

Financial Statements and Report of  
Independent Certified Public Accountants

**St. Edmond's Home for Crippled Children**

June 30, 2018 and 2017

# Contents

	<b>Page</b>
Report of Independent Certified Public Accountants	3
Financial statements	
Statements of financial position	5
Statements of activities and changes in net assets	7
Statements of cash flows	9
Notes to financial statements	10



## Report of Independent Certified Public Accountants

Board of Directors  
St. Edmond's Home for Crippled Children  
Philadelphia, Pennsylvania

Grant Thornton LLP  
Two Commerce Square  
2001 Market St., Suite 700  
Philadelphia, PA 19103  
T 215.561.4200  
F 215.561.1066  
[GrantThornton.com](http://GrantThornton.com)  
[linked.in/GrantThorntonUS](https://www.linkedin.com/company/grantthorntonus)  
[twitter.com/GrantThorntonUS](https://twitter.com/GrantThorntonUS)

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

We have audited the accompanying financial statements of St. Edmond's Home for Crippled Children (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 St. Edmond's Home for Crippled Children 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

March 12, 2019

St. Edmond's Home for Crippled Children

**STATEMENT OF FINANCIAL POSITION**

June 30, 2018

ASSETS	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Current assets				
Cash	\$ 325	\$ -	\$ -	\$ 325
Accounts receivable - Commonwealth of Pennsylvania, less allowance of \$141,720	3,172,531	-	-	3,172,531
Accounts receivable - other	42,075	-	-	42,075
Due from Catholic Social Services	12,775,466	15,612	-	12,791,078
Prepaid expenses and other current assets	122,868	-	-	122,868
Client escrow funds	<u>32,368</u>	<u>-</u>	<u>-</u>	<u>32,368</u>
Total current assets	<u>16,145,633</u>	<u>15,612</u>	<u>-</u>	<u>16,161,245</u>
Property, plant and equipment, net	2,588,049	-	-	2,588,049
Notes receivable - Catholic Social Services	4,400,000	-	-	4,400,000
Investments	14,777,540	-	-	14,777,540
Beneficial interest in net assets held by affiliated organization	-	2,236,393	-	2,236,393
Trusts held by third parties	<u>-</u>	<u>54,841</u>	<u>1,019,859</u>	<u>1,074,700</u>
Total assets	<u>\$ 37,911,222</u>	<u>\$ 2,306,846</u>	<u>\$ 1,019,859</u>	<u>\$ 41,237,927</u>
<b>LIABILITIES AND NET ASSETS</b>				
Current liabilities				
Accounts payable and accrued expenses	\$ 203,522	\$ -	\$ -	\$ 203,522
Salaries and wages payable	396,280	-	-	396,280
Deferred revenue	142,000	-	-	142,000
Client escrow funds	<u>32,368</u>	<u>-</u>	<u>-</u>	<u>32,368</u>
Total current liabilities	<u>774,170</u>	<u>-</u>	<u>-</u>	<u>774,170</u>
Net assets				
Unrestricted	37,137,052	-	-	37,137,052
Temporarily restricted	-	2,306,846	-	2,306,846
Permanently restricted	<u>-</u>	<u>-</u>	<u>1,019,859</u>	<u>1,019,859</u>
Total net assets	<u>37,137,052</u>	<u>2,306,846</u>	<u>1,019,859</u>	<u>40,463,757</u>
Total liabilities and net assets	<u>\$ 37,911,222</u>	<u>\$ 2,306,846</u>	<u>\$ 1,019,859</u>	<u>\$ 41,237,927</u>

