

Financial Statements and Report of Independent
Certified Public Accountants

St. Francis-St. Joseph Homes for Children

June 30, 2012

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Report of Independent Certified Public Accountants

Board of Directors
St. Francis-St. Joseph Homes for Children
Philadelphia, Pennsylvania

We have audited the accompanying statement of financial position of St. Francis-St. Joseph Homes for Children ("St. Francis") 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 St. Francis'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 St. Francis'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 the 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 St. Francis-St. Joseph Homes for Children, 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

April 12, 2013

STATEMENT OF FINANCIAL POSITION

June 30, 2012

ASSETS	Unrestricted	Temporarily restricted	Permanently restricted	Total
Current assets				
Cash	\$ 34,096	\$ 16,129	\$ -	\$ 50,225
Accounts receivable - DHS and CBH, less allowance of \$200,000	799,032	-	-	799,032
Accounts receivable - other governmental agencies	2,709,377	-	-	2,709,377
Accounts receivable - other	2,714	-	-	2,714
Related party note receivable - Archdiocese of Philadelphia	18,921	-	-	18,921
Pledges receivable - Office of Development, United Way, net	2,538	-	-	2,538
Prepaid expenses and other assets	9,255	-	-	9,255
Total current assets	3,575,933	16,129	-	3,592,062
Property, plant and equipment, net	4,255,455	-	-	4,255,455
Related party note receivable - Archdiocese of Philadelphia, net of current portion	548,711	-	-	548,711
Investments	140,234	-	-	140,234
Trusts held by third parties	-	259,306	510,268	769,574
Total assets	\$ 8,520,333	\$ 275,435	\$ 510,268	\$ 9,306,036
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable and accrued expenses	\$ 345,912	\$ -	\$ -	\$ 345,912
Salaries and wages payable	361,441	-	-	361,441
Due to Archdiocese of Philadelphia - Catholic Social Services	3,131,843	-	-	3,131,843
Total current liabilities	3,839,196	-	-	3,839,196
Net assets				
Unrestricted	4,681,137	-	-	4,681,137
Temporarily restricted	-	275,435	-	275,435
Permanently restricted	-	-	510,268	510,268
Total net assets	4,681,137	275,435	510,268	5,466,840
Total liabilities and net assets	\$ 8,520,333	\$ 275,435	\$ 510,268	\$ 9,306,036

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	\$ 8,996,099	\$ -	\$ -	\$ 8,996,099
Contributed rent	52,000	-	-	52,000
Fees for service	45,590	-	-	45,590
Contributed services - Archdiocese of Philadelphia - Catholic Social Services	88,051	-	-	88,051
Total operating revenue	9,181,740	-	-	9,181,740
Operating expenses				
Salaries, wages and other payroll costs	7,679,056	-	-	7,679,056
Administrative and general	1,530,003	-	-	1,530,003
Occupancy	610,500	-	-	610,500
Direct expenses of children	600,990	-	-	600,990
Depreciation	443,523	-	-	443,523
Loss on extinguishment of debt	60,931	-	-	60,931
Interest	352,750	-	-	352,750
Bad debt expense	200,000	-	-	200,000
Total operating expenses	11,477,753	-	-	11,477,753
Deficiency of operating revenue under operating expenses	(2,296,013)	-	-	(2,296,013)
Other revenue (expenses)				
Donations, bequests, and trusts	379,612	4,217	-	383,829
Catholic Charities Appeal	100,000	-	-	100,000
Gain on sale of property	69,025	-	-	69,025
Dividend and interest income	155,894	2,067	3,096	161,057
Loss on termination of interest rate swap	(655,316)	-	-	(655,316)
Net realized gains (losses) on investments	308,129	(5,146)	1,541	304,524
Net unrealized losses on investments	(275,337)	(1,497)	(36,516)	(313,350)
Total other revenue (expenses)	82,007	(359)	(31,879)	49,769
Change in net assets	(2,214,006)	(359)	(31,879)	(2,246,244)
Net assets				
Beginning of year	6,895,143	275,794	542,147	7,713,084
End of year	\$ 4,681,137	\$ 275,435	\$ 510,268	\$ 5,466,840

