

Financial Statements and Report of Independent  
Certified Public Accountants

**St. Gabriel's System**

June 30, 2012

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## **Report of Independent Certified Public Accountants**

Board of Directors  
St. Gabriel's System  
Philadelphia, Pennsylvania

We have audited the accompanying statement of financial position of St. Gabriel's System ("St. Gabriel's") 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. Gabriel'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. Gabriel'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. Gabriel's System, 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 18, 2013

## STATEMENT OF FINANCIAL POSITION

June 30, 2012

ASSETS	Unrestricted	Temporarily restricted	Permanently restricted	Total
Current assets				
Cash	\$ 17,920	\$ -	\$ -	\$ 17,920
Accounts receivable - DHS and CBH, less allowance of \$215,000	1,918,458	-	-	1,918,458
Accounts receivable - State Act 30 educational funding	6,568,414	-	-	6,568,414
Accounts receivable - other governmental	427,729	-	-	427,729
Due from related party - Heritage of Faith - Vision of Hope	338,031	-	-	338,031
Pledges receivable - Office of Development, United Way, net	207	-	-	207
Prepaid expenses and other assets	54,416	-	-	54,416
Total current assets	9,325,175	-	-	9,325,175
Property, plant and equipment, net	8,211,040	-	-	8,211,040
Investments	641,249	-	-	641,249
Trusts held by third parties	-	375	243,996	244,371
Total assets	\$ 18,177,464	\$ 375	\$ 243,996	\$ 18,421,835
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable and accrued expenses	\$ 446,043	\$ -	\$ -	\$ 446,043
Salaries and wages payable	2,009,750	-	-	2,009,750
Due to Archdiocese of Philadelphia	355,212	-	-	355,212
Due to Archdiocese of Philadelphia - Catholic Social Services	1,394,580	-	-	1,394,580
Related party term loan - St. Joseph's House for Homeless Industrious Boys	91,673	-	-	91,673
Total current liabilities	4,297,258	-	-	4,297,258
Related party term loan - St. Joseph's House for Homeless Industrious Boys, net of current portion	6,154,057	-	-	6,154,057
Total liabilities	10,451,315	-	-	10,451,315
Net assets				
Unrestricted	7,726,149	-	-	7,726,149
Temporarily restricted	-	375	-	375
Permanently restricted	-	-	243,996	243,996
Total net assets	7,726,149	375	243,996	7,970,520
Total liabilities and net assets	\$ 18,177,464	\$ 375	\$ 243,996	\$ 18,421,835

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

St. Gabriel's System

STATEMENT OF ACTIVITIES

Year ended June 30, 2012

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenue				
Governmental revenue	\$ 27,126,756	\$ -	\$ -	\$ 27,126,756
Contributed services	122,213	-	-	122,213
Contributed services - rent	168,600	-	-	168,600
Contributed services - Archdiocese of Philadelphia - Catholic Social Services	201,938	-	-	201,938
Other revenues	28,746	-	-	28,746
Total operating revenue	27,648,253	-	-	27,648,253
Operating expenses				
Salaries, wages and other payroll costs	22,579,729	-	-	22,579,729
Administrative and general expenses	3,412,392	-	-	3,412,392
Occupancy	2,030,548	-	-	2,030,548
Direct expenses of care	1,664,409	-	-	1,664,409
Depreciation	952,988	-	-	952,988
Loss on extinguishment of debt	87,327	-	-	87,327
Interest	412,484	-	-	412,484
Bad debt expense	215,000	-	-	215,000
Total operating expenses	31,354,877	-	-	31,354,877
Deficiency of operating revenue under operating expenses	(3,706,624)	-	-	(3,706,624)
Other revenue (expenses)				
Donations/bequests/other	103,148	-	-	103,148
Capital contributions - related party - Heritage of Faith - Vision of Hope	338,031	-	-	338,031
Catholic Charities Appeal	100,000	-	-	100,000
Trust income	520,588	-	-	520,588
Dividends and interest income	105,304	-	-	105,304
Loss on termination of interest rate swap	(1,030,378)	-	-	(1,030,378)
Net realized gains on investments	57,089	-	-	57,089
Net unrealized (losses) gains on investments	(254,771)	-	13,637	(241,134)
Total other (expenses) revenue	(60,989)	-	13,637	(47,352)
Change in net assets	(3,767,613)	-	13,637	(3,753,976)
Net assets				
Beginning of year	11,493,762	375	230,359	11,724,496
End of year	\$ 7,726,149	\$ 375	\$ 243,996	\$ 7,970,520

