

Financial Statements and Report of
Independent Certified Public
Accountants

St. Francis-St. Joseph Homes for Children

June 30, 2021 and 2020

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

We have audited the accompanying financial statements of St. Francis-St. Joseph Homes for Children (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 St. Francis-St. Joseph Homes for Children 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.

Other matters*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 audits 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 27, 2022

St. Francis-St. Joseph Homes for Children

STATEMENTS OF FINANCIAL POSITION

Years ended June 30,

	2021	2020
ASSETS		
Current assets		
Cash and cash equivalents	\$ 15,167	\$ 1,240,674
Accounts receivable - DHS and CBH, net of allowance of \$25,000 at June 30, 2021 and 2020	611,043	1,039,492
Accounts receivable - other governmental agencies, net of allowance of \$10,000 at June 30, 2021 and 2020	1,702,904	1,799,916
Related party note receivable - Archdiocese of Philadelphia	14,333	13,773
Prepaid expenses and other current assets	119,045	144,802
Total current assets	2,462,492	4,238,657
Property, plant and equipment, net	1,160,061	1,465,763
Related party note receivable - Archdiocese of Philadelphia, net of current portion	446,923	461,256
Investments	2,003,532	550,210
Trusts held by third parties	1,260,236	987,458
Total assets	\$ 7,333,244	\$ 7,703,344
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 218,663	\$ 228,116
Salaries and wages payable	252,827	302,139
Loans payable	-	1,225,582
Due to Catholic Social Services	4,739,009	5,671,945
Total current liabilities	5,210,499	7,427,782
Net assets (deficit)		
Net assets (deficit) without donor restrictions	862,509	(711,896)
Net assets with donor restrictions	1,260,236	987,458
Total net assets	2,122,745	275,562
Total liabilities and net assets	\$ 7,333,244	\$ 7,703,344

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

St. Francis-St. Joseph Homes for Children

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended June 30, 2021

	<u>Net Assets Without Donor Restrictions</u>	<u>Net Assets With Donor Restrictions</u>	<u>Total</u>
Operating revenue			
Governmental revenue	\$ 7,524,252	\$ -	\$ 7,524,252
Forgiveness of loan	1,225,472	-	1,225,472
Fee for service	24,125	-	24,125
	<u>8,773,849</u>	<u>-</u>	<u>8,773,849</u>
Operating expenses			
Salaries, wages and other payroll costs	5,410,446	-	5,410,446
Administrative and general	1,163,606	-	1,163,606
Occupancy	601,461	-	601,461
Direct expenses of children	541,164	-	541,164
Depreciation	414,469	-	414,469
	<u>8,131,146</u>	<u>-</u>	<u>8,131,146</u>
Excess of operating revenue over operating expenses	<u>642,703</u>	<u>-</u>	<u>642,703</u>
Other revenue			
Donations, bequests, and trusts	647,557	-	647,557
Catholic Charities Appeal	25,000	-	25,000
Gain on sale of asset	12,500	-	12,500
Investment return, net	246,645	272,778	519,423
	<u>931,702</u>	<u>272,778</u>	<u>1,204,480</u>
Change in net assets	1,574,405	272,778	1,847,183
Net assets (deficit), beginning of year	<u>(711,896)</u>	<u>987,458</u>	<u>275,562</u>
Net assets, end of year	<u>\$ 862,509</u>	<u>\$ 1,260,236</u>	<u>\$ 2,122,745</u>

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

St. Francis-St. Joseph Homes for Children

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	\$ 9,478,515	\$ -	\$ 9,478,515
Fee for service	39,958	-	39,958
Total operating revenue	<u>9,518,473</u>	<u>-</u>	<u>9,518,473</u>
Operating expenses			
Salaries, wages and other payroll costs	7,570,297	-	7,570,297
Administrative and general	1,404,258	-	1,404,258
Occupancy	651,230	-	651,230
Direct expenses of children	701,649	-	701,649
Depreciation	409,823	-	409,823
Total operating expenses	<u>10,737,257</u>	<u>-</u>	<u>10,737,257</u>
Deficiency in operating revenue under operating expenses	<u>(1,218,784)</u>	<u>-</u>	<u>(1,218,784)</u>
Other revenue			
Donations, bequests, and trusts	874,085	-	874,085
Net assets released from restrictions	34,394	(34,394)	-
Catholic Charities Appeal	25,000	-	25,000
Investment return, net	30,910	(3,276)	27,634
Total other revenue	<u>964,389</u>	<u>(37,670)</u>	<u>926,719</u>
CHANGE IN NET ASSETS	<u>(254,395)</u>	<u>(37,670)</u>	<u>(292,065)</u>
Net assets (deficit), beginning of year	<u>(457,501)</u>	<u>1,025,128</u>	<u>567,627</u>
Net assets (deficit), end of year	<u>\$ (711,896)</u>	<u>\$ 987,458</u>	<u>\$ 275,562</u>

