

Financial Statements and Report of
Independent Certified Public
Accountants

St. Francis-St. Joseph Homes for Children

June 30, 2020 and 2019

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GRANT THORNTON LLP

2001 Market St., Suite 700
Philadelphia, PA 19103-7065

D +1 215 561 4200

F +1 215 561 1066

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
St. Francis-St Joseph Homes for Children

We have audited the accompanying financial statements of St. Francis-St. Joseph Homes for Children, 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 St. Francis-St. Joseph Homes as of June 30, 2020 and 2019, and the results of its activities and changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 for the year ended June 30, 2020 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

St. Francis-St. Joseph Homes for Children

STATEMENTS OF FINANCIAL POSITION

Years ended June 30,

ASSETS	<u>2020</u>	<u>2019</u>
Current assets		
Cash and cash equivalents	\$ 1,240,674	\$ 15,166
Accounts receivable - DHS and CBH, less allowance of \$25,000	1,039,492	738,192
Accounts receivable - other governmental agencies, less allowance of \$10,000	1,799,916	1,985,494
Related party note receivable - Archdiocese of Philadelphia	13,773	15,520
Prepaid expenses and other assets	<u>144,802</u>	<u>185,628</u>
Total current assets	<u>4,238,657</u>	<u>2,940,000</u>
Property, plant and equipment, net	1,465,763	1,618,687
Related party note receivable - Archdiocese of Philadelphia, net of current portion	461,256	472,744
Investments	550,210	533,634
Trusts held by third parties	<u>987,458</u>	<u>1,025,128</u>
Total assets	<u><u>\$ 7,703,344</u></u>	<u><u>\$ 6,590,193</u></u>
 LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 228,116	\$ 256,941
Salaries and wages payable	302,139	272,843
Loan payable	1,225,582	-
Due to Catholic Social Services	<u>5,671,945</u>	<u>5,492,782</u>
Total current liabilities	<u>7,427,782</u>	<u>6,022,566</u>
Net assets		
Net deficit without donor restrictions	(711,896)	(457,501)
Net assets with donor restrictions	<u>987,458</u>	<u>1,025,128</u>
Total net assets	<u>275,562</u>	<u>567,627</u>
Total liabilities and net assets	<u><u>\$ 7,703,344</u></u>	<u><u>\$ 6,590,193</u></u>

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

St. Francis-St. Joseph Homes for Children

STATEMENT OF ACTIVITIES

Year ended June 30, 2020

	Net assets without donor restrictions	Net assets with donor restrictions	Total
Operating revenue			
Governmental revenue	\$ 9,478,515	\$ -	\$ 9,478,515
Fee for service	39,958	-	39,958
Total operating revenue	9,518,473	-	9,518,473
Operating expenses			
Salaries, wages and other payroll costs	7,570,297	-	7,570,297
Administrative and general	1,404,258	-	1,404,258
Occupancy	651,230	-	651,230
Direct expenses of children	701,649	-	701,649
Depreciation	409,823	-	409,823
Total operating expenses	10,737,257	-	10,737,257
Deficiency of operating revenue under operating expenses	(1,218,784)	-	(1,218,784)
Other revenue and gains (losses)			
Donations, bequests, and trusts	874,085	-	874,085
Net assets released from restrictions	34,394	(34,394)	-
Catholic Charities Appeal	25,000	-	25,000
Investment return, net	30,910	(3,276)	27,634
Total other revenue and gains (losses)	964,389	(37,670)	926,719
Change in net assets	(254,395)	(37,670)	(292,065)
Net (deficit) assets, beginning of year	(457,501)	1,025,128	567,627
Net (deficit) assets, end of year	\$ (711,896)	\$ 987,458	\$ 275,562

