

Financial Statements and Report of
Independent Certified Public Accountants

St. Francis-St. Joseph Homes for Children

June 30, 2018 and 2017

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Report of Independent Certified Public Accountants

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We have audited the accompanying financial statements of St. Francis-St. Joseph Homes for Children (the “Organization”), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities 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.

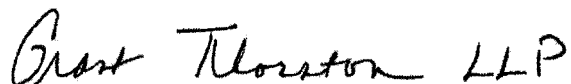
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of St. Francis-St. Joseph Homes for Children as of June 30, 2018 and 2017, 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.

Supplementary information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules of revenue and operating expenses are presented for purposes of additional analysis and are not a required part of the financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

A handwritten signature in black ink that reads "Grant Thornton LLP". The signature is written in a cursive, flowing style.

Philadelphia, Pennsylvania

December 19, 2018

St. Francis-St. Joseph Homes for 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 and cash equivalents	\$ 15,166	\$ -	\$ -	\$ 15,166
Accounts receivable - DHS and CBH, less allowance of \$25,000	987,216	-	-	987,216
Accounts receivable - other governmental agencies, less allowance of \$10,000	1,947,618	-	-	1,947,618
Related party note receivable - Archdiocese of Philadelphia	12,720	-	-	12,720
Prepaid expenses and other assets	178,839	-	-	178,839
Total current assets	<u>3,141,559</u>	<u>-</u>	<u>-</u>	<u>3,141,559</u>
Property, plant and equipment, net	2,012,938	-	-	2,012,938
Related party note receivable - Archdiocese of Philadelphia, net of current portion	488,264	-	-	488,264
Investments	504,033	-	-	504,033
Trusts held by third parties	-	414,632	585,224	999,856
Total assets	<u>\$ 6,146,794</u>	<u>\$ 414,632</u>	<u>\$ 585,224</u>	<u>\$ 7,146,650</u>
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable and accrued expenses	\$ 462,724	\$ -	\$ -	\$ 462,724
Salaries and wages payable	260,465	-	-	260,465
Due to Catholic Social Services	5,455,064	-	-	5,455,064
Total current liabilities	<u>6,178,253</u>	<u>-</u>	<u>-</u>	<u>6,178,253</u>
Net assets (deficit)				
Unrestricted	(31,459)	-	-	(31,459)
Temporarily restricted	-	414,632	-	414,632
Permanently restricted	-	-	585,224	585,224
Total net assets (deficit)	<u>(31,459)</u>	<u>414,632</u>	<u>585,224</u>	<u>968,397</u>
Total liabilities and net assets	<u>\$ 6,146,794</u>	<u>\$ 414,632</u>	<u>\$ 585,224</u>	<u>\$ 7,146,650</u>

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

St. Francis-St. Joseph Homes for 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 and cash equivalents	\$ 15,166	\$ -	\$ -	\$ 15,166
Accounts receivable - DHS and CBH, less allowance of \$20,000	736,173	-	-	736,173
Accounts receivable - other governmental agencies, less allowance of \$15,000	1,916,280	-	-	1,916,280
Due from Catholic Social Services	(25,539)	25,539	-	-
Related party note receivable - Archdiocese of Philadelphia	12,223	-	-	12,223
Prepaid expenses and other assets	171,953	-	-	171,953
Total current assets	<u>2,826,256</u>	<u>25,539</u>	<u>-</u>	<u>2,851,795</u>
Property, plant and equipment, net	2,400,382	-	-	2,400,382
Related party note receivable - Archdiocese of Philadelphia, net of current portion	500,985	-	-	500,985
Investments	231,195	-	-	231,195
Trusts held by third parties	-	392,334	566,453	958,787
Total assets	<u>\$ 5,958,818</u>	<u>\$ 417,873</u>	<u>\$ 566,453</u>	<u>\$ 6,943,144</u>
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable and accrued expenses	\$ 410,643	\$ -	\$ -	\$ 410,643
Salaries and wages payable	277,979	-	-	277,979
Due to Catholic Social Services	4,795,363	-	-	4,795,363
Total current liabilities	<u>5,483,985</u>	<u>-</u>	<u>-</u>	<u>5,483,985</u>
Net assets				
Unrestricted	474,833	-	-	474,833
Temporarily restricted	-	417,873	-	417,873
Permanently restricted	-	-	566,453	566,453
Total net assets	<u>474,833</u>	<u>417,873</u>	<u>566,453</u>	<u>1,459,159</u>
Total liabilities and net assets	<u>\$ 5,958,818</u>	<u>\$ 417,873</u>	<u>\$ 566,453</u>	<u>\$ 6,943,144</u>

