

Financial Statements and Report of  
Independent Certified Public  
Accountants

**Don Guanella Village**

June 30, 2019 and 2018

**Contents**

Page

Report of Independent Certified Public Accountants	3
Financial Statements	
Statements of financial position	5
Statements of activities and changes in net assets	6
Statements of cash flows	8
Notes to the financial statements	9

---

## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

### GRANT THORNTON LLP

Two Commerce Square  
2001 Market St., Suite 700  
Philadelphia, PA 19103

**D** +215.561.4200  
**F** +215.561.1066

Board of Directors  
Don Guanella Village

We have audited the accompanying financial statements of Don Guanella Village, which comprise the statements of financial position as of June 30, 2019 and 2018, 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 entity'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 entity'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, 2019 and 2018, and the results of its activities and changes in 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 27, 2020

**Don Guanella Village**

**STATEMENTS OF FINANCIAL POSITION**

**June 30,**

**ASSETS**

	<b>2019</b>	<b>2018</b>
<b>CURRENT ASSETS</b>		
Cash	\$ 9,090	\$ 9,090
Client escrow funds	259,703	213,795
Accounts receivable - Commonwealth of Pennsylvania net of allowance for doubtful accounts of \$195,000	4,271,637	3,421,444
Accounts receivable - other	185,115	334,625
Total current assets	4,725,545	3,978,954
<b>NONCURRENT ASSETS</b>		
Property, plant and equipment, net	7,683,575	8,124,881
Prepaid expenses and other assets	320,349	334,942
Security deposits - rent	38,610	38,610
Investments	2,085,915	1,960,996
Total assets	\$ 14,853,994	\$ 14,438,383

**LIABILITIES AND NET ASSETS**

<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 1,425,309	\$ 621,816
Salaries and wages payable	737,319	705,126
Client escrow funds	259,703	213,795
Due to Catholic Social Services	5,310,661	3,775,057
Total current liabilities	7,732,992	5,315,794
<b>NET ASSETS</b>		
Without donor restrictions	6,594,726	8,630,820
With donor restrictions	526,276	491,769
Total net assets	7,121,002	9,122,589
Total liabilities and net assets	\$ 14,853,994	\$ 14,438,383

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

**Don Guanella Village**

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**

**Year ended June 30, 2019**

	<b>Net assets without donor restrictions</b>	<b>Net assets with donor restrictions</b>	<b>Total</b>
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Operating revenue</b>			
Governmental revenue	\$ 17,653,515	\$ -	\$ 17,653,515
Other revenue	184,266	-	184,266
	<u>          </u>	<u>          </u>	<u>          </u>
Total operating revenue	17,837,781	-	17,837,781
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Operating expenses</b>			
Salaries, wages and other payroll costs	13,864,025	-	13,864,025
Administrative and general expenses	2,053,002	-	2,053,002
Occupancy	1,043,846	-	1,043,846
Direct expenses of care	2,357,320	-	2,357,320
Depreciation	689,004	-	689,004
	<u>          </u>	<u>          </u>	<u>          </u>
Total operating expenses	20,007,197	-	20,007,197
	<u>          </u>	<u>          </u>	<u>          </u>
Deficit in operating revenue under operating expenses	(2,169,416)	-	(2,169,416)
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Other revenue</b>			
Donations, bequests, trusts, and other	18,594	-	18,594
Catholic Charities Appeal	25,000	-	25,000
Investment return, net	89,728	34,507	124,235
	<u>          </u>	<u>          </u>	<u>          </u>
Total other revenue	133,322	34,507	167,829
	<u>          </u>	<u>          </u>	<u>          </u>
<b>(Decrease) increase in net assets</b>	(2,036,094)	34,507	(2,001,587)
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Net assets at beginning of year</b>	8,630,820	491,769	9,122,589
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Net assets at end of year</b>	\$ 6,594,726	\$ 526,276	\$ 7,121,002
	<u>          </u>	<u>          </u>	<u>          </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**

