

Financial Statements and Report of
Independent Certified Public
Accountants

**Catholic Social Services of the
Archdiocese of Philadelphia**

June 30, 2020 and 2019

Contents

Page

Report of Independent Certified Public Accountants	3
Financial Statements	
Statements of financial position	5
Statements of activities	6
Statements of cash flows	8
Notes to financial statements	9
Supplementary information	
Schedule of revenue	24
Schedule of expenses	25

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**Board of Directors**

Catholic Social Services of the Archdiocese of Philadelphia

We have audited the accompanying financial statements of Catholic Social Services of the Archdiocese of Philadelphia, which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities 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 Catholic Social Services of the Archdiocese of Philadelphia as of June 30, 2020 and 2019, and the results of its activities and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other matter*Supplementary information*

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



Philadelphia, Pennsylvania
January 5, 2021

Catholic Social Services of the Archdiocese of Philadelphia

STATEMENTS OF FINANCIAL POSITION

June 30,

	<u>2020</u>	<u>2019</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 18,532,820	\$ 6,086,367
Accounts receivable - public agencies, less allowance of \$68,241 at June 30, 2020 and 2019	1,782,047	1,738,744
Accounts receivable - other	398,162	447,364
Pledges receivable - United Way, net	37,354	37,354
Prepaid expenses and other assets	301,782	380,707
Client escrow funds	<u>29,433</u>	<u>29,434</u>
Total current assets	<u>21,081,598</u>	<u>8,719,970</u>
Noncurrent assets		
Property, plant and equipment, net	1,806,576	2,197,768
Related party note receivable - Archdiocese of Philadelphia	6,732,000	6,944,421
Investments - Board designated	7,004,327	16,434,162
Investments	2,399,488	3,456,162
Trusts held by third parties	<u>784,802</u>	<u>477,746</u>
Total assets	<u><u>\$ 39,808,791</u></u>	<u><u>\$ 38,230,229</u></u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 797,682	\$ 879,369
Salaries and wages payable	414,287	373,927
Due to affiliated institutions	17,907,442	8,232,980
Program advances	99,036	129,638
Loan payable	2,013,700	-
Client escrow funds	<u>29,433</u>	<u>29,434</u>
Total current liabilities	<u>21,261,580</u>	<u>9,645,348</u>
Long-term related party loans payable	<u>4,400,000</u>	<u>4,400,000</u>
Total liabilities	<u>25,661,580</u>	<u>14,045,348</u>
Net assets		
Without donor restrictions	11,428,154	21,130,787
With donor restrictions	<u>2,719,057</u>	<u>3,054,094</u>
Total net assets	<u>14,147,211</u>	<u>24,184,881</u>
Total liabilities and net assets	<u><u>\$ 39,808,791</u></u>	<u><u>\$ 38,230,229</u></u>

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

Catholic Social Services of the Archdiocese of Philadelphia

STATEMENT OF ACTIVITIES

Year ended June 30, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Operating revenue			
Governmental revenue	\$ 8,329,778	\$ -	\$ 8,329,778
Fees for services	4,525,172	-	4,525,172
Rental income	95,488	-	95,488
Contributed rent	616,300	-	616,300
Contributed services and goods	1,735,650	-	1,735,650
Net assets released from restrictions	457,245	(457,245)	-
	<u>15,759,633</u>	<u>(457,245)</u>	<u>15,302,388</u>
Operating expenses			
Salaries, wages and other payroll costs	13,006,674	-	13,006,674
Administrative and general expenses	5,420,025	-	5,420,025
Occupancy	2,415,252	-	2,415,252
Direct expenses of care	911,460	-	911,460
	<u>21,753,411</u>	<u>-</u>	<u>21,753,411</u>
Deficiency in operating revenue under operating expenses	<u>(5,993,778)</u>	<u>(457,245)</u>	<u>(6,451,023)</u>
Other revenue (expenses)			
Appropriation from Catholic Charities Appeal	3,126,810	-	3,126,810
Contribution to Archdiocese of Philadelphia	(10,000,000)	-	(10,000,000)
Contributions, bequests and other	2,643,070	58,316	2,701,386
Investment return, net	521,265	63,892	585,157
	<u>(3,708,855)</u>	<u>122,208</u>	<u>(3,586,647)</u>
Change in net assets	<u>(9,702,633)</u>	<u>(335,037)</u>	<u>(10,037,670)</u>
Net assets			
Beginning of year	<u>21,130,787</u>	<u>3,054,094</u>	<u>24,184,881</u>
End of year	<u>\$ 11,428,154</u>	<u>\$ 2,719,057</u>	<u>\$ 14,147,211</u>

