Financial Statements and Report of Independent Certified Public Accountants

Communities of Don Guanella and Divine Providence

June 30, 2021 and 2020

Contents

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
The Communities of Don Guanella and Divine Providence

We have audited the accompanying financial statements of the Communities of Don Guanella and Divine Providence (the “Entity”), 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 Communities of Don Guanella and Divine Providence 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.

Grant Thornton LLP

Philadelphia, Pennsylvania
February 24, 2022

Communities of Don Guanella and Divine Providence

STATEMENTS OF FINANCIAL POSITION

June 30,

	2021	2020
ASSETS		
Current assets		
Cash	$ 15,940	$ 12,544
Client escrow funds	1,251,318	1,148,661
Accounts receivable - Commonwealth of Pennsylvania net of allowance for doubtful accounts of $205,499 at June 30, 2021 and 2020	6,776,801	6,992,129
Accounts receivable - other	19,036	19,290
Prepaid expenses and other current assets	1,041,780	984,068
Related party note receivable - Archdiocese of Philadelphia, net of current portion	6,974	6,702
Total current assets	9,111,849	9,163,394
Noncurrent assets		
Property, plant and equipment, net	11,123,508	11,782,184
Investments - board designated	11,112,750	8,449,259
Investments	1,087,225	843,430
Related party note receivable - Archdiocese of Philadelphia, current	217,461	224,396
Total assets	$ 32,652,793	$ 30,462,663
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	$ 1,631,377	$ 912,659
Salaries and wages payable	2,734,213	2,506,661
Client escrow funds	1,251,318	1,148,661
Due to Catholic Social Services	4,342,626	10,268,890
Total current liabilities	9,959,534	14,836,871
Net assets		
Without donor restrictions	21,945,222	14,996,690
With donor restrictions	748,037	629,102
Total net assets	22,693,259	15,625,792
Total liabilities and net assets	$ 32,652,793	$ 30,462,663

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

Communities of Don Guanella and Divine Providence

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended June 30, 2021

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Operating revenue			
Governmental revenue	$ 57,803,116	$ -	$ 57,803,116
Other revenue	199,202	-	199,202
Total operating revenue	58,002,318	-	58,002,318
Operating expenses			
Salaries, wages and other payroll costs	39,943,245	-	39,943,245
Administrative and general expenses	7,753,250	-	7,753,250
Occupancy	3,177,666	-	3,177,666
Direct expenses of care	2,693,380	-	2,693,380
Depreciation	1,129,954	-	1,129,954
Total operating expenses	54,697,495	-	54,697,495
Operating revenue in excess of operating expenses	3,304,823	-	3,304,823
Other revenue			
Donations, bequests, trusts, and other	877,044	-	877,044
Catholic Charities Appeal	75,000	-	75,000
Investment return, net	2,691,665	118,935	2,810,600
Total other revenue	3,643,709	118,935	3,762,644
INCREASE IN NET ASSETS	6,948,532	118,935	7,067,467
Net assets at beginning of year	14,996,690	629,102	15,625,792
Net assets at end of year	$ 21,945,222	$ 748,037	$ 22,693,259

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

Communities of Don Guanella and Divine Providence

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended June 30, 2020

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Operating revenue			
Governmental revenue	$ 48,523,976	$ -	$ 48,523,976
Other revenue	182,620	-	182,620
Total operating revenue	48,706,596	-	48,706,596
Operating expenses			
Salaries, wages and other payroll costs	40,216,918	-	40,216,918
Administrative and general expenses	6,984,461	-	6,984,461
Occupancy	3,091,226	-	3,091,226
Direct expenses of care	3,582,351	-	3,582,351
Depreciation	1,316,417	-	1,316,417
Total operating expenses	55,191,373	-	55,191,373
Deficiency in operating revenue under operating expenses	(6,484,777)	-	(6,484,777)
Other revenue			
Donations, bequests, trusts, and other	1,004,069	-	1,004,069
Catholic Charities Appeal	150,000	-	150,000
Investment return, net	264,835	21,288	286,123
Total other revenue	1,418,904	21,288	1,440,192
(DECREASE) INCREASE IN NET ASSETS	(5,065,873)	21,288	(5,044,585)
Net assets at beginning of year	20,062,563	607,814	20,670,377
Net assets at end of year	$ 14,996,690	$ 629,102	$ 15,625,792

