

Financial Statements and Report of
Independent Certified Public Accountants

Don Guanella Village

June 30, 2018 and 2017

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Report of Independent Certified Public Accountants

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Report on the financial statements

We have audited the accompanying financial statements of Don Guanella Village (the “Organization”), which comprise the statements of financial position as of June 30, 2018 and 2017, 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 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 Don Guanella Village as of June 30, 2018 and 2017, and the changes in its net assets 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 19, 2018

Don Guanella Village

STATEMENT OF FINANCIAL POSITION

June 30, 2018

ASSETS	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
Current assets			
Cash	\$ 9,090	\$ -	\$ 9,090
Client escrow funds	213,795	-	213,795
Accounts receivable - Commonwealth of Pennsylvania net of allowance of \$195,000	3,421,444	-	3,421,444
Accounts receivable - other	<u>334,625</u>	<u>-</u>	<u>334,625</u>
Total current assets	<u>3,978,954</u>	<u>-</u>	<u>3,978,954</u>
Property, plant and equipment, net	8,124,881	-	8,124,881
Prepaid expenses and other assets	334,942	-	334,942
Security deposits - rent	38,610	-	38,610
Investments	<u>1,469,227</u>	<u>491,769</u>	<u>1,960,996</u>
Total assets	<u>\$ 13,946,614</u>	<u>\$ 491,769</u>	<u>\$ 14,438,383</u>
LIABILITIES AND NET ASSETS			
Current liabilities			
Accounts payable and accrued expenses	\$ 621,816	\$ -	\$ 621,816
Salaries and wages payable	705,126	-	705,126
Client escrow funds	213,795	-	213,795
Due to Catholic Social Services	<u>3,775,057</u>	<u>-</u>	<u>3,775,057</u>
Total current liabilities	<u>5,315,794</u>	<u>-</u>	<u>5,315,794</u>
Net assets			
Unrestricted	8,630,820	-	8,630,820
Temporarily restricted	<u>-</u>	<u>491,769</u>	<u>491,769</u>
Total net assets	<u>8,630,820</u>	<u>491,769</u>	<u>9,122,589</u>
Total liabilities and net assets	<u>\$ 13,946,614</u>	<u>\$ 491,769</u>	<u>\$ 14,438,383</u>

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

Don Guanella Village

STATEMENT OF FINANCIAL POSITION

June 30, 2017

ASSETS	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
Current assets			
Cash	\$ 7,090	\$ -	\$ 7,090
Client escrow funds	223,637	-	223,637
Accounts receivable - Commonwealth of Pennsylvania net of allowance of \$195,000	8,933,123	-	8,933,123
Accounts receivable - other	168,590	-	168,590
Due from Catholic Social Services	<u>-</u>	<u>324,036</u>	<u>324,036</u>
Total current assets	<u>9,332,440</u>	<u>324,036</u>	<u>9,656,476</u>
Property, plant and equipment, net	8,453,582	-	8,453,582
Prepaid expenses and other assets	318,224	-	318,224
Security deposits - rent	38,610	-	38,610
Investments	<u>-</u>	<u>460,912</u>	<u>460,912</u>
Total assets	<u>\$ 18,142,856</u>	<u>\$ 784,948</u>	<u>\$ 18,927,804</u>
LIABILITIES AND NET ASSETS			
Current liabilities			
Accounts payable and accrued expenses	\$ 882,719	\$ -	\$ 882,719
Salaries and wages payable	896,690	-	896,690
Client escrow funds	223,637	-	223,637
Due to Catholic Social Services	<u>7,010,987</u>	<u>-</u>	<u>7,010,987</u>
Total current liabilities	<u>9,014,033</u>	<u>-</u>	<u>9,014,033</u>
Net assets			
Unrestricted	9,128,823	-	9,128,823
Temporarily restricted	<u>-</u>	<u>784,948</u>	<u>784,948</u>
Total net assets	<u>9,128,823</u>	<u>784,948</u>	<u>9,913,771</u>
Total liabilities and net assets	<u>\$ 18,142,856</u>	<u>\$ 784,948</u>	<u>\$ 18,927,804</u>