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

St. Francis-St. Joseph Homes for Children

STATEMENTS OF CASH FLOWS

Years ended June 30,

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities		
Change in net assets	\$ 1,847,183	\$ (292,065)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	414,469	409,823
Gain on sale of asset	(12,500)	-
Net realized and unrealized gains on investments	(477,940)	(8,300)
Bad debt expense	2,025	-
Forgiveness of loan payable	(1,225,582)	
Changes in operating assets and liabilities		
Accounts receivable - DHS and CBH	426,424	(301,300)
Accounts receivable - other governmental	97,012	185,578
Prepaid expenses and other current assets	25,757	40,826
Accounts payable and accrued expenses	(9,453)	(28,825)
Salaries and wages payable	(49,312)	29,296
Due to Catholic Social Services	(932,936)	179,163
	<u>105,147</u>	<u>214,196</u>
Cash flows from investing activities		
Capital expenditures	(108,767)	(256,899)
Proceeds received from related party loans receivable - Archdiocese of Philadelphia	13,773	13,235
Proceeds received from sale of asset	12,500	-
Sales of investments	1,271,161	132,517
Purchases of investments	(2,519,321)	(103,123)
	<u>(1,330,654)</u>	<u>(214,270)</u>
Cash flows from financing activities		
Proceeds from loan payable	-	1,225,582
	<u>-</u>	<u>1,225,582</u>
(INCREASE) DECREASE IN CASH AND CASH EQUIVALENTS	(1,225,507)	1,225,508
Cash and cash equivalents		
Beginning of year	<u>1,240,674</u>	<u>15,166</u>
End of year	<u>\$ 15,167</u>	<u>\$ 1,240,674</u>

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

St. Francis-St. Joseph Homes for Children

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

NOTE A - ORGANIZATION

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

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

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

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

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

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”). St. Francis presents its financial statements in accordance with the guidance set forth by the Financial Accounting Standards Board (“FASB”) in regard to Financial Statements of Not-for-Profit Organizations. Accordingly, St. Francis’ net assets and its revenues, expenses, gains and losses are classified into two categories, based on the existence or absence of donor-imposed restrictions.

Net assets without donor restrictions are not subject to donor-imposed restrictions and may be designated for specific purposes by action of the Board of Directors.

Net assets with donor restrictions include contributions, including pledges, trusts, remainder interests, income and appreciation, which can be expended but for which restrictions have not yet been met, or which are required by donors to be perpetually retained. Such restrictions include purpose restrictions where donors have specified the purpose for which the net assets are to be spent, or time restrictions imposed by donors or implied by the nature of the gift.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant management estimates and assumptions include the allowance for doubtful accounts, useful lives of depreciable assets and the fair value of investments. Actual results could differ from those estimates.

St. Francis-St. Joseph Homes for Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

Cash and Cash Equivalents

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

Accounting for Long-Lived Assets

St. Francis continually evaluates whether events and circumstances have occurred that indicate the remaining estimated useful life of long-lived assets may warrant revision or that the remaining balance may not be recoverable. When factors indicate that long-lived assets should be evaluated for possible impairment, St. Francis uses an estimate of the related undiscounted operating income over the remaining life of the long-lived asset in measuring whether the long-lived asset is recoverable. The impairment loss on these assets is measured as the excess of the carrying amount of the asset over its fair value. Fair value is based on market prices where available, or discounted cash flows. St. Francis believes that no revision to the remaining useful lives or write-down of long-lived assets were required at June 30, 2021 and 2020.

Investments

SEI, a provider of institutional asset management services, created two publicly traded Catholic Values mutual funds: the Catholic Values Equity Fund and the Catholic Values Fixed Income Fund ("Catholic Values Funds"), which provide Catholic institutions with high-quality investment products that align with their core values, without sacrificing diversification or return potential. Specifically, the Catholic Values Funds align with the investment directives set forth by the United States Conference of Catholic Bishops ("USCCB"). The Archdiocese appointed SEI Private Trust Company to act as custodian (the "Custodian") of the investments, which consist of certain cash and securities and are more fully described in Note C.

Investments are reported at fair value. Realized gains and losses are included in the statements of activities as a component of investment return, net.

