

Financial Statements and Report of Independent
Certified Public Accountants

Don Guanella Village

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
Don Guanella Village
Springfield, Pennsylvania

We have audited the accompanying statement of financial position of Don Guanella Village (the "Organization") 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 the Organization's 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 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 Organization's 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 Don Guanella Village, as of June 30, 2012, and 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

May 2, 2013

STATEMENT OF FINANCIAL POSITION

June 30, 2012

ASSETS	Unrestricted	Temporarily restricted	Total
Current assets			
Cash	\$ 3,296	\$ -	\$ 3,296
Escrow client funds	432,534	-	432,534
Accounts receivable - Commonwealth of Pennsylvania	3,975,422	-	3,975,422
Accounts receivable - public agencies	654,014	-	654,014
Accounts receivable - other	261,352	-	261,352
Pledges receivable - Office of Development, United Way, net	6,826	-	6,826
Prepaid expenses and other current assets	10,266	-	10,266
Related party note receivable - Archdiocese of Philadelphia	159,139	-	159,139
Due from Archdiocese of Philadelphia - Catholic Social Services	-	70,649	70,649
Total current assets	5,502,849	70,649	5,573,498
Property, plant and equipment, net	2,038,342	-	2,038,342
Investments	4,301,669	-	4,301,669
Related party note receivable - Archdiocese of Philadelphia, net of current portion	3,164,272	-	3,164,272
Total assets	<u>\$ 15,007,132</u>	<u>\$ 70,649</u>	<u>\$ 15,077,781</u>
LIABILITIES AND NET ASSETS			
Current liabilities			
Accounts payable and accrued expenses	\$ 714,421	\$ -	\$ 714,421
Salaries and wages payable	753,412	-	753,412
Escrow client funds	432,534	-	432,534
Due to Archdiocese of Philadelphia - Catholic Social Services	3,207,126	-	3,207,126
Total current liabilities	5,107,493	-	5,107,493
Net assets			
Unrestricted	9,899,639	-	9,899,639
Temporarily restricted	-	70,649	70,649
Total net assets	9,899,639	70,649	9,970,288
Total liabilities and net assets	<u>\$ 15,007,132</u>	<u>\$ 70,649</u>	<u>\$ 15,077,781</u>

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

Don Guanella Village

STATEMENT OF ACTIVITIES

Year ended June 30, 2012

	Unrestricted	Temporarily restricted	Total
Operating revenue			
Governmental revenue	\$ 17,937,180	\$ -	\$ 17,937,180
Contributed services - Archdiocese of Philadelphia - Catholic Social Services	174,813	-	174,813
Other revenue	49,031	-	49,031
Total operating revenue	18,161,024	-	18,161,024
Operating expenses			
Salaries, wages and other payroll costs	13,935,281	-	13,935,281
Administrative and general expenses	3,191,221	-	3,191,221
Occupancy	1,561,897	-	1,561,897
Direct expenses of care	451,884	-	451,884
Depreciation	364,637	-	364,637
Interest	184,000	-	184,000
Total operating expenses	19,688,920	-	19,688,920
Deficiency of operating revenue under operating expenses	(1,527,896)	-	(1,527,896)
Other revenue (expenses)			
Donations/bequests/trusts	1,033,860	-	1,033,860
Catholic Charities Appeal	100,000	-	100,000
Net unrealized losses on investments	(740,638)	-	(740,638)
Net realized gains on investments	486,541	-	486,541
Dividend and interest income	182,059	-	182,059
Total other revenue	1,061,822	-	1,061,822
Change in net assets	(466,074)	-	(466,074)
Net assets			
Beginning of year as previously reported	7,463,067	70,649	7,533,716
Prior period adjustment, Note C	2,902,646	-	2,902,646
Beginning of year, as restated	10,365,713	70,649	10,436,362
End of year	\$ 9,899,639	\$ 70,649	\$ 9,970,288

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	\$ (466,074)
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	364,637
Bad debt expense	991
Net unrealized losses on investments	740,638
Net realized gains on investments	(486,541)
Changes in operating assets and liabilities	
Accounts receivable - public agencies	(4,627)
Accounts receivable - Commonwealth of Pennsylvania	(470,154)
Accounts receivable - other	(86,374)
Pledges receivable - Office of Development, United Way	(4,313)
Prepaid expenses and other assets	181,470
Accounts payable and accrued expenses	346,729
Salaries and wages payable	46,808
Net advances from Archdiocese of Philadelphia - Catholic Social Services	<u>(832,178)</u>
Net cash used in operating activities	<u>(668,988)</u>
Cash flows from investing activities	
Capital expenditures	(450,275)
Purchases and sales of investments, net	4,443,174
Related party note receivable - Archdiocese of Philadelphia	<u>(3,323,411)</u>
Net cash provided by investing activities	<u>669,488</u>
Increase in cash	500
Cash	
Beginning of year	<u>2,796</u>
End of year	<u><u>\$ 3,296</u></u>
Supplemental disclosure of cash flow information	
Cash paid during the year for interest	<u><u>\$ 184,000</u></u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE A - ORGANIZATION

Don Guanella Village is a residential facility located in Springfield, Pennsylvania. The Don Guanella School, a division of Don Guanella Village, has the capacity to provide residential and rehabilitative services to 40 intellectually disabled/developmentally disabled boys between the ages of 6 and 21 years of age. The Cardinal Krol Center, also a division of Don Guanella Village, has the capacity to provide residential and rehabilitative services to 131 intellectually disabled/developmentally disabled men over the age of 21 years.

