

Financial Statements and Report of  
Independent Certified Public Accountants

**Archdiocese of Philadelphia,  
Office of Catholic Education  
Administration Account**

June 30, 2019 and 2018

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## Report of Independent Certified Public Accountants

To the Archbishop of Philadelphia and the Faith in the Future Foundation  
Archdiocese of Philadelphia

We have audited the accompanying financial statements of the Archdiocese of Philadelphia, Office of Catholic Education Administration Account (“OCE”), 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 the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Archdiocese of Philadelphia, Office of Catholic Education Administration Account 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 OCE within the Archdiocese of Philadelphia. Our opinion is not modified with respect to this matter.



Philadelphia, Pennsylvania  
April 9, 2020

**Archdiocese of Philadelphia, Office of Catholic Education  
Administration Account**

**STATEMENTS OF FINANCIAL POSITION**

**As of June 30,**

<b>ASSETS</b>	<b>2019</b>	<b>2018</b>
Cash and cash equivalents, including amounts held by affiliate	\$ 3,242,678	\$ 2,937,532
Accounts receivable	35,509	86,543
Due from other Archdiocesan entities (Note I)	114,327	25,123
Other assets	114,435	220,512
Investments (Note C)	10,242,223	9,904,746
Beneficial interest in perpetual trust	29,662,894	28,891,707
Total assets	\$ 43,412,066	\$ 42,066,163
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable	\$ 137,176	\$ 110,394
Accrued vacation	121,626	110,896
Accrued severance	16,023	99,601
Accrued salaries	70,392	71,005
Due to other Archdiocesan entities (Note I)	36,253	33,839
Deferred revenue	7,330	8,705
Total liabilities	388,800	434,440
Net assets		
Without donor restrictions (Note E)	2,686,860	2,498,123
With donor restrictions (Note F)	40,336,406	39,133,600
Total net assets	43,023,266	41,631,723
Total liabilities and net assets	\$ 43,412,066	\$ 42,066,163

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

**Archdiocese of Philadelphia, Office of Catholic Education  
Administration Account**

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**

Year ended June 30, 2019

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
<b>Revenues:</b>			
Subsidies			
Office of Catholic Education -			
Diocesan High Schools	\$ 5,411,980	\$ -	\$ 5,411,980
Schools of Special Education	215,000	-	215,000
Parishes	1,200,000	-	1,200,000
Contributions			
Archdiocesan Educational Fund	118,602	-	118,602
Donations	70,023	494,129	564,152
Contributed services (Note J)	127,013	-	127,013
Program revenues	1,151,152	-	1,151,152
Investment income	71,650	359,181	430,831
Net realized and unrealized gains on investments	32,233	199,650	231,883
Change in beneficial interest in perpetual trust	-	771,187	771,187
Distribution of beneficial interest in perpetual trust	-	1,500,000	1,500,000
Other revenue	5,867	28,921	34,788
Net assets released from restrictions	2,150,262	(2,150,262)	-
	<u>10,553,782</u>	<u>1,202,806</u>	<u>11,756,588</u>
<b>Expenses:</b>			
Salaries and benefits	5,302,092	-	5,302,092
Purchased services	2,602,634	-	2,602,634
Intradiocesan expenses	350,454	-	350,454
Support expenses	2,109,865	-	2,109,865
	<u>10,365,045</u>	<u>-</u>	<u>10,365,045</u>
Change in net assets	188,737	1,202,806	1,391,543
<b>Net assets, beginning of year</b>	<u>2,498,123</u>	<u>39,133,600</u>	<u>41,631,723</u>
<b>Net assets, end of year</b>	<u>\$ 2,686,860</u>	<u>\$ 40,336,406</u>	<u>\$ 43,023,266</u>

