

Financial Statements and Report of
Independent Certified Public
Accountants

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

June 30, 2020 and 2019

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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, 2020 and 2019, 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, 2020 and 2019, 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.

Grant Thornton LLP

Philadelphia, Pennsylvania
November 24, 2020

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

STATEMENTS OF FINANCIAL POSITION

June 30,

ASSETS	2020	2019
Cash and cash equivalents, including amounts held by affiliate	\$ 2,909,312	\$ 3,242,678
Accounts receivable	36,144	35,509
Due from other Archdiocesan entities (Note I)	1,397,568	114,327
Other assets	1,275	114,435
Investments (Note C)	10,238,367	10,242,223
Beneficial interest in perpetual trust	28,902,341	29,662,894
Total assets	\$ 43,485,007	\$ 43,412,066
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 301,281	\$ 137,176
Accrued vacation	121,086	121,626
Accrued severance	13,150	16,023
Accrued salaries	96,512	70,392
Due to other Archdiocesan entities (Note I)	752,779	36,253
Deferred revenue	-	7,330
Total liabilities	1,284,808	388,800
Net assets		
Without donor restrictions (Note E)	2,200,083	2,686,860
With donor restrictions (Notes F and G)	40,000,116	40,336,406
Total net assets	42,200,199	43,023,266
Total liabilities and net assets	\$ 43,485,007	\$ 43,412,066

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, 2020

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Revenues			
Subsidies			
Office of Catholic Education -			
Diocesan High Schools	\$ 4,737,192	\$ -	\$ 4,737,192
Schools of Special Education	173,500	-	173,500
Parishes	1,230,200	-	1,230,200
Contributions			
Archdiocesan Educational Fund	18,000	-	18,000
Donations	26,012	796,427	822,439
Contributed services (Note J)	163,812	-	163,812
Program revenues	406,345	-	406,345
Investment return, net	45,652	233,677	279,329
Change in beneficial interest in perpetual trust	-	(760,553)	(760,553)
Distribution of beneficial interest in perpetual trust	-	1,625,000	1,625,000
Other revenue	8,815	-	8,815
Net assets released from restrictions	2,230,841	(2,230,841)	-
Total revenues	<u>9,040,369</u>	<u>(336,290)</u>	<u>8,704,079</u>
Expenses			
Salaries and benefits	5,339,216	-	5,339,216
Purchased services	1,120,744	-	1,120,744
Intradiocesan expenses	333,373	-	333,373
Support expenses	1,872,593	-	1,872,593
Total expenses	<u>8,665,926</u>	<u>-</u>	<u>8,665,926</u>
Change in net assets before other items	374,443	(336,290)	38,153
Transfer to Diocesan High Schools for risk mitigation payment (Note I)	757,059	-	757,059
Other non-operating expense (Note D)	104,161	-	104,161
Change in net assets	(486,777)	(336,290)	(823,067)
Net assets, beginning of year	<u>2,686,860</u>	<u>40,336,406</u>	<u>43,023,266</u>
Net assets, end of year	<u>\$ 2,200,083</u>	<u>\$ 40,000,116</u>	<u>\$ 42,200,199</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, 2019

	Without donor restrictions	With donor restrictions	Total
Revenues:			
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 return, net	103,883	558,831	662,714
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)	-
Total revenues	10,553,782	1,202,806	11,756,588
Expenses			
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
Total expenses	10,365,045	-	10,365,045
Change in net assets	188,737	1,202,806	1,391,543
Net assets, beginning of year	2,498,123	39,133,600	41,631,723
Net assets, end of year	\$ 2,686,860	\$ 40,336,406	\$ 43,023,266

