

Financial Statements and Report of
Independent Certified Public Accountants

Divine Providence Village

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 Divine Providence Village (the “Organization”), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and change 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 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 Divine Providence Village 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.

Grant Thornton LLP

Philadelphia, Pennsylvania

February 27, 2017

Divine Providence Village

STATEMENT OF FINANCIAL POSITION

June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
ASSETS			
Current assets			
Cash	\$ 5,150	\$ -	\$ 5,150
Escrow client funds	491,555	-	491,555
Accounts receivable - Commonwealth of Pennsylvania, net of allowance of \$6,595	8,154,265	-	8,154,265
Accounts receivable - other	33,943	-	33,943
Pledges receivable - Office of Development, United Way, net	514	-	514
Prepaid expenses and other current assets	270,221	-	270,221
Related party note receivable - Archdiocese of Philadelphia, current	<u>5,659</u>	<u>-</u>	<u>5,659</u>
Total current assets	<u>8,961,307</u>	<u>-</u>	<u>8,961,307</u>
Property, plant and equipment, net	5,225,500	-	5,225,500
Investments, board designated	4,105,106	-	4,105,106
Assets limited as to use restricted by donors	-	80,558	80,558
Related party note receivable - Archdiocese of Philadelphia, net of current portion	<u>249,770</u>	<u>-</u>	<u>249,770</u>
Total assets	<u>\$ 18,541,683</u>	<u>\$ 80,558</u>	<u>\$ 18,622,241</u>
LIABILITIES AND NET ASSETS			
Current liabilities			
Accounts payable and accrued expenses	\$ 1,540,515	\$ -	\$ 1,540,515
Mortgages payable, current	65,724	-	65,724
Salaries and wages payable	1,190,951	-	1,190,951
Due to Catholic Social Services	4,804,225	-	4,804,225
Escrow client funds	<u>491,555</u>	<u>-</u>	<u>491,555</u>
Total current liabilities	8,092,970	-	8,092,970
Mortgages payable, net of current portion	<u>137,388</u>	<u>-</u>	<u>137,388</u>
Total liabilities	<u>8,230,358</u>	<u>-</u>	<u>8,230,358</u>
Net assets			
Unrestricted	10,311,325	-	10,311,325
Temporarily restricted	<u>-</u>	<u>80,558</u>	<u>80,558</u>
Total net assets	<u>10,311,325</u>	<u>80,558</u>	<u>10,391,883</u>
Total liabilities and net assets	<u>\$ 18,541,683</u>	<u>\$ 80,558</u>	<u>\$ 18,622,241</u>

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

Divine Providence Village

STATEMENT OF FINANCIAL POSITION

June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
ASSETS			
Current assets			
Cash	\$ 3,150	\$ -	\$ 3,150
Escrow client funds	420,760	-	420,760
Accounts receivable - Commonwealth of Pennsylvania, net of allowance of \$6,595	7,298,530	-	7,298,530
Accounts receivable - other	55,619	-	55,619
Pledges receivable - Office of Development, United Way, net	3,290	-	3,290
Prepaid expenses and other current assets	283,008	-	283,008
Related party note receivable - Archdiocese of Philadelphia, current	4,099	-	4,099
Total current assets	<u>8,068,456</u>	<u>-</u>	<u>8,068,456</u>
Property, plant and equipment, net	5,062,618	-	5,062,618
Investments, board designated	4,184,742	-	4,184,742
Assets limited as to use restricted by donors	-	79,557	79,557
Related party note receivable - Archdiocese of Philadelphia, net of current portion	256,822	-	256,822
Total assets	<u>\$ 17,572,638</u>	<u>\$ 79,557</u>	<u>\$ 17,652,195</u>
LIABILITIES AND NET ASSETS			
Current liabilities			
Accounts payable and accrued expenses	\$ 1,008,271	\$ -	\$ 1,008,271
Mortgage payable, current	62,126	-	62,126
Salaries and wages payable	1,828,209	-	1,828,209
Due to Catholic Social Services	3,420,700	-	3,420,700
Escrow client funds	420,760	-	420,760
Total current liabilities	6,740,066	-	6,740,066
Mortgage payable, net of current portion	203,111	-	203,111
Total liabilities	<u>6,943,177</u>	<u>-</u>	<u>6,943,177</u>
Net assets			
Unrestricted	10,629,461	-	10,629,461
Temporarily restricted	-	79,557	79,557
Total net assets	<u>10,629,461</u>	<u>79,557</u>	<u>10,709,018</u>
Total liabilities and net assets	<u>\$ 17,572,638</u>	<u>\$ 79,557</u>	<u>\$ 17,652,195</u>