The accompanying financial statements include programs operated and administered by Don Guanella Village.

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 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. Don Guanella 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 Don Guanella Village.

Heritage of Faith - Vision of Hope, a separate legal corporation and a related organization, raises money for certain organizations within the Archdiocese, including Don Guanella 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. Net assets and revenues, expenses, gains and losses are classified into two categories, based on the existence or absence of donor-imposed restrictions. The categories are temporarily restricted and unrestricted 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 Directors.

(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. Accounting for Long-Lived Assets

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

4. Escrow Client Funds

Don Guanella 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.

5. 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.

The investments are held within a pool of investments with the Archdiocese of Philadelphia.

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.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

6. Governmental Revenue

Don Guanella Village receives its funding through contracts with three states, various cities and counties, federal programs and agreements with managed care and insurance organizations. These contracts/agreements are generally fee-for-service agreements. The ultimate determination of amounts reimbursable under cost reimbursement contracts/agreements is based upon allowable costs to be reported to and subject to audit by grantors and/or their agents.

Net program service revenues are from funding sources under fee-for-service contracts for several of the Don Guanella Village's programs. For other programs, Don Guanella 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. Don Guanella Village recorded \$1,442,127 for the year ended June 30, 2012 related to a settlement received for the year ended June 30, 2010.

Don Guanella 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.

7. 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, Don Guanella 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 statement of activities 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.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

8. Allowance for Doubtful Accounts

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

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

CSS provides administrative and accounting services for related institutions and group homes, including Don Guanella 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. Any difference between the allocation and the amount charged to the institution during the year is considered a contribution of services from CSS.

10. Property, Plant and Equipment

Fixed assets 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:

Automobiles	5 years
Furniture and equipment	5 - 15 years
Leasehold improvements	5 - 20 years

NOTE C - PRIOR PERIOD ADJUSTMENT TO UNRESTRICTED NET ASSETS

Don Guanella Village leases a facility from the Archdiocese of Philadelphia. This agreement was entered into in 1987. In the prior year, this lease was recognized as a capital lease. Based on review of the lease terms, this lease should be recognized as an operating lease. This change resulted in an increase to unrestricted net assets of \$2,902,646 to opening net assets.

As a result, the net asset balance at July 1, 2011 has been restated to reflect the recognition of these assets, as follows:

Net assets at July 1, 2011, as previously reported	\$ 7,533,716
Cumulative change in net assets - prior period adjustment	<u>2,902,646</u>
Net assets at July 1, 2011, as restated	<u>\$ 10,436,362</u>

The aforementioned adjustment resulted in a decrease to changes in net assets for the year ended June 30, 2011.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE D - INVESTMENTS

Don Guanella Village's investments at June 30, 2012 are summarized and classified as follows:

	<u>Unrestricted</u>
Archdiocese of Philadelphia Non-Pension Assets Portfolio	\$ <u>4,301,669</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. Don Guanella 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 allocation of amounts to be invested among the funds. Management of the Archdiocese is responsible for ensuring that investment allocations among the funds are maintained as determined by the Investment Committee of the Archdiocese of Philadelphia.

At June 30, 2012, Don Guanella Village held the following within the NPAP:

Equity sub-account	\$ 2,667,035
Fixed income sub-account	<u>1,634,634</u>
Total ownership	\$ <u>4,301,669</u>

NOTE E - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment and accumulated depreciation at June 30, 2012 consists of:

Automobiles	\$ 6,378
Furniture and equipment	3,073,617
Leasehold improvements	<u>5,339,985</u>
	8,419,980
Accumulated depreciation	<u>(6,381,638)</u>
Property, plant and equipment, net	\$ <u>2,038,342</u>

Depreciation expense of \$364,637 was incurred for the year ended June 30, 2012.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE F - ACCOUNTS RECEIVABLE

The accounts receivable due from the City of Philadelphia, Department of Human Services ("DHS") and other governmental agencies was \$654,014 at June 30, 2012. The accounts receivable due from the Commonwealth of Pennsylvania, Department of Public Welfare was \$3,975,422 at June 30, 2012. These amounts are uncollateralized and therefore subject Don Guanella Village to a concentration of credit risk. Don Guanella Village monitors its funding arrangements with these parties.

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

Pledges receivable - Office of Development, United Way were \$6,826 net of an allowance of \$2,038 at June 30, 2012. Pledges receivable are expected to be realized in the following year.

NOTE H - 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. 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.

