

Financial Statements and Report of
Independent Certified Public Accountants

**Catholic Community Services of the
Archdiocese of Philadelphia**

June 30, 2016 and 2015

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Report of Independent Certified Public Accountants

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Report on the financial statements

We have audited the accompanying financial statements of Catholic Community Services of the Archdiocese of Philadelphia (the “Organization”), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities 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 the Organization’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

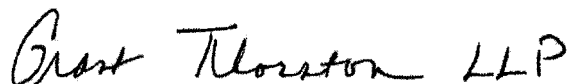
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Catholic Community Services of the Archdiocese of Philadelphia as of June 30, 2016 and 2015, and its activities and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of revenue and operating expenses are presented for purposes of additional analysis and are not a required part of the financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing information is fairly stated, in all material respects, in relation to the financial statements as a whole. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

A handwritten signature in black ink that reads "Grant Thornton LLP". The signature is written in a cursive, flowing style.

Philadelphia, Pennsylvania

February 27, 2017

Catholic Community Services of the Archdiocese of Philadelphia

STATEMENTS OF FINANCIAL POSITION

June 30,

ASSETS	<u>2016</u>	<u>2015</u>
Accounts receivable - DHS, less allowance of \$10,000 and \$-0-	\$ 1,957,261	\$ 2,736,753
Prepaid expenses and other assets	<u>96,408</u>	<u>36,763</u>
Total assets	<u>\$ 2,053,669</u>	<u>\$ 2,773,516</u>
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 1,220,251	\$ 559,028
Salaries and wages payable	282,095	393,309
Due to Catholic Social Services and related entities	<u>548,280</u>	<u>1,819,078</u>
Total liabilities	2,050,626	2,771,415
Net assets	<u>3,043</u>	<u>2,101</u>
Total liabilities and net assets	<u>\$ 2,053,669</u>	<u>\$ 2,773,516</u>

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

Catholic Community Services of the Archdiocese of Philadelphia

STATEMENTS OF ACTIVITIES

Year ended June 30,

	<u>2016</u>	<u>2015</u>
Operating revenue		
Governmental revenue	\$ 12,530,381	\$ 9,188,466
Contributed Services - Catholic Human Services	-	87,100
Contributed Services - Catholic Social Services	<u>246,584</u>	<u>396,652</u>
Total operating revenue	<u>12,776,965</u>	<u>9,672,218</u>
Operating expenses		
Salaries, wages and other payroll costs	4,723,022	4,080,385
Administrative and general	7,980,505	5,305,915
Occupancy	188,109	225,394
Direct expenses of children	<u>35,842</u>	<u>58,423</u>
Total operating expenses	<u>12,927,478</u>	<u>9,670,117</u>
(Deficiency in) excess of operating revenue (under) over operating expenses	<u>(150,513)</u>	<u>2,101</u>
Other revenue		
Catholic Charities Appeal	150,000	-
Donations	<u>1,455</u>	<u>-</u>
Total other revenue	<u>151,455</u>	<u>-</u>
Change in net assets	942	2,101
Net assets		
Beginning of year	<u>2,101</u>	<u>-</u>
End of year	<u>\$ 3,043</u>	<u>\$ 2,101</u>

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

Catholic Community Services of the Archdiocese of Philadelphia

STATEMENTS OF CASH FLOWS

Year ended June 30,

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Change in net assets	\$ 942	\$ 2,101
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Changes in operating assets and liabilities		
Accounts receivable - DHS	779,492	(1,750,144)
Prepaid expense	(59,645)	(21,524)
Accounts payable and accrued expenses	661,223	417,578
Salaries and wages payable	(111,214)	193,301
Due to Catholic Social Services	<u>(1,270,798)</u>	<u>1,158,688</u>
Net cash provided by operating activities	<u>-</u>	<u>-</u>
Cash		
Beginning of year	<u>-</u>	<u>-</u>
End of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE A - ORGANIZATION

Catholic Community Services of the Archdiocese of Philadelphia (the “Organization”) is a community-based agency that is responsible for the provision of direct case management services to children and families in a designated region of North Philadelphia.

