

Financial Statements and Report of
Independent Certified Public
Accountants

St. Francis-St. Joseph Homes for Children

June 30, 2022 and 2021

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

Opinion

We have audited the financial statements of St. Francis-St. Joseph Homes for Children (the "Entity"), 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 Entity as of June 30, 2022 and 2021, and the results of its activities and 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 the Entity 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.

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 the Entity'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 the Entity'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 the Entity'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.

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 for the year ended June 30, 2022, 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 such 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 US GAAS. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.



Philadelphia, Pennsylvania
March 10, 2023

St. Francis-St. Joseph Homes for Children

STATEMENTS OF FINANCIAL POSITION

June 30,

	2022	2021
ASSETS		
Current assets		
Cash and cash equivalents	\$ 15,167	\$ 15,167
Accounts receivable - DHS and CBH, net of allowance of \$25,000 at June 30, 2022 and 2021	1,472,278	611,043
Accounts receivable - other governmental agencies, net of allowance of \$ 10,000 at June 30, 2022 and 2021	1,450,887	1,702,904
Related-party note receivable - Archdiocese of Philadelphia	14,333	14,333
Prepaid expenses and other current assets	111,383	119,045
Total current assets	3,064,048	2,462,492
Property, plant and equipment, net	892,384	1,160,061
Related-party note receivable - Archdiocese of Philadelphia, net of current portion	432,590	446,923
Investments	2,967,999	2,003,532
Trusts held by third parties	942,490	1,260,236
Total assets	\$ 8,299,511	\$ 7,333,244
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 186,021	\$ 218,663
Salaries and wages payable	248,409	252,827
Due to Catholic Social Services	3,227,418	4,739,009
Total current liabilities	3,661,848	5,210,499
Net assets		
Net assets without donor restrictions	3,695,172	862,509
Net assets with donor restrictions	942,491	1,260,236
Total net assets	4,637,663	2,122,745
Total liabilities and net assets	\$ 8,299,511	\$ 7,333,244

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, 2022

	<u>Net Assets Without Donor Restrictions</u>	<u>Net Assets With Donor Restrictions</u>	<u>Total</u>
Operating revenue			
Governmental revenue	\$ 7,800,958	\$ -	\$ 7,800,958
Fee for service	24,594	-	24,594
Total operating revenue	<u>7,825,552</u>	<u>-</u>	<u>7,825,552</u>
Operating expenses			
Salaries, wages and other payroll costs	5,109,573	-	5,109,573
Administrative and general	1,249,559	-	1,249,559
Occupancy	850,962	-	850,962
Direct expenses of children	617,779	-	617,779
Depreciation	407,893	-	407,893
Total operating expenses	<u>8,235,766</u>	<u>-</u>	<u>8,235,766</u>
Deficiency in operating revenue under operating expenses	<u>(410,214)</u>	<u>-</u>	<u>(410,214)</u>
Other revenue			
Donations, bequests, and trusts	690,973	-	690,973
Catholic Charities Appeal	25,000	-	25,000
Gain on sale of asset	3,080,139	-	3,080,139
Investment return	<u>(553,235)</u>	<u>(317,745)</u>	<u>(870,980)</u>
Total other revenue	<u>3,242,877</u>	<u>(317,745)</u>	<u>2,925,132</u>
CHANGE IN NET ASSETS	2,832,663	(317,745)	2,514,918
Net assets, beginning of year	<u>862,509</u>	<u>1,260,236</u>	<u>2,122,745</u>
Net assets, end of year	<u>\$ 3,695,172</u>	<u>\$ 942,491</u>	<u>\$ 4,637,663</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, 2021