	<b>Net assets without donor restrictions</b>	<b>Net assets with donor restrictions</b>	<b>Total</b>
<b>Operating revenue</b>			
Governmental revenue	\$ 17,252,102	\$ -	\$ 17,252,102
Other revenue	166,912	-	166,912
Total operating revenue	17,419,014	-	17,419,014
<b>Operating expenses</b>			
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	18,392,195	-	18,392,195
Deficiency in operating revenue under operating expenses	(973,181)	-	(973,181)
<b>Other revenue</b>			
Donations, bequests, trusts, and other	18,054	-	18,054
Catholic Charities Appeal	25,000	-	25,000
Investment return, net	108,088	30,857	138,945
Total other revenue	151,142	30,857	181,999
<b>Net assets released from restrictions</b>	324,036	(324,036)	-
<b>Decrease in net assets</b>	(498,003)	(293,179)	(791,182)
<b>Net assets at beginning of year</b>	9,128,823	784,948	9,913,771
<b>Net assets at end of year</b>	\$ 8,630,820	\$ 491,769	\$ 9,122,589

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

**Don Guanella Village**

**STATEMENTS OF CASH FLOWS**

**Years ended June 30,**

	<b>2019</b>	<b>2018</b>
<b>Cash flows from operating activities:</b>		
Decrease in net assets	\$ (2,001,587)	\$ (791,182)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	689,004	643,586
Net realized and unrealized gains on investments	(124,235)	(115,314)
Changes in operating assets and liabilities		
Accounts receivable - Commonwealth of Pennsylvania	(850,193)	5,511,679
Accounts receivable - other	149,510	(166,035)
Prepaid expenses and other assets	14,593	(16,718)
Accounts payable and accrued expenses	803,493	(260,903)
Salaries and wages payable	32,193	(191,564)
Due to/from Catholic Social Services	1,535,603	(2,911,894)
Net cash provided by operating activities	248,381	1,701,655
<b>Cash flows from investing activities:</b>		
Capital expenditures	(185,048)	(314,885)
Purchases of investments	(63,333)	(1,400,511)
Sales of investments	-	15,741
Net cash used in investing activities	(248,381)	(1,699,655)
<b>Change in cash and cash equivalents</b>	-	2,000
<b>Cash at beginning of year</b>	9,090	7,090
<b>Cash at end of year</b>	\$ 9,090	\$ 9,090

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



## **Don Guanella Village**

### **NOTES TO THE FINANCIAL STATEMENTS**

**June 30, 2019 and 2018**

#### **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.

On July 1, 2019 Don Guanella Village merged with Divine Providence Village. Both organizations operated intermediate facilities under CSS. The merged corporation will continue all services under the name the Communities of Don Guanella and Divine Providence (the "Communities"). The merger was approved by the Board of Directors of CSS on December 14, 2018. All services and operations after June 30, 2019 will be provided by the Communities.

#### **NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### ***Recently Adopted Accounting Pronouncement***

Effective July 1, 2018, Don Guanella Village adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. This standard makes 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 previously required three classes, as well as the annual change in each of the two classes; (2) information about liquidity and the availability of resources; and (3) addresses the lack of consistency with expenses and investment return. Don Guanella Village's financial statements have been adjusted to reflect the new requirements. The standard has been applied retrospectively to all years presented, except for functional expenses which is only presented for 2019.

**Don Guanella Village**

**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2019 and 2018**

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

***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 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 two categories, based on the existence or absence of donor-imposed restrictions.

Net assets without donor restrictions are not subject to donor-imposed restrictions and may be designated for specific purposes by action of the Board of Directors.

Net assets with donor restrictions include contributions, including pledges, trusts, remainder interests, income and appreciation which can be expended but for which restrictions have not yet been met, or which are required by donors to be perpetually retained. 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.

***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.

***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, 2019 and 2018, 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.

***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, 2019 or 2018.

**Don Guanella Village**

**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2019 and 2018**

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

***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.

***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 a component of investment return, net.

***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 \$122,479 and \$576,129 for the years ended June 30, 2019 and 2018, 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.