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

St. Edmond's Home for Crippled Children

**STATEMENT OF FINANCIAL POSITION**

June 30, 2017

ASSETS	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Current assets				
Cash	\$ 325	\$ -	\$ -	\$ 325
Accounts receivable - Commonwealth of Pennsylvania, less allowance of \$141,720	1,411,331	-	-	1,411,331
Accounts receivable - other	34,513	-	-	34,513
Due from Catholic Social Services	16,569,631	13,987	-	16,583,618
Prepaid expenses and other current assets	123,815	-	-	123,815
Client escrow funds	29,564	-	-	29,564
Total current assets	<u>18,169,179</u>	<u>13,987</u>	<u>-</u>	<u>18,183,166</u>
Property, plant and equipment, net	2,441,854	-	-	2,441,854
Notes receivable - Catholic Social Services	4,400,000	-	-	4,400,000
Investments	10,587,548	-	-	10,587,548
Beneficial interest in net assets held by affiliated organization	-	1,876,941	-	1,876,941
Trusts held by third parties	-	53,001	1,008,903	1,061,904
Total assets	<u>\$ 35,598,581</u>	<u>\$ 1,943,929</u>	<u>\$ 1,008,903</u>	<u>\$ 38,551,413</u>
<b>LIABILITIES AND NET ASSETS</b>				
Current liabilities				
Accounts payable and accrued expenses	\$ 326,346	\$ -	\$ -	\$ 326,346
Salaries and wages payable	515,882	-	-	515,882
Client escrow funds	29,564	-	-	29,564
Total current liabilities	<u>871,792</u>	<u>-</u>	<u>-</u>	<u>871,792</u>
Net assets				
Unrestricted	34,726,789	-	-	34,726,789
Temporarily restricted	-	1,943,929	-	1,943,929
Permanently restricted	-	-	1,008,903	1,008,903
Total net assets	<u>34,726,789</u>	<u>1,943,929</u>	<u>1,008,903</u>	<u>37,679,621</u>
Total liabilities and net assets	<u>\$ 35,598,581</u>	<u>\$ 1,943,929</u>	<u>\$ 1,008,903</u>	<u>\$ 38,551,413</u>

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

St. Edmond's Home for Crippled Children

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended June 30, 2018

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating revenue				
Governmental revenue	\$ 9,858,510	\$ -	\$ -	\$ 9,858,510
Total operating revenue	<u>9,858,510</u>	<u>-</u>	<u>-</u>	<u>9,858,510</u>
Operating expenses				
Salaries, wages and other payroll	6,878,418	-	-	6,878,418
Administrative and general	1,729,587	-	-	1,729,587
Occupancy	583,931	-	-	583,931
Direct expenses of care	255,240	-	-	255,240
Depreciation	301,838	-	-	301,838
Total operating expenses	<u>9,749,014</u>	<u>-</u>	<u>-</u>	<u>9,749,014</u>
Excess of operating revenue over operating expenses	<u>109,496</u>	<u>-</u>	<u>-</u>	<u>109,496</u>
Other revenue				
Donations and other	791,206	10,000	-	801,206
Women's auxiliary	55,566	-	-	55,566
Catholic Charities Appeal	25,000	-	-	25,000
Legacies and bequests	20,698	-	-	20,698
Increase in investment held by affiliated organization	-	359,452	-	359,452
Net realized and unrealized gains on investments	1,069,114	1,840	10,956	1,081,910
Dividend and interest income	330,808	-	-	330,808
Total other revenue	<u>2,292,392</u>	<u>371,292</u>	<u>10,956</u>	<u>2,674,640</u>
Net assets released from restrictions	<u>8,375</u>	<u>(8,375)</u>	<u>-</u>	<u>-</u>
Change in net assets	2,410,263	362,917	10,956	2,784,136
Net assets				
Beginning of year	<u>34,726,789</u>	<u>1,943,929</u>	<u>1,008,903</u>	<u>37,679,621</u>
End of year	<u>\$ 37,137,052</u>	<u>\$ 2,306,846</u>	<u>\$ 1,019,859</u>	<u>\$ 40,463,757</u>