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

**Archdiocese of Philadelphia, Office of Catholic Education  
Administration Account**

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**

Year ended June 30, 2018

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
<b>Revenues:</b>			
Subsidies			
Office of Catholic Education -			
Diocesan High Schools	\$ 5,551,796	\$ -	\$ 5,551,796
Schools of Special Education	215,000	-	215,000
Parishes	1,200,000	-	1,200,000
Contributions			
Archdiocesan Educational Fund	-	107,730	107,730
Donations	404,914	433,255	838,169
Contributed services (Note J)	126,378	-	126,378
Program revenues	1,257,130	5,000	1,262,130
Investment income	30,742	118,039	148,781
Net realized and unrealized gains on investments	83,708	548,762	632,470
Change in beneficial interest in perpetual trust	-	(17,764)	(17,764)
Distribution of beneficial interest in perpetual trust	-	1,452,000	1,452,000
Other revenue	2,812	-	2,812
Funds with deficiencies	9,732	(9,732)	-
Net assets released from restrictions	2,157,094	(2,157,094)	-
	<u>11,039,306</u>	<u>480,196</u>	<u>11,519,502</u>
<b>Expenses:</b>			
Salaries and benefits	5,880,494	-	5,880,494
Purchased services	2,811,294	-	2,811,294
Intradiocesan expenses	352,393	-	352,393
Support expenses	2,027,448	-	2,027,448
	<u>11,071,629</u>	<u>-</u>	<u>11,071,629</u>
Change in net assets	(32,323)	480,196	447,873
Net assets, beginning of year	<u>2,530,446</u>	<u>38,653,404</u>	<u>41,183,850</u>
Net assets, end of year	<u>\$ 2,498,123</u>	<u>\$ 39,133,600</u>	<u>\$ 41,631,723</u>

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

**Archdiocese of Philadelphia, Office of Catholic Education  
Administration Account**

**STATEMENTS OF CASH FLOWS**

**Years ended June 30,**

	<b>2019</b>	<b>2018</b>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 1,391,543	\$ 447,873
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Net realized and unrealized gains on investments	(231,883)	(632,470)
Change in beneficial interest in perpetual trust	(771,187)	17,764
Changes in operating assets and liabilities		
Accounts receivable	51,034	28,101
Due from other Archdiocesan entities	(89,204)	28,752
Other assets	106,077	(2,080)
Accounts payable	26,782	(144,374)
Accrued vacation	10,730	(1,869)
Accrued severance	(83,578)	80,651
Accrued salaries	(613)	965
Due to other Archdiocesan entities	2,414	(277,615)
Deferred revenue	(1,375)	(18,542)
	410,740	(472,844)
<b>Cash flows from investing activities:</b>		
Purchase of investments	(1,607,278)	(405,716)
Proceeds from sale of investments	1,501,684	572,921
	(105,594)	167,205
Net cash (used in) provided by investing activities		
	305,146	(305,639)
Net increase (decrease) in cash and cash equivalents, including amounts held by affiliate		
<b>Cash and cash equivalents, including amounts held by affiliate, beginning of year</b>	<b>2,937,532</b>	<b>3,243,171</b>
<b>Cash and cash equivalents, including amounts held by affiliate, end of year</b>	<b>\$ 3,242,678</b>	<b>\$ 2,937,532</b>

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



**Archdiocese of Philadelphia, Office of Catholic Education  
Administration Account**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2019 and 2018**

**NOTE A - NATURE OF OPERATIONS**

The accompanying financial statements of the Archdiocese of Philadelphia, Office of Catholic Education Administration Account ("OCE") include the Office of Catholic Education and the departments of elementary and secondary schools, the Office of Catechetical Formation and Educational Financial Services. The financial statements exclude certain entities of the Archdiocese of Philadelphia which relate to OCE but are considered separate reporting entities. These entities are as follows:

- Diocesan High Schools ("DHS")
- Schools of Special Education
- Office for Financial Services
- Trustee Account of the Archdiocese of Philadelphia for Estates and Trusts

OCE is considered to be a component of the Archdiocese of Philadelphia and not a separate legal entity. Effective September 1, 2012, the Archdiocese of Philadelphia entered into an agreement with Faith in the Future Foundation ("FIF"). The agreement is for the period of five school years and shall automatically renew for successive three-year periods unless prior written notification is provided 90 days before the scheduled expiration date. This agreement was extended through 2022 in February of 2016. Pursuant to the aforementioned agreement, FIF assumes strategic and operational management of the 17 Catholic secondary schools and the four individual Schools of Special Education and provides certain financial assistance to the schools. OCE has primary responsibility for, and FIF has oversight and approval responsibility over, school operations. The five senior management positions of OCE report directly to FIF's Chief Executive Officer. The Secretary for Elementary Education and Deputy Secretary for Catechetical Formation report directly to the Auxiliary Bishop for Education.

