

Financial Statements and Report of Independent Certified Public Accountants

**Archdiocese of Philadelphia,
Office of Catholic Education
Schools of Special Education**

June 30, 2019 and 2018

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Archbishop of Philadelphia and the Faith in the Future Foundation
Archdiocese of Philadelphia

We have audited the accompanying financial statements of the Archdiocese of Philadelphia, Office of Catholic Education Schools of Special Education ("SPED"), 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 the Archdiocese of Philadelphia, Office of Catholic Education Schools of Special Education as of June 30, 2019 and 2018, 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.

Emphasis of matter

We draw attention to Note A to the financial statements, which describes the legal structure of SPED within the Archdiocese of Philadelphia. Our opinion is not modified with respect to this matter.

Grant Thornton LLP

Philadelphia, Pennsylvania
April 9, 2020

**Archdiocese of Philadelphia, Office of Catholic Education
Schools of Special Education**

STATEMENTS OF FINANCIAL POSITION

As of June 30,

ASSETS	<u>2019</u>	<u>2018</u>
Cash and cash equivalents, including amounts held by affiliate	\$ 1,044,989	\$ 1,235,201
Parental tuition receivable (less allowance for doubtful accounts of \$58,392 in 2019 and \$68,285 in 2018)	58,815	25,326
Other receivables	148,261	83,769
Prepaid expenses and other assets	82,014	78,645
Investments (Note C)	3,894,134	3,737,595
Property and equipment, net (Note D)	<u>76,972</u>	<u>90,916</u>
 Total assets	 <u>\$ 5,305,185</u>	 <u>\$ 5,251,452</u>
 LIABILITIES AND NET ASSETS		
Accounts payable	\$ 30,969	\$ 15,194
Accrued salaries and wages	301,987	332,525
Deferred revenue	48,242	69,457
Due to related organizations (Note I)	<u>32</u>	<u>116</u>
 Total liabilities	 <u>381,230</u>	 <u>417,292</u>
 Net assets		
Unrestricted	561,366	587,364
Unrestricted - designated funds	2,080,887	2,022,364
Without donor restrictions (Note F)	2,642,253	2,609,728
Temporarily restricted (Note F)	2,027,445	1,973,035
Permanently restricted (Note F)	254,257	251,397
With donor restrictions (Note G)	<u>2,281,702</u>	<u>2,224,432</u>
 Total net assets	 <u>4,923,955</u>	 <u>4,834,160</u>
 Total liabilities and net assets	 <u>\$ 5,305,185</u>	 <u>\$ 5,251,452</u>

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

**Archdiocese of Philadelphia, Office of Catholic Education
Schools of Special Education**

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended June 30, 2019

	Without donor restrictions	With donor restrictions	Total
Revenue, gains and other support:			
Tuition and fees	\$ 1,538,264	\$ -	\$ 1,538,264
Less: tuition assistance	90,076	-	90,076
Net tuition	1,448,188	-	1,448,188
Other operating revenues			
Catholic Charities Appeal	1,089,545	-	1,089,545
Contributions and donations	470,430	254,100	724,530
Fundraising	95,026	-	95,026
Rental income	24,996	-	24,996
Miscellaneous income	44,493	-	44,493
Interest and investment income	111,219	59,809	171,028
Total other operating revenues	1,835,709	313,909	2,149,618
Change in value of split interest	-	2,541	2,541
Net realized gains on investments	21,015	15,277	36,292
Net unrealized gains on investments	27,917	20,007	47,924
Total investment gains	48,932	37,825	86,757
Net assets released from restrictions			
Satisfaction of purpose restrictions	294,464	(294,464)	-
Total revenues	3,627,293	57,270	3,684,563
Operating expenses:			
Salaries and benefits	2,780,793	-	2,780,793
Purchased services	433,684	-	433,684
Operation and maintenance	189,383	-	189,383
Materials and supplies	124,929	-	124,929
Others	65,979	-	65,979
Total operating expenses	3,594,768	-	3,594,768
Change in net assets	32,525	57,270	89,795
Net assets, beginning of year	2,609,728	2,224,432	4,834,160
Net assets, end of year	\$ 2,642,253	\$ 2,281,702	\$ 4,923,955

