

Financial Statements and Report of
Independent Certified Public
Accountants

**Archdiocese of Philadelphia -
Office for Financial Services**

June 30, 2019 and 2018

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Archbishop of Philadelphia
Archdiocese of Philadelphia

We have audited the accompanying financial statements of the Archdiocese of Philadelphia - Office for Financial Services ("OFS"), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to OFS' preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of OFS' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Archdiocese of Philadelphia - Office for Financial Services as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of matter

We draw attention to Note A to the financial statements, which describes the legal structure of OFS within the Archdiocese of Philadelphia. Our opinion is not modified with respect to this matter.

Supplementary information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information contained in the combining statement of financial position and combining statement of activities and changes in net assets as of and for the year ended June 30, 2019 is presented for purposes of additional analysis, rather than to present the financial position and changes in net assets of the individual organizations, and is 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 audit of the financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.



Philadelphia, Pennsylvania
March 24, 2020

Archdiocese of Philadelphia - Office for Financial Services

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended June 30, 2019

	Without donor restrictions	With donor restrictions	Total
	<u> </u>	<u> </u>	<u> </u>
Revenues, gains, losses and other support			
Parish assessments	\$ 22,684,600	\$ -	\$ 22,684,600
Contributions from related parties (Note M)	809,893	-	809,893
Collections, bequests and donations	1,565,833	1,035,053	2,600,886
Tuition income	84,370	-	84,370
Investment income	258,260	471,518	729,778
Interest income	1,565,810	38,832	1,604,642
Fees for services	2,236,110	-	2,236,110
Intradiocesan income	2,305,035	-	2,305,035
Other income (Note O)	4,359,598	-	4,359,598
Net gain on sale of real estate and physical plant	19,136,264	-	19,136,264
Net assets released from restrictions	4,101,421	(4,101,421)	-
Net realized and unrealized (depreciation) appreciation on investments and beneficial interest in supporting charitable trusts	(77,508)	1,112,451	1,034,943
Premium income from Archdiocesan insurance programs	<u>60,275,915</u>	<u>-</u>	<u>60,275,915</u>
Total revenues, gains, losses and other support	119,305,601	(1,443,567)	117,862,034
Expenses			
Subsidies	987,261	-	987,261
Salaries and wages	10,514,686	-	10,514,686
Payroll taxes and fringe benefits	5,947,139	-	5,947,139
Purchased services	16,904,465	-	16,904,465
Intradiocesan expenses	(87,418)	-	(87,418)
Support expense	8,618,945	-	8,618,945
Interparochial assistance (Note M)	1,745,522	-	1,745,522
Depreciation expense	1,612,621	-	1,612,621
Interest expense (Note M)	763,851	-	763,851
Withdrawals	421,432	-	421,432
Contribution expense	14,594,429	-	14,594,429
Insurance program expenses	<u>160,913,179</u>	<u>-</u>	<u>160,913,179</u>
Total expenses	<u>222,936,112</u>	<u>-</u>	<u>222,936,112</u>
Change in net assets before other items	(103,630,511)	(1,443,567)	(105,074,078)
Other items			
IRRP funding expense	<u>(22,548,133)</u>	<u>-</u>	<u>(22,548,133)</u>
Change in net assets	(126,178,644)	(1,443,567)	(127,622,211)
Net assets (deficit)			
Beginning of year	<u>54,964,583</u>	<u>33,667,303</u>	<u>88,631,886</u>
End of year	<u><u>\$ (71,214,061)</u></u>	<u><u>\$ 32,223,736</u></u>	<u><u>\$ (38,990,325)</u></u>

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

Archdiocese of Philadelphia - Office for Financial Services

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended June 30, 2018

	Without donor restrictions	With donor restrictions	Total
	<u> </u>	<u> </u>	<u> </u>
Revenues, gains, losses and other support			
Parish assessments	\$ 21,912,118	\$ -	\$ 21,912,118
Contributions from related parties (Note M)	811,904	-	811,904
Collections, bequests and donations	1,003,202	1,682,604	2,685,806
Tuition income	57,393	-	57,393
Investment income	576,602	334,776	911,378
Interest income	1,672,791	36,836	1,709,627
Fees for services	1,971,586	-	1,971,586
Intradiocesan income	2,695,735	-	2,695,735
Other income (Note O)	4,579,896	-	4,579,896
Net assets released from restrictions	1,379,610	(1,379,610)	-
Net realized and unrealized appreciation on investments and beneficial interest in supporting charitable trusts	1,124,581	2,051,552	3,176,133
Premium income from Archdiocesan insurance programs	<u>65,818,928</u>	<u>-</u>	<u>65,818,928</u>
Total revenues, gains, losses and other support	103,604,346	2,726,158	106,330,504
Expenses			
Subsidies	1,186,021	-	1,186,021
Salaries and wages	10,102,663	-	10,102,663
Payroll taxes and fringe benefits	5,506,808	-	5,506,808
Purchased services	15,813,791	-	15,813,791
Intradiocesan expenses	30,634	-	30,634
Support expense	5,068,665	-	5,068,665
Interparochial assistance (Note M)	1,812,738	-	1,812,738
Depreciation expense	1,816,922	-	1,816,922
Interest expense (Note M)	1,049,976	-	1,049,976
Withdrawals	449,373	-	449,373
Insurance program expenses	<u>39,781,518</u>	<u>-</u>	<u>39,781,518</u>
Total expenses	<u>82,619,109</u>	<u>-</u>	<u>82,619,109</u>
Change in net assets before other items	20,985,237	2,726,158	23,711,395
Other items			
Net gain on real estate transactions	3,131,829	-	3,131,829
Reclassification of net assets	<u>658,532</u>	<u>(658,532)</u>	<u>-</u>
Change in net assets	24,775,598	2,067,626	26,843,224
Net assets			
Beginning of year	<u>30,188,985</u>	<u>31,599,677</u>	<u>61,788,662</u>
End of year	<u>\$ 54,964,583</u>	<u>\$ 33,667,303</u>	<u>\$ 88,631,886</u>

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

Archdiocese of Philadelphia - Office for Financial Services

STATEMENTS OF CASH FLOWS

Year ended June 30,

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Change in net assets	\$ (127,622,211)	\$ 26,843,224
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Net gain on real estate transactions	(19,136,264)	(3,131,829)
Depreciation expense	1,612,621	1,816,922
Bad debt recovery	(2,537,371)	(1,574,190)
Net unrealized depreciation (appreciation) on investments	916,386	(2,557,808)
Net realized gain on investments	(1,926,797)	(558,947)
Net appreciation in beneficial interest in supporting charitable trusts	(24,532)	(59,378)
Changes in assets and liabilities		
Due from Archdiocesan entities	3,949,599	1,245,941
Other accounts receivable	2,083,798	(2,083,798)
Prepaid expenses	(575,856)	(324,643)
Accounts payable	2,885,666	(760,946)
Accrued expenses and other payables	102,272,812	(16,985,674)
Deferred revenue	<u>(115,716)</u>	<u>606,143</u>
Net cash (used in) provided by operating activities	<u>(38,217,865)</u>	<u>2,475,017</u>
Cash flows from investing activities		
Capital expenditures	(2,256,875)	(1,543,537)
Proceeds from sales of real estate and physical plant	19,138,375	4,541,753
Purchase of investments	(13,068,065)	(53,820,309)
Proceeds from sale of investments	29,976,148	92,906,961
Proceeds from sale of loans (Note A)	-	7,933,752
Repayment of loans	<u>14,580,861</u>	<u>4,347,915</u>
Net cash provided by investing activities	<u>48,370,444</u>	<u>54,366,535</u>
Cash flows from financing activities		
(Repayment) proceeds from issuance of promissory note (Note I)	(700,000)	700,000
Change in deposits - parishes, institutions and related organizations	<u>(8,792,247)</u>	<u>(19,404,962)</u>
Net cash used in financing activities	<u>(9,492,247)</u>	<u>(18,704,962)</u>
Net increase in cash and cash equivalents	660,332	38,136,590
Cash and cash equivalents		
Beginning of year	<u>68,761,638</u>	<u>30,625,048</u>
End of year	<u>\$ 69,421,970</u>	<u>\$ 68,761,638</u>

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

Archdiocese of Philadelphia - Office for Financial Services

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019 and 2018

NOTE A - ORGANIZATION

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 Archdiocese of Philadelphia - Office for Financial Services ("OFS") provides programs and services to the parishes, schools and other related ecclesiastical entities in the territory of the Archdiocese. OFS is considered to be a component of the Archdiocese of Philadelphia and not a separate legal entity.

The accompanying financial statements include the following funds which operate under the auspices of OFS:

General Fund - Includes the accounts of separate ministry departments of the Archdiocese. The fund also includes all of the OFS without donor and with donor-restricted resources available for support of the Archdiocesan operations including:

- Investments in real estate and physical plant.
- Support for the benefit of financially struggling parishes through the Interparochial Cooperation Commission ("IPCC").
- Assisted living support for retired priests residing in the Villa St. Joseph and Regina Coeli residences.

Custodian Fund - Includes funds received, via special collections, and held by the Archdiocese for the beneficiaries of those special collections. All collected funds received are remitted to the beneficiary or used solely to support the individual mandate of the specific special collection. OFS does not have variance power as it relates to these funds and as such records a related payable at the time of receipt.

Archdiocese of Philadelphia Risk Insurance Trust ("Risk Insurance Trust") - Represents the risk management program of the Archdiocese, including property, general liability, workers' compensation and auto insurance policies covering substantially all participating Archdiocesan entities, as well as the management and administration of the program.