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

St. Francis-St. Joseph Homes for Children

STATEMENT OF ACTIVITIES

Year ended June 30, 2018

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating revenue				
Governmental revenue	\$ 10,298,112	\$ -	\$ -	\$ 10,298,112
Fee for service	<u>5,010</u>	<u>-</u>	<u>-</u>	<u>5,010</u>
Total operating revenue	<u>10,303,122</u>	<u>-</u>	<u>-</u>	<u>10,303,122</u>
Operating expenses				
Salaries, wages and other payroll costs	8,259,930	-	-	8,259,930
Administrative and general	1,648,799	-	-	1,648,799
Occupancy	684,523	-	-	684,523
Direct expenses of children	760,402	-	-	760,402
Depreciation	<u>405,995</u>	<u>-</u>	<u>-</u>	<u>405,995</u>
Total operating expenses	<u>11,759,649</u>	<u>-</u>	<u>-</u>	<u>11,759,649</u>
Deficiency of operating revenue under operating expenses	<u>(1,456,527)</u>	<u>-</u>	<u>-</u>	<u>(1,456,527)</u>
Other revenue				
Donations, bequests, and trusts	713,992	-	-	713,992
Net assets released from restrictions	25,539	(25,539)	-	-
Catholic Charities Appeal	150,000	-	-	150,000
Dividend and interest income	25,980	-	2,440	28,420
Net realized and unrealized gains on investments	<u>34,724</u>	<u>22,298</u>	<u>16,331</u>	<u>73,353</u>
Total other revenue	<u>950,235</u>	<u>(3,241)</u>	<u>18,771</u>	<u>965,765</u>
Change in net assets	(506,292)	(3,241)	18,771	(490,762)
Net assets (deficit)				
Beginning of year	<u>474,833</u>	<u>417,873</u>	<u>566,453</u>	<u>1,459,159</u>
End of year	<u>\$ (31,459)</u>	<u>\$ 414,632</u>	<u>\$ 585,224</u>	<u>\$ 968,397</u>

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

St. Francis-St. Joseph Homes for Children

STATEMENT OF ACTIVITIES

Year ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating revenue				
Governmental revenue	\$ 9,577,956	\$ -	\$ -	\$ 9,577,956
Contributed services - Catholic Social Services	<u>1,788</u>	<u>-</u>	<u>-</u>	<u>1,788</u>
Total operating revenue	<u>9,579,744</u>	<u>-</u>	<u>-</u>	<u>9,579,744</u>
Operating expenses				
Salaries, wages and other payroll costs	8,202,478	-	-	8,202,478
Administrative and general	1,469,886	-	-	1,469,886
Occupancy	764,702	-	-	764,702
Direct expenses of children	721,482	-	-	721,482
Depreciation	406,009	-	-	406,009
Bad debt expense	<u>21,763</u>	<u>-</u>	<u>-</u>	<u>21,763</u>
Total operating expenses	<u>11,586,320</u>	<u>-</u>	<u>-</u>	<u>11,586,320</u>
Deficiency of operating revenue under operating expenses	<u>(2,006,576)</u>	<u>-</u>	<u>-</u>	<u>(2,006,576)</u>
Other revenue				
Donations, bequests, and trusts	929,094	-	-	929,094
Catholic Charities Appeal	100,000	-	-	100,000
Dividend and interest income	24,214	5,623	2,886	32,723
Net realized and unrealized gains on investments	<u>27,784</u>	<u>47,280</u>	<u>25,513</u>	<u>100,577</u>
Total other revenue	<u>1,081,092</u>	<u>52,903</u>	<u>28,399</u>	<u>1,162,394</u>
Change in net assets	(925,484)	52,903	28,399	(844,182)
Net assets				
Beginning of year	<u>1,400,317</u>	<u>364,970</u>	<u>538,054</u>	<u>2,303,341</u>
End of year	<u>\$ 474,833</u>	<u>\$ 417,873</u>	<u>\$ 566,453</u>	<u>\$ 1,459,159</u>