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

Communities of Don Guanella and Divine Providence

STATEMENTS OF CASH FLOWS

Years ended June 30,

	2021	2020
Cash flows from operating activities:		
Increase (decrease) in net assets	$ 7,067,467	$ (5,044,585)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities		
Depreciation	1,129,954	1,316,417
Net realized and unrealized gains on investments	(2,810,600)	(117,380)
Changes in operating assets and liabilities		
Accounts receivable - Commonwealth of Pennsylvania	215,328	3,583,321
Accounts receivable - other	254	184,836
Prepaid expenses and other current assets	(57,712)	(81,174)
Accounts payable and accrued expenses	718,718	(1,046,643)
Salaries and wages payable	227,552	665,929
Related party note receivable - Archdiocese of Philadelphia	6,663	-
Due to/from Catholic Social Services	(5,926,264)	1,135,539
Net cash provided by operating activities	571,360	596,260
Cash flows from investing activities:		
Capital expenditures	(471,278)	(268,680)
Purchases of investments	(864,823)	(827,902)
Sales of investments	768,137	492,744
Net cash used in investing activities	(567,964)	(603,838)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,396	(7,578)
Cash at beginning of year	12,544	20,122
Cash at end of year	$ 15,940	$ 12,544

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

NOTE A - ORGANIZATION

On July 1, 2019, Don Guanella Village merged with Divine Providence Village. Both organizations operated intermediate facilities under Catholic Social Services of the Archdiocese of Philadelphia ("CSS"). The merged corporation will continue all services under the name the Communities of Don Guanella and Divine Providence (the "Communities"). The merger was approved by the Board of Directors of CSS on December 14, 2018. All services and operations after June 30, 2019 will be provided by the Communities.

The Communities operates 14 community-based intermediate care facilities in Delaware, Chester and Philadelphia counties, and has the capacity for 94 men. The Communities also operates a residential facility located in Springfield, Pennsylvania called Divine Providence Village. Divine Providence Village has the capacity to provide services for 96 intellectually disabled/developmentally disabled individuals. The Communities also operates 12 Community Living Arrangements/Group Homes ("CLA") in Delaware County. The Group Homes provide residential services to intellectually disabled/developmentally disabled adults. Finally, the Communities operates a Family Living Program, In Home Support Program, and Community Outreach Program to provide services to intellectually disabled and developmentally disabled clients in the community.

Catholic Charities of the Archdiocese of Philadelphia, operating as CSS and 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. The Communities is one of the entities operating under CSS.

The accompanying financial statements include programs operated and administered by the Communities.

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. The Communities, a related entity, 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 the Communities.

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"). The Communities 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, the Communities' net assets and 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.

Cash and Cash Equivalents

The Communities 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. With the exception of client escrow funds, for the years ended June 30, 2021 and 2020, the Communities possessed only petty cash held on site. The client escrow funds held by the Communities may at times exceed Federal Deposit Insurance Corporation limits.

Accounting for Long-Lived Assets

The Communities continually evaluates whether events and circumstances have occurred that indicate the remaining estimated useful lives 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, the Communities 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. The Communities believes that no revision to the remaining useful lives or write-down of long-lived assets were required at June 30, 2021 and 2020.

Client Escrow Funds

The Communities acts as trustee over funds held for its residents. Expenditures of resident funds are authorized by the residents or their families. Generally, the funds are used to cover the costs of personal items that are not covered by the daily general service charge or special charges. These funds are returned to the resident, family, or estate upon discharge or death.

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 and changes in net assets as a component of investment return, net.

Governmental Revenue

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

Net program service revenues are from funding sources under fee-for-service contracts for several of the Communities' programs. For other programs, the Communities 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, while adjustments to prior recognized revenues are recorded in following periods, as final settlements are determined. The Communities recorded governmental revenue of $6,743,132 and $1,252,509 for the years ended June 30, 2021 and 2020, respectively, related to settlements received for prior years.

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

Contributions

All contributions are considered to be available for use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as net assets with donor restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Communities reports the support as without donor restriction. When a stipulated time restriction or purpose restriction is satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities and changes in net assets 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 restricted support; those restrictions expire when the assets are placed in service.

Unconditional promises to give ("pledges") are recorded as receivables and revenues within the appropriate net asset category, all of which will be collected within one year.

Allowance for Doubtful Accounts

The Communities 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, the Communities' loss history, the nature of the service provided and other pertinent factors. The Communities 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 related institutions and group homes, including the Communities. 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 and changes in net assets. Any difference between the allocation and the amount charged to the institution during the year is considered a contribution of services from CSS.

Property, Plant and Equipment

Property, plant and equipment are capitalized at cost or at their fair market value if donated. Depreciation is computed on a straight-line basis and is recognized as an expense over the estimated useful lives of the assets, which are as follows:

Automobiles	5 years
Furniture and equipment	5 - 15 years
Building and leasehold improvements	5 - 20 years
Building	20- 25 years

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 at June 30:

	2021	2020
Cash and cash equivalents	$ 15,940	$ 12,544
Accounts receivable	6,795,837	7,011,419
Investments - board designated	11,112,750	8,449,259
Investments	1,087,225	843,430
Assets available to management	19,011,752	16,316,652
Liabilities to be settled within one year		
Accounts payable and accrued expenses	(1,615,437)	(912,659)
Salaries and wages payable	(2,734,213)	(2,506,661)
Due to CSS	(4,342,626)	(10,268,890)
Assets available to management less liabilities to be settled within one year	$ 10,303,536	$ 2,628,442

The Communities 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 and are settled periodically.