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

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

STATEMENTS OF CASH FLOWS

Year ended June 30,

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
Change in net assets	\$ (823,067)	\$ 1,391,543
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Net realized and unrealized losses (gains) on investments	130,556	(231,883)
Change in beneficial interest in perpetual trust	760,553	(771,187)
Changes in operating assets and liabilities		
Accounts receivable	(635)	51,034
Due from other Archdiocesan entities	(1,283,241)	(89,204)
Other assets	113,160	106,077
Accounts payable	164,105	26,782
Accrued vacation	(540)	10,730
Accrued severance	(2,873)	(83,578)
Accrued salaries	26,120	(613)
Due to other Archdiocesan entities	716,526	2,414
Deferred revenue	(7,330)	(1,375)
	<u>(206,666)</u>	<u>410,740</u>
Net cash (used in) provided by operating activities		
Cash flows from investing activities		
Purchase of investments	(1,127,163)	(1,607,278)
Proceeds from sale of investments	<u>1,000,463</u>	<u>1,501,684</u>
Net cash used in investing activities	<u>(126,700)</u>	<u>(105,594)</u>
Net (decrease) increase in cash and cash equivalents, including amounts held by affiliate	(333,366)	305,146
Cash and cash equivalents, including amounts held by affiliate, beginning of year	<u>3,242,678</u>	<u>2,937,532</u>
Cash and cash equivalents, including amounts held by affiliate, end of year	<u>\$ 2,909,312</u>	<u>\$ 3,242,678</u>

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, 2020 and 2019

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
- Schools of Special Education
- Office for Financial Services ("OFS")
- Trustee Account of the Archdiocese of Philadelphia for Estates and Trusts
- Independent Reconciliation and Reparations Trust

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.

COVID-19 Pandemic

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. Management is unable to determine whether there will be a material impact to its operations in the future. Management is actively working to minimize the financial impact of this situation.

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.

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

June 30, 2020 and 2019

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.

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.

Realized gains and losses on securities sold are determined using the specific-identification method. Unrealized gains and losses are included in the investment return, net in the statements of activities and changes in net assets.

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

June 30, 2020 and 2019

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, 2020 and 2019, the fair value of the net assets of the trust was \$28,902,341 and \$29,662,894, 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, as amended, is effective for fiscal years beginning after December 15, 2019. 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 ASU2014-09 may have on the financial statements.

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

Recently Adopted Accounting Pronouncements

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. OCE adopted the guidance during the year ended June 30, 2020 using the modified retrospective method and has determined that there is no effect on net assets in connection with the adoption of ASU 2018-08.

Reclassifications

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results.

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

June 30, 2020 and 2019

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, 2020 and 2019.

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

	2020	2019
Catholic Values Equity Fund	\$ 7,184,396	\$ 6,643,631
Catholic Values Fixed Income Fund	3,053,971	3,598,592
Total investments	<u>\$ 10,238,367</u>	<u>\$ 10,242,223</u>

OCE is the beneficiary of an individual trust held in perpetuity by a third party. At June 30, 2020 and 2019, the fair value of this trust was \$28,902,341 and \$29,662,894, respectively. During 2020 and 2019, OCE recognized (\$760,553) and \$771,187, respectively, of donor-restricted (depreciation) appreciation 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 the eligible staff for the period from July 1, 2019 through September 13, 2019 and for the year ended June 30, 2019 of \$160,119 and \$229,834, 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. The Plan Trustees approved suspending contributions into the Plan as of September 14, 2019. The contributions which would have gone into the Plan after September 14, 2019 were made to a special fund held by the Archdiocese of Philadelphia, OFS.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

Plan contributions historically were assessed on a calendar year basis, therefore, contributions made for the period from January through June were a prepaid expense. Since contributions were made into the special fund instead of the Plan during the last two quarters of the fiscal year, there is no prepaid pension expense at June 30. The contributions to the special fund after December 31, 2019 totaled \$104,161 and is shown in non-operating expense in the statement of activities and changes in net assets.

Estimates of the actuarially determined present value of accumulated plan benefits at June 30, 2020 totaled approximately \$564,500,000. The actuarially determined present value of accumulated plan benefits at June 30, 2019 totaled approximately \$582,000,000. At June 30, 2020 and 2019, the assets available to provide for these benefits totaled approximately \$473,300,000 and \$511,200,000, respectively.

Archdiocese of Philadelphia 403(b) Retirement Plan

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

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

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

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

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

In 2020 and 2019, 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 \$163,795 and \$178,306 for the years ended June 30, 2020 and 2019, respectively.

NOTE E - NET ASSETS WITHOUT DONOR RESTRICTIONS

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

	2020	2019
Without donor restrictions	\$ 907,778	\$ 1,381,999
Quasi endowment:		
Elementary division functioning endowment	1,156,136	1,168,692
Elementary needs	136,169	136,169
	\$ 2,200,083	\$ 2,686,860

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

June 30, 2020 and 2019

In June of 2012, the Archdiocese of Philadelphia received \$3,100,000 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 OCE 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 2020 and 2019, net assets were released from designated funds by incurring expenses satisfying the designated purpose of \$47,000 and \$42,000, respectively.

