
Financial Statements and Report of Independent
Certified Public Accountants

**Nutritional Development 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 and changes in net assets	5
Statement of cash flows	6
Notes to financial statements	7
Supplemental information	
Statement of activities by program	13



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Report of Independent Certified Public Accountants

The Board of Directors
Nutritional Development Services
of the Archdiocese of Philadelphia

We have audited the accompanying statement of financial position of Nutritional Development Services of the Archdiocese of Philadelphia ("NDS") as of June 30, 2012 and the related statements of activities and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of NDS' 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 NDS' 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 Nutritional Development Services of the Archdiocese of Philadelphia as of June 30, 2012, and its activities and changes in net assets 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

February 15, 2013

STATEMENT OF FINANCIAL POSITION

June 30, 2012

Assets	
Current assets	
Cash - government funded programs	\$ 1,615,667
Cash	55,357
Grants receivable - government programs	3,384,698
Other receivables	497,024
Inventory	445,639
Prepaid expenses	<u>36,153</u>
Total current assets	6,034,538
Equipment, net	<u>1,273,225</u>
Total assets	<u>\$ 7,307,763</u>
Liabilities and net assets	
Current liabilities	
Accounts payable and accrued expenses	\$ 1,707,125
Other current liability	<u>201,876</u>
Total liabilities	<u>1,909,001</u>
Net assets (deficiency)	
Unrestricted	(90,268)
Unrestricted - government funded programs	5,333,835
Temporarily restricted	<u>155,195</u>
Total net assets	<u>5,398,762</u>
Total liabilities and net assets	<u>\$ 7,307,763</u>

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

Nutritional Development Services of the Archdiocese of Philadelphia

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended June 30, 2012

	<u>Unrestricted</u>	<u>Unrestricted - government funded programs</u>	<u>Temporarily restricted</u>	<u>Total</u>
Revenue				
Grants				
Federal and state governments	\$ -	\$ 14,908,434	\$ -	\$ 14,908,434
City of Philadelphia	1,200	-	33,790	34,990
Nongovernment receipts	-	2,472,574	-	2,472,574
Contributions from Operation Rice Bowl	-	-	84,441	84,441
Contributions - other	35,086	-	5,396	40,482
Subsidy from Catholic Charities Appeal Fund	80,000	-	-	80,000
Other income	49,669	3,648	16,500	69,817
Interest income	94	9,258	-	9,352
Satisfaction of program restrictions	43,000	-	(43,000)	-
Total revenue	<u>209,049</u>	<u>17,393,914</u>	<u>97,127</u>	<u>17,700,090</u>
Expenses				
Food costs	-	11,451,456	100,533	11,551,989
Compensation	159,656	2,247,349	15,664	2,422,669
Office	8,063	149,442	545	158,050
Transportation	16,684	93,929	-	110,613
Fixed charges	1,284	120,191	-	121,475
Program administration	18,324	3,583,783	65,021	3,667,128
Depreciation	4,313	228,008	-	232,321
Miscellaneous expenses	-	55,729	-	55,729
Total expenses	<u>208,324</u>	<u>17,929,887</u>	<u>181,763</u>	<u>18,319,974</u>
Change in net assets	725	(535,973)	(84,636)	(619,884)
Net assets (deficiency)				
Beginning of year with adjustment	<u>(90,993)</u>	<u>5,869,808</u>	<u>239,831</u>	<u>6,018,646</u>
End of year	<u>\$ (90,268)</u>	<u>\$ 5,333,835</u>	<u>\$ 155,195</u>	<u>\$ 5,398,762</u>

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	\$ (619,884)
Adjustments to reconcile change in net assets to net cash used in operating activities	
Depreciation	232,321
Loss on disposition of equipment	7,363
Changes in net assets and liabilities	
Increase in grants receivable	(24,048)
Decrease in other receivables	70,693
Increase in inventory	(77,709)
Decrease in prepaid expenses	2,657
Decrease in accounts payable, accrued expenses, and other liabilities	<u>(287,031)</u>
Net cash used in operating activities	(695,638)
Cash flows from investing activities	
Capital expenditures	<u>(114,867)</u>
Net cash used in investing activities	<u>(114,867)</u>
Net decrease in cash	(810,505)
Cash	
Beginning of year	<u>2,481,529</u>
End of year	<u>\$ 1,671,024</u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE A - ORGANIZATION AND PURPOSE

Nutritional Development Services ("NDS") is a corporation of the Archdiocese of Philadelphia whose purpose is to obtain and distribute nutritious foods at a minimum cost to those attending or residing in educational or charitable institutions, or to those whose physical or financial circumstances require a specialized delivery of food; to provide food procurement and delivery services contemplated by governmental agencies; to conduct nutrition awareness programs in conjunction with these activities and to cooperate with, and render technical assistance and advice to others working in this field.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Basis of Presentation

The financial statements of NDS have been prepared in conformity with accounting principles generally accepted in the United States of America. The significant accounting policies followed are described below.