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

Catholic Social Services of the Archdiocese of Philadelphia

STATEMENT OF ACTIVITIES

Year ended June 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Operating revenue			
Governmental revenue	\$ 9,669,556	\$ -	\$ 9,669,556
Fees for services	5,054,959	-	5,054,959
Rental income	257,893	-	257,893
Contributed rent	679,300	-	679,300
Contributed services and goods	2,209,100	-	2,209,100
Net assets released from restrictions	<u>472,376</u>	<u>(472,376)</u>	<u>-</u>
Total operating revenue	<u>18,343,184</u>	<u>(472,376)</u>	<u>17,870,808</u>
Operating expenses			
Salaries, wages and other payroll costs	13,789,753	-	13,789,753
Administrative and general expenses	6,556,394	-	6,556,394
Occupancy	2,634,169	-	2,634,169
Direct expenses of care	<u>1,487,404</u>	<u>-</u>	<u>1,487,404</u>
Total operating expenses	<u>24,467,720</u>	<u>-</u>	<u>24,467,720</u>
Deficiency in operating revenue under operating expenses	<u>(6,124,536)</u>	<u>(472,376)</u>	<u>(6,596,912)</u>
Other revenue			
Appropriation from Catholic Charities Appeal	3,896,047	-	3,896,047
Contribution to Archdiocese of Philadelphia	1,497,012	69,392	1,566,404
Investment return, net	<u>873,975</u>	<u>208,257</u>	<u>1,082,232</u>
Total other revenue	<u>6,267,034</u>	<u>277,649</u>	<u>6,544,683</u>
Change in net assets	142,498	(194,727)	(52,229)
Net assets			
Beginning of year	<u>20,988,289</u>	<u>3,248,821</u>	<u>24,237,110</u>
End of year	<u>\$ 21,130,787</u>	<u>\$ 3,054,094</u>	<u>\$ 24,184,881</u>

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

Catholic Social Services of the Archdiocese of Philadelphia

STATEMENTS OF CASH FLOWS

Years ended June 30,

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
Change in net assets	\$ (10,037,670)	\$ (52,229)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Depreciation	447,129	536,716
Net realized and unrealized gains on investments	(225,685)	(914,104)
Changes in operating assets and liabilities		
Accounts receivable - public agencies	(43,303)	(1,504)
Accounts receivable - other	49,202	(243,260)
Prepaid expenses and other assets	78,925	69,458
Due to affiliated institutions	9,674,462	3,353,319
Accounts payable and accrued expenses	(81,687)	(112,787)
Salaries and wages payable	40,360	9,965
Program advances	<u>(30,602)</u>	<u>(24,371)</u>
Net cash (used in) provided by operating activities	<u>(128,869)</u>	<u>2,621,203</u>
Cash flows from investing activities		
Capital expenditures	(55,937)	(107,250)
Sales of investments	12,026,654	-
Purchases of investments	(1,621,516)	(360,131)
Proceeds from related party note receivable - Archdiocese of Philadelphia	<u>212,421</u>	<u>204,133</u>
Net cash provided by (used in) investing activities	<u>10,561,622</u>	<u>(263,248)</u>
Contribution to Archdiocese of Philadelphia		
Proceeds from loan payable	<u>2,013,700</u>	<u>-</u>
Net cash provided by financing activities	<u>2,013,700</u>	<u>-</u>
Increase in cash and cash equivalents	12,446,453	2,357,955
Cash and cash equivalents		
Beginning of year	<u>6,086,367</u>	<u>3,728,412</u>
End of year	<u><u>\$ 18,532,820</u></u>	<u><u>\$ 6,086,367</u></u>

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

Catholic Social Services of the Archdiocese of Philadelphia

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE A - ORGANIZATION

Catholic Charities of the Archdiocese of Philadelphia, operating as Catholic Social Services of the Archdiocese of Philadelphia ("Catholic Social Services") 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. Catholic Social Services functions as a self-contained entity and maintains separate financial statements for each of its operations.