Governmental Revenue

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

Net program service revenues are from funding sources under cost reimbursement-type contracts for several of St. Francis's programs. St. Francis records revenues under such contracts as costs are incurred. For other programs, St. Francis receives program service fees from funding sources under per diem-type contracts for certain programs and unit prices for outpatient services. Revenue for these programs is recorded when the services are provided. Retroactive adjustments are recorded in the period that final settlements are determined. There were no retroactive adjustments for the years ended June 30, 2021 and 2020.

St. Francis-St. Joseph Homes for Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

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

Contributions

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

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

Unconditional promises to give ("pledges") are recorded as receivables and revenues within the appropriate net asset category.

Allowance for Doubtful Accounts

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

Allocated Expenses - Archdiocese of Philadelphia - Catholic Social Services

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

St. Francis-St. Joseph Homes for Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

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

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,	
	2021	2020
Cash and cash equivalents	\$ 15,167	\$ 1,240,674
Accounts receivable	2,313,947	2,839,408
Investments - board designated	2,003,532	550,210
Assets available to management	4,332,646	4,630,292
Liabilities to be settled within one year		
Accounts payable and accrued expenses	(218,663)	(228,116)
Salaries and wages payable	(252,827)	(302,139)
Due to CSS	(4,739,009)	(5,671,945)
Assets available to management, less liabilities to be settled within one year	\$ (877,853)	\$ (1,571,908)

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

Recently Adopted Accounting Pronouncements

St. Francis 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 St. Francis' 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 St. Francis recognizes revenue prospectively. However, in accordance with the standard, St. Francis now recognizes its previously reported provision for bad debts, as a direct reduction to revenues as an implicit pricing

St. Francis-St. Joseph Homes for Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

concession, instead of separately as bad debt expense. St. Francis' 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 St. Francis's facilities was the health and safety of the consumers in its care and employees. St. Francis implemented various measures to provide the safest possible environment within its facilities during this pandemic and will continue to do so. Additionally, in response to the pandemic, St. Francis 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 impact of the COVID-19 pandemic did not have a material effect on St. Francis' 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.

St. Francis has begun to see increases to its consumer volumes; 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

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.

St. Francis-St. Joseph Homes for Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

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

	2021	2020
Catholic Values Equity Fund	\$ 1,419,307	\$ 387,574
Catholic Values Fixed Income Fund	584,225	162,636
	\$ 2,003,532	\$ 550,210

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

	2021			2020		
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Other revenue and gains (losses)						
Interest and dividend income	\$ 27,214	\$ -	\$ 27,214	\$ 19,334	\$ -	\$ 19,334
Net realized revenue and gains	14,268	-	14,268	8,054	-	8,054
Change in unrealized net gains and losses on investments	205,163	272,778	477,941	3,522	(3,276)	246
Total	\$ 246,645	\$ 272,778	\$ 519,423	\$ 30,910	\$ (3,276)	\$ 27,634

NOTE D - TRUSTS HELD BY THIRD PARTIES

St. Francis is the beneficiary of individual trusts held by third parties. At June 30, 2021 and 2020, the allocable fair value of these trusts was \$1,260,236 and \$987,458, respectively, and is recorded as trusts held by third parties in the accompanying statements of financial position. During the years ended June 30, 2021 and 2020, St. Francis recognized unrealized gains of \$344,846 and unrealized losses of \$3,276, respectively, as a change in net assets with donor restrictions.

NOTE E - PROPERTY, PLANT AND EQUIPMENT

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

	2021	2020
Buildings	\$ 7,343,542	\$ 7,280,021
Equipment	2,027,863	1,982,617
	9,371,405	9,262,638
Accumulated depreciation	(8,211,344)	(7,796,875)
Property, plant and equipment, net	\$ 1,160,061	\$ 1,465,763

St. Francis-St. Joseph Homes for Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

Depreciation expense of \$414,469 and \$409,823 was incurred for the years ended June 30, 2021 and 2020, respectively.

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

At June 30, 2021 and 2020, St. Francis had uncollateralized accounts receivable from Philadelphia Department of Human Services (“DHS”) and Community Behavioral Health (“CBH”) of \$611,043 and \$1,039,492, respectively. The receivable due from other governmental agencies was \$1,702,904 and \$1,799,916 as of June 30, 2021 and 2020, respectively. The balances owed by DHS and CBH represent 26% and 37% of total outstanding receivables as of June 30, 2021 and 2020, respectively, which potentially subjects St. Francis to a concentration of credit risk. St. Francis monitors its funding arrangements with DHS and CBH and other governmental agencies.