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

**Archdiocese of Philadelphia, Office of Catholic Education
Schools of Special Education**

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended June 30, 2018

	Without donor restrictions	With donor restrictions	Total
Revenue, gains and other support:			
Tuition and fees	\$ 1,554,833	\$ -	\$ 1,554,833
Less: tuition assistance	156,869	-	156,869
Net tuition	1,397,964	-	1,397,964
Other operating revenues			
Catholic Charities Appeal	1,316,188	-	1,316,188
Contributions and donations	466,494	491,787	958,281
Fundraising	102,899	-	102,899
Contributed services (Note J)	28,212	-	28,212
Miscellaneous income	63,386	-	63,386
Interest and investment income	32,020	18,785	50,805
Total other operating revenues	2,009,199	510,572	2,519,771
Change in value of split interest	-	2,736	2,736
Net realized gains on investments	13,556	5,658	19,214
Net unrealized gains on investments	118,715	84,300	203,015
Total investment gains	132,271	92,694	224,965
Net assets released from restrictions			
Release of unrestricted - designated funds	41,543	(41,543)	-
Satisfaction of purpose restrictions	176,598	(176,598)	-
Total revenues	3,757,576	385,125	4,142,700
Operating expenses:			
Salaries and benefits	2,812,171	-	2,812,171
Purchased services	362,146	-	362,146
Operation and maintenance	174,090	-	174,090
Materials and supplies	60,285	-	60,285
Others	149,063	-	149,063
Total operating expenses	3,557,755	-	3,557,755
Non-operating:			
Reclassification of net assets	3,772	(3,772)	-
Total non-operating	3,561,527	(3,772)	3,557,755
Change in net assets	203,593	381,353	584,946
Net assets, beginning of year	2,406,136	1,843,079	4,249,215
Net assets, end of year	\$ 2,609,728	\$ 2,224,432	\$ 4,834,160

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

**Archdiocese of Philadelphia, Office of Catholic Education
Schools of Special Education**

STATEMENTS OF CASH FLOWS

Years ended June 30,

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ 89,795	\$ 584,945
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Depreciation expense	13,944	8,679
Provision for bad debts	2,767	68,285
Net realized gains on investments	(36,292)	(19,214)
Net unrealized gains on investments	(47,924)	(203,015)
Change in value of beneficial interest in perpetual trusts	(2,541)	(2,736)
Changes in operating assets and liabilities		
(Increase) decrease in parental tuition receivable	(36,256)	13,497
Increase in other accounts receivable	(64,492)	(64,430)
Increase in prepaid expenses and other assets	(3,369)	(26,158)
Increase in accounts payable	15,775	23,188
(Decrease) increase in due to related organizations	(84)	116
Decrease in accrued salaries and wages	(30,538)	(1,219)
Decrease in deferred revenue	(21,215)	(28,614)
	<u>(120,430)</u>	<u>353,324</u>
Cash flows from investing activities:		
Purchase of property and equipment	-	(32,512)
Purchase of investments	(558,337)	(132,345)
Proceeds from sale of investments	488,555	96,307
	<u>(69,782)</u>	<u>(68,550)</u>
Net cash used in investing activities		
Net (decrease) increase in cash and cash equivalents, including amounts held by affiliate	(190,212)	284,774
Cash and cash equivalents, including amounts held by affiliate, beginning of year	<u>1,235,201</u>	<u>950,427</u>
Cash and cash equivalents, including amounts held by affiliate, end of year	<u>\$ 1,044,989</u>	<u>\$ 1,235,201</u>

