

Financial Statements and Report of
Independent Certified Public
Accountants

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

June 30, 2021 and 2020

Contents

Page

Report of Independent Certified Public Accountants	3
Financial Statements	
Statements of financial position	5
Statements of activities and changes in net assets	6
Statements of cash flows	8
Notes to financial statements	9

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

We have audited the accompanying financial statements of the Archdiocese of Philadelphia, Office of Catholic Education Schools of Special Education (“SPED”), which comprise the statements of financial position as of June 30, 2021 and 2020, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management’s responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Archdiocese of Philadelphia, Office of Catholic Education Schools of Special Education as of June 30, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of matter

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

Grant Thornton LLP

Philadelphia, Pennsylvania
December 6, 2021

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

STATEMENTS OF FINANCIAL POSITION

June 30,

	2021	2020
ASSETS		
Cash and cash equivalents, including amounts held by affiliate	\$ 1,851,742	\$ 1,457,090
Parental tuition receivable (less allowance for doubtful accounts of \$81,111 in 2021 and \$71,875 in 2020)	76,005	28,445
Other receivables	25,200	257,829
Prepaid expenses and other assets	4,616	1,434
Investments (Note C)	4,681,111	3,859,234
Right-of-use assets (Note O)	79,051	-
Property and equipment, net (Note D)	122,723	149,263
Total assets	\$ 6,840,448	\$ 5,753,295
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 26,657	\$ 18,537
Accrued salaries and wages	289,071	307,209
Lease liabilities (Note O)	79,051	-
Deferred revenue	136,529	69,308
Note payable - SBA loan program (Note L)	540,100	540,100
Due to related organizations (Note I)	15,659	70,444
Total liabilities	1,087,067	1,005,598
Net assets		
Without donor restrictions (Note F)	3,273,380	2,643,537
With donor restrictions (Note G)	2,480,001	2,104,160
Total net assets	5,753,381	4,747,697
Total liabilities and net assets	\$ 6,840,448	\$ 5,753,295

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

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

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended June 30, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue, gains and other support			
Tuition and fees, net	\$ 1,404,439	\$ -	\$ 1,404,439
Other operating revenues and gains			
Catholic Charities Appeal	1,185,661	-	1,185,661
Contributions and donations	383,264	398,888	782,152
Fundraising	57,831	-	57,831
Contributed services (Note J)	29,579	-	29,579
Rental income	25,000	-	25,000
Miscellaneous income	29,143	-	29,143
Investment return, net	658,734	475,225	1,133,959
Change in value of split-interest agreements	-	2,318	2,318
Total other operating revenues and gains	<u>2,369,212</u>	<u>876,431</u>	<u>3,245,643</u>
Net assets released from restrictions			
Satisfaction of purpose restrictions	253,857	(253,857)	-
Total revenues	<u>4,027,508</u>	<u>622,574</u>	<u>4,650,082</u>
Operating expenses			
Salaries and benefits	2,685,364	-	2,685,364
Purchased services	356,009	-	356,009
Operation and maintenance	199,836	-	199,836
Materials and supplies	62,685	-	62,685
Other expenses	93,771	-	93,771
Total operating expenses	<u>3,397,665</u>	<u>-</u>	<u>3,397,665</u>
Change in net assets before other item	629,843	622,574	1,252,417
Derecognition of beneficial interest in trusts held by third parties (Note C)	-	(246,733)	(246,733)
CHANGE IN NET ASSETS	629,843	375,841	1,005,684
Net assets, beginning of year	<u>2,643,537</u>	<u>2,104,160</u>	<u>4,747,697</u>
Net assets, end of year	<u>\$ 3,273,380</u>	<u>\$ 2,480,001</u>	<u>\$ 5,753,381</u>

