

Financial Statements and Report of Independent
Certified Public Accountants

**Nutritional Development Services of
the Archdiocese of Philadelphia**

June 30, 2013 and 2012

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Report of Independent Certified Public Accountants

The Board of Directors
Nutritional Development Services
of the Archdiocese of Philadelphia

Report on the financial statements

We have audited the accompanying financial statements of Nutritional Development Services of the Archdiocese of Philadelphia (“Nutritional Development Services” or “NDS”), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and changes in net assets 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to NDS’ 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 NDS’ 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 Nutritional Development Services of the Archdiocese of Philadelphia as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Philadelphia, Pennsylvania

November 8, 2013

Nutritional Development Services of the Archdiocese of Philadelphia

STATEMENTS OF FINANCIAL POSITION

June 30,

	<u>2013</u>	<u>2012</u>
Assets		
Current assets		
Cash - government funded programs	\$ 1,864,318	\$ 1,615,667
Cash	58,512	55,357
Grants receivable - government programs	3,931,786	3,384,698
Other receivables	514,407	497,024
Inventory	354,701	445,639
Prepaid expenses	<u>40,964</u>	<u>36,153</u>
Total current assets	6,764,688	6,034,538
Equipment, net	<u>1,133,841</u>	<u>1,273,225</u>
Total assets	<u>\$ 7,898,529</u>	<u>\$ 7,307,763</u>
Liabilities and net assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 2,317,837	\$ 1,707,125
Other current liability	<u>-</u>	<u>201,876</u>
Total liabilities	<u>2,317,837</u>	<u>1,909,001</u>
Net assets (deficiency)		
Unrestricted	(81,383)	(90,268)
Unrestricted - government funded programs	5,497,857	5,333,835
Temporarily restricted	<u>164,218</u>	<u>155,195</u>
Total net assets	<u>5,580,692</u>	<u>5,398,762</u>
Total liabilities and net assets	<u>\$ 7,898,529</u>	<u>\$ 7,307,763</u>

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

Nutritional Development Services of the Archdiocese of Philadelphia

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended June 30, 2013

	Unrestricted	Unrestricted - government funded programs	Temporarily restricted	Total
Revenue				
Grants				
Federal and state governments	\$ -	\$ 15,774,176	\$ -	\$ 15,774,176
City of Philadelphia	1,600	-	20,655	22,255
Nongovernment meal receipts	-	2,174,485	-	2,174,485
Contributions from Operation Rice Bowl	-	-	96,086	96,086
Contributions - other	35,971	-	184	36,155
Subsidy from Catholic Charities Appeal Fund	125,000	-	-	125,000
Other income	23,567	594	39,000	63,161
Interest income	87	8,589	-	8,676
Satisfaction of program restrictions	146,902	-	(146,902)	-
	<u>333,127</u>	<u>17,957,844</u>	<u>9,023</u>	<u>18,299,994</u>
Total revenue				
Expenses				
Food costs	80,056	12,289,770	-	12,369,826
Compensation	166,270	2,244,011	-	2,410,281
Office	12,947	259,115	-	272,062
Transportation	12,078	91,023	-	103,101
Fixed charges	1,229	120,878	-	122,107
Program administration	47,705	2,571,191	-	2,618,896
Depreciation	3,894	216,671	-	220,565
Miscellaneous expenses	63	1,163	-	1,226
	<u>324,242</u>	<u>17,793,822</u>	<u>-</u>	<u>18,118,064</u>
Total expenses				
Change in net assets	8,885	164,022	9,023	181,930
Net assets (deficiency)				
Beginning of year	<u>(90,268)</u>	<u>5,333,835</u>	<u>155,195</u>	<u>5,398,762</u>
End of year	<u>\$ (81,383)</u>	<u>\$ 5,497,857</u>	<u>\$ 164,218</u>	<u>\$ 5,580,692</u>

The accompanying notes are an integral part of this financial statement.

Nutritional Development Services of the Archdiocese of Philadelphia

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended June 30, 2012

	Unrestricted	Unrestricted - government funded programs	Temporarily restricted	Total
Revenue				
Grants				
Federal and state governments	\$ -	\$ 14,908,434	\$ -	\$ 14,908,434
City of Philadelphia	1,200	-	33,790	34,990
Nongovernment meal receipts	-	2,472,574	-	2,472,574
Contributions from Operation Rice Bowl	-	-	84,441	84,441
Contributions - other	35,086	-	5,396	40,482
Subsidy from Catholic Charities Appeal Fund	80,000	-	-	80,000
Other income	49,669	3,648	16,500	69,817
Interest income	94	9,258	-	9,352
Satisfaction of program restrictions	224,763	-	(224,763)	-
Total revenue	390,812	17,393,914	(84,636)	17,700,090
Expenses				
Food costs	100,533	12,176,459	-	12,276,992
Compensation	175,320	2,247,349	-	2,422,669
Office	8,608	149,442	-	158,050
Transportation	16,684	93,929	-	110,613
Fixed charges	1,284	120,191	-	121,475
Program administration	83,345	2,858,780	-	2,942,125
Depreciation	4,313	228,008	-	232,321
Miscellaneous expenses	-	55,729	-	55,729
Total expenses	390,087	17,929,887	-	18,319,974
Change in net assets	725	(535,973)	(84,636)	(619,884)
Net assets (deficiency)				
Beginning of year with adjustment	(90,993)	5,869,808	239,831	6,018,646
End of year	\$ (90,268)	\$ 5,333,835	\$ 155,195	\$ 5,398,762

The accompanying notes are an integral part of this financial statement.