Archdiocese of Philadelphia Welfare Benefits Trust ("Welfare Benefits Trust") - Represents the medical benefits program of the Archdiocese, including health, dental, prescription and vision insurance coverages for substantially all participating Archdiocesan entities, as well as the management and administration of the program.

Archdiocese of Philadelphia Deposit and Loan Program Trust Fund ("Deposit and Loan Program Trust") - Represents a cooperative deposit and lending program established primarily for the benefit of the parishes and other Archdiocesan entities. This trust replaced the existing Trust and Loan Fund as of September 1, 2014, at which time the assets and liabilities of the Trust and Loan Fund were assigned to and assumed by the Deposit and Loan Program Trust. Effective February 17, 2017, the Trustees of the Deposit and Loan Program Trust instituted a moratorium on accepting deposits, opening new accounts and making new loans under the program. This moratorium remains in effect.

During the year ended June 30, 2019, all depositor accounts with balances less than \$15,000 were fully distributed to depositors, and cash distributions equal to 15% of remaining balances were made to each remaining depositor. Additionally, during the year ended June 30, 2018, all depositor accounts with

Archdiocese of Philadelphia - Office for Financial Services

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

balances less than \$12,500 were fully distributed to depositors, and cash distributions equal to 17.5% of remaining balances were made to each remaining depositor.

On May 31, 2018, the Deposit and Loan Program Trust sold six loans with a principal balance of \$7,943,485 to the Archdiocese of Philadelphia Priests' Retirement Benefits Funding Trust. The loans were priced, as of the transaction date, by an independent financial firm at a price of \$7,933,752, reflecting a slight discount. The interest rates on the loans range from 4% to 5%, and maturity dates range from 2021 to 2041. The Archdiocese has guaranteed the full and complete performance of all covenants, obligations, and the full payment of all amounts required to be paid for the six loans sold. During the year ended June 30, 2019, a loan with an initial principal balance of \$589,809 was paid in full. The remaining five loans are current with their required payments subsequent to the transaction date.

The accompanying financial statements do not include the assets, liabilities or activities of the more than 200 parishes located in the territory of the Archdiocese, except for parish deposits maintained in the Deposit and Loan Program Trust and other receivables set forth in the accompanying financial statements. The parishes are separate canonical operating entities distinct from the offices and funds included herein. The parishes maintain separate accounts and their respective assets in their own names, and carry out their own programs. Other ecclesiastical entities and organizations, which are related to, but operated separately and distinctly from OFS, are also not included in the accompanying financial statements.

The excluded financial reporting entities include, but are not limited to, the following:

- Archdiocese of Philadelphia Office of Catholic Education - Diocesan High Schools ("OCE")
- Archdiocese of Philadelphia Office of Catholic Education - Administration Account ("OCE")
- Archdiocese of Philadelphia Office of Catholic Education - Schools of Special Education ("SPED")
- The Philadelphia Theological Seminary of St. Charles Borromeo (a Pennsylvania nonprofit corporation; a.k.a. St. Charles Borromeo Seminary)
- Catholic Housing and Community Services ("CHCS") of the Archdiocese of Philadelphia (a Pennsylvania nonprofit corporation) successor to Catholic Health Care Services of the Archdiocese of Philadelphia
- Catholic Social Services (a Pennsylvania nonprofit corporation; incorporated as Catholic Charities of the Archdiocese of Philadelphia) and affiliated nonprofit organizations
- Archdiocese of Philadelphia Catholic Charities Appeal Fund (a Pennsylvania nonprofit corporation; incorporated as Catholic Charities Appeal of the Archdiocese of Philadelphia)
- Heritage of Faith - Vision of Hope (a Pennsylvania nonprofit corporation; "HOF~VOH")
- The Archdiocese of Philadelphia - Office of Catholic Cemeteries ("Cemeteries Office")
- The Archdiocese of Philadelphia - Philadelphia Catholic Cemeteries, LLC
- Archdiocese of Philadelphia Cemetery Permanent Lot Care Fund Irrevocable Trust

Archdiocese of Philadelphia - Office for Financial Services

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Recently Adopted Accounting Pronouncements

In 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-14, *Presentation of Financial Statements of Not for Profit Entities*. OFS adopted the provisions of the ASU 2016-14 during the year ended June 30, 2019. In addition to the changes in terminology used to describe net assets throughout the financial statements, new disclosures were added regarding liquidity (Note S), net assets (Note R) and functional expenses (Note T).

Recently Issued Pronouncements

FASB ASU 2014-09, *Revenue (Topic 606): Revenue from Contracts with Customers*, outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts, whether or not written, with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of ASU 2014-09 is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services by applying five steps listed in the guidance. ASU 2014-09 also requires disclosure of both quantitative and qualitative information that enables users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from customers. The new guidance is effective for fiscal years beginning after December 15, 2018. Entities have the option of using either a full retrospective or a modified retrospective approach. Early adoption is permitted. OFS is assessing the effect that the adoption of ASU 2014-09 may have on the financial statements.

ASU 2018-08, *Not-for-profit Entities: Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, intends to clarify and improve the scope and accounting guidance for contributions received and contributions made. The amendment provides: (1) a framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction, including how to evaluate whether a resource provider is receiving commensurate value in an exchange transaction; and (2) guidance to assist entities in determining whether a contribution is either conditional or unconditional. Guidance applies to both recipients and resource providers. For contributions received, the new standard is effective for annual financial statements beginning after December 15, 2018. For transactions in which OFS serves as resource provider, the new standard is effective for annual financial statements beginning after December 15, 2019. OFS has not determined the impact of the new standard at this time.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

Classes of Net Assets

Net assets, revenues, expenses, gains, and losses are classified based on the existence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Net assets without donor restrictions - Net assets available for general use and not subject to donor restrictions. Net assets without donor restrictions include the investment in real estate and physical plant, less accumulated depreciation. From time to time management may designate a portion of these net assets without donor restrictions to a specific purpose.

Net assets with donor restrictions – Net assets including gifts, pledges, trusts, remainder interests, income and appreciation, subject to donor imposed restrictions. Such restrictions include purpose restrictions

Archdiocese of Philadelphia - Office for Financial Services

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

where donors have specified the purpose for which the net assets are to be spent, and/or time restrictions imposed by donors or implied by the nature of the gift. Some net assets with donor restrictions include a stipulation that requires the corpus be invested in perpetuity and only the income be made available from operations in accordance with donor restrictions

See Notes P and R for more information on the composition of net assets with donor restrictions and net assets released from restrictions, respectively.

Cash and Cash Equivalents

OFS considers all highly-liquid investments with an original maturity of three months or less, and which are not held as components of its respective investment portfolio, to be cash equivalents. At June 30, 2019, OFS has cash balances on deposit with financial institutions that exceeded the balance insured by the Federal Deposit Insurance Corporation ("FDIC") of \$250,000. OFS has not experienced any losses in such accounts and does not believe it is subject to significant credit risk.

Due from/to Archdiocesan Entities

Assessments and other amounts due:

The balance includes outstanding amounts due from Archdiocesan entities (parishes and other related ecclesiastical entities) related to:

- **Parish Assessments:** An assessment is levied on parishes and certain other Archdiocesan entities to fund the work of the Archbishop and the operations and support functions of the pastoral center; and maintain the apostolic ministries and programs shared by the whole local Church.
- **Risk Insurance:** Risk insurance billings for property, general liability, workers' compensation, auto, and disability insurance coverage provided to parishes and other Archdiocesan entities by the Risk Insurance Trust.
- **Medical Benefits:** Billings for health, dental, prescription and vision provided to parishes and other Archdiocesan entities by the Welfare Benefits Trust.

Loans Receivable:

The Deposit and Loan Program Trust no longer makes new loans to parishes and other Archdiocesan entities. (See Note A). The Deposit and Loan Program Trust maintains the existing loan balances. Loans are due in varying amounts over terms not more than 25 years. The loans to parishes bear interest using the simple interest rate method on principal amounts outstanding. Except in arrangements which have been specifically negotiated, at both June 30, 2019 and 2018, the variable interest rate on outstanding loans is 4.50%. Specifically negotiated rates are up to 3.25%.

Note Receivable from Related Parties:

The note receivable balance is comprised of a note that is due from St. John Neumann Place, L.P. ("SJNPLP"). The note due from SJNPLP represents a second mortgage due to OFS for property acquired by SJNPLP, used to create affordable housing which qualifies for federal low-income housing tax credits. The 30-year mortgage bears interest at 6.25% compounded annually through December 2036.

Interest Receivable from Related Parties:

The interest receivable balance consists of interest accrued on the note receivable, as well as loans receivable due from parishes as part of the Deposit and Loan Program Trust.

Archdiocese of Philadelphia - Office for Financial Services

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

Other Related Party Receivables:

Other related party receivables consist of amounts due to OFS from parishes and other related ecclesiastical entities for inter-diocesan charges due for rent, utilities and various other items that have been paid by OFS on behalf of a separate Archdiocesan entity.

Allowance for Doubtful Accounts

OFS provides for an allowance for doubtful accounts when information available indicates that it is probable that a receivable has been impaired. The allowance for doubtful accounts is provided based upon management's judgments including such factors as prior collection history, economic condition of the counterparty and type of receivable. The amount of expected impairment is based on management's best estimate.

