

Financial Statements and Report of
Independent Certified Public Accountants

Don Guanella Village

June 30, 2014 and 2013

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Report of Independent Certified Public Accountants

Board of Directors
Don Guanella Village
Philadelphia, Pennsylvania

Report on the financial statements

We have audited the accompanying financial statements of Don Guanella Village, which comprise the statements of financial position as of June 30, 2014 and 2013, 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 Don Guanella 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 Don Guanella 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 Don Guanella Village as of June 30, 2014 and 2013, 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 10, 2014

STATEMENT OF FINANCIAL POSITION

June 30, 2014

ASSETS	Unrestricted	Temporarily restricted	Total
Current assets			
Cash	\$ 5,850	\$ -	\$ 5,850
Escrow client funds	325,842	-	325,842
Accounts receivable - Commonwealth of Pennsylvania net of allowance of \$188,000	3,740,833	-	3,740,833
Accounts receivable - other	105,419	-	105,419
Pledges receivable - Office of Development, United Way, net	4,308	-	4,308
Due from Archdiocese of Philadelphia - Catholic Social Services	-	120,751	120,751
Total current assets	4,182,252	120,751	4,303,003
Property, plant and equipment, net	4,493,474	-	4,493,474
Prepays	361,348	-	361,348
Security deposits - rent	33,260	-	33,260
Investments	5,494,438	-	5,494,438
Total assets	\$ 14,564,772	\$ 120,751	\$ 14,685,523
LIABILITIES AND NET ASSETS			
Current liabilities			
Accounts payable and accrued expenses	\$ 1,552,239	\$ -	\$ 1,552,239
Salaries and wages payable	1,096,896	-	1,096,896
Escrow client funds	325,842	-	325,842
Due to Archdiocese of Philadelphia - Catholic Social Services	8,457,982	-	8,457,982
Total current liabilities	11,432,959	-	11,432,959
Net assets			
Unrestricted	3,131,813	-	3,131,813
Temporarily restricted	-	120,751	120,751
Total net assets	3,131,813	120,751	3,252,564
Total liabilities and net assets	\$ 14,564,772	\$ 120,751	\$ 14,685,523

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

STATEMENT OF FINANCIAL POSITION

June 30, 2013

ASSETS	Unrestricted	Temporarily restricted	Total
Current assets			
Cash	\$ 3,100	\$ -	\$ 3,100
Escrow client funds	387,634	-	387,634
Accounts receivable - Commonwealth of Pennsylvania net of allowance of \$195,000	4,691,553	-	4,691,553
Accounts receivable - public agencies	14,146	-	14,146
Accounts receivable - other	32,611	-	32,611
Pledges receivable - Office of Development, United Way, net	5,250	-	5,250
Related party note receivable - Archdiocese of Philadelphia	60,727	-	60,727
Due from Archdiocese of Philadelphia - Catholic Social Services	-	70,649	70,649
Total current assets	5,195,021	70,649	5,265,670
Property, plant and equipment, net	2,145,460	-	2,145,460
Investments	4,725,186	-	4,725,186
Related party note receivable - Archdiocese of Philadelphia, net of current portion	3,218,699	-	3,218,699
Total assets	<u>\$ 15,284,366</u>	<u>\$ 70,649</u>	<u>\$ 15,355,015</u>
LIABILITIES AND NET ASSETS			
Current liabilities			
Accounts payable and accrued expenses	\$ 597,173	\$ -	\$ 597,173
Salaries and wages payable	802,684	-	802,684
Escrow client funds	387,634	-	387,634
Due to Archdiocese of Philadelphia - Catholic Social Services	7,925,202	-	7,925,202
Total current liabilities	9,712,693	-	9,712,693
Net assets			
Unrestricted	5,571,673	-	5,571,673
Temporarily restricted	-	70,649	70,649
Total net assets	5,571,673	70,649	5,642,322
Total liabilities and net assets	<u>\$ 15,284,366</u>	<u>\$ 70,649</u>	<u>\$ 15,355,015</u>

