

Financial Statements and Report of Independent Certified Public Accountants

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

June 30, 2020 and 2019

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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, 2020 and 2019, 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, 2020 and 2019, 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
November 24, 2020

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

STATEMENTS OF FINANCIAL POSITION

June 30,

	2020	2019
Assets		
Cash and cash equivalents, including amounts held by affiliate	\$ 1,457,090	\$ 1,044,989
Parental tuition receivable, (less allowance for doubtful accounts of \$71,875 in 2020 and \$58,392 in 2019)	28,445	58,815
Other receivables	257,829	148,261
Prepaid expenses and other assets	1,434	82,014
Investments (Note C)	3,859,234	3,894,134
Property and equipment, net (Note D)	149,263	76,972
Total assets	\$ 5,753,295	\$ 5,305,185
Liabilities		
Accounts payable	\$ 18,537	\$ 15,551
Accrued salaries and wages	307,209	301,987
Deferred revenue	69,308	48,242
Note payable - SBA loan program (Note L)	540,100	-
Due to related organizations (Note I)	70,444	15,450
Total liabilities	1,005,598	381,230
Net assets		
Without donor restrictions (Note F)	2,643,537	2,642,253
With donor restrictions (Note G)	2,104,160	2,281,702
Total net assets	4,747,697	4,923,955
Total liabilities and net assets	\$ 5,753,295	\$ 5,305,185

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, 2020

	Without donor restriction	With donor restriction	Total
Revenue, gains and other support			
Tuition and fees	\$ 1,522,090	\$ -	\$ 1,522,090
Less: tuition assistance	116,498	-	116,498
Net tuition	1,405,592	-	1,405,592
Other operating revenues and gains			
Catholic Charities Appeal	1,164,359	-	1,164,359
Contributions and donations	406,823	246,685	653,508
Fundraising	79,127	-	79,127
Contributed services (Note J)	31,574	-	31,574
Rental Income	25,015	-	25,015
Miscellaneous income	26,279	-	26,279
Investment return, net	72,518	44,590	117,108
Change in value of split interest agreements	-	(8,213)	(8,213)
Total other operating revenues and gains	1,805,695	283,062	2,088,757
Net assets released from restrictions			
Satisfaction of purpose restrictions	460,604	(460,604)	-
Total revenues	3,671,891	(177,542)	3,494,349
Operating expenses			
Salaries and benefits	2,754,509	-	2,754,509
Purchased services	376,976	-	376,976
Operation and maintenance	218,114	-	218,114
Materials and supplies	173,504	-	173,504
Other expenses	95,609	-	95,609
Total operating expenses	3,618,712	-	3,618,712
Change in net assets before other non-operating expense	53,179	(177,542)	(124,363)
Non-operating expense (Note E)	51,895	-	51,895
Change in net assets	1,284	(177,542)	(176,258)
Net assets, beginning of year	2,642,253	2,281,702	4,923,955
Net assets, end of year	\$ 2,643,537	\$ 2,104,160	\$ 4,747,697

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, 2019

	Without donor restriction	With donor restriction	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 and gains			
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
Investment return, net	160,151	95,093	255,244
Change in value of split interest agreements	-	2,541	2,541
Total other operating revenues and gains	1,884,641	351,734	2,236,375
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
Other expenses	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**

STATEMENTS OF CASH FLOWS

Years ended June 30,

	2020	2019
Cash flows from operating activities		
Change in net assets	\$ (176,258)	\$ 89,795
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation expense	24,478	13,944
Provision for bad debts	17,083	2,767
Net realized gains on investments	(17,138)	(36,292)
Net depreciation (appreciation) in the fair value of investments	57,703	(47,924)
Change in value of beneficial interest in perpetual trusts	8,213	(2,541)
Changes in operating assets and liabilities		
Parental tuition receivable	13,287	(36,256)
Other receivables	(109,568)	(64,492)
Prepaid expenses and other assets	80,580	(3,369)
Accounts payable	2,986	15,775
Due to related organizations	54,994	(84)
Accrued salaries and wages	5,222	(30,538)
Deferred revenue	21,066	(21,215)
Net cash used in operating activities	(17,352)	(120,430)
Cash flows from investing activities		
Purchase of property and equipment	(96,769)	-
Purchase of investments	(397,974)	(558,337)
Proceeds from sale of investments	384,096	488,555
Net cash used in investing activities	(110,647)	(69,782)
Cash flows from financing activities		
Proceeds from note payable	540,100	-
Net cash provided by financing activities	540,100	-
Net increase (decrease) in cash and cash equivalents, including amounts held by affiliate	412,101	(190,212)
Cash and cash equivalents, including amounts held by affiliate, beginning of year	1,044,989	1,235,201
Cash and cash equivalents, including amounts held by affiliate, end of year	\$ 1,457,090	\$ 1,044,989

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, 2020 and 2019

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 ("OFS")
- Lay Employees' Retirement Plan of the Archdiocese of Philadelphia
- Risk Insurance Trust
- Heritage of Faith, Vision of Hope
- 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 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.

