

Financial Statements and Report of Independent
Certified Public Accountants

**Catholic Social Services of the Archdiocese of
Philadelphia**

June 30, 2012

Contents

	Page
Report of Independent Certified Public Accountants	3
Financial statements	
Statement of financial position	4
Statement of activities	5
Statement of cash flows	6
Notes to financial statements	7

Report of Independent Certified Public Accountants

Board of Directors
Catholic Social Services of the Archdiocese of Philadelphia
Philadelphia, Pennsylvania

We have audited the accompanying statement of financial position of Catholic Social Services of the Archdiocese of Philadelphia ("Catholic Social Services") as of June 30, 2012 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of Catholic Social Services' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Catholic Social Services' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Catholic Social Services of the Archdiocese of Philadelphia, as of June 30, 2012, and the results of its activities and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Philadelphia, Pennsylvania

March 31, 2013

STATEMENT OF FINANCIAL POSITION

June 30, 2012

ASSETS	Unrestricted	Temporarily restricted	Permanently restricted	Total
Current assets				
Cash and cash equivalents	\$ 5,015,567	\$ 106,562	\$ -	\$ 5,122,129
Accounts receivable - public agencies, less allowance of \$115,000	1,889,414	-	-	1,889,414
Accounts receivable - other	1,458,568	-	-	1,458,568
Accounts receivable - Catholic Charities Appeal	4,343,515	-	-	4,343,515
Note receivable - Archdiocese of Philadelphia	161,562	-	-	161,562
Pledges receivable - Office of Development, United Way, net	116,096	-	-	116,096
Prepaid expenses	167,960	-	-	167,960
Escrow client funds	40,804	-	-	40,804
Due from affiliated institutions	7,716,524	-	-	7,716,524
Total current assets	20,910,010	106,562	-	21,016,572
Property, plant and equipment, net	4,860,153	-	-	4,860,153
Note receivable - Archdiocese of Philadelphia, net of current portion	8,948,229	-	-	8,948,229
Investments - Board designated	5,921,348	-	-	5,921,348
Investments	-	112,747	-	112,747
Trusts held by third parties	-	-	264,703	264,703
Total assets	\$ 40,639,740	\$ 219,309	\$ 264,703	\$ 41,123,752
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable and accrued expenses	\$ 1,494,619	\$ -	\$ -	\$ 1,494,619
Salaries and wages payable	665,120	-	-	665,120
Program advances	125,854	-	-	125,854
Escrow client funds	40,804	-	-	40,804
Total current liabilities	2,326,397	-	-	2,326,397
Long-term related party loans payable	13,300,000	-	-	13,300,000
Net assets				
Unrestricted	25,013,343	-	-	25,013,343
Temporarily restricted	-	219,309	-	219,309
Permanently restricted	-	-	264,703	264,703
Total net assets	25,013,343	219,309	264,703	25,497,355
Total liabilities and net assets	\$ 40,639,740	\$ 219,309	\$ 264,703	\$ 41,123,752

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

STATEMENT OF ACTIVITIES

Year ended June 30, 2012

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenue				
Governmental revenue	\$ 10,473,202	\$ -	\$ -	\$ 10,473,202
Fees for services	3,970,379	-	-	3,970,379
Rental income	473,707	-	-	473,707
Contributed rent	572,000	-	-	572,000
Contributed services and goods	507,082	-	-	507,082
Net assets released from restrictions	4,844,612	(4,844,612)	-	-
Total operating revenue	20,840,982	(4,844,612)	-	15,996,370
Operating expenses				
Salaries, wages and other payroll costs	15,888,033	-	-	15,888,033
Administrative and general expenses	4,331,892	-	-	4,331,892
Occupancy	2,737,120	-	-	2,737,120
Depreciation	726,112	-	-	726,112
Interest	532,000	-	-	532,000
Direct expenses of care	1,441,757	-	-	1,441,757
Bad debt expense	115,000	-	-	115,000
Total operating expenses	25,771,914	-	-	25,771,914
Deficiency of operating revenue under operating expenses	(4,930,932)	(4,844,612)	-	(9,775,544)
Other revenue (expenses)				
Appropriation from Catholic Charities Appeal	3,788,297	-	-	3,788,297
Donations/bequests/other	3,662,988	75,649	-	3,738,637
Dividend and interest income (net)	194,459	86,962	-	281,421
Realized gains on investments	146,664	453,495	-	600,159
Net unrealized (losses) gains on investments	(653,044)	(431,373)	9,393	(1,075,024)
Total other revenue	7,139,364	184,733	9,393	7,333,490
Change in net assets	2,208,432	(4,659,879)	9,393	(2,442,054)
Net assets				
Beginning of year	20,013,021	6,185,805	255,310	26,454,136
Prior period adjustment (Note C)	2,791,890	(1,306,617)	-	1,485,273
Beginning of year, as restated	22,804,911	4,879,188	255,310	27,939,409
End of year	\$ 25,013,343	\$ 219,309	\$ 264,703	\$ 25,497,355