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

Don Guanella Village

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended June 30, 2018

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
Operating revenue			
Governmental revenue	\$ 17,252,102	\$ -	\$ 17,252,102
Other revenue	166,912	-	166,912
Total operating revenue	<u>17,419,014</u>	<u>-</u>	<u>17,419,014</u>
Operating expenses			
Salaries, wages and other payroll costs	12,927,846	-	12,927,846
Administrative and general expenses	1,657,325	-	1,657,325
Occupancy	1,068,523	-	1,068,523
Direct expenses of care	2,094,915	-	2,094,915
Depreciation	643,586	-	643,586
Total operating expenses	<u>18,392,195</u>	<u>-</u>	<u>18,392,195</u>
Deficit in operating revenue under operating expenses	<u>(973,181)</u>	<u>-</u>	<u>(973,181)</u>
Other revenue			
Donations, bequests, trusts, and other	18,054	-	18,054
Catholic Charities Appeal	25,000	-	25,000
Net realized and unrealized gains on investments	91,868	23,446	115,314
Dividend and interest income	16,220	7,411	23,631
Total other revenue	<u>151,142</u>	<u>30,857</u>	<u>181,999</u>
Net assets released from restrictions	<u>324,036</u>	<u>(324,036)</u>	<u>-</u>
Change in net assets	(498,003)	(293,179)	(791,182)
Net assets			
Beginning of year	<u>9,128,823</u>	<u>784,948</u>	<u>9,913,771</u>
End of year	<u>\$ 8,630,820</u>	<u>\$ 491,769</u>	<u>\$ 9,122,589</u>

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

Don Guanella Village

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
Operating revenue			
Governmental revenue	\$ 21,125,506	\$ -	\$ 21,125,506
Contributed services - Catholic Social Services	754	-	754
Other revenue	<u>166,911</u>	<u>-</u>	<u>166,911</u>
Total operating revenue	<u>21,293,171</u>	<u>-</u>	<u>21,293,171</u>
Operating expenses			
Salaries, wages and other payroll costs	12,143,515	-	12,143,515
Administrative and general expenses	842,632	-	842,632
Occupancy	1,133,028	-	1,133,028
Direct expenses of care	1,865,435	-	1,865,435
Depreciation	<u>505,158</u>	<u>-</u>	<u>505,158</u>
Total operating expenses	<u>16,489,768</u>	<u>-</u>	<u>16,489,768</u>
Excess of operating revenue over operating expenses	<u>4,803,403</u>	<u>-</u>	<u>4,803,403</u>
Other revenue			
Donations, bequests, trusts, and other	147,924	-	147,924
Catholic Charities Appeal	100,000	-	100,000
Net realized and unrealized gains on investments	-	29,614	29,614
Dividend and interest income	<u>-</u>	<u>5,669</u>	<u>5,669</u>
Total other revenue	<u>247,924</u>	<u>35,283</u>	<u>283,207</u>
Change in net assets	5,051,327	35,283	5,086,610
Net assets			
Beginning of year	<u>4,077,496</u>	<u>749,665</u>	<u>4,827,161</u>
End of year	<u>\$ 9,128,823</u>	<u>\$ 784,948</u>	<u>\$ 9,913,771</u>

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

Don Guanella Village

STATEMENTS OF CASH FLOWS

Year ended June 30,

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Change in net assets	\$ (791,182)	\$ 5,086,610
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	643,586	505,158
Net realized and unrealized gains on investments	(115,314)	(29,614)
Changes in operating assets and liabilities		
Accounts receivable - Commonwealth of Pennsylvania	5,511,679	1,381,378
Accounts receivable - other	(166,035)	(61,718)
Prepaid expenses and other assets	(16,718)	(88,326)
Accounts payable and accrued expenses	(260,903)	(351,730)
Salaries and wages payable	(191,564)	24,996
Due to/from Catholic Social Services	<u>(2,911,894)</u>	<u>(5,817,385)</u>
Net cash provided by operating activities	<u>1,701,655</u>	<u>649,369</u>
Cash flows from investing activities		
Capital expenditures	(314,885)	(218,071)
Purchases of investments	(1,400,511)	(431,298)
Sales of investments	<u>15,741</u>	<u>-</u>
Net cash used in investing activities	<u>(1,699,655)</u>	<u>(649,369)</u>
Change in cash	2,000	-
Cash		
Beginning of year	<u>7,090</u>	<u>7,090</u>
End of year	<u>\$ 9,090</u>	<u>\$ 7,090</u>
Supplemental disclosure of non-cash activity:		
Transfer of investments for settlement of due to Catholic Social Services	<u>\$ -</u>	<u>\$ 5,495,618</u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

NOTE A - ORGANIZATION

Don Guanella Village operates 14 community-based intermediate care facilities in Delaware, Chester and Philadelphia counties serving 92 men.

