

**CATHOLIC CHARITIES OF EAST  
TENNESSEE, INC. AND SUBSIDIARIES**

**Consolidated Financial Statements**

**June 30, 2024 and 2023**

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



# CATHOLIC CHARITIES OF EAST TENNESSEE, INC.

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## **INDEPENDENT AUDITORS' REPORT**

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

### **Report on the Audit of the Consolidated Financial Statements**

#### ***Opinion***

We have audited the accompanying consolidated financial statements of Catholic Charities of East Tennessee, Inc. and Subsidiaries (collectively, the "Organization") (a nonprofit organization), which comprise the consolidated statements of financial position as of June 30, 2024 and 2023, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organization as of June 30, 2024 and 2023, and the changes in their consolidated net assets and their consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America ("GAAP").

#### ***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Responsibilities of Management for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with GAAP and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

## ***Auditors' Responsibility for the Audit of the Consolidated Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

### ***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating information included in the schedules on pages 28 through 31 is presented for the purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and it is not a required part of the consolidated 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 consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated 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 January 14, 2025 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's 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 the Organization's internal control over financial reporting and compliance.

*LBM, PC*

Knoxville, Tennessee  
January 14, 2025

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

**Consolidated Statements of Financial Position**

**June 30, 2024 and 2023**

**Assets**

	<u><b>2024</b></u>	<u><b>2023</b></u>
<b>Current assets:</b>		
Cash	\$ 1,882	\$ 448,934
Accounts receivable	44,503	46,261
Grants receivable	230,195	120,857
Prepaid expenses and other current assets	<u>7,512</u>	<u>18,441</u>
<b>Total current assets</b>	<b>284,092</b>	<b>634,493</b>
 Property and equipment, net	 3,434,027	 3,698,592
Deposits - housing escrow	-	96,763
Cash limited as to use	1,163,562	1,317,469
Beneficial interest in trust	379,609	356,800
Operating lease right-of-use assets	72,604	113,659
Other assets	<u>4,995</u>	<u>5,620</u>
	<u><b>\$ 5,338,889</b></u>	<u><b>\$ 6,223,396</b></u>

**Liabilities and Net Assets**

<b>Current liabilities:</b>		
Accounts payable	\$ 39,840	\$ 17,489
Accrued expenses and liabilities	285,054	310,669
Current portion of operating lease liabilities	42,837	40,378
Deferred revenue	<u>-</u>	<u>588</u>
<b>Total current liabilities</b>	<b>367,731</b>	<b>369,124</b>
 Operating lease liabilities, excluding current portion	 31,123	 73,961
Capital advances	-	1,142,400
Other long-term liabilities	<u>-</u>	<u>4,153</u>
<b>Total liabilities</b>	<u><b>398,854</b></u>	<u><b>1,589,638</b></u>
 <b>Net assets:</b>		
Without donor restrictions	3,947,265	3,482,815
With donor restrictions	<u>992,770</u>	<u>1,150,943</u>
<b>Total net assets</b>	<u><b>4,940,035</b></u>	<u><b>4,633,758</b></u>
	<u><b>\$ 5,338,889</b></u>	<u><b>\$ 6,223,396</b></u>

See accompanying notes to the consolidated financial statements.

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

**Consolidated Statement of Activities and Changes in Net Assets**

**Year ended June 30, 2024**

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
<b>Support and revenue:</b>			
<b>Support:</b>			
<b>Contributions:</b>			
Contributions	\$ 1,044,195	\$ 130,358	\$ 1,174,553
Contributions of nonfinancial assets	38,452	-	38,452
Annual stewardship appeal from the Diocese of Knoxville	<u>500,000</u>	<u>-</u>	<u>500,000</u>
<b>Total public support</b>	<u>1,582,647</u>	<u>130,358</u>	<u>1,713,005</u>
<b>Revenue:</b>			
Service fees and revenues	509,117	-	509,117
Fundraising revenue, net of expenses of \$48,617	219,631	-	219,631
Rental income	81,365	-	81,365
Federal grants	606,800	-	606,800
State grants	232,255	-	232,255
Private grants	609,389	-	609,389
Interest income	-	27,662	27,662
Investment returns	-	36,212	36,212
Other income	<u>43,514</u>	<u>-</u>	<u>43,514</u>
<b>Total revenue</b>	<u>2,302,071</u>	<u>63,874</u>	<u>2,365,945</u>
<b>Net assets released from restrictions</b>	<u>352,405</u>	<u>(352,405)</u>	<u>-</u>
<b>Total public support and revenue</b>	<u>4,237,123</u>	<u>(158,173)</u>	<u>4,078,950</u>
<b>Expenses:</b>			
<b>Program services:</b>			
Children's services	272,658	-	272,658
Housing services	1,221,520	-	1,221,520
Outreach services	1,247,844	-	1,247,844
Counseling services	<u>955,864</u>	<u>-</u>	<u>955,864</u>
<b>Total program services</b>	<u>3,697,886</u>	<u>-</u>	<u>3,697,886</u>
<b>Supporting services:</b>			
Management and general	445,572		445,572
Development	<u>389,808</u>	<u>-</u>	<u>389,808</u>
<b>Total expenses</b>	<u>4,533,266</u>	<u>-</u>	<u>4,533,266</u>
<b>Change in net assets from continuing operations</b>	<u>(296,143)</u>	<u>(158,173)</u>	<u>(454,316)</u>
<b>Discontinued operations (Note 18):</b>			
Loss from HUD Projects, net of expenses totaling \$94,365	(48,728)	-	(48,728)
Gain on disposal of HUD Projects	<u>809,321</u>	<u>-</u>	<u>809,321</u>
<b>Change in net assets from discontinued operations</b>	<u>760,593</u>	<u>-</u>	<u>760,593</u>
<b>Change in net assets</b>	<u>464,450</u>	<u>(158,173)</u>	<u>306,277</u>
<b>Net assets at beginning of year</b>	<u>3,482,815</u>	<u>1,150,943</u>	<u>4,633,758</u>
<b>Net assets at end of year</b>	<u>\$ 3,947,265</u>	<u>\$ 992,770</u>	<u>\$ 4,940,035</u>

See accompanying notes to the consolidated financial statements.

