

Financial Statements and Report of  
Independent Certified Public Accountants

**Divine Providence Village**

June 30, 2013 and 2012

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

Board of Directors  
Divine Providence Village  
Philadelphia, Pennsylvania

### **Report on the financial statements**

We have audited the accompanying financial statements of Divine Providence Village, 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**

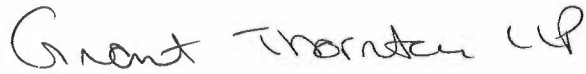
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about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

A handwritten signature in dark ink, appearing to read "Grant Thornton LLP". The signature is written in a cursive, flowing style.

Philadelphia, Pennsylvania

December 9, 2013

## STATEMENT OF FINANCIAL POSITION

June 30, 2013

	Unrestricted	Temporarily restricted	Total
<b>ASSETS</b>			
Current assets			
Cash	\$ 2,900	\$ -	\$ 2,900
Escrow client funds	383,362	-	383,362
Accounts receivable - Commonwealth of Pennsylvania, net of allowance of \$70,000	3,476,289	-	3,476,289
Accounts receivable - other	216,976	-	216,976
Pledges receivable - Office of Development, United Way, net	2,229	-	2,229
Prepaid expenses and other current assets	263,486	-	263,486
Related party note receivable - Archdiocese of Philadelphia	44,020	-	44,020
Total current assets	4,389,262	-	4,389,262
Property, plant and equipment, net	3,696,434	-	3,696,434
Investments, board designated	3,531,349	-	3,531,349
Assets limited as to use restricted by donors	-	77,595	77,595
Related party note receivable - Archdiocese of Philadelphia, net of current portion	2,333,196	-	2,333,196
Total assets	\$ 13,950,241	\$ 77,595	\$ 14,027,836
<b>LIABILITIES AND NET ASSETS</b>			
Current liabilities			
Accounts payable and accrued expenses	\$ 458,244	\$ -	\$ 458,244
Mortgage payable	51,009	-	51,009
Salaries and wages payable	1,378,742	-	1,378,742
Due to Archdiocese of Philadelphia - Catholic Social Services	1,977,909	-	1,977,909
Escrow client funds	383,362	-	383,362
Total current liabilities	4,249,266	-	4,249,266
Mortgage payable	328,304	-	328,304
Total liabilities	4,577,570	-	4,577,570
Net assets			
Unrestricted	9,372,671	-	9,372,671
Temporarily restricted	-	77,595	77,595
Total net assets	9,372,671	77,595	9,450,266
Total liabilities and net assets	\$ 13,950,241	\$ 77,595	\$ 14,027,836

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

## STATEMENT OF FINANCIAL POSITION

June 30, 2012

	Unrestricted	Temporarily restricted	Total
ASSETS			
Current assets			
Cash	\$ 2,900	\$ -	\$ 2,900
Escrow client funds	379,295	-	379,295
Accounts receivable - Commonwealth of Pennsylvania	3,144,646	-	3,144,646
Accounts receivable - other	345,264	-	345,264
Pledges receivable - Office of Development, United Way, net	1,582	-	1,582
Prepaid expenses and other current assets	18,837	-	18,837
Related party note receivable - Archdiocese of Philadelphia	35,360	-	35,360
Total current assets	3,927,884	-	3,927,884
Property, plant and equipment, net	3,735,558	-	3,735,558
Investments, board designated	3,134,217	-	3,134,217
Assets limited as to use restricted by donors	-	76,633	76,633
Related party note receivable - Archdiocese of Philadelphia, net of current portion	2,377,216	-	2,377,216
Total assets	\$ 13,174,875	\$ 76,633	\$ 13,251,508
LIABILITIES AND NET ASSETS			
Current liabilities			
Accounts payable and accrued expenses	\$ 1,077,339	\$ -	\$ 1,077,339
Mortgage payable	75,458	-	75,458
Salaries and wages payable	822,376	-	822,376
Due to Archdiocese of Philadelphia - Catholic Social Services	1,241,474	-	1,241,474
Escrow client funds	379,295	-	379,295
Total current liabilities	3,595,942	-	3,595,942
Mortgage payable	356,585	-	356,585
Total liabilities	3,952,527	-	3,952,527
Net assets			
Unrestricted	9,222,348	-	9,222,348
Temporarily restricted	-	76,633	76,633
Total net assets	9,222,348	76,633	9,298,981
Total liabilities and net assets	\$ 13,174,875	\$ 76,633	\$ 13,251,508

