

Financial Statements and Report of
Independent Certified Public
Accountants

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

June 30, 2022 and 2021

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Archbishop of Philadelphia
Archdiocese of Philadelphia

Opinion

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, 2022 and 2021, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of SPED as of June 30, 2022 and 2021, 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.

Basis for opinion

We conducted our audits of the financial statements in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of SPED and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about SPED's ability to continue as a going concern for one year after the date the financial statements are issued.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 SPED's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about SPED's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Grant Thornton LLP

Philadelphia, Pennsylvania
December 5, 2022

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

STATEMENTS OF FINANCIAL POSITION

June 30,

	2022	2021
ASSETS		
Cash and cash equivalents, including amounts held by affiliate	\$ 1,239,848	\$ 1,851,742
Parental tuition receivable (less allowance for doubtful accounts of \$109,213 in 2022 and \$81,111 in 2021)	89,556	76,005
Other receivables	57,676	25,200
Prepaid expenses and other assets	2,557	4,616
Investments (Note C)	3,960,939	4,681,111
Right-of-use assets (Note O)	56,166	79,051
Property and equipment, net (Note D)	255,948	122,723
Total assets	\$ 5,662,690	\$ 6,840,448
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 45,958	\$ 26,657
Accrued salaries and wages	285,840	289,071
Lease liabilities (Note O)	56,166	79,051
Deferred revenue	110,147	136,529
Note payable - SBA loan program (Note L)	-	540,100
Due to related organizations (Note I)	18,126	15,659
Total liabilities	516,237	1,087,067
Net assets		
Without donor restrictions (Note F)	3,011,939	3,273,380
With donor restrictions (Note G)	2,134,514	2,480,001
Total net assets	5,146,453	5,753,381
Total liabilities and net assets	\$ 5,662,690	\$ 6,840,448

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, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, gains and other support			
Tuition and fees, net	\$ 1,460,667	\$ -	\$ 1,460,667
Other operating revenues and gains			
Catholic Charities Appeal	1,035,859	-	1,035,859
Gain on extinguishment of note payable (Note L)	540,100	-	540,100
Contributions and donations	433,244	365,559	798,803
Fundraising	77,298	-	77,298
Contributed services (Note J)	20,175	-	20,175
Rental income	25,000	-	25,000
Miscellaneous income	73,124	152	73,276
Investment return, net	(414,778)	(303,017)	(717,795)
Total other operating revenues and gains	1,790,022	62,694	1,852,716
Net assets released from restrictions			
Satisfaction of purpose restrictions	408,181	(408,181)	-
Total revenues	3,658,870	(345,487)	3,313,383
Operating expenses			
Salaries and benefits	2,854,925	-	2,854,925
Purchased services	445,246	-	445,246
Operation and maintenance	292,417	-	292,417
Materials and supplies	202,460	-	202,460
Other expenses	110,733	-	110,733
Total operating expenses	3,905,781	-	3,905,781
Change in net assets before other item	(246,911)	(345,487)	(592,398)
Relocation expense	(14,530)	-	(14,530)
CHANGE IN NET ASSETS	(261,441)	(345,487)	(606,928)
Net assets, beginning of year	3,273,380	2,480,001	5,753,381
Net assets, end of year	\$ 3,011,939	\$ 2,134,514	\$ 5,146,453

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, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
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	2,369,212	876,431	3,245,643
Net assets released from restrictions			
Satisfaction of purpose restrictions	253,857	(253,857)	-
Total revenues	4,027,508	622,574	4,650,082
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	3,397,665	-	3,397,665
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	2,643,537	2,104,160	4,747,697
Net assets, end of year	\$ 3,273,380	\$ 2,480,001	\$ 5,753,381