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

**Consolidated Statement of Activities and Changes in Net Assets**

**Year ended June 30, 2023**

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
<b>Support and revenue:</b>			
<b>Support:</b>			
<b>Contributions:</b>			
Contributions	\$ 794,027	\$ 434,237	\$ 1,228,264
Contributions of nonfinancial assets	28,141	-	28,141
Annual stewardship appeal from the Diocese of Knoxville	<u>500,000</u>	<u>-</u>	<u>500,000</u>
<b>Total public support</b>	<u>1,322,168</u>	<u>434,237</u>	<u>1,756,405</u>
<b>Revenue:</b>			
Service fees and revenues	363,274	-	363,274
Fundraising revenue, net of expenses of \$50,311	146,350	-	146,350
Rental income	50,271	-	50,271
Federal grants	438,590	-	438,590
State grants	243,435	-	243,435
Private grants	515,077	-	515,077
Interest income	-	12,562	12,562
Investment returns	-	18,063	18,063
Insurance proceeds	1,603,680	-	1,603,680
Gain on disposal of property and equipment	150,592	-	150,592
Other income	<u>12,558</u>	<u>-</u>	<u>12,558</u>
<b>Total revenue</b>	<u>3,523,827</u>	<u>30,625</u>	<u>3,554,452</u>
<b>Net assets released from restrictions</b>	<u>401,018</u>	<u>(401,018)</u>	<u>-</u>
<b>Total public support and revenue</b>	<u>5,247,013</u>	<u>63,844</u>	<u>5,310,857</u>
<b>Expenses:</b>			
<b>Program services:</b>			
Children's services	206,630	-	206,630
Housing services	1,167,604	-	1,167,604
Outreach services	811,890	-	811,890
Counseling services	<u>804,054</u>	<u>-</u>	<u>804,054</u>
<b>Total program services</b>	<u>2,990,178</u>	<u>-</u>	<u>2,990,178</u>
<b>Supporting services:</b>			
Management and general	461,250	-	461,250
Development	<u>250,955</u>	<u>-</u>	<u>250,955</u>
<b>Total expenses</b>	<u>3,702,383</u>	<u>-</u>	<u>3,702,383</u>
<b>Change in net assets from continuing operations</b>	<u>1,544,630</u>	<u>63,844</u>	<u>1,608,474</u>
<b>Discontinued operations (Note 18):</b>			
Loss from HUD Projects, net of expenses totaling \$263,995	(11,428)	-	(11,428)
Loss on disposal of HUD Projects	<u>(2,356)</u>	<u>-</u>	<u>(2,356)</u>
<b>Change in net assets from discontinued operations</b>	<u>(13,784)</u>	<u>-</u>	<u>(13,784)</u>
<b>Change in net assets</b>	<u>1,530,846</u>	<u>63,844</u>	<u>1,594,690</u>
<b>Net assets at beginning of year</b>	<u>1,951,969</u>	<u>1,087,099</u>	<u>3,039,068</u>
<b>Net assets at end of year</b>	<u>\$ 3,482,815</u>	<u>\$ 1,150,943</u>	<u>\$ 4,633,758</u>

See accompanying notes to the consolidated financial statements.



# CATHOLIC CHARITIES OF EAST TENNESSEE, INC.

## Consolidated Statements of Cash Flows

Years ended June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Cash flows from operating activities:		
Change in net assets	\$ <u>306,277</u>	\$ <u>1,594,690</u>
Adjustments to reconcile change in net assets to cash flows provided by operating activities:		
Depreciation and amortization	210,944	221,229
Provision for credit losses	6,032	3,775
Gain on disposal of property and equipment	-	(150,592)
Net gain on investment	(36,696)	(18,640)
(Gain) loss from transfer of HUD Projects (Note 18)	(809,321)	2,356
Noncash lease expense	41,055	21,849
(Increase) decrease in operating assets:		
Accounts receivable	(23,070)	(33,707)
Grants receivable	(109,338)	(15,611)
Prepaid expenses and other current assets	10,929	(18,441)
Deposits - housing escrow	6,620	(9,414)
Increase (decrease) in operating liabilities:		
Accounts payable	42,578	(54,194)
Accrued expenses and liabilities	(23,673)	66,959
Insurance proceeds received in advance	-	(232,170)
Deferred revenue and other long term liabilities	322	27,026
Operating lease liabilities	<u>(40,379)</u>	<u>(21,169)</u>
Net cash (used) provided by operating activities	<u>(417,720)</u>	<u>1,383,946</u>
Cash flows from investing activities:		
Proceeds from disposal of property and equipment	-	156,606
Purchases of property and equipment	(194,790)	(1,705,465)
Distribution from beneficial interest in trust	13,887	17,460
Proceeds from sale of HUD Projects, net of cash transferred with Projects	<u>(2,336)</u>	<u>371,582</u>
Net cash used by investing activities	<u>(183,239)</u>	<u>(1,159,817)</u>
Cash flows from financing activities:		
Payments of notes payable to the Diocese	<u>-</u>	<u>(383,612)</u>
Net cash used by financing activities	<u>-</u>	<u>(383,612)</u>
Decrease in cash and cash limited as to use	(600,959)	(159,483)
Cash and cash limited as to use at beginning of year	<u>1,766,403</u>	<u>1,925,886</u>
Cash and cash limited as to use at end of year	\$ <u><u>1,165,444</u></u>	\$ <u><u>1,766,403</u></u>
Reconciliation of cash and cash equivalents on the Consolidated Statements of Cash Flows to the Consolidated Statements of Financial Position:		
Cash	\$ 1,882	\$ 448,934
Cash limited as to use	<u>1,163,562</u>	<u>1,317,469</u>
	\$ <u><u>1,165,444</u></u>	\$ <u><u>1,766,403</u></u>

See accompanying notes to the consolidated financial statements.

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

**Consolidated Statement of Functional Expenses**

**Year ended June 30, 2024**

	Program Services					Support Services		
	Children's Services	Housing Services	Outreach Services	Counseling Services	Total Program Services	Management and General	Development	Total
Salaries and related expenses	\$ 14,113	\$ 340,239	\$ 671,384	\$ 469,032	\$ 1,494,768	\$ 124,636	\$ 210,444	\$ 1,829,848
Fringe benefits	67,170	91,744	93,465	124,786	377,165	35,307	58,803	471,275
Maintenance	13,913	73,373	12,290	1,716	101,292	27,548	6,450	135,290
Travel	3,732	3,832	9,825	11,938	29,327	834	409	30,570
Postage	-	5	8,052	144	8,201	271	29	8,501
Printing	84	307	787	2,699	3,877	3,337	2,130	9,344
Utilities/telephone	2,941	100,450	5,620	6,231	115,242	2,032	1,818	119,092
Office/program supplies	8,047	35,534	8,286	1,867	53,734	3,039	626	57,399
Equipment	-	-	-	170	170	-	-	170
Conferences and training	2,093	191	5,777	9,124	17,185	5,614	125	22,924
Promotion	-	-	-	465	465	-	1,713	2,178
Professional services	703	242,602	27,499	8,804	279,608	212,117	63,309	555,034
Individual client assistance	5,291	67,587	123,589	83,415	279,882	-	-	279,882
Assistance to other organizations	-	3,282	-	-	3,282	-	-	3,282
Food	4,322	34,517	6,899	-	45,738	-	-	45,738
Insurance	3,175	32,898	47,181	5,572	88,826	2,249	1,514	92,589
Rent	-	-	-	6,800	6,800	676	-	7,476
Dues and subscriptions	50	592	11,634	10,354	22,630	3,175	5,740	31,545
Property taxes	-	24,777	-	-	24,777	-	-	24,777
Employee recruitment	-	-	-	-	-	18,055	-	18,055
Miscellaneous	13,097	163	9,252	1	22,513	(12,761)	18,245	27,997
Building occupancy	39,868	-	60,568	57,918	158,354	4,897	7,346	170,597
Depreciation and amortization	25,707	90,848	33,333	32,511	182,399	17,695	10,850	210,944
Administration	65,789	75,631	108,965	117,729	368,114	(3,149)	257	365,222
Accounting costs	2,563	2,948	3,438	4,588	13,537	-	-	13,537
Total	<u>\$ 272,658</u>	<u>\$ 1,221,520</u>	<u>\$ 1,247,844</u>	<u>\$ 955,864</u>	<u>\$ 3,697,886</u>	<u>\$ 445,572</u>	<u>\$ 389,808</u>	<u>\$ 4,533,266</u>

See accompanying independent auditors' report.