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	\$ (3,753,976)
Adjustments to reconcile change in net assets to net cash used in operating activities	
Depreciation	952,988
Bad debt expense	215,000
Net unrealized losses on investments	241,134
Net realized gains on investments	(57,089)
Loss on termination of interest rate swap	1,030,378
Loss on extinguishment of debt	87,327
Changes in operating assets and liabilities	
Accounts receivable - DHS and CBH	2,633,554
Accounts receivable - State Act 30 educational funding	2,444,995
Accounts receivable - other governmental	8,634
Pledges receivable - Office of Development, United Way	422
Prepaid expenses and other assets	358,655
Accounts payable and accrued expenses	89,943
Salaries and wages payable	89,934
Due from related party - Heritage of Faith - Vision of Hope	(338,031)
Due to Archdiocese of Philadelphia	355,212
Due to Archdiocese of Philadelphia - Catholic Social Services	(5,201,030)
Net cash used in operating activities	<u>(841,950)</u>
Cash flows from investing activities	
Capital expenditures	(266,270)
Net purchases and sales of investments	6,999,998
Proceeds from related party term loan - St. Joseph's House for Homeless Industrious Boys	<u>6,245,730</u>
Net cash provided by investing activities	<u>12,979,458</u>
Cash flows from financing activities	
Payment of bond payable	(9,959,084)
Termination of interest rate swap	<u>(2,178,424)</u>
Net cash used in financing activities	<u>(12,137,508)</u>
Change in cash	
Cash	
Beginning of year	<u>17,920</u>
End of year	<u>\$ 17,920</u>
Supplemental disclosure of cash flow information	
Cash paid during the year for interest	<u>\$ 412,484</u>

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

## NOTES TO FINANCIAL STATEMENTS

June 30, 2012

### NOTE A - ORGANIZATION

St. Gabriel's System ("St. Gabriel's") is a multi-service agency of the Archdiocese of Philadelphia providing residential and community based services for court adjudicated delinquent boys and young men at five facilities. These facilities are St. Gabriel's Hall, De La Salle Vocational, De La Salle in Towne, Rousseau Academy, and Aftercare Programs.

The accompanying financial statements include programs operated and administered by St. Gabriel's.

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. St. Joseph's House for Homeless Industrious Boys is one of the organizations.

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. Gabriel's, 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. Gabriel's.

Heritage of Faith - Vision of Hope, a separate legal corporation and a related organization, raises money for certain organizations within the Archdiocese, including St. Gabriel's.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

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. Gabriel's 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 and Healthcare Organizations*. Accordingly, St. Gabriel'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.

2. Use of Estimates

In preparing financial statements in conformity with US GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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 relate to the fair value of investments and the useful lives of property and equipment. Actual results could differ from those estimates.

3. Accounting for Long-Lived Assets

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

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 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 trusts held by third parties.

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

5. Governmental Revenue

St. Gabriel's 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.

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

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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. Gabriel's 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.

7. Allowance for Doubtful Accounts

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

8. Contributed Services and Goods

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 services include rent on the premises used by St. Gabriel's which are owned by other entities within the Archdiocese of Philadelphia and for which no rent is charged.

Also, contributed services include food contributed to St. Gabriel's. These amounts are reported as both revenue and expenses in the statement of activities.

9. Property, Plant and Equipment

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

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

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## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

## NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

CSS provides administrative and accounting services for related institutions and group homes, including St. Gabriel's. 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.