Prepaid Expenses

Prepaid expenses consist primarily of amounts in the Risk Insurance Trust and Welfare Benefits Trust. The Risk Insurance Trust pays risk insurance premiums for coverage obtained on behalf of parishes and other Archdiocesan entities at the beginning of the respective policy periods. This cost is amortized over the respective policy period. The prepaid amount in Welfare Benefits Trust represents health insurance premiums billed and paid in June 2019 for the July 2019 coverage period.

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 Notes E and F. Investment allocation decisions are the responsibility of the applicable Archdiocesan entity's board or finance council.

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 specific accounts. Unrealized gains and losses are included in the statements of activities and changes in net assets as net appreciation or depreciation on investments.

Charitable Gift Annuities

The Archdiocese is responsible for processing the annuity payments for charitable gift annuities. These assets are included in the investments in the Catholic Values Funds described above at June 30, 2019 and 2018. Periodic annuity payments are made to the donor or their beneficiaries until death. Upon receipt of the assets, a liability is recorded at the present value of the estimated future payments to be distributed over the donor's and/or other beneficiaries' expected life, based on the GAM-2000 Mortality Tables and discount rates set when the annuity agreement is established, which range between 3.08% and 6.17%. The liability at both June 30, 2019 and 2018 was \$390,263 and is classified in accrued expenses and other payables on the statements of financial position.

Beneficial Interest in Supporting Charitable Trusts

The Archdiocese is the sole beneficiary of the income of individual trusts established by Anthony P. Falcone, held in perpetuity by a third party, and William P. Mulvihill, also held in perpetuity by a third party.

Archdiocese of Philadelphia - Office for Financial Services

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

The supporting charitable trusts require the income to be paid to the Archdiocese. The beneficial interest in the supporting charitable trusts is recorded at the fair value of the assets. At June 30, the allocable fair value of the net assets of the trusts was as follows:

	<u>2019</u>	<u>2018</u>
Anthony P. Falcone	\$ 1,375,516	\$ 1,352,710
William P. Mulvihill	<u>890,857</u>	<u>889,131</u>
	<u>\$ 2,266,373</u>	<u>\$ 2,241,841</u>

The underlying investments of the beneficial interest in the supporting charitable trusts consist of government obligations, corporate obligations, mutual funds and equity securities. OFS receives statements from each of the trustees, which detail the fair value of each investment in the supporting charitable trusts.

Real Estate and Physical Plant

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

Buildings	30 years
Building improvements	15 - 20 years
Equipment	3 - 15 years

The legal title of certain real estate and improvements is held in the name of the Archdiocese in trust for the exclusive benefit and charitable use of parishes or related ecclesiastical entities within the territory of the Archdiocese. The Archdiocese has legal title, but does not have any proprietary, equitable or beneficial interest in any such real property and improvements. Each parish or related ecclesiastical entity is a separate juridic person and is the owner and holder of the proprietary, beneficial and equitable interest in its personal and real property and related improvements which, in all events, is subject to the provisions of canon law. Accordingly, such real property and improvements and any other assets and associated liabilities of the parishes within the territory of the Archdiocese are not included in the accompanying financial statements. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the expected future cash flows from the use of the asset and its eventual disposition are less than the carrying amount of the asset, an impairment loss is recognized and measured using the asset's fair value. No impairment losses were recognized for the years ended June 30, 2019 and 2018.

Archdiocese of Philadelphia - Office for Financial Services

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

Real estate and physical plant and accumulated depreciation consist of:

	<u>2019</u>	<u>2018</u>
Land	\$ 1,048,768	\$ 1,058,767
Buildings	39,189,046	39,279,046
Building improvements	8,771,072	8,240,076
Equipment	2,508,774	2,466,587
Construction in progress	<u>2,620,270</u>	<u>926,579</u>
	54,137,930	51,971,055
Accumulated depreciation	<u>(35,307,896)</u>	<u>(33,785,274)</u>
Real estate and physical plant, net	<u>\$ 18,830,034</u>	<u>\$ 18,185,781</u>

Depreciation expense of \$1,612,621 and \$1,816,922 was incurred for the years ended June 30, 2019 and 2018, respectively.

Real Estate and Physical Plant Held for Sale

OFS has certain buildings and properties no longer in use, which are being marketed for sale as of June 30, 2019 and 2018. The carrying value of assets held for sale previously classified under real estate and physical plant, net, consists of the following:

	<u>2019</u>	<u>2018</u>
Land	\$ 45,639	\$ 45,639
Buildings	<u>3,311,271</u>	<u>3,313,382</u>
Real estate and physical plant held for sale, net	<u>\$ 3,356,910</u>	<u>\$ 3,359,021</u>

Conditional Asset Retirement Obligation

OFS has recognized the cost associated with the eventual remediation and abatement of asbestos and other regulated substances located within the construction of OFS' real estate and physical plant. The estimated cost of the abatement was determined by a third-party firm that conducted a survey for asbestos identification and prepared contractor estimates for the cost of potential remediation consistent with management's future remediation plans. As of June 30, 2019 and 2018, the conditional asset retirement liability is \$348,240 and \$335,342, respectively. Included in the balance at June 30, 2019 and 2018 is \$12,898 and \$11,973, respectively, for the accretion of interest and no additional liabilities related to conditional asset retirement obligations were recognized during either of the years ended June 30, 2019 and 2018.

OFS considers a conditional asset retirement an obligation that includes a legal obligation associated with the retirement of a tangible long-lived asset in which the timing and/or method of settling the obligation is conditional on a future event that may or may not be within the control of OFS. Recognition of a liability is required for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated, even if conditional on a future event. The Archdiocese records the fair value of a liability for a legal obligation associated with an asset retirement in the period in which the obligation is incurred. When the liability is initially recorded, the cost of the asset retirement obligation is capitalized.

Archdiocese of Philadelphia - Office for Financial Services

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

Self-Insurance Reserves

Risk Insurance Trust

The statements of financial position include liabilities with respect to self-insured general, property, workers' compensation and auto liability claims as of June 30, 2019 and 2018. These obligations represent an estimate of the expected ultimate cost for these claims, less amounts paid to date. The Risk Insurance Trust estimates the required reserves for such claims on a non-discounted basis utilizing an independent actuarial method that is based upon various assumptions which include, but are not limited to, historical loss experience and projected loss development factors.

The required liability is also subject to annual adjustment in the future based upon the changes in claims experience, including changes in the number of incidents and changes in the ultimate cost per incidents. Actual amounts ultimately paid could differ from these estimates. Self-insurance reserves are included in the accrued expenses and other payables caption on the statements of financial position.

Welfare Benefits Trust

The statements of financial position include self-insurance liabilities with respect to the medical insurance program as of June 30, 2019 and 2018. These obligations represent an estimate of the expected ultimate cost for claims incurred but not paid ("IBNP"). The Welfare Benefits Trust estimates the required reserves for such claims on a non-discounted basis utilizing a development method which assumes that the progression of claim payment follows runoff patterns that are assumed to remain stable over time. The results, produced by the development method, were adjusted for months where the data was deemed noncredible. These adjustments were made using the projection method, which is based on the change in costs per exposure unit over time. The medical estimate is based on historical incurred and paid claims data for the 48-month periods ended June 30, 2019 and 2018. Self-insurance reserves are included in the accrued expenses and other payables caption on the statements of financial position.

Deferred Revenue

Deferred revenue consists of \$1,334,355 and \$1,450,071 at June 30, 2019 and 2018, respectively, for medical insurance invoices billed by the Welfare Benefits Trust in June for the July coverage period. The revenue associated with these billings was recognized in July of the subsequent year.

Revenue, Gains, Losses and Other Support

Parish Assessments

Parishes within the territory of the Archdiocese are assessed a fee to help support the mission of the Church in Philadelphia and the four surrounding counties as permitted by canon law. The parish assessment for the year ended June 30, 2019 was based upon 12.25% of the parish's operating income for the year ended June 30, 2017. For the year ended June 30, 2018, the parish assessment was based upon 12.25% of the parish's operating income for the year ended June 30, 2016. Operating income includes Sunday collections, other parish collections, church socials and donations, interest, dividends, rental income and net cemetery income. Included within the 12.25% is a provision for an allocation to OCE of \$1,200,000.

Archdiocese of Philadelphia - Office for Financial Services

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

Pledges/Contributions, Collections, Bequests and Donations

Unconditional promises to give (i.e., pledges) are recorded as receivables and revenues at fair value at the date the promise is received within the appropriate net asset category. Donor-restricted gifts that are received and either spent or deemed spent within the same year are reported as revenues without donor restrictions. Gifts of long-lived assets received without donor restrictions are reported at fair value as revenues without donor restrictions. Gifts specified for the acquisition or construction of long-lived assets are reported as net assets without donor restrictions when the assets are placed in service.

OFS reports gifts of cash and other assets as revenue with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities and changes in net assets as net assets released from restrictions.

Premium Income from Archdiocesan Insurance Program

The Risk Insurance Trust acts on behalf of participating Archdiocesan entities and parishes to procure adequate insurance coverage. The costs of the premiums and related expenses are billed to the participating entities and reported as premium income. Unpaid insurance billings are included in amounts due from Archdiocesan entities.

Income Tax Status

The Archdiocese is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code through its inclusion in the USCCB group ruling and listing in the Official Catholic Directory. The Archdiocese follows the accounting guidance for uncertainties in income tax positions, which requires that a tax position be recognized or not recognized based on a "more likely than not" threshold. This applies to positions taken or expected to be taken in a tax return. The Archdiocese does not believe its financial statements include any material uncertain tax positions. Any interest and penalties, if applicable, would be recorded in support expenses.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make significant estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements. The reclassifications had no impact on total net assets or change in net assets.