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

St. Francis-St. Joseph Homes for Children

STATEMENT OF CASH FLOWS

Year ended June 30, 2012

Cash flows from operating activities	
Change in net assets	\$ (2,246,244)
Adjustments to reconcile change in net assets to net cash used in operating activities	
Depreciation	443,523
Net realized gains on investments	(304,524)
Net unrealized losses on investments	313,350
Loss on termination of interest rate swap	655,316
Loss on extinguishment of debt	60,931
Gain on sale of property	(69,025)
Bad debt expense	200,000
Changes in operating assets and liabilities	
Accounts receivable - DHS and CBH	84,732
Accounts receivable - other governmental	(1,331,252)
Accounts receivable - other	(2,714)
Pledges receivable - Office of Development, United Way	(529)
Prepaid expense	122,419
Accounts payable and accrued expenses	111,692
Salaries and wages payable	155,364
Due to Archdiocese of Philadelphia - Catholic Social Services	<u>1,269,851</u>
Net cash used in operating activities	<u>(537,110)</u>
Cash flows from investing activities	
Capital expenditures	(104,422)
Proceeds from sale of property	151,916
Related party note receivable - Archdiocese of Philadelphia	(567,632)
Net purchases and sales of investments	<u>8,771,890</u>
Net cash provided by investing activities	<u>8,251,752</u>
Cash flows from financing activities	
Payment of bond payable	(6,343,568)
Termination of interest rate swap	<u>(1,387,576)</u>
Net cash used in financing activities	<u>(7,731,144)</u>
Decrease in cash	(16,502)
Cash	
Beginning of year	<u>66,727</u>
End of year	<u>\$ 50,225</u>
Supplemental disclosure of cash flow information	
Cash paid during the year for interest	<u>\$ 331,852</u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE A - ORGANIZATION

St. Francis-St. Joseph Homes for Children ("St. Francis") provides community-based residential treatment and group homes services to dependent, neglected, delinquent and emotionally troubled children between the ages of 10 and 21 years of age.

The accompanying financial statements include programs operated and administered by St. Francis.

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. St. Francis, 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 St. Francis.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis in conformity with accounting principles generally accepted in the United States of America ("US GAAP"). St. Francis presents its financial statements in accordance with the guidance set forth by the Financial Accounting Standards Board ("FASB") in regard to *Financial Statements of Not-for-Profit Organizations*. Accordingly, St. Francis's net assets and its 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 not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees.

(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 US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant management estimates and assumptions include the allowance for doubtful accounts, useful lives of depreciable assets and the fair values of investments. Actual results could differ from those estimates.

3. Accounting for Long-Lived Assets

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

4. 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 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.

5. Governmental Revenue

St. Francis 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 to and subject to audit by grantors and/or their agents.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Net program service revenues are from funding sources under cost reimbursement-type contracts for several of St. Francis's programs. St. Francis records revenues under such contracts as costs are incurred. For other programs, St. Francis 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.

St. Francis 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.

6. 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, St. Francis 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.

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

7. Allowance for Doubtful Accounts

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

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

8. Contributed Services

Contributed services represent the difference between the stipend allowance paid for the religious personnel performing work for the institution and the compensation which would be paid to lay persons possessing similar qualifications and performing similar work. In addition, contributed rent represents rent on the premises used by St. Francis which are owned by other entities within the Archdiocese of Philadelphia and for which no rent is charged. This amount is reported as both revenue and expense in the statement of activities.