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

Don Guanella Village

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended June 30, 2014

	Unrestricted	Temporarily restricted	Total
Operating revenue			
Governmental revenue	\$ 14,745,950	\$ -	\$ 14,745,950
Contributed services - Archdiocese of Philadelphia - Catholic Social Services	159,937	-	159,937
Other revenue	335,149	-	335,149
Total operating revenue	15,241,036	-	15,241,036
Operating expenses			
Salaries, wages and other payroll costs	12,568,443	-	12,568,443
Administrative and general expenses	2,829,955	-	2,829,955
Occupancy	1,543,430	-	1,543,430
Direct expenses of care	1,944,839	-	1,944,839
Depreciation	304,424	-	304,424
Bad debt expense	10,222	-	10,222
Interest	297,440	-	297,440
Total operating expenses	19,498,753	-	19,498,753
Deficiency of operating revenue under operating expenses	(4,257,717)	-	(4,257,717)
Other revenue			
Donations, bequests, trusts, and other	818,938	50,102	869,040
Catholic Charities Appeal	100,000	-	100,000
Net unrealized gains on investments	349,697	-	349,697
Net realized gains on investments	346,397	-	346,397
Dividend and interest income	202,825	-	202,825
Total other revenue	1,817,857	50,102	1,867,959
Change in net assets	(2,439,860)	50,102	(2,389,758)
Net assets			
Beginning of year	5,571,673	70,649	5,642,322
End of year	\$ 3,131,813	\$ 120,751	\$ 3,252,564

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	\$ 13,854,481	\$ -	\$ 13,854,481
Contributed services - Archdiocese of Philadelphia - Catholic Social Services	195,016	-	195,016
Other revenue	28,413	-	28,413
Total operating revenue	14,077,910	-	14,077,910
Operating expenses			
Salaries, wages and other payroll costs	11,832,816	-	11,832,816
Administrative and general expenses	3,049,291	-	3,049,291
Occupancy	1,193,369	-	1,193,369
Direct expenses of care	1,961,422	-	1,961,422
Depreciation	359,981	-	359,981
Bad debt expense	1,374,333	-	1,374,333
Interest	196,992	-	196,992
Total operating expenses	19,968,204	-	19,968,204
Deficiency of operating revenue under operating expenses	(5,890,294)	-	(5,890,294)
Other revenue			
Donations, bequests, trusts, and other	906,752	-	906,752
Catholic Charities Appeal	100,000	-	100,000
Net unrealized gains on investments	204,408	-	204,408
Net realized gains on investments	152,947	-	152,947
Dividend and interest income	198,221	-	198,221
Total other revenue	1,562,328	-	1,562,328
Change in net assets	(4,327,966)	-	(4,327,966)
Net assets			
Beginning of year	9,899,639	70,649	9,970,288
End of year	\$ 5,571,673	\$ 70,649	\$ 5,642,322

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

STATEMENTS OF CASH FLOWS

Year ended June 30,

	2014	2013
Cash flows from operating activities		
Change in net assets	\$ (2,389,758)	\$ (4,327,966)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Depreciation	304,424	359,981
Bad debt expense	10,222	1,374,333
Net unrealized gains on investments	(349,697)	(204,408)
Net realized gains on investments	(346,397)	(152,947)
Changes in operating assets and liabilities		
Accounts receivable - public agencies	14,146	639,868
Accounts receivable - Commonwealth of Pennsylvania	950,720	(1,923,828)
Accounts receivable - other	(72,808)	57,310
Pledges receivable - Office of Development, United Way	942	1,576
Prepaid expenses and other assets	(361,348)	10,266
Security deposits - rent	(33,260)	-
Accounts payable and accrued expenses	955,066	(117,248)
Salaries and wages payable	294,212	49,272
Net advances from Archdiocese of Philadelphia - Catholic Social Services	482,678	4,718,076
Net cash (used in) provided by operating activities	(540,858)	484,285
Cash flows from investing activities		
Capital expenditures	(2,652,438)	(467,099)
Purchases and sales of investments, net	(83,380)	(66,162)
Payments received on related party note receivable - Archdiocese of Philadelphia	3,279,426	48,780
Net cash provided by (used in) investing activities	543,608	(484,481)
Change in cash	2,750	(196)
Cash		
Beginning of year	3,100	3,296
End of year	\$ 5,850	\$ 3,100