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. Don Guanella Village is one of the entities operating under CSS.

The accompanying financial statements include programs operated and administered by Don Guanella Village.

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 unrestricted, temporarily restricted and permanently restricted net assets.

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.

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.

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. The organization has no permanently restricted net assets.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018 and 2017

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, useful lives of depreciable assets and the fair value 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 client escrow funds, for the years ended June 30, 2018 and 2017, Don Guanella Village possessed only petty cash held on site. The client escrow funds held by Don Guanella Village may at times exceed Federal Deposit Insurance Corporation limits.

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, 2018 or 2017.

5. Client Escrow 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 that 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, 2018 and 2017

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

6. Investments

SEI, a provider of institutional asset management services, created two publicly traded Catholic Values mutual funds: the Catholic Values Equity Fund and the Catholic Values Fixed Income Fund (“Catholic Values Funds”), which provide Catholic institutions with high-quality investment products that align with their core values, without sacrificing diversification or return potential. Specifically, the Catholic Values Funds align with the investment directives set forth by the United States Conference of Catholic Bishops (“USCCB”). The Archdiocese appointed SEI Private Trust Company to act as custodian (the “Custodian”) of the investments, which consist of certain cash and securities and are more fully described in Note C.

Investments are reported at fair value. Realized gains and losses are reported to the participant monthly. Gains and losses created at the participant level due to sales are recorded in the specific participant accounts. Unrealized gains and losses are included in the statements of activities and changes in net assets as net realized and unrealized gains on investments.

7. Governmental Revenue

Don Guanella Village receives its funding through contracts with the State of 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 governmental revenue of \$576,129 and \$3,880,559 for the years ended June 30, 2018 and 2017, respectively, related to settlements received for prior years.

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, 2018 and 2017

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 reporting 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.

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

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.

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
Building and leasehold improvements	5 - 20 years
Building	25 years

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018 and 2017

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

12. Pending Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers*, to improve financial reporting by creating common revenue recognition guidance. The core principle of this guidance is that an entity should recognize revenue in an amount that reflects the consideration to which the entity expects to be entitled in exchange for these goods and services at the date the performance obligation has occurred. ASU 2014-09 is effective for periods beginning after December 15, 2018. An entity will apply this update using either a full retrospective application, which applies the standard to each prior period presented, or under the modified retrospective application, in which an entity recognizes the cumulative effect of initially applying the new standard as an adjustment to the opening statement of financial position at the date of initial application. Don Guanella Village has not determined the impact of ASU 2014-09 at this time.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. This standard intends to make certain improvements to the current reporting requirements for not-for-profit entities including: (1) the presentation for two classes of net assets at the end of the period, rather than the currently required three classes, as well as the annual change in each of the two classes; (2) the removal of the requirement to present or disclose the indirect method (reconciliation) when using the direct method for the statement of cash flows; and (3) the requirement to provide various enhanced disclosures relating to various not-for-profit specific topics. The new standard is effective for annual financial statements beginning after December 15, 2017. Don Guanella Village is evaluating the pronouncement at this time.

NOTE C - INVESTMENTS

The investment in the Trustee Account and other investments are reported at fair value and consist of the following:

Catholic Values Equity Fund (or “fund”) - Invests in common stocks and is managed by SEI. The equity fund is valued at the closing price of the traded fund.

Catholic Values Fixed Income Fund (or “fund”) - Invests in mutual funds, corporate obligations, United States Treasury obligations and municipal obligations and is managed by SEI. The fixed income fund is valued at the closing price of the traded fund.

Account holders have the option of six asset classifications in which to invest. The options include a short-duration U.S. government bond fund, a 100% fixed income bond fund and four equity funds with varying fixed income to equity mixes of 30/70, 50/50, 60/40 or 70/30. The Investment Committee of the Archdiocese of Philadelphia has primary responsibility for determining fixed income to equity mix. The asset mix of the mutual funds is SEI’s responsibility.

(Continued)

Don Guanella Village

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018 and 2017

NOTE C - INVESTMENTS - Continued

At June 30, 2018 and 2017, all investments are considered unrestricted.

