

Financial Statements and Report of
Independent Certified Public
Accountants

St. Gabriel's System

June 30, 2020 and 2019

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
St. Gabriel's System

We have audited the accompanying financial statements of St. Gabriel's System, 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. Gabriel's System 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.

Emphasis of matter regarding going concern

The accompanying financial statements have been prepared assuming that St. Gabriel's System will continue as a going concern. As discussed in Note L to the financial statements, St. Gabriel's will cease its revenue generating operations effective December 1, 2020 and there exists substantial doubt about St. Gabriel's System's ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding these matters are also described in Note L. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

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

St. Gabriel's System

STATEMENTS OF FINANCIAL POSITION

June 30,

ASSETS	2020	2019
Current assets		
Cash and cash equivalents	\$ 2,327,990	\$ 16,175
Accounts receivable - DHS and CBH, less allowance of \$40,000 at June 30, 2020 and 2019	2,190,636	728,541
Accounts receivable - State Act 30 educational funding, less allowance of \$28,000 at June 30, 2020 and 2019	2,976,194	5,036,776
Accounts receivable - other	71,876	372,851
Prepaid expenses and other assets	382,670	434,780
Total current assets	7,949,366	6,589,123
Property, plant and equipment, net	2,332,880	3,142,065
Investments	1,155,142	1,120,291
Trusts held by third parties	304,277	268,096
Total assets	<u>\$ 11,741,665</u>	<u>\$ 11,119,575</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 291,751	\$ 335,750
Salaries and wages payable	1,043,835	1,179,210
Due to Catholic Social Services and related entities	77,275	834,828
Loan payable	2,311,998	-
Related party term loan - St. Joseph's House for Homeless Industrious Boys	152,113	146,158
Total current liabilities	3,876,972	2,495,946
Related party term loan - St. Joseph's House for Homeless Industrious Boys, net of current portion	5,074,103	5,224,721
Total liabilities	8,951,075	7,720,667
Net assets		
Without donor restrictions	2,486,313	3,130,812
With donor restrictions	304,277	268,096
Total net assets	2,790,590	3,398,908
Total liabilities and net assets	<u>\$ 11,741,665</u>	<u>\$ 11,119,575</u>

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

St. Gabriel's System

STATEMENT OF ACTIVITIES

Year ended June 30, 2020

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Operating revenue			
Governmental revenue	\$ 18,605,631	\$ -	\$ 18,605,631
Total operating revenue	18,605,631	-	18,605,631
Operating expenses			
Salaries, wages and other payroll costs	13,814,179	-	13,814,179
Administrative and general expenses	3,118,800	-	3,118,800
Occupancy	1,561,367	-	1,561,367
Direct expenses of care	1,027,640	-	1,027,640
Total operating expenses	19,521,986	-	19,521,986
Deficiency of operating revenue under operating expenses	(916,355)	-	(916,355)
Other revenue			
Donations/bequests/other	212,008	-	212,008
Catholic Charities Appeal	25,000	-	25,000
Investment return, net	34,848	36,181	71,029
Total other revenue	271,856	36,181	308,037
Change in net assets	(644,499)	36,181	(608,318)
Net assets			
Beginning of year	3,130,812	268,096	3,398,908
End of year	\$ 2,486,313	\$ 304,277	\$ 2,790,590

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

St. Gabriel's System

STATEMENT OF ACTIVITIES

Year ended June 30, 2019

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Operating revenue			
Governmental revenue	\$ 20,059,993	\$ -	\$ 20,059,993
Total operating revenue	20,059,993	-	20,059,993
Operating expenses			
Salaries, wages and other payroll costs	15,796,304	-	15,796,304
Administrative and general expenses	3,496,928	-	3,496,928
Occupancy	1,639,044	-	1,639,044
Direct expenses of care	1,197,487	-	1,197,487
Total operating expenses	22,129,763	-	22,129,763
Deficiency of operating revenue under operating expenses	(2,069,770)	-	(2,069,770)
Other revenue			
Donations/bequests/other	582,315	-	582,315
Catholic Charities Appeal	100,000	-	100,000
Investment return, net	66,192	20,174	86,366
Total other revenue	748,507	20,174	768,681
Change in net assets	(1,321,263)	20,174	(1,301,089)
Net assets			
Beginning of year	4,452,075	247,922	4,699,997
End of year	<u>\$ 3,130,812</u>	<u>\$ 268,096</u>	<u>\$ 3,398,908</u>