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

STATEMENT OF CASH FLOWS

Year ended June 30, 2012

Cash flows from operating activities	
Change in net assets	\$ (2,442,054)
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	726,112
Bad debt expense	115,000
Net unrealized losses on investments	1,075,024
Realized gains on investments	(600,159)
Changes in operating assets and liabilities	
Accounts receivable - public agencies	199,298
Accounts receivable - other	(4,731,596)
Pledges receivable - Office of Development, United Way	(84,124)
Prepaid expenses and other assets	268,152
Due to/from affiliated institutions	7,503,097
Accounts payable and accrued expenses	371,592
Salaries and wages payable	42,893
Program advances	<u>(68,347)</u>
Net cash provided by operating activities	<u>2,374,888</u>
Cash flows from investing activities	
Capital expenditures	(405,252)
Purchases and sales of investments, net	11,428,834
Note receivable - Archdiocese of Philadelphia	<u>(9,109,791)</u>
Net cash provided by investing activities	<u>1,913,791</u>
Increase in cash and cash equivalents	4,288,679
Cash and cash equivalents	
Beginning of year	<u>833,450</u>
End of year	<u>\$ 5,122,129</u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE A - ORGANIZATION

Catholic Charities of the Archdiocese of Philadelphia, operating as Catholic Social Services of the Archdiocese of Philadelphia ("Catholic Social Services") 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. Catholic Social Services functions as a self-contained entity and maintains separate financial statements for each of its operations.

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. 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.

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 all the remaining net assets and are further segregated into designated and undesignated. Designated funds represent funds which have been established by the governing board generally utilizing donations received from outside sources and prior year operating surpluses. Any portion of these funds may be expended at the discretion of the Board. Generally, the principal is invested and only the income earned is utilized to subsidize operations of Catholic Social Services through Board approved transfers.

The accompanying financial statements include programs operated and administered by Catholic Social Services. Excluded are certain institutions of the Archdiocese of Philadelphia for which Catholic Social Services performs certain administrative and accounting functions, including the collection and remittance of unemployment compensation contributions, and for which separate accounts are maintained by Catholic Social Services and for which separate reports are issued. The excluded entities (affiliated institutions and group homes) are as follows:

St. Joseph Catholic Home for Children	Don Guanella Village
St. Francis-St. Joseph Homes for Children	Divine Providence Village
St. Vincent's Services for Women and Children	St. Gabriel's System
St. Joseph's House for Homeless Industrious Boys	
St. Vincent's Orphans' Asylum of Tacony	
St. Edmond's Home for Crippled Children	

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

2. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported 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. These significant estimates include the allowance for doubtful accounts, useful lives of depreciable assets, and fair values of investments. Actual results could differ from those estimates.

3. Cash and Cash Equivalents

Catholic Social Services 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. Catholic Social Services maintains cash balances with financial institutions that at times may exceed Federal Depository Insurance Corporation ("FDIC") limits. Management does not believe the credit risk related to these deposits to be significant.

4. Accounting for Long-Lived Assets

Catholic Social Services 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, Catholic Social Services 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. Catholic Social Services believes that no revision to the remaining useful lives or write-down of long-lived assets were required at June 30, 2012.

5. Escrow Client Funds

Catholic Social Services 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

Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility risks. Due to the level of risks associated with certain investment securities, it is at least reasonably possible that changes in the value of investments could occur in the near term and that such changes could materially affect the amounts reported in the accompanying statement of financial position.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The investments are held within a pool of investments with the Archdiocese of Philadelphia or within funds held by third parties.

Unrealized gains and losses arising from increases or decreases in fair value are recognized in the period in which they occur. Realized gains and losses on the sale of investments are determined on the trade date. Dividend and interest income are accrued as earned.

7. Governmental Revenue

Catholic Social Services receives its funding through contracts with the three states, 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 Catholic Social Services' programs. Catholic Social Services records revenues under such contracts as costs are incurred. For other programs, Catholic Social Services 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. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in five periods, as final settlements are determined. Catholic Social Services recorded \$841,000 as of June 30, 2012 related to a settlement received for fiscal year 2010.

