

Financial Statements and Report of
Independent Certified Public Accountants

St. Gabriel's System

June 30, 2013 and 2012

Contents

	Page
Report of Independent Certified Public Accountants	3
Financial statements	
Statements of financial position	5
Statements of activities	7
Statements of cash flows	9
Notes to financial statements	10



Report of Independent Certified Public Accountants

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

Grant Thornton LLP
2001 Market Street, Suite 3100
Philadelphia, PA 19103-7080

T 215.561.4200
F 215.561.1066
GrantThornton.com
[linkd.in/GrantThorntonUS](https://www.linkedin.com/company/grantthorntonus)
twitter.com/GrantThorntonUS

Report on the financial statements

We have audited the accompanying financial statements of St. Gabriel's System (the "Organization"), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities 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 the Organization'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 the Organization'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.

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, 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 and cash equivalents	\$ 17,875	\$ -	\$ -	\$ 17,875
Accounts receivable - DHS and CBH, less allowance of \$95,000	2,191,324	-	-	2,191,324
Accounts receivable - State Act 30 educational funding, less allowance of \$30,000	9,730,040	-	-	9,730,040
Accounts receivable - other governmental	521,222	-	-	521,222
Accounts receivable - other	348,149	-	-	348,149
Pledges receivable - Office of Development, United Way, net	527	-	-	527
Prepaid expenses and other assets	415,922	-	-	415,922
Total current assets	13,225,059	-	-	13,225,059
Property, plant and equipment, net	7,635,450	-	-	7,635,450
Investments	714,509	-	-	714,509
Trusts held by third parties	-	375	235,326	235,701
Total assets	\$ 21,575,018	\$ 375	\$ 235,326	\$ 21,810,719
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable and accrued expenses	\$ 361,039	\$ -	\$ -	\$ 361,039
Salaries and wages payable	1,836,951	-	-	1,836,951
Due to Archdiocese of Philadelphia - Catholic Social Services	6,689,698	-	-	6,689,698
Related party term loan - St. Joseph's House for Homeless Industrious Boys	115,018	-	-	115,018
Total current liabilities	9,002,706	-	-	9,002,706
Related party term loan - St. Joseph's House for Homeless Industrious Boys, net of current portion	6,020,197	-	-	6,020,197
Total liabilities	15,022,903	-	-	15,022,903
Net assets				
Unrestricted	6,552,115	-	-	6,552,115
Temporarily restricted	-	375	-	375
Permanently restricted	-	-	235,326	235,326
Total net assets	6,552,115	375	235,326	6,787,816
Total liabilities and net assets	\$ 21,575,018	\$ 375	\$ 235,326	\$ 21,810,719

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

STATEMENT OF FINANCIAL POSITION

June 30, 2012

ASSETS	Unrestricted	Temporarily restricted	Permanently restricted	Total
Current assets				
Cash and cash equivalents	\$ 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
Accounts receivable - other	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	\$ 801,255	\$ -	\$ -	\$ 801,255
Salaries and wages payable	2,009,750	-	-	2,009,750
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.

