

Financial Statements and Report of Independent
Certified Public Accountants

St. Vincent's Orphans' Asylum of Tacony

June 30, 2012

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Report of Independent Certified Public Accountants

Board of Directors
St. Vincent's Orphans' Asylum of Tacony
Philadelphia, Pennsylvania

We have audited the accompanying statement of financial position of St. Vincent's Orphans' Asylum of Tacony (the "Organization") as of June 30, 2012 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America as 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 the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of St. Vincent's Orphans' Asylum of Tacony, 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 15, 2013

St. Vincent's Orphans' Asylum of Tacony

STATEMENT OF FINANCIAL POSITION

June 30, 2012

ASSETS	<u>Unrestricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Current assets			
Cash	\$ 10,000	\$ -	\$ 10,000
Accounts receivable - DHS and CBH, less allowance of \$75,000	239,289	-	239,289
Accounts receivable - other governmental	75,930	-	75,930
Accounts receivable - other	15,751	-	15,751
Pledges receivable - Office of Development, United Way, net	9,940	-	9,940
Prepaid expenses and other assets	<u>2,707</u>	<u>-</u>	<u>2,707</u>
Total current assets	353,617	-	353,617
Property, plant and equipment, net	2,042,609	-	2,042,609
Investments	<u>-</u>	<u>1,136,492</u>	<u>1,136,492</u>
Total assets	<u>\$ 2,396,226</u>	<u>\$ 1,136,492</u>	<u>\$ 3,532,718</u>
 LIABILITIES AND NET ASSETS			
Current liabilities			
Accounts payable and accrued expenses	\$ 130,914	\$ -	\$ 130,914
Salaries and wages payable	199,136	-	199,136
Due to the Archdiocese of Philadelphia - Catholic Social Services	<u>731,551</u>	<u>-</u>	<u>731,551</u>
Total current liabilities	<u>1,061,601</u>	<u>-</u>	<u>1,061,601</u>
Net assets			
Unrestricted	1,334,625	-	1,334,625
Permanently restricted	<u>-</u>	<u>1,136,492</u>	<u>1,136,492</u>
Total net assets	<u>1,334,625</u>	<u>1,136,492</u>	<u>2,471,117</u>
Total liabilities and net assets	<u>\$ 2,396,226</u>	<u>\$ 1,136,492</u>	<u>\$ 3,532,718</u>

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

St. Vincent's Orphans' Asylum of Tacony

STATEMENT OF ACTIVITIES

Year ended June 30, 2012

	<u>Unrestricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating revenue			
Governmental revenue	\$ 3,347,678	\$ -	\$ 3,347,678
Contributed services	85,043	-	85,043
Fees for service	<u>86,479</u>	<u>-</u>	<u>86,479</u>
Total operating revenue	<u>3,519,200</u>	<u>-</u>	<u>3,519,200</u>
Operating expenses			
Salaries, wages and other payroll costs	3,193,703	-	3,193,703
Administrative and general	650,931	-	650,931
Occupancy	487,132	-	487,132
Direct expenses of children	399,224	-	399,224
Depreciation	286,305	-	286,305
Bad debt expense	<u>75,000</u>	<u>-</u>	<u>75,000</u>
Total operating expenses	<u>5,092,295</u>	<u>-</u>	<u>5,092,295</u>
Deficiency of operating revenue under operating expenses	<u>(1,573,095)</u>	<u>-</u>	<u>(1,573,095)</u>
Other revenue (expenses)			
Donations, bequests and trusts	907,857	-	907,857
Catholic Charities Appeal	75,000	-	75,000
Dividend and interest income	-	8,898	8,898
Net realized losses on investments	-	(7,349)	(7,349)
Net unrealized losses on investments	<u>-</u>	<u>(89,185)</u>	<u>(89,185)</u>
Total other revenue (expenses)	<u>982,857</u>	<u>(87,636)</u>	<u>895,221</u>
Change in net assets	(590,238)	(87,636)	(677,874)
Net assets			
Beginning of year	<u>1,924,863</u>	<u>1,224,128</u>	<u>3,148,991</u>
End of year	<u>\$ 1,334,625</u>	<u>\$ 1,136,492</u>	<u>\$ 2,471,117</u>

