

Financial Statements and Report of
Independent Certified Public Accountants

**Catholic Community Services of the
Archdiocese of Philadelphia**

June 30, 2014

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Report of Independent Certified Public Accountants

Board of Directors
Catholic Community Services of the Archdiocese of Philadelphia
Philadelphia, Pennsylvania

Report on the financial statements

We have audited the accompanying financial statements of Catholic Community Services of the Archdiocese of Philadelphia (the "Organization"), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities and cash flows for the year 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 audit. We conducted our audit 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 Catholic Community Services of the Archdiocese of Philadelphia as of June 30, 2014, and its activities and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Philadelphia, Pennsylvania

December 10, 2014

STATEMENT OF FINANCIAL POSITION

June 30, 2014

ASSETS

Current assets

Accounts receivable - DHS	\$ 986,609
Prepaid expenses and other assets	<u>15,239</u>

Total current assets	<u>1,001,848</u>
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Total assets	<u>\$ 1,001,848</u>
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LIABILITIES AND NET ASSETS

Current liabilities

Accounts payable and accrued expenses	\$ 141,450
Salaries and wages payable	200,008
Due to Archdiocese of Philadelphia - Catholic Social Services and related entities	<u>660,390</u>

Total current liabilities	<u>1,001,848</u>
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Net assets

Total liabilities and net assets	<u>\$ 1,001,848</u>
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The accompanying notes are an integral part of these financial statements.

Catholic Community Services of the Archdiocese of Philadelphia

STATEMENT OF ACTIVITIES

Year ended June 30, 2014

Operating revenue	
Governmental revenue	<u>\$ 2,711,443</u>
Total operating revenue	<u>2,711,443</u>
Operating expenses	
Salaries, wages and other payroll costs	1,710,516
Administrative and general	841,607
Occupancy	131,642
Direct expenses of children	<u>27,678</u>
Total operating expenses	<u>2,711,443</u>
Deficiency of operating revenue under operating expenses	<u>-</u>
Change in net assets	
Net assets	
Beginning of year	<u>-</u>
End of year	<u>\$ -</u>

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

STATEMENT OF CASH FLOWS

Year ended June 30, 2014

Cash flows from operating activities	
Change in net assets	\$ -
Adjustments to reconcile change in net assets to net cash used in operating activities	
Changes in operating assets and liabilities	
Accounts receivable - DHS	(986,609)
Prepaid expense	(15,239)
Accounts payable and accrued expenses	141,450
Salaries and wages payable	200,008
Due to Archdiocese of Philadelphia - Catholic Social Services	<u>660,390</u>
Net cash used in operating activities	<u>-</u>
Cash	
Beginning of year	<u>-</u>
End of year	<u>\$ -</u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE A - ORGANIZATION

Catholic Community Services of the Archdiocese of Philadelphia (the "Organization") is a community-based agency that is responsible for the provision of direct case management services to children and families in a designated region of North Philadelphia.

The accompanying financial statements include programs operated and administered by the Organization.

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 Organization is one of the entities operating under CSS.

The Archdiocese of Philadelphia (the "Archdiocese") was proclaimed a Catholic diocese in 1808 and raised to an Archdiocese in 1875. The Archdiocese oversees the activities of the Roman Catholic Church (the "Church") for the five counties of Philadelphia, Bucks, Chester, Delaware and Montgomery in the southeastern part of the Commonwealth of Pennsylvania and is operated in accordance with the provisions of the 1983 Code of Canon Law, as amended, of the Church. The Organization, which is related, is operated separately and distinctly from the Archdiocese.

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"). The Organization 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, the Organization's net assets and its revenues, expenses, gains and losses are classified into three categories, based on the existence or absence of donor-imposed restrictions. The categories are permanently restricted, temporarily restricted and unrestricted net assets.

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

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

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

As the Organization's expenses are reimbursed at 100% by funding agencies, there are no net assets at June 30, 2014.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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. Actual results could differ from those estimates.

3. Governmental Revenue

The Organization receives its funding through a contract with the Philadelphia Department of Human Services ("DHS"). The ultimate determination of amounts reimbursable under cost reimbursement contracts/agreements is based upon this contract. The Organization expects all expenses incurred will be reimbursed.