Archdiocese of Philadelphia - Office for Financial Services

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE C - DUE FROM ARCHDIOCESAN ENTITIES, NET

A summary of the various receivable balances held by OFS due from Archdiocesan entities at June 30, is presented as follows:

Assessments and other amounts due:

	<u>2019</u>	<u>2018</u>
Assessments due from parishes	\$ 14,758,045	\$ 14,681,997
Risk and medical insurance premiums due from Archdiocesan entities and parishes	<u>21,935,210</u>	<u>21,363,144</u>
	36,693,255	36,045,141
Allowance for doubtful accounts	<u>(35,005,611)</u>	<u>(33,765,249)</u>
Assessments and other amounts due, net of allowance for doubtful accounts	<u>\$ 1,687,644</u>	<u>\$ 2,279,892</u>

Loans receivable:

The loans receivable consist of loans made by the Deposit and Loan Program Trust to parishes and other Archdiocesan entities (see Notes A and B). The amount due from parishes and other Archdiocesan entities at June 30, is as follows:

	<u>2019</u>	<u>2018</u>
Loans receivable, principally due from parishes	\$ 19,489,464	\$ 34,070,325
Less: allowance for doubtful accounts	<u>(8,073,398)</u>	<u>(9,092,767)</u>
Loans receivable, net of allowance for doubtful accounts	<u>\$ 11,416,066</u>	<u>\$ 24,977,558</u>

Credit quality of loans receivable:

Prior to the moratorium described in Note A regarding the Deposit and Loan Program Trust, OFS received loan requests from parishes and other Archdiocesan entities. These loans, when approved, were made through the Deposit and Loan Program Trust. All loan requests were subject to a due diligence review of the requesting parish's ability to support future loan payments. This review was performed by OFS. Upon completion of this due diligence, the loan request was presented to the College of Counselors for approval.

Archdiocese of Philadelphia - Office for Financial Services

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

Allowances for doubtful accounts are established for all loans to parishes and other Archdiocesan entities based upon prior collection experience and current factors specific to each entity that, in management's opinion, may influence the entities' ability to repay the loan. All loan balances deemed to be impaired are adjusted to the net realizable value at the time this determination is established.

	<u>2019</u>	<u>2018</u>
Gross loans receivable	\$ 19,489,464	\$ 34,070,325
Less: allowance for doubtful accounts		
Beginning of year	(9,092,767)	(9,408,265)
Decreases to allowance	1,019,369	315,498
End of year	<u>(8,073,398)</u>	<u>(9,092,767)</u>
Loans receivable, net	<u>\$ 11,416,066</u>	<u>\$ 24,977,558</u>
Note receivable from related party:		
SJNPLP, bears interest at 6.25%, due in 2036	\$ 2,860,000	\$ 2,860,000
Allowance for doubtful account	<u>(1,765,000)</u>	<u>(1,765,000)</u>
Note receivable, net of allowance for doubtful account	<u>\$ 1,095,000</u>	<u>\$ 1,095,000</u>

Deposit and Loan Program Trust promissory note:

On May 31, 2012, the Archdiocese created a promissory note to the Deposit and Loan Program Trust. On May 20, 2013, the promissory note was amended to increase the note to \$82,000,000. The balance of this promissory note was \$32,100,393 at June 30, 2019 and 2018. The promissory note is collateralized by specific pledged real estate assets as documented in the May 31, 2012 promissory note, as amended. As pledged assets are sold or monetized, net proceeds from the transactions are used to fulfill the obligation acknowledged via the promissory note. If a transaction for any of the pledged properties results in net proceeds in excess of \$20 million, the Archdiocese has discretion to use the excess for another purpose so long as the value for remaining pledged properties is at least equal to the remaining obligation.

During the year ended June 30, 2019, the Archdiocese did not sell, transfer or convey any specifically pledged real estate assets. The promissory note is recorded as an asset and liability on the financial statements of the Deposit and Loan Program Trust and General Fund, respectively, and is eliminated within the OFS statements of financial position at June 30.

Interest receivable from related parties:

	<u>2019</u>	<u>2018</u>
Note receivable from SJNPLP	\$ 3,231,910	\$ 2,892,362
Deposit and Loan Program Trust	<u>2,200,432</u>	<u>2,010,910</u>
	5,432,342	4,903,272
Allowance for doubtful accounts	<u>(4,841,817)</u>	<u>(4,010,465)</u>
Interest receivable from related parties, net of allowance for doubtful accounts	<u>\$ 590,525</u>	<u>\$ 892,807</u>

Archdiocese of Philadelphia - Office for Financial Services

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

Other related party receivables:

OFS maintains receivable balances due from other related Archdiocesan entities. The balance of other related party receivables at June 30, is comprised of:

	<u>2019</u>	<u>2018</u>
Archdiocesan payroll receivable	\$ -	\$ 34,145
Newman Center construction reimbursement	-	1,627,343
Intra-diocesan charges for utilities and other items, net	289,136	230,081
Other	<u>410,041</u>	<u>344,675</u>
	<u>\$ 699,177</u>	<u>\$ 2,236,244</u>

NOTE D - OTHER ACCOUNTS RECEIVABLE

OFS maintains receivable balances due from non-Archdiocesan entities. The balance of other accounts receivable at June 30, is comprised of:

	<u>2019</u>	<u>2018</u>
Insurance receivable for paid costs	\$ -	\$ 2,083,798
Total other accounts receivable	<u>\$ -</u>	<u>\$ 2,083,798</u>

NOTE E - INVESTMENTS

The total investments of OFS at June 30, are detailed as follows:

	<u>2019</u>	<u>2018</u>
Investment in SEI Catholic Values Funds	\$ 36,448,479	\$ 52,325,799
Investment in the Trust of Josephine Nalle Unitrust	1,604,596	1,625,585
Mutual funds	<u>217,072</u>	<u>216,434</u>
Total investments	<u>\$ 38,270,147</u>	<u>\$ 54,167,818</u>

Investment in SEI Catholic Values Funds

Investments held at SEI are reported at fair value and consist of the following:

Catholic Values Equity Fund (or "equity 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 "fixed income 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.

Cash Plus (or "fund") - Investments are liquid in nature and invested in short duration U.S. government bonds.

Archdiocese of Philadelphia - Office for Financial Services

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

At June 30, 2019, OFS' investments are summarized and classified as follows:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Investment in SEI Catholic Values Funds	\$ 2,080,855	\$ 34,367,624	\$ 36,448,479
Investment in the Trust of Josephine Nalle Unitrust	-	1,604,596	1,604,596
Mutual funds	-	217,072	217,072
	<u>\$ 2,080,855</u>	<u>\$ 36,189,292</u>	<u>\$ 38,270,147</u>

At June 30, 2018, OFS investments are summarized and classified as follows:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Investment in SEI Catholic Values Funds	\$ 18,399,892	\$ 33,925,907	\$ 52,325,799
Investment in the Trust of Josephine Nalle Unitrust	-	1,625,585	1,625,585
Mutual funds	-	216,434	216,434
	<u>\$ 18,399,892</u>	<u>\$ 35,767,926</u>	<u>\$ 54,167,818</u>

NOTE F - FAIR VALUE MEASUREMENTS

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 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 OFS 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.

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NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

The following table presents the fair values of the assets held by OFS by level within the fair value hierarchy, as of June 30, 2019:

	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant inputs supported by little or no market activity (Level 3)	Total fair value
Assets				
Investments				
Investment in SEI Catholic Values Funds	\$ 36,448,479	\$ -	\$ -	\$ 36,448,479
Investment in the Trust of Josephine Nalle Unitrust Mutual funds	217,072	-	1,604,596	1,604,596
Beneficial interest in supporting charitable trusts	-	-	2,266,373	2,266,373
Total assets at June 30, 2019	\$ 36,665,551	\$ -	\$ 3,870,969	\$ 40,536,520

The following table presents the fair values of the assets held by OFS by level within the fair value hierarchy, as of June 30, 2018:

	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant inputs supported by little or no market activity (Level 3)	Total fair value
Assets				
Investments				
Investment in SEI Catholic Values Funds	\$ 52,325,799	\$ -	\$ -	\$ 52,325,799
Investment in the Trust of Josephine Nalle Unitrust Mutual funds	216,434	-	1,625,585	1,625,585
Beneficial interest in supporting charitable trusts	-	-	2,241,841	2,241,841
Total assets at June 30, 2018	\$ 52,542,233	\$ -	\$ 3,867,426	\$ 56,409,659

Archdiocese of Philadelphia - Office for Financial Services

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

The following table presents assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended:

	<u>Level 3</u>
Balance, June 30, 2017	\$ 3,805,042
Change in fair value of assets	343,746
Distributions received from trusts	<u>(281,362)</u>
Balance, June 30, 2018	3,867,426
Change in fair value of assets	249,099
Distributions received from trusts	<u>(245,556)</u>
Balance, June 30, 2019	<u><u>\$ 3,870,969</u></u>

NOTE G - ACCRUED EXPENSES AND OTHER PAYABLES

Accrued expenses and other payables are comprised of the following at June 30:

	<u>2019</u>	<u>2018</u>
Self-insurance reserves (see Note J)	\$ 120,735,354	\$ 18,079,819
IBNP Welfare Benefits Trust	3,761,000	3,230,000
Risk insurance trust claim accrual	1,122,821	-
Newman Center construction accrual	-	1,053,069
Conditional asset retirement obligation	348,240	335,342
Charitable gift annuities	390,263	390,263
Accrued legal and professional fees	130,897	756,484
Other	1,135,962	1,506,748
	<u><u>\$ 127,624,537</u></u>	<u><u>\$ 25,351,725</u></u>

NOTE H - LINE OF CREDIT

The Archdiocese had an unsecured line of credit with PNC Bank for the 12 months ending January 31, 2019, which allowed for borrowings up to \$3,000,000 at an interest rate equal to the Daily LIBOR plus 150 basis points. The interest rate at June 30, 2018 was 3.4%. In addition, the Archdiocese was required to pay a commitment fee of 15 basis points per annum on the average daily balance of the line of credit that was not disbursed and not cancelled during the previous quarter.