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

**Consolidated Statement of Functional Expenses**

**Year ended June 30, 2023**

	Program Services				Total Program Expenses	Support Services		Total
	Children's Services	Housing Services	Outreach Services	Counseling Services		Management and General	Development	
Salaries and related expenses	\$ 16,915	\$ 405,576	\$ 477,386	\$ 416,286	\$ 1,316,163	\$ 149,413	\$ 131,095	\$ 1,596,671
Fringe benefits	54,941	112,766	60,354	91,084	319,145	46,317	30,053	395,515
Maintenance	10,024	67,827	8,988	1,716	88,555	15,225	5,938	109,718
Travel	2,691	5,210	1,225	13,960	23,086	-	24	23,110
Postage	-	60	6,302	69	6,431	29	14	6,474
Printing	67	121	171	3,265	3,624	871	1,519	6,014
Utilities/telephone	3,560	88,330	4,253	9,898	106,041	1,934	1,484	109,459
Office/program supplies	2,790	45,471	3,887	1,813	53,961	3,493	1,453	58,907
Equipment	-	-	-	248	248	-	-	248
Conferences and training	320	364	5,079	4,274	10,037	798	588	11,423
Promotion	-	-	-	15	15	-	2,492	2,507
Professional services	420	96,285	7,680	1,700	106,085	194,131	48,886	349,102
Bad debt expense	-	3,775	-	-	3,775	-	-	3,775
Individual client assistance	5,533	38,089	41,393	78,051	163,066	-	-	163,066
Food	3,658	37,277	6,647	-	47,582	217	-	47,799
Insurance	2,820	22,462	42,620	3,735	71,637	1,254	1,307	74,198
Rent	-	-	-	13,075	13,075	680	-	13,755
Dues and subscriptions	50	155	8,657	6,044	14,906	8,259	3,686	26,851
Property taxes	-	25,068	-	-	25,068	-	-	25,068
Employee recruitment	-	-	-	-	-	24,284	-	24,284
Miscellaneous	-	1,218	4,637	46	5,901	1,989	15,915	23,805
Building occupancy	28,562	-	45,158	32,343	106,063	1,995	5,985	114,043
Depreciation and amortization	13,005	117,404	9,084	6,387	145,880	10,361	516	156,757
Administration	60,031	98,113	76,778	117,609	352,531	-	-	352,531
Accounting costs	1,243	2,033	1,591	2,436	7,303	-	-	7,303
<b>Total</b>	<b>\$ 206,630</b>	<b>\$ 1,167,604</b>	<b>\$ 811,890</b>	<b>\$ 804,054</b>	<b>\$ 2,990,178</b>	<b>\$ 461,250</b>	<b>\$ 250,955</b>	<b>\$ 3,702,383</b>

See accompanying independent auditors' report.

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

## **Notes to the Consolidated Financial Statements**

**June 30, 2024 and 2023**

### **(1) Nature of operations**

Catholic Charities of East Tennessee, Inc. (collectively the "Organization" or "Catholic Charities") was created by the Roman Catholic Diocese of Knoxville ("Diocese"). Formed in January 1989, the Organization is incorporated as an autonomous tax-exempt organization under the Roman Catholic Church's 501(c)(3) umbrella ruling. The Organization Members ("Members") are the Bishop of the Diocese, Moderator of the Curia, Chief Operating Officer and the Diocesan Finance Officer serving the Corporation without compensation. The reserved power of the Members is to adopt the overall mission of the Organization and exclusive power over all aspects of its bylaws and operations. The social services provided in the geographic region specified by the Diocese, principally in the areas surrounding Knoxville, Chattanooga, and the Tri-Cities, consist of emergency assistance to individuals, a children's shelter, housing, parental and other counseling, and immigrant services, among others.

The Organization receives funding through the Diocese, contributions from the general public, service fees, rental income, and various grants from local, state, and federal governments.

As of the beginning of 2024, Catholic Charities of East Tennessee, Inc. had sponsorship and control of three Section 811 elderly and handicapped housing projects ("Projects" or "HUD Projects") that were owned by the following single purpose not-for-profit corporations: Laurel Place Apartments, Inc.; Shamrock Place Apartments, Inc.; and Woodgrove Apartments, Inc. These affiliates were not-for-profit organizations established to develop low-income housing projects for elderly or disabled persons which are subsidized by the U.S. Department of Housing and Urban Development ("HUD"). The Projects could not make distributions to Catholic Charities or any other entity without the approval of HUD. As a result of the Organization's sponsorship and control, the Projects were or are consolidated in accordance with accounting principles generally accepted in the United States of America ("GAAP").

On December 4, 2023, Catholic Charities of East Tennessee transferred sponsorship and all related assets and liabilities of the Section 811 Projects to a third party sponsor and deconsolidated each entity in accordance with GAAP. The gain on the transfer of these entities was \$809,321. See Note 18 for additional information regarding the deconsolidation of the three HUD Projects.

On January 29, 2023, Catholic Charities of East Tennessee transferred sponsorship and all related assets and liabilities of the Section 202 Projects, Horizon House I, Inc.; Horizon House II, Inc.; and Five Rivers Services, Inc. - Morristown to a third party sponsor and deconsolidated each entity in accordance with GAAP. The net loss on the transfer of these entities was \$2,356. See Note 18 for additional information regarding the deconsolidation of the three HUD Projects.

### **(2) Summary of significant accounting policies**

The consolidated financial statements of Catholic Charities are presented on the accrual basis of accounting in accordance with GAAP. The significant accounting policies followed are described below.

CATHOLIC CHARITIES OF EAST TENNESSEE, INC.

Notes to the Consolidated Financial Statements

June 30, 2024 and 2023

(a) Principles of consolidation

The consolidated financial statements include the accounts of Catholic Charities and the Projects. All material intercompany transactions and balances have been eliminated.

(b) Basis of presentation

The Organization reports information regarding its financial position based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

*Net Assets Without Donor Restrictions* - Net assets available for use in general operations and not subject to donor imposed restrictions. The Organization's Board of Trustees (the "Board") has designated, from net assets without donor restrictions, net assets for particular purposes.

*Net Assets With Donor Restrictions* - Net assets subject to donor imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Contributions received are recorded as without donor restrictions or with donor restrictions depending on the existence and/or nature of any donor restrictions. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized.

(c) Newly adopted accounting standard

On July 1, 2023, the Organization adopted the provisions of Financial Accounting Standards Board Accounting Standards Codification Topic 326, *Financial Instruments-Credit Losses: Measurement of Credit Losses on Financial Instruments*. This update establishes the current expected credit loss model, which requires the immediate recognition of estimated expected credit losses of the life of a financial instrument, including account receivables. The estimate of expected credit losses considers historical information as well as current and future economic conditions and events. The adoption of this guidance did not have a significant impact on the Organization's consolidated financial statements.

(d) Cash

The Organization considers all highly liquid investments with original maturities of less than three months to be cash equivalents.

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

**Notes to the Consolidated Financial Statements**

**June 30, 2024 and 2023**

**(e) Accounts and grants receivable**

Accounts and grants receivable are from grantors and client service fees. The carrying amount of accounts and grants receivable are reduced by a valuation allowance, if necessary, which reflects management's best estimate of the amounts that will not be collected. The allowance is estimated based on management's knowledge of its customers, historical loss experience and existing economic conditions. Management reviews accounts periodically and charges off any balances not considered collectible.