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Basis of Presentation***

The accompanying financial statements have been prepared on the accrual basis. Net assets and their revenues, expenses, gains and losses are classified as either with donor restrictions or without donor restrictions based on the existence or absence of donor-imposed restrictions.

Net assets with donor restrictions include gifts, trusts, income and gains which have either a time or use restriction but which may ultimately be expended. Since endowment investment income and net realized and unrealized gains and losses may eventually be spent by OCE, such earnings are recorded in the financial statements as net assets with donor restrictions until transferred to net assets without donor restrictions. Also included are net assets with donor-imposed restrictions requiring that the corpus be invested in perpetuity and only the investment income be made available for operations in accordance with donor restrictions.

Net assets without donor restrictions are free from donor-imposed restrictions and are all the remaining net assets of OCE. Within the category of net assets without donor restrictions, there are funds which have internal purpose designations determined by the Archbishop or his designee. Although the funds are legally unrestricted, the management of OCE follows this designation in the use of these funds.

**Archdiocese of Philadelphia, Office of Catholic Education  
Administration Account**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2019 and 2018**

***Revenue Recognition***

Various programs for the benefit of the schools are operated by OCE. Revenues from the programs are reported gross in the statements of activities and changes in net assets, and expenses are reported in the appropriate category of administration expenses when the services are performed.

Cash contributions are recorded as revenue when received. Unconditional promises to give are recorded at their fair value when OCE is notified of these gifts. Conditional promises to give are recognized when the conditions are substantially met.

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

***Uses of Estimates***

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

***Cash and Cash Equivalents, Including Amounts Held by Affiliate***

Cash and cash equivalents, including amounts held by affiliate, represent demand deposits and other investments with a maturity date of three months or less. The carrying amount approximates fair value.

OCE maintains cash balances with financial institutions that at times may exceed Federal Deposit Insurance Corporation limits. Management does not believe the credit risk related to these deposits is significant.

***Investments***

Trustee Accounts are invested with two publicly traded SEI Catholic Values mutual funds. The Catholic Values Equity Fund and the Catholic Values Fixed Income Fund ("Catholic Values Funds") provide Catholic institutions with high-quality products that align with their core values, without sacrificing diversification or return potential. Specifically, the funds align with the investment directives set forth by the United States Conference of Catholic Bishops. The Archdiocese of Philadelphia appointed SEI Private Trust Company ("SEI") to act as custodian (the "Custodian") of the Trustee Accounts. The investment in the Trustee Accounts and other investments are reported at fair value.

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

**Archdiocese of Philadelphia, Office of Catholic Education  
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**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2019 and 2018**

***Beneficial Interest in Perpetual Trust***

OCE is the sole beneficiary of the income of a trust established by Francis W. Sullivan held in perpetuity by a third party. The supporting perpetual trust requires the income to be paid to OCE. The beneficial interest in perpetual trust is recorded at the fair value of the assets. At June 30, 2019 and 2018, the fair value of the net assets of the trust was \$29,662,894 and \$28,891,707, respectively. The underlying investments of the beneficial interest in perpetual trust consist of cash, government obligations, corporate obligations, mutual funds, and equity securities. OCE receives statements from the trustees which detail the fair value of each investment in the perpetual trust.

***New Accounting Pronouncements***

Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 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. OCE is assessing the effect the adoption of ASU 2014 09 may have on the financial statements.

ASU No. 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 OCE serves as resource provider, the new standard is effective for annual financial statements beginning after December 15, 2019. OCE is assessing the impact of the new standard at this time.

***Recently Adopted Accounting Pronouncements***

In August 2016, the FASB issued a new standard related to the presentation of financial statements of not-for-profit entities. OCE adopted the provisions of this new standard 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 N) and functional expenses (Note L).