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
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
	<hr/>	<hr/>	<hr/>
Total operating revenue	8,773,849	-	8,773,849
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
	<hr/>	<hr/>	<hr/>
Total operating expenses	8,131,146	-	8,131,146
Excess of operating revenue over operating expenses	<hr/>	<hr/>	<hr/>
	642,703	-	642,703
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	246,645	272,778	519,423
	<hr/>	<hr/>	<hr/>
Total other revenue	931,702	272,778	1,204,480
CHANGE IN NET ASSETS	1,574,405	272,778	1,847,183
Net assets (deficit), beginning of year	<hr/>	<hr/>	<hr/>
	(711,896)	987,458	275,562
Net assets, end of year	<hr/>	<hr/>	<hr/>
	\$ 862,509	\$ 1,260,236	\$ 2,122,745

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,

	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ 2,514,918	\$ 1,847,183
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	407,893	414,469
Gain on sale of asset	(3,080,139)	(12,500)
Net realized and unrealized losses (gains) on investments	1,278,717	(477,940)
Bad debt expense	84,872	2,025
Forgiveness of loan payable	-	(1,225,582)
Changes in operating assets and liabilities:		
Accounts receivable - DHS and CBH	(861,235)	426,424
Accounts receivable - other governmental agencies	167,145	97,012
Prepaid expenses and other current assets	7,662	25,757
Accounts payable and accrued expenses	(32,642)	(9,453)
Salaries and wages payable	(4,418)	(49,312)
Due to Catholic Social Services	(1,511,591)	(932,936)
	<u>(1,028,818)</u>	<u>105,147</u>
Net cash (used in) provided by operating activities		
Cash flows from investing activities:		
Capital expenditures	(140,216)	(108,767)
Proceeds received from related-party loans receivable - Archdiocese of Philadelphia	14,333	13,773
Proceeds received from sale of asset	3,080,139	12,500
Sales of investments	1,535,940	1,271,161
Purchases of investments	(3,461,378)	(2,519,321)
	<u>1,028,818</u>	<u>(1,330,654)</u>
Net cash provided by (used in) investing activities		
DECREASE IN CASH AND CASH EQUIVALENTS	-	(1,225,507)
Cash and cash equivalents:		
Beginning of year	15,167	1,240,674
End of year	\$ 15,167	\$ 15,167

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

St. Francis-St. Joseph Homes for Children

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

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, 2022 and 2021

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, 2022 and 2021.

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.

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, 2022 and 2021.

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.

St. Francis-St. Joseph Homes for Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

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.

Property, Plant and Equipment

Buildings, building improvements and equipment are capitalized at cost or at their fair market value if donated. Depreciation for fixed assets is computed on a straight-line basis over the estimated useful lives of the assets, which are as follows:

Building	20 years
Building improvements	20 years
Equipment	3 - 5 years

St. Francis-St. Joseph Homes for Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

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,	
	2022	2021
Cash and cash equivalents	\$ 15,167	\$ 15,167
Accounts receivable	2,923,165	2,313,947
Investments - board designated	2,967,998	2,003,532
Assets available to management	5,906,330	4,332,646
Liabilities to be settled within one year		
Accounts payable and accrued expenses	(186,021)	(218,663)
Salaries and wages payable	(248,409)	(252,827)
Due to CSS	(3,227,418)	(4,739,009)
Assets (liabilities) available to management, less liabilities to be settled within one year	\$ 2,244,482	\$ (877,853)

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.

Pending Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, Leases, which requires that most leased assets be recognized on the balance sheet as assets and liabilities for the rights and obligations created by these leases. ASU 2016-02, as amended, is effective for fiscal years beginning after December 15, 2021. An entity is required to apply the amendments in ASU 2016-02 under the modified retrospective transition approach. This approach includes a number of optional practical expedients, which are described in the final standard. Under these practical expedients, an organization will continue to account for leases that commence before the effective date in accordance with current U.S. GAAP, unless the lease is modified. However, lessees are required to recognize on the balance sheet leased assets and liabilities for operating leases at each reporting date. St. Francis is assessing the impact of the new standard and its amendments at this time.

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.

St. Francis-St. Joseph Homes for Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

The impact of the COVID-19 pandemic did not have a material effect on St. Francis' financial results during the years ended June 30, 2022 and 2021. 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, 2023.

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 its 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, 2022 and 2021.