**(f) Beneficial interest in trust**

Investments held in the beneficial interest in trust are carried at fair value. Any realized and/or unrealized gains or losses are reported in the consolidated statements of activities as a part of investment returns.

**(g) Property and equipment**

Property and equipment is stated at cost. Depreciation and amortization is provided over the assets' estimated useful lives, generally three to forty years, using the straight-line method. Donated property and equipment is recorded at their estimated market value at the date of the gift. Donated fixed assets are used in the operations of the organization unless otherwise restricted by the donor.

Certain properties included in the consolidated financial statements were purchased by the Organization but are deeded to the Bishop of the Diocese. These properties have a net book value of \$781,729 and \$819,700 at June 30, 2024 and 2023, respectively.

Expenditures for maintenance and repairs are expensed when incurred. Expenditures for renewals or betterments are capitalized. When property is retired or sold, the cost and the related accumulated depreciation are removed from the accounts, and the resulting gain or loss is included in operations.

**(h) Deposits - housing escrow**

Prior to the transfer of sponsorships, under the terms of regulatory agreements, the Projects were required to set aside specified amounts for the replacement of property and other project expenditures as approved by HUD. Deposits - housing escrow, including tenant deposits held in trust, totaling \$96,763 at June 30, 2023 were held in separate accounts and generally were not available for operating purposes.

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

**Notes to the Consolidated Financial Statements**

**June 30, 2024 and 2023**

**(i) Cash limited as to use**

The Organization has separate accounts for certain net assets with donor restrictions and Board designated net assets without donor restrictions. The balances are donor restricted or Board designated for specified purposes. The balance at year end represents amounts available for specific programs.

**(j) Deferred revenue**

Prepaid rent from tenants of the Projects for future periods was shown as deferred revenues until earned.

**(k) Leases**

On July 1, 2022, the Organization adopted the cumulative accounting standard updates initially issued by the Financial Accounting Standards Board ("FASB") in February 2016 that amend the accounting for leases and are codified as Accounting Standards Codification Topic 842 ("ASC 842"). These changes to the lease accounting model require operating leases be recorded on the consolidated statement of financial position through recognition of a liability for the discounted present value of future fixed lease payments and a corresponding right-of-use ("ROU") asset. The Organization's accounting for finance leases remained substantially unchanged from its prior accounting for capital leases. The ROU asset recorded at commencement of the lease represents the right to use the underlying asset over the lease term in exchange for the lease payments. Leases with an initial term of 12 months or less that do not have an option to purchase the underlying asset that is deemed reasonably certain to be exercised are not recorded on the consolidated statement of financial position; rather, rent expense for these leases is recognized on a straight-line basis over the lease term, or when incurred if a month-to-month lease. When readily determinable, the Organization uses the interest rate implicit in a lease to determine the present value of future lease payments. For leases where the implicit rate is not readily determinable, the Organization has elected the practical expedient to utilize the risk free rate. The Organization's lease agreements do not contain any material residual value guarantees or material restrictive covenants. Certain of the Organization's lease agreements have lease and non-lease components, which for the majority of leases the Organization accounts for separately when the actual lease and non-lease components are determinable.

**(l) Income taxes**

The Organization and Projects are exempt from federal income taxes under the provisions of Internal Revenue Code Section 501(c)(3), and, accordingly, no provision for income taxes is included in the consolidated financial statements.

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

**Notes to the Consolidated Financial Statements**

**June 30, 2024 and 2023**

An uncertain tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded. The Organization has no material uncertain tax positions that qualify for either recognition or disclosure in the consolidated financial statements.

As of June 30, 2024 and 2023, the Organization and the Projects have accrued no interest and no penalties related to uncertain tax positions. It is the Organization's and the Project's policy to recognize interest and/or penalties related to income tax matters in income tax expense.

The Organization and the Projects file U.S. Federal informational tax returns annually. The Organization and the Projects are subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

**(m) Revenue recognition**

Contributions are recorded as support when cash or other assets are received. Contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Gifts of cash and other assets that are designated for future periods or restricted by the donor for specific purposes are reported as support with donor restrictions. When a donor restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions.

Contributions of property and equipment and other long-lived assets with explicit restrictions that specify how the assets are to be used, including cash contributed to acquire such assets, are recorded as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the expiration of donor restrictions is reported when the donated or acquired assets are placed in service.

Grant funds received under fee for service arrangements are earned and reported as revenues of the applicable grant when the Organization has incurred expenses in compliance with the specific restrictions of the grant agreement. Expenses incurred for grant funds which have not been received are reported as grants receivable.

In-kind contributions are recorded based on their estimated fair value at the date of donation.



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

**Notes to the Consolidated Financial Statements**

**June 30, 2024 and 2023**

**(n) Advertising costs**

Advertising costs are expensed as incurred.

**(o) Long-lived assets**

If certain triggering events occur, management evaluates the recoverability of the investment in long-lived assets and recognizes any impairment in the year of determination. It is reasonably possible that relevant conditions could change in the near term and necessitate a change in management's estimate of the recoverability of these assets.

**(p) Use of estimates**

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

**(q) Functional allocation of expenses**

The costs of providing the various programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on an analysis of personnel time, historical usage patterns and purpose of expenses.

**(r) Events occurring after reporting date**

The Organization has evaluated events and transactions that occurred between June 30, 2024 and January 14, 2025, which is the date that the consolidated financial statements were available to be issued, for possible recognition or disclosure in the consolidated financial statements.

**(3) Revenue from contracts with customers**

The Organization's revenue is short cycle in nature, deriving from contributions and grants. Most of the Organization's revenue is derived from contracts which coincide with the fiscal year of the Organization. The Organization typically receives payment in the year of services rendered.

A performance obligation is a contractual promise to transfer a distinct good or service, or a bundle of goods or services, to the customer, and is the unit of accounting. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. The Organization's contracts typically have a single performance obligation.

CATHOLIC CHARITIES OF EAST TENNESSEE, INC.

Notes to the Consolidated Financial Statements

June 30, 2024 and 2023

The Organization's revenue is recognized at the point in time when services are rendered.

(4) Liquidity

A summary of the Organization's financial assets as of June 30, 2024 and 2023, reduced by amounts not available for general use because of donor-imposed restrictions or Board designations, within one year of the consolidated statement of financial position date is as follows:

	<u>2024</u>	<u>2023</u>
Cash and cash equivalents	\$ 1,882	\$ 448,934
Accounts receivable	44,503	46,261
Grants receivable	230,195	120,857
Deposits - housing escrow - restricted	-	96,763
Cash limited as to use	1,163,562	1,317,469
Beneficial interest in trust	<u>379,609</u>	<u>356,800</u>
Financial assets at end of year	1,819,751	2,387,084
Less assets unavailable for general expenditures within one year due to donor, Board designations or other restrictions	<u>(1,543,173)</u>	<u>(1,771,034)</u>
Financial assets available to meet cash needs for general expenditures within one year	\$ <u>276,578</u>	\$ <u>616,050</u>

The Board has designated net assets without donor restrictions of \$550,403 and \$523,328 as of June 30, 2024 and 2023, respectively, for various long-term purposes. The Organization does not intend to use these net assets for operating purposes and has accordingly excluded these net assets without donor restrictions from financial assets available in the table above, as well as current assets on the statement of financial position. However, these amounts could be made available for operations, if necessary.