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

Divine Providence Village

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS

Year ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
Operating revenue			
Governmental revenue	\$ 25,124,820	\$ -	\$ 25,124,820
Private client revenue	235,639	-	235,639
Contributed services - Catholic Social Services	171,703	-	171,703
	<u>25,532,162</u>	<u>-</u>	<u>25,532,162</u>
Operating expenses			
Salaries, wages, and other payroll costs	18,299,671	-	18,299,671
Administrative and general expenses	4,678,443	-	4,678,443
Occupancy	1,738,969	-	1,738,969
Direct expenses of care	1,486,907	-	1,486,907
Depreciation	427,572	-	427,572
Interest expense	1,331	-	1,331
	<u>26,632,893</u>	<u>-</u>	<u>26,632,893</u>
Deficiency of operating revenue under operating expenses	<u>(1,100,731)</u>	<u>-</u>	<u>(1,100,731)</u>
Other revenue			
Donations and other	801,876	-	801,876
Catholic Charities Appeal	50,000	-	50,000
Realized losses and other investment loss	(69,281)	-	(69,281)
Dividend and interest income	-	1,001	1,001
	<u>782,595</u>	<u>1,001</u>	<u>783,596</u>
Change in net assets	(318,136)	1,001	(317,135)
Net assets, beginning of year	<u>10,629,461</u>	<u>79,557</u>	<u>10,709,018</u>
Net assets, end of year	<u>\$ 10,311,325</u>	<u>\$ 80,558</u>	<u>\$ 10,391,883</u>

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

Divine Providence Village

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS

Year ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
Operating revenue			
Governmental revenue	\$ 23,862,997	\$ -	\$ 23,862,997
Private client revenue	192,112	-	192,112
Contributed services - Catholic Social Services	<u>295,334</u>	<u>-</u>	<u>295,334</u>
Total operating revenue	<u>24,350,443</u>	<u>-</u>	<u>24,350,443</u>
Operating expenses			
Salaries, wages, and other payroll costs	18,022,618	-	18,022,618
Administrative and general expenses	4,710,319	-	4,710,319
Occupancy	1,828,643	-	1,828,643
Direct expenses of care	1,480,116	-	1,480,116
Depreciation	411,470	-	411,470
Interest expense	<u>20,691</u>	<u>-</u>	<u>20,691</u>
Total operating expenses	<u>26,473,857</u>	<u>-</u>	<u>26,473,857</u>
Deficiency of operating revenue under operating expenses	<u>(2,123,414)</u>	<u>-</u>	<u>(2,123,414)</u>
Other revenue			
Donations and other	1,036,269	-	1,036,269
Catholic Charities Appeal	50,000	-	50,000
Unrealized losses on investments	(777,086)	-	(777,086)
Realized gains and other investment income	740,314	-	740,314
Dividend and interest income	<u>127,959</u>	<u>987</u>	<u>128,946</u>
Total other revenue	<u>1,177,456</u>	<u>987</u>	<u>1,178,443</u>
Change in net assets	(945,958)	987	(944,971)
Net assets, beginning of year	<u>11,575,419</u>	<u>78,570</u>	<u>11,653,989</u>
Net assets, end of year	<u>\$ 10,629,461</u>	<u>\$ 79,557</u>	<u>\$ 10,709,018</u>