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

	<u>2022</u>	<u>2021</u>
Catholic Values Equity Fund	\$ 2,046,114	\$ 1,419,307
Catholic Values Fixed Income Fund	<u>921,884</u>	<u>584,225</u>
	<u>\$ 2,967,998</u>	<u>\$ 2,003,532</u>

St. Francis-St. Joseph Homes for Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

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

	2022			2021		
	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	\$ 52,625	\$ -	\$ 52,625	\$ 27,214	\$ -	\$ 27,214
Net realized revenue and gains	355,112	-	355,112	14,268	-	14,268
Change in unrealized net gains and losses on investments	(960,972)	(317,745)	(1,278,717)	205,163	272,778	477,941
Total	\$ (553,235)	\$ (317,745)	\$ (870,980)	\$ 246,645	\$ 272,778	\$ 519,423

NOTE D - TRUSTS HELD BY THIRD PARTIES

St. Francis is the beneficiary of individual trusts held by third parties. At June 30, 2022 and 2021, the allocable fair value of these trusts was \$942,491 and \$1,260,236, respectively, and is recorded as trusts held by third parties in the accompanying statements of financial position. During the years ended June 30, 2022 and 2021, St. Francis recognized unrealized losses of \$(317,745) and unrealized gains of \$272,778, 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:

	2022	2021
Buildings	\$ 7,393,942	\$ 7,343,542
Equipment	2,117,679	2,027,863
	9,511,621	9,371,405
Accumulated depreciation	(8,619,237)	(8,211,344)
Property, plant and equipment, net	\$ 892,384	\$ 1,160,061

Depreciation expense of \$407,983 and \$414,469 was incurred for the years ended June 30, 2022 and 2021, respectively.

St. Francis-St. Joseph Homes for Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

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

At June 30, 2022 and 2021, St. Francis had uncollateralized accounts receivable from Philadelphia Department of Human Services (“DHS”) and Community Behavioral Health (“CBH”) of \$1,472,278 and \$611,043, respectively. The receivable due from other governmental agencies was \$1,450,887 and \$1,702,904 as of June 30, 2022 and 2021, respectively. The balances owed by DHS and CBH represent 48.9% and 26% of total outstanding receivables as of June 30, 2022 and 2021, 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, 2022 are as follows:

2023	\$	14,333
2024		15,520
2025		16,150
2026		16,806
Thereafter		<u>384,114</u>
	\$	<u>446,923</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 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.

St. Francis-St. Joseph Homes for Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

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>2022</u>				
Assets				
Investments	\$ 2,967,998	\$ -	\$ -	\$ 2,967,998
Trusts held by third parties	-	-	942,491	942,491
Total assets	<u>\$ 2,967,998</u>	<u>\$ -</u>	<u>\$ 942,491</u>	<u>\$ 3,910,489</u>
<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>

During 2022 and 2021, 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 \$1,225,472, 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 2022 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, 2022 and 2021

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, 2022 and 2021. The amount expended by St. Francis for contributions to the Plan was \$202,912 and \$248,261 for the fiscal years ended June 30, 2022 and 2021, 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 2022 and 2021, 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 \$160,560 and \$176,604 for the years ended June 30, 2022 and 2021, 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 \$4,980 and \$6,958 for the years ended June 30, 2022 and 2021, respectively.

St. Francis-St. Joseph Homes for Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

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 \$3,227,418 and \$4,739,009 for the years ended June 30, 2022 and 2021, respectively.

The transactions with the Archdiocese and CSS charged to expense for the fiscal years ended June 30, 2022 and 2021 were as follows:

	<u>2022</u>	<u>2021</u>
Archdiocese		
Insurance - auto and general	\$ 89,744	\$ 106,659
Lay employee pension contributions	363,472	424,865
Religious employee pension contributions	<u>4,980</u>	<u>6,958</u>
	<u>\$ 458,196</u>	<u>\$ 538,482</u>
CSS		
Allocated administrative and accounting costs	\$ 234,177	\$ 234,346
Information technology services	<u>101,547</u>	<u>128,428</u>
	<u>\$ 335,724</u>	<u>\$ 362,774</u>

Catholic Charities Appeal donated \$25,000 to St. Francis during each of the fiscal years ended June 30, 2022 and 2021.

