

Financial Statements and Report of Independent
Certified Public Accountants

St. Edmond's Home for Crippled Children

June 30, 2013 and 2012

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Report of Independent Certified Public Accountants

Board of Directors
St. Edmond's Home for Crippled Children
Philadelphia, Pennsylvania

Report on the financial statements

We have audited the accompanying financial statements of St. Edmond's Home for Crippled Children ("St. Edmond's"), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to St. Edmond's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of St. Edmond's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of St. Edmond's Home for Crippled Children as of June 30, 2013 and 2012, and its activities and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Philadelphia, Pennsylvania

December 9, 2013

STATEMENT OF FINANCIAL POSITION

June 30, 2013

ASSETS	Unrestricted	Temporarily restricted	Permanently restricted	Total
Current assets				
Cash	\$ 325	\$ -	\$ -	\$ 325
Accounts receivable - Commonwealth of Pennsylvania, less allowance of \$164,000	3,934,059	-	-	3,934,059
Accounts receivable - other	97,508	-	-	97,508
Note receivable - Archdiocese of Philadelphia	131,594	-	-	131,594
Due from Archdiocese of Philadelphia - Catholic Social Services	3,717,122	303,061	-	4,020,183
Pledges receivable - Office of Development, United Way, net	13,818	-	-	13,818
Prepaid expenses and other current assets	102,947	-	-	102,947
Escrow client funds	20,148	-	-	20,148
Total current assets	8,017,521	303,061	-	8,320,582
Property, plant and equipment, net	2,281,925	-	-	2,281,925
Note receivable - Archdiocese of Philadelphia, net of current portion	6,974,874	-	-	6,974,874
Note receivable - Archdiocese of Philadelphia - Catholic Social Services	4,400,000	-	-	4,400,000
Investments	7,938,081	-	-	7,938,081
Beneficial interest in net assets held by affiliated organization	-	1,095,746	-	1,095,746
Trusts held by third parties	-	57,107	1,053,873	1,110,980
Total assets	\$ 29,612,401	\$ 1,455,914	\$ 1,053,873	\$ 32,122,188
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable and accrued expenses	\$ 154,639	\$ -	\$ -	\$ 154,639
Salaries and wages payable	434,793	-	-	434,793
Escrow client funds	20,148	-	-	20,148
Total current liabilities	609,580	-	-	609,580
Net assets				
Unrestricted	29,002,821	-	-	29,002,821
Temporarily restricted	-	1,455,914	-	1,455,914
Permanently restricted	-	-	1,053,873	1,053,873
Total net assets	29,002,821	1,455,914	1,053,873	31,512,608
Total liabilities and net assets	\$ 29,612,401	\$ 1,455,914	\$ 1,053,873	\$ 32,122,188

The accompanying notes are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

June 30, 2012

ASSETS	Unrestricted	Temporarily restricted	Permanently restricted	Total
Current assets				
Cash	\$ 325	\$ -	\$ -	\$ 325
Accounts receivable - Commonwealth of Pennsylvania, less allowance of \$40,000	1,591,498	-	-	1,591,498
Accounts receivable - other	116,111	-	-	116,111
Note receivable - Archdiocese of Philadelphia	105,706	-	-	105,706
Due from Archdiocese of Philadelphia - Catholic Social Services	1,590,737	-	-	1,590,737
Pledges receivable - Office of Development, United Way, net	9,837	-	-	9,837
Prepaid expenses and other current assets	6,840	-	-	6,840
Escrow client funds	28,104	-	-	28,104
Total current assets	3,449,158	-	-	3,449,158
Property, plant and equipment, net	2,512,045	-	-	2,512,045
Note receivable - Archdiocese of Philadelphia, net of current portion	7,106,468	-	-	7,106,468
Note receivable - Archdiocese of Philadelphia - Catholic Social Services	4,400,000	-	-	4,400,000
Investments	9,897,514	-	-	9,897,514
Beneficial interest in net assets held by affiliated organization	-	1,095,746	-	1,095,746
Trusts held by third parties	-	49,826	1,024,731	1,074,557
Total assets	\$ 27,365,185	\$ 1,145,572	\$ 1,024,731	\$ 29,535,488
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable and accrued expenses	\$ 274,409	\$ -	\$ -	\$ 274,409
Salaries and wages payable	298,621	-	-	298,621
Escrow client funds	28,104	-	-	28,104
Total current liabilities	601,134	-	-	601,134
Net assets				
Unrestricted	26,764,051	-	-	26,764,051
Temporarily restricted	-	1,145,572	-	1,145,572
Permanently restricted	-	-	1,024,731	1,024,731
Total net assets	26,764,051	1,145,572	1,024,731	28,934,354
Total liabilities and net assets	\$ 27,365,185	\$ 1,145,572	\$ 1,024,731	\$ 29,535,488