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

Divine Providence Village

STATEMENTS OF CASH FLOWS

Year ended June 30,

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Change in net assets	\$ (317,135)	\$ (944,971)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	427,572	411,470
Unrealized losses on investments	-	777,086
Realized losses (gains) and other investment loss (income)	69,281	(740,314)
Changes in operating assets and liabilities		
Accounts receivable - Commonwealth of Pennsylvania	(855,735)	(2,622,925)
Accounts receivable - other	21,677	4,112
Pledges receivable - Office of Development, United Way, net	2,776	(183)
Prepaid expenses and other current assets	12,787	125,256
Accounts payable and accrued expenses	532,244	134,985
Salaries and wages payable	(637,258)	173,058
Due to/from Catholic Social Services	<u>1,383,524</u>	<u>3,316,316</u>
Net cash provided by operating activities	<u>639,733</u>	<u>633,890</u>
Cash flows from investing activities		
Capital expenditures	(590,454)	(461,983)
Purchases and sales of investments, net	9,354	(118,377)
Payments on note receivable - Archdiocese of Philadelphia	<u>5,492</u>	<u>5,279</u>
Net cash used in investing activities	<u>(575,608)</u>	<u>(575,081)</u>
Cash flows from financing activities		
Payment of mortgage obligations	<u>(62,125)</u>	<u>(58,559)</u>
Net cash used in financing activities	<u>(62,125)</u>	<u>(58,559)</u>
Change in cash	2,000	250
Cash		
Beginning of year	<u>3,150</u>	<u>2,900</u>
End of year	<u>\$ 5,150</u>	<u>\$ 3,150</u>
Supplemental disclosure		
Assets acquired and not yet paid for	<u>\$ -</u>	<u>\$ 54,582</u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE A - ORGANIZATION

Divine Providence Village is a residential facility of the Archdiocese of Philadelphia located in Springfield, Pennsylvania. Divine Providence Village has the capacity to provide services for 96 intellectually disabled/developmentally disabled girls and women between 6 to 64 years of age.

Divine Providence Village operates ten Community Living Arrangements/Group Homes (“CLA”) in Delaware County. The Group Homes provide residential services to intellectually disabled/developmentally disabled adults.

Divine Providence Village also operates a Family Living Program, In Home Support Program, and Community Outreach Program to provide services to intellectually disabled and developmentally disabled clients in the community.

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. Divine Providence Village is one of the entities operating under CSS.

The accompanying financial statements include programs operated and administered by Divine Providence Village.

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. Divine Providence Village, which is related, is operated separately and distinctly from the Archdiocese of Philadelphia.

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

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”). Divine Providence Village 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, Divine Providence Village’s net assets and revenues, expenses, gains and losses 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.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016 and 2015

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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.

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 include the allowance for doubtful accounts, useful lives of depreciable assets and the fair value of investments. Actual results could differ from those estimates.

3. Cash and Cash Equivalents

Divine Providence Village considers investments in highly liquid securities, authorized by management, purchased with a maturity of three months or less from the date purchased, to be cash equivalents. With the exception of escrow client funds, for the years ended June 30, 2016 and 2015, Divine Providence Village possessed only petty cash held on site.

4. Accounting for Long-Lived Assets

Divine Providence Village continually evaluates whether events and circumstances have occurred that indicate the remaining estimated useful life of long-lived assets may warrant revision or that the remaining balance may not be recoverable. When factors indicate that long-lived assets should be evaluated for possible impairment, Divine Providence Village uses an estimate of the related undiscounted operating income over the remaining life of the long-lived asset in measuring whether the long-lived asset is recoverable. The impairment loss on these assets is measured as the excess of the carrying amount of the asset over its fair value. Fair value is based on market prices where available, or discounted cash flows. Divine Providence Village believes that no revision to the remaining useful lives or write-down of long-lived assets were required at June 30, 2016 and 2015.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016 and 2015

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

5. Escrow Client Funds

Divine Providence Village acts as trustee over funds held for its residents. Expenditures of resident funds are authorized by the residents or their families. Generally, the funds are used to cover the costs of personal items which are not covered by the daily general service charge or special charges. These funds are returned to the resident, family or estate upon discharge or death.

6. Investments

On April 30, 2015, various funds previously held in the Non-Pension Asset Portfolio (the "NPAP") were liquidated and re-invested with a newly hired investment company, SEI, a provider of institutional asset management services. SEI created two publicly traded Catholic Values mutual funds: the Catholic Values Equity Fund and the Catholic Values Fixed Income Fund ("Catholic Values Funds"), which provide Catholic institutions with high quality investment products that align with their core values, without sacrificing diversification or return potential. Specifically, the Catholic Values Funds align with the investment directives set forth by the United States Conference of Catholic Bishops ("USCCB"). The Archdiocese of Philadelphia appointed SEI Private Trust Company to act as custodian (the "Custodian") of the investments, which consist of certain cash and securities and are more fully described in Note C.