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2014 and 2013

NOTE A - ORGANIZATION

Don Guanella Village operates a residential facility located in Springfield, Pennsylvania. Don Guanella Village also operates four community-based intermediate care facilities in Delaware and Chester Counties serving 22 men. Don Guanella Village has the capacity to provide residential and rehabilitative services to 128 intellectually disabled/developmentally disabled men over the age of 21 years.

The accompanying financial statements include programs operated and administered by Don Guanella 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. Don Guanella 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 Don Guanella 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"). Don Guanella 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, Don Guanella 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.

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, 2014 and 2013

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

3. Cash and Cash Equivalents

Don Guanella 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, 2014 and 2013, Don Guanella Village possessed only petty cash held on site.

4. Accounting for Long-Lived Assets

Don Guanella 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, Don Guanella 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. Don Guanella Village believes that no revision to the remaining useful lives or write-down of long-lived assets were required at June 30, 2014 and 2013.

5. Escrow Client Funds

Don Guanella 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.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

6. Investments

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

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

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

Don Guanella Village receives its funding through contracts with Pennsylvania, various cities and counties, federal programs and agreements with managed care and insurance organizations. These contracts/agreements are generally fee-for-service agreements. The ultimate determination of amounts reimbursable under cost reimbursement contracts/agreements is based upon allowable costs to be reported to and subject to audit by grantors and/or their agents.

Net program service revenues are from funding sources under fee-for-service contracts for several of the Don Guanella Village's programs. For other programs, Don Guanella 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. Don Guanella Village recorded \$439,832 and \$-0- for the years ended June 30, 2014 and 2013, respectively, related to a settlement received for the year ended June 30, 2010.

Don Guanella 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.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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, Don Guanella 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

Don Guanella 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, Don Guanella Village's previous loss history, the nature of the service provided and other pertinent factors. Don Guanella 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 related institutions and group homes, including Don Guanella 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 institution during the year is considered a contribution of services from CSS.

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:

Automobiles	5 years
Furniture and equipment	5 - 15 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.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

NOTE C - INVESTMENTS

Don Guanella Village's investments at June 30, 2014 and 2013 are summarized and classified as follows:

	<u>Unrestricted</u>	
	<u>2014</u>	<u>2013</u>
Archdiocese of Philadelphia Non-Pension Assets Portfolio	\$ <u>5,494,438</u>	\$ <u>4,725,186</u>

For administrative and other needs, the Archdiocese formed the Non-Pension Assets Portfolio (the "NPAP") to pool together certain investments in order to more efficiently manage the investments of various entities and related organizations within the Archdiocese. The investments in the NPAP are held by a custodian and are managed based on sub-accounts as follows:

Equity Sub-Account (or "fund") - Invests in common stocks and is managed by multiple investment managers.

Fixed Income Sub-Account (or "fund") - Invests in mutual funds, corporate obligations, United States Treasury obligations and municipal obligations and is managed by multiple investment managers.

The NPAP is unitized on a periodic basis to allow for the investment, at unit value, by entities in the NPAP. Don Guanella Village'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.

At June 30, 2014 and 2013, Don Guanella Village held the following within the NPAP:

	<u>2014</u>	<u>2013</u>
Equity sub-account	\$ 3,107,509	\$ 3,165,875
Fixed income sub-account	<u>2,386,929</u>	<u>1,559,311</u>
Total ownership	\$ <u>5,494,438</u>	\$ <u>4,725,186</u>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

NOTE D - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment and accumulated depreciation consist of the following at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Leasehold improvements	\$ 5,436,916	\$ 5,277,383
Furniture and equipment	3,491,375	3,349,410
Construction in progress	<u>2,604,842</u>	<u>253,901</u>
	11,533,133	8,880,694
Accumulated depreciation	<u>(7,039,659)</u>	<u>(6,735,234)</u>
Property, plant and equipment, net	<u>\$ 4,493,474</u>	<u>\$ 2,145,460</u>

Depreciation expense of \$304,424 and \$359,981 was incurred for the years ended June 30, 2014 and 2013, respectively.