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

St. Gabriel's System

STATEMENTS OF CASH FLOWS

Years ended June 30,

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
Change in net assets	\$ (608,318)	\$ (1,301,089)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Bad debt expense	32,584	49,969
Depreciation	892,466	914,672
Net realized and unrealized gains on investments	6,895	(40,992)
Changes in operating assets and liabilities		
Accounts receivable - DHS	(1,494,679)	478,928
Accounts receivable - State Act 30 educational funding	2,060,582	451,370
Accounts receivable - other	302,856	76,612
Prepaid expenses and other assets	50,229	(18,987)
Accounts payable and accrued expenses	(43,999)	(164,248)
Salaries and wages payable	(135,375)	9,051
Due to Catholic Social Services	(757,553)	(35,877)
Net cash provided by operating activities	<u>305,688</u>	<u>419,409</u>
Cash flows from investing activities		
Capital expenditures	(83,280)	(233,138)
Purchases of investments	(77,928)	(45,374)
Sales of investments	-	-
Net cash used in investing activities	<u>(161,208)</u>	<u>(278,512)</u>
Cash flows from financing activities		
Proceeds from loan payable	2,311,998	-
Payments on related party term loan - St. Joseph's House for Homeless Industrious Boys	(144,663)	(140,897)
Net cash provided by (used) in financing activities	<u>2,167,335</u>	<u>(140,897)</u>
Change in cash and cash equivalents	2,311,815	-
Cash and cash equivalents		
Beginning of year	<u>16,175</u>	<u>16,175</u>
End of year	<u><u>\$ 2,327,990</u></u>	<u><u>\$ 16,175</u></u>

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

St. Gabriel's System

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE A - ORGANIZATION

St. Gabriel's System ("St. Gabriel's") is a multi-service agency of the Archdiocese of Philadelphia providing residential and community-based services for court adjudicated delinquent boys and young men at three facilities. These facilities are St. Gabriel's Hall, De La Salle Vocational, and Aftercare Programs.

The accompanying financial statements include programs operated and administered by St. Gabriel's.

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. Gabriel's is one of the organizations.

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. Gabriel's, 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. Gabriel's.

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. Gabriel's 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 and Healthcare Organizations*. Accordingly, St. Gabriel's 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 values of investments. Actual results could differ from those estimates.

St. Gabriel's System

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

Accounting for Long-Lived Assets

St. Gabriel's 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. Gabriel's 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. Gabriel's 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 reported to the participant monthly. Gains and losses created at the participant level due to sales are recorded in the specific participant accounts. Unrealized gains and losses are included in the statements of activities as a component of investment return, net.

Governmental Revenue

St. Gabriel's receives its funding through contracts with 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. Gabriel's programs. St. Gabriel's records revenues under such contracts as costs are incurred. For other programs, St. Gabriel's 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 recorded related to prior period final settlements as of June 30, 2020 and 2019.

St. Gabriel's 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.

St. Gabriel's System

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

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 net assets with donor restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, St. Gabriel's 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 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, all of which will be collected within one year. See Note G for more information on pledges.

Allowance for Doubtful Accounts

St. Gabriel's 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. Gabriel's previous loss history, the nature of the service provided and other pertinent factors. St. Gabriel's 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. Gabriel's. 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.

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

St. Gabriel's System

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 statement of financial position date consist of the following:

	June 30,	
	2020	2019
Cash and cash equivalents	\$ 2,327,990	\$ 16,175
Accounts receivable - government payors	5,166,830	5,765,317
Investments - board designated	1,155,142	1,120,291
Assets available to management	8,649,962	6,901,783
Liabilities to be settled within one year		
Accounts payable and accrued expenses	(291,751)	(335,750)
Salaries and wages payable	(1,043,835)	(1,179,210)
Due to CSS	(77,275)	(834,828)
Assets available to management less liabilities to be settled within one year	\$ 7,237,101	\$ 4,551,995

St. Gabriel's 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 affiliated institutions which are settled periodically.

Pending Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers*, to improve financial reporting by creating common revenue recognition guidance. The core principle of this guidance is that an entity should recognize revenue in an amount that reflects the consideration to which the entity expects to be entitled in exchange for these goods and services at the date the performance obligation has occurred. ASU 2014-09 is effective for periods beginning after December 15, 2018. An entity will apply this update using either a full-retrospective application, which applies the standard to each prior period presented, or under the modified retrospective application, in which an entity recognizes the cumulative effect of initially applying the new standard as an adjustment to the opening statement of financial position at the date of initial application. St. Gabriel's is evaluating the impact of ASU 2014-09 at this time.

NOTE C - INVESTMENTS

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

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

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.

St. Gabriel's System

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.

