

Financial Statements and Report of
Independent Certified Public
Accountants

**Communities of Don Guanella and
Divine Providence**

June 30, 2024 and 2023

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Communities of Don Guanella and Divine Providence

Opinion

We have audited the financial statements of the Communities of Don Guanella and Divine Providence (the "Communities"), which comprise the statements of financial position as of June 30, 2024 and 2023, 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 the Communities as of June 30, 2024 and 2023, and the results of its activities and changes in 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 Communities 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 Communities' ability to continue as a going concern for one year after the date the financial statements are available to be 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 Communities' 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 Communities' 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
March 28, 2025

Communities of Don Guanella and Divine Providence

STATEMENTS OF FINANCIAL POSITION

June 30,

	2024	2023
ASSETS		
Current assets		
Cash	\$ 15,940	\$ 15,940
Client escrow funds	789,033	899,956
Accounts receivable - Commonwealth of Pennsylvania net of estimate for credit losses of \$205,499 at June 30, 2024 and 2023	10,502,358	10,162,285
Accounts receivable - other	21,576	21,679
Prepaid expenses and other current assets	749,592	792,620
Total current assets	12,078,499	11,892,480
Noncurrent assets		
Property, plant and equipment, net	10,388,742	10,124,220
Right-of-use assets	2,550,961	562,293
Investments - board designated	11,903,670	10,567,091
Trusts and other investments held by third parties	927,841	604,093
Total assets	<u>\$ 37,849,713</u>	<u>\$ 33,750,177</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 1,105,300	\$ 983,237
Salaries and wages payable	3,438,172	3,189,675
Client escrow funds	789,033	899,956
Mortgage payable, current	27,959	-
Current maturities of lease liabilities	503,468	249,816
Due to Catholic Social Services	2,419,772	3,538,436
Total current liabilities	8,283,704	8,861,120
Long-term liabilities		
Mortgage payable, net of current position	246,341	-
Lease liabilities, net of current maturities	2,077,656	319,465
Total liabilities	10,607,701	9,180,585
Net assets		
Without donor restrictions	25,973,967	23,721,127
With donor restrictions	1,268,045	848,465
Total net assets	27,242,012	24,569,592
Total liabilities and net assets	<u>\$ 37,849,713</u>	<u>\$ 33,750,177</u>

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

Communities of Don Guanella and Divine Providence

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended June 30, 2024

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Operating revenues			
Governmental revenue	\$66,980,997	\$ -	\$66,980,997
Other revenue	269,914	-	269,914
Operating revenues	67,250,911	-	67,250,911
Operating expenses			
Salaries, wages and other payroll costs	49,025,733	-	49,025,733
Administrative and general expenses	9,405,966	-	9,405,966
Occupancy	3,811,558	-	3,811,558
Direct expenses of care	4,091,982	-	4,091,982
Depreciation	1,255,351	-	1,255,351
Total operating expenses	67,590,590	-	67,590,590
Change in net assets from operations	(339,679)	-	(339,679)
Other revenues			
Donations, bequests, trusts, and other	771,706	369,441	1,141,147
Catholic Charities Appeal	210,625	-	210,625
Investment return	1,610,188	50,139	1,660,327
Total other revenues	2,592,519	419,580	3,012,099
CHANGE IN NET ASSETS	2,252,840	419,580	2,672,420
Net assets at beginning of year	23,721,127	848,465	24,569,592
Net assets at end of year	<u>\$25,973,967</u>	<u>\$ 1,268,045</u>	<u>\$27,242,012</u>

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

Communities of Don Guanella and Divine Providence

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended June 30, 2023

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Operating revenues			
Governmental revenue	\$61,901,137	\$ -	\$61,901,137
Other revenue	250,286	-	250,286
Operating revenues	62,151,423	-	62,151,423
Operating expenses			
Salaries, wages and other payroll costs	46,600,018	-	46,600,018
Administrative and general expenses	8,698,136	-	8,698,136
Occupancy	3,101,652	-	3,101,652
Direct expenses of care	3,730,073	-	3,730,073
Depreciation	1,211,827	-	1,211,827
Total operating expenses	63,341,706	-	63,341,706
Change in net assets from operations	(1,190,283)	-	(1,190,283)
Other revenues			
Donations, bequests, trusts, and other	1,045,206	123,647	1,168,853
Catholic Charities Appeal	225,000	-	225,000
Investment return	1,060,186	37,898	1,098,084
Total other revenues	2,330,392	161,545	2,491,937
CHANGE IN NET ASSETS	1,140,109	161,545	1,301,654
Net assets at beginning of year	22,581,018	686,920	23,267,938
Net assets at end of year	<u>\$23,721,127</u>	<u>\$ 848,465</u>	<u>\$24,569,592</u>