(5) Contributions of nonfinancial assets

Many individuals volunteer their time and perform a variety of tasks that assist the Organization with program services. No amounts have been reflected in the consolidated financial statements for these donated services since the volunteers' time does not meet the criteria for recognition under GAAP. Donated property is recognized in the consolidated financial statements at fair market value when received. If donors stipulated 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. Donations totaling \$38,452 and \$28,141 were received during 2024 and 2023, respectively, and were items used in the children's, outreach services and counseling services programs and are included in the consolidated statements of functional expenses.

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

**Notes to the Consolidated Financial Statements**

**June 30, 2024 and 2023**

**(6) Credit risk and other concentrations**

The Organization maintains cash on deposit in excess of federally insured amounts. The Organization has not experienced any losses in such accounts and management believes the Organization is not exposed to any significant credit risk related to cash.

**(7) Cash limited as to use**

Cash limited as to use include the following accounts as of June 30, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Chattanooga Tornado fund	\$ 117,130	\$ 111,367
Jellico Pregnancy Center	29,454	47,188
Samaritan Place	5,146	18,188
Tri-cities bequest	20,432	79,193
Disability bequest	118,023	112,218
Building and improvements fund - Board designated	102,452	97,413
New or capacity program fund - Board designated	447,951	425,915
Bridge Ministries	16,247	-
Funds restricted for other purposes by donors	<u>306,727</u>	<u>425,987</u>
	<u>\$ 1,163,562</u>	<u>\$ 1,317,469</u>

**(8) Beneficial interest in trust**

The Organization is the beneficiary of a trust for the Columbus Home created by a donor, the assets of which are invested in mutual funds and are not in the possession of the Organization. The Organization has legally enforceable rights and claims to such income therefrom. Net change in the beneficial interest is reported as changes in donor restricted net assets based on the explicit donor stipulation. Receipts from the trust are recognized when received.

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

**Notes to the Consolidated Financial Statements**

**June 30, 2024 and 2023**

**(9) Property and equipment**

A summary of property and equipment is as follows:

	<u>2024</u>	<u>2023</u>
Land	\$ 90,409	\$ 183,238
Buildings and improvements	4,100,565	5,164,554
Leasehold improvements	198,150	198,150
Machinery and equipment	351,197	289,619
Furniture and fixtures	301,740	288,275
Automobiles	<u>206,134</u>	<u>138,410</u>
	5,248,195	6,262,246
Accumulated depreciation and amortization	<u>(1,814,168)</u>	<u>(2,563,654)</u>
	<u>\$ 3,434,027</u>	<u>\$ 3,698,592</u>

**(10) Capital advances**

Prior to the transfer of sponsorships, certain Projects sponsored by Catholic Charities of East Tennessee, Inc. had received capital advances from HUD to assist with the financing of housing projects for handicapped persons in accordance with the provisions of Section 811 of the Housing Act of 1959. Each capital advance bore no interest and was not required to be repaid so long as the housing remains available to certain low income handicapped households for a period of 40 years in accordance with Section 811. The capital advances were secured by the notes and trust deeds (first lien) on the Projects' properties. The capital advances could not be repaid without the permission of HUD.

Upon default, interest per annum at a rate determined by HUD was payable on demand with respect to the payment of principal. Provided that the housing has remained available for occupancy by eligible families until the maturity date of the note and the note had not otherwise become due and payable by reason of default under the note, mortgage or Regulatory Agreement, on that date, the note was to be deemed to be paid and discharged.

Under agreements with HUD, the Projects were subject to restrictions as to operating policies, rental charges, operating expenditures and distributions to officers.

Rent for certain Projects were paid in part by the tenant and substantially by a supplement from HUD. The rental supplement was based on an annual recertification of the tenant by HUD.

The liability of the Projects under the mortgage notes were limited to the underlying value of the real estate collateral plus other applicable restricted deposits.

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

**Notes to the Consolidated Financial Statements**

**June 30, 2024 and 2023**

The terms of the Section 811 capital advances transferred to the new sponsor were as follows at June 30, 2023:

<u>Section 811 Property</u>	<u>Date of Capital Advance</u>	<u>Capital Advance Amount</u>
Laurel Place Apartments, Inc.	July 31, 1997	\$ 328,700
Shamrock Place, Inc.	September 23, 1997	436,900
Woodgrove Apartments, Inc.	September 20, 1999	<u>376,800</u>
		\$ <u>1,142,400</u>

**(11) Net assets with donor restrictions**

Net assets with donor restrictions are available as of June 30, 2024 and 2023 for the following purposes:

	<u>2024</u>	<u>2023</u>
Samaritan Place	\$ 5,146	\$ 18,188
Operation of Columbus Home	379,609	356,804
Various	18,135	38,258
Thompson Charitable Grant - Samaritan's Place	-	25,000
FEMA	-	37,245
Disaster relief funds	117,129	111,367
Ultra Sound Project for PHC	174,107	196,312
Pregnancy Center	29,455	47,188
Tri-Cities	20,432	79,193
East TN Foundation	20,800	25,000
Raskob	6,563	-
Disability Fund	118,023	112,217
Dameron building fire restoration	-	84,171
Adoption for PHC	20,000	20,000
Common Spirit Grant	67,124	-
Bridge Ministries	<u>16,247</u>	<u>-</u>
	\$ <u>992,770</u>	\$ <u>1,150,943</u>

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

**Notes to the Consolidated Financial Statements**

**June 30, 2024 and 2023**

**(12) Employee benefit plans**

The Organization participates in the Diocese of Knoxville Lay Pension Plan, a non-contributory, multi-employer defined benefit plan covering substantially all full-time employees, other than Priests, members of Religious Orders and others as defined in the Plan Document. The plan is sponsored by the Diocese and is funded based on the required contribution each year as determined by the Diocesan Lay Retirement Administrative Committee and is calculated as a percentage of eligible employees' salaries. The Organization contributes 6% of the eligible employees' salaries to the plan. Participants vest in all employer contributions to the plan beginning after 3 years of service and are fully vested after 7 years of service. The Organization made contributions of \$107,806 and \$99,835 to the plan in 2024 and 2023, respectively.

The following table sets forth the approximate benefit obligations, fair value of plan assets, and funded status of the Diocese of Knoxville Lay Pension Plan, in which Catholic Charities is a participant, as of January 1, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Pension benefits:		
Benefit obligation at end of plan year	\$ (38,773,088)	\$ (37,999,234)
Plan assets at fair value at end of plan year	<u>30,420,446</u>	<u>27,736,837</u>
Funded status	\$ <u>(8,352,642)</u>	\$ <u>(10,262,397)</u>

The Organization also participates in the Diocese Retirement Savings Plan, a defined contribution plan as a supplement to the defined benefit plan that covers substantially all full-time employees. The Organization contributes a match of up to 3% of the employees' compensation that are participating in the plan. Participants are 100% vested in their contributions and the employer's matching contributions. The Organization made contributions of \$50,967 and \$46,124 to the plan in 2024 and 2023, respectively.