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

**Archdiocese of Philadelphia, Office of Catholic Education
Schools of Special Education**

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

NOTE A - NATURE OF OPERATIONS

The accompanying financial statements of the Archdiocese of Philadelphia, Office of Catholic Education Schools of Special Education ("SPED") have been prepared on the accrual basis of accounting and include the funds generated from and for the operation and maintenance of SPED. They exclude certain entities of the Archdiocese of Philadelphia, which relate to SPED but are considered separate reporting entities. These entities are as follows:

- Diocesan High Schools ("DHS")
- Office of Catholic Education ("OCE") Administration Account
- Office for Financial Services
- Catholic Charities of the Archdiocese of Philadelphia (a Pennsylvania civil corporation; a.k.a. Catholic Charities Appeal of the Archdiocese of Philadelphia)
- Trustee Account of the Archdiocese of Philadelphia for Estates and Trusts
- Nutritional Development Services

The Schools of Special Education consist of:

- St. Lucy Day School
- Archbishop Ryan Academy for Children with Hearing Impairment
- Our Lady of Confidence Day School
- St. Katherine Day School

In addition, auxiliary organizations' accounts of the individual Schools of Special Education which account for certain fundraising activities, donations, student activities and special projects are not included in these financial statements.

SPED is considered to be a component of the Archdiocese of Philadelphia and not a separate legal entity. Effective September 1, 2012, the Archdiocese of Philadelphia entered into an agreement with Faith in the Future Foundation ("FIF"). The agreement is for the period of five school years and shall automatically renew for successive three-year periods unless prior written notification is provided 90 days before the scheduled expiration date. This agreement was extended through 2022 in February of 2016. Pursuant to the aforementioned agreement, FIF assumes strategic and operational management of the 17 Catholic secondary schools and the four schools of special education and provides certain financial assistance to the schools. OCE has primary responsibility for, and FIF has oversight and approval responsibility over, school operations. The five senior management positions of OCE report directly to FIF's Chief Executive Officer. All facilities continue to be owned by the Archdiocese of Philadelphia.

**Archdiocese of Philadelphia, Office of Catholic Education
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis. Net assets and their revenues, expenses, gains and losses are classified as either with donor restrictions or without donor restrictions, based on the existence or absence of donor-imposed restrictions.

Net assets with donor restrictions include gifts, trusts, income and gains which have either a time or use restriction but which may ultimately be expended. Also included are net assets with donor-imposed restrictions requiring that the corpus be invested in perpetuity and only the investment income be made available for operations in accordance with donor restrictions. Investment income and net realized and unrealized gains and losses, if restricted by the donor, are included in this net assets category.

Net assets without donor restrictions are free from donor-imposed restrictions and are all the remaining net assets of SPED. Within the category of net assets without donor restrictions, there are funds which have internal purpose designations determined by the Archbishop or his designee. Although the funds are legally unrestricted, the management of SPED follows this designation in the use of these funds.

Revenue Recognition

Tuition and other school fees collected for the upcoming school year are included in deferred revenue and recognized as revenue ratably over the applicable school year.

Cash contributions and fundraising revenues are recorded as revenue when received. Unconditional promises to give are recorded at their fair value when SPED is notified of these gifts. Conditional promises to give are recognized when the conditions are substantially met. Gifts specified for the acquisition or construction of long-lived assets are reported as net assets without donor restrictions when the assets are placed in service.

Gifts of cash and other assets are recorded as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the accompanying statements of activities and changes in net assets as net assets released from restrictions.

Contributed services are recorded as the value of services performed by members of religious groups, based on the lay equivalent salaries of personnel performing similar duties less the stipend allowances and faculty residence expenses paid for the religious personnel. The value of contributed services is included as revenue and, correspondingly, charged as expense.

Uses of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make significant estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Archdiocese of Philadelphia, Office of Catholic Education
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

Cash and Cash Equivalents, Including Amounts Held by Affiliate

Cash and cash equivalents, including amounts held by affiliate, represent demand deposits and other investments with an original maturity of three months or less. The carrying value approximates fair value.