The accompanying notes are an integral part of these financial statements.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended June 30, 2013

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenue				
Governmental revenue	\$ 9,408,228	\$ -	\$ -	\$ 9,408,228
Rental income	3,000	-	-	3,000
Contributed services - Archdiocese of Philadelphia - Catholic Social Services	95,391	-	-	95,391
Total operating revenue	9,506,619	-	-	9,506,619
Operating expenses				
Salaries, wages and other payroll	6,424,202	-	-	6,424,202
Administrative and general	1,599,685	-	-	1,599,685
Occupancy	548,551	-	-	548,551
Direct expenses of care	170,026	-	-	170,026
Depreciation	281,943	-	-	281,943
Bad debt expense	167,275	-	-	167,275
Total operating expenses	9,191,682	-	-	9,191,682
Excess of operating revenue over operating expenses	314,937	-	-	314,937
Other revenue				
Donations and other	150,089	303,061	-	453,150
Women's auxiliary	110,446	-	-	110,446
Catholic Charities Appeal	50,000	-	-	50,000
Legacies and bequests	110,553	-	-	110,553
Net unrealized gains on investments	555,659	7,281	29,142	592,082
Net realized gains on investments	333,931	-	-	333,931
Dividend and interest income	613,155	-	-	613,155
Total other revenue	1,923,833	310,342	29,142	2,263,317
Change in net assets	2,238,770	310,342	29,142	2,578,254
Net assets				
Beginning of year	26,764,051	1,145,572	1,024,731	28,934,354
End of year	\$ 29,002,821	\$ 1,455,914	\$ 1,053,873	\$ 31,512,608

The accompanying notes are an integral part of these financial statements.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended June 30, 2012

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenue				
Governmental revenue	\$ 7,518,295	\$ -	\$ -	\$ 7,518,295
Rental income	8,900	-	-	8,900
Contributed services - Archdiocese of Philadelphia - Catholic Social Services	59,718	-	-	59,718
Total operating revenue	7,586,913	-	-	7,586,913
Operating expenses				
Salaries, wages and other payroll	6,321,809	-	-	6,321,809
Administrative and general	1,258,520	-	-	1,258,520
Occupancy	519,146	-	-	519,146
Direct expenses of care	175,730	-	-	175,730
Depreciation	284,397	-	-	284,397
Bad debt expense	40,000	-	-	40,000
Total operating expenses	8,599,602	-	-	8,599,602
Deficiency of operating revenue under operating expenses	(1,012,689)	-	-	(1,012,689)
Other revenue (expenses)				
Donations and other	219,131	-	-	219,131
Women's auxiliary	76,575	-	-	76,575
Change in value of beneficial interest in net assets held by affiliated organization	-	5,581	-	5,581
Catholic Charities Appeal	50,000	-	-	50,000
Legacies and bequests	454,049	-	-	454,049
Net unrealized losses on investments	(513,998)	(3,740)	(288,358)	(806,096)
Net realized gains on investments	162,676	-	-	162,676
Dividend and interest income	524,882	-	-	524,882
Total other revenue (expenses)	973,315	1,841	(288,358)	686,798
Change in net assets	(39,374)	1,841	(288,358)	(325,891)
Net assets				
Beginning of year	26,803,425	1,143,731	1,313,089	29,260,245
End of year	\$ 26,764,051	\$ 1,145,572	\$ 1,024,731	\$ 28,934,354

The accompanying notes are an integral part of these financial statements.