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

St. Francis-St. Joseph Homes for Children

STATEMENT OF ACTIVITIES

Year ended June 30, 2019

	Net assets without donor restrictions	Net assets with donor restrictions	Total
Operating revenue			
Governmental revenue	\$ 10,170,877	\$ -	\$ 10,170,877
Fee for service	8,340	-	8,340
Total operating revenue	10,179,217	-	10,179,217
Operating expenses			
Salaries, wages and other payroll costs	8,018,709	-	8,018,709
Administrative and general	1,505,222	-	1,505,222
Occupancy	727,553	-	727,553
Direct expenses of children	823,730	-	823,730
Depreciation	408,232	-	408,232
Total operating expenses	11,483,446	-	11,483,446
Deficiency of operating revenue under operating expenses	(1,304,229)	-	(1,304,229)
Other revenue and gains			
Donations, bequests, and trusts	728,735	-	728,735
Catholic Charities Appeal	100,000	-	100,000
Investment return, net	49,452	25,272	74,724
Total other revenue and gains	878,187	25,272	903,459
Change in net assets	(426,042)	25,272	(400,770)
Net (deficit) assets, beginning of year	(31,459)	999,856	968,397
Net (deficit) assets, end of year	\$ (457,501)	\$ 1,025,128	\$ 567,627

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

St. Francis-St. Joseph Homes for Children

STATEMENTS OF CASH FLOWS

Years ended June 30,

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
Change in net assets	\$ (292,065)	\$ (400,770)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	409,823	408,232
Net realized and unrealized gains on investments	(8,300)	(54,874)
Changes in operating assets and liabilities		
Accounts receivable - DHS and CBH	(301,300)	249,024
Accounts receivable - other governmental agencies	185,578	(37,876)
Prepaid expenses and other assets	40,826	(6,789)
Accounts payable and accrued expenses	(28,825)	(205,783)
Salaries and wages payable	29,296	12,378
Due to Catholic Social Services	<u>179,163</u>	<u>37,718</u>
Net cash provided by operating activities	<u>214,196</u>	<u>1,260</u>
Cash flows from investing activities		
Capital expenditures	(256,899)	(13,980)
Proceeds received from related party loans receivable - Archdiocese of Philadelphia	13,235	12,720
Purchases of investments	(103,123)	-
Sales of investments	<u>132,517</u>	<u>-</u>
Net cash used in investing activities	<u>(214,270)</u>	<u>(1,260)</u>
Cash flows from financing activities		
Proceeds from loan payable	<u>1,225,582</u>	<u>-</u>
Net cash provided by financing activities	<u>1,225,582</u>	<u>-</u>
Increase in cash and cash equivalents	1,225,508	-
Cash and cash equivalents		
Beginning of year	<u>15,166</u>	<u>15,166</u>
End of year	<u><u>\$ 1,240,674</u></u>	<u><u>\$ 15,166</u></u>

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

St. Francis-St. Joseph Homes for Children

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE A - ORGANIZATION

St. Francis-St. Joseph Homes for Children ("St. Francis") provides community-based residential treatment and group homes services to dependent, neglected, delinquent and emotionally troubled children between the ages of 10 and 21 years of age.

Catholic Charities of the Archdiocese of Philadelphia, operating as Catholic Social Services of the Archdiocese of Philadelphia ("CSS") established in 1919, is a multi-faceted social services organization whose departments offer a wide range of services to meet the needs of children, adults and families including adoption and foster care programs. CSS functions as a self-contained entity and maintains separate financial statements for each of its operations. St. Francis is one of the entities operating under CSS.

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

The Archdiocese of Philadelphia (the "Archdiocese") was proclaimed a Catholic diocese in 1808 and raised to an Archdiocese in 1875. The Archdiocese oversees the activities of the Roman Catholic Church (the "Church") for the five counties of Philadelphia, Bucks, Chester, Delaware and Montgomery in the southeastern part of the Commonwealth of Pennsylvania and is operated in accordance with the provisions of the 1983 Code of Canon Law, as amended, of the Church. St. Francis, which is related, is operated separately and distinctly from the Archdiocese.

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

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis in conformity with accounting principles generally accepted in the United States of America ("US GAAP"). St. Francis presents its financial statements in accordance with the guidance set forth by the Financial Accounting Standards Board ("FASB") in regard to Financial Statements of Not-for-Profit Organizations. Accordingly, St. Francis' 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.

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.