STATEMENT OF ACTIVITIES

Year ended June 30, 2013

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenue				
Governmental revenue	\$ 26,337,489	\$ -	\$ -	\$ 26,337,489
Contributed services	89,213	-	-	89,213
Contributed rent	168,600	-	-	168,600
Contributed services - Archdiocese of Philadelphia - Catholic Social Services	197,198	-	-	197,198
Other revenues	7,759	-	-	7,759
Total operating revenue	26,800,259	-	-	26,800,259
Operating expenses				
Salaries, wages and other payroll costs	21,090,599	-	-	21,090,599
Administrative and general expenses	3,223,504	-	-	3,223,504
Occupancy	1,868,519	-	-	1,868,519
Direct expenses of care	1,525,840	-	-	1,525,840
Depreciation	951,177	-	-	951,177
Interest	415,578	-	-	415,578
Bad debt expense	1,480	-	-	1,480
Total operating expenses	29,076,697	-	-	29,076,697
Deficiency of operating revenue under operating expenses	(2,276,438)	-	-	(2,276,438)
Other revenue (expenses)				
Donations/bequests/other	125,129	-	-	125,129
Capital contributions - related party - Heritage of Faith - Vision of Hope	304,015	-	-	304,015
Catholic Charities Appeal	100,000	-	-	100,000
Trust income	500,000	-	-	500,000
Dividends and interest income	11,109	-	-	11,109
Net realized gains on investments	44,426	-	-	44,426
Net unrealized gains (losses) on investments	17,725	-	(8,670)	9,055
Total other revenue (expenses)	1,102,404	-	(8,670)	1,093,734
Change in net assets	(1,174,034)	-	(8,670)	(1,182,704)
Net assets				
Beginning of year	7,726,149	375	243,996	7,970,520
End of year	\$ 6,552,115	\$ 375	\$ 235,326	\$ 6,787,816

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

STATEMENT OF ACTIVITIES

Year ended June 30, 2012

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenue				
Governmental revenue	\$ 27,126,756	\$	\$	\$ 27,126,756
Contributed services	122,213			122,213
Contributed 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.

STATEMENTS OF CASH FLOWS

Year ended June 30,

	2013	2012
Cash flows from operating activities		
Change in net assets	\$ (1,182,704)	\$ (3,753,976)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	951,177	952,988
Bad debt expense	1,480	215,000
Net unrealized (gains) losses on investments	(9,055)	241,134
Net realized gains on investments	(44,426)	(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	(274,346)	2,633,554
Accounts receivable - State Act 30 educational funding	(3,161,626)	2,444,995
Accounts receivable - other governmental	(93,493)	8,634
Accounts receivable - other	(10,118)	(338,031)
Pledges receivable - Office of Development, United Way	(320)	422
Prepaid expenses and other assets	(361,506)	358,655
Accounts payable and accrued expenses	(440,216)	445,155
Salaries and wages payable	(172,799)	89,934
Due to Archdiocese of Philadelphia - Catholic Social Services	5,295,118	(5,201,030)
Net cash provided by (used in) operating activities	497,166	(841,950)
Cash flows from investing activities		
Capital expenditures	(375,587)	(266,270)
Net purchases and sales of investments	(11,109)	6,999,998
Issuance of related party term loan - St. Joseph's House for Homeless Industrious Boys	-	6,245,730
Payments on related party term loan - St. Joseph's House for Homeless Industrious Boys	(110,515)	-
Net cash (used in) provided by investing activities	(497,211)	12,979,458
Cash flows from financing activities		
Payment of bond payable	-	(9,959,084)
Termination of interest rate swap	-	(2,178,424)
Net cash used in financing activities	-	(12,137,508)
Change in cash	(45)	-
Cash		
Beginning of year	17,920	17,920
End of year	\$ 17,875	\$ 17,920
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ -	\$ 20,849

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 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. Gabriel's 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.

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.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

3. Accounting for Long-Lived Assets

St. 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, 2013 and 2012.

4. Investments

Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility risks. Due to the level of risks associated with certain investment securities, it is at least reasonably possible that changes in the value of investments could occur in the near term and that such changes could materially affect the amounts reported in the accompanying statement of financial position.

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

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

5. Governmental Revenue

St. Gabriel's receives its funding through contracts with Pennsylvania, New Jersey and Delaware, 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 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 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. Retroactive adjustments are recorded in the period that final settlements are determined. St. Gabriel's recorded \$145,000 and \$95,000 as of June 30, 2013 and 2012, respectively, related to a settlement received for fiscal years 2011 and 2010, respectively.

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.

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.