St. Edmond's Home for Crippled Children

STATEMENTS OF CASH FLOWS

Year ended June 30,

	2013	2012
Cash flows from operating activities		
Change in net assets	\$ 2,578,254	\$ (325,891)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Depreciation	281,943	284,397
Bad debt expense	167,275	40,000
Net unrealized (gains) losses on investments	(592,082)	806,096
Net realized gains on investments	(333,931)	(162,676)
Change in value of beneficial interest in net assets held by affiliated organization	-	(5,581)
Changes in operating assets and liabilities		
Accounts receivable - Commonwealth of Pennsylvania	(2,443,461)	1,747,960
Accounts receivable - other	(47,772)	(47,243)
Pledges receivable - Office of Development, United Way	(3,981)	(9,837)
Prepaid expenses and other assets	(96,107)	92,849
Due from Archdiocese of Philadelphia - Catholic Social Services	(2,429,446)	(2,125,372)
Accounts payable and accrued expenses	(119,770)	155,127
Salaries and wages payable	136,171	56,872
Net cash (used in) provided by operating activities	(2,902,907)	506,701
Cash flows from investing activities		
Capital expenditures	(51,815)	(193,325)
Net proceeds from the sale of investments	2,849,016	6,888,407
Note receivable - Archdiocese of Philadelphia	-	(7,201,783)
Proceeds received from note receivable - Archdiocese of Philadelphia	105,706	-
Net cash provided by (used in) investing activities	2,902,907	(506,701)
Change in cash	-	-
Cash		
Beginning of year	325	325
End of year	\$ 325	\$ 325

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

NOTE A - ORGANIZATION

St. Edmond's Home for Crippled Children ("St. Edmond's") is a residential facility of the Archdiocese of Philadelphia located in Rosemont, Delaware County, Pennsylvania. St. Edmond's serves 40 physically handicapped/intellectually disabled children between the ages of 6 and 21 years of age.

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

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. Edmond'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. Edmond's.

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. Edmond'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 Organizations*. Accordingly, St. Edmond's net assets and 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.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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. 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. Cash and Cash Equivalents

St. Edmond's considers investments in highly liquid securities, authorized by management, purchased with a maturity of three months or less from the date purchased, to be cash equivalents. With the exception of escrow client funds, for the years ended June 30, 2013 and 2012, St. Edmond's possessed only petty cash held on site.

4. Accounting for Long-Lived Assets

St. Edmond'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. Edmond'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. Edmond's believes that no revision to the remaining useful lives or write-down of long-lived assets were required at June 30, 2013 and 2012.

5. Escrow Client Funds

St. Edmond's acts as trustee over funds held for its residents. Expenditures of resident funds are authorized by the residents or their families. Generally, the funds are used to cover the costs of personal items which are not covered by the daily general service charge or special charges. These funds are returned to the resident, family or estate upon discharge or death.

6. 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 statements of financial position.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The investments are held within a pool of investments with the Archdiocese 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.

7. Beneficial Interest in Assets Held by Affiliated Organization

Beneficial interest represents the net assets of a financially interrelated organization which raises funds for the benefit of St. Edmond's. Changes in the value of the beneficial interest are recorded in the statements of activities and changes in net assets.

8. 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. Edmond'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 statements of activities and changes in net assets as net assets released from restrictions.

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

9. Governmental Revenue

St. Edmond's receives its funding through contracts with Pennsylvania, various cities and counties, federal programs and agreements with managed care and insurance organizations. These contracts/agreements are generally fee-for-service agreements. 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 fee-for-service contracts for several of St. Edmond's programs. For other programs, St. Edmond'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, while adjustments to prior recognized revenues are recorded in following periods, as final settlements are determined. St. Edmond's recorded \$1,867,236 and \$-0- for the years ended June 30, 2013 and 2012, respectively, related to a settlement received for the years ended June 30, 2007 through June 30, 2011.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

St. Edmond'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 for 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.

10. Allowance for Doubtful Accounts

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

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

CSS provides administrative and accounting services for institutions and group homes, including St. Edmond'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 recorded as a general and administrative expense in the statements of activities and changes in net assets. Any difference between the allocation and the amount charged to the institution or group homes during the year is considered a contribution of services from CSS.