St. Francis-St. Joseph Homes for Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

Cash and Cash Equivalents

St. Francis considers investments in highly-liquid securities, authorized by management, purchased with a maturity of three months or less from the date purchased, to be cash equivalents.

Accounting for Long-Lived Assets

St. Francis continually evaluates whether events and circumstances have occurred that indicate the remaining estimated useful life of long-lived assets may warrant revision or that the remaining balance may not be recoverable. When factors indicate that long-lived assets should be evaluated for possible impairment, St. Francis uses an estimate of the related undiscounted operating income over the remaining life of the long-lived asset in measuring whether the long-lived asset is recoverable. The impairment loss on these assets is measured as the excess of the carrying amount of the asset over its fair value. Fair value is based on market prices where available, or discounted cash flows. St. Francis believes that no revision to the remaining useful lives or write-down of long-lived assets were required at June 30, 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 ("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

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

Net program service revenues are from funding sources under cost reimbursement-type contracts for several of St. Francis's programs. St. Francis records revenues under such contracts as costs are incurred. For other programs, St. Francis receives program service fees from funding sources under per diem-type contracts for certain programs and unit prices for outpatient services. Revenue for these programs is recorded when the services are provided. Retroactive adjustments are recorded in the period that final settlements are determined. There were no retroactive adjustments for the years ended June 30, 2020 and 2019.

St. Francis-St. Joseph Homes for Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

St. Francis is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Government activity in the health care industry has increased with respect to investigations and allegations concerning possible violations of regulations by health care providers, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues of client services. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Management believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing.

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as support with donor restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, St. Francis reports the support as without donor restrictions. 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 donor restrictions.

Contributions of long-lived assets received without donor stipulations are reported as revenue without donor restrictions at the fair value of the date of the gift. Contributions of other assets specified for the acquisition or construction of long-lived assets are reported as support with donor restrictions; 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.

Allowance for Doubtful Accounts

St. Francis continually monitors accounts receivable for collectability issues. The allowance is based upon management's judgment and is determined by considering a number of factors, including the length of time accounts receivable are past due, St. Francis's previous loss history, the nature of the service provided and other pertinent factors. St. Francis writes off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts.

Allocated Expenses - Archdiocese of Philadelphia - Catholic Social Services

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

St. Francis-St. Joseph Homes for Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

Property, Plant and Equipment

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

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

Risks and Uncertainties

The outbreak of 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. St. Francis 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 St. Francis' operations and financial condition cannot yet be determined, potential adverse consequences to St. Francis from COVID-19 may include a decline in revenues and contributions, as well as a decrease in interest and investment income from St. Francis' investment assets.

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 statement of financial position date consist of the following:

	June 30,	
	2020	2019
Cash and cash equivalents	\$ 1,240,674	\$ 15,166
Accounts receivable	2,839,408	2,723,686
Investments - board designated	550,210	533,634
Assets available to management	4,630,292	3,272,486
Liabilities to be settled within one year		
Accounts payable and accrued expenses	(228,116)	(256,941)
Salaries and wages payable	(302,139)	(272,843)
Due to CSS	(5,671,945)	(5,492,782)
Assets available to management, less liabilities to be settled within one year	\$ (1,571,908)	\$ (2,750,080)

St. Francis receives cash management services from CSS, which includes the receipt of program revenues and payments of operating expenses. The cash activity is recorded through due to CSS, which is settled periodically. The deficiency in assets available to management less liabilities to be settled within one year is function of the timing of settlement of grant cash receipts and operating expenses charged to the Organization by CSS who will support liquidity needs of St. Francis.

St. Francis-St. Joseph Homes for Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

Pending Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers*, and subsequent amendments, 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 periods beginning after December 15, 2019. An entity will apply this update using either a full retrospective application, which applies the standard to each prior period presented, or under the modified retrospective application, in which an entity recognizes the cumulative effect of initially applying the new standard as an adjustment to the opening statement of financial position at the date of initial application. St. Francis is evaluating the impact of ASU 2014-09 and its amendments at this time.

NOTE C - INVESTMENTS

The investment in the Trustee Account and other investments are reported at fair value and consist of the following:

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

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

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

There are no donor restrictions on the investments as of June 30, 2020 or 2019.