The accompanying financial statements include programs operated and administered by the Organization.

Catholic Charities of the Archdiocese of Philadelphia, operating as Catholic Social Services of the Archdiocese of Philadelphia (“CSS”) established in 1919, is a multi-faceted social services organization whose departments offer a wide range of services to meet the needs of children, adults and families including adoption and foster care programs. CSS functions as a self-contained entity and maintains separate financial statements for each of its operations. The Organization is one of the entities operating under CSS.

The Archdiocese of Philadelphia (the “Archdiocese”) was proclaimed a Catholic diocese in 1808 and raised to an Archdiocese in 1875. The Archdiocese oversees the activities of the Roman Catholic Church (the “Church”) for the five counties of Philadelphia, Bucks, Chester, Delaware and Montgomery in the southeastern part of the Commonwealth of Pennsylvania and is operated in accordance with the provisions of the 1983 Code of Canon Law, as amended, of the Church. The Organization, which is related, is operated separately and distinctly from the Archdiocese.

Catholic Charities Appeal, a separate legal corporation and a related organization, raises money for certain organizations within the Archdiocese, including the Organization.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis in conformity with accounting principles generally accepted in the United States of America (“US GAAP”). The Organization presents its financial statements in accordance with the guidance set forth by the Financial Accounting Standards Board (“FASB”) in regard to *Financial Statements of Not-for-Profit Organizations*. Accordingly, the Organization’s net assets and its revenues and expenses are classified into three categories, based on the existence or absence of donor-imposed restrictions. The categories are permanently restricted, temporarily restricted and unrestricted net assets.

Permanently restricted net assets include the historical dollar amounts of contributions, including pledges, trusts and remainder interests, which are required by donors to be permanently retained. Capital appreciation, if permanently restricted by the donor or a third party, is included in permanently restricted net assets.

Temporarily restricted net assets include contributions, including pledges, trusts, remainder interests, income and appreciation which can be expended but for which restrictions have not yet been met. Such restrictions include purpose restrictions where donors have specified the purpose for which the net assets are to be spent, or time restrictions imposed by donors or implied by the nature of the gift.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016 and 2015

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Unrestricted net assets are not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees.

The organization has no net assets, revenues or expenses classified as permanently or temporarily restricted as of June 30, 2016 and 2015.

2. Use of Estimates

The preparation of financial statements in conformity with US 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 financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant management estimates and assumptions are related to the allowance for doubtful accounts. Actual results could differ from those estimates.

3. Governmental Revenue

The Organization receives its funding through a contract with the Philadelphia Department of Human Services (“DHS”). The ultimate determination of amounts reimbursable under cost reimbursement contracts/agreements is based upon this contract. The Organization expects all expenses incurred will be reimbursed.

The Organization is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Government activity in the health care industry has increased with respect to investigations and allegations concerning possible violations of regulations by health care providers, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues of client services.

As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Management believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing.

4. Allowance for Doubtful Accounts

The Organization continually monitors accounts receivable for collectability issues. The allowance is based upon management’s judgment and is determined by considering a number of factors, including the length of time accounts receivable are past due, the Organization’s previous loss history, the nature of the service provided and other pertinent factors. The Organization writes off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016 and 2015

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

5. Allocated Expenses - Archdiocese of Philadelphia - Catholic Social Services

CSS provides administrative and accounting services for institutions and group homes, including the Organization. The total expenses incurred by CSS in providing services are accumulated and allocated on a pro rata basis to the institutions and group homes. The allocated amount is reported as an administrative and general expense in the statements of activities. Any difference between the allocation and the amount charged to the institutions and group homes during the year is considered a contribution of services from CSS.

6. New Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers*, to improve financial reporting by creating common revenue recognition guidance. The core principle of this guidance is that an entity should recognize revenue in an amount that reflects the consideration to which the entity expects to be entitled in exchange for these goods and services at the date the performance obligation has occurred. ASU 2014-09 is effective for periods beginning after December 15, 2017. An entity will apply this update using either a full retrospective application, which applies the standard to each prior period presented, or under the modified retrospective application, in which an entity recognizes the cumulative effect of initially applying the new standard as an adjustment to the opening statement of financial position at the date of initial application. The Organization has not determined the impact of ASU 2014-09 at this time.