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

St. Francis-St. Joseph Homes for Children

STATEMENTS OF CASH FLOWS

Year ended June 30,

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Change in net assets	\$ (490,762)	\$ (844,182)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	405,995	406,009
Loss on disposal of fixed assets	33,715	-
Net realized and unrealized gains on investments	(73,353)	(100,577)
Bad debt expense	-	21,763
Changes in operating assets and liabilities		
Accounts receivable - DHS and CBH	(251,043)	407,927
Accounts receivable - other governmental	(31,338)	77,193
Prepaid expenses and other assets	(6,886)	(56,751)
Accounts payable and accrued expenses	52,081	48,778
Program advances	-	(9,560)
Salaries and wages payable	(17,514)	(999)
Due to Catholic Social Services	<u>659,701</u>	<u>187,024</u>
Net cash provided by operating activities	<u>280,596</u>	<u>136,625</u>
Cash flows from investing activities		
Capital expenditures	(52,266)	(136,472)
Proceeds received from related party loans receivable - Archdiocese of Philadelphia	12,224	11,746
Sales of investments	28,226	5,390
Purchases of investments	<u>(268,780)</u>	<u>(17,290)</u>
Net cash used in investing activities	<u>(280,596)</u>	<u>(136,626)</u>
Decrease in cash and cash equivalents	-	(1)
Cash and cash equivalents		
Beginning of year	<u>15,166</u>	<u>15,167</u>
End of year	<u>\$ 15,166</u>	<u>\$ 15,166</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. Francis-St. Joseph Homes for Children (“St. Francis”) provides community-based residential treatment and group homes services to dependent, neglected, delinquent and emotionally troubled children between the ages of 10 and 21 years of age.

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. Francis is one of the entities operating under CSS.

The accompanying financial statements include programs operated and administered by St. Francis.

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. Francis, 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. Francis.

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

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

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

(Continued)

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

St. Francis 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. For the years ended June 30, 2018 and 2017, St. Francis possessed only petty cash held on site.

4. Accounting for Long-Lived Assets

St. Francis 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. Francis 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. Francis 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. 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. Realized and unrealized gains and losses are included in the statements of activities as net realized and unrealized gains (losses) on investments.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018 and 2017

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

6. Governmental Revenue

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

Net program service revenues are from funding sources under cost reimbursement-type contracts for several of St. Francis's programs. St. Francis records revenues under such contracts as costs are incurred. For other programs, St. Francis 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. Retroactive adjustments are recorded in the period that final settlements are determined. There were no retroactive adjustments for the year ended June 30, 2018. St. Francis recorded an unfavorable retroactive adjustment for the year ended June 30, 2017 of \$155,591.

St. Francis 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.

7. 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. Francis 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 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

8. Allowance for Doubtful Accounts

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

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

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

10. Property, Plant and Equipment

Buildings, building improvements and equipment are capitalized at cost or at their fair market value if donated. Depreciation for fixed assets is computed on a straight-line basis over the estimated useful lives of the assets, which are as follows:

Building	20 years
Building improvements	20 years
Equipment	3 - 5 years

11. 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. Francis 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. Francis 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. 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, 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, 2018 and 2017, St. Francis' investments are summarized and classified as follows:

	<u>2018</u>	<u>2017</u>
Catholic Values Equity Fund	\$ 356,592	\$ 165,201
Catholic Values Fixed Income Fund	<u>147,441</u>	<u>65,994</u>
	<u>\$ 504,033</u>	<u>\$ 231,195</u>

NOTE D - TRUSTS HELD BY THIRD PARTIES

St. Francis is the beneficiary of individual trusts held by third parties. At June 30, 2018 and 2017, the allocable fair value of these trusts was \$999,856 and \$958,787, respectively, and is recorded as trusts held by third parties in the accompanying statements of financial position. During fiscal year 2018, St. Francis recognized unrestricted income of \$20,346 and permanently restricted appreciation of \$11,821 related to these trusts. During fiscal year 2017, St. Francis recognized unrestricted income of \$19,108 and permanently restricted appreciation of \$7,402 related to these trusts.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018 and 2017

NOTE E - 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	\$ 7,039,121	\$ 7,039,121
Equipment	<u>1,952,637</u>	<u>1,900,371</u>
	8,991,758	8,939,492
Accumulated depreciation	<u>(6,978,820)</u>	<u>(6,539,110)</u>
Property, plant and equipment, net	<u>\$ 2,012,938</u>	<u>\$ 2,400,382</u>

Depreciation expense of \$405,995 and \$406,009 was incurred for the years ended June 30, 2018 and 2017, respectively.