Effective July 1, 2016, Don Guanella Village transferred the ownership of one of its investment accounts to CSS as settlement of a portion of its related party liability. The investment balance on the date of transfer was \$5,495,618.

The Investment Committee of the Archdiocese of Philadelphia has primary responsibility for determining the asset investment allocations to be used. Management of the Archdiocese is responsible for ensuring that asset investment allocations among the funds are maintained as determined by the Investment Committee of the Archdiocese of Philadelphia.

At June 30, Don Guanella Village held the following categories of investments:

	<u>2018</u>	<u>2017</u>
Catholic Values Equity Fund	\$ 1,316,220	\$ 234,035
Catholic Values Fixed Income Fund	<u>644,776</u>	<u>226,877</u>
	<u>\$ 1,960,996</u>	<u>\$ 460,912</u>

NOTE D - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment and accumulated depreciation consist of the following at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Buildings	\$ 4,328,926	\$ 4,225,955
Leasehold improvements	6,959,531	6,927,436
Furniture and equipment	477,644	374,189
Automobiles	<u>248,131</u>	<u>171,767</u>
	12,014,232	11,699,347
Accumulated depreciation	<u>(3,889,351)</u>	<u>(3,245,765)</u>
Property, plant and equipment, net	<u>\$ 8,124,881</u>	<u>\$ 8,453,582</u>

Depreciation expense of \$643,586 and \$505,158 was incurred for the years ended June 30, 2018 and 2017, respectively.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018 and 2017

NOTE E - ACCOUNTS RECEIVABLE

At June 30, 2018 and 2017, Don Guanella Village had uncollateralized accounts receivable, primarily from the Commonwealth of Pennsylvania, Department of Public Welfare (“DPW”), of \$3,421,444 and \$8,933,123, respectively. These balances potentially subject Don Guanella Village to a concentration of credit risk. Don Guanella Village monitors its funding arrangements with the DPW and other agencies.

NOTE F - FAIR VALUE MEASUREMENTS

FASB 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 Don Guanella Village 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.

The following tables present the fair value of the investments held by Don Guanella Village by level within the fair value hierarchy, as of June 30, 2018 and 2017:

	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
<u>2018</u>				
Assets				
Investments	\$ <u>1,960,996</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,960,996</u>

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018 and 2017

NOTE F - FAIR VALUE MEASUREMENTS - Continued

<u>2017</u>	Quoted prices in active markets <u>(Level 1)</u>	Significant other observable inputs <u>(Level 2)</u>	Significant unobservable inputs <u>(Level 3)</u>	Total fair value
Assets				
Investments	\$ <u>460,912</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>460,912</u>

During 2018 and 2017, no investments were transferred between Levels 1, 2 or 3.

NOTE G - PENSION PLANS

1. Lay Employees' Retirement Plan - frozen effective June 30, 2014

Through June 30, 2014, the eligible lay employees of Don Guanella Village were covered under the Archdiocese of Philadelphia Lay Employees' Retirement Plan (the "Plan"), which is a defined benefit pension plan covering substantially all lay employees of the Archdiocese, based on age and service requirements. The Plan is administered by the Trustees of the Plan. Don Guanella Village made annual contributions to the Plan at a rate of 5.9% of the salaries of eligible employees for the years ended June 30, 2018 and 2017. The amount expended by Don Guanella Village for contributions to the Plan was \$519,404 and \$411,399 for the fiscal years ended June 30, 2018 and 2017, respectively. Separate accounts for vested benefits and pension fund assets are not maintained for each institution.

On November 5, 2013, the Archdiocese of Philadelphia Office for Financial Services ("OFS") announced that it would freeze the Plan effective June 30, 2014. All current employees at the time of the announced freeze retained benefits they had earned and continued to accrue benefits through the effective date. After the effective date, accrued pension benefits under the Plan do not increase for current employees for additional service or increases in pay after the freeze date.

2. Archdiocese of Philadelphia 403(b) Retirement Plan

The Archdiocese of Philadelphia established a 403(b) defined contribution plan, under which, and subject to statutory limits, all employees at least 18 years of age are immediately eligible to make voluntary deferred salary contributions into the 403(b) plan.