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	Total
Operating revenue			
Governmental revenue	\$ 21,165,148	\$ -	\$ 21,165,148
Private client revenue	207,965	-	207,965
Contributed services - Catholic Social Services	263,752	-	263,752
Total operating revenue	21,636,865	-	21,636,865
Operating expenses			
Salaries, wages, and other payroll costs	15,289,648	-	15,289,648
Administrative and general expenses	3,406,077	-	3,406,077
Occupancy	1,880,734	-	1,880,734
Direct expenses of care	1,206,162	-	1,206,162
Depreciation	273,222	-	273,222
Interest expense	72,521	-	72,521
Bad debt expense	731,892	-	731,892
Total operating expenses	22,860,256	-	22,860,256
Deficiency of operating revenue under operating expenses	(1,223,391)	-	(1,223,391)
Other revenue			
Donations and other	831,816	-	831,816
Catholic Charities Appeal	50,000	-	50,000
Interest income	95,728	-	95,728
Unrealized gains on investments	275,009	-	275,009
Realized gains and other investment income	63,205	-	63,205
Dividend and interest income	57,956	962	58,918
Total other revenue	1,373,714	962	1,374,676
Change in net assets	150,323	962	151,285
Net assets, beginning of year	9,222,348	76,633	9,298,981
Net assets, end of year	\$ 9,372,671	\$ 77,595	\$ 9,450,266

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

Divine Providence Village

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended June 30, 2012

	Unrestricted	Temporarily restricted	Total
Operating revenue			
Governmental revenue	\$ 18,676,614	\$ -	\$ 18,676,614
Private client revenues	191,024	-	191,024
Rental income	4,700	-	4,700
Contributed services - Catholic Social Services	151,242	-	151,242
Total operating revenue	19,023,580	-	19,023,580
Operating expenses			
Salaries, wages, and other payroll costs	13,782,845	-	13,782,845
Administrative and general expenses	3,369,481	-	3,369,481
Occupancy	1,636,245	-	1,636,245
Direct expenses of care	1,323,013	-	1,323,013
Depreciation	415,594	-	415,594
Interest expense	79,740	-	79,740
Total operating expenses	20,606,918	-	20,606,918
Deficiency of operating revenue under operating expenses	(1,583,338)	-	(1,583,338)
Other revenue (expenses)			
Donations and other	793,601	-	793,601
Catholic Charities Appeal	50,000	-	50,000
Interest income	8,042	-	8,042
Unrealized (losses) gains on investments	(208,709)	44	(208,665)
Gain on lease termination	4,294,484	-	4,294,484
Realized gains and other investment income	141,308	-	141,308
Dividend and interest income	102,412	-	102,412
Total other revenue	5,181,138	44	5,181,182
Change in net assets	3,597,800	44	3,597,844
Net assets, beginning of year	5,624,548	76,589	5,701,137
Net assets, end of year	\$ 9,222,348	\$ 76,633	\$ 9,298,981

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



## STATEMENTS OF CASH FLOWS

Year ended June 30,

	2013	2012
Cash flows from operating activities		
Change in net assets	\$ 151,285	\$ 3,597,844
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	325,953	415,594
Bad debt expense (recovery)	731,892	(437)
Unrealized (gains) losses on investments	(275,009)	208,665
Realized gains and other investment income	(63,205)	(141,308)
Gain on lease termination	-	(4,294,484)
Changes in operating assets and liabilities		
Accounts receivable - Commonwealth of Pennsylvania	(931,906)	(64,904)
Accounts receivable - other	(3,341)	(781,551)
Pledges receivable - Office of Development, United Way, net	(647)	(1,461)
Prepaid and deferred expenses	(244,649)	171,145
Accounts payable and accrued expenses	(619,095)	576,448
Salaries and wages payable	556,366	149,524
Due to/from Archdiocese of Philadelphia - Catholic Social Services	736,435	601,112
Net cash provided by operating activities	364,079	436,187
Cash flows from investing activities		
Capital expenditures	(286,829)	(315,088)
Purchases and sales of investments, net	(59,880)	3,164,775
Issuance of related party note receivable - Archdiocese of Philadelphia	-	(3,166,101)
Payments on note receivable - Archdiocese of Philadelphia	35,360	-
Net cash used in investing activities	(311,349)	(316,414)
Cash flows from financing activities		
Capital lease payments	-	(70,157)
Payment of mortgage obligations	(52,730)	(49,616)
Net cash used in financing activities	(52,730)	(119,773)
Change in cash		
Cash		
Beginning of year	2,900	2,900
End of year	\$ 2,900	\$ 2,900

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

## NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

### NOTE A - ORGANIZATION

Divine Providence Village is a residential facility of the Archdiocese of Philadelphia located in Springfield, Pennsylvania. Divine Providence Village has the capacity to provide services for 96 intellectually disabled/developmentally disabled girls and women between 6 to 64 years of age.