Contributions of long-lived assets received without donor stipulations are reported as unrestricted revenue at the fair value of the date of the gift. Contributions of other assets specified for the acquisition or construction of long-lived assets are reported as restricted support; those restrictions expire when the assets are placed in service.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

7. Allowance for Doubtful Accounts

St. 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, Goods and Rent

Contributed services and goods represents the difference between the stipend allowance paid for the religious personnel performing work for St. Gabriel's and the compensation which would be paid to lay persons possessing similar qualifications and performing similar work. Contributed rent includes 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. These amounts are reported as both revenue and expenses in the statement of activities.

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

CSS provides administrative and accounting services for 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 institutions and group homes during the year is considered a contribution of services from CSS.

10. Property, Plant and Equipment

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

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

11. 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

St. Gabriel's 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 investments	\$ 714,509	\$ -	\$ -	\$ 714,509
Trusts held by third parties	<u>-</u>	<u>375</u>	<u>235,326</u>	<u>235,701</u>
	<u>\$ 714,509</u>	<u>\$ 375</u>	<u>\$ 235,326</u>	<u>\$ 950,210</u>
<u>2012</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. 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 Trustee Account held the following within the NPAP:

	<u>2013</u>	<u>2012</u>
Equity sub-account	\$ 478,720	\$ 397,574
Fixed income sub-account	<u>235,789</u>	<u>243,675</u>
Total ownership	<u>\$ 714,509</u>	<u>\$ 641,249</u>

St. Gabriel'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 \$235,701 and \$244,371, respectively. During fiscal years 2013 and 2012, St. Gabriel's recognized permanently restricted depreciation of \$8,670 and appreciation of \$13,637, respectively, related to these trusts.

NOTE D - PROPERTY, PLANT AND EQUIPMENT

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

	<u>2013</u>	<u>2012</u>
Buildings	\$ 6,250	\$ 6,250
Building improvements	16,615,111	16,606,245
Equipment	<u>3,481,565</u>	<u>3,114,844</u>
	20,102,926	19,727,339
Accumulated depreciation	<u>(12,467,476)</u>	<u>(11,516,299)</u>
Property, plant and equipment, net	<u>\$ 7,635,450</u>	<u>\$ 8,211,040</u>

Depreciation expense of \$951,177 and \$952,988 was incurred for the year ended June 30, 2013 and 2012, respectively.

NOTE E - ACCOUNTS RECEIVABLE – DHS, CBH AND OTHER GOVERNMENTAL AGENCIES

At June 30, 2013 and 2012, St. Gabriel's had uncollateralized accounts receivable from Philadelphia Department of Human Services ("DHS") and Community Behavioral Health ("CBH") of \$2,191,324 and \$1,918,458, respectively. The receivable due from other governmental agencies was \$521,222 and \$427,729 as of June 30, 2013 and 2012, respectively. The receivable due from the State of Pennsylvania was \$9,730,040 and \$6,568,414 as of June 30, 2013 and 2012, respectively. 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, 2013 and 2012

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

Pledges receivable - Office of Development, United Way were \$527 and \$207, respectively, net of an allowance of \$-0- for fiscal years 2013 and 2012. Pledges receivable are expected to be realized in 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.
- Level 3 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.

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.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE G - FAIR VALUE MEASUREMENTS - Continued

Fair value measurements of investments in entities that calculate the 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)	\$ 714,509	\$ 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.

Fair value for Level 3 is based on valuation techniques that trade infrequently or not at all. Trusts held by third parties is 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. Gabriel's by level within the fair value hierarchy, as of June 30, 2013 and 2012:

	<u>Quoted prices</u>	<u>Significant</u>	<u>Significant</u>	<u>Total fair</u>
	<u>in active</u>	<u>other</u>	<u>unobservable</u>	<u>value</u>
	<u>markets</u>	<u>observable</u>	<u>inputs</u>	
	<u>(Level 1)</u>	<u>inputs</u>	<u>(Level 3)</u>	
<u>2013</u>		<u>(Level 2)</u>		
Assets				
Archdiocese NPAP	\$ -	\$ 714,509	\$ -	\$ 714,509
Trusts held by third parties	-	-	235,701	235,701
Total assets	\$ -	\$ 714,509	\$ 235,701	\$ 950,210
<u>2012</u>				
Assets				
Archdiocese NPAP	\$ -	\$ 641,249	\$ -	\$ 641,249
Trusts held by third parties	-	-	244,371	244,371
Total assets	\$ -	\$ 641,249	\$ 244,371	\$ 885,620