Recently Adopted Accounting Pronouncements

The Communities adopted the Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers* (Topic 606), as amended, using the retrospective method of application to all contracts existing on July 1, 2020. The core principle of the standard is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The adoption of the standard had no material impact on the Communities' current or historical financial position, results of operations or cash flows. Additionally, management does not anticipate that the standard will have a material impact on the amount or timing of when the Communities recognizes revenue prospectively. However, in accordance with the standard, the Communities now recognizes its previously reported provision for bad debts, as a direct reduction to revenues as an implicit pricing concession, instead of separately as bad debt expense. The Communities' revenue recognition and accounts receivable policies are more fully described above.

Risks and Uncertainties

In March 2020, the World Health Organization declared COVID-19, the disease caused by the novel coronavirus, a pandemic, which started to and continues to spread throughout the United States of America. The primary focus as the effects of COVID-19 began to affect the Communities was the health and safety of the individuals in their care and the employees. The Communities implemented various measures to provide the safest possible environment within its programs during this pandemic and will continue to do so. Additionally, in response to the pandemic, the Communities incurred additional costs for testing, personal protective equipment, third party contract services and other operating costs associated with ensuring consumer and employee safety while operating during a pandemic.

The Communities Day program services closed in March of 2020 and reopened only to the individuals served residentially by the Communities in October of 2020. Very limited Day Program services resumed to community participants in June 2021.

The impact of the COVID-19 pandemic did not have a material effect on the Communities financial results during the years ended June 30, 2021 and 2020. Management continues to actively monitor the effect of COVID 19 to operating revenues and expenses and based on the continuing uncertainties of COVID-19, it is unable to determine if it will have a material impact on its operations for the year ending June 30, 2022.

The Communities has begun to see increases to its Day Program operations, however; volumes have not returned to pre-pandemic levels. Management believes that the adverse impact that COVID-19 will have on our future operations and financial results will depend upon many factors, most of which are beyond management's capability to control or predict.

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 in the Trustee Account as of June 30, 2021 or 2020.

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

	2021	2020
Catholic Values Equity Fund	$ 7,882,378	$ 5,951,753
Catholic Values Fixed Income Fund	3,230,372	2,497,506
	$ 11,112,750	$ 8,449,259

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

	2021		
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Other revenue			
Interest and dividend income	$ 138,801	$ 8,099	$ 146,900
Net realized gains	219,111	-	219,111
Change in unrealized net gains on investments	2,333,753	110,836	2,444,589
Total	$ 2,691,665	$ 118,935	$ 2,810,600

	2020		
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Other revenue			
Interest and dividend income	$ 168,743	$ -	$ 168,743
Net realized losses	(2,415)	-	(2,415)
Change in unrealized net gains on investments	98,507	21,288	119,795
Total	$ 264,835	$ 21,288	$ 286,123

NOTE D - PROPERTY, PLANT AND EQUIPMENT

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

	2021	2020
Buildings	$ 5,598,104	$ 5,890,604
Leasehold improvements	11,307,728	10,880,844
Furniture and equipment	2,236,822	1,986,535
Land	193,956	226,456
Automobiles	1,175,554	1,125,720
	20,512,164	20,110,159
Accumulated depreciation	(9,388,656)	(8,327,975)
Property, plant and equipment, net	$ 11,123,508	$ 11,782,184

Depreciation expense of $1,129,954 and $1,316,417 was incurred for the years ended June 30, 2021 and 2020, respectively.

NOTE E - ACCOUNTS RECEIVABLE - COMMONWEALTH OF PENNSYLVANIA

At June 30, 2021 and 2020, the Communities had uncollateralized accounts receivable, primarily from the Commonwealth of Pennsylvania Department of Public Welfare (“DPW”), of $6,795,837 and $7,011,419 respectively. This balance potentially subjects the Communities to a concentration of credit risk. The Communities monitors its funding arrangements with the DPW and other agencies.

NOTE F - 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 $2,412,576 recorded by Divine Providence Village. 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 of Philadelphia 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, 2021 are as follows:

2022	$	6,974
2023		7,257
2024		7,552
2025		7,858
2026		8,178
Thereafter		186,616
Total	$	224,435

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;

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 the Communities 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.

As of June 30, 2021 and 2020, all investments held by the Communities are classified as Level 1 securities.

