclassified as Rapid Rehabilitation clients whereas they should have been classified as Prevention clients. Of these three, documentation of eligibility status could not be located for two of the individuals who received assistance payments.

Criteria: Eligibility for the program requires family income below 50% of the area median income, verification of veteran status, and verification of homeless or soon-to-be-homeless status. Homelessness status determines whether participant receives Rapid Rehabilitation or Prevention assistance.

Cause: Program personnel were new to managing the program and were not appropriately knowledgeable of the program eligibility requirements.

Effect: The cost of the assistance payments may be disallowed.

Context: A sample of 51 participants receiving assistance totaling \$91,431 was selected for audit from a population of 139 participants receiving assistance totaling \$249,501. The test found three participants receiving assistance who were not eligible and/or were misclassified.

Recommendation: The Organization should ensure that all program staff are trained on the program requirements as outlined in the VA Program Guide. The Organization should also re-verify the eligibility and update the documentation for any participants currently receiving assistance payments.

CATHOLIC CHARITIES, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

For the Year Ended June 30, 2014

Views of Responsible Officials and Planned Corrective Actions: As a result of a “pre-audit” conducted by our regional representative of the VA on June 11, 2014, it became clear to us that our case notes and internal controls were not adequate, and we were not in compliance with all of the Supportive Services for Veterans Families (“SSVF”) guidelines. After discussions with the (then) program Manager, agency management decided to bring in an Organizational Design consultant to provide an independent analysis of our SSVF program’s operations. This occurred on July 29th and 30th, 2014. The formal VA audit was conducted on August 15th and while there was some improvement noted (orally), we still were not fully in compliance (mostly related to clients and case files that had begun prior to the June 11th visit). In late August we received the report from the Organizational Design consultant and it indicated operational weaknesses related to both “growing pains” (a large new program) and program management deficiencies. On August 27th we terminated the Program Manager for this area. We have had an Interim Program Manager in place for the period August 28th through November 2nd, 2014 and have noted significant improvement as a result of “peer reviews” of case files. A new Program Manager was hired and began working on November 3, 2014. We believe we are now in full compliance and that will be shown in subsequent audits.

2014-002 Supportive Services for Veteran Families Program – CFDA No. 64.033; Grant No. 14-TN-287; Grant period 10/1/2013 to 9/30/2014

Condition: Internal controls over compliance with eligibility requirements failed to prevent noncompliance.

Criteria: Internal controls over compliance should be designed such that documentation of veteran status, income verification, and homeless or soon-to-be-homeless status is on file and completed prior to the approval of assistance payments paid on behalf of participants.

Cause: Program personnel were new to managing the program and were not appropriately knowledgeable of the program eligibility documentation requirements and therefore did not appropriately follow the documentation internal controls. Program management failed to monitor internal controls over compliance.

Effect: Noncompliance with eligibility requirements was not prevented or detected in a timely fashion.

Context: A sample of 51 participants receiving assistance was selected for audit from a population of 139 participants receiving assistance. The test found that eligibility documentation controls were not followed for four participants.

CATHOLIC CHARITIES, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

For the Year Ended June 30, 2014

Recommendation: The Organization should ensure that all program staff are trained on the program requirements as outlined in the VA Program Guide. The Organization should also develop and implement monitoring controls whereby program management can ensure that internal controls over compliance are operating effectively.

Views of Responsible Officials and Planned Corrective Actions: As a result of a “pre-audit” conducted by our regional representative of the VA on June 11, 2014, it became clear to us that our case notes and internal controls were not adequate, and we were not in compliance with all of the Supportive Services for Veterans Families (“SSVF”) guidelines. After discussions with the (then) program Manager, agency management decided to bring in an Organizational Design consultant to provide an independent analysis of our SSVF program’s operations. This occurred on July 29th and 30th, 2014. The formal VA audit was conducted on August 15th and while there was some improvement noted (orally), we still were not fully in compliance (mostly related to clients and case files that had begun prior to the June 11th visit). In late August we received the report from the Organizational Design consultant and it indicated operational weaknesses related to both “growing pains” (a large new program) and program management deficiencies. On August 27th we terminated the Program Manager for this area. We have had an Interim Program Manager in place for the period August 28th through November 2nd, 2014 and have noted significant improvement as a result of “peer reviews” of case files. A new Program Manager was hired and began working on November 3, 2014. We believe we are now in full compliance and that will be shown in subsequent audits.

CATHOLIC CHARITIES, INC.

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS

For the Year Ended June 30, 2014

PRIOR YEAR FINDINGS – FINANCIAL STATEMENT AUDIT

None

**PRIOR YEAR FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS
AUDIT**

None