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,

	2022	2021
Cash flows from operating activities		
Change in net assets	\$ (606,928)	\$ 1,005,684
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	33,455	26,540
Provision for bad debts	41,802	11,236
Net realized gains on investments	-	(105,342)
Net depreciation (appreciation) in the fair value of investments	1,250,900	(886,887)
Derecognition of beneficial interest in trusts held by third parties	-	246,733
Gain on extinguishment of note payable	(540,100)	-
Changes in operating assets and liabilities		
Parental tuition receivable	(55,353)	(58,796)
Other receivables	(32,476)	232,629
Prepaid expenses and other assets	2,059	(3,182)
Right-of-use assets	22,885	(79,051)
Accounts payable	19,301	8,120
Accrued salaries and wages	(3,231)	(18,138)
Lease liabilities	(22,885)	79,051
Deferred revenue	(26,382)	67,221
Due to related organizations	2,467	(54,785)
	85,514	471,033
Cash flows from investing activities		
Purchase of property and equipment	(166,680)	-
Purchase of investments	(530,728)	(450,353)
Proceeds from sale of investments	-	373,972
	(697,408)	(76,381)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS, INCLUDING AMOUNTS HELD BY AFFILIATE	(611,894)	394,652
Cash and cash equivalents, including amounts held by affiliate, beginning of year	1,851,742	1,457,090
Cash and cash equivalents, including amounts held by affiliate, end of year	\$ 1,239,848	\$ 1,851,742

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, 2022 and 2021

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;
- 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 and was terminated by agreement of the parties on June 30, 2022. Pursuant to the aforementioned agreement, FIF assumed strategic and operational management of the Catholic secondary schools and the Schools of Special Education and provided 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 reported directly to FIF’s Chief Executive Officer. All facilities continue to be owned by the Archdiocese of Philadelphia.

With the termination of the management agreement, the Office of Catholic Education of the Archdiocese of Philadelphia manages the schools directly.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared on an 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.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

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

SPED recognizes and measures its revenues in accordance with Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. 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.

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 a 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, 2022 and 2021, registration and re-registration fees of \$38,470 and \$35,750, respectively, are included in tuition and fees in the statements of activities and changes in net assets.

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

	2022	2021
Tuition and fees	\$ 3,589,608	\$ 3,330,954
Less: direct grants	(1,943,287)	(1,767,255)
Less: tuition assistance	(185,654)	(159,260)
Tuition and fees, net	\$ 1,460,667	\$ 1,404,439

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.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

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.

Contributions and fundraising revenues, including unconditional promises to give and allocations from the Catholic Charities Appeal, are recognized as revenue in the period received. Unconditional promises to give are recorded at their fair value when SPED is notified of these gifts. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. 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.

During the year ended June 30, 2022, SPED adopted ASU 2020-07, *Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which increased the transparency of contributed nonfinancial assets through enhancements to presentation and disclosure.

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. Contributed services did not have donor-imposed restrictions.

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

Use 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.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

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 statement 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

Leases

SPED recognizes and measures its leases in accordance with ASU 2016-02, *Leases*. 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 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.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

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.

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 had 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:

	2022	2021
Catholic Values Equity Fund	\$ 2,759,095	\$ 3,323,589
Catholic Values Fixed Income Fund	1,201,844	1,357,522
Total investments	\$ 3,960,939	\$ 4,681,111

NOTE D - PROPERTY AND EQUIPMENT

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

	2022	2021
Land improvements	\$ 40,170	\$ 29,850
Building improvements	192,242	35,882
Furniture and fixtures	48,363	48,363
Vehicles	122,608	122,608
Total assets	403,383	236,703
Accumulated depreciation	(147,435)	(113,980)
Property and equipment, net	\$ 255,948	\$ 122,723

Depreciation expense was \$33,455 and \$26,540 for the years ended June 30, 2022 and 2021, respectively.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

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, 2021 through June 30, 2022 and for the period August 14, 2020 through June 30, 2021 of \$96,374 and \$100,170, 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.

Estimates of the actuarially determined present value of accumulated plan benefits at June 30, 2021 totaled approximately \$599,400,000. At June 30, 2022 and 2021, the assets available to provide for these benefits totaled approximately \$479,943,000 and \$573,800,000, 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 2022 and 2021, 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 \$71,714 and \$77,237 and \$4,880 and \$5,100 for the years ended June 30, 2022 and 2021, respectively.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

NOTE F - NET ASSETS WITHOUT DONOR RESTRICTIONS

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

	2022	2021
Without donor restrictions	\$ 717,593	\$ 561,880
Archdiocesan designations functioning as endowment	2,294,346	2,711,500
Total net assets without donor restrictions	\$ 3,011,939	\$ 3,273,380

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 2022 and 2021, there were no amounts spent from the designated funds.