9. Property, Plant and Equipment

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

Building	20 years
Building improvements	20 years
Furniture and equipment	3 - 5 years
Computer	3 years

NOTE C - INVESTMENTS AND TRUSTS HELD BY THIRD PARTIES

St. Francis'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	\$ 140,234	\$ -	\$ -	\$ 140,234
Trusts held by third parties	<u>-</u>	<u>259,306</u>	<u>510,268</u>	<u>769,574</u>
	<u>\$ 140,234</u>	<u>\$ 259,306</u>	<u>\$ 510,268</u>	<u>\$ 909,808</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.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE C - INVESTMENTS AND TRUSTS HELD BY THIRD PARTIES - Continued

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.

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 of Philadelphia 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, the Trustee Account held the following within the NPAP:

Equity sub-account	\$ 89,945
Fixed income sub-account	<u>50,289</u>
Total ownership	<u>\$ 140,234</u>

St. Francis is the beneficiary of the income of individual trusts held in perpetuity by third parties. At June 30, 2012, the allocable fair value of these trusts was \$769,574. During fiscal year 2012, St. Francis recognized unrestricted income of \$11,135 and permanently restricted appreciation of \$21,062 related to these trusts.

NOTE D - PROPERTY, PLANT AND EQUIPMENT

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

Buildings	\$ 180,517
Building improvements	7,799,446
Furniture and equipment	1,147,460
Computer	<u>459,622</u>
Total property, plant and equipment, gross	9,587,045
Accumulated depreciation	<u>(5,331,590)</u>
Property, plant and equipment, net	<u>\$ 4,255,455</u>

Depreciation expense of \$443,523 was incurred for the year ended June 30, 2012.

NOTE E - ACCOUNTS RECEIVABLE - DHS AND OTHER GOVERNMENTAL AGENCIES

At June 30, 2012, St. Francis had uncollateralized accounts receivable from Philadelphia Department of Human Services ("DHS") and Community Behavioral Health ("CBH") of \$999,032. The receivable due from other governmental agencies was \$2,709,377 as of June 30, 2012. These balances potentially subject St. Francis to a concentration of credit risk. St. Francis monitors its funding arrangements with CBH and DHS and other governmental agencies.

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

Pledges receivable - Office of Development, United Way were \$2,538, net of an allowance of \$758 for fiscal year 2012. Pledges receivable are expected to be realized over the following year.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE G - RELATED PARTY NOTE RECEIVABLE - ARCHDIOCESE OF PHILADELPHIA

In June 2012, the Archdiocese of Philadelphia and related entities entered into several term loan agreements with participating Archdiocesan entities to retire outstanding external debt obligations. 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. As a result of this transaction, St. Francis paid off its allocated portion of its debt obligation and wrote off the balance of the bond issuance costs in the amount of \$60,931 for the year ended June 30, 2012. In conjunction with the repayment, St. Francis terminated its allocated portion of the interest rate swap. The termination of the swaps resulted in a loss on termination in the amount of \$655,316 for the year ended June 30, 2012, which was recorded as a component of other revenue (expenses) in the statement of activities and a termination payment of \$1,387,576.

This transaction 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, St. Francis loaned the Archdiocese of Philadelphia \$567,632. The loan bears interest at a fixed rate of 4% and is amortized over 30 years, maturing on June 1, 2015.

The note receivable 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	\$ 18,921
2014	18,921
2015	<u>529,790</u>
	<u>\$ 567,632</u>

NOTE H - 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 - Valuations whose values are based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE H - FAIR VALUE MEASUREMENTS - Continued

Level 2 - Valuations that are based on quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active. Investments which are included in this category are securities that trade in markets that are not considered to be active or for which all significant inputs are observable, either directly or indirectly.

Level 3 - Prices or valuations that are unobservable and where there is little, if any, market activity for these investments. The inputs into the determination of fair value inputs for these investments require significant management judgment or estimation.

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.

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)	\$ 140,234	\$ -	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.