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

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

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended June 30, 2020

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

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

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

STATEMENTS OF CASH FLOWS

Years ended June 30,

	2021	2020
Cash flows from operating activities		
Change in net assets	\$ 1,005,684	\$ (176,258)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation expense	26,540	24,478
Provision for bad debts	11,236	17,083
Net realized gains on investments	(105,342)	(17,138)
Net (appreciation) depreciation in the fair value of investments	(886,887)	57,703
Change in value of beneficial interest in perpetual trusts	-	8,213
Derecognition of beneficial interest in trusts held by third parties	246,733	-
Changes in operating assets and liabilities		
Parental tuition receivable	(58,796)	13,287
Other receivables	232,629	(109,568)
Prepaid expenses and other assets	(3,182)	80,580
Right-of-use assets	(79,051)	-
Accounts payable	8,120	2,986
Due to related organizations	(54,785)	54,994
Accrued salaries and wages	(18,138)	5,222
Lease liabilities	79,051	-
Deferred revenue	67,221	21,066
	471,033	(17,352)
Net cash provided by (used in) operating activities		
Cash flows from investing activities		
Purchase of property and equipment	-	(96,769)
Purchase of investments	(450,353)	(397,974)
Proceeds from sale of investments	373,972	384,096
	(76,381)	(110,647)
Net cash used in investing activities		
Cash flows from financing activities		
Proceeds from note payable - SBA loan program	-	540,100
	-	540,100
Net cash provided by financing activities		
NET INCREASE IN CASH AND CASH EQUIVALENTS, INCLUDING AMOUNTS HELD BY AFFILIATE	394,652	412,101
Cash and cash equivalents, including amounts held by affiliate, beginning of year	1,457,090	1,044,989
Cash and cash equivalents, including amounts held by affiliate, end of year	\$ 1,851,742	\$ 1,457,090

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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

NOTE A - NATURE OF OPERATIONS

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

- Diocesan High Schools ("DHS");
- Office of Catholic Education ("OCE") Administration Account;
- Office for Financial Services ("OFS");
- Lay Employees' Retirement Plan of the Archdiocese of Philadelphia;
- Risk Insurance Trust;
- Heritage of Faith ~ Vision of Hope;
- Trustee Account of the Archdiocese of Philadelphia for Estates and Trusts; and
- Nutritional Development Services

The Schools of Special Education consist of:

- St. Lucy School;
- Archbishop Ryan Academy for Children with Hearing Impairment (closed as of June 30, 2020);
- Our Lady of Confidence School; and
- St. Katherine School

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

SPED is considered to be a component of the Archdiocese of Philadelphia and not a separate legal entity. Effective September 1, 2012, the Archdiocese of Philadelphia entered into an agreement with Faith in the Future Foundation ("FIF"). The agreement was for a period of five school years and renews automatically for successive three-year periods unless prior written notification is provided 90 days before the scheduled expiration date. This agreement was extended through 2022 in February 2016. Pursuant to the aforementioned agreement, FIF assumes strategic and operational management of the 17 Catholic secondary schools and the 4 Schools of Special Education and provides certain financial assistance to the schools. OCE has primary responsibility for, and FIF has oversight and approval responsibility over, school operations. The five senior management positions of OCE report directly to FIF's Chief Executive Officer. All facilities continue to be owned by the Archdiocese of Philadelphia.

COVID-19 Pandemic

The outbreak of a novel coronavirus ("COVID-19") as a pandemic has caused significant uncertainty of the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S. and international economies. In March 2020, school buildings closed in response to the pandemic and learning shifted to online platforms. Following CDC and Pennsylvania state regulations, instruction resumed in the fall of 2020 under a hybrid instructional model and full in-person instruction resumed in the fall of 2021. Management does not expect significant negative impact from COVID-19.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

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

Revenue Recognition

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, 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. The standard outlines a five-step model whereby revenue is recognized as performance obligations within a contract are satisfied. The five-step model includes (i) identifying the contract(s) with a customer; (ii) identifying the performance obligations in the contract; (iii) determining the transaction price; (iv) allocating the transaction price to the performance obligations in the contract; and (v) recognizing revenue when (or as) the entity satisfies a performance obligation. SPED adopted the guidance during the year ended June 30, 2021 using the modified retrospective method and has determined that there is no effect on net assets in connection with the adoption of ASU 2014-09.