Catholic Social Services 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, Catholic Social Services 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 statement of activities as net assets released from restrictions.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 G for more information on pledges.

9. Allowance for Doubtful Accounts

Catholic Social Services 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, Catholic Social Services' previous loss history, the nature of the service provided and other pertinent factors. Catholic Social Services writes off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts.

10. Contributed Services and Goods

Contributed services and goods represents the difference between the stipend allowance paid for the religious personnel performing work for Catholic Social Services and the compensation which would be paid to lay persons possessing similar qualifications and performing similar work. In addition, contributed services include rent on the premises used by Catholic Social Services which are owned by other entities within the Archdiocese of Philadelphia and for which no rent is charged. Also, contributed services include food contributed to Catholic Social Services. These amounts are reported as both revenue and expenses in the statement of activities.

11. Property, Plant and Equipment

Land, buildings, building improvements, automobiles and equipment are capitalized at cost, or their fair market value if donated. Depreciation for fixed assets is computed on a straight-line basis over the estimated useful life of the assets, which are as follows:

Building	20 years
Building improvements	20 years
Equipment	3 - 5 years
Automobiles	5 years

NOTE C - PRIOR PERIOD ADJUSTMENT

Catholic Social Services participates in an unemployment compensation fund administered by the Archdiocese of Philadelphia (the "Fund"). Catholic Social Services believes the assets related to the Fund should be recognized in its financial statements. The Fund's balance, attributable to Catholic Social Services, as of June 30, 2012 and 2011 was \$1,453,193 and \$1,485,273, respectively.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE C - PRIOR PERIOD ADJUSTMENT - Continued

Catholic Social Services had temporarily restricted net assets related to support social services, counseling services, and assistance to elderly women. Catholic Social Services provides these services every year in excess of the amounts that were included in temporarily restricted net assets. Management has concluded that these amounts received should have been released from restrictions in previous years and therefore moved from temporarily restricted net assets to unrestricted net assets. These amounts totaled \$1,306,617 at June 30, 2011. This resulted in a decrease to temporarily restricted net assets and an increase to unrestricted net assets of \$1,306,617. The net effect in total net assets was \$-0-. As a result, the net asset balance at July 1, 2011 has been restated, as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>
Net assets at July 1, 2011, as originally reported	\$ 20,013,021	\$ 6,185,805
Cumulative change in net assets - prior period adjustment	<u>2,791,890</u>	<u>(1,306,617)</u>
Net assets at July 1, 2011, as restated	<u>\$ 22,804,911</u>	<u>\$ 4,879,188</u>

The aforementioned adjustment had no effect on changes in net assets for the year ended June 30, 2011.

NOTE D - INVESTMENTS

Catholic Social Services' investments at June 30, 2012 are summarized and classified as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Archdiocese of Philadelphia Non-Pension Assets Portfolio	\$ <u>5,921,348</u>	\$ <u>112,747</u>	\$ <u>-</u>	\$ <u>6,034,095</u>

For administrative and other needs, the Archdiocese of Philadelphia formed the Non-Pension Assets Portfolio (the "NPAP") to pool together certain investments in order to more efficiently manage the investments of various entities and related organizations within the Archdiocese of Philadelphia. The investments in the NPAP are held by a custodian and are managed based on sub-accounts as follows:

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

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

The NPAP is unitized on a periodic basis to allow for the investment, at unit value, by entities in the NPAP. The Archdiocese of Philadelphia's investment in the NPAP is stated at unit value.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE D - INVESTMENTS - Continued

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

At June 30, 2012, the Trustee Account held the following within the NPAP:

Equity sub-account	\$ 3,741,139
Fixed income sub-account	<u>2,292,956</u>
Total ownership	<u>\$ 6,034,095</u>

Catholic Social Services is the beneficiary of the income of individual trusts held by third parties. At June 30, 2012, the allocable fair value of these trusts was \$264,703. During fiscal year 2012, Catholic Social Services recognized unrestricted income of \$16,623 and permanently restricted appreciation of \$9,393 related to these trusts.

NOTE E - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment and accumulated depreciation consist of the following at June 30, 2012:

Land	\$ 202,934
Buildings and improvements	6,953,747
Automobiles	4,521,328
Equipment	<u>1,927,873</u>
	13,605,882
Accumulated depreciation	<u>(8,745,729)</u>
Property, plant and equipment, net	<u>\$ 4,860,153</u>

Depreciation expense of \$726,112 was incurred for the year ended June 30, 2012.