**Don Guanella Village**

**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2019 and 2018**

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

***Contributions***

All contributions are considered to be available for 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 net assets with donor restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, Don Guanella Village reports the support as without donor restriction. When a stipulated time restriction or purpose restriction is satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions 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 revenue without donor restrictions 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.

***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.

***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.

***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

Don Guanella Village

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

**Liquidity and Availability of Resources**

Financial assets available for general expenditure, all of which are classified as net assets without donor restrictions, within one year of the balance sheet date consist of the following:

	June 30,	
	2019	2018
Cash and cash equivalents	\$ 9,090	\$ 9,090
Accounts receivable	4,456,752	3,756,069
Investments - board designated	1,559,639	1,469,227
Assets available to management	6,025,481	5,234,386
Liabilities to be settled within one year		
Accounts payable and accrued expenses	(1,425,309)	(621,816)
Salaries and wages payable	(737,319)	(705,126)
Due to CSS	(5,310,661)	(3,775,057)
Assets available to management less liabilities to be settled within one year	\$ (1,447,808)	\$ (132,387)

Don Guanella Village receives cash management services from CSS, which includes the receipt of program revenues and payments of operating expenses. The cash activity is recorded through due to CSS which are settled periodically.

**Pending Accounting Pronouncements**

In May 2014, the FASB issued 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.

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.

**Don Guanella Village**

**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2019 and 2018**

**NOTE C - INVESTMENTS - Continued**

*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.

There are no donor restrictions on the investments as of June 30, 2019 or 2018.

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

	2019	2018
Catholic Values Equity Fund	\$ 1,391,044	\$ 1,316,220
Catholic Values Fixed Income Fund	694,871	644,776
	\$ 2,085,915	\$ 1,960,996

Investment return for investments comprised of the following for the years ended June 30, 2019 and 2018:

	2019			2018		
	Net assets without donor restrictions	Net assets with donor restrictions	Total	Net assets without donor restrictions	Net assets with donor restrictions	Total
Other revenue						
Interest and dividend income	\$ 65,866	\$ 19,055	\$ 84,921	\$ 16,220	\$ 7,411	\$ 23,631
Net realized gains	2,248	3,970	6,218	-	3,403	3,403
Change in unrealized net gains and losses on investments	21,614	11,482	33,096	91,868	20,043	111,911
Total	\$ 89,728	\$ 34,507	\$ 124,235	\$ 108,088	\$ 30,857	\$ 138,945

**Don Guanella Village**

**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2019 and 2018**

**NOTE D - PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment and accumulated depreciation consist of the following at June 30, 2019 and 2018:

	2019	2018
Buildings	\$ 4,328,926	\$ 4,328,926
Leasehold improvements	7,007,865	6,959,531
Furniture and equipment	585,075	477,644
Automobiles	340,064	248,131
	12,261,930	12,014,232
Accumulated depreciation	(4,578,355)	(3,889,351)
	\$ 7,683,575	\$ 8,124,881
Property, plant and equipment, net		

Depreciation expense of \$689,004 and \$643,586 was incurred for the years ended June 30, 2019 and 2018, respectively.

**NOTE E - ACCOUNTS RECEIVABLE**

At June 30, 2019 and 2018, Don Guanella Village had uncollateralized accounts receivable, primarily from the Commonwealth of Pennsylvania, Department of Public Welfare ("DPW"), of \$4,271,637 and \$3,421,444, 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.

**Don Guanella Village**

**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2019 and 2018**

**NOTE F - FAIR VALUE MEASUREMENTS - Continued**

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, 2019 and 2018:

	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
<u>2019</u>				
Assets				
Investments	<u>\$ 2,085,915</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,085,915</u>
<u>2018</u>				
Assets				
Investments	<u>\$ 1,960,996</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,960,996</u>

During 2019 and 2018, no investments were transferred between Levels 1, 2 or 3.

