

Financial Statements and Report of Independent
Certified Public Accountants

Divine Providence Village

June 30, 2012

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Report of Independent Certified Public Accountants

Board of Directors
Divine Providence Village
Philadelphia, Pennsylvania

We have audited the accompanying statement of financial position of Divine Providence Village 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 Divine Providence Village'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 Divine Providence Village'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 Divine Providence 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

April 2, 2013

STATEMENT OF FINANCIAL POSITION

June 30, 2012

	Unrestricted	Temporarily restricted	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 2,900	\$ -	\$ 2,900
Escrow client funds	379,295	-	379,295
Accounts receivable - Commonwealth of Pennsylvania	1,909,820	-	1,909,820
Accounts receivable - other	1,583,566	-	1,583,566
Pledges receivable - Office of Development, United Way, net	1,582	-	1,582
Prepaid expenses and other current assets	18,837	-	18,837
Related party note receivable - Archdiocese of Philadelphia	31,884	-	31,884
Total current assets	3,927,884	-	3,927,884
Property, plant and equipment, net	3,735,558	-	3,735,558
Investments, board designated	3,134,217	-	3,134,217
Assets limited as to use restricted by donors	-	76,633	76,633
Related party note receivable - Archdiocese of Philadelphia, net of current portion	2,377,216	-	2,377,216
Total assets	\$ 13,174,875	\$ 76,633	\$ 13,251,508
LIABILITIES AND NET ASSETS			
Current liabilities			
Accounts payable and accrued expenses	\$ 900,516	\$ -	\$ 900,516
Mortgage payable	75,458	-	75,458
Salaries and wages payable	822,376	-	822,376
Due to Archdiocese of Philadelphia - Catholic Social Services	1,418,297	-	1,418,297
Escrow client funds	379,295	-	379,295
Total current liabilities	3,595,942	-	3,595,942
Mortgage payable	356,585	-	356,585
Total liabilities	3,952,527	-	3,952,527
Net assets			
Unrestricted	9,222,348	-	9,222,348
Temporarily restricted	-	76,633	76,633
Total net assets	9,222,348	76,633	9,298,981
Total liabilities and net assets	\$ 13,174,875	\$ 76,633	\$ 13,251,508

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

Divine Providence Village

STATEMENT OF ACTIVITIES

Year ended June 30, 2012

	Unrestricted	Temporarily restricted	Total
Operating revenue			
Governmental revenue	\$ 18,827,797	\$ -	\$ 18,827,797
Fees for service	39,841	-	39,841
Rental income	4,700	-	4,700
Contributed services - Catholic Social Services	151,242	-	151,242
Total operating revenue	19,023,580	-	19,023,580
Operating expenses			
Salaries, wages, and other payroll costs	13,782,845	-	13,782,845
Administrative and general expenses	3,369,481	-	3,369,481
Occupancy	1,571,794	-	1,571,794
Direct expenses of care	1,323,013	-	1,323,013
Depreciation	415,594	-	415,594
Interest expense	144,191	-	144,191
Total operating expenses	20,606,918	-	20,606,918
Deficiency of operating revenue under operating expenses	(1,583,338)	-	(1,583,338)
Other revenue (expenses)			
Donations and other	793,601	-	793,601
Catholic Charities Appeal	50,000	-	50,000
Interest income	8,042	-	8,042
Unrealized (losses) gains on investments	(208,709)	44	(208,665)
Gain on lease termination	4,294,484	-	4,294,484
Realized gains and other investment income	141,308	-	141,308
Dividend and interest income	102,412	-	102,412
Total other revenue	5,181,138	44	5,181,182
Net assets released from restrictions	-	-	-
Change in net assets	3,597,800	44	3,597,844
Net assets, beginning of year, as previously reported	6,032,864	76,589	6,109,453
Prior period adjustment (Note C)	(408,316)	-	(408,316)
Net assets, beginning of year, as restated	5,624,548	76,589	5,701,137
Net assets, end of year	\$ 9,222,348	\$ 76,633	\$ 9,298,981