Tuition and Fees

SPED recognizes revenue from student tuition and other school fees within the fiscal year in which educational services are provided. Financial aid in the form of direct grants funded by third parties and other tuition assistance is reported as reduction in tuition and fees. Financial aid represents the difference between the stated charge for tuition and fees and the amount billed to the student or third parties making payments on behalf of the student. Tuition and other school fees collected for the upcoming school year are included in deferred revenue and recognized as revenue ratably over the applicable school year. Registration fees and re-registration fees are recognized upon registration since these fees are non-refundable. For the years ended June 30, 2021 and 2020, registration and re-registration fees of \$35,750 and \$68,250, respectively, are included in the tuition and fees in the statements of activities and changes in net assets.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

The following table details the gross and net amounts of tuition and fees for the years ended June 30:

	2021	2020
Tuition and fees	\$ 3,445,191	\$ 3,333,700
Less: direct grants	(1,926,514)	(1,811,610)
Less: tuition assistance	(114,238)	(116,498)
Tuition and fees, net	\$ 1,404,439	\$ 1,405,592

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

Contributions and Donations

SPED recognizes revenue from gifts and grants in accordance with ASU 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. In accordance with Topic 958, SPED evaluates whether a transfer of assets is (1) an exchange transaction in which a resource provider is receiving commensurate value in return for the resources transferred or (2) a contribution. If the transfer of assets is determined to be an exchange transaction, SPED applies the guidance under Topic 606. If the transfer of assets is determined to be a contribution, SPED evaluates whether the contribution is conditional based upon whether the agreement includes both (1) one or more barriers that must be overcome before SPED is entitled to the assets transferred and promised and (2) a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets.

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

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

Contributed services are recorded as the value of services performed by individuals, based on equivalent salaries of personnel performing similar duties less the compensation and benefit payments (if any) and faculty residence expenses paid for religious personnel. The value of contributed services is included as revenue and, correspondingly, charged as expense.

Other sources of revenue not otherwise categorized are recognized in the fiscal year in which they are earned.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

Uses of Estimates

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

Cash and Cash Equivalents, Including Amounts Held by Affiliate

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

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

Investments

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

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

Property and Equipment

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

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

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

Leases

SPED elected to early adopt ASU 2016-02, *Leases*, as amended, effective July 1, 2020, as permitted in the guidance, using the modified retrospective approach. SPED has also elected to utilize the available practical expedients. Upon implementation, SPED recognized and measured leases existing at, or entered into after July 1, 2020 on the statement of financial position. SPED recognized a lease liability and a right-of-use (ROU) asset at the commencement date of the lease. The lease liability is initially and subsequently recognized based on the present value of its future lease payments. Variable payments are included in the future lease payments when those variable payments depend on an index or a rate. The discount rate is the implicit rate if it is readily determinable otherwise SPED uses its incremental borrowing rate. The implicit rates of SPED leases are not readily determinable and accordingly, the incremental borrowing rate was based on the information available at the commencement date for all leases. SPED's incremental borrowing rate for a lease is the rate of interest it would have to pay on a collateralized basis to borrow an amount equal to the lease payments under similar terms and in a similar economic environment. The ROU asset is subsequently measured throughout the lease term at the amount of the remeasured lease liability (i.e., present value of the remaining lease payments), plus unamortized initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received, and any impairment recognized. Lease cost for lease payments is recognized on a straight-line basis over the lease term. No change to beginning net assets was required in connection with the adoption of the standard.

Recently Issued Accounting Pronouncement

In September 2020, the FASB issued ASU 2020-07, *Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets*, to increase the transparency of contributed nonfinancial assets through enhancements to presentation and disclosure. The guidance requires contributed nonfinancial assets to be presented as a separate line item on the consolidated statements of activities, apart from cash and other financial asset contributions. The guidance also requires disclosure of the types of contributed nonfinancial assets and, for each category, information about whether the assets were monetized or utilized, a description of the policies to monetize or utilize such assets, a description of donor-imposed restrictions associated with the contributions, and a description of the valuation techniques and principal market used to arrive at a fair value measure at initial recognition. ASU 2020-07 is effective for years beginning after June 15, 2021. Organizations are required to apply the guidance on a retrospective basis. SPED is assessing the impact of the new standard at this time.

Reclassifications

Certain amounts in the prior year's statement of activities and changes in net assets have been reclassified to conform to the presentation in the current year's financial statements primarily due to recently adopted accounting pronouncement. This reclassification had no effect on the reported results.

NOTE C - INVESTMENTS

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

Catholic Values Equity Fund (or "fund") - Invests in common stocks and is managed by SEI.