Investments are reported at fair value. Realized gains and losses are reported to the participant monthly. Gains and losses created at the participant level due to sales are recorded in the specific participant accounts. Unrealized gains and losses are included in the statements of activities and change in net assets as net appreciation or depreciation in the fair value of investments.

7. Governmental Revenue

Divine Providence Village receives its funding through contracts with Pennsylvania, various cities and counties, federal programs and agreements with managed care and insurance organizations. These contracts/agreements generally fall into two categories: cost reimbursement and fee-for-service. The ultimate determination of amounts reimbursable under cost reimbursement contracts/agreements is based upon allowable costs to be reported and subject to audit by grantors and/or their agents.

Net program service revenues are from funding sources under cost reimbursement-type contracts for several of Divine Providence Village's programs. Divine Providence Village records revenues under such contracts as costs are incurred. For other programs, Divine Providence Village receives program service fees from funding sources under per diem-type contracts for certain programs and unit prices for outpatient services. Revenue for these programs is recorded when the services are provided, while adjustments to prior recognized revenues are recorded in following periods, as final settlements are determined. Divine Providence Village recorded governmental revenue of \$487,484 and \$906,460 as of June 30, 2016 and 2015, respectively, related to settlements received for prior years.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016 and 2015

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Divine Providence Village 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.

8. Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. However, if a restriction is fulfilled in the same time period in which the contribution is received, Divine Providence Village reports the support as unrestricted. When a stipulated time restriction or purpose restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and change in net assets as net assets released from restrictions.

Contributions of long-lived assets received without donor stipulations are reported as unrestricted revenue at the fair value of the date of the gift. Contributions of other assets specified for the acquisition or construction of long-lived assets are reported as restricted support; those restrictions expire when the assets are placed in service.

Unconditional promises to give ("pledges") are recorded as receivables and revenues within the appropriate net asset category, all of which will be collected within one year. See Note F for more information on pledges.

9. Allowance for Doubtful Accounts

Divine Providence Village 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, Divine Providence Village's previous loss history, the nature of the service provided and other pertinent factors. Divine Providence Village 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

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

CSS provides administrative and accounting services for institutions and group homes, including Divine Providence Village. 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 and change in net assets. 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.

11. Property, Plant and Equipment

Property, plant and equipment are capitalized at cost or at their fair market value if donated. Depreciation is computed on a straight-line basis and is recognized as an expense over the estimated useful lives of the assets, which are as follows:

Building	20 years
Building improvements	20 years
Equipment	3 - 5 years
Furniture	5 - 15 years
Automobiles	5 years
Leasehold improvements	5 - 20 years

12. 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. Divine Providence Village 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. Divine Providence Village has not determined the impact of the new standard at this time.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016 and 2015

NOTE C - INVESTMENTS

The investment in the Trustee Account and other investments are reported at fair value and consist of the following:

Catholic Values Equity Fund (or "fund") - Invests in common stocks and is managed by SEI. The equity fund is valued at the closing price of the traded fund.

Catholic Values Fixed Income Fund (or "fund") - Invests in mutual funds, corporate obligations, United States Treasury obligations and municipal obligations and is managed by SEI. The fixed income fund is valued at the closing price of the traded fund.

Liquidity Sub-Account (or "fund") - Investments are liquid in nature and invested in short-duration U.S. government bonds.

Account holders have the option of six asset classifications in which to invest. The options include a short-duration U.S. government bond fund, a 100% fixed income bond fund and four equity funds with varying fixed income to equity mixes of 30/70, 50/50, 60/40 or 70/30. The Investment Committee of the Archdiocese of Philadelphia ("Investment Committee") has primary responsibility for determining fixed income to equity mix. The asset mix of the mutual funds is SEI's responsibility.