SPED maintains cash balances with financial institutions that at times may exceed Federal Deposit Insurance Corporation limits. Management does not believe the credit risk related to these deposits to be significant.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is provided based upon management's judgment, including such factors as prior collection history and the length of time a receivable is past due. SPED writes off receivables when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts.

Investments

Trustee Accounts are invested with two publicly traded SEI Catholic Values mutual funds. The Catholic Values Equity Fund and the Catholic Values Fixed Income Fund ("Catholic Values Funds") provide Catholic institutions with high quality products that align with their core values, without sacrificing diversification or return potential. Specifically, the funds align with the investment directives set forth by the United States Conference of Catholic Bishops. The Archdiocese of Philadelphia appointed SEI Private Trust Company to act as custodian (the "Custodian") of the Trustee Accounts. The investment in the Trustee Accounts and other investments are reported at fair value.

Unrealized gains and losses are included in the statements of activities and changes in net assets as net appreciation or depreciation in the fair value of investments.

Property and Equipment

Property and equipment purchased are stated at cost, while donated assets are stated at fair market value on the date of donation. Depreciation has been provided by the straight-line method over the estimated useful lives of the related assets as follows:

Land improvements	20 years
Building improvements	20 years
Furniture and fixtures	5 years
Vehicles	10 years

Reclassifications

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results.

**Archdiocese of Philadelphia, Office of Catholic Education
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

New Accounting Pronouncements

Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) No. 2014-09, *Revenue (Topic 606): Revenue from Contracts with Customers*, outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts, whether or not written, with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of ASU 2014-09 is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services by applying five steps listed in the guidance. ASU 2014-09 also requires disclosure of both quantitative and qualitative information that enables users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from customers. The new guidance is effective for fiscal years beginning after December 15, 2018. Entities have the option of using either a full retrospective or a modified retrospective approach. Early adoption is permitted. SPED is assessing the effect the adoption of ASU 2014 09 may have on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which requires that most leased assets be recognized on the balance sheet as assets and liabilities for the rights and obligations created by these leases. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2019. An entity is required to apply the amendments in ASU 2016-02 under the modified retrospective transition approach. This approach includes a number of optional practical expedients, which are described in the final standard. Under these practical expedients, an organization will continue to account for leases that commence before the effective date in accordance with current U.S. GAAP, unless the lease is modified. However, lessees are required to recognize on the balance sheet leased assets and liabilities for operating leases at each reporting date. SPED is assessing the impact of the new standard at this time.

ASU 2018-08, *Not-for-profit Entities: Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, intends to clarify and improve the scope and accounting guidance for contributions received and contributions made. The amendment provides (1) a framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction, including how to evaluate whether a resource provider is receiving commensurate value in an exchange transaction, and (2) guidance to assist entities in determining whether a contribution is either conditional or unconditional. Guidance applies to both recipients and resource providers. For contributions received, the new standard is effective for annual financial statements beginning after December 15, 2018. For transactions in which Archdiocese of Philadelphia - Office of Financial Services (OFS) serves as resource provider, the new standard is effective for annual financial statements beginning after December 15, 2019. SPED is assessing the impact of the new standard at this time.

Recently Adopted Accounting Pronouncements

In 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not for Profit Entities*. SPED adopted the provisions of the ASU 2016-14 during the year ended June 30, 2019. In addition to the changes in terminology used to describe net assets throughout the financial statements, new disclosures were added regarding liquidity (Note M), net assets (Notes F and G) and functional expenses (Note L).

**Archdiocese of Philadelphia, Office of Catholic Education
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE C - INVESTMENTS

The investments in the Trustee Accounts 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.

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.

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 Faith in the Future Foundation Finance Committee has primary responsibility for determining fixed income to equity mix. The asset mix of the mutual funds is SEI's responsibility. In May 2019, SPED decided to transition from a 60/40 allocation to a 70/30 allocation over a three-month period. The asset allocation was 67/33 at June 30, 2019.