The Organization is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Government activity in the health care industry has increased with respect to investigations and allegations concerning possible violations of regulations by health care providers, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues of client services.

As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Management believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing.

4. Allowance for Doubtful Accounts

The Organization continually monitors accounts receivable for collectability issues. The allowance is based upon management's judgment and is determined by considering a number of factors, including the length of time accounts receivable are past due, the Organization's previous loss history, the nature of the service provided and other pertinent factors. The Organization writes off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts.

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

CSS provides administrative and accounting services for institutions and group homes, including the Organization. The total expenses incurred by CSS in providing services are accumulated and allocated on a pro rata basis to the institutions and group homes. The allocated amount is reported as an administrative and general expense in the statement of activities. Any difference between the allocation and the amount charged to the institutions and group homes during the year is considered a contribution of services from CSS.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE C - ACCOUNTS RECEIVABLE - DHS

At June 30, 2014, the Organization had uncollateralized accounts receivable from DHS of \$986,609.

NOTE D - PENSION PLAN

The eligible lay employees of the Organization are covered under the Archdiocese of Philadelphia Lay Employees' Retirement Plan (the "Plan"), which is a defined benefit pension plan that covers substantially all lay employees, once age and service requirements are met, of the Archdiocese, its institutions and parishes. The Plan is administered by the Trustees of the Lay Employees' Retirement Plan. The Organization made annual contributions to the Plan at a rate of 7.5% for the year ended June 30, 2014 of salaries of the eligible employees. The amount of expense related to the Plan was \$9,700 for the fiscal year ended June 30, 2014. Separate accounts for vested benefits and pension fund assets are not maintained for each institution.

The Archdiocese froze the Plan effective June 30, 2014. All current employees will retain benefits they have earned 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. Effective July 1, 2014, the Archdiocese established a 403(b) defined contribution plan for all eligible employees.

NOTE E - RELATED PARTY TRANSACTIONS

The Organization 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.

CSS provides administrative and accounting services for related institutions and group homes, including the Organization. The total expenses incurred by CSS in providing services are accumulated and allocated on a pro rata basis to the institutions and group homes. The allocated amount is reported as an administrative and general expense in the statement of activities. Any difference between the allocation and the amount charged to the institution during the year is considered a contribution of services from CSS. Repayment of amounts due to CSS is expected when cash is available. The amount due to CSS was \$660,390 as of June 30, 2014.

The transactions with the Archdiocese and CSS charged to expense for the fiscal year ended June 30, 2014 were as follows:

Archdiocese of Philadelphia	
Rental of facility	\$ 30,000
Lay employee pension contributions	<u>9,700</u>
	<u>\$ 39,700</u>
Archdiocese of Philadelphia - Catholic Social Services	
Allocated administrative and accounting costs	\$ <u>79,778</u>
	<u>\$ 79,778</u>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE F - INCOME TAX STATUS

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

The Organization follows the accounting guidance for uncertainties in income tax positions which requires that a tax position be recognized or derecognized based on a "more likely than not" threshold. This applies to positions taken or expected to be taken in a tax return. The Organization has determined that there are no uncertain tax positions requiring recognition in the financial statements at June 30, 2014. The tax years ended June 30, 2011, 2012 and 2013 are still open to audit for both federal and state purposes.

NOTE G - FUNCTIONAL EXPENSES

The Organization provides case management services to young men, women and children. Expenses related to providing these services for the year ended June 30, 2014 are as follows:

Program expenses	\$ 2,478,588
Support expenses	<u>232,855</u>
Total expenses	<u>\$ 2,711,443</u>

NOTE H - COMMITMENTS

The Organization enters annually into various operating lease agreements primarily for the rental of facilities, some of which are with other entities also operating under the auspices of the Archdiocese of Philadelphia. Rental expense associated with these operating lease agreements was \$30,000 for the year ended June 30, 2014.

NOTE I - SUBSEQUENT EVENTS

Management has evaluated subsequent events for the year ended June 30, 2014, the date of the financial statements, through December 10, 2014, which is the date the financial statements were available to be issued. The Organization is not aware of any subsequent event which would require recognition or disclosure in the financial statements, except as follows:

Effective July 1, 2014, the Archdiocese established a 403(b) defined contribution plan for all eligible employees.