In April 2019, the Archdiocese amended and replaced the unsecured line of credit with PNC Bank for the 12 months ending January 31, 2020. The new line of credit allows for borrowings up to \$6,000,000 at an interest rate equal to the Daily LIBOR plus 150 basis points. The interest rate at June 30, 2019 was 3.898%. In addition, the Archdiocese is required to pay a commitment fee of 15 basis points per annum on the average daily balance of the line of credit that was not disbursed and not cancelled during the previous quarter.

In July 2019 and November 2019, the Archdiocese borrowed \$900,000 and \$364,000, respectively, against this line of credit.

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NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

On January 24, 2020, the unsecured line of credit with PNC was extended from January 31, 2020 to April 30, 2020.

NOTE I - PROMISSORY NOTE AND SECURITY AGREEMENT

On May 18, 2018, the Archdiocese (the "Borrower") entered into a \$3,000,000 promissory and mortgage security agreement (the "Note") with EM Chestnut Venture, LLC. The Note transaction relates to the sale of the Newman Center property providing ministry to the Drexel University and University of Pennsylvania communities. The Newman Center ministry was relocated to the adjacent Saint Agatha - Saint James parish campus. The proceeds, from the Note were used to commence construction of the new Newman Center to serve the university and parish communities. The Note was secured by an Archdiocesan property located at 3714-3722 Chestnut Street, Philadelphia, Pennsylvania. The terms of the Note allowed the Borrower to be advanced funds in increments of \$100,000, with the aggregate principal amount outstanding on the loan not to exceed \$3,000,000. Interest accrued at 3% per annum. At June 30, 2018, the amount outstanding on the Note was \$700,000. On September 18, 2018, EM Chestnut Venture, LLC and the Archdiocese closed on the sale of the Newman Center property. At settlement, the Archdiocese paid in full the outstanding principal balance and accrued interest on the promissory note totaling \$2,009,000.

NOTE J - COMMITMENTS AND CONTINGENCIES

Claims Related to Clergy Abuse

The Archdiocese has an active program to help survivors of clergy abuse. Committed to furthering its efforts to help survivors, the Archdiocese commenced the Independent Reconciliation and Reparations Program ("IRRP") on November 13, 2018. The IRRP is a voluntary compensation program for survivors who allege they were sexually abused as minors by clergy of the Archdiocese. Regardless of when the harm occurred, eligible claimants may participate in the IRRP. Claimants present their claims to Independent Claims Administrators, Kenneth Feinberg and Camille Biros ("Administrators"), who determine whether and what amount of compensation to offer each claimant in full and final settlement of their claim against the Archdiocese. The IRRP claim period ended September 30, 2019, which means that all claim forms were to be postmarked by that date. The Archdiocese has committed to paying, on a claim-by-claim basis, the amounts the Administrators independently determine to be appropriate in each case. While the Archdiocese may not challenge the determinations of the Administrators, each claimant is free to accept or reject the compensation offer. The Archdiocese's payment obligation cannot be specifically quantified until each claimant receives his or her unique compensation offer and then chooses whether to accept the settlement. If the claimant accepts the settlement he or she also signs a release relinquishing any right to sue the Archdiocese and its affiliates in the future.

Based on claims paid through June 30, 2019 and open claims that still need to be settled, management of the Archdiocese expects that the ultimate cost of this program will be approximately \$126,500,000. As of June 30, 2019, claims and expenses paid relating to this program amounted to \$21,354,000. As the remaining amount required under this program is in excess of the available liquidity, management has developed and is implementing a funding plan that includes borrowing, sales of assets and risk mitigation payments from related ecclesiastical entities to satisfy the expected funding needs of this program. See Note U for details regarding borrowings, sales of assets and risks mitigation payments subsequent to year-end and through the date which the financial statements were available for distribution.

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NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

The Pennsylvania Legislature continues to contemplate bills to reopen the statute of limitations to allow previously time-barred claims of abuse to proceed in court. The Pennsylvania General Assembly passed legislation (HB 962, Act 87 of 2019), which abolishes on a prospective basis the criminal statutes of limitation for child sexual abuse and changes sovereign and municipal immunity and attendant damages caps. Governor Wolf signed HB 962 into law on November 26, 2019. The Legislature also commenced the process toward the passage of a related constitutional amendment (HB 963, Pamphlet Laws Resolution No. 2) to allow individuals who were sexually abused as children to bring claims against the entities that employed their abusers. H.B. 963 would provide survivors of abuse whose claims are presently barred by the applicable statute of limitations with two years to commence civil litigation. The proposed constitutional amendment has been passed once by the General Assembly (in the current 2019-2020 Legislative Session). In order to become law, identical legislation must be passed again in the 2021-2022 Legislative Session and subsequently adopted by the voters.

Earlier this year, the Superior Court of Pennsylvania in *Rice v. Diocese of Altoona – Johnstown* held that the question of whether a molestation victim had exercised reasonable diligence in discovering her injury and its cause was a factual question for a jury to resolve. Accordingly, this decision may be interpreted to change the courts ability to presumptively reach determinations that claims are barred by the statute of limitations. Appeal of this decision was filed and the Pennsylvania Supreme Court granted the petition for allowance of appeal.

On October 9, 2018, the Archbishop received a federal grand jury subpoena requesting the production of certain documents. The Archdiocese continues to work with the Department of Justice and is cooperating in the ongoing production of documents.

Reserves

Self-Insurance - The principal insurance policies providing property, auto and general liability coverage have a self-insured retention ("SIR") of \$75,000, \$50,000, and \$250,000 per occurrence, respectively. In addition, the property coverage has an annual aggregate deductible of \$2,500,000. There are certain special policies with lower per claim deductibles or SIR's and some policies with guaranteed cost, first dollar coverage.

The estimated ultimate claims cost is calculated as of June 30, 2019 and 2018 and considers incurred and paid losses and retention amounts to determine loss development factors. The estimated reserve liability is comprised of both a limited case outstanding reserve and estimated development.

Effective July 1, 2016, the workers' compensation program, which is included in the Risk Insurance Trust, was converted to a fully-insured program, and workers' compensation claims incurred after that date will not require loss reserves. Prior to July 2016, the workers' compensation policy had a self-insurance reserve of \$500,000 per claim. The liability for self-insured workers' compensation claims will be reduced over time as those claims incurred prior to July 2016 are settled. The workers' compensation and auto obligations are collateralized with surety bonds in favor of the Commonwealth of Pennsylvania.

Other

The Archdiocese is involved in numerous other legal proceedings arising out of and incidental to its operations. In management's opinion, the ultimate liability which may arise from these other legal proceedings would not have a material adverse effect on the financial statements of OFS. In addition, the Archdiocese believes that if any liability were established, it would have adequate insurance coverage to meet the resulting obligations.

Under the Archdiocese of Philadelphia's Priest Student Loan Policy, priests are reimbursed for payments made toward student debt incurred for their studies at St. Charles Borromeo Seminary. The reimbursements are contingent upon loan payments being made by the priest and are limited annually to a

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NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

maximum repayment amount predetermined by the Archdiocese. The Archdiocese assumes no liability related to the outstanding balances on these loans until payment is made by the priests. Upon payment, the Archdiocese assumes the liability. The reimbursement cost is split evenly between the Archdiocese and St. Charles Borromeo Seminary. During the years ended June 30, 2019 and 2018, the combined reimbursement totaled \$154,374 and \$123,934, respectively. As of June 30, 2019 and 2018, the potential combined outstanding priest student loans totaled \$739,741 and \$626,608, respectively.

NOTE K - CONCENTRATION OF RISK INCLUDING CREDIT RISK

Cash, cash equivalents and investments are exposed to various risks, such as interest rate, market volatility and credit risks. To minimize such risks, the Archdiocese has a diversified investment portfolio managed by several independent investment managers in a variety of asset classes. The Archdiocese regularly evaluates its investments including performance thereof. The Archdiocese maintains its cash and cash equivalents in various bank deposit accounts which, at times, may exceed federally insured limits. The Archdiocese's cash accounts were placed with high credit quality financial institutions. However, due to inherent risks and potential volatility in investment valuations, the amounts reported in the accompanying financial statements can vary substantially from year to year. It is reasonably possible that changes in investments will occur in the near term and such changes could materially affect the amounts reported in the accompanying financial statements. Credit risk with respect to related party receivables originates from the activities of related parties within the Archdiocese such as parishes, which are supported primarily by Catholic parishioners of the Philadelphia area. Related party receivables mainly include accounts receivable from Archdiocesan parishes and loans provided to parishes and other related ecclesiastical entities.