12. Property, Plant and Equipment

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

Building	40 years
Building improvements	15-20 years
Furniture and equipment	5-10 years

13. Reclassifications

Certain reclassifications have been made to prior year balances in order to conform to the current year presentation.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE C - INVESTMENTS AND TRUSTS HELD BY THIRD PARTIES

Investments at June 30, 2013 and 2012 are summarized and classified as follows:

<u>2013</u>	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Archdiocese of Philadelphia Non-Pension Assets Portfolio	\$ 7,938,081	\$ -	\$ -	\$ 7,938,081
Trusts held by third parties	<u>-</u>	<u>57,107</u>	<u>1,053,873</u>	<u>1,110,980</u>
	<u>\$ 7,938,081</u>	<u>\$ 57,107</u>	<u>\$ 1,053,873</u>	<u>\$ 9,049,061</u>
 <u>2012</u>				
Archdiocese of Philadelphia Non-Pension Assets Portfolio	\$ 9,897,514	\$ -	\$ -	\$ 9,897,514
Trusts held by third parties	<u>-</u>	<u>49,826</u>	<u>1,024,731</u>	<u>1,074,557</u>
	<u>\$ 9,897,514</u>	<u>\$ 49,826</u>	<u>\$ 1,024,731</u>	<u>\$ 10,972,071</u>

For administrative and other needs, the Archdiocese 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. 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'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 is responsible for ensuring that investment allocations among the funds are maintained as determined by the Investment Committee of the Archdiocese of Philadelphia.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

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

At June 30, 2013 and 2012, the Archdiocese held the following within the NPAP:

	<u>2013</u>	<u>2012</u>
Equity sub-account	\$ 5,318,514	\$ 6,136,458
Fixed income sub-account	<u>2,619,567</u>	<u>3,761,056</u>
Total ownership	<u>\$ 7,938,081</u>	<u>\$ 9,897,514</u>

St. Edmond's is the beneficiary of the income of individual trusts held by third parties. At June 30, 2013 and 2012, the allocable fair value of these trusts was \$1,110,980 and \$1,074,557, respectively. During fiscal years 2013 and 2012, St. Edmond's recognized unrestricted and temporarily restricted income of \$49,492 and \$78,139, respectively, and temporarily and permanently restricted appreciation (depreciation) of \$85,915 and (\$183,952), respectively, related to these trusts.

NOTE D - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment and accumulated depreciation at June 30, 2013 and 2012 consist of:

	<u>2013</u>	<u>2012</u>
Land	\$ 9,000	\$ 9,000
Buildings	1,046,378	1,046,378
Building improvements	5,657,289	5,735,411
Furniture and equipment	<u>1,249,807</u>	<u>1,119,862</u>
	7,962,474	7,910,651
Accumulated depreciation	<u>(5,680,549)</u>	<u>(5,398,606)</u>
Property, plant and equipment, net	<u>\$ 2,281,925</u>	<u>\$ 2,512,045</u>

Depreciation expense of \$281,943 and \$284,397 was incurred for the years ended June 30, 2013 and 2012, respectively.

NOTE E - ACCOUNTS RECEIVABLE - COMMONWEALTH OF PENNSYLVANIA

At June 30, 2013 and 2012, St. Edmond's had uncollateralized accounts receivable from various public agencies, primarily the Commonwealth of Pennsylvania, Department of Public Welfare ("DPW"), of \$3,934,059 and \$1,591,498, respectively. These balances potentially subject St. Edmond's to a concentration of credit risk. St. Edmond's monitors its funding arrangements with DPW and other agencies.

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

Pledges receivable - Office of Development, United Way were \$13,818 and \$9,837, net of an allowance of \$4,127 and \$2,938 at June 30, 2013 and 2012, respectively. Pledges receivable are expected to be realized in the following year.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE G - RELATED PARTY NOTE RECEIVABLE - ARCHDIOCESE OF PHILADELPHIA

In June 2012, the Archdiocese and related entities entered into several term loan agreements with participating Archdiocesan entities to retire outstanding external debt obligations. The transaction resulted in the inter-diocesan Term Note Receivables and Term Note Payables totaling \$71,357,582 at participating Archdiocesan entities, which included a note receivable of \$7,212,174 recorded by St. Edmond's. The outstanding balance at June 30, 2013 was \$7,106,468.