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE G - FAIR VALUE MEASUREMENTS - Continued

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	\$ 230,734
Unrealized gains, net	<u>13,637</u>
Fair value July 1, 2012	244,371
Unrealized losses, net	<u>(8,670)</u>
Fair value June 30, 2013	<u>\$ 235,701</u>

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 H - 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, 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 the years ended June 30, 2013 and 2012 of salaries of the eligible employees. The amount of expense related to the Plan was \$710,277 and \$696,475 for the fiscal years ended June 30, 2013 and 2012, respectively. 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 \$21,350 and \$20,252 for the years ended June 30, 2013 and 2012, respectively.

NOTE I - RELATED PARTY TRANSACTIONS

St. Gabriel's leases certain facilities and equipment, utilized in the delivery of its services, from the Archdiocese and is covered under various insurance and retirement plans administered by the Archdiocese.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE I - RELATED PARTY TRANSACTIONS - Continued

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 \$6,689,698 and \$1,394,580 for the years ended June 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 - auto and general	\$ 260,303	\$ 263,020
Rental of facility - contributed	168,600	168,600
Lay employee pension contributions	710,277	696,475
Religious employee pension contributions	<u>21,350</u>	<u>20,252</u>
	<u>\$ 1,160,530</u>	<u>\$ 1,148,347</u>
Archdiocese of Philadelphia - Catholic Social Services		
Automobile leases	\$ 75,324	\$ 97,066
Allocated administrative and accounting costs	597,784	597,784
Allocated administrative and accounting costs - contributed	197,198	201,930
Information technology services	271,306	335,474
Human resources	<u>123,998</u>	<u>98,098</u>
	<u>\$ 1,265,610</u>	<u>\$ 1,330,352</u>

Catholic Charities Appeal donated \$100,000 to St. Gabriel's during each of the fiscal years ended June 30, 2013 and 2012.

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>
Heritage of Faith	\$ 304,015	\$ 338,031

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE I - RELATED PARTY TRANSACTIONS - Continued

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	\$ 95,834	\$ 106,431
Archdiocese of Philadelphia	5,817	355,212

Related Party Term Loan

To finance the retirement of its portion of the 2001 Bonds, St. Gabriel's (borrower) entered into a 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, 2013 are as follows:

2014	\$ 115,018
2015	<u>6,020,197</u>
	<u>\$ 6,135,215</u>

NOTE J - 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, 2013. 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, 2013 and 2012

NOTE K - 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. Expenses related to providing these services for the years ended June 30, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Program expenses	\$ 26,166,715	\$ 28,140,899
Support services	<u>2,909,982</u>	<u>3,213,978</u>
Total expenses	<u>\$ 29,076,697</u>	<u>\$ 31,354,877</u>

NOTE L - 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 years ended June 30, 2013 and 2012 with the City of Philadelphia and CBH were as follows:

	<u>2013</u>	<u>2012</u>
County Human Services		
De La Salle Vocational - day treatment	\$ 69.91	\$ 69.91
De La Salle in Towne - day treatment	69.91	69.91
Residential care	177.00	177.00
Short-term intensive DHS	206.00	206.00
Reintegration program	25.00	25.00
Day treatment - early intervention	157.44	157.44
Community Behavioral Health (Treatment)		
St. Gabriel's Hall - residential care	\$ 142.00	\$ 142.00
St. Gabriel's Hall - drug and alcohol	149.00	149.00
Short-term intensive DHS	200.00	200.00
Philadelphia DHS (room and board)	64.94	50.50

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE M - SUBSEQUENT EVENTS

St. Gabriel'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. Gabriel'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.