Nutritional Development Services of the Archdiocese of Philadelphia

STATEMENTS OF CASH FLOWS

Year ended June 30,

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities		
Change in net assets	\$ 181,930	\$ (619,884)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	220,565	232,321
Loss on disposition of equipment	22,239	7,363
Changes in net assets and liabilities		
Grants receivable	(547,088)	(24,048)
Other receivables	(17,383)	70,693
Inventory	90,938	(77,709)
Prepaid expenses	(4,811)	2,657
Accounts payable, accrued expenses, and other liabilities	<u>408,836</u>	<u>(287,031)</u>
Net cash provided by (used in) operating activities	355,226	(695,638)
Cash flows from investing activities		
Capital expenditures	<u>(103,420)</u>	<u>(114,867)</u>
Net cash used in investing activities	<u>(103,420)</u>	<u>(114,867)</u>
Net increase (decrease) in cash	251,806	(810,505)
Cash		
Beginning of year	<u>1,671,024</u>	<u>2,481,529</u>
End of year	<u>\$ 1,922,830</u>	<u>\$ 1,671,024</u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

NOTE A - ORGANIZATION AND PURPOSE

Nutritional Development Services (“NDS”) is a corporation of the Archdiocese of Philadelphia whose purpose is to obtain and distribute nutritious foods at a minimum cost to those attending or residing in educational or charitable institutions, or to those whose physical or financial circumstances require a specialized delivery of food; to provide food procurement and delivery services contemplated by governmental agencies; to conduct nutrition awareness programs in conjunction with these activities and to cooperate with, and render technical assistance and advice to others working in this field.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Basis of Presentation

The financial statements of NDS have been prepared in conformity with accounting principles generally accepted in the United States of America. The significant accounting policies followed are described below.

Net assets and revenues, expenses, gains and losses are categorized into two categories, based on the existence or absence of donor-imposed restrictions.

Temporarily restricted net assets include contributions, which can be expended but for which restrictions have not yet been met.

Unrestricted net assets are free of donor-imposed restrictions and are all the remaining net assets of NDS.

2. Funding

NDS receives the majority of its revenues from performance-based contracts with various governmental agencies. These revenues are subject to audit, which could result in repayment or reversal of revenues.

The various school, childcare, and summer meals programs are funded by the U.S. Department of Agriculture through the Pennsylvania Department of Education. The State Food Purchase Program is funded by the Commonwealth of Pennsylvania. Programs listed as part of the Child Nutrition Cluster in this report are governed by the United States Department of Agriculture regulations including 7 CFR 210, 220, 215, and 226 and FNS Instruction 796-2, in addition to guidance from the Pennsylvania Department of Education. Surpluses within these programs that are not required to be returned or spent are to be retained for that particular program exclusively. These funds are to be used to improve operations or be set aside against possible future losses within that program. These net assets are recorded as unrestricted; however, the government regulations for these programs place restrictions for their use.

3. Contributions

Gifts of long-lived assets are reported at fair value as unrestricted revenue. Gifts specified for the acquisition or construction of long-lived assets are reported as unrestricted net assets when the assets are placed in service.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

4. Classification of Gifts

NDS reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. 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 statements of activities and changes in net assets as net assets released from restrictions. Donor-restricted contributions are reported as unrestricted operating revenue when the restriction is satisfied within the same year that the contribution is received.

5. 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 significant estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

6. Equipment and Depreciation

Equipment purchased is stated at cost, while donated assets are stated at fair market value on the date of donation. Depreciation is provided over the estimated useful lives of the assets and is computed using the straight-line method. The estimated useful life for equipment ranges from three to twelve years.

7. Cash

NDS maintains its cash on deposit with a large commercial bank, and the deposit typically exceeds federally insured limits.

8. Inventory

Inventories consist of food and supplies used for the programs. Cost is determined by the first-in, first-out method.

NOTE C - EQUIPMENT

Equipment at June 30, 2013 and 2012 consisted of:

	<u>2013</u>	<u>2012</u>
Equipment at schools	\$ 2,482,060	\$ 2,691,928
Office equipment	<u>512,821</u>	<u>504,289</u>
	2,994,881	3,196,217
Less: accumulated depreciation	<u>(1,861,040)</u>	<u>(1,922,992)</u>
	<u>\$ 1,133,841</u>	<u>\$ 1,273,225</u>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE D - OPERATING LEASES

NDS has a non-cancellable operating lease for two copiers. Future minimum rental payments for non-cancellable lease terms in excess of one year as of June 30, 2013 are as follows:

2014	\$ <u>13,648</u>
	\$ <u>13,648</u>

Rental expense related to these leases for the years ended June 30, 2013 and 2012 was \$13,648 for both years.