NOTE H - PENSION PLANS

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

Through June 30, 2014, the eligible lay employees of the Communities 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. The Communities made annual contributions to the Plan at a rate of 5.9% of the salaries of eligible employees for the years ended June 30, 2021 and 2020. The amounts expensed by the Communities for contributions to the Plan was $1,584,298 and $1,543,218 for the years ended June 30, 2021 and 2020, respectively. Separate accounts for vested benefits and pension fund assets are not maintained for each institution.

On November 5, 2013, 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 year 2020, the Archdiocese employer contribution rate was 4.5% of base salary for eligible employees. The contributions by the Communities into the 403(b) plan totaled $1,208,141 and $1,186,569 for the years ended June 30, 2021 and 2020, respectively.

Other Contributions

The Communities 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 $15,855 and $10,260 for the years ended June 30, 2021 and 2020, respectively.

NOTE I - RELATED PARTY TRANSACTIONS

The Communities 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 the Communities. 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 and changes in net assets. Any difference between the allocation and the amount charged to the institution during each year is considered a contribution of services from CSS. Repayment of amounts due to CSS is expected when cash is available. The net amount due to CSS was $1,596,284 and $1,487,520 at June 30, 2021 and 2020, respectively.

The transactions with the Archdiocese that CSS charged to expense for the years ended June 30, 2021 and 2020 were as follows:

	2021	2020
Archdiocese of Philadelphia:		
Insurance	$ 430,935	$ 378,113
Lay employee pension contributions:	1,584,298	1,543,218
Rental of facility - contributed	724,000	724,000
Religious employee pension contributions	15,855	10,260
	$ 2,755,088	$ 2,655,591
Catholic Social Services:		
Allocated administrative and accounting costs	$ 1,240,602	$ 1,088,896
Information technology services	660,144	548,729
Allocated administrative and accounting costs - contributed	22,532	269,520
	$ 1,923,278	$ 1,907,145

Catholic Charities Appeal donated $75,000 and $150,000 to the Communities for the fiscal years ended June 30, 2021 and 2020, respectively.

NOTE J - INCOME TAX STATUS

The Communities 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 Communities is exempt from federal income tax under IRC section 501(c)(3), though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. The Communities 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. The

Communities has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

NOTE K - FUNCTIONAL EXPENSES

The Communities provides a variety of services. Expenses related to providing these services are as follows for the years ended June 30:

	2021		
	Program	Supporting Management and General	Total Expenses June 30, 2021
Salaries, wages and other payroll costs	$ 38,142,310	$ 1,800,935	$ 39,943,245
Administrative and general expenses	7,443,120	310,130	7,753,250
Occupancy	3,050,560	127,106	3,177,666
Direct expenses of care	2,693,380	-	2,693,380
Depreciation	1,084,756	45,198	1,129,954
Total expenses	$ 52,414,126	$ 2,283,369	$ 54,697,495

	2020		
	Program	Supporting Management and General	Total Expenses June 30, 2020
Salaries, wages and other payroll costs	$ 38,402,591	$ 1,814,327	$ 40,216,918
Administrative and general expenses	6,705,083	278,378	6,984,461
Occupancy	2,967,577	123,649	3,091,226
Direct expenses of care	3,582,351	-	3,582,351
Depreciation	1,263,760	52,657	1,316,417
Total expenses	$ 52,921,362	$ 2,270,011	$ 55,191,373

Expenses are charged directly to the functions above except for key employee salaries and benefits, which are allocated based on estimated time performing activities for each respective function.

NOTE L - FUNDING

The Communities is a certified Intermediate Care Facility for the Intellectually Disabled (“ICF/ID”) and is reimbursed under the Commonwealth of Pennsylvania’s Medical Assistance Program. Reimbursement is limited to the lower of total allowable operating expenses or the approved operating budget.

The Communities’ per diem reimbursement rate from the Commonwealth of Pennsylvania under its Medical Assistance Programs range from $517.33 to $863.14 and from $453.88 to $712.12 per day for the years ended June 30, 2021 and 2020, respectively.

The Communities has 12 CLAs: Sunnybrook Lane, Pickering Lane, Stewart Avenue, Glen Spring Lane, Collins Drive, Hickory Lane, Kenwood Road, Hedgerow Lane, Center Road, Presidential, Belfield and War Admiral, each of which generally house and care for one to four intellectually disabled adults in a residential setting.

Each living area has a predetermined per diem rate based on the characteristics and needs of the individual residents. These per diem rates range from $399.23 to $838.54 per day for the years ended June 30, 2021 and 2020.

NOTE M - NET ASSETS WITH DONOR RESTRICTIONS

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

	2021	2020
Capital projects	$ 750,294	$ 629,102

NOTE N - SUBSEQUENT EVENTS

Management has evaluated subsequent events for the year ended June 30, 2021 through February 24, 2022, 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.