NOTE L - PENSION PLANS

The Archdiocese of Philadelphia Lay Employees' Retirement Plan ("LERP"), the Archdiocese of Philadelphia 403(b) retirement plan and priests' retirement plans are distinct and autonomous benefit plans separately administered by the Archdiocese in trust for each of the plans' beneficiaries and are not part of these financial statements. These plans are funded by contributions from the various participating entities, including parishes. The plan's administrator is OFS.

Priests' Retirement Plans

For financial reporting purposes within these financial statements, the priests' retirement plans are accounted for as multiemployer plans. Expenses are recognized as contributions are made in accordance with established provisions followed by all parishes and participating entities within the territory of the Archdiocese. The recurring contributions by OFS to the priests' retirement plans totaled \$163,892 and \$223,725, respectively, for the years ended June 30, 2019 and 2018.

The actuarially determined present value of accumulated plan benefits at June 30, 2019 and 2018 for priests' pension, retiree health, auto and life insurance totaled approximately \$104,400,000 and \$101,700,000, respectively. At June 30, 2019 and 2018, the net assets available to provide for these benefits totaled approximately \$117,250,000 and \$112,000,000, respectively.

Lay Employees' Retirement Plan ("LERP") - Frozen Effective June 30, 2014

Through June 30, 2014, the eligible lay employees of OFS were covered under the LERP, which is a defined benefit pension plan that covered substantially all lay employees, once age and service requirements were met, of the Archdiocese, its related ecclesiastical entities, institutions and parishes. For financial reporting purposes within these financial statements, the LERP is accounted for as a multiemployer plan. On June 30, 2014, the Archdiocese froze the LERP. All active employees as of the freeze date retained

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NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

benefits they had earned through June 30, 2014. After the date of the freeze, accrued pension benefits do not increase for additional service or increases in pay. The plan is administered by the trustees of the plan.

OFS made annual contributions to the plan at a rate of 5.9% of the salaries of eligible employees for the years ended June 30, 2019 and 2018. The recurring contributions by OFS were \$395,920 and \$392,823, respectively, for the years ended June 30, 2019 and 2018.

Estimates of the actuarially determined present value of accumulated plan benefits at June 30, 2019 totaled approximately \$582,000,000. The actuarially determined present value of accumulated plan benefits at June 30, 2018 totaled approximately \$602,400,000. At June 30, 2019 and 2018, the assets available to provide for these benefits totaled approximately \$511,200,000 and \$521,500,000, respectively.

Archdiocese of Philadelphia 403(b) Retirement Plan

Effective July 1, 2014, the Archdiocese established a 403(b) defined contribution plan. Under the 403(b) plan and subject to statutory limits, all employees at least 18 years of age are immediately eligible to make voluntary deferred salary contributions into the 403(b) plan. Employer contributions, which cover employees meeting the eligibility requirements, are discretionary.

Vesting in employer contributions was immediate for employees who completed 12 months of service as of June 30, 2014. Vesting in employer contributions for all other employees takes place after the completion of 12 months of service.

During the years ended June 30, 2019 and 2018, the employer contribution rate was 4.5% of base salary for eligible employees. The contributions by OFS into the 403(b) plan totaled \$318,969 and \$314,068 for the years ended June 30, 2019 and 2018, respectively.

NOTE M - RELATED PARTY AMOUNTS AND TRANSACTIONS

OFS entered into transactions with the following related parties:

During the years ended June 30, 2019 and 2018, OFS recorded \$724,000 and \$1,205,293, respectively, in contributed rent related to the use of facilities owned by OFS, but used without charge by Catholic Social Services/CHCS.

Billings and collections of parish assessments, risk insurances, medical benefits and parish loans and interest are as follows:

	2019		2018	
	Billed	Collected	Billed	Collected
Parish assessment	\$ 22,684,600	\$ 22,605,552	\$ 21,912,118	\$ 23,483,862
Risk Insurance Program ¹	19,254,179	18,891,063	18,719,152	19,345,579
Welfare Benefits Program ¹	43,095,465	43,119,003	49,220,839	49,379,762
Parish loans and interest	635,879	15,027,217	1,131,986	9,375,417

¹ These billed amounts are reflected on the statements of activities and changes in net assets under the caption, "Premium income from Archdiocesan insurance programs." Amounts listed above exclude intercompany eliminations.

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NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

Archdiocesan parishes and agencies have funds on deposit in the Deposit and Loan Program Trust. Funds on deposit totaled \$53,044,648 and \$61,836,894 as of June 30, 2019 and 2018, respectively. Deposited funds earned an interest rate of 1.25% for the years ended June 30, 2019 and 2018. Interest paid on the deposited funds amounted to \$750,953 and \$1,038,003 during the years ended June 30, 2019 and 2018, respectively. Total interest expense for the years ended June 30, was as follows:

	<u>2019</u>	<u>2018</u>
Interest paid on deposits	\$ 750,953	\$ 1,038,003
Interest accretion on conditional asset retirement obligation	<u>12,898</u>	<u>11,973</u>
	<u>\$ 763,851</u>	<u>\$ 1,049,976</u>

Loans were historically made to parishes and other Archdiocesan entities through the Deposit and Loan Program Trust (see Notes A, B and C). Except in arrangements which have been specifically negotiated, the interest rate was generally 4.5%. Interest earned on these loans amounted to \$897,929 and \$1,325,903 for the years ended June 30, 2019 and 2018, respectively.

OFS received funds from certain Archdiocesan offices, agencies and related ecclesiastical organizations, which are reflected as contributions on the statements of activities and changes in net assets. For the years ended June 30, such funds amounted to:

	<u>2019</u>	<u>2018</u>
Heritage of Faith ~ Vision of Hope	\$ 249,397	\$ 241,266
Other	310,496	320,638
Saint John Vianney Center	<u>250,000</u>	<u>250,000</u>
	<u>\$ 809,893</u>	<u>\$ 811,904</u>

Certain parishes, for a variety of reasons, which are struggling financially as they minister to the needs of their parishioners, receive assistance through the IPCC. This subsidy is used by the parishes to meet operating expenses, fund parish programs and carry out capital improvements. OFS provided subsidized support for IPCC parishes. This support is reflected as "interparochial assistance" in the accompanying statements of activities and changes in net assets for the years ended June 30, the subsidy consisted of the following:

	<u>2019</u>	<u>2018</u>
Assessment	\$ 1,014,200	\$ 1,001,453
Priests' retirement	7,400	11,400
Priests' health insurance	30,792	35,184
Risk insurance	61,111	90,880
General and extraordinary subsidy	<u>632,019</u>	<u>673,821</u>
	<u>\$ 1,745,522</u>	<u>\$ 1,812,738</u>

Archdiocese of Philadelphia - Office for Financial Services

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE N - SELF-INSURED UNEMPLOYMENT COMPENSATION

A pooled insurance fund manages the unemployment compensation process for Special Education Schools, Parish Schools, select non-Archdiocesan schools, OFS, St. Charles Borromeo Seminary, and the administrative offices within the Office of Catholic Education ("Members").

The Pennsylvania Catholic Conference ("PACC") handles the claims administration and billings for the fund. Twice yearly, in February and May, PACC bills the Members. The funds collected by PACC from the billings are deposited to a bank account maintained by PACC. On a monthly basis, PACC processes claims and then electronically remits payments to the state. For the years ended June 30, 2019 and 2018, the Members were billed \$681,108 and \$700,679, respectively, and incurred claims totaling \$457,641 and \$530,258, respectively.

NOTE O - OTHER INCOME

Other income recognized by OFS is comprised of the following for the years ended June 30:

	<u>2019</u>	<u>2018</u>
Allocations from the Catholic Charities Appeal	\$ 3,247,361	\$ 3,051,370
Rental income	898,698	1,322,415
Contribution	199,458	-
Other	<u>14,081</u>	<u>206,111</u>
	<u>\$ 4,359,598</u>	<u>\$ 4,579,896</u>

NOTE P - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the specific restricted purposes, or by occurrence of other events specified by the donors for the years ended June 30:

	<u>2019</u>	<u>2018</u>
Purpose restrictions accomplished	\$ 3,012,901	\$ 297,618
Release of appropriated endowment amounts with purpose restrictions	<u>1,088,520</u>	<u>1,081,992</u>
Total net assets released from restrictions	<u>\$ 4,101,421</u>	<u>\$ 1,379,610</u>

NOTE Q - ENDOWMENTS

OFS' endowments consist of donor- restricted and management designated endowment funds established for a variety of purposes. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

In accordance with Commonwealth of Pennsylvania Act 141, OFS classifies as endowments: (a) the original value of gifts donated to the permanent endowment; (b) the original value of subsequent gifts to the permanent endowment; and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Archdiocese of Philadelphia - Office for Financial Services

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

Pennsylvania law permits the Archdiocese to release a percentage, which is elected annually, of the market value of its endowment funds into income without donor restrictions. The spending rate percentage, between 2% and 7%, is applied to the three-year average of the market value of the endowment funds' assets.

Return Objectives and Risk Parameters

OFS has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period. Under this policy, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of plus 3% over the consumer price index while assuming a moderate level of investment risk. OFS expects its endowment funds, over time, to provide an average rate of return of between 6% and 7% annually. Actual returns in any given year may vary from that amount.