**(13) Contingent liability**

During 2002, the Organization assumed sponsorship of a HUD Section 811 housing project owned by the Aids Housing Authority. The housing project received a Section 811 capital advance of \$476,000 which could be required to be repaid in part or in whole, up to the amount of the capital advance, if certain obligations to HUD are not maintained. The Organization entered into a memorandum of understanding with the Aids Housing Authority at the time of the assumption of the sponsorship, agreeing that the Aids Housing Authority would be responsible for funding any deficits of the housing project and for managing the project. Under the memorandum of understanding, the Organization would only be petitioned for financial assistance in extreme circumstances when all other sources have been considered. As sponsor, the Organization could have been responsible for any amounts due to HUD, if the housing project and its owners were ultimately unable to fulfill the capital advance obligations. During March 2024, an assignment and assumption agreement was made between the Organization, the Aids Housing Authority and the Secretary of HUD to release the Organization from its obligations as sponsor of this project and the contingent liability was subsequently derecognized.

CATHOLIC CHARITIES OF EAST TENNESSEE, INC.

Notes to the Consolidated Financial Statements

June 30, 2024 and 2023

(14) Lease commitments

The Organization utilizes operating leases for the use of office space under various leases including certain month to month leases. All lease agreements generally require the Organization to pay maintenance, repairs, property taxes and insurance costs, which are variable amounts based on actual costs incurred during each applicable period. Such costs are not included in the determination of the ROU asset or lease liability. Certain leases include one or more options to renew the lease at the end of the initial term, with renewal terms that generally extend the lease at the then market rate of rental payment. All such options are at the Organization's discretion and are evaluated at the commencement of the lease, with only those that are reasonably certain of exercise included in determining the appropriate lease term.

The components of lease cost and rent expense for the years ended June 30, 2024 and 2023 are as follows:

Lease costs:	<u>2024</u>	<u>2023</u>
Operating lease costs	\$ 44,038	\$ 23,894
Short-term lease costs	<u>21,566</u>	<u>94,403</u>
Total	\$ <u>65,604</u>	\$ <u>118,297</u>

The weighted-average lease terms and discount rates for operating leases are presented in the following table:

	<u>2024</u>	<u>2023</u>
Weighted-average remaining lease term (in years)	1.84	2.79
Weighted-average discount rate	3.13%	3.09%

Supplemental cash flow information related to leases are as follows for the year ended June 30, 2024:

Cash paid for amounts included in the measurement of lease liabilities:	<u>2024</u>	<u>2023</u>
Operating cash outflows from operating leases	\$ <u>44,038</u>	\$ <u>23,894</u>

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

**Notes to the Consolidated Financial Statements**

**June 30, 2024 and 2023**

The future maturities of operating lease liabilities as of June 30, 2024 are as follows:

<u>Year</u>	<u>Amount</u>
2025	\$ 44,567
2026	25,305
2027	<u>6,435</u>
Total lease payments	76,307
Less: imputed interest	<u>(2,347)</u>
Total lease obligations	73,960
Less: current portion	<u>(42,837)</u>
Operating lease liabilities, excluding current portion	<u>\$ 31,123</u>

The Organization utilized office space at various properties maintained by the Diocese free of charge. During the years ended June 30, 2024 and 2023, the value of office space contributed was not considered material and has not been recorded.

**(15) Dameron Fire**

The Organization experienced a casualty loss of the Dameron office building due to an arson fire during November 2021. The total loss of real property, contents and business interruption costs were fully covered at full replacement cost by insurance proceeds less the Organization's \$5,000 deductible. During 2023, the rebuild of the Dameron office building was completed and the new building was placed into service in June 2023 and as a result, the Organization capitalized the costs to rebuild the building totaling \$1,492,707. The Organization was also reimbursed for other miscellaneous assets destroyed in the fire and expense incurred resulting in an additional gain on disposal during June 30, 2023 totaling \$150,592 and \$1,603,680 of insurance proceeds on the June 30, 2023 statement of activities and changes in net assets, which offset losses on disposal of the property during the year ended June 30, 2022.

**(16) Assets and liabilities measured at fair value**

Fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, fair value accounting standards establish a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity including quoted market prices in active markets for identical assets (Level 1), or significant other observable inputs (Level 2) and the reporting entity's own assumptions about market participant assumptions (Level 3). The Organization does not have any fair value measurements using significant unobservable inputs (Level 3) as of June 30, 2024 or 2023.



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

**Notes to the Consolidated Financial Statements**

**June 30, 2024 and 2023**

**(a) Financial instruments**

The carrying amount of financial instruments, consisting of cash, cash limited as to use, accounts receivable, grants receivable, accounts payable, and accrued expenses.

**(b) Non-financial assets**

The Organization's non-financial assets, which include property and equipment, are not required to be measured at fair value on a recurring basis. However, if certain triggering events occur, or if an annual impairment test is required and the Organization is required to evaluate the non-financial instrument for impairment, a resulting asset impairment would require that the non-financial asset be recorded at the fair value. During the years ended June 30, 2024 and 2023, the Organization did not measure any non-financial assets at fair value or recognize any amounts in the statements of activities and changes in net assets related to changes in fair value.

Given the inability to compute the present value of the perpetual income stream from the trust, the beneficial interest in trust has been recorded on the consolidated statements of financial position at the fair value of the underlying assets of the trust using information obtained from third party sources, including detail listings of holdings from the trust. The trust consists primarily of marketable equity securities, and domestic fixed income funds. The value of the trust is not based on publicly-quoted prices in an active market (Level 2).

**(17) Transactions with Diocese of Knoxville**

The following is a summary of transactions with the Diocese not disclosed elsewhere:

The Organization paid salary, fees, allowance, retirement, 403b contributions and insurance reimbursement to the Diocese amounting to \$2,614,179 and \$2,261,992 during the years ended June 30, 2024 and 2023, respectively.

The Organization paid salary reimbursement to the Diocese for accounting, human resource and development support of \$176,376 and \$160,417 during the years ended June 30, 2024 and 2023, respectively.

The Organization also reimbursed the Diocese for various expenditures paid on behalf of the Organization of \$9,333 and \$4,207 during the years ended June 30, 2024 and 2023, respectively.

The Organization received unrestricted support from the Diocese amounting to \$35,770 and \$47,995 during the years ended June 30, 2024 and 2023.

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

**Notes to the Consolidated Financial Statements**

**June 30, 2024 and 2023**

**(18) HUD Projects**

During December 2023, a third-party assumed sponsorship of three HUD Projects: Laurel Place Apartments, Inc.; Shamrock Place, Inc.; and Woodgrove Apartments, Inc. As part of the transfer of sponsorship, the Organization transferred all assets and liabilities of the Projects and deconsolidated each entity in accordance with GAAP. The third-party assumed all obligations and liabilities of the Projects. The net gain on the transfer of the three Projects was \$809,321. The results of operations of the three Projects have been reported as discontinued operations within the accompanying consolidated statements of activities and changes in net assets. Assets transferred to and liabilities assumed by the third-party of the discontinued operations consisted of the following as of December 4, 2023 (the date of the transfer) and June 30, 2023 are as follows:

	<u>December 4, 2023</u>	<u>June 30, 2023</u>
Cash and cash equivalents	\$ 2,336	\$ 8,117
Accounts receivable	18,796	27,313
Property and equipment, net	248,411	262,470
Deposits and other assets	<u>90,768</u>	<u>97,388</u>
<b>Total assets transferred</b>	<b>\$ <u>360,311</u></b>	<b>\$ <u>395,288</u></b>
Accounts payable	\$ 20,227	\$ 6,464
Client deposits	3,738	4,741
Accrued liabilities	3,267	2,276
Capital advances	<u>1,142,400</u>	<u>1,142,400</u>
<b>Total liabilities assumed</b>	<b>\$ <u>1,169,632</u></b>	<b>\$ <u>1,155,881</u></b>