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

Divine Providence Village

STATEMENT OF CASH FLOWS

Year ended June 30, 2012

Cash flows from operating activities	
Change in net assets	\$ 3,597,844
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	415,594
Bad debt recovery	(437)
Unrealized losses on investments	208,665
Realized gains on investments	(141,308)
Gain on lease termination	(4,294,484)
Changes in operating assets and liabilities	
Accounts receivable - Commonwealth of Pennsylvania	(64,904)
Accounts receivable - other	(781,551)
Pledges receivable - Office of Development, United Way, net	(1,461)
Prepaid and deferred expenses	171,145
Accounts payable and accrued expenses	576,448
Salaries and wages payable	149,524
Due to/from Archdiocese of Philadelphia - Catholic Social Services	<u>601,112</u>
Net cash provided by operating activities	<u>436,187</u>
Cash flows from investing activities	
Capital expenditures	(315,088)
Purchases and sales of investments, net	3,164,775
Related party note receivable - Archdiocese of Philadelphia	<u>(3,166,101)</u>
Net cash used in investing activities	<u>(316,414)</u>
Cash flows from financing activities	
Capital lease payments	(70,157)
Payment of mortgage obligations	<u>(49,616)</u>
Net cash used in financing activities	<u>(119,773)</u>
Change in cash and cash equivalents	
Cash and cash equivalents	
Beginning of year	<u>2,900</u>
End of year	<u>\$ 2,900</u>
Supplemental disclosure of cash flow information	
Cash paid during the year for interest	<u>\$ 144,191</u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

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.

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 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 Divine Providence Village through Board approved transfers.

2. Use of Estimates

The financial statements of Divine Providence Village are prepared in conformity with accounting principles generally accepted in the United States of America, which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and the disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the periods. Actual results could differ from these estimates.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

3. Accounting for Long-Lived Assets

Divine Providence Village assesses their assets for impairment whenever events or changes in circumstances indicate that the carrying amount of a respective asset that it expects to hold and use may not be recoverable.

4. 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.

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 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 statements of financial position.

The investments are held within a pool of investments with the Archdiocese of Philadelphia or within third-party trusts.

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.

6. Governmental Revenue

Divine Providence 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 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. Retroactive adjustments are accrued on an estimate in the period the related services are rendered and adjusted in the five periods, as final settlements are determined. Divine Providence Village recorded \$331,848 as of June 30, 2012 related to a settlement received for fiscal year 2010.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

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.

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, 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 changes in net assets as net assets released from restrictions.

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.

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

Catholic Social Services of the Archdiocese of Philadelphia ("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 changes 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.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

9. 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	40 years
Building improvements	15 - 20 years
Equipment	5 - 10 years
Furniture	5 - 15 years
Automobiles	5 years
Leasehold improvements	5 - 20 years
Capital lease	50 years

NOTE C - PRIOR PERIOD ADJUSTMENT

Divine Providence Village leases a facility from the Archdiocese of Philadelphia. This agreement was entered into in 1984. In the prior year, this lease was amortized over a 40-year period. Based on review of the lease terms, this lease should be amortized over a 50-year term. This change resulted in a decrease to unrestricted net assets of \$408,316 to opening net assets.

As a result, the net asset balance at July 1, 2011 has been restated as follows:

	<u>Unrestricted net assets</u>
Net assets at July 1, 2011, as originally reported	\$ 6,032,864
Cumulative change in net assets - prior period adjustment	<u>(408,316)</u>
Net assets at July 1, 2011, as restated	<u>\$ 5,624,548</u>

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

NOTE D - INVESTMENTS

Divine Providence Village's 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>3,134,217</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>3,134,217</u>

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE D - INVESTMENTS - Continued

The Archdiocese of Philadelphia formed the Non-Pension Assets Portfolio (the "NPAP") to manage the investment of various entities and affiliates of 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.

Each of the funds is unitized on a periodic basis to allow for the investment, at unit value, by entities in the NPAP. The Trustee Account investment in the NPAP is stated at unit value.

The Investment Committee of the Archdiocese has primary responsibility for determining the allocation of amounts to be invested among the funds. The Secretary for Temporal Services/Chief Financial Officer 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	\$ 1,943,215
Fixed income sub-account	<u>1,191,002</u>
Total ownership	<u>\$ 3,134,217</u>

NOTE E - PROPERTY, PLANT AND EQUIPMENT

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

Land	\$ 165,085
Buildings	1,516,265
Automobiles	38,998
Furniture and equipment	1,396,297
Leasehold improvements	<u>4,205,660</u>
	7,322,305
Accumulated depreciation	<u>(3,586,747)</u>
Property, plant and equipment, net	<u>\$ 3,735,558</u>

Depreciation expense of \$415,594 was incurred for the year ended June 30, 2012.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE F - ACCOUNTS RECEIVABLE - COMMONWEALTH OF PENNSYLVANIA

The receivable due from the Commonwealth of Pennsylvania, Department of Public Welfare was \$1,909,820 at June 30, 2012. These amounts are uncollateralized and therefore subject Divine Providence Village to a concentration of credit risk. Divine Providence Village monitors its funding arrangements with these parties.

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

Pledges receivable - Office of Development, United Way was \$1,582, net of an allowance of \$473 for the year ended 2012. Pledges receivable are expected to be realized over 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"). The loan bears interest at a fixed rate of 4% and is amortized over 30 years maturing on June 1, 2015. For the year ended June 30, 2012, the total outstanding amount under the related party note receivable was \$2,409,100.