In August 2016, the FASB issued a new standard related to the presentation of financial statements of not-for-profit entities. This standard intends to make certain improvements to the current reporting requirements for not-for-profit entities including: (1) the presentation for two classes of net assets at the end of the period, rather than the currently required three classes, as well as the annual change in each of the two classes; (2) the removal of the requirement to present or disclose the indirect method (reconciliation) when using the direct method for the statement of cash flows; and (3) the requirement to provide various enhanced disclosures relating to various not-for-profit specific topics. The new standard is effective for annual financial statements beginning after December 15, 2017. The Organization has not determined the impact of the new standard at this time.

NOTE C - ACCOUNTS RECEIVABLE - DHS

At June 30, 2016 and 2015, the Organization had uncollateralized net accounts receivable from DHS of \$1,957,261 and \$2,736,753, respectively. This balance potentially subjects the Organization to a concentration of credit risk. The Organization monitors its funding arrangements with DHS and other governmental agencies.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016 and 2015

NOTE D - PENSION PLAN

1. Lay Employees' Retirement Plan - frozen effective June 30, 2014

Through June 30, 2014, the eligible lay employees of the Organization were covered under the Archdiocese of Philadelphia Lay Employees' Retirement Plan (the "Plan"), which is a defined benefit pension plan covering substantially all lay employees of the Archdiocese, based on age and service requirements. The Plan is administered by the Trustees of the Plan. The Organization made annual contributions to the Plan at a rate of 4% of the salaries of eligible employees for the each of years ended June 30, 2016 and 2015. The amount expensed by the Organization for contributions to the Plan was \$54,315 and \$82,702 for the fiscal years ended June 30, 2016 and 2015, respectively. Separate accounts for vested benefits and pension fund assets are not maintained for each institution.

2. Archdiocese of Philadelphia 403(b) Retirement Plan

Effective July 1, 2014, the Archdiocese established a 403(b) defined contribution plan. Under the 403(b) plan, and subject to statutory limits, all employees at least 18 years of age are immediately eligible to make voluntary deferred salary contributions into the 403(b) plan.

Employer contributions, which cover employees meeting the eligibility requirements below, are discretionary. The following are the eligibility requirements for the employer contributions:

Grandfathered Employees - Any employee who was accruing benefits as an active participant in the Plan as of its freeze date of June 30, 2014 is a grandfathered employee and will be eligible to receive employer contributions beginning with the first payroll on or after September 1, 2014.

Non-Grandfathered Employees - Non-grandfathered employees are eligible to receive the employer contribution beginning with the first payroll coinciding with or immediately following the completion of 1,000 hours of service during the 18-month period beginning July 1, 2014 through December 31, 2015. The employee must also have attained at least 18 years of age to be eligible. For a non-grandfathered employee hired prior to July 1, 2014 who does not meet the eligibility requirements for an employer contribution in the time frame described above, the period for determining whether or not one meets the 1,000 hour service requirement will shift to the calendar year beginning January 1, 2016.

Vesting - Vesting in employer contributions to a 403(b) plan account will be immediate for any grandfathered employee who has completed 12 months of service as of June 30, 2014. Vesting in employer contributions for all other employees will take place after the completion of 12 months of service.

In fiscal years 2016 and 2015, the Archdiocese employer contribution rate was 4.5% of base salary for eligible employees. The contributions by the Organization into the 403(b) plan totaled \$178,103 and \$93,041 for the years ended June 30, 2016 and 2015, respectively.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016 and 2015

NOTE E - RELATED PARTY TRANSACTIONS

The Organization leases certain facilities and equipment, utilized in the delivery of its services, from the Archdiocese and is covered under various insurance and retirement plans administered by the Archdiocese.

The Organization receives subsidies from the Catholic Charities Appeal Fund, which is a fund administered by the Archdiocese. Subsidies were \$150,000 for the year ended June 30, 2016.