Major classes of line items constituting a change in net assets of the discontinued operations associated with these subsidiaries, which are included in the accompanying consolidated statement of activities and changes in net assets, consisted of the following for the period of July 1, 2023 through December 4, 2023 and the year ended June 30, 2023:

	<u>December 4, 2023</u>	<u>June 30, 2023</u>
Rental income	\$ 45,338	\$ 130,591
Other income (loss)	<u>299</u>	<u>921</u>
<b>Total revenue</b>	<b>45,637</b>	<b>131,512</b>
Housing services expenses	<u>(94,365)</u>	<u>(142,929)</u>
<b>Loss from HUD Projects</b>	<b>\$ <u>(48,728)</u></b>	<b>\$ <u>(11,417)</u></b>

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

**Notes to the Consolidated Financial Statements**

**June 30, 2024 and 2023**

Cash flow information associated with these subsidiaries, which are included in the accompanying consolidated statement of cash flows, are as follows:

	<u>December 4, 2023</u>	<u>June 30, 2023</u>
Depreciation	\$ <u>19,426</u>	\$ <u>45,266</u>
Provision for bad debts	\$ <u>6,032</u>	\$ <u>-</u>
Purchases of property and equipment	\$ <u>5,367</u>	\$ <u>9,615</u>

During January 2023, a third-party assumed sponsorship of three HUD Projects: Horizon House I, Inc.; Horizon House II, Inc.; and Five Rivers Services, Inc. As part of the transfer of sponsorship, the Organization transferred all assets and liabilities of the Projects and deconsolidated each entity in accordance with GAAP. The third-party assumed all obligations and liabilities of the Projects and made payments to the Organization of \$371,582 for remaining debt, payables, and other amounts owed to the Organization, the Diocese and their related parties at closing. The net loss on the transfer of the three Projects was \$2,356. The results of operations of the three Projects was reported as discontinued operations within the accompanying 2023 consolidated statements of activities and changes in net assets. Assets transferred to and liabilities assumed by the third-party of the discontinued operations consisted of the following as of January 29, 2023, (the date of transfer), are as follows:

	<u>January 29, 2023</u>
Cash and cash equivalents	\$ 10,187
Accounts receivable	17,132
Property and equipment, net	292,674
Deposits and other assets	<u>60,844</u>
Total assets transferred	\$ <u>380,837</u>
Accounts payable	\$ 12,359
Client deposits	7,684
Accrued liabilities	<u>22,408</u>
Total liabilities assumed	\$ <u>42,451</u>
Notes payable to Diocese repaid from amounts received from acquirer	\$ <u>336,030</u>

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

**Notes to the Consolidated Financial Statements**

**June 30, 2024 and 2023**

Major classes of line items constituting a change in net assets of the discontinued operations associated with these subsidiaries, which are included in the accompanying 2023 consolidated statement of activities and changes in net assets, consisted of the following for the period of July 1, 2022 through January 29, 2023:

	<u>January 29, 2023</u>
Rental income	\$ 121,023
Other income (loss)	<u>32</u>
Total revenue	121,055
Housing services expenses	<u>(121,066)</u>
Loss from HUD Projects	\$ <u>(11)</u>

Cash flow information associated with these subsidiaries, which are included in the accompanying consolidated 2023 statement of cash flows, are as follows:

	<u>January 29, 2023</u>
Depreciation	\$ <u>19,238</u>
Proceeds from transfer of HUD Projects	\$ <u>371,582</u>

## **SUPPLEMENTARY INFORMATION**

# CATHOLIC CHARITIES OF EAST TENNESSEE, INC. AND SUBSIDIARIES

## Consolidating Statement of Financial Position

June 30, 2024

	Catholic Charities of East Tennessee, Inc.	HUD Projects	Elimination Entries	Consolidated Total
<b><u>Assets</u></b>				
Current assets:				
Cash	\$ 1,882	\$ -	\$ -	\$ 1,882
Accounts receivable	44,503	-	-	44,503
Grants receivable	230,195	-	-	230,195
Prepaid expenses and other current assets	7,512	-	-	7,512
Total current assets	284,092	-	-	284,092
Property and equipment, net	3,434,027	-	-	3,434,027
Cash limited as to use	1,163,562	-	-	1,163,562
Beneficial interest in trust	379,609	-	-	379,609
Operating lease right-of-use assets	72,604	-	-	72,604
Other assets	4,995	-	-	4,995
	<u>\$ 5,338,889</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,338,889</u>
<b><u>Liabilities and Net Assets</u></b>				
Current liabilities:				
Accounts payable	\$ 39,840	\$ -	\$ -	\$ 39,840
Accrued expenses and liabilities	285,054	-	-	285,054
Current portion of operating lease liabilities	42,837	-	-	42,837
Total current liabilities	367,731	-	-	367,731
Operating lease liabilities, excluding current portion	31,123	-	-	31,123
Total liabilities	398,854	-	-	398,854
Net assets:				
Without donor restrictions	3,947,265	-	-	3,947,265
With donor restrictions	992,770	-	-	992,770
Total net assets	4,940,035	-	-	4,940,035
	<u>\$ 5,338,889</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,338,889</u>

See accompanying independent auditors' report.

**CATHOLIC CHARITIES OF EAST TENNESSEE, INC. AND SUBSIDIARIES**

**Consolidating Statement of Financial Position**

**June 30, 2023**

	<u>Catholic Charities of East Tennessee, Inc.</u>	<u>HUD Projects</u>	<u>Elimination Entries</u>	<u>Consolidated Total</u>
<b><u>Assets</u></b>				
<b>Current assets:</b>				
Cash	\$ 440,817	\$ 8,117	\$ -	\$ 448,934
Accounts receivable	18,948	27,313	-	46,261
Grants receivable	120,857	-	-	120,857
Prepaid expenses and other current assets	<u>18,441</u>	<u>-</u>	<u>-</u>	<u>18,441</u>
<b>Total current assets</b>	<b>599,063</b>	<b>35,430</b>	<b>-</b>	<b>634,493</b>
 Property and equipment, net	 3,436,122	 262,470	 -	 3,698,592
Deposits - housing escrow	-	96,763	-	96,763
Cash limited as to use	1,317,469	-	-	1,317,469
Beneficial interest in trust	356,800	-	-	356,800
Operating Lease right of use assets	113,659	-	-	113,659
Other assets	<u>4,995</u>	<u>625</u>	<u>-</u>	<u>5,620</u>
	<u><b>\$ 5,828,108</b></u>	<u><b>\$ 395,288</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 6,223,396</b></u>
 <b><u>Liabilities and Net Assets</u></b>				
<b>Current liabilities:</b>				
Accounts payable	\$ 11,025	\$ 6,464	\$ -	\$ 17,489
Accrued expenses and liabilities	308,393	2,276	-	310,669
Current portion of operating lease liabilities	40,378	-	-	40,378
Deferred revenue	<u>-</u>	<u>588</u>	<u>-</u>	<u>588</u>
<b>Total current liabilities</b>	<b>359,796</b>	<b>9,328</b>	<b>-</b>	<b>369,124</b>
 Operating lease liabilities, excluding current portion	 73,961	 -	 -	 73,961
Capital advances	-	1,142,400	-	1,142,400
Other long-term liabilities	<u>-</u>	<u>4,153</u>	<u>-</u>	<u>4,153</u>
<b>Total liabilities</b>	<b>433,757</b>	<b>1,155,881</b>	<b>-</b>	<b>1,589,638</b>
 <b>Net assets:</b>				
Without donor restrictions	4,243,408	(760,593)	-	3,482,815
With donor restrictions	<u>1,150,943</u>	<u>-</u>	<u>-</u>	<u>1,150,943</u>
<b>Total net assets</b>	<b>5,394,351</b>	<b>(760,593)</b>	<b>-</b>	<b>4,633,758</b>
	<u><b>\$ 5,828,108</b></u>	<u><b>\$ 395,288</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 6,223,396</b></u>

See accompanying independent auditors' report.