NOTE F - ACCOUNTS RECEIVABLE - DHS, CBH AND OTHER GOVERNMENTAL AGENCIES

At June 30, 2018 and 2017, St. Francis had uncollateralized accounts receivable from Philadelphia Department of Human Services ("DHS") and Community Behavioral Health ("CBH") of \$987,216 and \$736,173, respectively. The receivable due from other governmental agencies was \$1,947,618 and \$1,916,280 as of June 30, 2018 and 2017, respectively. These balances potentially subject St. Francis to a concentration of credit risk. St. Francis monitors its funding arrangements with CBH and DHS and other governmental agencies.

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 Loan Payables totaling \$71,357,582 at participating Archdiocesan entities, which included a loan receivable of \$567,632 recorded by St. Francis. The loan receivable was refinanced on July 1, 2014, with terms as described below.

The loan is collateralized by first priority mortgage liens encumbering the following Archdiocesan high school premises: Bonner-Prendergrast High School, Pope John Paul II High School, Bishop Shanahan High School and Archbishop Wood High School. In addition, the Archdiocese of Philadelphia pledges the High School Revenue associated with these specific schools. The loan carries a fixed interest rate of 4% amortized over 28 years, maturing on June 1, 2042.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018 and 2017

NOTE G - RELATED PARTY NOTE RECEIVABLE - ARCHDIOCESE OF PHILADELPHIA - Continued

The future principal amounts receivable on the loan at June 30, 2018 are as follows:

2019	\$ 12,720
2020	13,236
2021	13,773
2022	14,333
2023	14,914
Thereafter	<u>432,008</u>
	<u>\$ 500,984</u>

NOTE H - 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. Francis 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.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018 and 2017

NOTE H - FAIR VALUE MEASUREMENTS - Continued

The following table presents the fair values of the investments held by St. Francis 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	\$ 504,033	\$ -	\$ -	\$ 504,033
Trusts held by third parties	<u>-</u>	<u>-</u>	<u>999,856</u>	<u>999,856</u>
Total assets at June 30, 2018	<u>\$ 504,033</u>	<u>\$ -</u>	<u>\$ 999,856</u>	<u>\$ 1,503,889</u>
<u>2017</u>				
Assets				
Investments	\$ 231,195	\$ -	\$ -	\$ 231,195
Trusts held by third parties	<u>-</u>	<u>-</u>	<u>958,787</u>	<u>958,787</u>
Total assets at June 30, 2017	<u>\$ 231,195</u>	<u>\$ -</u>	<u>\$ 958,787</u>	<u>\$ 1,189,982</u>

The following table is a roll-forward of the statement of financial position amounts for financial instruments classified within Level 3 of the fair value hierarchy defined above:

	<u>Trusts held by third parties</u>
Fair value June 30, 2016	\$ 877,485
Unrealized gains, net	105,936
Distributions	<u>(24,634)</u>
Fair value June 30, 2017	958,787
Unrealized gains, net	87,925
Distributions	<u>(46,856)</u>
Fair value June 30, 2018	<u>\$ 999,856</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 I - PENSION PLANS

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

Through June 30, 2014, the eligible lay employees of St. Francis 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 of Philadelphia, based on age and service requirements. The Plan is administered by the Trustees of the Plan. St. Francis 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. Francis for contributions to the Plan was \$318,189 and \$254,451 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.

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.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018 and 2017

NOTE I - PENSION PLANS - Continued

In fiscal years 2018 and 2017, the Archdiocese of Philadelphia employer contribution rate was 4.5% of base salary for eligible employees. The contributions by St. Francis into the 403(b) plan totaled \$242,687 and \$259,978 for the years ended June 30, 2018 and 2017, respectively.

3. Other contributions

St. Francis 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 \$4,026 and \$5,081 for the years ended June 30, 2018 and 2017, respectively.

NOTE J - RELATED PARTY TRANSACTIONS

St. Francis 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 St. Francis. The total expenses incurred by CSS in providing services are accumulated and allocated on a pro rata basis to the institutions and group homes. The allocated amount is reported as an administrative and general expense in the statement of activities. Any difference between the allocation and the amount charged to the institution during the year is considered a contribution of services from CSS. Repayment of amounts due to CSS is expected when cash is available. The amount due to CSS was \$5,455,064 and \$4,795,363 for the years ended June 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 - auto and general	\$ 115,105	\$ 142,524
Lay employee pension contributions	318,189	254,451
Religious employee pension contributions	<u>4,026</u>	<u>5,081</u>
	<u>\$ 437,320</u>	<u>\$ 402,056</u>
Catholic Social Services		
Automobile leases	\$ 40,096	\$ 40,096
Allocated administrative and accounting costs	297,503	312,651
Allocated administrative and accounting costs - contributed	-	1,788
Information technology services	<u>150,853</u>	<u>135,089</u>
	<u>\$ 488,452</u>	<u>\$ 489,624</u>

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018 and 2017

NOTE J - RELATED PARTY TRANSACTIONS - Continued

Catholic Charities Appeal donated \$150,000 and \$100,000 to St. Francis during the fiscal years ended June 30, 2018 and 2017, respectively.