The accompanying financial statements include programs operated and administered by Catholic Social Services.

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. Catholic Social Services, which is related, is operated separately and distinctly from the Archdiocese.

Catholic Charities Appeal, a separate legal corporation and a related organization, raises money for certain organizations within the Archdiocese, including Catholic Social Services.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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"). Catholic Social Services presents its financial statements in accordance with the guidance set forth by the Financial Accounting Standards Board ("FASB") in regard to *Financial Statements of Not-for-Profit Organizations*. Accordingly, Catholic Social Services' net assets and its 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.

Catholic Social Services of the Archdiocese of Philadelphia

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

The accompanying financial statements include programs operated and administered by Catholic Social Services. Excluded are certain institutions of the Archdiocese for which Catholic Social Services performs certain administrative and accounting functions, including the collection and remittance of unemployment compensation contributions, for which separate accounts are maintained by Catholic Social Services and for which separate reports are issued. The excluded entities (affiliated institutions and group homes) are as follows:

St. Joseph Catholic Home for Children	The Communities of Don Guanella and Divine
St. Francis-St. Joseph Homes for Children	Providence (established July 1, 2019) through
St. Vincent's Services for Women and Children	a merger of Divine Providence Village and
St. Joseph's House for Homeless Industrious Boys	Don Guanella Village
St. Vincent's Orphans' Asylum of Tacony	St. Gabriel's System
St. John's Hospice	Catholic Community Services of the
St. Edmond's Home for Crippled Children	Archdiocese of Philadelphia

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

Catholic Social Services considers investments in highly liquid securities purchased with a maturity of three months or less from the date purchased, to be cash equivalents. Catholic Social Services 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.

Accounting for Long-Lived Assets

Catholic Social Services 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, Catholic Social Services 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. Catholic Social Services believes that no revision to the remaining useful lives or write-down of long-lived assets were required at June 30, 2020 and 2019.

Client Escrow Funds

Catholic Social Services 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.

Catholic Social Services of the Archdiocese of Philadelphia

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

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 (the "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 included in the statements of activities as a component of investment return, net.

Governmental Revenue

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

Net program service revenues are from funding sources under cost reimbursement-type contracts for several of Catholic Social Services' programs. Catholic Social Services records revenues under such contracts as costs are incurred. For other programs, Catholic Social Services receives program service fees from funding sources under per diem-type contracts for certain programs and unit prices for outpatient services. Revenue for these programs is recorded when the services are provided. Retroactive adjustments are recorded in the period that final settlements are determined. Catholic Social Services recorded revenue of \$167,475 for the year ended June 30, 2019, related to settlements received for fiscal years 2016 through 2017.

Catholic Social Services 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.

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, Catholic Social Services 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 as net assets released from restrictions.

Catholic Social Services of the Archdiocese of Philadelphia

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

Contributions of long-lived assets received without donor stipulations are reported as revenue without donor restriction at the fair value on 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, and are expected to be collected within one year.

Allowance for Doubtful Accounts

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

Contributed Services, Goods and Rent

Contributed services and goods represents the difference between the stipend allowance paid for the religious personnel performing work for Catholic Social Services, and the compensation which would be paid to lay persons possessing similar qualifications and performing similar work. In addition, contributed services and goods include food contributed to Catholic Social Services. Contributed rent includes rent on the premises used by Catholic Social Services which are owned by other entities within the Archdiocese and for which no rent is charged. These amounts are reported as both revenue and expenses in the statement of activities.

Property, Plant and Equipment

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

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

Risks and Uncertainties

The outbreak of a novel coronavirus ("COVID-19"), a respiratory disease caused by a new strain of coronavirus, has been declared a pandemic by the World Health Organization. The outbreak of the disease has affected travel, commerce, and financial markets globally. Catholic Social Services has been and continues to closely monitor the COVID-19 pandemic and its impact on the entity. Though the full impact of COVID-19 and the scope of any impact on Catholic Social Services' operations and financial condition cannot yet be determined, potential adverse consequences to Catholic Social Services of COVID-19 may include a decline in revenues and contributions, as well as a decrease in interest and investment income from Catholic Social Services' investment assets.