NOTE F - ACCOUNTS RECEIVABLE - PUBLIC AGENCIES

At June 30, 2012, Catholic Social Services had uncollateralized accounts receivable from various public agencies, primarily Department of Human Services and various City of Philadelphia departments, of \$2,004,414. These balances potentially subject Catholic Social Services to a concentration of credit risk. Catholic Social Services monitors its funding arrangements with DHS and other agencies.

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

Pledges receivable - Office of Development, United Way were \$116,096, net of an allowance of \$34,677 for fiscal year 2012. Pledges receivable are expected to be realized in the following year.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE H - RELATED PARTY LOANS RECEIVABLE

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. These retired obligations include the Variable Rate Revenue Bonds Series of 2008 issued through the Montgomery County Industrial Development Authority totaling \$47,007,923; the Variable Rate Revenue Bonds Series of 2001 issued through the Chester County Industrial Development Authority totaling \$50,708,547; and the various interest rate swap transactions associated with these debts totaling \$15,750,000. The transaction resulted in the inter-diocesan Term Loan Receivables and Term Loans Payables totaling \$77,357,582 at participating Archdiocesan entities which included a loan receivable of \$9,109,791 recorded by Catholic Social Services.

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 30 years maturing on June 1, 2015.

The future principal amounts receivable on the loans at June 30, 2012 are as follows:

2013	\$ 161,652
2014	168,722
2015	130,557
Balloon payment receivable June 1, 2015	<u>8,648,860</u>
	<u>\$ 9,109,791</u>

NOTE I - RELATED PARTY LOANS PAYABLE

As of June 30, 2012, Catholic Social Services had loans payable of \$8,900,000 to St. Joseph's House for Homeless Industrious Boys and \$4,400,000 to St. Edmond's Home for Crippled Children. The loans payable shall bear interest on the unpaid outstanding principal at an annual rate of 4%. Catholic Social Services used proceeds from the loans to provide lines of credit to affiliated corporations to support cash flow needs. The line of credit to each affiliated organization shall bear interest on the unpaid outstanding principal at an annual rate of 4%. Balances of the lines of credit are included in due from affiliated institutions on the statement of financial position. The financial statements of Catholic Social Services include \$355,640 in interest income and \$532,000 in interest expense from these lending transactions. There is no repayment schedule associated with these loans.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE J - FAIR VALUE MEASUREMENTS

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.

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.

Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Fair value calculations may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Trustee Account 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 fair value of certain alternative investments is estimated using the net asset value ("NAV") per share. These investments are classified as either Level 2, if Catholic Social Services' investment can be redeemed at the reporting date or within the near term, or Level 3, if its investment is not redeemable at the NAV per share at or near the statement of financial position date.

Fair value measurements of investments in entities that calculate NAV per share or its equivalent as of June 30, 2012 are as follows:

	<u>Fair value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Archdiocese NPAP (a)	\$ 6,034,095	\$ -	daily	1 day

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE J - FAIR VALUE MEASUREMENTS - Continued

- (a) A pooled investment portfolio comprised of equity and fixed income securities. The primary objective of the NPAP is preservation of capital while reducing, to the greatest extent possible, the possibility of loss. The investment strategy and long-term asset allocation for the NPAP takes into consideration the specific spending requirements and the present and future needs of the Archdiocese of Philadelphia and its respective participating Ecclesiastical Organizations. Therefore, the desired minimum rate of return is equal to the Consumer Price Index ("CPI") plus three percent (3%) on an annualized basis. The fair values are estimated using the NAV per share of the investments.

Fair value for Level 3 is based on valuation techniques that use significant inputs that are unobservable as they trade infrequently or not at all.

The following table presents the fair values of the investments held by Catholic Social Services by level within the fair value hierarchy, as of June 30, 2012:

	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
Assets				
Archdiocese NPAP	\$ -	\$ 6,034,095	\$ -	\$ 6,034,095
Trusts held by third parties	-	-	264,703	264,703
Total assets	\$ -	\$ 6,034,095	\$ 264,703	\$ 6,298,798

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:

	Trusts held by third parties
Fair value, July 1, 2011	\$ 255,310
Unrealized gains, net	26,016
Distributions	(16,623)
Fair value, June 30, 2012	\$ 264,703

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE K - PENSION PLAN

The eligible lay employees of Catholic Social Services 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. Catholic Social Services made annual contributions to the Plan at a rate of 5% for year ended June 30, 2012 of salaries of the eligible employee. The amount of expense related to the Plan was \$486,646 for the fiscal year ended June 30, 2012. Separate accounts for vested benefits and pension fund assets are not maintained for each institution.