COVID-19 Pandemic

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. In March 2020, school buildings closed in response to the pandemic and learning shifted to online platforms. Following CDC and Pennsylvania state regulations, instruction resumed in the fall of 2020 under a hybrid instructional model, 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.

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

June 30, 2020 and 2019

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. Registration fees and re-registration fees are recognized upon registration or re-registration since these fees are non-refundable.

Cash contributions and fundraising revenues are recorded as revenue when received. Unconditional promises to give are recorded at their fair values 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, 2020 and 2019

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.

Realized gains and losses on securities sold are determined using the specific-identification method. Unrealized gains and losses are included in the investment return, net in the statements of activities and changes in net assets.

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, 2020 and 2019

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, as amended, is effective for fiscal years beginning after December 15, 2019. 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, as amended, is effective for fiscal years beginning after December 15, 2021. 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.

Recently Adopted Accounting Pronouncements

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. SPED adopted the guidance during the year ended June 30, 2020 using the modified retrospective method and has determined that there is no effect on net assets in connection with the adoption of ASU 2018-08.

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, 2020 and 2019.

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

June 30, 2020 and 2019

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

	2020	2019
Catholic Values Equity Fund	\$ 2,545,173	\$ 2,364,073
Catholic Values Fixed Income Fund	1,067,328	1,275,805
Total investments	\$ 3,612,501	\$ 3,639,878

SPED is a beneficiary of individual trusts held in perpetuity by third parties. At June 30, 2020 and 2019, the fair value of the share allocable to SPED was \$246,733 and \$254,256, respectively, and are recorded within investments in the accompanying statements of financial position. During 2020 and 2019, SPED recognized donor restricted depreciation of \$8,213 and appreciation of \$2,541, respectively, related to these trusts.

NOTE D - PROPERTY AND EQUIPMENT

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

	2020	2019
Land improvements	\$ 29,850	\$ 29,850
Building improvements	35,882	11,070
Furniture and fixtures	48,363	7,416
Vehicles	122,608	91,598
Total assets	236,703	139,934
Accumulated depreciation	(87,440)	(62,962)
Property and equipment, net	\$ 149,263	\$ 76,972

Depreciation expense was \$24,478 and \$13,944 for the years ended June 30, 2020 and 2019, respectively.

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 period from July 1, 2019 through September 13, 2019 and for the year ended June 30, 2019 of \$67,433 and \$77,407, respectively. The Plan Trustees approved suspending contributions into the Plan as of September 14, 2019. The contributions which would have gone into the Plan after September 14, 2019 were made to a special fund held by the Archdiocese of Philadelphia, OFS.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

Contributions to the Plan historically were assessed on a calendar year basis, therefore, contributions made for the period from January through June were a prepaid expense. Since contributions were made into the special fund instead of the Plan fund during the last two quarters of the fiscal year, there is no prepaid pension expense at June 30, 2020. The contributions to the special fund after December 31, 2019 totaled \$51,895 and is shown in non-operating expense in the statement of activities and changes in net assets.

Estimates of the actuarially determined present value of accumulated plan benefits at June 30, 2020 totaled approximately \$564,500,000. The actuarially determined present value of accumulated plan benefits at June 30, 2019 totaled approximately \$582,000,000. At June 30, 2020 and 2019, the assets available to provide for these benefits totaled approximately \$473,300,000 and \$511,200,000, 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 2020 and 2019, 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 \$77,216 and \$90,196 and \$5,814 and \$6,021 for the years ended June 30, 2020 and 2019, respectively.

NOTE F - NET ASSETS WITHOUT DONOR RESTRICTION

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

	2020	2019
Without donor restrictions	\$ 581,978	\$ 561,366
Quasi endowment	2,061,559	2,080,887
Total net assets without donor restrictions	\$ 2,643,537	\$ 2,642,253

In June 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 2004, a decision was made to divide the principal into three areas and internally designate how the funds were to be used.

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

June 30, 2020 and 2019

In April 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 2020 and 2019, net assets were released from designated funds by incurring expenses satisfying the designated purpose of \$75,000 and \$45,000, respectively.

NOTE G - NET ASSETS WITH DONOR RESTRICTIONS

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

	2020	2019
Tuition assistance	\$ 53,631	\$ 85,337
Specified school operations purposes	1,803,796	1,942,109
Funds to be held in perpetuity:		
Jeremiah J. Harrigan Trust	95,016	98,625
George Grover Trust	151,717	155,631
Total net assets with donor restrictions	\$ 2,104,160	\$ 2,281,702

During 2020 and 2019, net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose of \$460,604 and \$294,464, respectively.

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 four students during the year ended June 30, 2020. 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.

Archbishop Ryan Academy did not reopen in September 2020 and actions are being taken to formally close the school. When the Archbishop has approved of the closure, the trustees of these funds will be notified of the closure so that the funds could be allocated to the other beneficiaries.

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.