At June 30, St. Francis' investments are summarized and classified as follows:

	2020	2019
Catholic Values Equity Fund	\$ 387,574	\$ 385,230
Catholic Values Fixed Income Fund	162,636	148,404
	<u>\$ 550,210</u>	<u>\$ 533,634</u>

St. Francis-St. Joseph Homes for Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

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 and gains (losses)						
Interest and dividend income	\$ 19,334	\$ -	\$ 19,334	\$ 19,850	\$ -	\$ 19,850
Net realized revenue and gains	8,054	-	8,054	2,644	-	2,644
Change in unrealized net gains and losses on investments	3,522	(3,276)	246	26,958	25,272	52,230
Total	\$ 30,910	\$ (3,276)	\$ 27,634	\$ 49,452	\$ 25,272	\$ 74,724

NOTE D - TRUSTS HELD BY THIRD PARTIES

St. Francis is the beneficiary of individual trusts held by third parties. At June 30, 2020 and 2019, the allocable fair value of these trusts was \$987,458 and \$1,025,128, 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, St. Francis recognized unrealized losses of \$3,276 and appreciation of \$25,272, respectively, as a change in net assets with donor restrictions.

NOTE E - PROPERTY, PLANT AND EQUIPMENT

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

	2020	2019
Buildings	\$ 7,280,021	\$ 7,039,121
Equipment	1,982,617	1,966,618
	9,262,638	9,005,739
Accumulated depreciation	(7,796,875)	(7,387,052)
Property, plant and equipment, net	\$ 1,465,763	\$ 1,618,687

Depreciation expense of \$409,823 and \$408,232 was incurred for the years ended June 30, 2020 and 2019, respectively.

St. Francis-St. Joseph Homes for Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

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

At June 30, 2020 and 2019, St. Francis had uncollateralized accounts receivable from Philadelphia Department of Human Services ("DHS") and Community Behavioral Health ("CBH") of \$1,039,492 and \$738,192, respectively. The receivable due from other governmental agencies was \$1,799,916 and \$1,985,494 as of June 30, 2020 and 2019, respectively. These balances potentially subject St. Francis to a concentration of credit risk. St. Francis monitors its funding arrangements with DHS and CBH and other governmental agencies.

NOTE G - RELATED PARTY NOTE RECEIVABLE - ARCHDIOCESE OF PHILADELPHIA

In June 2012, the Archdiocese and related entities entered into several Term Loan Agreements with participating Archdiocesan entities to retire outstanding external debt obligations. The transaction resulted in the inter-diocesan Term Loan Receivables and Term Loan Payables totaling \$71,357,582 at participating Archdiocesan entities, which included a loan receivable of \$567,632 recorded by St. Francis. The loan receivable was refinanced on July 1, 2014, with terms as described below.

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

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

2021	\$	13,773
2022		14,333
2023		14,914
2024		15,520
2025		16,150
Thereafter		<u>400,339</u>
	\$	<u>475,029</u>

NOTE H - FAIR VALUE MEASUREMENTS

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

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

Level 2 Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities.

St. Francis-St. Joseph Homes for Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

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

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

Fair value calculations may not be indicative of net realizable value or reflective of future fair values. Furthermore, although St. Francis believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table presents the fair values of the investments held by St. Francis by level within the fair value hierarchy, as of June 30:

	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	\$ 550,210	\$ -	\$ -	\$ 550,210
Trusts held by third parties	-	-	987,458	987,458
Total assets	<u>\$ 550,210</u>	<u>\$ -</u>	<u>\$ 987,458</u>	<u>\$ 1,537,668</u>
<u>2019</u>				
Assets				
Investments	\$ 533,634	\$ -	\$ -	\$ 533,634
Trusts held by third parties	-	-	1,025,128	1,025,128
Total assets	<u>\$ 533,634</u>	<u>\$ -</u>	<u>\$ 1,025,128</u>	<u>\$ 1,558,762</u>

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

	Trusts held by third parties
Fair value June 30, 2018	\$ 999,856
Unrealized gains, net	38,522
Distributions	<u>(13,250)</u>
Fair value June 30, 2019	1,025,128
Unrealized gains, net	10,569
Distributions	<u>(48,239)</u>
Fair value June 30, 2020	<u>\$ 987,458</u>

St. Francis-St. Joseph Homes for Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

During 2020 and 2019, no investments were transferred between Levels 1, 2 or 3.