At June 30, 2019 and 2018, SPED held the following categories of investments:

	2019	2018
Catholic Values Equity Fund	\$ 2,364,073	\$ 2,174,710
Catholic Values Fixed Income Fund	1,275,805	1,311,488
Total investments	\$ 3,639,878	\$ 3,486,198

SPED is a beneficiary of individual trusts held in perpetuity by third parties. At June 30, 2019 and 2018, the fair value of the share allocable to SPED was \$254,256 and \$251,397, respectively, and are recorded within investments in the accompanying statements of financial position. During 2019 and 2018, SPED recognized donor restricted appreciation of \$2,541 and \$2,736, respectively, related to these trusts.

NOTE D - PROPERTY AND EQUIPMENT

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

	2019	2018
Land improvements	\$ 29,850	\$ 29,850
Building improvements	11,070	11,070
Furniture and fixtures	7,416	7,416
Vehicles	91,598	91,598
Total assets	139,934	139,934
Accumulated depreciation	(62,962)	(49,018)
Property and equipment, net	\$ 76,972	\$ 90,916

Depreciation expense was \$13,944 and \$8,679 for the years ended June 30, 2019 and 2018, respectively.

**Archdiocese of Philadelphia, Office of Catholic Education
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE E - EMPLOYEE BENEFIT PLANS

Lay Employees' Retirement Plan - Frozen Effective June 30, 2014

Through June 30, 2014, the eligible lay employees of SPED 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. On June 30, 2014, the Archdiocese froze the Plan. All active employees as of the freeze date retained benefits they had earned through June 30, 2014. After the date of the freeze, accrued pension benefits do not increase for additional service or increases in pay. The Plan is administered by the Trustees of the Plan. SPED made annual contributions to the Plan at an average rate of 5.9% of the salaries of eligible teachers and non-teachers for the years ended June 30, 2019 and 2018. The amount expensed by SPED for contributions to the Plan was \$77,407 and \$100,935 for the years ended June 30, 2019 and 2018, respectively. The expense of such contributions is included in employee benefits. Separate accounts for vested benefits and pension fund assets are not maintained for each institution.

Estimates of the actuarially determined present value of accumulated plan benefits at June 30, 2019 totaled approximately \$582,000,000. The actuarially determined present value of accumulated plan benefits at June 30, 2018 totaled approximately \$602,400,000. At June 30, 2019 and 2018, the assets available to provide for these benefits totaled approximately \$511,200,000 and \$521,500,000, respectively.

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 Lay Employees Retirement Plan as of its freeze date of June 30, 2014 is a grandfathered employee and will be eligible to receive employer contributions.

Non-Grandfathered Employees - Non-grandfathered employees are eligible to receive the employer contributions generally upon completion of 1,000 hours of service in the relevant measurement period.

Vesting in employer contributions is immediate for grandfathered employees who have 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 2019 and 2018, SPED's contribution rate was 4.5% of base salary for eligible employees and there was a 0.35% charge for administration. The contributions into the 403(b) plan and the administrative charges totaled \$90,196 and \$86,329 and \$6,021 and \$6,714 for the years ended June 30, 2019 and 2018, respectively.

**Archdiocese of Philadelphia, Office of Catholic Education
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE F - NET ASSETS WITHOUT DONOR RESTRICTION

Net assets without donor restrictions consisted of the following at June 30:

	2019	2018
Without donor restrictions	\$ 561,366	\$ 587,364
Quasi endowment	2,080,887	2,022,364
Total net assets without donor restrictions	\$ 2,642,253	\$ 2,609,728

In June of 2002, the Archdiocese of Philadelphia received \$3,100,000 from the Estate of Leo J. Baney which was to be used for “educational purposes” in the Archdiocese of Philadelphia. In June of 2004, a decision was made to divide the principal into three areas and internally designate how the funds were to be used.