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

St. Gabriel'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 investments	\$ 641,249	\$ -	\$ -	\$ 641,249
Trusts held by third parties	<u>-</u>	<u>375</u>	<u>243,996</u>	<u>244,371</u>
	<u>\$ 641,249</u>	<u>\$ 375</u>	<u>\$ 243,996</u>	<u>\$ 885,620</u>

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

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

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

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

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.

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## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

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

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

Equity sub-account	\$ 397,574
Fixed income sub-account	<u>243,675</u>
Total ownership	<u>\$ 641,249</u>

St. Gabriel's 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 \$244,371. During fiscal year 2012, St. Gabriel's recognized unrestricted income of \$20,588 and permanently restricted appreciation of \$13,637 related to these trusts.

## NOTE D - PROPERTY, PLANT AND EQUIPMENT

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

Buildings	\$ 6,250
Building improvements	16,606,245
Equipment	<u>3,114,844</u>
	19,727,339
Accumulated depreciation	<u>(11,516,299)</u>
Property, plant and equipment, net	<u>\$ 8,211,040</u>

Depreciation expense of \$952,988 was incurred for the year ended June 30, 2012.

## NOTE E - ACCOUNTS RECEIVABLE - DHS AND OTHER GOVERNMENTAL AGENCIES

At June 30, 2012, St. Gabriel's had uncollateralized accounts receivable from Philadelphia Department of Human Services ("DHS") and Community Behavioral Health ("CBH") of \$1,918,458. The receivable due from other governmental agencies was \$427,729 as of June 30, 2012. The receivable due from the State of Pennsylvania was \$6,568,414. These balances potentially subject St. Gabriel's to a concentration of credit risk. St. Gabriel's monitors its funding arrangements with CBH and DHS and other governmental agencies.

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

## NOTE F - 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.

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)	\$ 641,249	\$ -	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.

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## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

## NOTE F - FAIR VALUE MEASUREMENTS - Continued

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

The following table presents the fair values of the investments held by St. Gabriel's 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	\$ -	\$ 641,249	\$ -	\$ 641,249
Trusts held by third parties	-	-	244,371	244,371
Total assets	\$ -	\$ 641,249	\$ 244,371	\$ 885,620

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	\$ 230,734
Unrealized gains	13,637
Fair value June 30, 2012	\$ 244,371

St. Gabriel's 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 G - PENSION PLAN

The eligible lay employees of St. Gabriel's 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. Gabriel's made annual contributions to the Plan at a rate of 5% for year ended June 30, 2012 of salaries of the eligible employees. The amount of expense related to the Plan was \$696,475 for the fiscal year ended June 30, 2012. Separate accounts for vested benefits and pension fund assets are not maintained for each institution.

St. Gabriel's also makes contributions to the various orders of the religious personnel who provide services at its institutions and parishes. The amount of expense related to these contributions was \$20,252 for the year ended June 30, 2012.

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

## NOTE H - RELATED PARTY TRANSACTIONS

St. Gabriel's 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 for the year ended June 30, 2012.

CSS provides administrative and accounting services for related institutions and group homes, including St. Gabriel's. 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 \$1,394,580 for the year ended June 2012.

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

Archdiocese of Philadelphia	
Insurance - auto and general	\$ 263,020
Rental of facility - contributed	168,600
Lay employee pension contributions	696,475
Religious employee pension contributions	<u>20,252</u>
	\$ <u>1,148,347</u>
Archdiocese of Philadelphia - Catholic Social Services	
Automobile leases	\$ 97,066
Allocated administrative and accounting costs	597,784
Allocated administrative and accounting costs - contributed	201,930
Information technology services	335,474
Human resources	<u>98,098</u>
	\$ <u>1,330,352</u>

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

Heritage of Faith - Vision of Hope supports capital projects of St. Gabriel's and other Archdiocese of Philadelphia entities. During the year ended June 30, 2012, \$338,031 was contributed to St. Gabriel's for various capital projects. The amount outstanding from Heritage of Faith - Vision of Hope was \$338,031 for the year ended June 30, 2012.