Catholic Social Services of the Archdiocese of Philadelphia

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

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,	
	2020	2019
Cash and cash equivalents	\$ 18,532,820	\$ 6,073,492
Accounts receivable	3,396,460	2,186,108
Investments – board designated	7,004,327	16,434,162
Investments	-	700,000
	<hr/>	<hr/>
Assets available to management	28,933,607	25,393,762
Liabilities to be settled within one year		
Accounts payable and accrued expenses	(797,682)	(879,369)
Salaries and wages payable	(414,287)	(373,927)
Due to affiliated institutions	(19,123,693)	(8,232,980)
	<hr/>	<hr/>
Assets available to management less liabilities to be settled within one year	<u>\$ 9,597,945</u>	<u>\$ 15,907,486</u>

Catholic Social Services provides cash management services for the various excluded entities discussed in Note B, which includes the receipt of program revenues and payments of operating expenses. The cash activity is recorded through due to affiliated institutions which are settled periodically.

Pending Accounting Pronouncement

In May 2014, the FASB issued Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers*, as amended, 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, as amended, is effective for non-public entities for periods beginning after December 15, 2020. 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. Catholic Social Services is evaluating the impact of ASU 2014-09 at this time.

NOTE C - INVESTMENTS

The Investments are reported at fair value and consist of the following:

Catholic Values Equity Fund (or “fund”) - Invests in common stocks and is managed by SEI. The equity fund is valued at the closing price of the traded fund.

Catholic Values Fixed Income Fund (or “fund”) - Invests in mutual funds, corporate obligations, United States Treasury obligations and municipal obligations and is managed by SEI. The fixed income fund is valued at the closing price of the traded fund.

Catholic Social Services of the Archdiocese of Philadelphia

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

Account holders have the option of six asset classifications in which to invest. The options include a short-duration U.S. government bond fund, a 100% fixed income bond fund and four equity funds with varying fixed income to equity mixes of 30/70, 50/50, 60/40 or 70/30. The Investment Committee of the Archdiocese of Philadelphia has primary responsibility for determining fixed income to equity mix. The asset mix of the mutual funds is SEI's responsibility. Management of the Archdiocese is responsible for ensuring that asset investment allocations among the funds are maintained as determined by the Investment Committee of the Archdiocese of Philadelphia.

At June 30, 2020 and 2019, Catholic Social Services held the following categories of investments:

	2020	2019
Catholic Values Equity Fund	\$ 6,586,821	\$ 14,321,033
Catholic Values Fixed Income Fund	2,816,994	5,569,921
	<u>\$ 9,403,815</u>	<u>\$ 19,890,324</u>

Investment return for investments comprised of the following for the years ended June 30:

	2020			2019		
	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	\$ 264,174	\$ 95,298	\$ 359,472	\$ 24,790	\$ 143,338	\$ 168,128
Net realized gains (losses)	1,573,911	120,682	1,694,593	(8,369)	4,239	(4,130)
Change in unrealized net gains and losses on investments	(1,316,820)	(152,088)	(1,468,908)	857,554	60,680	918,234
Total	<u>\$ 521,265</u>	<u>\$ 63,892</u>	<u>\$ 585,157</u>	<u>\$ 873,975</u>	<u>\$ 208,257</u>	<u>\$ 1,082,232</u>

NOTE D - TRUSTS HELD BY THIRD PARTIES

Catholic Social Services is the beneficiary of individual trusts held in perpetuity by third parties. At June 30, 2020 and 2019, the allocable fair value of these trusts was \$784,802 and \$477,746, respectively, and is recorded as trusts held by third parties in the accompanying statements of financial position. During the years ended June 30, 2020 and 2019, Catholic Social Services recognized donor-restricted appreciation of \$21,637 and \$15,622, respectively, related to these trusts which is presented as a component of investment return, net with donor restrictions.

Catholic Social Services of the Archdiocese of Philadelphia

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE E - PROPERTY, PLANT AND EQUIPMENT

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

	2020	2019
Land	\$ 131,134	\$ 131,134
Buildings and improvements	6,238,249	6,238,249
Automobiles	4,960,139	4,943,613
Equipment	2,379,110	2,339,699
	<u>13,708,632</u>	<u>13,652,695</u>
Accumulated depreciation	<u>(11,902,056)</u>	<u>(11,454,927)</u>
Property, plant and equipment, net	<u>\$ 1,806,576</u>	<u>\$ 2,197,768</u>

Depreciation expense of \$447,129 and \$536,716 was incurred for the years ended June 30, 2020 and 2019, respectively.