NOTE I - LOAN PAYABLE

On April 20, 2020, St. Francis was granted a loan (the "Loan") from a lender in the amount of \$1,225,582, 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 May 5, 2020, matures on May 15, 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 prepaid at any time prior to maturity with no prepayment penalties. St. Francis used the entire amount of the loan for qualifying expenses with the intent of applying for forgiveness of a substantial amount of the loan.

NOTE J - PENSION PLANS

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

Through June 30, 2014, the eligible lay employees of St. Francis were covered under the Archdiocese of Philadelphia Lay Employees' Retirement Plan (the "Plan"), which is a defined benefit pension plan covering substantially all lay employees of the Archdiocese, based on age and service requirements. The Plan is administered by the Trustees of the Plan. St. Francis made annual contributions to the Plan at a rate of 5.9% of the salaries of eligible employees for the years ended June 30, 2020 and 2019. The amount expensed by St. Francis for contributions to the Plan was \$291,489 and \$314,513 for the fiscal 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.

St. Francis-St. Joseph Homes for Children

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 fiscal years 2020 and 2019, the Archdiocese employer contribution rate was 4.5% of base salary for eligible employees. The contributions by St. Francis into the 403(b) plan totaled \$222,322 and \$239,883 for the years ended June 30, 2020 and 2019, respectively.

Other Contributions

St. Francis also makes contributions to the various orders of the religious personnel who provide services at its institutions. The amount of expense related to these contributions was \$4,561 and \$4,610 for the years ended June 30, 2020 and 2019, respectively.

NOTE K - RELATED PARTY TRANSACTIONS

St. Francis leases certain facilities and equipment, utilized in the delivery of its services, from the Archdiocese and is covered under various insurance and retirement plans administered by the Archdiocese.

CSS provides administrative and accounting services for related institutions and group homes, including St. Francis. The total expenses incurred by CSS in providing services are accumulated and allocated on a pro rata basis to the institutions and group homes. The allocated amount is reported as an administrative and general expense in the statement of activities. Any difference between the allocation and the amount charged to the institution during the year is considered a contribution of services from CSS. Repayment of amounts due to CSS is expected when cash is available. The amount due to CSS was \$5,671,945 and \$5,492,782 for the years ended June 2020 and 2019, respectively. St. Francis has received a letter of intent and financial ability from CSS to fund the operating, financing, and programmatic needs of St. Francis for at least a year from December 23, 2020.

St. Francis-St. Joseph Homes for Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

The transactions with the Archdiocese and CSS charged to expense for the fiscal years ended June 30, 2020 and 2019 were as follows:

	<u>2020</u>	<u>2019</u>
Archdiocese		
Insurance - auto and general	\$ 96,678	\$ 108,406
Lay employee pension contributions	291,489	314,513
Religious employee pension contributions	<u>4,561</u>	<u>4,610</u>
	<u>\$ 392,728</u>	<u>\$ 427,529</u>
CSS		
Automobile leases	\$ -	\$ 20,047
Allocated administrative and accounting costs	298,705	308,370
Information technology services	<u>120,627</u>	<u>99,435</u>
	<u>\$ 419,332</u>	<u>\$ 427,852</u>

Catholic Charities Appeal donated \$25,000 and \$100,000 to St. Francis during the fiscal years ended June 30, 2020 and 2019, respectively.

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

	<u>2020</u>	<u>2019</u>
Catholic Housing and Community Services	<u>\$ 44,237</u>	<u>\$ 28,765</u>

NOTE L - INCOME TAX STATUS

St. Francis 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.

St. Francis 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.