The notes are 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 pledges the High School Revenue associated with these specific schools. The notes carry a fixed interest rate of 4% amortized over 30 years maturing on June 1, 2015.

The future principal amounts receivable on the note at June 30, 2013 are as follows:

2014	\$ 131,594
2015	<u>6,974,874</u>
	<u>\$ 7,106,468</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 - 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.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE H - FAIR VALUE MEASUREMENTS - Continued

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, 2013 and 2012 are as follows:

	<u>Fair value</u>		<u>Unfunded</u>	<u>Redemption</u>	<u>Redemption</u>
	<u>2013</u>	<u>2012</u>	<u>commitments</u>	<u>frequency</u>	<u>notice</u>
					<u>period</u>
Archdiocese NPAP (a)	\$ 7,938,081	\$ 9,897,514	\$ -	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 investments is based on valuation techniques that trade infrequently or not at all. Trusts held by third parties are considered to be Level 3 in the fair value hierarchy and valued using the market approach of the underlying holdings.

The following table presents the fair values of the investments held by St. Edmond's by level within the fair value hierarchy as of June 30, 2013 and 2012:

<u>2013</u>	<u>Quoted prices</u> <u>in active</u> <u>markets</u> <u>(Level 1)</u>	<u>Significant</u> <u>other</u> <u>observable</u> <u>inputs</u> <u>(Level 2)</u>	<u>Significant</u> <u>unobservable</u> <u>inputs</u> <u>(Level 3)</u>	<u>Total fair</u> <u>value</u>
Assets				
Archdiocese NPAP	\$ -	\$ 7,938,081	\$ -	\$ 7,938,081
Trusts held by third parties	-	-	1,110,980	1,110,980
Total assets	\$ -	\$ 7,938,081	\$ 1,110,980	\$ 9,049,061

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE H - FAIR VALUE MEASUREMENTS - Continued

<u>2012</u>	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
Assets				
Archdiocese NPAP	\$ -	\$ 9,897,514	\$ -	\$ 9,897,514
Trusts held by third parties	<u>-</u>	<u>-</u>	<u>1,074,557</u>	<u>1,074,557</u>
Total assets	<u>\$ -</u>	<u>\$ 9,897,514</u>	<u>\$ 1,074,557</u>	<u>\$ 10,972,071</u>

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 <u>third parties</u>
Fair value July 1, 2011	\$ 1,336,648
Unrealized losses, net	<u>(262,091)</u>
Fair value July 1, 2012	1,074,557
Unrealized gains, net	85,915
Transfers out	<u>(49,492)</u>
Fair value June 30, 2013	<u>\$ 1,110,980</u>

NOTE I - PENSION PLAN

The eligible lay employees of St. Edmond'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, its institutions and parishes. The Plan is administered by the Trustees of the Lay Employees' Retirement Plan. St. Edmond's made annual contributions to the Plan at a rate of 5% for each of the years ended June 30, 2013 and 2012 of salaries of the eligible employees. The amount of expense related to the Plan was \$199,910 and \$200,604 for the years ended June 30, 2013 and 2012, respectively. Separate accounts for vested benefits and pension fund assets are not maintained for each institution.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE J - RELATED PARTY TRANSACTIONS

St. Edmond's is covered under various insurance and retirement plans administered by the Archdiocese.

CSS provides administrative and accounting services for related institutions and group homes, including St. Edmond'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 and changes in net assets. 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 from CSS is expected when cash is available. The amount due from CSS was \$4,020,183 and \$1,590,737 at June 30, 2013 and 2012, respectively.