Spending Policy

In accordance with state law, net realized and unrealized gains on restricted endowment investments are included as net assets with donor restrictions, even absent donor restrictions on the use of gains. Commonwealth of Pennsylvania law permits OFS to adopt a spending policy for endowment earnings, subject to certain limitations. OFS follows the total return concept of endowment investment and spending. Under this concept, a prudent amount of appreciation earned on the investments may be spent in the event that the interest and dividends earned are insufficient to meet that period's spending rate. The Archdiocese's spending policy for the years ended June 30, 2019 and 2018 allowed for a 4.5% - 5% draw of the three-year average market value of the endowments, estates and trusts.

OFS had the following endowment activities during the years ended June 30, delineated by net assets class:

	2019		
	Management designated without donor restrictions	Endowments with donor restrictions	Total
Endowment net assets, July 1, 2018	\$ 12,384,052	\$ 27,051,025	\$ 39,435,077
Investment income	143,428	424,958	568,386
Net appreciation (realized and unrealized gains)	<u>123,959</u>	<u>1,094,154</u>	<u>1,218,113</u>
Total investment return	267,387	1,519,112	1,786,499
Contributions	285,564	-	285,564
Appropriation of endowment assets for expenditure	<u>(6,589,572)</u>	<u>(1,092,510)</u>	<u>(7,682,082)</u>
Endowment net assets, June 30, 2019	<u>\$ 6,347,431</u>	<u>\$ 27,477,627</u>	<u>\$ 33,825,058</u>

Archdiocese of Philadelphia - Office for Financial Services

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

	2018		
	Management designated without donor restrictions	Endowments with donor restrictions	Total
Endowment net assets, July 1, 2017	\$ 12,010,706	\$ 25,852,531	\$ 37,863,237
Investment income	170,881	296,810	467,691
Net appreciation (realized and unrealized gains)	<u>754,368</u>	<u>1,988,097</u>	<u>2,742,465</u>
Total investment return	925,249	2,284,907	3,210,156
Contributions	31,047	-	31,047
Appropriation of endowment assets for expenditure	<u>(582,950)</u>	<u>(1,086,413)</u>	<u>(1,669,363)</u>
Endowment net assets, June 30, 2018	<u>\$ 12,384,052</u>	<u>\$ 27,051,025</u>	<u>\$ 39,435,077</u>

NOTE R - NET ASSETS (DEFICIT)

Net assets are available for the following purposes at June 30:

	2019	2018
Net assets (deficit) without donor restrictions:		
Undesignated	\$ (77,561,492)	\$ 42,580,531
Board designated endowment	<u>6,347,431</u>	<u>12,384,052</u>
Total net assets (deficit) without donor restrictions	(71,214,061)	54,964,583
Net assets with donor restrictions:		
Subject to expenditure for specified purpose:		
Archdiocesan ministries support	3,664,518	4,007,779
Retired priest and religious support	981,591	985,673
Renovations	<u>100,000</u>	<u>1,622,826</u>
Total subject to expenditure for specified purpose	4,746,109	6,616,278
Investments to be held in perpetuity, funds restricted in perpetuity:		
Archdiocesan ministries support	24,887,532	24,504,667
Archdiocesan operation support	310,290	291,708
Educational assistance	13,432	12,809
Perpetual trusts held by others	<u>2,266,373</u>	<u>2,241,841</u>
Total investments to be held in perpetuity, funds restricted in perpetuity	<u>27,477,627</u>	<u>27,051,025</u>
Total net assets with donor restrictions	<u>32,223,736</u>	<u>33,667,303</u>
Total net assets (deficit)	<u>\$ (38,990,325)</u>	<u>\$ 88,631,886</u>

Archdiocese of Philadelphia - Office for Financial Services

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE S - LIQUIDITY AND FUNDS AVAILABLE

The following table reflects OFS' financial assets as of June 30, 2019 and 2018, reduced by amounts not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year, trust assets, assets held for others, perpetual endowments and accumulated earnings net of appropriations within one year, or because management has set aside the funds for a specific contingency reserve or a long-term investment as management designated endowments. These management designations could be drawn upon if management approves that action.

As part of the OFS' liquidity management and to help manage unanticipated liquidity needs, the Archdiocese has an unsecured line of credit of \$6,000,000, which can be drawn upon.

	<u>2019</u>	<u>2018</u>
Financial assets:		
Cash and cash equivalents	\$ 69,421,970	\$ 68,761,638
Due from Archdiocesan entities and other accounts receivable	15,488,412	33,565,299
Investments	38,270,147	54,167,818
Beneficial interest in supporting charitable trusts	<u>2,266,373</u>	<u>2,241,841</u>
Financial assets, at year end	125,446,902	158,736,596
Less those unavailable for general expenditure within one year, due to:		
Cash not available for general expenditures	61,842,680	63,704,792
Investments and perpetual trusts held by others not convertible to cash within next 12 months	2,266,373	2,241,841
Contribution and accounts receivable collectible beyond one year	8,999,184	10,987,221
Investments and other financial assets held for others	4,746,111	6,616,277
Perpetual and term endowments and accumulated earnings subject to appropriation beyond one year	25,211,256	24,809,185
Investments not for general expenditure (RIT)	-	9,409,313
Investments in management designated endowments	<u>6,347,431</u>	<u>12,384,052</u>
	<u>109,413,035</u>	<u>130,152,681</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 16,033,867</u>	<u>\$ 28,583,915</u>

Although financial assets for general expenditures within one year are positive, this balance does not include the \$105,124,000 liability associated with the IRRP program that is included within the self-insurance reserve. As the remaining amount required under this program is in excess of the available liquidity, management has developed and is implementing a funding plan that includes borrowing, sales of assets and risk mitigation payments from related ecclesiastical entities to satisfy the expected funding needs of this program. See Note U for details regarding borrowings, sales of assets and risks mitigation payments subsequent to year-end and through the date which the financial statements were available for distribution.

Archdiocese of Philadelphia - Office for Financial Services

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE T- FUNCTIONAL EXPENSES

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation and IT, which are allocated on a square footage basis and head count basis, respectively. Interest is allocated by fund. Salaries and benefits are allocated on the basis of estimates of time and effort.

	June 30, 2019					Total
	Program Activities					
	Clergy	Ministry	Risk Insurance Trust	Welfare Benefits Trust	Supporting management and general	
Subsidies	\$ -	\$ 987,261	\$ -	\$ -	\$ -	\$ 987,261
Salaries and wages	1,043,891	3,684,881	86,375	60,167	5,639,372	10,514,686
Payroll taxes and fringe benefits	3,109,816	160,514	22,832	741,145	1,912,832	5,947,139
Purchased services	977,081	1,263,163	5,785,207	289,345	8,589,669	16,904,465
Intra diocesan expenses	8,026	(140,280)	290	-	44,546	(87,418)
Support expenses	338,366	2,370,213	1,384,931	39,387	4,486,048	8,618,945
Insurance program expenses	-	-	118,359,390	42,553,789	-	160,913,179
Interparochial assistance	-	1,745,522	-	-	-	1,745,522
Depreciation expense	233,806	135,098	-	-	1,243,717	1,612,621
Interest expense	-	-	-	-	763,851	763,851
Withdrawals	35,752	-	-	-	385,680	421,432
Contributions expense from sale of real estate and physical plant	-	-	-	-	14,594,429	14,594,429
Total expenses	\$ 5,746,738	\$ 10,206,372	\$ 125,639,025	\$ 43,683,833	\$ 37,660,144	\$ 222,936,112

	June 30, 2018					Total
	Program Activities					
	Clergy	Ministry	Risk Insurance Trust	Welfare Benefits Trust	Supporting management and general	
Subsidies	\$ -	\$ 1,186,021	\$ -	\$ -	\$ -	\$ 1,186,021
Salaries and wages	1,022,136	3,514,838	61,732	29,200	5,474,757	10,102,663
Payroll taxes and fringe benefits	2,664,201	(44,879)	22,696	821,723	2,043,067	5,506,808
Purchased services	870,533	1,284,724	6,651,388	311,697	6,695,449	15,813,791
Intra diocesan expenses	30,017	(114,116)	4,413	-	110,320	30,634
Support expenses	321,544	14,893,311	376,503	107,607	(10,630,300)	5,068,665
Insurance program expenses	-	-	(1,435,309)	41,216,827	-	39,781,518
Interparochial assistance	-	1,812,738	-	-	-	1,812,738
Depreciation expense	239,922	191,891	-	-	1,385,109	1,816,922
Interest expense	-	-	-	-	1,049,976	1,049,976
Withdrawals	-	-	-	-	449,373	449,373
Total expenses	\$ 5,148,353	\$ 22,724,528	\$ 5,681,423	\$ 42,487,054	\$ 6,577,751	\$ 82,619,109

Archdiocese of Philadelphia - Office for Financial Services

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE U - SUBSEQUENT EVENTS

OFS has evaluated subsequent events through March 24, 2020, the date which the financial statements were available for distribution.

On July 17, 2019, OFS entered into an unsecured bridge loan with St. Charles Borromeo Seminary in the amount of \$7,500,000 (the "SCBS Loan"). The SCBS loan was received in two advances (\$6,250,000 on July 19, 2019 and \$1,250,000 on October 4, 2019). The SCBS loan bears an annual interest rate of 4.25% and shall be calculated by the number of elapsed days that the principal is outstanding based upon a year of 360 days. Principal and interest is due at the earlier of one year from the date of borrowing or the receipt of proceeds from the phase one closing pursuant to the EMV Agreement discussed below.