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

Communities of Don Guanella and Divine Providence

STATEMENTS OF CASH FLOWS

Years ended June 30,

	2024	2023
Cash flows from operating activities:		
Change in net assets	\$ 2,672,420	\$ 1,301,654
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,255,351	1,211,827
Net realized and unrealized gains on investments	(1,162,589)	(785,970)
Changes in operating assets and liabilities:		
Accounts receivable - Commonwealth of Pennsylvania	(340,073)	(3,947,171)
Accounts receivable - other	103	(1,209)
Prepaid expenses and other current assets	43,028	362,854
Accounts payable and accrued expenses	122,063	(83,734)
Salaries and wages payable	248,497	232,082
Mortgage payable	274,300	-
Related-party note receivable - Archdiocese of Philadelphia	-	217,461
Net right-of-use asset/lease liability	23,175	6,988
Due to Catholic Social Services	(1,118,664)	2,555,765
Net cash provided by operating activities	<u>2,017,611</u>	<u>1,070,547</u>
Cash flows from investing activities:		
Purchases of property, plant, and equipment	(1,519,873)	(758,434)
Purchases of investments	(829,920)	(910,187)
Sales of investments	<u>332,182</u>	<u>598,074</u>
Net cash used in investing activities	<u>(2,017,611)</u>	<u>(1,070,547)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	-	-
Cash		
Beginning of year	<u>15,940</u>	<u>15,940</u>
End of year	<u><u>\$ 15,940</u></u>	<u><u>\$ 15,940</u></u>
Supplemental disclosure:		
Cash paid for interest	<u><u>\$ 11,582</u></u>	<u><u>\$ 8,981</u></u>

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

Communities of Don Guanella and Divine Providence

NOTES TO FINANCIAL STATEMENTS

June 30, 2024 and 2023

NOTE A - ORGANIZATION

The Communities of Don Guanella and Divine Providence (the "Communities") operates 13 community-based intermediate care facilities in Delaware, Chester and Philadelphia counties, and has the capacity for 90 men. The Communities also operates a residential facility located in Springfield, Pennsylvania called Divine Providence Village. Divine Providence Village has the capacity to provide services for 73 intellectually disabled/developmentally disabled individuals. The Communities also operates 12 Community Living Arrangements/Group Homes ("CLA") in Delaware County. CLA provides residential services to intellectually disabled/developmentally disabled adults. Finally, the Communities operates a Family Living Program, Health Services, and a Community Outreach Program to provide services to intellectually disabled and developmentally disabled clients in the community.

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

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

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

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

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

- Net assets without donor restrictions are not subject to donor-imposed restrictions and may be designated for specific purposes by action of the Board of Directors. The Board has designated \$11,903,670 and \$10,567,091 of investments for reserves as of the years ended June 30, 2024 and 2023, respectively.
- 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.

Communities of Don Guanella and Divine Providence

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2024 and 2023

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 estimate for credit losses, useful lives of depreciable assets and the fair value of investments. Actual results could differ from those estimates.

Operating and Nonoperating Activities

The statements of activities and changes in net assets present the change in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to the Communities' programs. Nonoperating activities include gifts and pledges, bequests, and return on investments less amounts distributed.

Cash and Cash Equivalents

The Communities considers investments in highly liquid securities, purchased with a maturity of three months or less from the date purchased, to be cash equivalents. With the exception of client escrow funds the Communities only cash and cash equivalents consist of petty cash held. Client escrow funds held by the Communities may at times exceed Federal Deposit Insurance Corporation limits. Communities has not experienced and does not anticipate any losses in such accounts.