At June 30, 2016 and 2015, Divine Providence Village's investments are summarized and classified as follows:

<u>2016</u>	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Investment in SEI	\$ 4,105,106	\$ -	\$ -	\$ 4,105,106
<u>2015</u>	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Investment in SEI	\$ 4,184,742	\$ -	\$ -	\$ 4,184,742

Prior to April 30, 2015, the investment in the Trustee Account consisted of investments in the NPAP and other investment accounts. For administrative and other needs, the Archdiocese formed the NPAP to pool together certain investments in order to more efficiently manage the investments of various entities and related organizations within the Archdiocese. The investments in the NPAP were held by a custodian and were managed based on sub-accounts as follows:

Equity Sub-Account (or "fund") - Invested in common stocks and was managed by multiple investment managers.

Fixed Income Sub-Account (or "fund") - Invested in mutual funds, corporate obligations, United States Treasury obligations and municipal obligations and was managed by multiple investment managers.

Liquidity Sub-Account (or "fund") - Investments were liquid in nature and used to buy and sell units of the equity and fixed income funds or for expected short-term needs.

(Continued)

Divine Providence Village

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016 and 2015

NOTE C - INVESTMENTS - Continued

The NPAP was unitized on a periodic basis to allow for the investment, at unit value, by entities in the NPAP. Divine Providence Village's investment in the NPAP is stated at unit value.

The Investment Committee of the Archdiocese of Philadelphia has primary responsibility for determining the asset investment allocations to be used. Management of the Archdiocese is responsible for ensuring that asset investment allocations among the funds are maintained as determined by the Investment Committee.

At June 30, 2016 and 2015, Divine Providence Village held the following categories of investments:

	<u>2016</u>	<u>2015</u>
Catholic Values Equity Fund	\$ 2,883,161	\$ 2,930,447
Catholic Values Fixed Income Fund	<u>1,221,945</u>	<u>1,254,295</u>
	<u>\$ 4,105,106</u>	<u>\$ 4,184,742</u>

NOTE D - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment and accumulated depreciation consist of the following at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Land	\$ 226,456	\$ 197,195
Buildings	2,039,900	1,776,556
Automobiles	38,998	38,998
Furniture and equipment	1,900,315	1,818,300
Leasehold improvements	6,233,617	6,007,782
Construction in progress	<u>-</u>	<u>10,000</u>
	10,439,286	9,848,831
Accumulated depreciation	<u>(5,213,786)</u>	<u>(4,786,213)</u>
Property, plant and equipment, net	<u>\$ 5,225,500</u>	<u>\$ 5,062,618</u>

Depreciation expense of \$427,572 and \$411,470 was incurred for the years ended June 30, 2016 and 2015, respectively.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016 and 2015

NOTE E - ACCOUNTS RECEIVABLE - COMMONWEALTH OF PENNSYLVANIA

At June 30, 2016 and 2015, Divine Providence Village had uncollateralized accounts receivable from various public agencies, primarily the Commonwealth of Pennsylvania, Department of Public Welfare (“DPW”), of \$8,154,265 and \$7,298,530, respectively. These balances potentially subject Divine Providence Village to a concentration of credit risk. Divine Providence Village monitors its funding arrangements with DPW and other agencies.

NOTE F - PLEDGES RECEIVABLE - OFFICE OF DEVELOPMENT, UNITED WAY

Pledges receivable - Office of Development, United Way were \$514 and \$3,290, net of an allowance of \$154 and \$987, for the years ended June 30, 2016 and 2015, respectively. Pledges receivable are expected to be realized over the following year.

NOTE G - RELATED PARTY NOTE RECEIVABLE - ARCHDIOCESE OF PHILADELPHIA

In June 2012, the Archdiocese of Philadelphia and related entities entered into several Term Loan Agreements with participating Archdiocesan entities to retire outstanding external debt obligations. The transaction resulted in the inter-diocesan Term Loan Receivables and Term Loan Payables totaling \$71,357,582 at participating Archdiocesan entities, which included a loan receivable of \$2,412,576 recorded by Divine Providence Village. The loan receivable was refinanced on July 1, 2014, with terms as described below.

The loans are collateralized by first priority mortgage liens encumbering the following Archdiocesan high school premises: Bonner-Prendergrast High School, Pope John Paul II High School, Bishop Shanahan High School and Archbishop Wood High School. In addition, the Archdiocese of Philadelphia pledges the High School Revenue associated with these specific schools. The loans carry a fixed interest rate of 4% amortized over 28 years, maturing on June 1, 2042.