Divine Providence Village operates ten Community Living Arrangements/Group Homes ("CLA") in Delaware County. The Group Homes provide residential services to intellectually disabled/developmentally disabled adults.

Divine Providence Village also operates a Family Living Program, In Home Support Program, and Community Outreach Program to provide services to intellectually disabled and developmentally disabled clients in the community.

The accompanying financial statements include programs operated and administered by Divine Providence Village.

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. Divine Providence Village, 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 Divine Providence Village.

### 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"). Divine Providence Village 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, Divine Providence Village'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.

(Continued)

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2013 and 2012

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

Permanently restricted net assets include the historical dollar amounts of contributions, including pledges, trusts and remainder interests, which are required by donors to be permanently retained. Capital appreciation, if permanently restricted by the donor or a third party, is included in permanently restricted net assets.

Temporarily restricted net assets include contributions, including pledges, trusts, remainder interests, income and appreciation, which can be expended but for which restrictions have not yet been met. Such restrictions include purpose restrictions where donors have specified the purpose for which the net assets are to be spent, or time restrictions imposed by donors or implied by the nature of the gift.

Unrestricted net assets are not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees.

**2. Use of Estimates**

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 fair values of investments. Actual results could differ from those estimates.

**3. Cash and Cash Equivalents**

Divine Providence Village 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, Divine Providence Village possessed only petty cash held on site.

**4. Accounting for Long-Lived Assets**

Divine Providence Village 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, Divine Providence Village 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. Divine Providence Village believes that no revision to the remaining useful lives or write-down of long-lived assets were required at June 30, 2013 and 2012.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

5. Escrow Client Funds

Divine Providence Village 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 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.

The investments are held within a pool of investments with the Archdiocese or within third-party trusts.

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

7. Governmental Revenue

Divine Providence Village receives its funding through contracts with Pennsylvania and New Jersey, 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 Divine Providence Village's programs. Divine Providence Village records revenues under such contracts as costs are incurred. For other programs, Divine Providence Village 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. Divine Providence Village recorded \$-0- and \$331,848 as of June 30, 2013 and 2012, respectively, related to a settlement received for fiscal year 2010.

During the current fiscal period, Divine Providence Village reclassified certain revenue accounts to create the "Private Client Revenues" line item within the statement of activities and changes in net assets, which isolates revenue earned from private parties. A reclassification of revenues recorded during the period ended June 30, 2012 was also made for comparability purposes.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Divine Providence Village 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.

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, Divine Providence Village 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. Allowance for Doubtful Accounts

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

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

CSS provides administrative and accounting services for institutions and group homes, including Divine Providence Village. 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 statements of activities and changes in net assets. 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.

(Continued)

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

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

11. Property, Plant and Equipment

Property, plant and equipment are capitalized at cost or at their fair market value if donated. Depreciation is computed on a straight-line basis and is recognized as an expense over the estimated useful lives of the assets, which are as follows:

Building	40 years
Building improvements	15 - 20 years
Equipment	5 - 10 years
Furniture	5 - 15 years
Automobiles	5 years
Leasehold improvements	5 - 20 years

12. Reclassifications

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

## NOTE C - INVESTMENTS

Divine Providence Village's investments at June 30, 2013 and 2012 are summarized and classified as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
<u>2013</u>				
Archdiocese of Philadelphia Non-Pension Assets Portfolio	\$ <u>3,531,349</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>3,531,349</u>
<u>2012</u>				
Archdiocese of Philadelphia Non-Pension Assets Portfolio	\$ <u>3,134,217</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>3,134,217</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.

(Continued)

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

## NOTE C - INVESTMENTS - Continued

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 is responsible for ensuring that investment allocations among the funds are maintained as determined by the Investment Committee of the Archdiocese of Philadelphia.