Accounting for Long-Lived Assets

Long-lived assets are reviewed for impairment annually to determine if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. As of June 30, 2024 and 2023, management does not believe any such long-lived assets are impaired.

Client Escrow Funds

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

Investments

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

Investments are reported at fair value. Realized gains and losses are reported to the participating entities monthly. Gains and losses realized by the participating entities as a result of sales are recorded in their

Communities of Don Guanella and Divine Providence

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2024 and 2023

specific accounts. Realized and unrealized gains and losses are included in the statements of activities and changes in net assets as a component of investment return.

Governmental Revenue

The Communities recognizes revenue in accordance with Accounting Standards Update ("ASU") 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The Communities 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, the Communities applies the guidance under Topic 606, described below. If the transfer of assets is determined to be a contribution, the Communities evaluates whether the contribution is conditional based upon whether the agreement includes both (1) one or more barriers that must be overcome before the Communities 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.

For exchange transactions, the Communities follows Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers*. This guidance requires the use of a five-step model to achieve the core underlying principle that an entity should recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. These steps include (1) identifying the contract with the customer, (2) identifying the performance obligations, (3) determining the transaction price, (4) allocating the transaction price to the performance obligations, and (5) recognizing revenue as the entity satisfies the performance obligation(s).

Generally, revenue recognition occurs with the transfer of control of the services and when the following criteria have been met: (i) the contract has been approved by both parties, and both parties are committed; (ii) each party's rights regarding goods and services can be identified; (iii) payment terms can be identified; (iv) contract has commercial substance; and (v) collectability of consideration is probable.

The Communities receives its funding through contracts with the Commonwealth of Pennsylvania, various counties, and federal programs. These contracts/agreements are generally fee-for-service agreements. The ultimate determination of amounts reimbursable under cost reimbursement contracts/agreements is based upon allowable costs to be reported to and subject to audit by grantors and/or their agents. Revenue under such arrangements is recorded when the services are provided. Any settlement adjustments are recorded when the final settlements are determined. The Communities recorded governmental revenue of \$4,111,075 and \$3,574,546 for the years ended June 30, 2024 and 2023, respectively, related to settlements received for prior years.

Donations, Bequests, Trusts, and Other

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

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

Communities of Don Guanella and Divine Providence

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2024 and 2023

Unconditional promises to give ("pledges") are recorded as receivables and revenues within the appropriate net asset category, and as of June 30, 2024 and 2023, are expected to be collected within one year.

Donations totaled \$1,009,817 and \$988,278 for the years ended June 30, 2024 and 2023, respectively, and are included in donations, bequests, trusts, and other revenue in the accompanying statements of activities and changes in net assets. The remainder of income within that line item are interest and miscellaneous income.

During the years ended June 30, 2024 and 2023, the Communities received donated rent from the Archdiocese of Philadelphia in the amount of \$724,000. This amount is reported at estimated fair value using the current rental rates for similar facilities and falls under occupancy expense on the statement of activities and changes in net assets.

Estimate for Credit Losses

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

Allocated Expenses - Archdiocese of Philadelphia - Catholic Social Services

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

Property, Plant and Equipment

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

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

Communities of Don Guanella and Divine Providence

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2024 and 2023

Liquidity and Availability of Resources

Financial assets available for general expenditure, all of which are classified as net assets without donor restrictions, within one year of the statement of financial position date consist of the following at June 30:

	2024	2023
Cash and cash equivalents	\$ 15,940	\$ 15,940
Accounts receivable	10,523,934	10,183,964
Investments - board designated	11,903,670	10,567,091
Investments held by third parties	572,266	85
	<u>23,015,810</u>	<u>20,767,080</u>
Assets available to management	\$ 23,015,810	\$ 20,767,080

In addition to the financial assets listed above, the Communities operates within a prudent range of fiscal responsibility and anticipates collecting sufficient revenue to cover its operating expenses.

The Communities receives cash management services from CSS, which includes the receipt of program revenues and payments of operating expenses. The cash activity is recorded through due to CSS and is settled periodically.

Leases

Communities determines if an arrangement is a lease at inception of the contract. Right-of-use ("ROU") assets represent the Communities' right to use the underlying assets for the lease term and lease liabilities represent the Communities' obligation to make lease payments arising from the leases. ROU assets and lease liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. The discount rate is based on a risk-free rate using a period comparable with the lease term.