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

June 30, 2020 and 2019

NOTE I - RELATED PARTY TRANSACTIONS

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

	2020	2019
Office for Financial Services	\$ 15,606	\$ 15,418
Office of Catholic Education	48,083	-
Diocesan High Schools	6,755	32
Total	\$ 70,444	\$ 15,450

OCE charges for financial and management services provided to SPED. Expenses charged in both 2020 and 2019 in relation to these services were \$173,500 and 215,0000, respectively.

SPED received \$14,103 and \$25,754 in 2020 and 2019, 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 \$1,164,359 and \$1,089,545 for the years ended June 30, 2020 and 2019, respectively.

Cash and cash equivalents include \$186,846 and \$285,446 at June 30, 2020 and 2019, respectively, on deposit with the OFS. There are no conditions restricting the withdrawal of these funds.

NOTE J - CONTRIBUTED SERVICES

Contributed services consist of the following as of June 30:

	2020	2019
Salaries and benefits - lay equivalent value of religious services	\$ 119,365	\$ 116,641
Expended for religious services		
Salaries, related employee benefits and faculty house expenses	(87,791)	(116,641)
	\$ 31,574	\$ -

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE K - FAIR VALUE MEASUREMENTS

FASB Accounting Standards Codification ("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.

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.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

The following tables present the fair values of the investments held by SPED by level within the fair value hierarchy, as of June 30, 2020 and 2019:

<u>2020</u>	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
SEI mutual funds	\$ 3,612,501	\$ -	\$ -	\$ 3,612,501
Trusts held by third parties	-	-	246,733	246,733
Total	<u>\$ 3,612,501</u>	<u>\$ -</u>	<u>\$ 246,733</u>	<u>\$ 3,859,234</u>

<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>

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, 2020 and 2019:

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	254,256
Change in fair value of assets	(5,965)
Distributions from trusts held by third parties	<u>(1,558)</u>
Balance at June 30, 2020	<u>\$ 246,733</u>

NOTE L - NOTE PAYABLE - SBA LOAN PROGRAM

The Schools of Special Education were the recipient of Paycheck Protection Program (PPP) loan granted by the Small Business Administration under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). Under the program terms, PPP loans are forgiven and recognized as revenue if the loan proceeds are used to maintain compensation costs and employee headcount, and other qualifying expenses (mortgage interest, rent and utilities) incurred following receipt of the loan.

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June 30, 2020 and 2019

NOTE M - 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 years ended June 30, 2020 and 2019:

	<u>Instructional programs</u>	<u>Management and general</u>	<u>2020 Total</u>
Salaries and benefits	\$ 2,753,412	\$ 1,097	\$ 2,754,509
Purchased services	101,796	275,180	376,976
Operation and maintenance	218,114	-	218,114
Materials and supplies	173,280	224	173,504
Others	93,867	1,742	95,609
	<u>\$ 3,340,469</u>	<u>\$ 278,243</u>	<u>\$ 3,618,712</u>

	<u>Instructional programs</u>	<u>Management and general</u>	<u>2019 Total</u>
Salaries and benefits	\$ 2,666,469	\$ 114,324	\$ 2,780,793
Purchased services	78,487	355,197	433,684
Operation and maintenance	189,383	-	189,383
Materials and supplies	65,754	59,175	124,929
Others	42,535	23,444	65,979
	<u>\$ 3,042,628</u>	<u>\$ 552,140</u>	<u>\$ 3,594,768</u>

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June 30, 2020 and 2019

NOTE N - LIQUIDITY AND FUNDS AVAILABLE

The following reflects SPED's financial assets as of the June 30, 2020 and 2019, 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, 2021 of \$1,100,000 from Catholic Charities Appeal and \$200,000 from Arch Education Grant as donations without donor restrictions.

	June 30,	
	2020	2019
Financial assets:		
Cash and cash equivalents	\$ 1,457,090	\$ 1,044,989
Accounts and other receivable	286,274	207,076
Investments	3,612,501	3,639,878
Perpetual trusts held by others	246,733	254,256
Financial assets, at year-end	5,602,598	5,146,199
Less those unavailable for general expenditure within one year, due to:		
Perpetual trusts held by others	246,733	254,256
Other donor-imposed restrictions	1,857,427	2,027,446
Archdiocesan designations functioning as endowment	2,061,559	2,080,887
Financial assets available to meet cash needs for general expenditures within one year	\$ 1,436,879	\$ 783,610

NOTE O - LEASE COMMITMENTS

SPED has entered into a lease agreement for a certain vehicle and several copier machines expiring in February 2025. The following is a schedule of future minimum payments required under the operating lease:

Year ending June 30,			
2021		\$	13,674
2022			10,872
2023			2,724
2024			2,724
2025			1,816
Total minimum payments		\$	31,810

Rental expenses for the years ended June 30, 2020 and 2019 were \$17,984 and \$4,535 respectively.

NOTE P - SUBSEQUENT EVENTS

SPED has evaluated subsequent events through November 24, 2020, the date which the financial statements were available for distribution, noting no items requiring accrual or disclosure in the financial statements, except as disclosed in Note G.