

CATHOLIC CHARITIES, INC.

FINANCIAL STATEMENTS

June 30, 2013 and 2012



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 of
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, 2013 and 2012, 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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, 2013 and 2012, 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

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 4, 2013, 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 Wilkerson, PLLC

Memphis, Tennessee
December 4, 2013

CATHOLIC CHARITIES, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2013 and 2012

	<u>Assets</u>	
	2013	2012
Assets		
Cash and cash equivalents	\$ 428,377	\$ 143,901
Federal grants receivable	35,107	260,765
Other receivables	200,725	-
Due from affiliates	4,791	23,716
Note receivable - Diocese of Memphis	47,458	128,200
Prepaid expenses	8,199	21,249
Investments	173,743	163,777
Property and equipment, net	1,454,738	1,577,434
Total assets	\$ 2,353,138	\$ 2,319,042
	<u>Liabilities and Net Assets (Deficit)</u>	
Liabilities		
Accounts payable	\$ 18,411	\$ 20,175
Accrued payroll	30,039	47,569
Accrued expenses	17,000	17,096
Due to Diocese of Memphis		
Cafeteria plan	1,162,530	1,038,167
Pension liability	1,207,965	2,459,842
Long-term disability	-	47,652
Other	-	48,562
	2,370,495	3,594,223
Note payable - Diocese of Memphis	448,009	524,168
Total liabilities	2,883,954	4,203,231
Net Assets (Deficit)		
Unrestricted	(745,816)	(1,884,189)
Temporarily restricted	215,000	-
Total net deficit	(530,816)	(1,884,189)
Total liabilities and net deficit	\$ 2,353,138	\$ 2,319,042

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

CATHOLIC CHARITIES, INC.

STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2013 and 2012

	2013		
	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	399,593	215,000	614,593
In-kind contributions	1,059,019	-	1,059,019
Special event contributions	177,701	-	177,701
Net assets released from restrictions	-	-	-
Total support	<u>3,395,084</u>	<u>215,000</u>	<u>3,610,084</u>
Other Revenues			
Day care fees	6,225	-	6,225
Residential care fees	27,271	-	27,271
Other client fees	50,789	-	50,789
Subsidy - Diocese of Memphis	100,000	-	100,000
Administrative fees	205,823	-	205,823
Other	4,489	-	4,489
Total other revenues	<u>394,597</u>	<u>-</u>	<u>394,597</u>
Total support and other revenues	3,789,681	215,000	4,004,681
Expenses			
Program services	3,197,583	-	3,197,583
Management and general	635,509	-	635,509
Fundraising	151,219	-	151,219
Total expenses	<u>3,984,311</u>	<u>-</u>	<u>3,984,311</u>
Change in net assets from operations	(194,630)	215,000	20,370
Nonoperating Gains (Losses)			
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	1,277,500	-	1,277,500
Total nonoperating gains (losses)	<u>1,333,003</u>	<u>-</u>	<u>1,333,003</u>
Change in net assets	1,138,373	215,000	1,353,373
Net assets (deficit), beginning of year	<u>(1,884,189)</u>	<u>-</u>	<u>(1,884,189)</u>
Net assets (deficit), end of the year	<u>\$ (745,816)</u>	<u>\$ 215,000</u>	<u>\$ (530,816)</u>

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

2012		
Unrestricted	Temporarily Restricted	Total
\$ 2,118,891	\$ -	\$ 2,118,891
-	-	-
374,351	-	374,351
734,926	-	734,926
139,967	-	139,967
<u>363,734</u>	<u>(363,734)</u>	<u>-</u>
3,731,869	(363,734)	3,368,135
152,844	-	152,844
24,670	-	24,670
55,275	-	55,275
100,000	-	100,000
339,291	-	339,291
<u>27,360</u>	<u>-</u>	<u>27,360</u>
<u>699,440</u>	<u>-</u>	<u>699,440</u>
4,431,309	(363,734)	4,067,575
3,875,056	-	3,875,056
991,493	-	991,493
<u>140,368</u>	<u>-</u>	<u>140,368</u>
<u>5,006,917</u>	<u>-</u>	<u>5,006,917</u>
(575,608)	(363,734)	(939,342)
1,423	-	1,423
14,149	-	14,149
<u>(1,323,862)</u>	<u>-</u>	<u>(1,323,862)</u>
<u>(1,308,290)</u>	<u>-</u>	<u>(1,308,290)</u>
(1,883,898)	(363,734)	(2,247,632)
<u>(291)</u>	<u>363,734</u>	<u>363,443</u>
<u>\$ (1,884,189)</u>	<u>\$ -</u>	<u>\$ (1,884,189)</u>