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

At June 30, 2020 and 2019, St. Gabriel's held the following categories of investments:

	<u>2020</u>	<u>2019</u>
Catholic Values Equity Fund	\$ 813,695	\$ 808,617
Catholic Values Fixed Income Fund	<u>341,447</u>	<u>311,674</u>
	<u>\$ 1,155,142</u>	<u>\$ 1,120,291</u>

NOTE D - TRUSTS HELD BY THIRD PARTIES

St. Gabriel's is the beneficiary of individual trusts held by third parties. At June 30, 2020 and 2019, the allocable fair value of these trusts was \$304,277 and \$268,096, 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. Gabriel's recognized appreciation of \$36,181 and \$20,174, respectively, related to these trusts.

NOTE E - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment and accumulated depreciation consist of the following at June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Buildings	\$ 6,250	\$ 6,250
Building improvements	16,868,996	16,828,114
Equipment	<u>3,922,333</u>	<u>3,879,934</u>
	20,797,579	20,714,298
Accumulated depreciation	<u>(18,464,699)</u>	<u>(17,572,233)</u>
Property, plant and equipment, net	<u>\$ 2,332,880</u>	<u>\$ 3,142,065</u>

Depreciation expense of \$892,466 and \$914,672 was incurred for the years ended June 30, 2020 and 2019, respectively.

St. Gabriel's System

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. Gabriel's had uncollateralized accounts receivable from Philadelphia Department of Human Services ("DHS") of \$2,190,636 and \$728,541, respectively. The receivable due from other governmental agencies was \$71,876 and \$372,851 as of June 30, 2020 and 2019, respectively. The receivable due from the State of Pennsylvania was \$2,976,194 and \$5,036,776 as of June 30, 2020 and 2019, respectively. These balances subject St. Gabriel's to a concentration of credit risk. St. Gabriel's continually monitors its funding arrangements with DHS and other governmental agencies.

NOTE G - 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; 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 St. Gabriel's 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.

St. Gabriel's System

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

The following table presents the fair values of the investments held by St. Gabriel's by level within the fair value hierarchy, as of June 30, 2020 and 2019:

	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	\$ 1,155,142	\$ -	\$ -	\$ 1,155,142
Trusts held by third parties	-	-	304,277	304,277
Total assets	<u>\$ 1,155,142</u>	<u>\$ -</u>	<u>\$ 304,277</u>	<u>\$ 1,459,419</u>
<u>2019</u>				
Assets				
Investments	\$ 1,120,291	\$ -	\$ -	\$ 1,120,291
Trusts held by third parties	-	-	268,096	268,096
Total assets	<u>\$ 1,120,291</u>	<u>\$ -</u>	<u>\$ 268,096</u>	<u>\$ 1,388,387</u>

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	\$ 247,922
Unrealized gains, net	<u>20,174</u>
Fair value June 30, 2019	268,096
Unrealized gains, net	<u>36,181</u>
Fair value June 30, 2020	<u>\$ 304,277</u>

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

St. Gabriel's System

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE H - PENSION PLANS

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

Through June 30, 2014, the eligible lay employees of St. Gabriel's 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. Gabriel's made annual contributions to the Plan at rates of 5.9% of the salaries of eligible employees for the years ended June 30, 2020 and 2019. The amount expensed by St. Gabriel's for contributions to the Plan was \$562,149 and \$630,374 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.
- ***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 of Philadelphia employer contribution rate was 4.5% of base salary for eligible employees. The contributions by St. Gabriel's into the 403(b) plan totaled \$428,758 and \$480,799 for the years ended June 30, 2020 and 2019, respectively.

St. Gabriel's System

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE I - RELATED PARTY TRANSACTIONS

St. Gabriel's 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. Gabriel's. 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 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 \$77,275 and \$834,828 at June 30, 2020 and 2019, respectively.

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 of Philadelphia		
Insurance - auto and general	\$ 409,699	\$ 331,352
Lay employee pension contributions	<u>562,149</u>	<u>630,374</u>
	<u><u>\$ 971,848</u></u>	<u><u>\$ 961,726</u></u>
Catholic Social Services		
Automobile leases	\$ -	\$ 278
Allocated administrative and accounting costs	527,244	588,818
Information technology services	<u>232,461</u>	<u>200,593</u>
	<u><u>\$ 759,705</u></u>	<u><u>\$ 789,689</u></u>

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

Included in accounts payable 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	\$ 80,558	\$ 51,423

Related Party Term Loan

To finance the retirement of its portion of the 2001 Bonds, St. Gabriel's (borrower) entered into a term loan agreement with St. Joseph's House for Homeless Industrious Boys, a related party (lender). The loan is collateralized by a first-priority mortgage lien encumbering the premises and all revenues and rights associated with the premises. The loan carries a fixed interest rate of 4% amortized over 28 years and matures on June 1, 2042.