Catholic Values Fixed Income Fund (or "fund") - Invests in mutual funds, corporate obligations, U.S. Treasury obligations and municipal obligations and is managed by SEI.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

Account holders have the option of six asset classifications in which to invest. The options include a short-duration U.S. government bond fund, a 100% fixed-income bond fund and four equity funds with varying fixed income to equity mixes of 30/70, 50/50, 60/40 or 70/30. The Faith in the Future Foundation Finance Committee has primary responsibility for determining fixed income to equity mix. The asset mix of the funds is SEI's responsibility. SPED targets 70/30 allocation.

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

	2021	2020
Catholic Values Equity Fund	\$ 3,323,589	\$ 2,545,173
Catholic Values Fixed Income Fund	1,357,522	1,067,328
Total investments	\$ 4,681,111	\$ 3,612,501

Archbishop Ryan Academy for Children with Hearing Impairment ("Archbishop Ryan Academy") was a beneficiary of individual trusts held in perpetuity by third parties. At June 30, 2020, the fair value of the share allocable to Archbishop Ryan Academy was \$246,733 and was recorded within investments in the accompanying statements of financial position. Due to the school closure as of June 30, 2020, these funds were allocated to the other beneficiaries and Archbishop Ryan Academy's allocable share of \$246,733 was derecognized during the year ended June 30, 2021 and the related loss included in the statement of activities and changes in net assets. For the year ended June 30, 2020, SPED recognized donor-restricted depreciation of \$8,213 related to these trusts.

NOTE D - PROPERTY AND EQUIPMENT

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

	2021	2020
Land improvements	\$ 29,850	\$ 29,850
Building improvements	35,882	35,882
Furniture and fixtures	48,363	48,363
Vehicles	122,608	122,608
Total assets	236,703	236,703
Accumulated depreciation	(113,980)	(87,440)
Property and equipment, net	\$ 122,723	\$ 149,263

Depreciation expense was \$26,540 and \$24,478 for the years ended June 30, 2021 and 2020, respectively.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

NOTE E - EMPLOYEE BENEFIT PLANS

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

Through June 30, 2014, the eligible lay employees of SPED were covered under the Archdiocese of Philadelphia Lay Employees' Retirement Plan (the "Plan"), which is a defined benefit pension plan covering substantially all lay employees of the Archdiocese of Philadelphia, based on age and service requirements. On June 30, 2014, the Archdiocese froze the Plan. All active employees as of the freeze date retained benefits they had earned through June 30, 2014. After the date of the freeze, accrued pension benefits do not increase for additional service or increases in pay. The Plan is administered by the Trustees of the Plan.

SPED made annual contributions to the Plan at an average rate of 5.9% of the salaries of eligible teachers and non-teachers for the period from August 14, 2020 through June 30, 2021 and for the period ended July 1, 2019 through September 13, 2019 of \$100,170 and \$67,433, respectively. The expense of such contributions is included in employee benefits. Separate accounts for vested benefits and pension fund assets are not maintained for each institution. The Plan Trustees approved suspending contributions into the Plan as of September 14, 2019 and reinstated the contributions effective August 14, 2020. The contributions which would have gone into the Plan between September 14, 2019 and August 13, 2020 were made to a special fund held by the Archdiocese of Philadelphia, OFS. During the year ended June 30, 2020, the contributions made to the special fund after December 31, 2019 in the amount of \$51,895 was shown as non-operating expense in the statement of activities and changes in net assets.

Estimates of the actuarially determined present value of accumulated plan benefits at June 30, 2021 and 2020 totaled approximately \$599,400,000 and \$564,500,000, respectively. At June 30, 2021 and 2020, the assets available to provide for these benefits totaled approximately \$573,800,000 and \$473,300,000, respectively.

Archdiocese of Philadelphia 403(b) Retirement Plan

Effective July 1, 2014, the Archdiocese of Philadelphia established a 403(b) defined contribution plan. Under the 403(b) plan, and subject to statutory limits, all employees at least 18 years of age are immediately eligible to make voluntary deferred salary contributions into the 403(b) plan.

Employer contributions, which cover employees meeting the eligibility requirements below, are discretionary. The following are the eligibility requirements for the employer contributions:

Grandfathered Employees - Any employee who was accruing benefits as an active participant in the Lay Employees Retirement Plan as of its freeze date of June 30, 2014 is a grandfathered employee and will be eligible to receive employer contributions.