CATHOLIC CHARITIES, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2013

	Program Services				Total Program Services	Management and General	Fundraising	Total
	Day Care	Refugee	Homeless Services	Community Service				
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	5,324	17,176
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	-	-	-	-	-	-	83,045	83,045
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	\$ 151,219	\$ 3,984,311

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

CATHOLIC CHARITIES, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2012

	Program Services				Total Program Services	Management and General	Fundraising	Total
	Day Care	Refugee	Homeless Services	Community Service				
Salaries	\$ 122,526	\$ 308,226	\$ 852,985	\$ 136,398	\$ 1,420,135	\$ 461,521	\$ 62,589	\$ 1,944,245
Payroll taxes	9,389	22,383	62,003	9,453	103,228	37,992	4,678	145,898
Employee benefits	2,873	84,626	262,686	37,542	387,727	114,064	5,104	506,895
Professional fees	2,241	69,137	255,595	3,935	330,908	128,087	1,090	460,085
Insurance	2,438	9,705	14,894	-	27,037	4,553	-	31,590
Occupancy	13,841	57,052	162,629	53,285	286,807	24,372	28	311,207
Supplies	23,792	12,668	209,915	406,780	653,155	36,031	2,529	691,715
Telephone	326	7,491	23,549	356	31,722	3,945	180	35,847
Postage and shipping	5	962	380	254	1,601	4,515	2,742	8,858
Special assistance to individuals	7,974	363,592	4,840	10,843	387,249	870	-	388,119
Rental and maintenance of equipment	-	-	6,840	-	6,840	4,586	-	11,426
Printing and publications	-	59	574	2,166	2,799	4,407	10,969	18,175
Transportation	2,473	13,339	7,925	1,934	25,671	6,861	-	32,532
Travel and entertainment	-	4,535	1,621	2,730	8,886	10,616	-	19,502
Conferences and meetings	88	964	1,820	3,473	6,345	9,306	1,066	16,717
Membership dues	82	1,005	2,180	-	3,267	14,773	1,190	19,230
Other	-	15,315	41,111	20,860	77,286	6,673	48,203	132,162
Depreciation	-	-	114,393	-	114,393	53,871	-	168,264
Bad debts	-	-	-	-	-	34,677	-	34,677
Interest	-	-	-	-	-	29,773	-	29,773
Total	\$ 188,048	\$ 971,059	\$ 2,025,940	\$ 690,009	\$ 3,875,056	\$ 991,493	\$ 140,368	\$ 5,006,917

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

CATHOLIC CHARITIES, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2013 and 2012

	2013	2012
Cash Flows Provided By (Used For) Operating Activities:		
Change in net assets	\$ 1,353,373	\$ (2,247,632)
Adjustments to Reconcile Change in Net Assets to Net Cash		
Provided By (Used For) Operating Activities:		
Bad debts	6,942	34,677
Depreciation	171,693	168,264
Change in long term disability costs	(47,652)	(14,149)
Pension-related changes other than net periodic pension costs	(1,277,500)	1,323,862
Change in market value of investments	(7,851)	(1,423)
Increase (Decrease) in Cash and Cash Equivalents:		
United Way receivable	-	360,281
Federal grants receivable	225,658	47,119
Other receivables	(200,725)	9,046
Due from affiliates	11,983	39,901
Prepaid expenses	13,050	6,833
Accounts payable	(1,764)	(64,399)
Accrued payroll	(17,530)	(4,159)
Accrued expenses	(96)	(4,234)
Due to Diocese of Memphis	101,424	284,122
Total adjustments	(1,022,368)	2,185,741
Net cash provided by (used for) operating activities	331,005	(61,891)
Cash Flows From (Used For) Investing Activities:		
Proceeds from sale of investments	-	125,000
Reinvestment of earnings on investments	(3,873)	(9,945)
Principal receipts on note receivable	82,500	171,800
Purchases of property and equipment	(48,997)	(28,669)
Net cash from investing activities	29,630	258,186
Cash Flows From (Used For) Financing Activities:		
Principal payments on note payable	(76,159)	(70,323)
Net increase in cash and cash equivalents	284,476	125,972
Cash and cash equivalents, beginning of the year	143,901	17,929
Cash and cash equivalents, end of the year	\$ 428,377	\$ 143,901
Supplemental Cash Flow Information:		
Cash paid during the year for interest	\$ 23,932	\$ 29,773

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

CATHOLIC CHARITIES, INC.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2013 and 2012

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. Catholic Charities provides these services through a variety of programs in four broad categories: day care, aid to refugees, transitional housing for the homeless, and community service through St. Peter’s Ministries.

Method of Accounting

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.

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 reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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.

Support and Other Revenues

Catholic Charities receives support from a variety of sources including private contributions. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending upon the existence or nature of any donor restrictions. Contributions are recognized when the donor makes a promise to give to Catholic Charities that is, in substance unconditional. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, 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 as of June 30, 2013, consisted of time restricted support totaling \$215,000. There were no temporarily restricted net assets as of June 30, 2012.