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

	<u>2013</u>	<u>2012</u>
Equity Sub-Account	\$ 2,366,004	\$ 1,943,215
Fixed Income Sub-Account	<u>1,165,345</u>	<u>1,191,002</u>
Total ownership	<u>\$ 3,531,349</u>	<u>\$ 3,134,217</u>

## 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>
Land	\$ 165,085	\$ 165,085
Buildings	1,485,765	1,516,265
Automobiles	38,998	38,998
Furniture and equipment	1,633,701	1,396,297
Leasehold improvements	<u>4,432,584</u>	<u>4,205,660</u>
	7,756,133	7,322,305
Accumulated depreciation	<u>(4,059,699)</u>	<u>(3,586,747)</u>
Property, plant and equipment, net	<u>\$ 3,696,434</u>	<u>\$ 3,735,558</u>

Depreciation expense of \$273,222 and \$415,594 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, Divine Providence Village had uncollateralized accounts receivable from various public agencies, primarily the Commonwealth of Pennsylvania, Department of Public Welfare ("DPW"), of \$3,476,289 and \$3,144,646, respectively. These balances potentially subject Divine Providence Village to a concentration of credit risk. Divine Providence Village monitors its funding arrangements with DPW and other 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 was \$2,229 and \$1,582, net of an allowance of \$666 and \$473 for the years ended June 30, 2013 and 2012, respectively. Pledges receivable are expected to be realized over the following year.

## 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 \$2,412,576 recorded by Divine Providence Village. The outstanding balance at June 30, 2013 was \$2,377,216.

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	\$ 44,020
2015	<u>2,333,196</u>
	<u>\$ 2,377,216</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.

(Continued)



## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

## NOTE H - FAIR VALUE MEASUREMENTS - Continued

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.

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 of					
Philadelphia NPAP <sup>(a)</sup>	\$ 3,531,349	\$ 3,134,217	\$ -	daily	1 day

- <sup>(a)</sup> 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.

The following table presents the fair values of the investments held by Divine Providence Village 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 of Philadelphia NPAP	\$ -	\$ 3,531,349	\$ -	\$ 3,531,349
Total assets	\$ -	\$ 3,531,349	\$ -	\$ 3,531,349
<u>2012</u>				
Assets				
Archdiocese of Philadelphia NPAP	\$ -	\$ 3,134,217	\$ -	\$ 3,134,217
Total assets	\$ -	\$ 3,134,217	\$ -	\$ 3,134,217

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

## NOTE I - PENSION PLAN

The eligible lay employees of Divine Providence Village 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. Divine Providence Village made annual contributions to the Plan at 5.0% for each of the years ended June 30, 2013 and 2012 of salaries of the eligible employees. The amount of expense relating to the Plan was \$400,086 and \$359,967 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.

Divine Providence Village also makes contributions to the various orders of the religious personnel who provide services at the facility. The amount of expense related to these contributions was \$3,498 and \$4,793 for the years ended June 30, 2013 and 2012, respectively.

## NOTE J - RELATED PARTY TRANSACTIONS

Divine Providence Village leases certain facilities and equipment, utilized in the delivery of its services, from the Archdiocese and CSS and 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 Divine Providence Village. 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 to CSS is expected when cash is available. The amount due to CSS was \$1,977,909 and \$1,241,474 at June 30, 2013 and 2012, respectively.

The transactions with the Archdiocese and affiliates 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		
Rental of facility - contributed	\$ 724,000	\$ 724,000
Insurance	83,079	79,124
Lay employee pension contributions	400,086	359,967
Religious employee pension contributions	<u>3,498</u>	<u>4,793</u>
	<u>\$ 1,210,663</u>	<u>\$ 1,167,884</u>

(Continued)

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

## NOTE J - RELATED PARTY TRANSACTIONS - Continued

	<u>2013</u>	<u>2012</u>
Archdiocese of Philadelphia - Catholic Social Services		
Automobile leases	\$ 93,076	\$ 105,592
Allocated administrative and accounting costs	856,111	693,721
Allocated administrative and accounting costs - contributed	263,752	151,242
Information technology services	<u>176,605</u>	<u>223,286</u>
	<u>\$ 1,389,544</u>	<u>\$ 1,173,841</u>

Catholic Charities Appeal donated \$50,000 to Divine Providence Village during 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>
Archdiocese of Philadelphia	\$ 23,772	\$ 8,042

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	\$ 67,748	\$ 74,220
Archdiocese of Philadelphia	6,315	176,823

## NOTE K - INCOME TAX STATUS

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

Divine Providence Village 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. Divine Providence Village 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 L - FUNCTIONAL EXPENSES