Communities does not record leases with an initial term of 12 months or less ("short-term leases") in its statements of financial position.

Leases may include one or more options to renew. If management believes it is reasonably likely that a lease option will be exercised, the lease will be included within the ROU assets and lease liabilities.

Recently Adopted Accounting Pronouncement

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 replaced the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss ("CECL") methodology. CECL requires an estimate of credit losses for the remaining estimated life of the financial asset using historical experience, current conditions, and reasonable and supportable forecasts and generally applies to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities, and some off-statement of financial position credit exposures such as unfunded commitments to extend credit. Financial assets measured at amortized cost must be presented at the net amount expected to be collected by using an allowance for credit losses. Communities adopted this guidance for the year ended June 30, 2024, with no material impact to the financial statements.

Communities of Don Guanella and Divine Providence

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2024 and 2023

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 and 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.

SEI offers account holders 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.

At June 30, the Communities held the following investments:

	2024	2023
Catholic Values Equity Fund	\$ 8,387,206	\$ 7,426,278
Catholic Values Fixed Income Fund	3,516,464	3,140,813
Trusts and other investments held by third parties	927,841	604,093
	<u>\$ 12,831,511</u>	<u>\$ 11,171,184</u>

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

	2024		
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Interest and dividend income	\$ 484,961	\$ 12,778	\$ 497,739
Net realized gains	79,423	5,175	84,598
Unrealized net gains on investments	1,045,804	32,186	1,077,990
Total	<u>\$ 1,610,188</u>	<u>\$ 50,139</u>	<u>\$ 1,660,327</u>

Communities of Don Guanella and Divine Providence

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2024 and 2023

	2023		
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Interest and dividend income	\$ 297,203	\$ 14,911	\$ 312,114
Net realized gains	46,778	3,563	50,341
Unrealized net gains on investments	716,205	19,424	735,629
Total	<u>\$ 1,060,186</u>	<u>\$ 37,898</u>	<u>\$ 1,098,084</u>

NOTE D – TRUSTS HELD BY THIRD PARTIES

The Communities is the beneficiary of individual trusts held in perpetuity by third parties. At June 30, 2024 and 2023, the allocable fair value of these trusts was \$654,232 and \$604,009, respectively, and is recorded as trusts held by third parties in the accompanying statements of financial position. During the years ended June 30, 2024 and 2023, the Communities recognized appreciation of \$50,223 and \$21,157 respectively, related to these trusts.

NOTE E - PROPERTY, PLANT AND EQUIPMENT

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

	2024	2023
Buildings	\$ 5,963,853	\$ 5,598,104
Leasehold improvements	12,583,695	12,038,147
Furniture and equipment	2,503,775	2,339,019
Land	193,956	193,956
Automobiles	2,019,313	1,737,093
	<u>23,264,592</u>	<u>21,906,319</u>
Accumulated depreciation	<u>(12,875,850)</u>	<u>(11,782,099)</u>
Property, plant and equipment, net	<u>\$ 10,388,742</u>	<u>\$ 10,124,220</u>

Depreciation expense of \$1,255,351 and \$1,211,827 was incurred for the years ended June 30, 2024 and 2023, respectively.

NOTE F - LEASES

The Communities lease residential facilities along with certain other equipment under various long-term lease agreements, classified as operating leases. These operating leases have various expiration dates through 2034 and contain renewal options for periods of varying length and require the Communities to pay all executor costs (such as property taxes, utilities, maintenance and insurance).