**Archdiocese of Philadelphia, Office of Catholic Education  
Administration Account**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2019 and 2018**

**NOTE C - INVESTMENTS**

The investments in the Trustee Accounts are reported at fair value and consist of the following:

*Catholic Values Equity Fund (or "fund")* - Invests in common stocks and is managed by SEI.

*Catholic Values Fixed Income Fund (or "fund")* - Invests in mutual funds, corporate obligations, United States Treasury obligations and municipal obligations and is managed by SEI.

Account holders have the option of six asset classifications in which to invest. The options include a short-duration U.S. government bond fund, a 100% fixed income bond fund and four equity funds with varying fixed income to equity mixes of 30/70, 50/50, 60/40 or 70/30. Management has primary responsibility for determining fixed income to equity fund. The asset mix of the mutual funds is SEI's responsibility. In May 2019, OCE decided to transition from a 60/40 allocation to a 70/30 allocation over a three-month period. The asset allocation was 67/33 at June 30, 2019.

At June 30, 2019 and 2018, OCE held the following categories of investments:

	2019	2018
Catholic Values Equity Fund	\$ 6,643,631	\$ 6,169,557
Catholic Values Fixed Income Fund	3,598,592	3,735,189
	\$ 10,242,223	\$ 9,904,746

OCE is the beneficiary of an individual trust held in perpetuity by a third party. At June 30, 2019 and 2018, the fair value of this trust was \$29,662,894 and \$28,891,707, respectively. During 2019 and 2018, OCE recognized \$77,187 and \$(17,764), respectively, of donor-restricted appreciation (depreciation) related to this trust.

**NOTE D - EMPLOYEE BENEFIT PLANS**

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

Through June 30, 2014, the eligible lay employees of OCE were covered under the Archdiocese of Philadelphia Lay Employees' Retirement Plan (the "Plan"), which is a defined benefit pension plan covering substantially all lay employees of the Archdiocese of Philadelphia, based on age and service requirements. On June 30, 2014, the Archdiocese froze the Plan. All active employees as of the freeze date retained benefits they had earned through June 30, 2014. After the date of the freeze, accrued pension benefits do not increase for additional service or increases in pay. The Plan is administered by the Trustees of the Plan. OCE made annual contributions to the Plan at an average rate of 5.9% of the salaries of eligible staff for the years ended June 30, 2019 and 2018. The amount expensed by OCE for contributions to the Plan was \$229,834 and \$228,161 for the years ended June 30, 2019 and 2018, respectively. The expense of such contributions is included in employee benefits. Separate accounts for vested benefits and pension fund assets are not maintained for each institution.

Estimates of the actuarially-determined present value of accumulated plan benefits at June 30, 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, Office of Catholic Education  
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**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2019 and 2018**

***Archdiocese of Philadelphia 403(b) Retirement Plan***

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

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

*Grandfathered Employees* - Any employee who was accruing benefits as an active participant in the Lay Employees' Retirement Plan as of its freeze date of June 30, 2014 is a grandfathered employee and will be eligible to receive employer contributions.

*Non-Grandfathered Employees* - Non-grandfathered employees are eligible to receive the employer contributions generally upon completion of 1,000 hours of service in the relevant measurement period.

Vesting in employer contributions is immediate for grandfathered employees who have completed 12 months of service as of June 30, 2014. Vesting in employer contributions for all other employees will take place after the completion of 12 months of service.

In 2019 and 2018, OCE's contribution rate was 4.5% of base salary for eligible employees, and there was a 0.35% charge for administration. The contributions into the 403(b) plan totaled \$178,306 and \$201,038 for the years ended June 30, 2019 and 2018, respectively.