Employer contributions, which cover employees meeting the eligibility requirements below, are discretionary. The following are the eligibility requirements for the employer contributions:

- *Grandfathered Employees* - Any employee who was accruing benefits as an active participant in the Plan as of its freeze date of June 30, 2014 is a grandfathered employee and will be eligible to receive employer contributions beginning with the first payroll on or after September 1, 2014.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018 and 2017

NOTE G - PENSION PLANS - Continued

- *Non-Grandfathered Employees* - Non-grandfathered employees are eligible to receive the employer contribution beginning with the first payroll coinciding with or immediately following the completion of 1,000 hours of service during the 18-month period beginning July 1, 2014 through December 31, 2015. The employee must also have attained at least 18 years of age to be eligible. For a non-grandfathered employee hired prior to July 1, 2014 who does not meet the eligibility requirements for an employer contribution in the time frame described above, the period for determining whether or not one meets the 1,000-hour service requirement will shift to the calendar year beginning January 1, 2016.
- *Vesting* - Vesting in employer contributions to a 403(b) plan account will be immediate for any grandfathered employee who has completed 12 months of service as of June 30, 2014. Vesting in employer contributions for all other employees will take place after the completion of 12 months of service.

In fiscal years 2018 and 2017, the Archdiocese employer contribution rate was 4.5% of base salary for eligible employees. The contributions by Don Guanella Village into the 403(b) plan totaled \$396,156 and \$413,395 for the years ended June 30, 2018 and 2017, respectively.

3. Other contributions

Don Guanella Village also makes contributions to the various orders of the religious personnel who provide services at its institutions. The amount of expense related to these contributions was \$4,690 and \$4,553 for the years ended June 30, 2018 and 2017, respectively.

NOTE H - 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 net amount due to CSS was \$3,775,057 and \$6,686,951 at June 30, 2018 and 2017, respectively.

CSS receives certain restricted contributions for the benefit of Don Guanella Village. The amount of temporarily restricted contributions receivable from CSS was \$324,036 at June 30, 2017.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018 and 2017

NOTE H - RELATED PARTY TRANSACTIONS - Continued

The transactions with the Archdiocese and CSS charged to expense for the years ended June 30, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Archdiocese of Philadelphia		
Insurance	\$ 103,815	\$ 179,388
Lay employee pension contributions	<u>519,404</u>	<u>411,399</u>
	<u>\$ 623,219</u>	<u>\$ 590,787</u>
Catholic Social Services		
Automobile leases	\$ 97,113	\$ 117,925
Allocated administrative and accounting costs	464,287	466,484
Information technology expense	235,929	251,802
Allocated administrative and accounting costs - contributed	<u>-</u>	<u>754</u>
	<u>\$ 797,329</u>	<u>\$ 836,965</u>

Catholic Charities Appeal donated \$25,000 and \$100,000 to Don Guanella Village for the fiscal years ended June 30, 2018 and 2017, respectively.

Included in accounts payable are certain related party amounts. These amounts are as follows for June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Catholic Housing and Community Services	\$ 65,456	\$ 83,355

NOTE I - 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 material uncertain tax positions requiring recognition in the financial statements at June 30, 2018 and 2017.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018 and 2017

NOTE J - 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, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Program expenses	\$ 13,966,470	\$ 12,968,149
Support expenses	<u>4,425,725</u>	<u>3,521,619</u>
	<u>\$ 18,392,195</u>	<u>\$ 16,489,768</u>

NOTE K - FUNDING

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 (the “Program”). Reimbursement is limited to the lower of total allowable operating expenses or the approved operating budget.

Each living area has a predetermined per diem rate based on the characteristics and needs of the individual residents. These per diem rates range from \$448.99 to \$625.00 per day.

NOTE L - COMMITMENTS

Don Guanella Village leases automobiles from CSS. Rental expense was \$97,133 and \$117,925 for the fiscal years ended June 30, 2018 and 2017, respectively. As of June 30, 2018 and 2017, there are no future minimum rental payments.

NOTE M - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2018 and 2017 consisted of the following:

	<u>2018</u>	<u>2017</u>
Capital projects	\$ 491,769	\$ 460,912
Alzheimers/Dementia Unit	<u>-</u>	<u>324,036</u>
	<u>\$ 491,769</u>	<u>\$ 784,948</u>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018 and 2017

NOTE N - SUBSEQUENT EVENTS

Management has evaluated subsequent events for the year ended June 30, 2018 through December 19, 2018, 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.