Communities of Don Guanella and Divine Providence

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2024 and 2023

Quantitative information regarding Communities leases for the years ended June 30, is as follows:

	2024	2023
Lease expense	\$ 868,235	\$ 656,345
Other information		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows	\$ 868,235	\$ 656,345
ROU assets obtained in exchange for new lease liabilities	\$ 2,644,814	\$ 1,198,097
Weighted-average remaining lease term (in years)	6.31	4.50
Weighted-average discount rate	3.82%	2.37%

The following is a schedule of future minimum lease payments required under operating leases with lease terms in excess of one year:

Maturities of lease liabilities as of June 30, 2024, are as follows:

Operating Leases

2025	\$ 591,084
2026	468,951
2027	472,978
2028	472,279
2029	197,095
Thereafter	<u>707,979</u>
Total lease payments	2,910,366
Less: present value discount	<u>(329,242)</u>
Total lease obligations	<u>\$ 2,581,124</u>

NOTE G - ACCOUNTS RECEIVABLE - COMMONWEALTH OF PENNSYLVANIA

At June 30, 2024 and 2023, the Communities had uncollateralized accounts receivable, primarily from the Commonwealth of Pennsylvania Department of Public Welfare ("DPW"), of \$10,707,857 and \$10,367,784, respectively. This balance potentially subjects the Communities to a concentration of credit risk. The Communities monitors its funding arrangements with the DPW and other agencies and believes the amounts billed to these agencies are fully collectible.

NOTE H - FAIR VALUE MEASUREMENTS

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:

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2024 and 2023

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

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

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

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

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

As of June 30, 2024 and 2023, all investments held by the Communities are classified as Level 1 securities.

NOTE I - PENSION PLANS

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

Through June 30, 2014, the eligible lay employees of the Communities were covered under the Archdiocese of Philadelphia Lay Employees' Retirement Plan (the "Plan"), which is a defined benefit pension plan covering substantially all lay employees of the Archdiocese, based on age and service requirements. The Plan is administered by the Trustees of the Plan. The Communities made annual contributions to the Plan at a rate of 5.9% of the salaries of eligible employees for the years ended June 30, 2024 and 2023. The amounts expensed by the Communities for contributions to the Plan were \$1,246,626 and \$1,131,214 for the years ended June 30, 2024 and 2023, respectively. Separate accounts for vested benefits and pension fund assets are not maintained for each institution.

On November 5, 2013, OFS announced that it would freeze the Plan effective June 30, 2014. All current employees at the time of the announced freeze retained benefits they had earned and continued to accrue benefits through the effective date. After the effective date, accrued pension benefits under the Plan do not increase for current employees for additional service or increases in pay after the freeze date.

Archdiocese of Philadelphia 403(b) Retirement Plan

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

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

- ***Grandfathered Employees*** - Any employee who was accruing benefits as an active participant in the Plan as of its freeze date of June 30, 2014 is a grandfathered employee and will be eligible to receive employer contributions beginning with the first payroll on or after September 1, 2014.
- ***Non-Grandfathered Employees*** - Non-grandfathered employees are eligible to receive the employer contribution beginning with the first payroll coinciding with or immediately following the completion of

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2024 and 2023

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 both fiscal years 2024 and 2023, the Archdiocese employer contribution rate was 4.5% of base salary for eligible employees. The contributions by the Communities into the 403(b) plan totaled \$1,602,804 and \$1,454,416, for the years ended June 30, 2024 and 2023, respectively.

Other Contributions

The Communities also makes contributions to the various orders of the religious personnel who provide services at its institutions. The amount of expense related to these contributions was \$19,635 and \$16,660 for the years ended June 30, 2024 and 2023, respectively.

NOTE J - RELATED-PARTY TRANSACTIONS

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

CSS provides administrative and accounting services for related institutions and group homes, including the Communities. The total expenses incurred by CSS in providing services are accumulated and allocated on a pro-rata basis to the institutions and group homes. The allocated amount is reported as an administrative and general expense in the statements of activities and changes in net assets. Any difference between the allocation and the amount charged to the institution during each year is considered a contribution of services from CSS. Repayment of amounts due to CSS is expected when cash is available. The net amount due to CSS was \$2,419,772 and \$3,538,436 at June 30, 2024 and 2023, respectively.

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

	2024	2023
Archdiocese of Philadelphia:		
Insurance	\$ 565,594	\$ 517,843
Lay employee pension contributions:	1,246,626	1,131,214
Rental of facility - contributed	724,000	724,000
Religious employee pension contributions	19,635	16,660
	<u>\$ 2,555,855</u>	<u>\$ 2,389,717</u>
Catholic Social Services:		
Allocated administrative and accounting costs	\$ 1,350,984	\$ 1,262,604
Information technology services	889,022	684,200
	<u>\$ 2,240,006</u>	<u>\$ 1,946,804</u>

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2024 and 2023

Catholic Charities Appeal donated \$210,625 and \$225,000 to the Communities for the fiscal years ended June 30, 2024 and 2023, respectively.