NOTE G - RELATED PARTY NOTE RECEIVABLE - ARCHDIOCESE OF PHILADELPHIA

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

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

The future principal amounts receivable on the loan at June 30, 2021 are as follows:

2022	\$	14,333
2023		14,914
2024		15,520
2025		16,150
Thereafter		<u>400,339</u>
	\$	<u>461,256</u>

NOTE H - FAIR VALUE MEASUREMENTS

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

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

Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other

St. Francis-St. Joseph Homes for Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities.

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

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

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

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

	Quoted prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
<u>2021</u>				
Assets				
Investments	\$ 2,003,532	\$ -	\$ -	\$ 2,003,532
Trusts held by third parties	-	-	1,260,236	1,260,236
Total assets	<u>\$ 2,003,532</u>	<u>\$ -</u>	<u>\$ 1,260,236</u>	<u>\$ 3,263,768</u>
<u>2020</u>				
Assets				
Investments	\$ 550,210	\$ -	\$ -	\$ 550,210
Trusts held by third parties	-	-	987,458	987,458
Total assets	<u>\$ 550,210</u>	<u>\$ -</u>	<u>\$ 987,458</u>	<u>\$ 1,537,668</u>

During 2021 and 2020, there were no transfers of investments into or out of Level 3.

NOTE I - LOAN PAYABLE

On April 20, 2020, St. Francis was granted a loan (the "Loan") from a lender in the amount of \$1,225,582, pursuant to the Paycheck Protection Program ("PPP"), under Division A, Title I of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), which was enacted March 27, 2020. The PPP provides loans to qualifying businesses for amounts up to 2.5 times the average monthly payroll expenses of the qualifying business. Entities receiving these funds can request for the loan to be forgiven in its entirety assuming the proceeds have been used as outlined in the guidelines. St. Francis used the entire amount of the loan for qualifying expenses with the intent of applying for forgiveness of a substantial amount of the loan. The loan was forgiven by the Small Business Administration ("SBA") in fiscal year 2021 and is recorded as revenue on the statement of activities and changes in net assets for the year ended June 30, 2021.

St. Francis-St. Joseph Homes for Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

NOTE J - PENSION PLANS

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

Through June 30, 2014, the eligible lay employees of St. Francis were covered under the Archdiocese of Philadelphia Lay Employees' Retirement Plan (the "Plan"), which is a defined benefit pension plan covering substantially all lay employees of the Archdiocese, based on age and service requirements. The Plan is administered by the Trustees of the Plan. St. Francis made annual contributions to the Plan at a rate of 5.9% of the salaries of eligible employees for the years ended June 30, 2021 and 2020. The amount expended by St. Francis for contributions to the Plan was \$248,261 and \$291,489 for the fiscal 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, 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 2021 and 2020, the Archdiocese employer contribution rate was 4.5% of base salary for eligible employees. The contributions by St. Francis into the 403(b) plan totaled \$176,604 and \$222,322 for the years ended June 30, 2021 and 2020, respectively.

Other Contributions

St. Francis also makes contributions to the various orders of the religious personnel who provide services at its institutions. The amount of expense related to these contributions was \$6,958 and \$4,561 for the years ended June 30, 2021 and 2020, respectively.

St. Francis-St. Joseph Homes for Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

NOTE K - RELATED PARTY TRANSACTIONS

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

CSS provides administrative and accounting services for related institutions and group homes, including St. Francis. The total expenses incurred by CSS in providing services are accumulated and allocated on a pro rata basis to the institutions and group homes. The allocated amount is reported as an administrative and general expense in the statement of activities. Any difference between the allocation and the amount charged to the institution during the year is considered a contribution of services from CSS. Repayment of amounts due to CSS is expected when cash is available. The amount due to CSS was \$4,739,009 and \$5,671,945 for the years ended June 30, 2021 and 2020, respectively.

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

	<u>2021</u>	<u>2020</u>
Archdiocese		
Insurance - auto and general	\$ 106,659	\$ 96,678
Lay employee pension contributions	424,865	291,489
Religious employee pension contributions	<u>6,958</u>	<u>4,561</u>
	<u>\$ 538,482</u>	<u>\$ 392,728</u>
CSS		
Allocated administrative and accounting costs	\$ 234,346	\$ 298,705
Information technology services	<u>128,428</u>	<u>120,627</u>
	<u>\$ 362,774</u>	<u>\$ 419,332</u>

Catholic Charities Appeal donated \$25,000 to St. Francis during each of the fiscal years ended June 30, 2021 and 2020.