Catholic Social Services also makes contributions to the various orders of the religious personnel who provide services at its institutions and parishes. The amount of expense related to these contributions was \$57,570 for the year ended June 30, 2012.

NOTE L - RELATED PARTY TRANSACTIONS

Catholic Social Services leases certain facilities, utilized in the delivery of its services, from the Archdiocese of Philadelphia. Catholic Social Services is also covered under various insurance and retirement plans administered by the Archdiocese of Philadelphia. The transactions with the Archdiocese of Philadelphia and affiliates charged to expense for the fiscal years ended June 30, 2012 were as follows:

Rental of facilities	\$ 710,150
Rental of facility - contributed	572,000
Insurance	192,475
Lay employee pension contributions	486,646
Religious employee pension contributions	57,570
Archdiocese human resources office	200,000
Information technology services	<u>274,022</u>
	<u>\$ 2,492,863</u>

Included in operating expenses of Catholic Social Services are allocable expenses for administrative and accounting services provided to the affiliated institutions and group homes described in Note B. For fiscal year 2012, fees for service revenue included in operating revenue include \$1,742,488 of revenue received from affiliated institutions and group homes for these services. In addition, Catholic Social Services leases automobiles to the affiliated institutions and group homes.

Catholic Charities Appeal donated \$3,788,297 to Catholic Social Services during of the fiscal year ended June 30, 2012.

Included in accounts receivable - other are certain related party amounts. These amounts are as follows for June 30, 2012:

Heritage of Faith	\$ 312,713
Catholic Health Care Services	703,925
Archdiocese of Philadelphia	193,375

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE M - INCOME TAX STATUS

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

Catholic Social Services 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. Catholic Social Services has determined that there are no uncertain tax positions requiring recognition in the financial statements at June 30, 2012. The tax years ended June 30, 2010, 2011 and 2012 are still open to audit for both federal and state purposes.

NOTE N - FUNCTIONAL EXPENSES

Catholic Social Services provides a variety of services. Expenses related to providing these services for the year ended June 30, 2012 are as follows:

Program expense	\$ 23,029,208
Support services	<u>2,742,706</u>
	<u>\$ 25,771,914</u>

NOTE O - FUNDING

Catholic Social Services provides foster care. Reimbursement of this service is provided primarily by the City of Philadelphia, DHS. Catholic Social Services' per capita per diem fixed reimbursement rates in effect with DHS for the fiscal year ended June 30, 2012 were as follows:

Performance-based contract	
Foster care regular	\$ 54.84

Catholic Social Services also administers and operates a number of restricted special programs. Reimbursement for these programs is provided by various governmental and private agencies and generally is limited to the lesser of actual costs incurred in operating the program or the approved budget limit for the program. Funding received for these restricted special programs is limited for use in the specific special program.

NOTE P - REVENUE EARNING EQUIPMENT

Catholic Social Services purchases automobiles and leases them at cost to institutions and group homes under its direction. For the year ended June 30, 2012, \$337,935 was received as rental income from the institutions and group homes.

Future lease payments due to Catholic Social Services are as follows:

2013	\$ <u>312,678</u>
------	-------------------

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE Q - COMMITMENTS

Catholic Social Services has entered into various operating lease agreements primarily for the rental of office space, some of which are with other entities also operating under the auspices of the Archdiocese of Philadelphia. Rental expense for the fiscal year ended June 30, 2012 was \$710,149. Future minimum rental payments on leases with initial or remaining terms of one year or more at June 30, 2012 are as follows:

2013	\$ 80,400
2014	21,600
2015	<u>12,600</u>
	<u>\$ 114,600</u>

NOTE R - PERMANENTLY AND TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2012 consisted of the following:

Counseling services	\$ 106,562
Campaign for Human Development	<u>112,747</u>
Total temporarily restricted net assets	<u>\$ 219,309</u>

Permanently restricted net assets at June 30, 2012 consisted of the following:

Trusts held by third parties	\$ <u>264,703</u>
Total permanently restricted net assets	<u>\$ 264,703</u>

NOTE S - SUBSEQUENT EVENTS

Catholic Social Services evaluated its June 30, 2012 financial statements for subsequent events through March 31, 2013, the date the financial statements were available to be issued. Catholic Social Services is not aware of any subsequent event which would require recognition or disclosure in the financial statements.