**NOTE E - NET ASSETS WITHOUT DONOR RESTRICTIONS**

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

	2019	2018
Without donor restrictions	\$ 1,381,999	\$ 1,237,584
Quasi endowment:		
Elementary division functioning endowment	1,168,692	1,124,370
Elementary needs	136,169	136,169
Total net assets without donor restrictions	\$ 2,686,860	\$ 2,498,123

In June of 2012, the Archdiocese of Philadelphia received \$3.1 million from the Estate of Leo J. Baney which was to be used for "educational purposes in the Archdiocese of Philadelphia." In June of 2004, a decision was made to divide the principal into three areas and internally designate how the funds were to be used.

In April of 2015, Most Reverend Michael J. Fitzgerald, Auxiliary Bishop of Philadelphia signed a memorandum of understanding directing that \$1,000,000 of the fund be set aside in a fund functioning as an endowment with an annual distribution being provided to the Office of Catholic Education to support the elementary division. The balance in the fund, included in the net assets without donor restrictions as quasi endowment, is to be used for elementary needs as determined by the Secretary for Elementary Education. During 2019 and 2018, net assets were released from designated funds by incurring expenses satisfying the designated purpose of \$42,000 and \$42,710, respectively.

**Archdiocese of Philadelphia, Office of Catholic Education  
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**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2019 and 2018**

**NOTE F - NET ASSETS WITH DONOR RESTRICTIONS**

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

	2019	2018
Net assets subject to time or use donor-imposed restrictions:		
Tuition assistance and scholarships Programs	\$ 5,704,222 1,737,074	\$ 5,509,089 1,641,561
Accumulated earnings in excess of spending of endowments:		
Tuition assistance and scholarships	156,010	83,502
Other	7,819	17,798
<u>Total net assets subject to time or use donor-imposed restrictions</u>	<u>7,605,125</u>	<u>7,251,950</u>
Funds held in perpetuity:		
Program/grants (beneficial interest in perpetual trust)	29,662,894	28,891,707
Tuition assistance/scholarships	3,000,366	2,921,922
Other	68,021	68,021
<u>Total funds held in perpetuity</u>	<u>32,731,281</u>	<u>31,881,650</u>
<u>Total net assets with donor restrictions</u>	<u>\$ 40,336,406</u>	<u>\$ 39,133,600</u>

During 2019 and 2018, net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose of \$2,150,262 and \$2,157,094, respectively.

**NOTE G - ENDOWMENTS**

OCE's endowments consist of donor-restricted 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, and unless directed otherwise by the donor, OCE classifies as net assets with donor restrictions (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. The remaining portion of the donor-restricted endowment fund that is not held in perpetuity is also included in net assets with donor restrictions until those amounts are appropriated for expenditure by OCE in a manner consistent with the standard of prudence prescribed by relevant law. OCE does not release any portion of the funds held in perpetuity. Commonwealth of Pennsylvania law permits the Archdiocese of Philadelphia to release a percentage, which is elected annually, of the market value of its endowment funds into unrestricted income. The spending rate percentage, between 2% and 7%, is applied to the three-year average of the market value of the endowment funds' assets.

**Archdiocese of Philadelphia, Office of Catholic Education  
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**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2019 and 2018**

***Return Objectives and Risk Parameters***

OCE has adopted investment policies established by the Archdiocese of Philadelphia's Investment Committee 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. 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. OCE expects its endowment funds, over time, to provide an average rate of return of approximately 5% annually. Actual returns in any given year may vary from that amount.

***Spending Policy***

Commonwealth of Pennsylvania law permits OCE to adopt a spending policy for endowment earnings, subject to certain limitations. OCE 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 of Philadelphia's spending policy for the years ended June 30, 2019 and 2018 allowed for a 4% draw of the three-year average market value of the restricted endowments, unless directed otherwise by the donor.

As of June 30, 2019, and 2018, \$3,068,387 and \$2,989,943, respectively, in donor-restricted endowment funds held in perpetuity were included within net assets with donor restrictions.