NOTE F - NET ASSETS WITH DONOR RESTRICTIONS

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

	2020	2019
Net assets subject to time or use donor-imposed restrictions:		
Tuition assistance and scholarships	\$ 5,652,911	\$ 5,704,222
Programs	2,171,503	1,737,074
Accumulated earnings in excess of spending of endowments:		
Tuition assistance and scholarships	169,023	156,010
Other	1,317	7,819
Total net assets subject to time or use donor-imposed restrictions	7,994,754	7,605,125
Funds held in perpetuity:		
Program/grants (beneficial interest in perpetual trust)	28,902,341	29,662,894
Tuition assistance/scholarships	3,035,000	3,000,366
Other	68,021	68,021
Total funds held in perpetuity	32,005,362	32,731,281
Total net assets with donor restrictions	\$ 40,000,116	\$ 40,336,406

During 2020 and 2019, net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose of \$2,230,841 and \$2,150,262, 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.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

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.

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. OCE's spending policy for the years ended June 30, 2020 and 2019 allowed for between a 2% and 7% draw of the three-year average market value of the restricted endowments, unless directed otherwise by the donor.

As of June 30, 2020, and 2019, \$3,103,021 and \$3,068,387, 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, 2020 are as follows:

Endowment net assets, June 30, 2019	\$ 3,232,216
Investment income	125,887
Net depreciation (realized and unrealized losses)	<u>(37,842)</u>
Total investment return	88,045
Appropriation of endowment assets for expenditure	<u>(46,900)</u>
Endowment net assets, June 30, 2020	<u>\$ 3,273,361</u>

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

Changes in endowment net assets 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><u>3,232,216</u></u>

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:

	2020	2019
Schools of Special Education	\$ 48,083	\$ -
Office for Financial Services	98,487	-
Diocesan High Schools	<u>1,250,998</u>	<u>114,327</u>
	<u>\$ 1,397,568</u>	<u>\$ 114,327</u>

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

	2020	2019
Office for Communications	\$ -	\$ 2,561
Office of Child and Youth Protection	9,300	14,977
Office for General Services	11,337	299
Propagation of the Faith	-	10
Diocesan High Schools	20,537	5,789
Office for Financial Services	<u>711,605</u>	<u>12,617</u>
	<u>\$ 752,779</u>	<u>\$ 36,253</u>

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

The Office for Financial Services was the recipient of a Paycheck Protection Program (PPP) loan granted by the Small Business Administration under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). Certain OCE employee expenses totaling \$652,468 were included in the loan received by the Office of Financial Services. This amount is included in the due to OFS amount above. Under the program terms, PPP loans are forgiven and recognized as revenue if the loan proceeds are used to maintain compensation costs and employee headcount, and other qualifying expenses (mortgage interest, rent and utilities) incurred following receipt of the loan.

OCE receives subsidies from the Diocesan High Schools. Subsidies totaled \$4,737,192 (\$4,541,181 for administration costs and \$196,011 for marketing expense) and \$5,411,980 (\$4,611,980 for administration costs and \$800,000 for marketing expense) for the years ended June 30, 2020 and 2019, respectively.

OCE charged the Schools of Special Education \$173,500 and \$215,000, respectively, for the years ended June 30, 2020 and 2019, for management services, which amounts are included in subsidies revenue.

Cash and cash equivalents include \$302,573 and \$397,769 at June 30, 2020 and 2019, respectively, held in trust funds maintained by the Office for Financial Services. There are no conditions restricting the withdrawal of these funds.

In December 2019, in accordance with the plan established to fund the Independent Reconciliation and Reparations Program, the Diocesan High Schools made a \$8,000,000 risk mitigation payment to OFS. OCE provided \$757,059 to the Diocesan High Schools to assist in funding this payment. This transaction is reported as transfer to Diocesan High Schools for risk mitigation payment in the June 30, 2020 statement of activities and changes in net assets.