These transactions resulted in the Archdiocese of Philadelphia ("borrower") entering into a \$71,357,582 term loan agreement in June 2012 with the following related parties: Catholic Health Care Services of the Archdiocese of Philadelphia, CSS, Don Guanella Village, St. Edmond's Home for Crippled Children, Divine Providence Village and St. Francis (collectively, the "lenders"). As a result of this transaction with the Archdiocese of Philadelphia, Don Guanella Village loaned the Archdiocese of Philadelphia \$3,328,206. The loan bears interest at a fixed rate of 4% and is amortized over 30 years maturing on June 1, 2015.

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

2013	\$ 159,139
2014	191,000
2015	95,500
Balloon payment receivable on June 1, 2015	<u>2,877,772</u>
	<u>\$ 3,323,411</u>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE I - 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 management believes that the NPAP 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.

Fair value measurements of investments in entities that calculate net asset value ("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)	\$ 4,301,669	\$ -	daily	1 day

- (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.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE I - FAIR VALUE MEASUREMENTS - Continued

The following table presents the fair value of the investments held by Don Guanella Village 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	\$ -	\$ 4,301,669	\$ -	\$ 4,301,669
Total assets	\$ -	\$ 4,301,669	\$ -	\$ 4,301,669

NOTE J - PENSION PLAN

The eligible lay employees of Don Guanella Village 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. Don Guanella Village made annual contributions to the Plan at a rate of 5% for the year ended June 30, 2012 of salaries of the eligible employees. The amount of expense related to the Plan was \$378,677 for the fiscal year ended June 30, 2012. Separate accounts for vested benefits and pension fund assets are not maintained for each institution.

NOTE K - RELATED PARTY TRANSACTIONS

Don Guanella Village leases certain facilities and equipment, utilized in the delivery of its services, from the Archdiocese of Philadelphia and is covered under various insurance and retirement plans administered by the Archdiocese of Philadelphia. There were no amounts due to or from the Archdiocese of Philadelphia at June 30, 2012.

CSS provides administrative and accounting services for related institutions and group homes, including Don Guanella 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. 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 \$3,207,126 at June 30, 2012.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE K - RELATED PARTY TRANSACTIONS - Continued

The transactions with the Archdiocese of Philadelphia and CSS charged to expense for the year ended June 30, 2012 were as follows:

Archdiocese of Philadelphia	
Building lease	\$ 719,160
Insurance	156,558
Unemployment compensation fund	74,366
Lay employee pension contributions	<u>378,677</u>
	\$ <u>1,328,761</u>
Archdiocese of Philadelphia - Catholic Social Services	
Automobile leases	\$ 107,746
Allocated administrative and accounting costs	653,812
Information technology expense	261,823
Allocated administrative and accounting costs - contributed	<u>174,813</u>
	\$ <u>1,198,194</u>

For the year ended June 30, 2012, the Archdiocese of Philadelphia donated \$719,160 to Don Guanella Village as an unrestricted donation.

Catholic Charities Appeal donated \$100,000 to Don Guanella Village during the year ended June 30, 2012.

NOTE L - INCOME TAX STATUS

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

Don Guanella 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. Don Guanella Village 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 M - FUNCTIONAL EXPENSES

The following summarizes program and support expenses for the year ended June 30, 2012:

Program expenses	\$ 14,871,648
Support expenses	<u>4,817,272</u>
	\$ <u>19,688,920</u>

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE M - FUNCTIONAL EXPENSES - Continued

Functional program expenses consist of program compensation, general operating and occupancy expenses, and expenses directly related to the care of clients, including medical, recreation, and clothing. Supporting expenses consist of supporting compensation, general operating and occupancy expenses related to administrative and accounting services provided to other facilities by ICF/MR and Community Residential, combined.

NOTE N - FUNDING

Don Guanella Village is licensed as a community residential facility for mentally retarded children. Reimbursement of its services is provided primarily by the City of Philadelphia, Departments of Human Services and Mental Health and Mental Retardation. Don Guanella Village's per diem reimbursement rate from the City's Department of Human Services was \$307.53 at June 30, 2012.

Cardinal Krol Center is a certified Intermediate Care Facility for the Mentally Retarded ("ICF/MR") and is reimbursed under the Commonwealth of Pennsylvania's Medical Assistance Program. Reimbursement is limited to the lower of total allowable operating expenses or the approved operating budget.

Cardinal Krol Center's per diem reimbursement rate from the Commonwealth of Pennsylvania under its Medical Assistance Program was \$280.59 at June 30, 2012.

NOTE O - TEMPORARILY RESTRICTED NET ASSETS

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

Alzheimers/Dementia Unit	\$ <u>70,649</u>
Total temporarily restricted net assets	\$ <u><u>70,649</u></u>

NOTE P - SUBSEQUENT EVENTS

Don Guanella Village evaluated its June 30, 2012 financial statements for subsequent events through May 2, 2013, the date the financial statements were available to be issued. Don Guanella Village is not aware of any subsequent event which would require recognition or disclosure in the financial statements.