Changes in donor-restricted endowments for the year ended June 30, 2019 are as follows:

Endowment net assets, June 30, 2018	\$ 3,091,742
Investment income	129,076
Net appreciation (realized and unrealized gains)	<u>73,298</u>
Total investment return	202,374
Appropriation of endowment assets for expenditure	<u>(61,900)</u>
Endowment net assets, June 30, 2019	<u>\$ 3,232,216</u>

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**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2019 and 2018**

Changes in endowment net assets for the year ended June 30, 2018 are as follows:

Endowment net assets, June 30, 2017	\$	2,918,460
Investment income		41,772
Net appreciation (realized and unrealized gains)		196,042
Total investment return		237,814
Appropriation of endowment assets for expenditure		(54,800)
Funds with deficiencies		(9,732)
Endowment net assets, June 30, 2018	\$	3,091,742

**NOTE H - INCOME TAXES**

As part of the Archdiocese of Philadelphia, OCE has received exempt status from federal taxation under Section 501(c)(3) of the Internal Revenue Code.

OCE follows the accounting guidance for uncertainties in income tax positions which requires that a tax position be recognized or derecognized based on a “more-likely-than-not” threshold. This applies to positions taken or expected to be taken in a tax return. OCE does not believe its financial statements include any material uncertain tax positions.

**NOTE I - RELATED PARTY TRANSACTIONS**

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

	2019	2018
Diocesan High Schools	\$ 114,327	\$ 25,123
	\$ 114,327	\$ 25,123

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

	2019	2018
Office for Communications	\$ 2,561	\$ 1,869
Office of Child and Youth Protection	14,977	14,052
Office for General Services	299	1,497
Propagation of the Faith	10	-
Diocesan High Schools	5,789	16
Office for Financial Services	12,617	16,405
	\$ 36,253	\$ 33,839



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**June 30, 2019 and 2018**

OCE receives subsidies from the Diocesan High Schools. Subsidies totaled \$5,411,980 (\$4,611,980 for administration costs and \$800,000 for marketing expense) and \$5,551,796 (\$4,651,796 for administration costs and \$900,000 for marketing expense) for the years ended June 30, 2019 and 2018, respectively.

OCE charged the Schools of Special Education \$215,000 for each of the years ended June 30, 2019 and 2018, for management services, which amounts are included in subsidies revenue.

Cash and cash equivalents include \$397,769 and \$462,158 at June 30, 2019 and 2018, respectively, held in trust funds maintained by the Office for Financial Services of the Archdiocese of Philadelphia. There are no conditions restricting the withdrawal of these funds.

**NOTE J - CONTRIBUTED SERVICES**

The value of contributed services performed by members of religious groups is based on the lay equivalent salaries of personnel performing similar duties, less the stipend allowances and housing allowances paid for the religious personnel. The value of contributed services is included as revenue and, correspondingly, charged to expenditures.

The following is a schedule of contributed services as of June 30:

	2019	2018
Salaries and benefits - lay equivalent value of religious services	\$ 277,260	\$ 307,929
Expended for religious services	(150,247)	(181,551)
Salaries, related employee benefits and faculty house expenses	\$ 127,013	\$ 126,378

**NOTE K - FAIR VALUE MEASUREMENTS**

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

- Level 1 Quoted prices in active markets for identical assets or liabilities.
- Level 2 Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities.
- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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

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**June 30, 2019 and 2018**

Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

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

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

	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant observable inputs (Level 3)	Total fair value
<u>2019</u>				
Assets				
Investments				
SEI mutual funds	\$10,242,223	\$ -	\$ -	\$10,242,223
Beneficial interest in perpetual trust	-	-	29,662,894	29,662,894
Total assets at June 30, 2019	<u>\$10,242,223</u>	<u>\$ -</u>	<u>\$29,662,894</u>	<u>\$39,905,117</u>
<u>2018</u>				
Assets				
Investments:				
SEI mutual funds	\$ 9,904,746	\$ -	\$ -	\$ 9,904,746
Beneficial interest in perpetual trust	-	-	28,891,707	28,891,707
Total of assets at June 30, 2018	<u>\$ 9,904,746</u>	<u>\$ -</u>	<u>\$28,891,707</u>	<u>\$38,796,453</u>

The following table presents assets under the beneficial interest in perpetual trust measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30:

	2019	2018
Beginning balance	\$28,891,707	\$28,909,471
Change in fair value of assets	2,271,187	1,434,236
Distribution from perpetual trust	(1,500,000)	(1,452,000)
	<u>\$29,662,894</u>	<u>\$28,891,707</u>