Fair value for Level 3 is based on valuation techniques that trade infrequently or not at all.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE H - FAIR VALUE MEASUREMENTS - Continued

The following table presents the fair values of the investments held by St. Francis 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	\$ -	\$ 140,234	\$ -	\$ 140,234
Trusts held by third parties	-	-	769,574	769,574
Total assets	\$ -	\$ 140,234	\$ 769,574	\$ 909,808

The following table is a rollforward 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	\$ 782,218
Unrealized losses	(1,509)
Distributions	(11,135)
Fair value June 30, 2012	\$ 769,574

St. Francis is required to disclose the fair value of financial instruments for which it is practical to estimate fair value. The fair value of short-term financial instruments such as cash, accounts receivable and accounts payable approximates their carrying value due to their short-term nature.

NOTE I - PENSION PLAN

The eligible lay employees of St. Francis 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. St. Francis 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 \$253,210 for the fiscal year ended June 30, 2012. Separate accounts for vested benefits and pension fund assets are not maintained for each institution.

St. Francis also makes contributions to the various orders of the religious personnel who provide services at their facilities. The amount of expense related to these contributions was \$4,190 for the year ended June 30, 2012.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE J - RELATED PARTY TRANSACTIONS

St. Francis 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 St. Francis. 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 \$3,131,843 for the year ended June 2012.

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

Archdiocese of Philadelphia	
Rental of facility - contributed	\$ 52,000
Insurance - auto and general	85,668
Lay employee pension contributions	253,210
Religious employee pension contributions	<u>4,190</u>
	<u>\$ 395,068</u>
Archdiocese of Philadelphia - Catholic Social Services	
Rental of facilities	\$ 46,479
Automobile leases	1,471
Human resources	30,656
Allocated administrative and accounting costs	206,200
Allocated administrative and accounting costs - contributed	88,051
Information technology services	<u>114,091</u>
	<u>\$ 486,948</u>

Catholic Charities Appeal donated \$100,000 to St. Francis during the fiscal year ended June 30, 2012.

NOTE K - INCOME TAX STATUS

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

St. Francis 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. St. Francis 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 L - FUNCTIONAL EXPENSES

St. Francis provides treatment and residential placement services to young men, women and children. These services are provided in community-based residential group homes and campus facilities. Day care services are also provided. The program expenses and support services for the year ended June 30, 2012 are as follows:

Program expenses	\$ 8,932,019
Support services	<u>2,545,734</u>
	<u>\$ 11,477,753</u>

NOTE M - FUNDING

St. Francis provides residential care and treatment for dependent children. St. Francis receives reimbursement from CBH for treatment at a fixed per diem rate. Room and board continues to be reimbursed by DHS.

St. Francis per diem rates in effect for the year ended June 30, 2012 with the City of Philadelphia and CBH were as follows:

	July 1, 2011 through <u>June 30, 2012</u>
County Human Services	
Supported Supervised Independent Living ("SSIL")	\$ 114.52
Group Home Intensive (March 1, 2012 through June 30, 2012)	197.03
Community Behavioral Health (Treatment)	
Level II	292.00
Philadelphia DHS Room and Board	3.00

NOTE N - COMMITMENTS

St. Francis enters annually into various operating lease agreements for the rental of facilities, some of which are with other entities also operating under the auspices of the Archdiocese of Philadelphia. Lease expense associated with these operating lease agreements was \$46,749 for the year ended June 30, 2012.

NOTE O - PERMANENTLY AND TEMPORARILY RESTRICTED NET ASSETS

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

Education of children	\$ 269,389
Other	<u>6,046</u>
Total temporarily restricted net assets	<u>\$ 275,435</u>

(Continued)

St. Francis-St. Joseph Homes for Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE O - PERMANENTLY AND TEMPORARILY RESTRICTED NET ASSETS - Continued

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

Trusts held by third parties	\$ <u>510,268</u>
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Total permanently restricted net assets	\$ <u><u>510,268</u></u>
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NOTE P - SUBSEQUENT EVENTS

St. Francis evaluated its June 30, 2012 financial statements for subsequent events through April 12, 2013, the date the financial statements were available to be issued. St. Francis is not aware of any subsequent event which would require recognition or disclosure in the financial statements.