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

	<u>2021</u>	<u>2020</u>
Catholic Housing and Community Services	<u>\$ 30,279</u>	<u>\$ 44,237</u>

NOTE L - INCOME TAX STATUS

St. Francis follows guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance provides that the tax effects from an uncertain tax position can only be recognized in the financial statements if the position is “more-likely-than-not” to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

St. Francis-St. Joseph Homes for Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

St. Francis 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. St. Francis has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions. St. Francis has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

NOTE M - FUNCTIONAL EXPENSES

St. Francis provides a variety of services. Expenses related to providing these services for the years ended June 30, 2021 and 2020 are as follows:

	2021		
Program	Supporting Management And General	Total Expenses Year Ended June 30, 2021	
Salaries, wages and other payroll costs	\$ 4,975,158	\$ 435,288	\$ 5,410,446
Administrative, general expenses and depreciation	1,212,549	365,526	1,578,075
Occupancy	552,437	49,024	601,461
Direct expenses of care	541,164	-	541,164
	\$ 7,281,308	\$ 849,838	\$ 8,131,146
	2020		
Program	Supporting Management and General	Total Expenses Year Ended June 30, 2020	
Salaries, wages and other payroll costs	\$ 6,959,326	\$ 610,971	\$ 7,570,297
Administrative and general expenses and depreciation	1,352,322	461,759	1,814,081
Occupancy	598,150	53,080	651,230
Direct expenses of care	701,649	-	701,649
	\$ 9,611,447	\$ 1,125,810	\$ 10,737,257

NOTE N - COMMITMENTS

St. Francis annually enters into various operating lease agreements primarily for the rental of facilities, some of which are with other entities also operating under the auspices of the Archdiocese. Rental expense associated with these operating lease agreements was \$93,220 and \$109,770 for the years ended June 30, 2021 and 2020, respectively.

St. Francis-St. Joseph Homes for Children
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2021 and 2020

NOTE O - NET ASSETS WITH DONOR RESTRICTIONS

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

	2021	2020
Education of children	\$ 538,205	\$ 409,203
Other	14,116	10,733
	\$ 552,321	\$ 419,936

Net assets with donor restrictions that are to be held in perpetuity at June 30, 2021 and 2020 consisted of the following:

	2021	2020
Trusts held by third parties	\$ 707,915	\$ 567,522

NOTE P - SUBSEQUENT EVENTS

Management has evaluated subsequent events for the year ended June 30, 2021 through January 27, 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.

SUPPLEMENTARY INFORMATION

St. Francis-St. Joseph Homes for Children

SCHEDULE OF REVENUE

Year ended June 30, 2021

Operating revenue

Governmental revenue	
Human services funding	\$ 5,970,299
Other governmental revenue-PPP Loan Forgiveness	1,225,472
Title I	51,341
Private Residential Rehabilitative Institution	1,166,171
Nutritional program	78,669
Medical Assistance	257,772
Fee for service	24,125
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Total operating revenue	8,773,849

Other revenue

Donations and bequests	377,051
Donations - related party	250,000
Catholic Charities Appeal	25,000
Trusts	20,506
Gain on sale of asset	12,500
Investment return, net	519,423
	<hr/>
Total other revenue	1,204,480
	<hr/>
Total revenue	\$ 9,978,329

St. Francis-St. Joseph Homes for Children

SCHEDULE OF OPERATING EXPENSES

Year ended June 30, 2021

Salaries, wages and other payroll costs

Administrative	\$ 884,417
Professional	801,502
Clerical	123,086
Child care	1,805,525
Severance	239,595
FICA	279,067
Workers' compensation insurance	255,749
Unemployment tax	54,476
Employees' health and retirement benefits	967,029
	<hr/>
Total salaries, wages and other payroll costs	5,410,446

Administrative and general expenses

Administrative and accounting services allocated from the Archdiocese of Philadelphia - Catholic Social Services - Director's Office	362,774
Professional fees	468,710
Telephone	64,861
Transportation	94,977
Conferences	330
Staff development	13,438
Equipment - replacement	17,296
General expenses and supplies	130,852
Postage	8,343
Bad debts expense	2,025
Depreciation	414,469
	<hr/>
Total administrative and general expenses	1,578,075

Cost of occupancy

Rental of buildings	99,592
Insurance - buildings, contents, etc.	61,329
Repairs and maintenance - buildings and ground	299,897
Utilities	140,643
	<hr/>
Total cost of occupancy	601,461

Direct expenses of children

Foods/supplies/other	23,581
Clothing - cleaning and repairing	62,803
Medical, dental	20,860
Personal	110,660
Group home expenses	284,486
Activities - recreation, camp	38,774
	<hr/>
Total direct expenses of children	541,164

Total operating expenses	<hr/> <hr/> <u>\$ 8,131,146</u>
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