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**June 30, 2019 and 2018**

**NOTE L - FUNCTIONAL EXPENSES**

OCE provides services to schools and entities included in Note A. Expenses by functional and natural classification for the year ended June 30, 2019 are shown below:

	Administration	Scholarship and tuition assistance	Program	Operations	Total
Salaries and benefits	\$ 5,302,092	\$ -	\$ -	\$ -	\$ 5,302,092
Intradiocesan expenses	350,454	-	-	-	350,454
Purchased services	2,088,401	-	472,325	41,908	2,602,634
Support expenses	<u>600,186</u>	<u>1,201,312</u>	<u>182,802</u>	<u>125,565</u>	<u>2,109,865</u>
Total	<u>\$ 8,341,133</u>	<u>\$ 1,201,312</u>	<u>\$ 655,127</u>	<u>\$ 167,473</u>	<u>\$ 10,365,045</u>

Support expenses include tuition assistance and scholarship awards, computer equipment, office supplies, conferences and workshops, travel related expenses and auto expenses.

**NOTE M - LEASE COMMITMENTS**

OCE has entered into lease agreements with respect to equipment which expire at various dates through July 1, 2022. The following is a schedule of future minimum lease payments for operating leases with noncancellable lease terms in excess of one year:

Year ending June 30,	
2020	\$ 16,106
2021	16,106
2022	12,678
2023	<u>852</u>
	<u>\$ 45,742</u>

Lease expenses for the years ended June 30, 2019 and 2018 totaled \$26,466 and \$31,206, respectively.

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**June 30, 2019 and 2018**

**NOTE N - LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS**

The following reflects OCE's financial assets as of June 30, 2019, reduced by amounts not available for general use within one year because of donor-imposed restrictions or internal designations. Amounts available include annual distributions from the Leo J. Baney Designated Fund. In addition, OCE expects to receive funding during the year ended June 30, 2020 of \$5,150,000 for operations and \$650,000 for marketing expenses from the Diocesan High Schools; \$1,230,000 from the Office for Financial Services and \$215,000 from the Schools of Special Education.

	2019	2018
Financial assets:		
Cash and cash equivalents	\$ 3,242,678	\$ 2,937,532
Accounts receivable and due from other Archdiocesan entities	149,836	111,666
Investments	10,242,223	9,904,746
Perpetual trusts held by others	29,662,894	28,891,707
Financial assets, at year end	43,297,631	41,845,651
Donor-imposed restrictions:		
Perpetual trusts held by others	29,662,894	28,891,707
Endowment funds	3,219,584	3,091,111
Tuition assistance and scholarship	5,633,599	5,470,127
Other donor-imposed restrictions	2,152,546	2,003,856
Archdiocese designations:		
Functioning endowment for OCE Elementary department	1,166,630	1,127,309
	\$ 1,462,378	\$ 1,261,541

**NOTE O - SUBSEQUENT EVENTS**

OCE evaluated its June 30, 2019 financial statements for subsequent events through April 9, 2020, the date the financial statements were available to be issued. OCE is not aware of any subsequent event which would require recognition or disclosure in the financial statements.

Subsequent to year-end, the outbreak of a novel coronavirus (COVID-19) as a pandemic has caused significant uncertainty of the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S. and international economies. While school buildings have closed in response to the pandemic, learning has shifted to online platforms, but management is unable to determine whether there will be a material impact to its operations in the future. We are actively working to minimize the financial impact of this situation.

The United States and global markets experienced significant declines in value resulting from uncertainty caused by the world-wide coronavirus pandemic. The Archdiocese of Philadelphia is closely monitoring its investment portfolio and its liquidity. The financial statements do not include adjustments to fair value that have resulted from these declines.

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**June 30, 2019 and 2018**

In December 2019, in accordance with the plan established to fund the Independent Reconciliation and Reparations Program (IRRP), OCE made a \$757,059 risk-mitigation payment to the Archdiocese of Philadelphia Office for Financial Services.