The future principal amounts receivable on the loans at June 30, 2016 are as follows:

2017	\$ 5,659
2018	5,889
2019	6,128
2020	6,377
2021	6,635
Thereafter	<u>224,741</u>
Total	<u>\$ 255,429</u>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016 and 2015

NOTE H - FAIR VALUE MEASUREMENTS

FASB Accounting Standards Codification (“ASC”) 820, *Fair Value Measurements and Disclosures*, establishes a single authoritative definition of fair value, sets a framework for measuring fair value, and requires additional disclosures about fair value measurements. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described as follows:

- Level 1 Quoted prices in active markets for identical assets or liabilities as of the measurement date.
- Level 2 Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities.
- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

A financial instrument’s level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Fair value calculations may not be indicative of net realizable value or reflective of future fair values. Furthermore, although Divine Providence Village believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables present the fair values of the investments held by Divine Providence Village by level within the fair value hierarchy, as of June 30, 2016 and 2015:

<u>2016</u>	<u>Quoted prices in active markets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>	<u>Total fair value</u>
Assets				
Investment in SEI	\$ 4,105,106	\$ -	\$ -	\$ 4,105,106
Assets limited as to use restricted by donors	<u>-</u>	<u>-</u>	<u>80,558</u>	<u>80,558</u>
Total of assets at June 30, 2016	<u>\$ 4,105,106</u>	<u>\$ -</u>	<u>\$ 80,558</u>	<u>\$ 4,185,664</u>

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016 and 2015

NOTE H - FAIR VALUE MEASUREMENTS - Continued

<u>2015</u>	<u>Quoted prices in active markets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>	<u>Total fair value</u>
Assets				
Investment in SEI	\$ 4,184,742	\$ -	\$ -	\$ 4,184,742
Assets limited as to use restricted by donors	<u>-</u>	<u>-</u>	<u>79,557</u>	<u>79,557</u>
Total of assets at June 30, 2015	<u>\$ 4,184,742</u>	<u>\$ -</u>	<u>\$ 79,557</u>	<u>\$ 4,264,299</u>

The following table is a roll-forward of the statement of financial position amounts for financial instruments classified within Level 3 of the fair value hierarchy defined above:

	<u>Assets limited as to use restricted by donors</u>
Fair value June 30, 2014	\$ 78,570
Interest income	<u>987</u>
Fair value June 30, 2015	79,557
Interest income	<u>1,001</u>
Fair value June 30, 2016	<u>\$ 80,558</u>

During 2016 and 2015, no investments were transferred between levels 1, 2 or 3.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016 and 2015

NOTE I - PENSION PLANS

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

Through June 30, 2014, the eligible lay employees of Divine Providence Village 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. Divine Providence Village made annual contributions to the Plan at a rate of 4.0% of the salaries of eligible employees for the years ended June 30, 2016 and 2015. The amount expensed by Divine Providence Village was \$453,685 and \$459,706 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 of Philadelphia 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 Divine Providence Village into the 403(b) plan totaled \$535,032 and \$707,345 for the years ended June 30, 2016 and 2015, respectively.

3. Other contributions

Divine Providence Village also makes contributions to the various orders of the religious personnel who provide services at the facility. The amount of expense related to these contributions was \$3,143 and \$4,190 for the years ended June 30, 2016 and 2015, respectively.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016 and 2015

NOTE J - RELATED PARTY TRANSACTIONS

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

CSS provides administrative and accounting services for related institutions and group homes, including Divine Providence Village. 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 statement of activities and change in net assets. 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 was \$4,804,225 and \$3,420,700 at June 30, 2016 and 2015, respectively.