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

St. Vincent's Orphans' Asylum of Tacony

STATEMENT OF CASH FLOWS

Year ended June 30, 2012

Cash flows from operating activities	
Change in net assets	\$ (677,874)
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	286,305
Net unrealized losses on investments	89,185
Realized losses on investments	7,349
Bad debt expense	75,000
Changes in operating assets and liabilities	
Accounts receivable - DHS	599,332
Accounts receivable - other governmental	36,733
Accounts receivable - other	121,292
Pledges receivable - Office of Development, United Way	(11,025)
Prepaid expenses and other assets	46,266
Due to Archdiocese of Philadelphia - Catholic Social Services	(623,654)
Accounts payable and accrued expenses	55,454
Salaries and wages payable	<u>20,564</u>
Net cash provided by operating activities	<u>24,927</u>
Cash flows from investing activities	
Capital expenditures	(18,564)
Purchases and sales of investments, net	<u>(6,363)</u>
Net cash used in investing activities	<u>(24,927)</u>
Change in cash	-
Cash	
Beginning of year	<u>10,000</u>
End of year	<u>\$ 10,000</u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE A - ORGANIZATION

St. Vincent's Orphans' Asylum of Tacony (the "Organization") provides residential, maternity and mother/baby programs to adolescent girls. Services are provided in five group homes located throughout Philadelphia.

The accompanying financial statements include programs operated and administered by St. Vincent's Orphans' Asylum of Tacony.

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. The Organization, 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. Vincent's Orphans' Asylum of Tacony.

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 permanently 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 also included in permanently restricted net assets.

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.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

2. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These significant estimates include the allowance for doubtful accounts, useful lives of depreciable assets, and fair values of investments. Actual results could differ from those estimates.

3. Accounting for Long-Lived Assets

The Organization 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, the Organization 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. The Organization 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 risk 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.

5. Governmental Revenue

The Organization 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 the Organization's programs. The Organization records revenues under such contracts as costs are incurred.

For other programs, the Organization 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.

The Organization 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, the Organization 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

The Organization 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, the Organization's previous loss history, the nature of the service provided and other pertinent factors.

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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 represents the difference between the stipend allowance paid for the religious personnel performing work for the Organization and the compensation which would be paid to lay persons possessing similar qualifications and performing similar work. In addition, contributed services represent rent on the premises used by the Organization.

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 life of the assets, which are as follows:

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

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

CSS provides administrative and accounting services for related institutions and group homes, including the Organization. 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

Investments at June 30, 2012 were summarized and classified as follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Trusts held by third parties	\$ -	\$ 1,136,492	\$ 1,136,492
	<u>\$ -</u>	<u>\$ 1,136,492</u>	<u>\$ 1,136,492</u>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE D - PROPERTY, PLANT AND EQUIPMENT

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

Land	\$ 61,800
Building	1,283,509
Building improvements	5,130,054
Furniture and equipment	461,400
Automobiles	10,450
Computer	<u>213,477</u>
	7,160,690
Accumulated depreciation	<u>(5,118,081)</u>
Property, plant and equipment, net	<u>\$ 2,042,609</u>

Depreciation expense of \$286,305 was incurred for the year ended June 30, 2012.

NOTE E - ACCOUNTS RECEIVABLE - DHS AND OTHER GOVERNMENTAL AGENCIES

At June 30, 2012, the Organization had uncollateralized accounts receivable from the Philadelphia Department of Human Services ("DHS") and Community Behavioral Health ("CBHP") of \$239,289, net of allowance for doubtful accounts of \$75,000. The receivable due from other governmental agencies was \$75,930 as of June 30, 2012. This balance potentially subjects the Organization to a concentration of credit risk. The Organization monitors its funding arrangements with DHS and other governmental agencies.