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

## STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating revenue				
Governmental revenue	\$ 8,646,511	\$ -	\$ -	\$ 8,646,511
Contributed services - Archdiocese of Philadelphia - Catholic Social Services	<u>15,063</u>	<u>-</u>	<u>-</u>	<u>15,063</u>
Total operating revenue	<u>8,661,574</u>	<u>-</u>	<u>-</u>	<u>8,661,574</u>
Operating expenses				
Salaries, wages and other payroll	6,790,710	-	-	6,790,710
Administrative and general	906,403	-	-	906,403
Occupancy	556,355	-	-	556,355
Direct expenses of care	254,335	-	-	254,335
Depreciation	<u>319,056</u>	<u>-</u>	<u>-</u>	<u>319,056</u>
Total operating expenses	<u>8,826,859</u>	<u>-</u>	<u>-</u>	<u>8,826,859</u>
Deficiency in operating revenue under operating expenses	<u>(165,285)</u>	<u>-</u>	<u>-</u>	<u>(165,285)</u>
Other revenue (loss)				
Donations and other	306,978	13,987	-	320,965
Women's auxiliary	90,319	-	-	90,319
Catholic Charities Appeal	50,000	-	-	50,000
Legacies and bequests	27,006	-	-	27,006
Net realized and unrealized gains (losses) on investments	1,264,819	1,715	(72,645)	1,193,889
Dividend and interest income	<u>330,513</u>	<u>-</u>	<u>-</u>	<u>330,513</u>
Total other revenue (loss)	<u>2,069,635</u>	<u>15,702</u>	<u>(72,645)</u>	<u>2,012,692</u>
Net assets released from restrictions	<u>14,245</u>	<u>(14,245)</u>	<u>-</u>	<u>-</u>
Change in net assets	1,918,595	1,457	(72,645)	1,847,407
Net assets				
Beginning of year	<u>32,808,194</u>	<u>1,942,472</u>	<u>1,081,548</u>	<u>35,832,214</u>
End of year	<u>\$ 34,726,789</u>	<u>\$ 1,943,929</u>	<u>\$ 1,008,903</u>	<u>\$ 37,679,621</u>

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



St. Edmond's Home for Crippled Children

**STATEMENTS OF CASH FLOWS**

Year ended June 30,

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Change in net assets	\$ 2,784,136	\$ 1,847,407
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	301,838	319,056
Loss on disposal of property, plant and equipment	31,325	-
Increase in investment held by affiliated organization	(359,452)	-
Net realized and unrealized gains on investments	(1,081,910)	(1,193,889)
Changes in operating assets and liabilities		
Accounts receivable - Commonwealth of Pennsylvania	(1,761,200)	2,852,303
Accounts receivable - other	(7,562)	8,129
Due from Catholic Social Services	3,792,540	(2,694,226)
Deferred revenue	142,000	-
Prepaid gains and other assets	947	(39,957)
Accounts payable and accrued expenses	(122,824)	(741,000)
Salaries and wages payable	(119,602)	19,909
	<u>3,600,236</u>	<u>377,732</u>
Net cash provided by operating activities		
Cash flows from investing activities		
Capital expenditures	(479,358)	(222,998)
Purchases of investments	(3,482,511)	(190,395)
Proceeds from sales of investments	361,633	35,661
	<u>(3,600,236)</u>	<u>(377,732)</u>
Net cash used in investing activities		
Change in cash	-	-
Cash		
Beginning of year	<u>325</u>	<u>325</u>
End of year	<u>\$ 325</u>	<u>\$ 325</u>

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

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2018 and 2017

NOTE A - ORGANIZATION

St. Edmond's Home for Crippled Children ("St. Edmond's") is a residential facility of the Archdiocese of Philadelphia located in Rosemont, Delaware County, Pennsylvania. St. Edmond's serves physically handicapped/intellectually disabled children between the ages of 6 and 21 years of age with a licensed capacity of 44 beds.

Catholic Charities of the Archdiocese of Philadelphia, operating as Catholic Social Services of the Archdiocese of Philadelphia ("CSS") established in 1919, is a multi-faceted social services organization whose departments offer a wide range of services to meet the needs of children, adults and families including adoption and foster care programs. CSS functions as a self-contained entity and maintains separate financial statements for each of its operations. St. Edmond's is one of the entities operating under CSS.

The accompanying financial statements include programs operated and administered by St. Edmond's.

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

Catholic Charities Appeal, a separate legal corporation and a related organization, raises money for certain organizations within the Archdiocese, including St. Edmond's.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis in conformity with accounting principles generally accepted in the United States of America ("US GAAP"). St. Edmond's presents its financial statements in accordance with the guidance set forth by the Financial Accounting Standards Board ("FASB") in regard to *Financial Statements of Not-for-Profit Organizations*. Accordingly, St. Edmond'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.