The transactions with the Archdiocese and CSS charged to expense for the fiscal years ended June 30, 2013 and 2012 were as follows:

	<u>2013</u>	<u>2012</u>
Archdiocese of Philadelphia		
Insurance	\$ 43,195	\$ 41,140
Unemployment compensation fund	54,225	38,705
Lay employee pension contributions	<u>199,910</u>	<u>200,604</u>
	<u>\$ 297,330</u>	<u>\$ 280,449</u>
Archdiocese of Philadelphia - Catholic Social Services		
Automobile leases	\$ 26,971	\$ 8,892
Allocated administrative and accounting costs	350,887	306,482
Allocated administrative and accounting costs - contributed	95,391	59,718
Information technology expenses	<u>73,335</u>	<u>91,030</u>
	<u>\$ 546,584</u>	<u>\$ 466,122</u>

Catholic Charities Appeal donated \$50,000 and \$50,000 to St. Edmond's for the fiscal years ended June 30, 2013 and 2012, respectively.

On September 24, 2009, CSS (borrower) entered into a loan agreement with St. Edmond's (lender) in the amount of \$5,000,000. The loans payable bear interest at an annual fixed rate of 4%, with repayment due when cash is available. On December 1, 2012, CSS and St. Edmond's amended the previously executed loan agreement to increase the ceiling on the loan to a maximum of \$8,000,000. All other terms of the original agreement remain in effect. For the years ended June 30, 2013 and 2012, St. Edmond's possessed notes receivable of \$4,400,000 and \$4,400,000, respectively, from CSS. For the years ended June 30, 2013 and 2012, St. Edmond's recorded \$176,000 and \$176,000, respectively, in interest income in the statements of activities and changes in net assets in relation to these notes receivable.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE J - RELATED PARTY TRANSACTIONS - Continued

Included in accounts receivable - other are certain related party amounts. These amounts are as follows for June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Archdiocese of Philadelphia	\$ 71,065	\$ 24,041

Included in accounts payable are certain related party amounts. These amounts are as follows for June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Catholic Health Care Services	\$ 27,817	\$ 30,427
Archdiocese of Philadelphia	1,710	136,905

NOTE K - INCOME TAX STATUS

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

St. Edmond'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. Edmond's has determined that there are no uncertain tax positions requiring recognition in the financial statements at June 30, 2013. The tax years ended June 30, 2010, 2011 and 2012 are still open to audit for both federal and state purposes.

NOTE L - FUNCTIONAL EXPENSES

St. Edmond's provides services to physically handicapped/intellectually disabled children between the ages of 6 and 21 years of age. Expenses related to providing these services at June 30, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Program expenses	\$ 7,108,797	\$ 6,843,115
Support expenses	<u>2,082,885</u>	<u>1,756,487</u>
	<u>\$ 9,191,682</u>	<u>\$ 8,599,602</u>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE M - FUNDING

St. Edmond's is a certified Intermediate Care Facility for Individuals with Intellectual Disabilities ("ICF/ID") and is reimbursed under the Commonwealth of Pennsylvania's Medical Assistance Program. Reimbursement is limited to the lower of total allowable operating expenses or the approved operating budget.

St. Edmond's per diem reimbursement rate from the Commonwealth of Pennsylvania under its Medical Assistance Program was \$519.16 and \$505.65 at June 30, 2013 and 2012, respectively.

NOTE N - COMMITMENTS

St. Edmond's leases automobiles from CSS. Rental expense was \$26,971 and \$8,892 for the fiscal years ended June 30, 2013 and 2012, respectively. As of June 30, 2013, there are no future minimum rental payments.

NOTE O - SUBSEQUENT EVENTS

St. Edmond's evaluated its June 30, 2013 financial statements for subsequent events through December 9, 2013, the date the financial statements were available to be issued.

On November, 5, 2013, the Archdiocese announced that it would freeze the Lay Employee Retirement Plan effective June 30, 2014. All current employees will retain benefits they have earned and will continue to accrue benefits through the effective date of the freeze. After the date of the freeze, accrued pension benefits under the Plan will not increase for current employees with additional service or increases in pay after the freeze date. The Archdiocese intends to establish a defined contribution plan on July 1, 2014 for all eligible employees.

St. Edmond's is not aware of any subsequent event other than those previously disclosed in the financial statements which would require recognition or disclosure in the financial statements.