St. Gabriel's System

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

The future principal payments relating to the related party term loan outstanding at June 30, 2020 are as follows:

2021	\$ 152,113
2022	158,310
2023	164,760
2024	171,473
2025	178,459
Thereafter	<u>4,401,101</u>
	<u>\$ 5,226,216</u>

NOTE J - INCOME TAX STATUS

St. Gabriel's 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. Gabriel's 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.

NOTE K - FUNCTIONAL EXPENSES

St. Gabriel's provides a variety of services. Expenses related to providing these services 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	\$ 12,861,906	\$ 952,273	\$ 13,814,179
Administrative and general expenses	2,179,469	939,331	3,118,800
Occupancy	1,500,484	60,883	1,561,367
Direct expenses of care	<u>1,027,640</u>	<u>-</u>	<u>1,027,640</u>
Total expenses	<u>\$ 17,569,499</u>	<u>\$ 1,952,487</u>	<u>\$ 19,521,986</u>

St. Gabriel's System

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

	<u>Program</u>	<u>Supporting Management and General</u>	<u>Total expenses year ended June 30, 2019</u>
Salaries, wages and other payroll costs	\$ 14,905,468	\$ 890,836	\$ 15,796,304
Administrative and general expenses	2,449,415	1,047,513	3,496,928
Occupancy	1,601,905	37,139	1,639,044
Direct expenses of care	1,197,487	-	1,197,487
	<u>\$ 20,154,275</u>	<u>\$ 1,975,488</u>	<u>\$ 22,129,763</u>
Total expenses			

NOTE L - 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.

St. Gabriel's will cease operations December 1, 2020 due to critical financial impact based on a rapidly declining census starting in March 2020 at both St. Gabriel's Hall and De La Salle Vocational. Negotiations with Philadelphia DHS did not lead to a sustainable fiscal model moving forward. As a result, all revenue generating operations will cease and management will initiate a plan to liquidate the remaining assets of St. Gabriel's.

SUPPLEMENTARY INFORMATION

St. Gabriel's System

SCHEDULE OF REVENUE

Year ended June 30, 2020

Operating revenue

Governmental revenue	
Human services funding	\$ 12,995,160
Philadelphia Human Services grants	278,609
State Act 30 educational funding	3,929,393
Title I	232,627
Nutritional program	192,979
Medical Assistance	866,822
Counseling Clinic	<u>110,041</u>
 Total operating revenue	 <u>18,605,631</u>

Other revenue

Donations/bequests/other	160,890
United Way	51,118
Catholic Charities Appeal	25,000
Dividends and interest income	44,160
Net realized and unrealized gains on investments	<u>26,872</u>
 Total other revenue	 <u>308,040</u>
 Total revenue	 <u><u>\$ 18,913,671</u></u>

St. Gabriel's System

SCHEDULE OF OPERATING EXPENSES

Year ended June 30, 2020

Salaries, wages and other payroll costs

Administration	\$ 2,302,223
Professional	4,238,776
Clerical	776,566
Maintenance and services	943,740
Child care	1,941,686
FICA (employer's share)	748,222
Workers' compensation insurance	398,059
Unemployment tax	75,032
Employees' health and retirement benefits	<u>2,389,875</u>
Total salaries, wages and other payroll costs	<u>13,814,179</u>

Administrative and general expenses

Administrative and accounting services allocated from Archdiocese of Philadelphia - Catholic Social Services	759,705
Professional fees	339,941
Telephone	68,222
Transportation	214,567
Conference and conventions	10,698
Dues	11,085
Subscriptions and publications	689
Equipment - replacement	60,189
Equipment - rental	15,157
General expenses and supplies	443,096
Postage	16,899
Staff development	28,232
Bad debt expense	32,585
Interest	212,707
Charity	12,562
Depreciation	<u>892,466</u>
Total administrative and general expenses	<u>3,118,800</u>

Cost of occupancy

Rental	84,375
Insurance - buildings and contents, etc.	369,549
Repairs and maintenance - buildings and grounds	400,907
Utilities	463,111
Janitorial and maintenance contracts	<u>243,425</u>
Total cost of occupancy	<u>1,561,367</u>

Direct expenses of care

Food	661,904
Clothing	106,543
Medical and dental fees and supplies	55,145
Activities	15,559
Personal	68,175
Other direct child care expenses	<u>120,314</u>
Total direct expenses of care	<u>1,027,640</u>

Total operating expenses	<u><u>\$ 19,521,986</u></u>
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