(Continued)

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2018 and 2017

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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. These significant estimates include the allowance for doubtful accounts, useful lives of depreciable assets, the fair value of investments and beneficial interest in net assets held by affiliated organization. Actual results could differ from those estimates.

3. Cash and Cash Equivalents

St. Edmond's 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, 2018 and 2017, St. Edmond's possessed only petty cash held on site.

4. Accounting for Long-Lived Assets

St. Edmond's continually evaluates whether events and circumstances have occurred that indicate the remaining estimated useful life of long-lived assets may warrant revision or that the remaining balance may not be recoverable. When factors indicate that long-lived assets should be evaluated for possible impairment, St. Edmond's uses an estimate of the related undiscounted operating income over the remaining life of the long-lived asset in measuring whether the long-lived asset is recoverable. The impairment loss on these assets is measured as the excess of the carrying amount of the asset over its fair value. Fair value is based on market prices where available, or discounted cash flows. St. Edmond's believes that no revision to the remaining useful lives or write-down of long-lived assets were required at June 30, 2018 and 2017.

5. Client Escrow Funds

St. Edmond's 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, 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. Beneficial Interest in Net Assets Held by Affiliated Organization

Beneficial interest represents the net assets of a financially interrelated organization which raises funds for the benefit of St. Edmond's. Changes in the value of the beneficial interest are recorded in the statements of activities and changes in net assets.

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, St. Edmond's reports the support as unrestricted. When a stipulated time restriction or purpose restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the 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.

(Continued)

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2018 and 2017

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

9. Governmental Revenue

St. Edmond's 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 St. Edmond's programs. For other programs, St. Edmond's receives program service fees from funding sources under per diem-type contracts for certain programs and unit prices for outpatient services. Revenue for these programs is recorded when the services are provided, while adjustments to prior recognized revenues are recorded in following periods, as final settlements are determined. St. Edmond's recorded \$447,742 related to settlements received for prior years for the year ended June 30, 2018. St. Edmond's recorded no settlement received for prior years for the year ended June 30, 2017.

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

10. Allowance for Doubtful Accounts

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

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

CSS provides administrative and accounting services for institutions and group homes, including St. Edmond's. The total expenses incurred by CSS in providing services are accumulated and allocated on a pro rata basis to the institutions and group homes. The allocated amount is recorded as a general and administrative expense in the statements of activities and changes in net assets. Any difference between the allocation and the amount charged to the institution or group homes during the year is considered a contribution of services from CSS.

(Continued)

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2018 and 2017

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

12. Property, Plant and Equipment

Land, buildings, building improvements, automobiles, and furniture and equipment are capitalized at cost or their fair value if donated. Depreciation is computed on a straight-line basis and recognized as expense over the estimated useful life of the related assets, which are as follows:

Building	40 years
Building improvements	15-20 years
Furniture and equipment	5-10 years

13. 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. St. Edmond's 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. St. Edmond's is evaluating the pronouncement at this time.

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2018 and 2017

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.

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

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, St. Edmond's held the following categories of investments:

	<u>2018</u>	<u>2017</u>
Catholic Values Equity Fund	\$ 10,454,731	\$ 7,479,943
Catholic Values Fixed Income Fund	<u>4,322,809</u>	<u>3,107,605</u>
	<u>\$ 14,777,540</u>	<u>\$ 10,587,548</u>

St. Edmond's recognized the following changes as part of net realized and unrealized gains on investments on the statements of activities and changes in net assets for the years ended June 30:

	<u>2018</u>	<u>2017</u>
Realized gains, net	\$ 1,069,113	\$ 1,264,820
Unrealized gains, net	<u>12,797</u>	<u>(70,931)</u>
	<u>\$ 1,081,910</u>	<u>\$ 1,193,889</u>

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2018 and 2017

NOTE D - TRUSTS HELD BY THIRD PARTIES

St. Edmond's is the beneficiary of individual trusts held in perpetuity by third parties. At June 30, 2018 and 2017, the allocable fair value of these trusts was \$1,074,700 and \$1,061,904, respectively, and is recorded as trusts held by third parties in the accompanying statements of financial position. During fiscal year 2018, St. Edmond's recognized temporarily restricted and permanently restricted appreciation of \$1,840 and \$10,956, respectively, related to these trusts. During fiscal year 2017, St. Edmond's recognized temporarily restricted appreciation of \$1,715 and permanently restricted depreciation of \$72,645 related to these trusts.