NOTE G - NET ASSETS WITH DONOR RESTRICTIONS

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

	2022	2021
Tuition assistance	\$ 153,526	\$ 120,814
Specified school operations purposes	1,980,988	2,359,187
Total net assets with donor restrictions	\$ 2,134,514	\$ 2,480,001

During 2022 and 2021, net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose of \$408,181 and \$253,857, 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, 2022 and 2021

NOTE I - RELATED-PARTY TRANSACTIONS

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

	2022	2021
Office for Financial Services	\$ 15,419	\$ 15,419
Diocesan High Schools	2,707	240
Total	\$ 18,126	\$ 15,659

OCE charges for financial and management services provided to SPED. Expenses charged in 2022 and 2021 in relation to these services were \$215,000 and \$105,000, respectively.

SPED received \$27,291 and \$25,480 in 2022 and 2021, 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 \$1,035,859 and \$1,185,661 for the years ended June 30, 2022 and 2021, respectively.

SPED received donations of \$71,587 and \$71,757, during the years ended June 30, 2022 and 2021, respectively, from the Heritage of Faith ~ Vision of Hope for tuition assistance.

Cash and cash equivalents include \$191,565 and \$189,189 at June 30, 2022 and 2021, 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:

	2022	2021
Salaries and benefits - lay equivalent value of religious services	\$ 174,469	\$ 154,301
Expended for religious services:		
Salaries, related employee benefits and faculty house expenses	(154,294)	(124,722)
	\$ 20,175	\$ 29,579

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:

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

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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>2022</u>				
SEI mutual funds	\$ 3,960,939	\$ -	\$ -	\$ 3,960,939
<u>2021</u>				
SEI mutual funds	\$ 4,681,111	\$ -	\$ -	\$ 4,681,111

NOTE L - NOTE PAYABLE - SBA LOAN PROGRAM

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"), which is reflected as a liability as of June 30, 2021. 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. Qualifying expenses were incurred during the year ended June 30, 2021, and the official loan forgiveness was received on August 13, 2021. Accordingly, SPED recognized the forgiveness of the loan as gain on extinguishment of note payable in the June 30, 2022 statement of activities and changes in net assets.

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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:

	<u>Instructional Programs</u>	<u>Management and General</u>	<u>2022 Total</u>
Salaries and benefits	\$ 2,854,925	\$ -	\$ 2,854,925
Purchased services	131,649	313,597	445,246
Operation and maintenance	292,417	-	292,417
Materials and supplies	202,460	-	202,460
Other expenses	102,456	8,277	110,733
	<u>\$ 3,583,907</u>	<u>\$ 321,874</u>	<u>\$ 3,905,781</u>
Total			
	<u>Instructional Programs</u>	<u>Management and General</u>	<u>2021 Total</u>
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	91,990	1,781	93,771
	<u>\$ 3,156,840</u>	<u>\$ 240,825</u>	<u>\$ 3,397,665</u>
Total			

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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. These internal designations could be drawn upon if the Archbishop or his designee approves that action. Amounts available include annual distributions from the restricted funds. In addition, SPED expects to receive funding during the year ended June 30, 2023 of \$1,150,000 from Catholic Charities Appeal and \$200,000 from the Ambassador's Fund as donations without donor restrictions.

	<u>2022</u>	<u>2021</u>
Financial assets:		
Cash and cash equivalents, including amounts held by affiliate	\$ 1,239,848	\$ 1,851,742
Parental tuition receivable and other receivables, net	147,232	101,205
Investments	<u>3,960,939</u>	<u>4,681,111</u>
Financial assets, at year end	<u>5,348,019</u>	<u>6,634,058</u>
Less those unavailable for general expenditure within one year, due to:		
Other donor-imposed restrictions	2,134,514	2,480,001
Archdiocesan designations functioning as endowment	<u>2,294,346</u>	<u>2,711,500</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 919,159</u>	<u>\$ 1,442,557</u>

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, 2022 is as follows:

Lease cost	\$ 87,442
Other information:	
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows	\$ 87,442
ROU assets obtained in exchange for new lease liabilities	\$ 56,166
Weighted-average remaining lease term (in years)	2.05
Weighted-average discount rate	4%

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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, 2022:

2023	\$	39,379
2024		7,428
2025		6,293
2026		<u>5,500</u>
Total minimum payments		58,600
Less present value discount		<u>(2,434)</u>
Total	\$	<u>56,166</u>

NOTE P - SUBSEQUENT EVENTS

SPED has evaluated subsequent events through December 5, 2022, the date which the financial statements were available for distribution, noting no items requiring accrual or disclosure in the financial statements.