NOTE F - ACCOUNTS RECEIVABLE - PUBLIC AGENCIES

At June 30, 2020 and 2019, Catholic Social Services had uncollateralized accounts receivable from various public agencies, primarily the Philadelphia Department of Human Services ("DHS") and various City of Philadelphia departments, of \$1,782,047 and \$1,738,744, respectively. These balances potentially subject Catholic Social Services to a concentration of credit risk. Catholic Social Services monitors its funding arrangements with DHS and other public agencies.

NOTE G - RELATED PARTY NOTE RECEIVABLE - ARCHDIOCESE OF PHILADELPHIA

In 2012, the Archdiocese of Philadelphia and related entities entered into several Term Loan Agreements with participating Archdiocesan entities to retire outstanding external debt obligations. The transaction resulted in the inter-diocesan Term Loan Receivables and Term Loan Payables totaling \$71,357,582 at participating Archdiocesan entities, which included a loan receivable of \$9,109,791 recorded by Catholic Social Services. The loan receivable was refinanced on July 1, 2014, with terms as described below.

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

Catholic Social Services of the Archdiocese of Philadelphia

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

The future principal amounts receivable on the loan at June 30, 2020 are as follows:

2021	\$ 197,003
2022	205,002
2023	213,326
2024	221,987
2025	231,001
Thereafter	<u>5,663,681</u>
	<u>\$ 6,732,000</u>

NOTE H - LOANS PAYABLE

On April 30, 2020, CSS was granted a loan (the "Loan") from PNC Bank in the amount of \$2,013,700, pursuant to the Paycheck Protection Program ("PPP"), under Division A, Title I of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), which was enacted March 27, 2020. The PPP provides loans to qualifying businesses for amounts up to 2.5 times the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable after the covered period as long as the borrower uses the loan proceeds for eligible purposes and certain conditions are met. The amount of the loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the covered period.

The Loan, which was in the form of a note dated April 30, 2020 matures on April 30, 2022 and bears interest at a rate of 1% per annum with payments scheduled monthly beginning after a six-month deferral period to the extent the loans are not forgiven. The Loan may be repaid at any time prior to maturity with no prepayment penalties. CSS used the entire amount of the loan for qualifying expenses with the intent of applying for forgiveness of a substantial amount of the loan.

As of June 30, 2020 and 2019, Catholic Social Services had a loan payable of \$4,400,000 to St. Edmond's Home for Crippled Children. The loan payable bears interest on the unpaid outstanding principal at an annual rate of 3%. Catholic Social Services used proceeds from the loan to provide lines of credit to affiliated corporations as described in Note B.1 to support cash flow needs. The lines of credit from/to each affiliated organization bear interest on the unpaid outstanding principal at an annual rate of 3%. Balances of the lines of credit are included in due to affiliated institutions on the statements of financial position. The financial statements of Catholic Social Services include \$132,000 of interest expense for both the years ended June 30, 2020 and 2019 from these lending transactions. There is no repayment schedule associated with these loans.

NOTE I - FAIR VALUE MEASUREMENTS

FASB Accounting Standards Codification ("ASC") 820, *Fair Value Measurements and Disclosures*, establishes a single authoritative definition of fair value, sets a framework for measuring fair value, and requires additional disclosures about fair value measurements. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described as follows:

Level 1 Quoted prices in active markets for identical assets or liabilities as of the measurement date;

Catholic Social Services of the Archdiocese of Philadelphia

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

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; and

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Fair value calculations may not be indicative of net realizable value or reflective of future fair values. Furthermore, although Catholic Social Services 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 table presents the fair values of the investments held by Catholic Social Services by level within the fair value hierarchy, as of June 30,:

	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
<u>2020</u>				
Assets				
Investments	\$ 9,403,815	\$ -	\$ -	\$ 9,403,815
Trusts held by third parties	-	-	784,802	784,702
Total assets	<u>\$ 9,403,815</u>	<u>\$ -</u>	<u>\$ 784,802</u>	<u>\$ 10,188,617</u>
<u>2019</u>				
Assets				
Investments	\$ 19,890,324	\$ -	\$ -	\$ 19,890,324
Trusts held by third parties	-	-	477,746	477,746
Total assets	<u>\$ 19,890,324</u>	<u>\$ -</u>	<u>\$ 477,746</u>	<u>\$ 20,368,070</u>