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 \$631,670 and \$485,164 for the years ended June 30, 2013 and 2012, respectively. Contributed professional services such as medical services, counseling services, educational services, and support services totaled \$427,349 and \$249,762 for the years ended June 30, 2013 and 2012.

Additionally, a substantial number of volunteers donated significant amounts of their time to Catholic Charities in promoting and assisting with various special fundraising events and programs such as the clothes closet and food pantry. However, no amounts have been reflected in the financial statements for the services provided by these volunteers since the criteria for recognition of such volunteer effort have not been satisfied.

Functional Allocation of Expenses

Based on management's estimates, the costs of providing the various programs and supporting services have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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.

Catholic Charities is economically dependent upon federal government grants and subsidies to finance its operations. For the years ended June 30, 2013 and 2012, Catholic Charities received 47% and 63%, respectively, of its support and other revenues, excluding in-kind contributions, from federal grants. Additionally, for the year ended June 30, 2013, United Way accounted for 20% of total support and other revenues.

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

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. Donated investments are recorded at fair value at the date of donation.

Property and Equipment

Title to property and equipment vests 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. Depreciation expense totaled \$171,693 and \$168,264 for the years ended June 30, 2013 and 2012, respectively.

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 tax years 2009 and beyond remain subject to examination by the taxing authorities.

Advertising

Catholic Charities expenses advertising costs as incurred. Advertising expense totaled \$6,885 and \$6,154 for the years ended June 30, 2013 and 2012, 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, 2013 financial statements for subsequent events through December 4, 2013, the date the financial statements were available to be issued. Other than the subsequent events described in Note 8, 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>2013</u>	<u>2012</u>
	Level 2	Level 2
Investments:		
Money market funds	\$ 19,965	\$ 17,849
Common/collective fixed income mutual funds	<u>153,778</u>	<u>145,928</u>
	<u>\$ 173,743</u>	<u>\$ 163,777</u>

NOTE 3 – NOTE RECEIVABLE

Catholic Charities has a note receivable from the Diocese with an outstanding balance of \$47,458 and \$128,200 at June 30, 2013 and 2012, respectively. The note is due on demand, and interest is earned on the balance based on the five-year daily treasury rate, currently 1.40%. At June 30, 2012, accrued interest on the note was \$6,942. There was no accrued interest at June 30, 2013.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Land	\$ 290,000	\$ 290,000
Buildings and Improvements		
Genesis house	504,967	504,967
Genesis house improvements	313,281	296,201
Sophia house	532,635	532,635
Sophia house improvements	424,124	424,124
Leasehold Improvements		
Dozier house improvements	593,340	593,340
1325 Jefferson improvements	472,782	472,782
Furnishings and equipment	210,787	187,548
Automobiles	<u>21,500</u>	<u>37,295</u>
	3,363,416	3,338,892
Less accumulated depreciation	<u>(1,908,678)</u>	<u>(1,761,458)</u>
	<u>\$ 1,454,738</u>	<u>\$ 1,577,434</u>

NOTE 5 – NOTE PAYABLE

Catholic Charities has an unsecured note payable to the Diocese with an outstanding balance of \$448,009 and \$524,168 at June 30, 2013 and 2012, 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, 2013 and 2012, amounting to \$110,170 and \$147,139, respectively. The plan's projected benefit obligation decreased during 2013, and, accordingly, the Diocese has allocated gains from the change in the benefit obligation to Catholic Charities. Such allocations totaled \$1,277,500 for the year ended June 30, 2013. Total amounts owed to the Diocese for retirement benefits were \$1,207,965 and \$2,459,842 at June 30, 2013 and 2012, respectively.

The Diocese periodically pays certain expenses including employee benefits on behalf of Catholic Charities. At June 30, 2013 and 2012, amounts due to the Diocese for these expenses totaled \$1,162,530 and \$1,134,381, respectively.

Catholic Charities receives from the Diocese a direct Diocesan subsidy which amounted to \$100,000 for each of the years ended June 30, 2013 and 2012, respectively. For the year ended June 30, 2012, Catholic Charities paid the Diocese for maintenance services totaling \$4,143. There were no maintenance services costs for the year ended June 30, 2013.

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, 2013 and 2012, administrative fee revenue from the Diocese totaled \$38,771 and \$45,687, respectively, and the balance receivable was \$4,791 and \$4,099, respectively. Administrative fee revenue from DMHC totaled \$9,978 and \$171,210, respectively, for the years ended June 30, 2013 and 2012 with a balance receivable for these expenditures of \$0 and \$32,254, respectively.

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 \$5,820 and \$17,710 for the years ended June 30, 2013 and 2012, respectively.