NOTE E - ACCOUNTS RECEIVABLE

At June 30, 2014 and 2013, Don Guanella Village had uncollateralized accounts receivable, primarily from the Commonwealth of Pennsylvania, Department of Public Welfare ("DPW"), of \$3,740,833 and \$4,691,553, respectively. These balances potentially subject Don Guanella Village to a concentration of credit risk. Don Guanella Village monitors its funding arrangements with DPW and other agencies.

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

Pledges receivable - Office of Development, United Way were \$4,308 and \$5,250, net of an allowance of \$1,287 and \$2,038 at June 30, 2014 and 2013, respectively. Pledges receivable are expected to be realized in the following year.

NOTE G - RELATED PARTY NOTE RECEIVABLE - ARCHDIOCESE OF PHILADELPHIA

In June 2012, the Archdiocese of Philadelphia 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 Loan Receivables and Term Loans Payables totaling \$71,357,582 at participating Archdiocesan entities, which included a note receivable of \$3,328,206 recorded by Don Guanella Village. Several payments were received in 2013 and 2014, and the loan receivable was fully repaid as of June 30, 2014.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

NOTE H - FAIR VALUE MEASUREMENTS

Accounting Standards Codification ("ASC") 820, *Fair Value Measurements and Disclosures*, establishes a single authoritative definition of fair value, sets a framework for measuring fair value, and requires additional disclosures about fair value measurements. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described as follows:

- Level 1 Quoted prices in active markets for identical assets or liabilities.
- Level 2 Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities.
- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Fair value calculations may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes that the NPAP valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Fair value measurements of investments in entities that calculate net asset value ("NAV") per share or its equivalent as of June 30, 2014 and 2013 are as follows:

	<u>Fair value</u>		<u>Unfunded</u>	<u>Redemption</u>	<u>Redemption</u>
	<u>2014</u>	<u>2013</u>	<u>commitments</u>	<u>frequency</u>	<u>notice</u>
					<u>period</u>
Archdiocese NPAP ^(a)	\$ 5,494,438	\$ 4,725,186	\$ -	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.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

NOTE H - FAIR VALUE MEASUREMENTS - Continued

The following table presents the fair value of the investments held by Don Guanella Village by level within the fair value hierarchy, as of June 30, 2014 and 2013:

	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
<u>2014</u>				
Assets				
Archdiocese NPAP	\$ -	\$ 5,494,438	\$ -	\$ 5,494,438
Total assets	\$ -	\$ 5,494,438	\$ -	\$ 5,494,438
<u>2013</u>				
Assets				
Archdiocese NPAP	\$ -	\$ 4,725,186	\$ -	\$ 4,725,186
Total assets	\$ -	\$ 4,725,186	\$ -	\$ 4,725,186

NOTE I - PENSION PLAN

The eligible lay employees of Don Guanella 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. Don Guanella Village made annual contributions to the Plan at a rate of 7.5% and 5.0%, respectively, for the years ended June 30, 2014 and 2013 of salaries of the eligible employees. The amount of expense related to the Plan was \$447,389 and \$390,069 for the fiscal years ended June 30, 2014 and 2013, respectively. 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.

Don Guanella Village 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 \$4,270 and \$0- for the years ended June 30, 2014 and 2013, respectively.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

NOTE J - RELATED PARTY TRANSACTIONS

Don Guanella Village 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 Don Guanella 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 institution during each 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 \$8,457,982 and \$7,925,202 at June 30, 2014 and 2013, respectively.