Catholic Social Services of the Archdiocese of Philadelphia

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

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

	Trusts held by third parties
Fair value, June 30, 2018	\$ 269,435
Contributions	192,689
Unrealized gain, net	<u>15,622</u>
Fair value, June 30, 2019	477,746
Contributions	285,388
Unrealized gain, net	<u>21,668</u>
Fair value, June 30, 2020	<u>\$ 784,802</u>

During the years ended June 30, 2020 and 2019, no investments were transferred between Level 1, 2 or 3.

NOTE J - PENSION PLANS

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

Through June 30, 2014, the eligible lay employees of Catholic Social Services 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. Catholic Social Services made annual contributions to the Plan at a rate of 5.9% of the salaries of eligible employees for the years ended June 30, 2020 and 2019. The amount expensed by Catholic Social Services for contributions to the Plan was \$501,610 and \$498,356 for the years ended June 30, 2020 and 2019, 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.

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.

Catholic Social Services of the Archdiocese of Philadelphia

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

- *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 the years ended June 30, 2020 and 2019, the Archdiocese employer contribution rate was 4.5% and 4.9%, respectively, of base salary for eligible employees. The contributions by Catholic Social Services into the 403(b) plan totaled \$382,904 and \$380,103 for the years ended June 30, 2020 and 2019, respectively.

Other Contributions

Catholic Social Services 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 \$46,170 and \$54,780 and for the years ended June 30, 2020 and 2019, respectively.

NOTE K - RELATED PARTY TRANSACTIONS

Catholic Social Services 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. The transactions with the Archdiocese and affiliates charged to expense for the years ended June 30, were as follows:

	2020	2019
Rental of facilities	\$ 507,652	\$ 526,539
Rental of facility - contributed	616,300	679,300
Insurance	165,111	142,139
Lay employee pension contributions	486,410	498,356
Religious employee pension contributions	46,170	54,780
Archdiocese human resources office	186,600	186,600
Information technology services	257,019	187,706
	<u>\$ 2,265,262</u>	<u>\$ 2,275,420</u>

Included in operating expenses of Catholic Social Services are allocable expenses for administrative and accounting services provided to the affiliated institutions and group homes described in Note B. For the years ended June 30, 2020 and 2019 fees for services revenue included in operating revenue includes \$2,835,438 and \$2,808,674, respectively, of revenue received from affiliated institutions and group homes for these services. In addition, Catholic Social Services leases automobiles to the affiliated institutions and group homes.

Catholic Social Services of the Archdiocese of Philadelphia

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

Catholic Social Services is the beneficiary of a \$3,500,000 donation from an Archdiocese of Philadelphia related entity, Catholic Housing and Community Services. The funds were being held by Catholic Housing and Community Services to be distributed over ten years at a rate of \$350,000 per year per the restrictions of the donation. Catholic Social Services received the outstanding balance of the donation of \$3,150,000 during the fiscal year ended June 30, 2017. The cash received was invested in Catholic Social Services' SEI investment account. The funds will be released from restriction for eight years at \$350,000 per year. The remaining donor restricted balance was \$2,371,659 and \$2,678,829 at June 30, 2020 and June 30, 2019, respectively.

Catholic Charities Appeal donated \$3,126,810 and \$3,896,047 to Catholic Social Services for the fiscal years ended June 30, 2020 and 2019, respectively.

In December 2019, in accordance with the Plan established to fund the Independent Reconciliation and Reparations Program ("IRRP"), CSS made a \$10,000,000 risk-mitigation payment to the Archdiocese of Philadelphia. In addition, on November 3, 2020 Catholic Social Services executed a collateralized line of credit, which bears interest at a rate of 4.25%, in the amount of \$15,000,000 to be used to fund the IRRP for which no amounts were drawn as of June 30, 2020.