The loan 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	\$ 35,360
2014	44,020
2015	22,676
Balloon payment receivable on June 1, 2015	<u>2,307,044</u>
	<u>\$ 2,409,100</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 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 Divine Providence Village's 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)	\$ 3,134,217	\$ -	daily	1 day

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE I - 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 Divine Providence 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	\$ -	\$ 3,134,217	\$ -	\$ 3,134,217
Trusts held by third parties	-	-	-	-
Total assets	\$ -	\$ 3,134,217	\$ -	\$ 3,134,217

NOTE J - PENSION PLAN

The eligible lay employees of Divine Providence 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. Divine Providence Village made annual contributions to the Plan at 5.0% for the year ended June 30, 2012 of salaries of the eligible employees. The amount of expense relating to the Plan was \$359,967 for the year ended June 30, 2012. Separate accounts for vested benefits and pension fund assets are not maintained for each institution.

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 \$4,793 for the year ended June 30, 2012.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE K - RELATED PARTY TRANSACTIONS

Divine Providence Village leases certain facilities and equipment, utilized in the delivery of its services, from the Archdiocese of Philadelphia and CSS and is covered under various insurance and retirement plans administered by the Archdiocese of Philadelphia. Additionally, certain administrative and accounting costs incurred by CSS are allocated to Divine Providence Village. The transactions with the Archdiocese of Philadelphia and affiliates charged to expense as of June 30, 2012 are as follows:

Automobile leases	\$ 47,938
Insurance	79,124
Lay employee pension contributions	359,967
Religious employee pension contributions	47,938
Allocated administrative and accounting costs	693,721
Allocated administrative and accounting costs - contributed	151,242
Information technology services	<u>223,286</u>
	<u>\$ 1,603,216</u>

During the year ended June 30, 2012, the Archdiocese of Philadelphia donated \$724,000 to Divine Providence Village as an unrestricted donation. No cash was exchanged for this transaction. Divine Providence Village was required to pay \$724,000 related to a lease to the Archdiocese of Philadelphia.

Catholic Charities Appeal donated \$50,000 to Divine Providence Village during the fiscal year ended June 30, 2012.

Divine Providence Village entered into a related party transaction with CSS in a payable position of \$1,418,297. There are no specific terms or interest related to this transaction.

NOTE L - 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 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.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE M - FUNCTIONAL EXPENSES

Divine Providence Village provides a variety of services. Expenses related to providing these services at June 30, 2012 are as follows:

Program expenses	\$ 17,180,810
Support expenses	<u>3,426,108</u>
	<u>\$ 20,606,918</u>

NOTE N - FUNDING

Divine Providence Village provides institutional care for intellectually disabled girls and women. Reimbursement of these services is provided primarily by the City of Philadelphia ("City") Department of Mental Health and Mental Retardation, along with the New Jersey Department of Developmental Disabilities.

Divine Providence Village's per diem reimbursement rate from the New Jersey Department of Developmental Disabilities was \$414.14 for the year ended June 30, 2012.

Divine Providence Village is also a certified Intermediate Care Facility for the Mentally Retarded ("ICF/MR") 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.

Divine Providence Village's per diem reimbursement rate from the Commonwealth of Pennsylvania under its Medical Assistance Program was \$316.03 for the year ended June 30, 2012.

Divine Providence Village has ten Community Living Arrangements ("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 O - COMMITMENTS

Divine Providence Village leases automobiles from CSS. Rental expense was \$105,592 for the fiscal year ended June 30, 2012. As of June 30, 2012, there are no future minimum rental payments.

Divine Providence Village leases a facility which is owned by the Archdiocese of Philadelphia under a capital lease arrangement for 50 years, entered into in 1982. The lease was terminated effective July 1, 2011.

NOTE P - MORTGAGE OBLIGATION

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.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE P - MORTGAGE OBLIGATION - Continued

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

At June 30, 2012, a mortgage payable of \$180,836 was outstanding on the property. Aggregate total principal and interest of this mortgage obligation and note payable are as follows:

2013	\$ 32,075
2014	32,075
2015	32,075
2016	32,075
2017 and thereafter	<u>52,536</u>
	<u>\$ 180,836</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 6.21%, and monthly payments of \$3,615.

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

At June 30, 2012, a mortgage payable of \$251,207 was outstanding on the property. Aggregate total principal and interest of this mortgage obligation and note payable are as follows:

2013	\$ 43,383
2014	43,383
2015	43,383
2016	43,383
2017 and thereafter	<u>77,675</u>
	<u>\$ 251,207</u>

NOTE Q - TEMPORARILY RESTRICTED ASSETS

The client trust is to be used for the personal needs of a resident of Divine Providence Village.

Client trust	\$ <u>76,633</u>
Total temporarily restricted assets	<u>\$ 76,633</u>

NOTE R - SUBSEQUENT EVENTS

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