NOTE E - PENSIONS

The eligible lay employees of NDS are covered under the Archdiocese of Philadelphia Lay Employees' Retirement Plan (the "Plan"), which is a defined benefit pension plan that covers substantially all lay employees, once age and service requirements are met, of the Archdiocese of Philadelphia, its institutions and parishes. The Plan is administered by the Trustees of the Lay Employees' Retirement Plan.

	<u>2013</u>	<u>2012</u>
NDS annual contribution to the Plan		
Average rate	5.00%	5.00%
Contribution expense for the year	\$ 81,927	\$ 72,305
Prepayment	\$ 40,963	\$ 36,152

Separate accounts for vested benefits and pension fund assets are not maintained for each institute.

NOTE F - INCOME TAXES

NDS is a nonprofit corporation which has received exempt status from federal taxation under Section 501(c)(3) of the Internal Revenue Code.

NDS follows the accounting guidance for uncertainties in income tax positions which requires that a tax position be recognized or derecognized based on a "more likely than not" threshold. This applies to positions taken or expected to be taken in a tax return. NDS does not believe its financial statements include any material uncertain tax positions. As of June 30, 2013, NDS' tax years ended June 30, 2010 through June 30, 2012 for federal tax jurisdiction remain open to examination.

NOTE G - CONTRIBUTIONS OF FOOD

During 2013 and 2012, approximately 859,540 and 893,340 pounds, respectively, of food with an estimated fair value of \$1,426,836 and \$1,482,944, respectively, were donated from various nongovernment sources. This food was redistributed to organizations feeding the needy and is not reflected in these financial statements.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE H - FUNCTIONAL EXPENSES

The following table summarizes program and supporting expenses for the years ended June 30:

	<u>2013</u>	<u>2012</u>
Program expenses	\$ 15,430,242	\$ 15,754,607
Supporting expenses	<u>2,687,822</u>	<u>2,565,367</u>
	<u>\$ 18,118,064</u>	<u>\$ 18,319,974</u>

Program expenses consist of food, program compensation, transportation, depreciation and program administrative costs. Supporting expenses consist of supporting compensation, office expenses, fixed charges and miscellaneous costs.

NOTE I - RELATED PARTY TRANSACTIONS

NDS provides meals to elementary schools and child care centers of parishes in the Archdiocese of Philadelphia. These meals are purchased by NDS and distributed in schools and centers under the federally funded child nutritional programs. During fiscal years 2013 and 2012, a total of \$1,151,640 and \$1,378,592, respectively, was purchased by the students, of which \$262,097 and \$300,012 was included in other receivables at June 30, 2013 and 2012, respectively.

In addition, NDS receives subsidies from the Catholic Charities Appeal Fund, which is a fund administered by the Archdiocese of Philadelphia. Subsidies were \$125,000 and \$80,000 for the years ended June 30, 2013 and 2012, respectively.

NDS also receives funds from Operation Rice Bowl, which is also a program administered by the Archdiocese of Philadelphia, in which contributions are received from churches throughout the Archdiocese. Contributions at June 30, 2013 and 2012 were \$96,086 and \$84,441, respectively.

NDS rents certain facilities, utilized in the delivery of its services, from the Archdiocese of Philadelphia. Rent expense on these facilities was \$99,072 and \$99,072 for fiscal years 2013 and 2012, respectively.

NDS reimburses Catholic Social Services (“CSS”) of the Archdiocese of Philadelphia for meals served at the residential child care centers and group homes. These meals are served in accordance with the regulations of the National School Lunch and Breakfast Program. As of June 30, 2013 and 2012, NDS has amounts payable to CSS totaling \$137,634 and \$132,381, respectively.

On July 2009, with subsequent amendment on October 2010, NDS entered into separate loan and security agreements with Catholic Health Care Services of the Archdiocese of Philadelphia for a revolving line of credit of \$500,000. The terms of the agreements are two years and terminate on June 30, 2013. The line of credit bears interest monthly on the effective interest rate of the borrower. No amounts have been drawn upon as of June 30, 2013.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE J - SUBSEQUENT EVENTS

NDS evaluated events subsequent to June 30, 2013 and through November 8, 2013, the date the financial statements were available to be issued. NDS is not aware of any subsequent event that would require recognition or disclosure in the financial statements other than that noted below.

On November, 5, 2013, the Archdiocese announced that it would freeze the Lay Employee Retirement Plan ("LERP") effective June 30, 2014. All current employees will retain benefits they have earned and will continue to accrue benefits through the effective date of the freeze. After the date of the freeze, accrued pension benefits under the LERP will not increase for current employees with additional service or increases in pay after the freeze date. The Archdiocese intends to establish a defined contribution plan on July 1, 2014 for all eligible employees.