**CATHOLIC CHARITIES OF EAST TENNESSEE, INC. AND SUBSIDIARIES**

**Consolidating Statement of Activities and Changes in Net Assets**

**Year ended June 30, 2024**

	<u>Catholic Charities of East Tennessee, Inc.</u>	<u>HUD Properties</u>	<u>Elimination Entries</u>	<u>Consolidated Total</u>
Changes in net assets without donor restrictions:				
Support and Revenue:				
Support:				
Contributions:				
Contributions	\$ 1,044,195	\$ -	\$ -	\$ 1,044,195
Contributions of nonfinancial assets	38,452	-	-	38,452
Annual stewardship appeal from the Diocese of Knoxville	<u>500,000</u>	<u>-</u>	<u>-</u>	<u>500,000</u>
Total public support	1,582,647	-	-	1,582,647
Revenue:				
Service fees and revenues	509,117	-	-	509,117
Fundraising revenue, net of expenses	219,631	-	-	219,631
Rental income	81,365	-	-	81,365
Federal grants	606,800	-	-	606,800
State grants	232,255	-	-	232,255
Private grants	609,389	-	-	609,389
Other income	<u>43,514</u>	<u>-</u>	<u>-</u>	<u>43,514</u>
Total revenue	2,302,071	-	-	2,302,071
Net assets released from restrictions	<u>352,405</u>	<u>-</u>	<u>-</u>	<u>352,405</u>
Total public support and revenue	<u>4,237,123</u>	<u>-</u>	<u>-</u>	<u>4,237,123</u>
Expenses:				
Program services:				
Children's services	272,658	-	-	272,658
Housing services	1,221,520	-	-	1,221,520
Outreach services	1,247,844	-	-	1,247,844
Counseling services	<u>955,864</u>	<u>-</u>	<u>-</u>	<u>955,864</u>
Total program services	3,697,886	-	-	3,697,886
Supporting services:				
Management and general	445,572	-	-	445,572
Development	<u>389,808</u>	<u>-</u>	<u>-</u>	<u>389,808</u>
Total expenses	<u>4,533,266</u>	<u>-</u>	<u>-</u>	<u>4,533,266</u>
Change in net assets from continuing operations	(296,143)	-	-	(296,143)
Discontinued operations - Loss from HUD Projects (Note 18)	<u>-</u>	<u>760,593</u>	<u>-</u>	<u>(760,593)</u>
Change in net assets without donor restrictions	<u>(296,143)</u>	<u>760,593</u>	<u>-</u>	<u>464,450</u>
Changes in donor restricted net assets:				
Restricted contributions	130,358	-	-	130,358
Interest income	27,662	-	-	27,662
Dividend income and investment losses, net	36,212	-	-	36,212
Net assets released from restrictions	<u>(352,405)</u>	<u>-</u>	<u>-</u>	<u>(352,405)</u>
Change in donor restricted net assets	<u>(158,173)</u>	<u>-</u>	<u>-</u>	<u>(158,173)</u>
Change in net assets	<u>(454,316)</u>	<u>760,593</u>	<u>-</u>	<u>306,277</u>
Net assets at beginning of year, including \$1,150,943 donor restricted	<u>5,394,351</u>	<u>(760,593)</u>	<u>-</u>	<u>4,633,758</u>
Net assets at end of year, including \$992,770 donor restricted	\$ <u>4,940,035</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>4,940,035</u>

See accompanying independent auditors' report.



# CATHOLIC CHARITIES OF EAST TENNESSEE, INC. AND SUBSIDIARIES

## Consolidating Statement of Activities and Changes in Net Assets

Year ended June 30, 2023

	Catholic Charities of East Tennessee, Inc.	HUD Properties	Elimination Entries	Consolidated Total
Changes in net assets without donor restrictions:				
Support and Revenue:				
Support:				
Contributions:				
Contributions	\$ 794,027	\$ -	\$ -	\$ 794,027
Contributions of nonfinancial assets	28,141	-	-	28,141
Annual stewardship appeal from the Diocese of Knoxville	500,000	-	-	500,000
Total public support	1,322,168	-	-	1,322,168
Revenue:				
Service fees and revenues	363,274	-	-	363,274
Fundraising revenue, net of expenses	146,350	-	-	146,350
Rental income	50,271	-	-	50,271
Federal grants	438,590	-	-	438,590
State grants	243,435	-	-	243,435
Private grants	515,077	-	-	515,077
Gain on disposal of property and equipment	150,592	-	-	150,592
Insurance proceeds	1,603,680	-	-	1,603,680
Other income	12,558	-	-	12,558
Total revenue	3,523,827	-	-	3,523,827
Net assets released from restrictions	401,018	-	-	401,018
Total public support and revenue	5,247,013	-	-	5,247,013
Expenses:				
Program services:				
Children's services	206,630	-	-	206,630
Housing services	1,167,604	-	-	1,167,604
Outreach services	811,890	-	-	811,890
Counseling services	804,054	-	-	804,054
Total program services	2,990,178	-	-	2,990,178
Supporting services:				
Management and general	461,250	-	-	461,250
Development	250,955	-	-	250,955
Total expenses	3,702,383	-	-	3,702,383
Change in net assets from continuing operations	1,544,630	-	-	1,544,630
Discontinued operations - loss from HUD Projects (Note 18)	-	(13,784)	-	(13,784)
Change in net assets without donor restrictions	1,544,630	(13,784)	-	1,530,846
Changes in donor restricted net assets:				
Restricted contributions	434,237	-	-	434,237
Interest income	12,562	-	-	12,562
Dividend income and investment losses, net	18,063	-	-	18,063
Net assets released from restrictions	(401,018)	-	-	(401,018)
Change in donor restricted net assets	63,844	-	-	63,844
Change in net assets	1,608,474	(13,784)	-	1,594,690
Net assets at beginning of year, including \$1,087,099 donor restricted	3,796,097	(757,029)	-	3,039,068
Net assets transfer	(10,220)	10,220	-	-
Net assets at end of year, including \$1,150,943 donor restricted	\$ 5,394,351	\$ (760,593)	\$ -	\$ 4,633,758

See accompanying independent auditors' report.



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited, 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, the consolidated financial statements of Catholic Charities of East Tennessee, Inc. (a nonprofit organization) and Subsidiaries (collectively, the "Organization") which comprise the consolidated statement of financial position as of June 30, 2024, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows, for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated January 14, 2025.

**Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization'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 or significant deficiencies may exist that were not identified.

## Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. 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.

*LBMC, PC*

Knoxville, Tennessee  
January 14, 2025