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

Vesting in employer contributions is immediate for grandfathered employees who have completed 12 months of service as of June 30, 2014. Vesting in employer contributions for all other employees will take place after the completion of 12 months of service.

In 2021 and 2020, SPED's contribution rate was 4.5% of base salary for eligible employees, and there was a 0.35% charge for administration. The contributions into the 403(b) plan and the administrative charges totaled \$77,237 and \$77,216 and \$5,100 and \$5,814 for the years ended June 30, 2021 and 2020, respectively.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

NOTE F - NET ASSETS WITHOUT DONOR RESTRICTIONS

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

	2021	2020
Without donor restrictions	\$ 561,880	\$ 581,978
Archdiocesan designations functioning as endowment	2,711,500	2,061,559
Total net assets without donor restrictions	\$ 3,273,380	\$ 2,643,537

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

In April 2004, Monsignor Joseph R. Cistone, Vicar for Administration, signed a memorandum of understanding directing that \$1,965,596 of the fund be set aside in a quasi-endowment fund with an annual distribution being provided to SPED to support operational and programming purposes. During 2021 and 2020, net assets were released from designated funds by incurring expenses satisfying the designated purpose of \$0 and \$75,000, respectively.

NOTE G - NET ASSETS WITH DONOR RESTRICTIONS

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

	2021	2020
Tuition assistance	\$ 120,814	\$ 53,631
Specified school operations purposes	2,359,187	1,803,796
Funds to be held in perpetuity:		
Jeremiah J. Harrigan Trust	-	95,016
George Grover Trust	-	151,717
Total net assets with donor restrictions	\$ 2,480,001	\$ 2,104,160

During 2021 and 2020, net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose of \$253,857 and \$460,604, respectively.

NOTE H - INCOME TAXES

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

SPED follows the accounting guidance for uncertainties in income tax positions, which requires that a tax position be recognized or derecognized based on a more-likely-than-not threshold. This applies to positions taken or expected to be taken in a tax return. SPED does not believe its financial statements include any material uncertain tax positions.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

NOTE I - RELATED-PARTY TRANSACTIONS

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

	2021	2020
Office for Financial Services	\$ 15,419	\$ 15,606
Office of Catholic Education	-	48,083
Diocesan High Schools	240	6,755
Total	\$ 15,659	\$ 70,444

OCE charges for financial and management services provided to SPED. Expenses charged in 2021 and 2020 in relation to these services were \$105,000 and \$173,500, respectively.

SPED received \$25,480 and \$14,103 in 2021 and 2020, respectively, from Nutritional Development Services for the administrative costs related to the cafeteria program at St. Katherine School.

SPED receives funds from the Catholic Charities Appeal Fund which is a fund administered by the Archdiocese of Philadelphia. Donations were \$1,185,661 and \$1,164,359 for the years ended June 30, 2021 and 2020, respectively.

SPED received donations of \$71,757 and \$57,386, during the years ended June 30, 2021 and 2020, respectively, from the Heritage of Faith ~ Vision of Hope for tuition assistance.

Cash and cash equivalents include \$189,189 and \$186,846 at June 30, 2021 and 2020, respectively, on deposit with OFS. There are no conditions restricting the withdrawal of these funds.

NOTE J - CONTRIBUTED SERVICES

Contributed services consist of the following as of June 30:

	2021	2020
Salaries and benefits - lay equivalent value of religious services Expended for religious services	\$ 154,301	\$ 119,365
Salaries, related employee benefits and faculty house expenses	(124,722)	(87,791)
	\$ 29,579	\$ 31,574

NOTE K - FAIR VALUE MEASUREMENTS

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

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

Level 1 - Quoted prices in active markets for identical assets or liabilities;

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

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

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

The following tables present the fair values of the investments held by SPED 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
<u>2021</u>				
SEI mutual funds	\$ 4,681,111	\$ -	\$ -	\$ 4,681,111
<u>2020</u>				
SEI mutual funds	\$ 3,612,501	\$ -	\$ -	\$ 3,612,501
Trusts held by third parties	-	-	246,733	246,733
Total	\$ 3,612,501	\$ -	\$ 246,733	\$ 3,859,234