NOTE E - PROPERTY, PLANT AND EQUIPMENT

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

	<u>2018</u>	<u>2017</u>
Land	\$ 9,000	\$ 9,000
Buildings	1,046,378	1,046,378
Building improvements	7,097,527	6,663,162
Furniture and equipment	<u>758,920</u>	<u>713,927</u>
	8,911,825	8,432,467
Accumulated depreciation	<u>(6,323,776)</u>	<u>(5,990,613)</u>
Property, plant and equipment, net	<u>\$ 2,588,049</u>	<u>\$ 2,441,854</u>

Depreciation expense of \$301,838 and \$319,056 was incurred for the years ended June 30, 2018 and 2017, respectively.

NOTE F - ACCOUNTS RECEIVABLE - COMMONWEALTH OF PENNSYLVANIA

At June 30, 2018 and 2017, St. Edmond's had uncollateralized accounts receivable from various public agencies, primarily the Commonwealth of Pennsylvania, Department of Human Services ("DHS"), of \$3,172,531 and \$1,411,331, respectively. These balances potentially subject St. Edmond's to a concentration of credit risk. St. Edmond's monitors its funding arrangements with DHS and other agencies.



**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2018 and 2017

## NOTE G - 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 as of the measurement date.
- 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 St. Edmond's 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 values of the investments held by St. Edmond's by level within the fair value hierarchy, as of June 30, 2018 and 2017:

<u>2018</u>	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
Assets				
Investments	\$ 14,777,540	\$ -	\$ -	\$ 14,777,540
Trusts held by third parties	-	-	1,074,700	1,074,700
Beneficial interest in net assets held by affiliated organization	<u>-</u>	<u>-</u>	<u>2,236,393</u>	<u>2,236,393</u>
Total assets at June 30, 2018	<u>\$ 14,777,540</u>	<u>\$ -</u>	<u>\$ 3,311,093</u>	<u>\$ 18,088,633</u>

(Continued)

St. Edmond's Home for Crippled Children

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2018 and 2017

NOTE G - FAIR VALUE MEASUREMENTS - Continued

<u>2017</u>	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
Assets				
Investments	\$ 10,587,548	\$ -	\$ -	\$ 10,587,548
Trusts held by third parties	-	-	1,061,904	1,061,904
Beneficial interest in net assets held by affiliated organization	<u>-</u>	<u>-</u>	<u>1,876,941</u>	<u>1,876,941</u>
Total assets at June 30, 2017	<u>\$ 10,587,548</u>	<u>\$ -</u>	<u>\$ 2,938,845</u>	<u>\$ 13,526,393</u>

The following table is a rollforward of the statements of financial position amounts for financial instruments classified within Level 3 of the fair value hierarchy defined above:

	Trusts held by <u>third parties</u>	Beneficial interest in net assets held by affiliated <u>organization</u>
Fair value June 30, 2016	\$ 1,132,834	\$ 1,876,941
Unrealized losses, net	(70,930)	-
Increase in beneficial interest in net assets held by affiliated organization	<u>-</u>	<u>-</u>
Fair value June 30, 2017	1,061,904	1,876,941
Unrealized gains, net	12,796	-
Increase in beneficial interest in net assets held by affiliated organization	<u>-</u>	<u>359,452</u>
Fair value June 30, 2018	<u>\$ 1,074,700</u>	<u>\$ 2,236,393</u>

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

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2018 and 2017

NOTE H - PENSION PLAN

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

Through June 30, 2014, the eligible lay employees of St. Edmond's 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. St. Edmond's 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 expensed by St. Edmond's was \$251,208 and \$211,828 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

Effective July 1, 2014, the Archdiocese of Philadelphia established a 403(b) defined contribution plan. Under the 403(b) plan, 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.

*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 St. Edmond's into the 403(b) plan totaled \$191,598 and \$206,051 for the years ended June 30, 2018 and 2017, respectively.