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## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

## NOTE H - RELATED PARTY TRANSACTIONS - Continued

Related Party Term Loan

In June 2012, the Archdiocese of Philadelphia and related entities entered into several term loan agreements with participating Archdiocesan entities to retire outstanding external debt obligations. These retired obligations include the Variable Rate Revenue Bonds Series of 2008 issued through the Montgomery County Industrial Development Authority totaling \$47,007,923; the Variable Rate Revenue Bonds Series of 2001 issued through the Chester County Industrial Development Authority totaling \$50,708,547; and the various interest rate swap transactions associated with these debts totaling \$15,750,000. The transactions resulted in the inter-diocesan term loan receivables and term loan payables totaling \$77,357,582 at participating Archdiocesan entities. As a result of this transaction, St. Gabriel's paid off its allocated portion of its debt obligation and wrote off the balance of the bond issuance costs in the amount of \$87,327 for the year ended June 30, 2012. In conjunction with the repayment, St. Gabriel's terminated its allocated portion of the interest rate swap. The termination of the swaps resulted in a loss on termination in the amount of \$1,030,378 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 \$12,178,424.

To finance the retirement of its portion of the 2001 Bonds, St. Gabriel's (borrower) entered into a \$6,245,730 term loan agreement with St. Joseph's House for Homeless Industrious Boys, a related party (lender). The loan is collateralized by a first priority mortgage lien encumbering the premises and all revenues and rights associated with the premises. The loan carries a fixed interest rate of 4% amortized over 30 years and matures on June 1, 2015.

The future principal payments relating to the related party term loan outstanding at June 30, 2012 are as follows:

2013	\$ 91,673
2014	114,125
2015	118,758
Balloon payment due June 1, 2015	<u>5,921,174</u>
	<u>\$ 6,245,730</u>

## NOTE I - INCOME TAX STATUS

St. Gabriel's is a nonprofit corporation which has been granted exempt status from federal taxation under Section 501(c)(3) of the Internal Revenue Code and, accordingly, no provision for income taxes has been included in the accompanying financial statements.

St. Gabriel's 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. Gabriel's 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 J - FUNCTIONAL EXPENSES

St. Gabriel's provides residential and treatment services to court adjudicated delinquent boys and young men. These services include placement in an institutional setting, community group home placements, day treatment, aftercare services and counseling services. The following table summarizes program expenses and support services at June 30, 2012:

Program expenses	\$ 28,140,899
Support services	<u>3,213,978</u>
Total expenses	\$ <u>31,354,877</u>

## NOTE K - FUNDING

St. Gabriel's provides institutional care for delinquent children. Reimbursement of these services is provided primarily by the City of Philadelphia, DHS at a fixed per diem rate for each day of childcare. Effective January 1, 2005, St. Gabriel's began receiving reimbursement from CBH for treatment at a fixed per diem rate. Room and board is reimbursed by the City of Philadelphia DHS. St. Gabriel's per diem rates in effect for the year ended June 30, 2012 with the City of Philadelphia and CBH were as follows:

County Human Services	
De La Salle Vocational - day treatment	\$ 69.91
De La Salle in Towne - day treatment	69.91
Residential care	177.00
Short-term intensive DHS	206.00
Reintegration program	25.00
Day treatment - early intervention	157.44
Community Behavioral Health (Treatment)	
St. Gabriel's Hall - residential care	\$ 142.00
St. Gabriel's Hall - drug and alcohol	149.00
Short-term intensive DHS	200.00
Philadelphia DHS (room and board)	50.50

## NOTE L - SUBSEQUENT EVENTS

St. Gabriel's evaluated its June 30, 2012 financial statements for subsequent events through April 18, 2013, the date the financial statements were available to be issued. St. Gabriel's is not aware of any subsequent event which would require recognition or disclosure in the financial statements.