Net assets and revenues, expenses, gains and losses are categorized into two categories, based on the existence or absence of donor-imposed restrictions.

Temporarily restricted net assets include contributions, which can be expended but for which restrictions have not yet been met.

Unrestricted net assets are free of donor-imposed restrictions and are all the remaining net assets of NDS.

2. Funding

NDS receives the majority of its revenues from performance-based contracts with various governmental agencies. These revenues are subject to audit which could result in repayment or reversal of revenues.

The various school, childcare, and summer meals programs are funded by the U.S. Department of Agriculture through the Pennsylvania Department of Education. The State Food Purchase Program is funded by the Commonwealth of Pennsylvania. Programs listed as part of the Child Nutrition Cluster in this report are governed by the United States Department of Agriculture regulations including 7 CFR 210, 220, 215, and 226 and FNS Instruction 796-2, in addition to guidance from the Pennsylvania Department of Education. Surpluses within these programs that are not required to be returned or spent are to be retained for that particular program exclusively. These funds are to be used to improve operations or be set aside against possible future losses within that program. These net assets are recorded as unrestricted; however, the government regulations for these programs place restrictions for their use.

3. Contributions

Gifts of long-lived assets are reported at fair value as unrestricted revenue. Gifts specified for the acquisition or construction of long-lived assets are reported as unrestricted net assets when the assets are placed in service.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

4. Classification of Gifts

NDS reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, 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. Donor-restricted contributions are reported as unrestricted operating revenue when the restriction is satisfied within the same year that the contribution is received.

5. 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 significant estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

6. Equipment and Depreciation

Equipment purchased is stated at cost, while donated assets are stated at fair market value on the date of donation. Depreciation is provided over the estimated useful lives of the assets and is computed using the straight-line method. The estimated useful life for equipment ranges from three to twelve years.

7. Cash

NDS maintains its cash on deposit with a large commercial bank, and the deposit typically exceeds federally insured limits.

8. Inventory

Inventories consist of food and supplies used for the programs. Cost is determined by the first-in, first-out method.

9. Prior Period Adjustment

NDS receives funding from various governmental agencies and organizations to support its operations. Management has concluded that certain funds received are from exchange transactions and should be recorded as unrestricted revenues under applicable accounting guidance. As a result, the net asset balance at July 1, 2011 has been restated to reflect the designation and restrictions, or lack thereof, of grant revenues received, as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>
Net assets at July 1, 2011, as originally reported	\$ (90,993)	\$ 6,109,639
Cumulative change in net assets - prior period adjustment	<u>5,869,808</u>	<u>(5,869,808)</u>
Net assets at July 1, 2011, as restated	<u>\$ 5,778,815</u>	<u>\$ 239,831</u>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE C - EQUIPMENT

Equipment at June 30, 2012 consisted of:

Equipment at schools	\$ 2,691,928
Office equipment	<u>504,289</u>
	3,196,217
Less: accumulated depreciation	<u>(1,922,992)</u>
	<u>\$ 1,273,225</u>

NOTE D - OPERATING LEASES

NDS has a non-cancellable operating lease for two copiers. Future minimum rental payments for non-cancellable lease terms in excess of one year as of June 30, 2012 are as follows:

2013	\$ 13,648
2014	<u>13,648</u>
	<u>\$ 27,296</u>

Rental expense related to these leases for the year ended June 30, 2012 was \$13,648.

NOTE E - PENSIONS

The eligible lay employees of NDS 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.

NDS annual contribution to the Plan	
Average rate	5.00%
Contribution expense for the year	\$ 72,305
Prepayment	\$ 36,152

Separate accounts for vested benefits and pension fund assets are not maintained for each institute.

NOTE F - INCOME TAXES

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

NDS 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. NDS does not believe its financial statements include any material uncertain tax positions.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE G - CONTRIBUTIONS OF FOOD

During 2012, approximately 893,340 pounds of food with an estimated fair value of \$1,482,944 were donated from various nongovernment sources. This food was redistributed to organizations feeding the needy and is not reflected in these financial statements.

NOTE H - DISALLOWED REVENUES

NDS accrued in its 2011 financial statements a liability with the Pennsylvania Department of Education ("PDE") regarding the 2008 Seamless Summer Meal Option program. NDS was required to repay \$331,876 related to meals previously reimbursed by the PDE. Of this amount, \$130,000 was paid in fiscal year 2012 and the remainder, amounting to \$201,876, is classified as an other current liability in the 2012 financial statements as it is anticipated this amount will be paid within fiscal year 2013.

In 2012, the PDE conducted a review of NDS' reimbursement relating to the National School Lunch Program. As a result of this review, NDS was assessed to return a total of \$54,479 to the PDE for meals previously requested by NDS for reimbursement. These disallowed revenues are presented as miscellaneous expenses within the statement of activities and changes in net assets.