In April of 2004, Monsignor Joseph R. Cistone, Vicar for Administration, signed a memorandum of understanding directing that \$1,965,596 of the fund be set aside in a quasi endowment fund with an annual distribution being provided to SPED to support operational and programming purposes. During 2019 and 2018, net assets were released from designated funds by incurring expenses satisfying the designated purpose of \$45,000 and \$102,068, respectively.

NOTE G - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with time or use donor restrictions are available for the following purposes at June 30:

	2019	2018
Tuition assistance	\$ 85,337	\$ 147,858
Specified school operations purposes	1,942,109	1,825,177
Total	\$ 2,027,446	\$ 1,973,035

During 2019 and 2018, net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose of \$294,464 and \$176,598, respectively.

Net assets with donor restrictions at June 30, 2019 and 2018, related to funds held in perpetuity, consisted of the following:

	2019	2018
Jeremiah J. Harrigan Trust	\$ 98,625	\$ 91,800
George Grover Trust	155,631	159,597
Total	\$ 254,256	\$ 251,397

**Archdiocese of Philadelphia, Office of Catholic Education
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

Trusts held by third parties included in net assets with donor restrictions include funds for the benefit of Archbishop Ryan Academy for Children with Hearing Impairment ("Archbishop Ryan Academy") which had 10 students during the year ended June 30, 2019. The provisions for both trusts established under wills stipulate that if the named institution ceases to exist that the income from the trusts would be divided among the remaining institutions named in the individual wills. These institutions do not include any of the other schools of special education.

NOTE H - INCOME TAXES

As part of the Archdiocese of Philadelphia, SPED has received exempt status from federal taxation under Section 501(c)(3) of the Internal Revenue Code.

SPED 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. SPED does not believe its financial statements include any material uncertain tax positions. As of June 30, 2019, the SPED tax years ended June 30, 2015 through June 30, 2018 for federal tax jurisdiction remain open to examination.

NOTE I - RELATED PARTY TRANSACTIONS

As of June 30, amounts due to related organizations consisted of the following:

	<u>2019</u>	<u>2018</u>
Diocesan High Schools	\$ 32	\$ 116
	<u>\$ 32</u>	<u>\$ 116</u>

OCE charges for financial and management services provided to SPED. Expenses charged in both 2019 and 2018 in relation to these services were \$215,000.

SPED received \$25,754 and \$22,838 in 2019 and 2018, respectively, from Nutritional Development Services for the administrative costs related to the cafeteria program at St. Katherine Day School.

SPED receives funds from the Catholic Charities Appeal Fund, which is a fund administered by the Archdiocese of Philadelphia. Donations were \$1,089,545 and \$1,316,188 for the years ended June 30, 2019 and 2018, respectively.

Cash and cash equivalents include \$285,446 and \$331,653 at June 30, 2019 and 2018, respectively, on deposit with the Office for Financial Services of the Archdiocese of Philadelphia. There are no conditions restricting the withdrawal of these funds.

**Archdiocese of Philadelphia, Office of Catholic Education
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE J - CONTRIBUTED SERVICES

Contributed services consist of the following as of June 30:

	2019	2018
Salaries and benefits - lay equivalent value of religious services	\$ 116,641	\$ 108,280
Expended for religious services		
Salaries, related employee benefits and faculty house expenses	(116,641)	(80,068)
	\$ -	\$ 28,212

NOTE K - FAIR VALUE MEASUREMENTS

FASB ASC 820, *Fair Value Measurements*, 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.

Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

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June 30, 2019 and 2018

Fair value calculations may not be indicative of net realizable value or reflective of future fair values. Furthermore, although SPED 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 SPED by level within the fair value hierarchy, as of June 30, 2019 and 2018:

<u>2019</u>	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
SEI mutual funds	\$ 3,639,878	\$ -	\$ -	\$ 3,639,878
Trusts held by third parties	-	-	254,256	254,256
Total	<u>\$ 3,639,878</u>	<u>\$ -</u>	<u>\$ 254,256</u>	<u>\$ 3,894,134</u>

<u>2018</u>	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
SEI mutual funds	\$ 3,486,198	\$ -	\$ -	\$ 3,486,198
Trusts held by third parties	-	-	251,397	251,397
Total	<u>\$ 3,486,198</u>	<u>\$ -</u>	<u>\$ 251,397</u>	<u>\$ 3,737,595</u>

The table below sets forth a summary of changes in the fair value of SPED's Level 3 assets for the years ended June 30, 2019 and 2018:

Balance at June 30, 2017	\$ 252,433
Change in fair value of assets	7,751
Distributions from trusts held by third parties	<u>(8,787)</u>
Balance at June 30, 2018	251,397
Change in fair value of assets	5,760
Distributions from trusts held by third parties	<u>(2,901)</u>
Balance at June 30, 2019	<u>\$ 254,256</u>

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NOTE L - FUNCTIONAL EXPENSES

SPED provides services in order to operate and maintain schools included in Note A. Expenses by functional and natural classification related to providing these services are as follows for the year ended June 30, 2019:

	Instructional programs	Management and general	Total
Salaries and benefits	\$ 2,666,469	\$ 114,324	\$ 2,780,793
Purchased services	78,487	355,197	433,684
Operation and maintenance of plant	2,185	187,198	189,383
Materials and supplies	65,754	59,175	124,929
Others	42,535	23,444	65,979
Total	\$ 2,855,430	\$ 739,338	\$ 3,594,768

NOTE M - LIQUIDITY AND FUNDS AVAILABLE

The following reflects SPED's financial assets as of the June 30, 2019 and 2018, reduced by amounts not available for general use within one year because of donor-imposed restrictions or internal designations. Amounts available include annual distributions from the restricted funds. In addition, SPED expects to receive funding during the year ended June 30, 2020 of \$1,100,000 from Catholic Charities Appeal and \$200,000 from Arch Education Grant as donations without donor restrictions.

	June 30,	
	2019	2018
Financial assets:		
Cash and cash equivalents	\$ 1,044,989	\$ 1,235,201
Accounts and contributions receivable	207,076	109,095
Investments	3,639,878	3,486,198
Perpetual trusts held by others	254,256	251,397
Financial assets, at year-end	<u>5,146,199</u>	<u>5,081,891</u>
Less those unavailable for general expenditure within one year, due to:		
Perpetual trusts held by others	254,256	251,397
Other donor imposed restrictions	1,495,541	1,596,922
Archdiocesan designations functioning as endowment	<u>2,102,578</u>	<u>1,855,592</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,293,824</u>	<u>\$ 1,377,980</u>

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June 30, 2019 and 2018

NOTE N - LEASE COMMITMENTS

SPED has entered into a lease agreement for a certain vehicle. The lease expires on May 31, 2022. The following is a schedule of future minimum payments required under the operating lease:

<u>Year ending June 30,</u>	
2020	\$ 4,535
2021	4,535
2022	<u>4,157</u>
Total minimum payments	<u>\$ 13,227</u>

Rental expenses for the years ended June 30, 2019 and 2018 were \$4,535 and \$4,299, respectively.

NOTE O - SUBSEQUENT EVENTS

OCE has evaluated subsequent events through April 9, 2020, the date which the financial statements were available for distribution.

Subsequent to year-end, the outbreak of a novel coronavirus (COVID-19) as a pandemic has caused significant uncertainty of the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S. and international economies. While school buildings have closed in response to the pandemic, learning has shifted to online platforms, but management is unable to determine whether there will be a material impact to its operations in the future. We are actively working to minimize the financial impact of this situation.

The United States and global markets experienced significant declines in value resulting from uncertainty caused by the world-wide coronavirus pandemic. The Archdiocese of Philadelphia is closely monitoring its investment portfolio and its liquidity. The financial statements do not include adjustments to fair value that have resulted from these declines.