The transactions with the Archdiocese and CSS charged to expense for the years ended June 30, 2014 and 2013 were as follows:

	<u>2014</u>	<u>2013</u>
Archdiocese of Philadelphia		
Rental of facility - contributed	\$ 719,160	\$ 719,160
Insurance	62,626	162,986
Unemployment compensation fund	216,788	217,495
Lay employee pension contributions	<u>447,389</u>	<u>390,069</u>
	<u>\$ 1,445,963</u>	<u>\$ 1,489,710</u>
Archdiocese of Philadelphia - Catholic Social Services		
Automobile leases	\$ 70,153	\$ 126,951
Allocated administrative and accounting costs	863,513	641,597
Information technology expense	288,758	281,202
Allocated administrative and accounting costs - contributed	<u>159,937</u>	<u>195,016</u>
	<u>\$ 1,382,361</u>	<u>\$ 1,244,766</u>

Catholic Charities Appeal donated \$100,000 to Don Guanella Village for each of the fiscal years ended June 30, 2014 and 2013.

Included in accounts receivable - other are certain related party amounts. These amounts are as follows for June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Archdiocese of Philadelphia	\$ -	\$ 32,794

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

NOTE J - RELATED PARTY TRANSACTIONS - Continued

Included in accounts payable are certain related party amounts. These amounts are as follows for June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Catholic Health Care Services	\$ 63,150	\$ 62,360
Archdiocese of Philadelphia	2,947	200,106

NOTE K - INCOME TAX STATUS

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

Don Guanella 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. Don Guanella Village 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 L - FUNCTIONAL EXPENSES

Functional program expenses consist of program compensation, general operating and occupancy expenses, and expenses directly related to the care of clients, including medical, recreation, and clothing. Support expenses consist of supporting compensation, general operating and occupancy expenses related to administrative and accounting services provided. The following summarizes program and support expenses for the years ended June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Program expenses	\$ 14,670,499	\$ 13,711,689
Support expenses	<u>4,828,254</u>	<u>6,256,515</u>
	<u>\$ 19,498,753</u>	<u>\$ 19,968,204</u>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

NOTE M - FUNDING

Don Guanella Village is licensed as a community residential facility for intellectually disabled children. Reimbursement of its services is provided primarily by the Philadelphia Department of Human Services ("City"), Bucks County Division of Health and Human Services, and Delaware County Human Services Department. Don Guanella Village's per diem reimbursement rate from the City of Philadelphia's Department of Human Services was \$-0- at June 30, 2014 and \$307.53 at June 30, 2013. The per diem reimbursement rate from the Bucks County Division of Health and Human Services was \$-0- at June 30, 2014 and \$269.28 at June 30, 2013, while the per diem reimbursement rate from the Delaware County Human Services Department was \$-0- at June 30, 2014 and \$262.72 at June 30, 2013.

Cardinal Krol Center is a certified Intermediate Care Facility for the Intellectually Disabled ("ICF/ID") and is reimbursed under the Commonwealth of Pennsylvania's Medical Assistance Program. Reimbursement is limited to the lower of total allowable operating expenses or the approved operating budget.

Cardinal Krol Center's per diem reimbursement rate from the Commonwealth of Pennsylvania under its Medical Assistance Program was \$288.82 and \$282.08 at June 30, 2014 and 2013, respectively.

NOTE N - COMMITMENTS

Don Guanella Village leases automobiles from CSS. Rental expense was \$70,153 and \$126,951 for the fiscal years ended June 30, 2014 and 2013, respectively. As of June 30, 2014 and 2013, there are no future minimum rental payments.

NOTE O - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2014 and 2013 consisted of the following:

	<u>2014</u>	<u>2013</u>
Alzheimers/Dementia Unit	\$ <u>120,751</u>	\$ <u>70,649</u>
	\$ <u>120,751</u>	\$ <u>70,649</u>

NOTE P - 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. Pursuant to the requirements, there were no events or transactions occurring during the subsequent event reporting period which require recognition or disclosure in the financial statements, except as noted below:

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