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

Pledges receivable - Office of Development, United Way was \$9,940, net of an allowance of \$2,968 for fiscal year 2012. Pledges receivable are expected to be realized over the following year.

NOTE G - 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.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE G - FAIR VALUE MEASUREMENTS - Continued

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 of the Archdiocese of Philadelphia 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 for Level 3 is based on valuation techniques that are unobservable as they trade infrequently or not at all.

The following table presents the fair values of the investments held by the Organization 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				
Trusts held by third parties	\$ -	\$ -	\$ 1,136,492	\$ 1,136,492
Total assets	\$ -	\$ -	\$ 1,136,492	\$ 1,136,492

The following table is a rollforward of the statement of financial position amounts for financial instruments classified within Level 3 of fair value hierarchy defined above:

	Trusts held by third parties
Fair value July 1, 2011	\$ 1,224,128
Investment losses	(20,775)
Transfers out	(66,861)
Fair value June 30, 2012	\$ 1,136,492

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE H - PENSION PLAN

The eligible lay employees of the Organization 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. The Organization made annual contributions to the Plan at a rate of 5% of the salaries of eligible employees for the fiscal year ended June 30, 2012. The amount of expense related to the Plan was \$88,524 for the year ended June 30, 2012.

The Organization also makes contributions to the various orders of the religious personnel who provide service at their facilities. The amount of expense related to these contributions was \$24,800 for the year ended June 30, 2012.

NOTE I - RELATED PARTY TRANSACTIONS

The Organization 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 the Organization.

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

Insurance and general	\$ 91,226
Lay employee pension contributions	88,524
Religious employee pension contributions	24,800
Rental of facilities	38,400
Allocated administrative and accounting costs	132,084
Information technology expenses	<u>54,631</u>
	<u>\$ 429,665</u>

Catholic Charities Appeal donated \$75,000 to the Organization during the fiscal year ended June 30, 2012.

At June 30, 2012, the Organization entered into related party transactions with CSS in a payable position of \$731,551 for the year ended June 30, 2012. There are no specific terms or interest related to these transactions.

The Organization received \$426,511 from St. Joseph Catholic Home for Children and \$267,220 from St. Vincent's Services for Women and Children during the year ended June 30, 2012. The amounts are included in donations, bequests and trusts.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE J - INCOME TAX STATUS

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

The Organization 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. The Organization has determined that there are no uncertain tax positions requiring recognition in the financial statements at June 30, 2012. The tax years ended June 30, 2010, 2011 and 2012 are still open to audit for both federal and state purposes.

NOTE K - FUNCTIONAL EXPENSES

The Organization 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	\$ 4,187,985
Support services	<u>904,310</u>
	<u>\$ 5,092,295</u>

NOTE L - FUNDING

The Organization provides residential care and treatment for dependent children. Reimbursement of these services is provided primarily by DHS at a fixed per diem rate for each day of childcare.

	July 1, 2011 thru <u>June 30, 2012</u>
Group home intensive	\$ 162.99
Shelter	\$ 151.50
Mother and baby	\$ 178.52

NOTE M - COMMITMENTS

The Organization annually enters 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 \$38,400 for the fiscal year ended June 30, 2012.

St. Vincent's Orphans' Asylum of Tacony

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE N - PERMANENTLY RESTRICTED NET ASSETS

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

Trusts held by third parties	\$ <u>1,136,492</u>
Total permanently restricted net assets	\$ <u>1,136,492</u>

NOTE O - SUBSEQUENT EVENTS

The Organization evaluated its June 30, 2012 financial statements for subsequent events through April 15, 2013, the date the financial statements were available to be issued. The Organization is not aware of any subsequent event which would require recognition or disclosure in the financial statements.