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:

	2020	2019
Salaries and benefits - lay equivalent value of religious services	\$ 412,611	\$ 277,260
Expended for religious services	(248,799)	(150,247)
Salaries, related employee benefits and faculty house expenses	\$ 163,812	\$ 127,013

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

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

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

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

Fair value calculations may not be indicative of net realizable value or reflective of future fair values. Furthermore, although 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 unobservable inputs (Level 3)	Total fair value
<u>2020</u>				
Assets				
Investments	\$ 10,238,367	\$ -	\$ -	\$ 10,238,367
Beneficial interest in perpetual trust	\$ -	\$ -	\$ 28,902,341	\$ 28,902,341
<u>2019</u>				
Assets				
Investments	\$ 10,242,223	\$ -	\$ -	\$ 10,242,223
Beneficial interest in perpetual trust	\$ -	\$ -	\$ 29,662,894	\$ 29,662,894

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

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:

	2020	2019
Beginning balance	\$ 29,662,894	\$ 28,891,707
Change in fair value of assets	864,447	2,271,187
Distributions from perpetual trust	(1,625,000)	(1,500,000)
	\$ 28,902,341	\$ 29,662,894

NOTE L - FUNCTIONAL EXPENSES

OCE provides services to schools and entities included in Note A. Expenses by functional and natural classification for the years ended June 30, 2020 and 2019 are as follows:

	Administration	Scholarship and tuition assistance	Programs	Operations	2020 Total
Salary and benefits	\$ 5,339,216	\$ -	\$ -	\$ -	\$ 5,339,216
Purchased services	581,180	-	538,769	795	1,120,744
Inter-Diocesan expense	333,373	-	-	-	333,373
Support expenses	272,813	1,230,019	295,992	73,769	1,872,593
Total	\$ 6,526,582	\$ 1,230,019	\$ 834,761	\$ 74,564	\$ 8,665,926

	Administration	Scholarship and tuition assistance	Programs	Operations	2019 Total
Salary and benefits	\$ 5,302,092	\$ -	\$ -	\$ -	\$ 5,302,092
Purchased services	2,088,401	-	472,325	41,908	2,602,634
Inter-Diocesan expense	350,454	-	-	-	350,454
Support expenses	600,186	1,201,312	182,802	125,565	2,109,865
Total	\$ 8,341,133	\$ 1,201,312	\$ 655,127	\$ 167,473	\$ 10,365,045

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

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE M - LEASE COMMITMENTS

OCE has entered into lease agreements with respect to equipment that expire at various dates through July 1, 2024. The following is a schedule of future minimum lease payments for operating leases with noncancellable lease terms in excess of one year:

	<u>Total</u>
Year ending June 30	
2021	\$ 31,398
2022	27,970
2023	16,145
2024	<u>388</u>
	<u>\$ 75,901</u>

Lease expenses for the years ended June 30, 2020 and 2019 totaled \$30,720 and \$26,466, respectively.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE N - LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following reflects OCE's financial assets as of June 30 reduced by amounts not available for general use within one year because of donor-imposed restrictions or internal designations. Amounts available include annual distributions from the Leo J. Baney Designated Fund. In addition, OCE expects to receive funding from subsidies during the year ended June 30, 2021 for a total of \$6,545,000 from the Diocesan High Schools, parishes, and the Schools of Special Education.

	June 30,	
	2020	2019
Financial assets:		
Cash and cash equivalents	\$ 2,909,312	\$ 3,242,678
Accounts receivable and due from other Archdiocesan entities	1,433,712	149,836
Investments	10,238,367	10,242,223
Beneficial interest in perpetual trust	28,902,341	29,662,894
Financial assets, at year end	43,483,732	43,297,631
Less those unavailable for general expenditure within one year due to:		
Donor-imposed restrictions:		
Beneficial interest in perpetual trust	28,902,341	29,662,894
Endowment funds	3,273,361	3,232,216
Tuition assistance and scholarship donor restrictions	5,594,610	5,633,599
Other donor-imposed restrictions	2,201,429	2,152,546
Archdiocesan designations:		
Functioning endowment for OCE Elementary department	1,292,305	1,304,861
Financial assets available to meet cash needs for general expenditures within one year	\$ 2,219,686	\$ 1,311,515

NOTE O - SUBSEQUENT EVENTS

OCE evaluated subsequent events through November 24, 2020, the date which the financial statements were available for distribution, noting no items requiring accrual or disclosure in the financial statements.