On September 27, 2019, the Archdiocese entered into a Master Development Agreement with EM Race Vine Ventures, LLC, a Delaware limited liability company ("EMV"). The Master Development Agreement grants EMV the right to re-zone, ground lease and develop two portions of the Archdiocese's property located at 17th and Vine Streets in Philadelphia, on which the Cathedral Basilica of Saints Peter and Paul, the Archdiocesan Pastoral Center, and other buildings are located. EMV plans to develop such portions of this site into a mixed use, residential, retail and office urban destination. The Master Development Agreement provides for EMV to ground lease the sites in two phases, and upon the closing of each phase, which are anticipated to be in 2020 and during or before 2025, consideration will be due and payable to the Archdiocese.

In December 2019, in accordance with the plan established to fund the IRRP, the Archdiocese received \$28,000,000 in risk-mitigation payments from three affiliated ecclesiastical entities. In addition, the Archdiocese has received a commitment from an affiliated ecclesiastical entity for a secured loan in the amount of \$15,000,000. This loan will be secured by certain real property owned by the Archdiocese of Philadelphia. The Archdiocese is expected to enter into this borrowing as funds are needed for the IRRP.

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continues to spread throughout the United States. The spread of COVID-19 has caused significant volatility in U.S. and international markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S. and international economies and, as such, OFS is unable to determine if it will have a material impact to its operations.

SUPPLEMENTARY INFORMATION

Archdiocese of Philadelphia - Office for Financial Services

COMBINING STATEMENT OF FINANCIAL POSITION

June 30, 2019

	<u>Total General Fund</u>	<u>Deposit and Loan Program Trust</u>	<u>Risk Insurance Trust</u>	<u>Welfare Benefits Trust</u>	<u>Eliminations</u>	<u>OFS Total</u>
ASSETS						
Cash and cash equivalents	\$ 11,778,445	\$ 14,221,146	\$ 15,989,134	\$ 27,433,245	\$ -	\$ 69,421,970
Due from Archdiocesan entities, net						
Assessments and other amounts due, net of allowance for doubtful accounts of \$35,005,611	437,171	-	610,047	640,426	-	1,687,644
Loans receivable, net of allowance for doubtful accounts of \$8,073,398		11,416,066	-	-	-	11,416,066
Notes receivable from related parties, net of allowance for doubtful accounts of \$1,765,000	1,095,000	32,100,393	-	-	(32,100,393)	1,095,000
Interest receivable from related parties, net of allowance for doubtful accounts of \$4,841,817	-	590,525	-	-	-	590,525
Other related party receivables	702,983	(300)	20,798	-	(24,304)	699,177
Prepaid expenses	4,976	-	1,908,973	596,008	-	2,509,957
Real estate and physical plant held for sale	3,356,910	-	-	-	-	3,356,910
Investments	38,270,147	-	-	-	-	38,270,147
Beneficial interest in supporting charitable trusts	2,266,373	-	-	-	-	2,266,373
Real estate and physical plant, net of accumulated depreciation of \$35,307,896	18,830,034	-	-	-	-	18,830,034
Total assets	<u>\$ 76,742,039</u>	<u>\$ 58,327,830</u>	<u>\$ 18,528,952</u>	<u>\$ 28,669,679</u>	<u>\$ (32,124,697)</u>	<u>\$ 150,143,803</u>
LIABILITIES AND NET ASSETS						
Liabilities						
Accounts payable	\$ 6,226,656	\$ 41,300	\$ 523,557	\$ 339,076	\$ -	\$ 7,130,589
Accrued expenses and other payables	1,776,605	-	121,858,175	3,989,757	-	127,624,537
Deferred revenue	128,553	-	-	1,205,802	-	1,334,355
Deposits - parishes, institutions and related organizations	-	53,068,951	-	-	(24,304)	53,044,647
Note payable	32,100,393	-	-	-	(32,100,393)	-
Total liabilities	<u>40,232,207</u>	<u>53,110,251</u>	<u>122,381,732</u>	<u>5,534,635</u>	<u>(32,124,697)</u>	<u>189,134,128</u>
Net assets						
Without donor restrictions	4,286,096	5,217,579	(103,852,780)	23,135,044	-	(71,214,061)
With donor restrictions	32,223,736	-	-	-	-	32,223,736
Total net assets	<u>36,509,832</u>	<u>5,217,579</u>	<u>(103,852,780)</u>	<u>23,135,044</u>	<u>-</u>	<u>(38,990,325)</u>
Total liabilities and net assets	<u>\$ 76,742,039</u>	<u>\$ 58,327,830</u>	<u>\$ 18,528,952</u>	<u>\$ 28,669,679</u>	<u>\$ (32,124,697)</u>	<u>\$ 150,143,803</u>

Archdiocese of Philadelphia - Office for Financial Services

COMBINING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended June 30, 2019

	Without donor restriction					With donor restriction				Grand Total	
	General Fund	Deposit and Loan Program Trust	Risk Insurance Trust	Welfare Benefits Trust	Eliminations	Total	General Fund	Estates & Trusts Fund	Villa St. Joseph Fund		Total
Revenues, gains, losses and other support											
Parish assessments	\$ 22,684,600	\$ -	\$ -	\$ -	\$ -	\$ 22,684,600	\$ -	\$ -	\$ -	\$ -	\$ 22,684,600
Contributions from related parties	16,326,946	-	-	-	(15,517,053)	809,893	-	-	-	-	809,893
Collections, bequests and donations	2,523,934	-	-	-	(958,101)	1,565,833	-	290,656	744,397	1,035,053	2,600,886
Tuition income	84,370	-	-	-	-	84,370	-	-	-	-	84,370
Investment income	167,341	-	90,919	-	-	258,260	-	471,518	-	471,518	729,778
Interest income	252,066	897,929	256,860	158,955	-	1,565,810	-	38,832	-	38,832	1,604,642
Fees for services	2,236,110	-	-	-	-	2,236,110	-	-	-	-	2,236,110
Intradiocesan income	2,512,395	-	-	-	(207,360)	2,305,035	-	-	-	-	2,305,035
Other income	4,359,612	-	199,986	-	(200,000)	4,359,598	-	-	-	-	4,359,598
Net gain on sale of real estate and physical plant	19,136,264	-	-	-	-	19,136,264	-	-	-	-	19,136,264
Net assets released from restrictions	4,101,421	-	-	-	-	4,101,421	-	(1,834,198)	(2,267,223)	(4,101,421)	-
Net realized and unrealized appreciation (depreciation) on investments and beneficial interest in supporting charitable trusts	168,116	-	(245,624)	-	-	(77,508)	4,179	1,108,272	-	1,112,451	1,034,943
Premium income from Archdiocesan insurance programs	-	-	19,254,179	43,095,465	(2,073,729)	60,275,915	-	-	-	-	60,275,915
Total revenues, gains, losses and other support	74,553,175	897,929	19,556,320	43,254,420	(18,956,243)	119,305,601	4,179	75,080	(1,522,826)	(1,443,567)	117,862,034
Expenses											
Subsidies	4,916,531	-	-	-	(3,929,270)	987,261	-	-	-	-	987,261
Salaries and wages	10,368,144	-	86,375	60,167	-	10,514,686	-	-	-	-	10,514,686
Payroll taxes and fringe benefits	7,050,450	-	22,832	741,145	(1,867,288)	5,947,139	-	-	-	-	5,947,139
Purchased services	11,155,182	88,531	5,785,207	289,346	(413,801)	16,904,465	-	-	-	-	16,904,465
Intradiocesan expenses	(87,708)	-	290	-	-	(87,418)	-	-	-	-	(87,418)
Support expense	6,462,739	731,888	1,384,931	39,387	-	8,618,945	-	-	-	-	8,618,945
Interparochial assistance	1,745,522	-	-	-	-	1,745,522	-	-	-	-	1,745,522
Depreciation expense	1,612,621	-	-	-	-	1,612,621	-	-	-	-	1,612,621
Interest expense	12,898	750,953	-	-	-	763,851	-	-	-	-	763,851
Withdrawals	12,967,316	-	-	-	(12,545,884)	421,432	-	-	-	-	421,432
Contribution expense	14,594,429	-	-	-	-	14,594,429	-	-	-	-	14,594,429
Insurance program expenses	-	-	118,359,390	42,753,789	(200,000)	160,913,179	-	-	-	-	160,913,179
Total expenses	70,798,124	1,571,372	125,639,025	43,883,834	(18,956,243)	222,936,112	-	-	-	-	222,936,112
Change in net assets before other items	3,755,051	(673,443)	(106,082,705)	(629,414)	-	(103,630,511)	4,179	75,080	(1,522,826)	(1,443,567)	(105,074,078)
Other items											
IRRP funding from AOP	-	-	10,500,000	-	(10,500,000)	-	-	-	-	-	-
IRRP funding expense	(10,500,000)	-	(22,548,133)	-	10,500,000	(22,548,133)	-	-	-	-	(22,548,133)
Net IRRP activity	(10,500,000)	-	(12,048,133)	-	-	(22,548,133)	-	-	-	-	(22,548,133)
Change in net assets	(6,744,949)	(673,443)	(118,130,838)	(629,414)	-	(126,178,644)	4,179	75,080	(1,522,826)	(1,443,567)	(127,622,211)
Net assets											
Beginning of year	11,031,046	5,891,022	14,278,058	23,764,457	-	54,964,583	4,449,460	27,595,017	1,622,826	33,667,303	88,631,886
End of year	\$ 4,286,097	\$ 5,217,579	\$ (103,852,780)	\$ 23,135,043	\$ -	\$ (71,214,061)	\$ 4,453,639	\$ 27,670,097	\$ 100,000	\$ 32,223,736	\$ (38,990,325)