CSS provides administrative and accounting services for related institutions and group homes, including the Organization. The total expenses incurred by CSS in providing services are accumulated and allocated on a pro rata basis to the institutions and group homes. The allocated amount is reported as an administrative and general expense in the statements of activities. Any difference between the allocation and the amount charged to the institution during the year is considered a contribution of services from CSS. Repayment of amounts due to CSS is expected when cash is available. The amount due to CSS and related entities was \$548,280 and \$1,819,078 as of June 30, 2016 and 2015, respectively.

The transactions with the Archdiocese and CSS charged to expense as reflected in the statements of activities for the fiscal years ended June 30, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Archdiocese of Philadelphia		
Rental of facility	\$ -	\$ 15,000
Lay employee pension contributions	239,293	82,702
Religious pension contribution	<u>3,794</u>	<u>3,154</u>
	<u>243,087</u>	<u>100,856</u>
Catholic Social Services		
Allocated administrative and accounting costs	<u>386,329</u>	<u>311,190</u>
Total	<u>\$ 629,416</u>	<u>\$ 412,046</u>

NOTE F - INCOME TAX STATUS

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

The Organization 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. The Organization has determined that there are no material uncertain tax positions requiring recognition in the financial statements at June 30, 2016 or 2015.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016 and 2015

NOTE G - FUNCTIONAL EXPENSES

The Organization provides case management services to young men, women and children. Expenses related to providing these services for the years ended June 30, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Program expenses	\$ 12,314,897	\$ 9,358,680
Support expenses	<u>612,581</u>	<u>311,437</u>
Total expenses	<u>\$ 12,927,478</u>	<u>\$ 9,670,117</u>

NOTE H - COMMITMENTS

The Organization has entered into various operating lease agreements primarily for the rental of facilities, some of which are with other entities also operating under the auspices of the Archdiocese. There was no rental expense associated with these operating lease agreements for the year ended June 30, 2016 and \$15,000 for the year ended June 30, 2015.

NOTE I - SUBSEQUENT EVENTS

Management has evaluated subsequent events for the year ended June 30, 2016, the date of the financial statements, through February 27, 2017, which is the date the financial statements were available to be issued. Pursuant to the requirements, there were no events or transactions occurring during the subsequent event reporting period which would require recognition or disclosure in the financial statements.

SUPPLEMENTARY INFORMATION

Catholic Community Services of the Archdiocese of Philadelphia

SCHEDULE OF REVENUE

Year ended June 30, 2016

Operating revenue	
Governmental revenue:	
Human services funding	\$ 12,530,381
Contributed services - Catholic Social Services	<u>246,584</u>
Total operating revenue	<u>12,776,965</u>
Other revenue	
Donations, bequests and trusts	1,455
Catholic Charities Appeal	<u>150,000</u>
Total other revenue	<u>151,455</u>
Total revenue	<u>\$ 12,928,420</u>

SCHEDULE OF OPERATING EXPENSES

Year ended June 30, 2016

Salaries, wages and other payroll costs	
Administration	\$ 896,076
Professional	2,693,879
Clerical	66,855
Maintenance and services	53,218
FICA (employer's share)	271,042
Workers' compensation insurance	6,552
Unemployment tax	35,036
Employees' health and retirement benefits	700,364
Total salaries, wages and other payroll costs	<u>4,723,022</u>
Administrative and general expenses	
Administrative and accounting services allocated from Archdiocese of Philadelphia -	
Catholic Social Services	497,182
Professional fees	201,113
Client maintenance	6,778,840
Telephone	118,394
Transportation	229,069
Conference and conventions	27,927
Dues	395
Equipment - replacement	18,494
General expenses and supplies	32,355
Postage	8,941
Staff development	17,411
Bad debt expense	41,685
Charity	8,699
Total administrative and general expenses	<u>7,980,505</u>
Cost of occupancy	
Rental	172,733
Repairs and maintenance - buildings and grounds	10,426
Utilities	4,950
Total cost of occupancy	<u>188,109</u>
Direct expenses of care	
Food	1,156
Personal	21,651
Other direct child care expenses	13,035
Total direct expenses of care	<u>35,842</u>
Total operating expenses	<u>\$ 12,927,478</u>