Included in accounts payable are certain related party amounts. The amounts payable to Catholic Housing and Community Services of the Archdiocese of Philadelphia were \$0 and \$212,737 at June 30, 2024 and 2023, respectively.

NOTE K - INCOME TAX STATUS

The Communities is recognized as exempt from federal income tax under Section 501(c)(3) of the U.S. Internal Revenue Code, except on activities unrelated to its exempt purpose. The Communities has processes presently in place to ensure the maintenance of its tax-exempt status, to identify and report unrelated income, to determine its filing and tax obligations in jurisdictions for which it has nexus, and to identify and evaluate other matters that may be considered tax positions.

The Communities follows guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance provides that the tax effects from an uncertain tax position can only be recognized in the financial statements if the position is “more-likely-than-not” to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged. The organization has determined that there are no material uncertain tax positions that require recognition or disclosure in its financial statements.

NOTE L - FUNCTIONAL EXPENSES

The Communities provides a variety of services. The financial statements report certain categories of natural expenses that are attributable to more than one program or supporting function. These expenses are allocated using a variety of cost allocation techniques based on reasonable methodologies that are consistently applied including but not limited to direct operating expenses, payroll expenses, number of employees, square footage, or days of care.

Expenses related to providing these services are as follows for the years ended June 30:

	2024		
	Program	Management and General	Total Expenses
Salaries, wages and other payroll costs	\$ 46,831,987	\$ 2,193,746	\$ 49,025,733
Administrative and general expenses	6,303,510	3,102,456	9,405,966
Occupancy	3,659,096	152,462	3,811,558
Direct expenses of care	4,091,982	-	4,091,982
Depreciation	1,205,137	50,214	1,255,351
Total expenses	<u>\$ 62,091,712</u>	<u>\$ 5,498,878</u>	<u>\$ 67,590,590</u>

Communities of Don Guanella and Divine Providence

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2024 and 2023

		2023	
	Program	Management and General	Total Expenses
Salaries, wages and other payroll costs	\$ 44,512,958	\$ 2,087,060	\$ 46,600,018
Administrative and general expenses	5,998,471	2,699,665	8,698,136
Occupancy	2,977,585	124,067	3,101,652
Direct expenses of care	3,730,073	-	3,730,073
Depreciation	1,163,354	48,473	1,211,827
Total expenses	<u>\$ 58,382,441</u>	<u>\$ 4,959,265</u>	<u>\$ 63,341,706</u>

NOTE M - FUNDING

The Communities is a certified Intermediate Care Facility for the Intellectually Disabled and is reimbursed under the Commonwealth of Pennsylvania's Medical Assistance Program. Reimbursement is limited to the lower of total allowable operating expenses or the approved operating budget.

The Communities' per diem reimbursement rate from the Commonwealth of Pennsylvania under its Medical Assistance Programs range from \$657 to \$1,008 and from \$586 to \$856 per day for the years ended June 30, 2024 and 2023, respectively.

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

Each living area has a predetermined per diem rate based on the characteristics and needs of the individual residents. These per diem rates range from \$427 to \$1,218 per day for the years ended June 30, 2024 and 2023.

The Communities receives 99.47% of its funding directly from the Medical Assistance Program in the years ended June 30, 2024 and 2023.

NOTE N - NET ASSETS WITH DONOR RESTRICTIONS

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

	2024	2023
Capital projects and other purpose restrictions	<u>\$ 1,268,045</u>	<u>\$ 848,465</u>

NOTE O - CONTINGENCIES

The Communities is from time to time subject to routine litigation incidentals to its business. In the opinion of management, there are no matters which will have a material effect on the Communities' financial position, results of operations, or cash flows.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2024 and 2023

NOTE P - SUBSEQUENT EVENTS

Management has evaluated subsequent events for the year ended June 30, 2024 through March 28, 2025, which is the date the financial statements were available to be issued. There were no events or transactions occurring during the subsequent event reporting period which require recognition or disclosure in the financial statements.