Included in accounts receivable - other, are certain related party amounts. These amounts are as follows for June 30,:

	2020	2019
Archdiocese of Philadelphia	\$ 32,865	\$ 31,095

Included in accounts payable and accrued expenses are certain related party amounts. These amounts are as follows for June 30, 2020 and 2019:

	2020	2019
Catholic Housing and Community Services	\$ 86,560	\$ 66,810

NOTE L - INCOME TAX STATUS

Catholic Social Services is recognized as exempt from federal income tax under Section 501(c)(3) of the U.S. Internal Revenue Code ("IRC"), except on activities unrelated to their exempt purposes. The organization has processes presently in place to ensure the maintenance of its tax-exempt status, to identify and report unrelated income, to determine its filing and tax obligations in jurisdictions for which it has nexus, and to identify and evaluate other matters that may be considered tax positions.

Catholic Social Services follows guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance provides that the tax effects from an uncertain tax position can only be recognized in the financial statements if the position is "more-likely-than-not" to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged. The organization has determined that there are no material uncertain tax positions that require recognition or disclosure in its consolidated financial statements.

Catholic Social Services of the Archdiocese of Philadelphia

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE M - FUNCTIONAL EXPENSES

Catholic Social Services provides a variety of services. Expenses related to providing these services for the years ended June 30, 2020 and 2019 are as follows:

	<u>Program</u>	<u>Supporting Management and General</u>	<u>Total expenses year ended June 30, 2020</u>
Salaries, wages and other payroll costs	\$ 10,857,829	\$ 2,148,845	\$ 13,006,674
Administrative and general expenses	3,727,987	1,692,038	5,420,025
Occupancy	1,986,699	428,553	2,415,252
Direct expenses of care	<u>911,460</u>	<u>-</u>	<u>911,460</u>
Total expenses	<u>\$ 17,483,975</u>	<u>\$ 4,269,436</u>	<u>\$ 21,753,411</u>

	<u>Program</u>	<u>Supporting Management and General</u>	<u>Total expenses year ended June 30, 2019</u>
Salaries, wages and other payroll costs	\$ 11,565,584	\$ 2,224,169	\$ 13,789,753
Administrative and general expenses	5,001,762	1,544,632	6,556,394
Occupancy	2,274,399	359,770	2,634,169
Direct expenses of care	<u>1,487,404</u>	<u>-</u>	<u>1,487,404</u>
Total expenses	<u>\$ 20,329,149</u>	<u>\$ 4,128,571</u>	<u>\$ 24,467,720</u>

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 N - COMMITMENTS

Catholic Social Services has entered into various operating lease agreements primarily for the rental of office space, some of which are with other entities also operating under the auspices of the Archdiocese of Philadelphia. Rental expense for the fiscal years ended June 30, 2020 and 2019 was \$507,652 and \$526,538, respectively. There are no future minimum rental payments on leases with initial or remaining terms of one year or more at June 30, 2020.

Catholic Social Services of the Archdiocese of Philadelphia

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE O - NET ASSETS WITH DONOR RESTRICTIONS

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

	2020	2019
Catholic Housing and Community Services donation for operations	\$ 2,371,659	\$ 2,678,828
Trusts held by third parties	306,680	285,057
Cash held for trust	12,889	12,875
Campaign for Human Development	27,829	77,334
	<u>\$ 2,719,057</u>	<u>\$ 3,054,094</u>
Total net assets with donor restrictions	<u>\$ 2,719,057</u>	<u>\$ 3,054,094</u>

During the years ended June 30, net assets were released from restrictions for the following purposes:

	2020	2019
Catholic Housing and Community Services pledge	\$ 350,000	\$ 350,000
Program operations	107,245	122,376
	<u>\$ 457,245</u>	<u>\$ 472,376</u>
Total	<u>\$ 457,245</u>	<u>\$ 472,376</u>

NOTE P - SUBSEQUENT EVENTS

Management has evaluated subsequent events for the year ended June 30, 2020, the date of the financial statements, through January 5, 2021, which is the date the financial statements were available to be issued. Pursuant to the requirements, there were no events or transactions occurring during the subsequent event reporting period which require recognition or disclosure in the financial statements.