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2018 and 2017

## NOTE I - RELATED PARTY TRANSACTIONS

St. Edmond's 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 St. Edmond's. The total expenses incurred by CSS in providing services are accumulated and allocated on a pro rata basis to the institutions and group homes. The allocated amount is reported as an administrative and general expense in the 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. Repayment of amounts due from CSS is expected when cash is available. The amount due from CSS was \$12,791,078 and \$16,583,618 at June 30, 2018 and 2017, respectively.

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

	<u>2018</u>	<u>2017</u>
Archdiocese of Philadelphia		
Insurance	\$ 51,489	\$ 49,468
Lay employee pension contributions	<u>251,208</u>	<u>211,828</u>
	<u>\$ 302,697</u>	<u>\$ 261,296</u>
Catholic Social Services		
Automobile leases	\$ -	\$ 12,859
Allocated administrative and accounting costs	595,603	600,122
Allocated administrative and accounting costs - contributed	-	15,063
Information technology expenses	<u>131,762</u>	<u>123,321</u>
	<u>\$ 727,365</u>	<u>\$ 751,365</u>

Catholic Charities Appeal donated \$25,000 to St. Edmond's during the fiscal year ended June 30, 2018 and \$50,000 during the fiscal year ended June 30, 2017.

On September 24, 2009, CSS (borrower) entered into a loan agreement with St. Edmond's (lender) in the amount of \$5,000,000. The loans payable bear interest at an annual fixed rate of 3%, with repayment due when cash is available. On December 1, 2012, CSS and St. Edmond's amended the previously executed loan agreement to increase the ceiling on the loan to a maximum of \$8,000,000. All other terms of the original agreement remain in effect. As of both June 30, 2018 and 2017, St. Edmond's possessed notes receivable of \$4,400,000 from CSS. For the years ended June 30, 2018 and 2017, St. Edmond's recorded \$159,500 and \$176,000, respectively, in dividend and interest income in the statements of activities and changes in net assets in relation to these notes receivable.

Included in accounts payable are certain related party amounts. The amount payable to Catholic Housing and Community Services of the Archdiocese of Philadelphia was \$35,030 and \$30,100 at June 30, 2018 and 2017, respectively.

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2018 and 2017

NOTE J - INCOME TAX STATUS

St. Edmond's is a nonprofit corporation which has been granted exempt status from federal taxation under Section 501(c)(3) of the Internal Revenue Code.

St. Edmond's follows the accounting guidance for uncertainties in income tax positions which requires that a tax position be recognized or derecognized based on a "more likely than not" threshold. This applies to positions taken or expected to be taken in a tax return. St. Edmond's has determined that there are no material uncertain tax positions requiring recognition in the financial statements at June 30, 2018 or 2017.

NOTE K - FUNCTIONAL EXPENSES

St. Edmond's provides services to physically handicapped/intellectually disabled children between the ages of 6 and 21 years of age. Expenses related to providing these services at June 30, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Program expenses	\$ 7,717,589	\$ 7,616,463
Support expenses	<u>2,031,425</u>	<u>1,210,396</u>
	<u>\$ 9,749,014</u>	<u>\$ 8,826,859</u>

NOTE L - FUNDING

St. Edmond's is a certified Intermediate Care Facility for Individuals with Intellectual Disabilities ("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.

St. Edmond's per diem reimbursement rate from the Commonwealth of Pennsylvania under its Medical Assistance Program was \$581.85 and \$567.96 for the years ended June 30, 2018 and 2017, respectively.

The State of Pennsylvania Office of Developmental Programs waived the ICF/ID assessments for prior fiscal years, which had been accrued in those respective years, in their most recent rate letter received in August 2017. This resulted in a reduction of administrative and general expenses of \$880,308 on the statement of activities and changes in net assets for the year ended June 30, 2017 as notification was received prior to the issuance of the June 30, 2018 financial statements.

NOTE M - COMMITMENTS

St. Edmond's leased automobiles from CSS. Rental expense was \$12,859 for the fiscal year ended June 30, 2017. There was no rental expense recorded for the year ended June 30, 2018.

St. Edmond's is from time to time subject to routine litigation incidentals to its business. In the opinion of management, there are no matters which will have a material effect on St. Edmond's financial position, results of operations, or cash flows.

**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, the date of the financial statements, through March 12, 2019, 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.