The transactions with the Archdiocese and affiliates charged to expense 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 - contributed	\$ 724,000	\$ 724,000
Insurance	154,038	50,953
Lay employee pension contributions	453,685	459,706
Religious employee pension contributions	<u>3,143</u>	<u>4,190</u>
	<u>\$ 1,334,866</u>	<u>\$ 1,238,849</u>
Catholic Social Services		
Automobile leases	\$ 109,682	\$ 118,764
Allocated administrative and accounting costs	1,341,843	1,424,095
Allocated administrative and accounting costs - contributed	171,703	295,334
Information technology services	<u>252,050</u>	<u>264,747</u>
	<u>\$ 1,875,278</u>	<u>\$ 2,102,940</u>

Catholic Charities Appeal donated \$50,000 to Divine Providence Village during each of the fiscal years ended June 30, 2016 and 2015.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016 and 2015

NOTE J - RELATED PARTY TRANSACTIONS - Continued

Included in accounts payable are certain related party amounts. These amounts are as follows for June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Catholic Health Care Services	\$ 5,014	\$ -
Catholic Human Services	60,859	6,315

NOTE K - INCOME TAX STATUS

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

Divine Providence Village 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. Divine Providence Village has determined that there are no material uncertain tax positions requiring recognition in the financial statements at June 30, 2016.

NOTE L - FUNCTIONAL EXPENSES

Divine Providence Village provides services for intellectually disabled/developmentally disabled girls and women between 6 to 64 years of age, in addition to operating CLAs, a Family Living Program, In Home Support Program, and Community Outreach Program to provide services to intellectually disabled and developmentally disabled clients in the community. Expenses related to providing these services at June 30, are as follows:

	<u>2016</u>	<u>2015</u>
Program expenses	\$ 21,640,626	\$ 21,406,835
Support expenses	<u>4,992,267</u>	<u>5,067,022</u>
	<u>\$ 26,632,893</u>	<u>\$ 26,473,857</u>

NOTE M - FUNDING

Divine Providence Village provides institutional care for intellectually disabled girls and women.

Divine Providence Village is also a certified Intermediate Care Facility for the Intellectually Disabled (“ICF/ID”) and is funded by the Commonwealth of Pennsylvania’s Medical Assistance Program (the “Program”). Under the contract with the Program, reimbursement is limited to the lower of total allowable operating expenses or the approved operating budget.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016 and 2015

NOTE M - FUNDING - Continued

Divine Providence Village's per diem reimbursement rate from the Commonwealth of Pennsylvania under its Medical Assistance Program was \$365.16 for each of the years ended June 30, 2016 and 2015.

Divine Providence Village has ten CLAs, Sunnybrook Lane, Pickering Lane, Stewart Avenue, Glen Spring Lane, Collins Drive, Hickory Lane, Kenwood Road, Hedgerow Lane, Sproul Road and Tall Trees, each of which generally house and care for three intellectually disabled adults in a residential setting.

NOTE N - COMMITMENTS

Divine Providence Village leases automobiles from CSS. Rental expense was \$106,640 and \$118,764 for the fiscal years ended June 30, 2016 and 2015, respectively. As of June 30, 2016 and 2015, there are no future minimum rental payments.

NOTE O - MORTGAGE OBLIGATIONS

Divine Providence Village has entered into a mortgage with Beneficial Mutual Savings Bank for the CLA facility located on Kenwood Road. The mortgage has a term of 15 years with an annual interest rate of 5% and monthly payments of \$2,673.

The mortgage is collateralized by the property. This loan was originated on September 11, 2004.

At June 30, 2016, a mortgage payable of \$91,373 was outstanding on the property. Total principal and interest of this mortgage obligation and note payable are as follows:

2017	\$	28,142
2018		29,580
2019		31,092
2020		<u>2,559</u>
	\$	<u>91,373</u>

Divine Providence Village has also entered into a mortgage with Beneficial Mutual Savings Bank for the CLA facility located on Hedgerow Lane. The mortgage has a term of 15 years with an annual interest rate of 6.125% and monthly payments of \$3,615.

The mortgage is collateralized by the property. This loan was originated on September 26, 2006.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016 and 2015

NOTE O - MORTGAGE OBLIGATIONS - Continued

At June 30, 2016, a mortgage payable of \$111,739 was outstanding on the property. Aggregate total principal of this mortgage obligation and note payable are as follows:

2017	\$	37,582
2018		39,950
2019		<u>34,207</u>
	\$	<u>111,739</u>

NOTE P - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are composed of a client trust to be used for the personal needs of a resident of Divine Providence Village. The value of the trust was \$80,558 and \$79,557 as of June 30, 2016 and 2015, respectively.

NOTE Q - SUBSEQUENT EVENTS

Management has evaluated subsequent events for the year ended June 30, 2016, 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 require recognition or disclosure in the financial statements.