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

	<u>2018</u>	<u>2017</u>
Catholic Health Care Services	\$ 42,995	\$ 32,339

NOTE K - INCOME TAX STATUS

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

St. Francis 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. Francis has determined that there are no material uncertain tax positions requiring recognition in the financial statements at June 30, 2018 or 2017.

NOTE L - FUNCTIONAL EXPENSES

St. Francis provides treatment and residential placement services to young men, women and children. These services are provided in community-based residential group homes and campus facilities. Day care services are also provided. Expenses related to providing these services for the years ended June 30, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Program expenses	\$ 8,862,346	\$ 8,731,939
Support expenses	<u>2,897,303</u>	<u>2,854,381</u>
Total expenses	<u>\$ 11,759,649</u>	<u>\$ 11,586,320</u>

NOTE M - COMMITMENTS

St. Francis enters annually into various operating lease agreements primarily for the rental of facilities, some of which are with other entities also operating under the auspices of the Archdiocese of Philadelphia. Rental expense associated with these operating lease agreements was \$90,768 and \$88,368 for the years ended June 30, 2018 and 2017, respectively.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018 and 2017

NOTE N - PERMANENTLY AND TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2018</u>	<u>2017</u>
Education of children	\$ 404,838	\$ 408,933
Other	<u>9,794</u>	<u>8,940</u>
Total temporarily restricted net assets	<u>\$ 414,632</u>	<u>\$ 417,873</u>

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

	<u>2018</u>	<u>2017</u>
Trusts held by third parties	<u>\$ 585,224</u>	<u>\$ 566,453</u>

NOTE O - SUBSEQUENT EVENTS

Management has evaluated subsequent events for the year ended June 30, 2018, the date of the financial statements, 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.

SUPPLEMENTARY INFORMATION

St. Francis-St. Joseph Homes for Children

SCHEDULE OF REVENUE

Year ended June 30, 2018

Operating revenue	
Governmental revenue	
Human services funding	\$ 8,190,912
Title I	152,387
PRRI	1,636,247
Nutritional program	67,925
Medical Assistance	250,641
Fee for service	<u>5,010</u>
Total operating revenue	<u>10,303,122</u>
Other revenue	
Donations and bequests	158,594
Donations - related party	508,542
Catholic Charities Appeal	150,000
Trusts	46,856
Dividend and interest income	28,420
Net realized and unrealized gains on investments	<u>73,353</u>
Total other revenue	<u>965,765</u>
Total revenue	<u>\$ 11,268,887</u>

St. Francis-St. Joseph Homes for Children

SCHEDULE OF OPERATING EXPENSES

Year ended June 30, 2018

Salaries, wages and other payroll costs	
Administrative	\$ 1,308,897
Professional	1,553,452
Clerical	173,036
Maintenance and services	105,195
Child care	2,799,112
FICA	468,701
Workers' compensation insurance	246,732
Unemployment tax	121,349
Employees' health and retirement benefits	<u>1,483,456</u>
Total salaries, wages and other payroll costs	<u>8,259,930</u>
Administrative and general expenses	
Administrative and accounting services allocated from the Archdiocese of Philadelphia - Catholic Social Services - Director's Office	448,356
Professional fees	537,788
Telephone	105,688
Transportation	229,038
Conferences	7,500
Staff development	22,927
Equipment - replacement	39,897
General expenses and supplies	245,962
Postage	11,643
Depreciation	<u>405,995</u>
Total administrative and general expenses	<u>2,054,794</u>
Cost of occupancy	
Rental of buildings	90,768
Insurance - buildings, contents, etc.	62,314
Repairs and maintenance - buildings and ground	333,092
Utilities	<u>198,349</u>
Total cost of occupancy	<u>684,523</u>
Direct expenses of children	
Foods/supplies/other	40,337
Clothing - cleaning and repairing	103,226
Medical, dental	18,205
Personal	185,520
Group home expenses	357,472
Activities - recreation, camp	<u>55,642</u>
Total direct expenses of children	<u>760,402</u>
Total operating expenses	<u>\$ 11,759,649</u>