Divine Providence Village provides services for intellectually disabled/developmentally disabled girls and women between 6 to 64 years of age, in addition to operating Community Living Arrangements/Group Homes ("CLA"), a Family Living Program, In Home Support Program, and Community Outreach Program to provide services to intellectually disabled and developmentally disabled clients in the community. Expenses related to providing these services at June 30, are as follows:

	<u>2013</u>	<u>2012</u>
Program expenses	\$ 18,499,513	\$ 17,180,810
Support expenses	<u>4,360,743</u>	<u>3,426,108</u>
	<u>\$ 22,860,256</u>	<u>\$ 20,606,918</u>

## NOTE M - FUNDING

Divine Providence Village provides institutional care for intellectually disabled girls and women. Reimbursement of these services is provided primarily by the New Jersey Division of Developmental Disabilities.

Divine Providence Village's per diem reimbursement rate from the New Jersey Division of Developmental Disabilities was \$414.41 for each of the years ended June 30, 2013 and 2012.

Divine Providence Village is also a certified Intermediate Care Facility for the Intellectually Disabled ("ICF/ID") and is funded by the Commonwealth of Pennsylvania's Medical Assistance Program (the "Program"). Under the contract with the Program, reimbursement is limited to the lower of total allowable operating expenses or the approved operating budget.

Divine Providence Village's per diem reimbursement rate from the Commonwealth of Pennsylvania under its Medical Assistance Program was \$333.88 and \$316.03 for the years ended June 30, 2013 and 2012, respectively.

Divine Providence Village has ten Community Living Arrangements ("CLAs"), Sunnybrook Lane, Pickering Lane, Stewart Avenue, Glen Spring Lane, Collins Drive, Hickory Lane, Kenwood Road, Hedgerow Lane, Sproul Road and Tall Trees, each of which generally house and care for three intellectually disabled adults in a residential setting.

## NOTE N - COMMITMENTS

Divine Providence Village leases automobiles from CSS. Rental expense was \$93,076 and \$105,592 for the fiscal years ended June 30, 2013 and 2012, respectively. As of June 30, 2013 and 2012, there are no future minimum rental payments.

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

## NOTE O - MORTGAGE OBLIGATION

Divine Providence Village has entered into a mortgage with Beneficial Mutual Savings Bank for the CLA facility located on Kenwood Road. The mortgage has a term of 15 years with an annual interest rate of 5%, and monthly payments of \$2,673.

The mortgage is collateralized by the property. This loan was originated on September 26, 2006.

At June 30, 2013, a mortgage payable of \$165,962 was outstanding on the property. Total principal and interest of this mortgage obligation and note payable are as follows:

2014	\$ 22,255
2015	25,468
2016	26,771
2017 and thereafter	<u>91,468</u>
	<u>\$ 165,962</u>

Divine Providence Village has also entered into a mortgage with Beneficial Mutual Savings Bank for the CLA facility located on Hedgerow Lane. The mortgage has a term of 15 years with an annual interest rate of 6.21%, and monthly payments of \$3,615.

The mortgage is collateralized by the property. This loan was originated on September 26, 2006.

At June 30, 2013, a mortgage payable of \$213,351 was outstanding on the property. Aggregate total principal of this mortgage obligation and note payable are as follows:

2014	\$ 28,754
2015	33,260
2016	35,355
2017 and thereafter	<u>115,982</u>
	<u>\$ 213,351</u>

## NOTE P - TEMPORARILY RESTRICTED ASSETS

Temporarily restricted assets are composed of a client trust to be used for the personal needs of a resident of Divine Providence Village. The value of the trust was \$77,595 and \$76,633 as of June 30, 2013 and 2012, respectively.

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2013 and 2012

**NOTE Q - PRIOR PERIOD LEASE TERMINATION**

Divine Providence Village leases a facility from the Archdiocese in Marple, Pennsylvania. This agreement was entered into in 1984. In prior periods, Divine Providence Village appropriately accounted for this agreement as a capital lease per the terms of the leasing arrangement. However, during the period ended June 30, 2012, management of the Archdiocese and CSS mutually agreed to terminate the lease agreement between Divine Providence Village and the Archdiocese effective June 30, 2012. The effect of the termination resulted in a gain on lease termination of \$4,294,484 for Divine Providence Village as noted in the statement of activities and changes in net assets for the year ended June 30, 2012.

**NOTE R - SUBSEQUENT EVENTS**

Divine Providence Village 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.

Divine Providence Village 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.