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

The table below sets forth a summary of changes in the fair value of SPED's Level 3 assets for the years ended June 30, 2021 and 2020:

Balance at June 30, 2019	\$	254,256
Change in fair value of assets		(5,965)
Distributions from trusts held by third parties		<u>(1,558)</u>
Balance at June 30, 2020		246,733
Derecognition of beneficial interest in trusts held by third parties (see Note C)		<u>(246,733)</u>
Balance at June 30, 2021	\$	<u><u>-</u></u>

NOTE L - NOTE PAYABLE - SBA LOAN PROGRAM

During the year ended June 30, 2020, SPED was a recipient of a Paycheck Protection Program ("PPP") loan granted by the Small Business Administration ("SBA") under the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"). Under the program terms, PPP loans are forgiven and recognized as revenue if the loan proceeds are used to maintain compensation costs and employee headcount, and other qualifying expenses (mortgage interest, rent and utilities) incurred following receipt of the loan. The loan was forgiven by the SBA on August 13, 2021.

NOTE M - FUNCTIONAL EXPENSES

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

	Instructional Programs	Management and General	2021 Total
Salaries and benefits	\$ 2,685,364	\$ -	\$ 2,685,364
Purchased services	116,965	239,044	356,009
Operation and maintenance	199,836	-	199,836
Materials and supplies	62,685	-	62,685
Other expenses	<u>91,990</u>	<u>1,781</u>	<u>93,771</u>
Total	<u>\$ 3,156,840</u>	<u>\$ 240,825</u>	<u>\$ 3,397,665</u>
	Instructional Programs	Management and General	2020 Total
Salaries and benefits	\$ 2,753,412	\$ 1,097	\$ 2,754,509
Purchased services	101,796	275,180	376,976
Operation and maintenance	218,114	-	218,114
Materials and supplies	173,280	224	173,504
Other expenses	<u>93,867</u>	<u>1,742</u>	<u>95,609</u>
Total	<u>\$ 3,340,469</u>	<u>\$ 278,243</u>	<u>\$ 3,618,712</u>

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

NOTE N - LIQUIDITY AND FUNDS AVAILABLE

The following reflects SPED's financial assets as of June 30, reduced by amounts not available for general use within one year because of donor-imposed restrictions or internal designations. Amounts available include annual distributions from the restricted funds. In addition, SPED expects to receive funding during the year ended June 30, 2022 of \$1,100,000 from Catholic Charities Appeal and \$200,000 from Arch Education Grant as donations without donor restrictions.

	2021	2020
Financial assets:		
Cash and cash equivalents, including amounts held by affiliate	\$ 1,851,742	\$ 1,457,090
Accounts and other receivables	101,205	286,274
Investments	4,681,111	3,859,234
Financial assets, at year end	6,634,058	5,602,598
Less those unavailable for general expenditure within one year, due to:		
Perpetual trusts held by others	-	246,733
Other donor-imposed restrictions	2,480,001	1,857,427
Archdiocesan designations functioning as endowment	2,711,500	2,061,559
Financial assets available to meet cash needs for general expenditures within one year	\$ 1,442,557	\$ 1,436,879

NOTE O - LEASES

SPED is the lessee of certain vehicle, equipment and educational space under operating leases expiring through 2025. The options to renew the leases were not considered when assessing the value of the ROU asset if SPED was not reasonably certain that it would assert its option to renew the lease.

Quantitative information regarding SPED's leases for the year ended June 30, 2021 is as follows:

Lease cost	\$	88,078
Other information:		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows	\$	88,078
ROU assets obtained in exchange for new lease liabilities	\$	160,482
Weighted-average remaining lease term (in years)		2.05
Weighted-average discount rate		4%

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

The following is a schedule of future minimum payments required under operating leases that have lease terms in excess of one year as of June 30, 2021:

2022	\$	43,230
2023		34,675
2024		2,724
2025		<u>1,589</u>
Total minimum payments		82,218
Less present value discount		<u>(3,167)</u>
Total	\$	<u>79,051</u>

NOTE P - SUBSEQUENT EVENTS

SPED has evaluated subsequent events through December 6, 2021, the date which the financial statements were available for distribution, noting no items requiring accrual or disclosure in the financial statements, except as disclosed in Note L.