SUPPLEMENTARY INFORMATION

Catholic Social Services of the Archdiocese of Philadelphia

SCHEDULE OF REVENUE

Year ended June 30, 2020

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Operating revenue			
Governmental revenue			
Foster family care	\$ 822,207	\$ -	\$ 822,207
Nutritional program	5,211	-	5,211
Office of Supportive Housing (OSH)	251,218	-	251,218
Life Skills - Delaware County	3,450	-	3,450
Bucks County Post Partum Counseling	32,304	-	32,304
Office of Addictive Services	605,436	-	605,436
FEMA	120,000	-	120,000
Parenting program	100,982	-	100,982
AIDS Activity Coordinating Office	97,067	-	97,067
USCCB Transitional Foster Care	841,815	-	841,815
Out of School Programs	1,226,346	-	1,226,346
Housing and Community Development - (HOPWA)	187,134	-	187,134
Office of Behavioral Health	1,786,803	-	1,786,803
Benefit Access Program	133,436	-	133,436
Supportive Housing - Visitation Homes	202,085	-	202,085
Housing resource coordinator	109,410	-	109,410
Supportive Services for Veterans	59,250	-	59,250
Project Women in Need (WIN)	602,067	-	602,067
Casa Del Carmen Day Care	427,585	-	427,585
Contribution to Archdiocese of Philadelphia	640,250	-	640,250
Miscellaneous	75,722	-	75,722
Total governmental revenue	8,329,778	-	8,329,778
Fees for services revenue			
Service charges to institutions and group homes	2,835,438	-	2,835,438
Adoption board and fees	19,200	-	19,200
Private clients	453,975	-	453,975
Program fees	219,590	-	219,590
Tuition	51,953	-	51,953
Daycare	39,646	-	39,646
Summer camp fees	254,612	-	254,612
Rental income	95,488	-	95,488
Miscellaneous	650,758	-	650,758
Total fees for services revenue	4,620,660	-	4,620,660
Contributed services and goods			
Contributed rent	616,300	-	616,300
Contributed services and goods	1,735,650	-	1,735,650
Released from restrictions	457,245	(457,245)	-
Total contributed services and goods	2,809,195	(457,245)	2,351,950
Total operating revenue	15,759,633	(457,245)	15,302,388
Other revenue			
Appropriation from Catholic Charities Appeal	3,126,810	-	3,126,810
Investment return, net	521,265	63,892	585,157
Contributions and bequests	1,499,164	58,316	1,557,480
Legacies	448,987	-	448,987
Segui Trust	100,386	-	100,386
Interest income	349,114	-	349,114
United Way	40,912	-	40,912
Miscellaneous	26,507	-	26,507
Baumeister Trust	178,000	-	178,000
Total other revenue	6,291,145	122,208	6,413,353
Total revenue	\$ 22,050,778	\$ (335,037)	\$ 21,715,741

Catholic Social Services of the Archdiocese of Philadelphia

SCHEDULE OF EXPENSES

Year ended June 30, 2020

Salaries, wages and other payroll costs	
Administrative	\$ 4,054,414
Professional	3,283,269
Clerical	385,932
Maintenance and services	530,706
Direct residential care	1,546,376
Employer's share of social security tax	693,373
Workers' compensation insurance	93,260
Unemployment compensation fund	131,261
Employees' health and retirement benefits	<u>2,288,083</u>
Total salaries, wages and other payroll costs	<u>13,006,674</u>
Administrative and general expenses	
Professional fees	1,357,918
Data processing	238,377
Supplies and postage	451,817
Telephone	196,409
Local transportation	211,870
Conference, conventions and meetings	7,431
Staff development	40,405
Dues and subscriptions	42,071
Outside printing	16,432
Equipment	52,438
Equipment rental	14,880
Charity and donations	2,342,848
Contribution to Archdiocese of Philadelphia	<u>447,129</u>
Total administrative and general expenses	<u>5,420,025</u>
Occupancy	
Share of maintenance costs of Diocesan Office Center and other rentals	1,123,952
Insurance	115,383
Interest expense	132,000
Utilities	344,852
Janitorial and maintenance, service contracts and building repairs	<u>699,065</u>
Total occupancy	<u>2,415,252</u>
Direct expenses of care	
Board paid to foster families	536,412
Medical and dental fees and supplies	11,222
Food	253,256
Clothing	2,084
Activities, recreation, education and other	<u>108,486</u>
Total direct expenses of care	<u>911,460</u>
Total expenses	<u><u>\$ 21,753,411</u></u>