NOTE I - FUNCTIONAL EXPENSES

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

Program expenses	\$ 15,754,607
Supporting expenses	<u>2,565,367</u>
	<u>\$ 18,319,974</u>

Program expenses consist of food, program compensation, transportation, depreciation and program administrative costs. Supporting expenses consist of supporting compensation, office expenses, fixed charges and miscellaneous costs.

NOTE J - RELATED PARTY TRANSACTIONS

NDS provides meals to elementary schools and child care centers of parishes in the Archdiocese of Philadelphia. These meals are purchased by NDS and distributed in schools and centers under the federally funded child nutritional programs. During fiscal year 2012, a total of \$1,378,592 was purchased by the students, of which \$300,012 was included in other receivables at June 30, 2012.

In addition, NDS receives subsidies from the Catholic Charities Appeal Fund, which is a fund administered by the Archdiocese of Philadelphia. Subsidies were \$80,000 for the year ended June 30, 2012.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE J - RELATED PARTY TRANSACTIONS - Continued

NDS also receives funds from Operation Rice Bowl, which is also a program administered by the Archdiocese of Philadelphia, in which contributions are received from churches throughout the Archdiocese. Contributions at June 30, 2012 were \$84,441.

NDS rents certain facilities, utilized in the delivery of its services, from the Archdiocese of Philadelphia. Rent expense on these facilities was \$99,072 for fiscal year 2012.

NDS reimburses Catholic Social Services ("CSS") of the Archdiocese of Philadelphia for meals served at the residential child care centers and group homes. These meals are served in accordance with the regulations of the National School Lunch and Breakfast Program. As of June 30, 2012, NDS has amounts payable to CSS totaling \$132,381.

On July 2009, with subsequent amendment on October 2010, NDS entered into separate loan and security agreements with Catholic Health Care Services of the Archdiocese of Philadelphia for a revolving line of credit of \$500,000. The terms of the agreements are two years and terminate on June 30, 2013. The line of credit bears interest monthly on the effective interest rate of the borrower. No amounts have been drawn upon as of June 30, 2012.

NOTE K - SUBSEQUENT EVENTS

NDS evaluated events subsequent to June 30, 2012 and through February 15, 2013, the date the financial statements were available to be issued. NDS is not aware of any subsequent event that would require recognition or disclosure in the financial statements.

SUPPLEMENTAL INFORMATION

Nutritional Development Services of the Archdiocese of Philadelphia

STATEMENT OF ACTIVITIES BY PROGRAM

Year ended June 30, 2012

	School-Based Program	Seamless Summer Option	Child Care Program	Community Food	Food Program Admin	Catholic Relief Services	Special Projects Wal-Mart	Total all Programs
Revenue								
Grants								
Federal and state governments	\$ 8,225,009	\$ 2,098,580	\$ 4,584,845	\$ -	\$ -	\$ -	\$ -	\$ 14,908,434
City of Philadelphia	-	-	-	33,790	1,200	-	-	34,990
Nongovernment meal receipts	2,233,769	-	238,805	-	-	-	-	2,472,574
Contributions from Operation Rice Bowl	-	-	-	41,441	43,000	-	-	84,441
Contributions - other	-	-	-	5,396	35,086	-	-	40,482
Subsidy from Catholic Charities Appeal Fund	-	-	-	16,500	80,000	-	-	80,000
Other income	(524)	2,250	1,922	-	49,669	-	-	69,817
Interest income	6,670	-	2,588	-	94	-	-	9,352
Total revenue	10,464,924	2,100,830	4,828,160	97,127	209,049	-	-	17,700,090
Expenses								
Food costs	7,008,820	1,604,558	2,838,078	100,533	-	-	-	11,551,989
Compensation	1,119,520	322,516	805,313	-	159,656	-	15,664	2,422,669
Office	78,229	27,447	43,766	-	8,063	-	545	158,050
Transportation	40,232	23,960	29,737	-	16,684	-	-	110,613
Fixed charges	84,034	1,555	34,602	-	1,284	-	-	121,475
Program administration	2,307,429	328,266	948,088	-	18,324	-	65,021	3,667,128
Depreciation	210,224	1,147	16,637	-	4,313	-	-	232,321
Miscellaneous expenses	54,501	1,218	10	-	-	-	-	55,729
Total expenses	10,902,989	2,310,667	4,716,231	100,533	208,324	-	81,230	18,319,974
Change in net assets	(438,065)	(209,837)	111,929	(3,406)	725	-	(81,230)	(619,884)
Net assets (deficiency)	4,931,197	(324,498)	1,263,109	129,256	(90,993)	545	110,030	6,018,646
Beginning of year with adjustment	\$ 4,493,132	\$ (534,335)	\$ 1,375,038	\$ 125,850	\$ (90,268)	\$ 545	\$ 28,800	\$ 5,398,762
End of year								