Certain related-party amounts, included in accounts payable and accrued expenses as of June 30, are as follows:

	<u>2022</u>	<u>2021</u>
Catholic Housing and Community Services	<u>\$ 31,774</u>	<u>\$ 30,279</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, 2022 and 2021

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, are as follows:

	2022		
	Program	Supporting Management And General	Total Expenses Year Ended June 30, 2022
Salaries, wages and other payroll costs	\$ 4,699,280	\$ 410,293	\$ 5,109,573
Administrative, general expenses and depreciation	1,198,591	458,861	1,657,452
Occupancy	781,602	69,360	850,962
Direct expenses of care	617,779	-	617,779
Total expenses	\$ 7,297,252	\$ 938,514	\$ 8,235,766
	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
Total expenses	\$ 7,281,308	\$ 849,838	\$ 8,131,146

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 \$104,055 and \$93,220 for the years ended June 30, 2022 and 2021, respectively.

St. Francis-St. Joseph Homes for Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

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:

	<u>2022</u>	<u>2021</u>
Education of children	\$ 455,405	\$ 538,205
Other	<u>11,944</u>	<u>14,116</u>
	<u>\$ 467,348</u>	<u>\$ 552,321</u>

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

	<u>2022</u>	<u>2021</u>
Trusts held by third parties	<u>\$ 475,142</u>	<u>\$ 707,915</u>

NOTE P - SUBSEQUENT EVENTS

Management has evaluated subsequent events for the year ended June 30, 2022 through March 10, 2023, 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, 2022

Operating revenue

Governmental revenue	
Human services funding	\$ 6,375,689
Title I	48,153
Private Residential Rehabilitative Institution	1,033,210
Nutritional program	83,058
Medical assistance	260,848
Fee for service	<u>24,594</u>
 Total operating revenue	 <u>7,825,552</u>

Other revenue

Donations and bequests	440,973
Donations - related party	250,000
Catholic Charities Appeal	25,000
Gain on sale of asset	3,080,139
Investment return, net	<u>(870,980)</u>
 Total other revenue	 <u>2,925,132</u>
 Total revenue	 <u>\$ 10,750,684</u>

St. Francis-St. Joseph Homes for Children

SCHEDULE OF OPERATING EXPENSES

Year ended June 30, 2022

Salaries, wages and other payroll costs

Administrative	\$ 1,003,265
Professional	712,503
Clerical	125,747
Child care	1,857,418
Maintenance and support	62,990
FICA	274,610
Workers' compensation insurance	122,712
Unemployment tax	56,199
Employees' health and retirement benefits	894,129
	<hr/>
Total salaries, wages and other payroll costs	5,109,573

Administrative and general expenses

Administrative and accounting services allocated from the Archdiocese of Philadelphia - Catholic Social Services - Director's Office	335,724
Professional fees	456,141
Telephone	59,241
Transportation	103,516
Conferences	1,395
Staff development	11,439
Equipment - replacement	29,900
General expenses and supplies	140,437
Postage	6,612
Bad debts expense	84,872
Charity	20,282
Depreciation	407,893
	<hr/>
Total administrative and general expenses	1,657,452

Cost of occupancy

Rental of buildings	104,055
Insurance - buildings, contents, etc.	64,400
Real estate taxes	5,594
Repairs and maintenance - buildings and ground	526,630
Utilities	150,283
	<hr/>
Total cost of occupancy	850,962

Direct expenses of children

Foods/supplies/other	364,170
Clothing - cleaning and repairing	58,528
Medical, dental	20,993
Personal	122,486
Group home expenses	-
Activities - recreation, camp	51,602
	<hr/>
Total direct expenses of children	617,779

Total operating expenses	<u><u>\$ 8,235,766</u></u>
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