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

2014	\$	5,820
2015		5,820
2016		1,940
	\$	<u>13,580</u>

NOTE 8 – SUBSEQUENT EVENTS

Subsequent to June 30, 2013, Catholic Charities was awarded a \$900,000 grant to implement the St. Sebastian Veterans Services program for veterans who are homeless or on the verge of becoming homeless. The program began in October 2013.

Additionally, on July 1, 2013, Sophia's House was reclassified to land held-for-sale at a net book value of \$356,435. The property is listed for sale at \$539,000.

SUPPLEMENTAL INFORMATION

CATHOLIC CHARITIES, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2013

Federal Grantor/Pass-Through Agency/Program	CFDA Number	Pass-Through Entity Identifying Number	Receivable June 30, 2012	Amount Received	Amount Expended	Receivable June 30, 2013
U.S. Department of Housing and Urban Development						
Direct Award/Supportive Housing Program/Dozier House	14.235	TN0019B4J011004	\$ 54,728	\$ 486,918	\$ 467,297	\$ 35,107
Direct Award/Supportive Housing Program/Genesis House	14.235	TN0023B4J011004	5,184	460,078	454,894	-
Direct Award/Supportive Housing Program/Sophia House	14.235	TN0031B4J011104	23,174	243,725	220,551	-
Total - CFDA 14.235			83,086	1,190,721	1,142,742	35,107
Memphis Division of Housing and Community Development/ Emergency Shelter Grants Program	14.231	27106	409	409	-	-
Total U.S. Department of Housing and Urban Development			83,495	1,191,130	1,142,742	35,107
U.S. Department of State						
U.S. Conference of Catholic Bishops Migration and Refugee Services/						
U.S. Refugee Admissions Program/Administration	19.510	SPRMCO10CA012	25,220	37,487	12,267	-
U.S. Refugee Admissions Program/Direct Assistance	19.510	SPRMCO10CA012	30,805	45,650	14,845	-
Total U.S. Department of State			56,025	83,137	27,112	-
U.S. Department of Veteran's Affairs						
Direct Award/Transitional Housing for VAMC	64.024	VA249P1150	-	55,100	55,100	-
U.S. Department of Health and Human Services						
Office of Refugee Resettlement/Tennessee Office for Refugees/ Refugee and Entrant Assistance/State Administered Programs/ Refugee Social Services Program						
	93.566	N/A	29,536	48,262	18,726	-
Refugee and Entrant Assistance/State Administered Programs/ Cash and Medical Assistance Program	93.566	N/A	16,984	30,867	13,883	-
Total - CFDA 93.566			46,520	79,129	32,609	-

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

CATHOLIC CHARITIES, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Cont.)

For the Year Ended June 30, 2013

Federal Grantor/Pass-Through Agency/Program	CFDA Number	Pass-Through Entity Identifying Number	Receivable June 30, 2012	Amount Received	Amount Expended	Receivable June 30, 2013
U.S. Conference of Catholic Bishops Migration and Refugee Services/ Refugee and Entrant Assistance/Voluntary Agency Programs/ Match Grant	93.567	N/A	69,430	95,343	25,913	-
Refugee and Entrant Assistance - Voluntary Agency Programs/ Safe Passage	93.576	N/A	-	6,165	6,165	-
Total CFDA 93.576			69,430	101,508	32,078	-
Office of Refugee Resettlement/Tennessee Office of Refugees/ Refugee and Entrant Assistance/Discretionary Grants/ Refugee School Impact Program	93.576	N/A	5,295	12,721	7,426	-
Total - CFDA 93.576			5,295	12,721	7,426	-
Total U.S. Department of Health and Human Services			121,245	193,358	72,113	-
U.S. Department of Homeland Security United Way/Emergency Food and Shelter National Board Program	97.024	N/A	-	80,054	80,054	-
Total federal awards			\$ 260,765	\$ 1,602,779	\$ 1,377,121	\$ 35,107

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

CATHOLIC CHARITIES, INC.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2013

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, 2013. 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 of
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, 2013, 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 4, 2013.

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 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.

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

Memphis, Tennessee
December 4, 2013



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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 of
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, 2013. 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, 2013.

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. *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.

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 4, 2013

CATHOLIC CHARITIES, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2013

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. No significant deficiencies or material weaknesses relating to the audit of the major federal award program are 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.
5. The independent auditor's report on compliance for the major federal award programs for Catholic Charities expresses an unmodified opinion.
6. There were no audit findings required to be reported in accordance with Section 510(a) of OMB Circular A-133 for Catholic Charities.
7. The program tested as a major program was U.S. Department of Housing and Urban Development – Supportive Housing Program, CFDA number 14.235.
8. The threshold used for distinguishing Type A and B programs was \$300,000.
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, 2013

PRIOR YEAR FINDINGS – FINANCIAL STATEMENT AUDIT

None

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

None