St. Francis-St. Joseph Homes for Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE M - FUNCTIONAL EXPENSES

St. Francis 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	\$ 6,959,326	\$ 610,971	\$ 7,570,297
Administrative, general expenses and depreciation	1,352,322	461,759	1,814,081
Occupancy	598,150	53,080	651,230
Direct expenses of care	<u>701,649</u>	<u>-</u>	<u>701,649</u>
Total expenses	<u>\$ 9,611,447</u>	<u>\$ 1,125,810</u>	<u>\$ 10,737,257</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	\$ 7,319,315	\$ 699,394	\$ 8,018,709
Administrative and general expenses and depreciation	1,431,732	481,722	1,913,454
Occupancy	657,231	70,322	727,553
Direct expenses of care	<u>823,730</u>	<u>-</u>	<u>823,730</u>
Total expenses	<u>\$ 10,232,008</u>	<u>\$ 1,251,438</u>	<u>\$ 11,483,446</u>

NOTE N - COMMITMENTS

St. Francis annually enters into various operating lease agreements primarily for the rental of facilities, some of which are with other entities also operating under the auspices of the Archdiocese. Rental expense associated with these operating lease agreements was \$109,770 and \$94,090 for the years ended June 30, 2020 and 2019, respectively.

NOTE O - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions that will become available once the donor restriction is met at June 30, 2020 and 2019 consisted of the following:

	<u>2020</u>	<u>2019</u>
Education of children	\$ 409,203	\$ 430,277
Other	<u>10,733</u>	<u>10,409</u>
	<u>\$ 419,936</u>	<u>\$ 440,686</u>

St. Francis-St. Joseph Homes for Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

Net assets with donor restrictions that are to be held in perpetuity at June 30, 2020 and 2019 consisted of the following:

	<u>2020</u>	<u>2019</u>
Trusts held by third parties	<u>\$ 567,522</u>	<u>\$ 584,442</u>

NOTE P - SUBSEQUENT EVENTS

Management has evaluated subsequent events for the year ended June 30, 2020 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

St. Francis-St. Joseph Homes for Children

SCHEDULE OF REVENUE

Year ended June 30, 2020

Operating revenue	
Governmental revenue	
Human services funding	\$ 7,480,849
Title I	49,194
PRRI	1,623,000
Nutritional program	88,493
Medical Assistance	236,979
Fee for service	<u>39,958</u>
Total operating revenue	<u>9,518,473</u>
Other revenue and gains	
Donations and bequests	589,156
Donations - related party	250,000
Catholic Charities Appeal	25,000
Trusts	34,929
Investment return, net	<u>27,634</u>
Total other revenue and gains	<u>926,719</u>
Total revenue	<u><u>\$ 10,445,192</u></u>

St. Francis-St. Joseph Homes for Children

SCHEDULE OF OPERATING EXPENSES

Year ended June 30, 2020

Salaries, wages and other payroll costs	
Administrative	\$ 1,286,962
Professional	1,421,594
Clerical	156,370
Maintenance and services	109,376
Child care	2,587,459
FICA	405,924
Workers' compensation insurance	244,660
Unemployment tax	80,374
Employees' health and retirement benefits	<u>1,277,578</u>
Total salaries, wages and other payroll costs	<u>7,570,297</u>
Administrative and general expenses	
Administrative and accounting services allocated from the Archdiocese of Philadelphia - Catholic Social Services - Director's Office	411,466
Professional fees	484,211
Telephone	82,472
Transportation	140,637
Conferences	1,672
Staff development	18,331
Equipment - replacement	51,422
General expenses and supplies	207,370
Postage	6,677
Depreciation	<u>409,823</u>
Total administrative and general expenses	<u>1,814,081</u>
Occupancy	
Rental of buildings	116,078
Insurance - buildings, contents, etc.	50,122
Repairs and maintenance - buildings and ground	282,366
Utilities	<u>202,664</u>
Total cost of occupancy	<u>651,230</u>
Direct expenses of children	
Foods/supplies/other	38,759
Clothing - cleaning and repairing	73,854
Medical, dental	20,607
Personal	160,378
Group home expenses	353,258
Activities - recreation and camps	<u>54,793</u>
Total direct expenses of children	<u>701,649</u>
Total operating expenses	<u><u>\$ 10,737,257</u></u>