**NOTE G - PENSION PLANS**

***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, 2019 and 2018. The amount expensed by Don Guanella Village for contributions to the Plan was \$547,593 and \$519,404 for the fiscal years ended June 30, 2019 and 2018, 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.

***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.



**Don Guanella Village**

**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2019 and 2018**

**NOTE G - PENSION PLANS - Continued**

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 Don Guanella Village into the 403(b) plan totaled \$450,134 and \$396,156 for the years ended June 30, 2019 and 2018, respectively.

**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 \$4,831 and \$4,690 for the years ended June 30, 2019 and 2018, 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 \$5,310,661 and \$3,775,057 at June 30, 2019 and 2018, respectively.

**Don Guanella Village**

**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2019 and 2018**

**NOTE H - RELATED PARTY TRANSACTIONS - Continued**

The transactions with the Archdiocese and CSS charged to expense for the years ended June 30, 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Archdiocese of Philadelphia		
Insurance	\$ 48,684	\$ 103,815
Lay employee pension contributions	547,593	519,404
	<u>\$ 596,277</u>	<u>\$ 623,219</u>
Catholic Social Services		
Automobile leases	\$ 18,539	\$ 97,113
Allocated administrative and accounting costs	538,684	464,287
Information technology services	178,365	235,929
Allocated administrative and accounting costs - contributed	24,964	-
	<u>\$ 760,552</u>	<u>\$ 797,329</u>

Catholic Charities Appeal donated \$25,000 to Don Guanella Village for both fiscal years ended June 30, 2019 and 2018.

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

	<u>2019</u>	<u>2018</u>
Catholic Housing and Community Services	\$ 56,497	\$ 65,456

**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, 2019 and 2018.

**Don Guanella Village**

**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2019 and 2018**

**NOTE J - FUNCTIONAL EXPENSES**

Don Guanella Village provides a variety of services. Expenses related to providing these services for the years ended June 30, 2019 and 2018 are as follows:

	Program	Supporting management and general	Total expenses year ended June 30, 2019	Total expenses year ended June 30, 2018
Salaries, wages and other payroll costs	\$ 12,741,515	\$ 1,122,510	\$ 13,864,025	\$ 12,927,846
Administrative and general expenses	1,689,645	363,357	2,053,002	1,657,325
Occupancy	996,873	46,973	1,043,846	1,068,523
Direct expenses of care	2,357,320	-	2,357,320	2,094,915
Depreciation	657,998	31,006	689,004	643,586
Total expenses	\$ 18,443,351	\$ 1,563,846	\$ 20,007,197	\$ 18,392,195

Expenses are charged directly to the functions above except for key employee salaries and benefits, which are allocated based on estimated time performing activities for each respective function.

**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 \$445.77 to \$668.49 per day.

**NOTE L - COMMITMENTS**

Don Guanella Village leases automobiles from CSS. Rental expense was \$18,539 and \$97,133 for the fiscal years ended June 30, 2019 and 2018, respectively. As of June 30, 2019 there are no future minimum rental payments.

**NOTE M - NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions at June 30, 2019 and 2018 consisted of the following:

	2019	2018
Capital projects	\$ 526,276	\$ 491,769

**Don Guanella Village**

**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2019 and 2018**

**NOTE N - SUBSEQUENT EVENTS**

Management has evaluated subsequent events for the year ended June 30, 2019 through March 27, 2020, which is the date the financial statements were available to be issued. Pursuant to the requirements, there were no events or transactions occurring during the subsequent event reporting period which require recognition or disclosure in the financial statements, except as disclosed in Note A and below.

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continues to spread throughout the United States. While the disruption is currently expected to be temporary, there is uncertainty around the duration. Therefore, while we expect this matter to negatively impact our business, results of operations, and financial position, the related financial impact cannot be reasonably estimated at this time. As a result, the Communities is leveraging its statement of net position and seeking ways to preserve its financial flexibility and to allow the organization to resume normal operations when the crisis passes and site closures are lifted.