

Financial Statements and Report of  
Independent Certified Public  
Accountants

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

June 30, 2021 and 2020

**Contents**

Page

Report of Independent Certified Public Accountants	3
Financial Statements	
Statements of financial position	5
Statements of activities and changes in net assets	6
Statements of cash flows	8
Notes to the financial statements	9
Supplemental Information	
Combining statement of financial position	38
Combining statement of activities and changes in net assets	39

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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, 2021 and 2020, 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 for Financial Services as of June 30, 2021 and 2020, 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, 2021 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.

*Grant Thornton LLP*

Philadelphia, Pennsylvania  
November 24, 2021

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

**STATEMENTS OF FINANCIAL POSITION**

**June 30,**

	<u>2021</u>	<u>2020</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 47,756,677	\$ 67,164,676
Due from Archdiocesan entities, net (Note C)		
Assessments and other amounts due, net	1,346,473	1,425,201
Loans receivable, net	10,463,237	9,588,842
Note receivable from related parties, net	1,095,000	1,095,000
Interest receivable from related parties, net	490,547	1,187,782
Other related party receivables	1,788,600	1,132,893
Other accounts receivable (Note B)	434,441	10,354,700
Prepaid expenses	2,241,894	3,042,310
Real estate and physical plant held for sale (Note B)	1,970,374	3,356,910
Note receivable (Note B)	3,013,300	3,000,000
Investments (Note E)	60,173,871	35,976,157
Beneficial interest in supporting charitable trusts (Note B)	2,740,189	2,184,574
Real estate and physical plant, net (Note B)	<u>17,112,395</u>	<u>17,724,180</u>
 Total assets	 <u>\$ 150,626,998</u>	 <u>\$ 157,233,225</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable	\$ 4,712,342	\$ 9,517,851
Accrued expenses and other payables (Note G)	26,543,958	76,027,549
Deferred revenue (Note B)	11,117,451	1,305,164
Deposits - parishes, institutions and related organizations (Note M)	39,565,034	40,999,484
Promissory note payable (Note I)	<u>5,069,973</u>	<u>10,234,800</u>
 Total liabilities	 <u>87,008,758</u>	 <u>138,084,848</u>
<b>Net assets (deficit)</b>		
Without donor restrictions	24,590,443	(12,081,099)
With donor restrictions	<u>39,027,797</u>	<u>31,229,476</u>
 Total net assets	 <u>63,618,240</u>	 <u>19,148,377</u>
 Total liabilities and net assets	 <u>\$ 150,626,998</u>	 <u>\$ 157,233,225</u>

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

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

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

Year ended June 30, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>Revenues, gains, losses and other support</b>			
Parish assessments	\$ 22,230,200	\$ -	\$ 22,230,200
Contributions from related parties (Note M)	774,514	-	774,514
Collections, bequests and donations	2,144,461	59	2,144,520
Tuition income	21,895	-	21,895
Investment income, net	3,060,067	9,310,086	12,370,153
Interest income	587,756	41,709	629,465
Fees for services	1,821,030	-	1,821,030
Intradiocesan income	3,183,778	-	3,183,778
Other income (Note O)	5,632,080	-	5,632,080
Net gain on sale of real estate (Note B)	8,151,716	-	8,151,716
Net assets released from restrictions	1,553,533	(1,553,533)	-
Premium income from Archdiocesan insurance programs	61,182,765	-	61,182,765
	<hr/>	<hr/>	<hr/>
Total revenues, gains, losses and other support	110,343,795	7,798,321	118,142,116
<b>Expenses</b>			
Subsidies	775,037	-	775,037
Salaries and wages	9,607,446	-	9,607,446
Payroll taxes and fringe benefits	5,765,865	-	5,765,865
Purchased services	10,430,575	-	10,430,575
Intradiocesan expenses (income)	(126,163)	-	(126,163)
Support expense	2,731,662	-	2,731,662
Interparochial assistance (Note M)	1,951,947	-	1,951,947
Depreciation expense	1,788,410	-	1,788,410
Interest expense (Note M)	693,548	-	693,548
Insurance program expenses	42,808,908	-	42,808,908
	<hr/>	<hr/>	<hr/>
Total expenses	76,427,235	-	76,427,235
	<hr/>	<hr/>	<hr/>
Change in net assets before other items	33,916,560	7,798,321	41,714,881
<b>Other items</b>			
Risk mitigation and other IRRP contributions	2,754,982	-	2,754,982
	<hr/>	<hr/>	<hr/>
<b>CHANGE IN NET ASSETS</b>	36,671,542	7,798,321	44,469,863
<b>Net assets (deficit)</b>			
Beginning of year	<u>(12,081,099)</u>	<u>31,229,476</u>	<u>19,148,377</u>
	<hr/>	<hr/>	<hr/>
End of year	<u>\$ 24,590,443</u>	<u>\$ 39,027,797</u>	<u>\$ 63,618,240</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, 2020**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>Revenues, gains, losses and other support</b>			
Parish assessments	\$ 22,760,700	\$ -	\$ 22,760,700
Contributions from related parties (Note L)	500,885	-	500,885
Collections, bequests and donations	1,798,066	45,506	1,843,572
Tuition income	52,102	-	52,102
Investment income, net	34,930	909,348	944,278
Interest income	990,051	38,563	1,028,614
Fees for services	2,106,348	-	2,106,348
Intradiocesan income	2,448,529	-	2,448,529
Other income (Note N)	3,887,384	-	3,887,384
Net gain on sale of real estate and terminated affiliation (Note B)	12,500,729	-	12,500,729
Net assets released from restrictions	1,987,677	(1,987,677)	-
Premium income from Archdiocesan insurance programs	62,309,551	-	62,309,551
	<hr/>	<hr/>	<hr/>
Total revenues, gains, losses and other support	111,376,952	(994,260)	110,382,692
<b>Expenses</b>			
Subsidies	1,107,934	-	1,107,934
Salaries and wages	10,861,987	-	10,861,987
Payroll taxes and fringe benefits	6,341,369	-	6,341,369
Purchased services	16,269,342	-	16,269,342
Intradiocesan expenses (income)	(84,612)	-	(84,612)
Support expense	7,140,902	-	7,140,902
Interparochial assistance (Note L)	1,552,844	-	1,552,844
Depreciation expense	1,996,210	-	1,996,210
Interest expense (Note L)	926,691	-	926,691
Withdrawals	472,331	-	472,331
Insurance program expenses	33,663,992	-	33,663,992
	<hr/>	<hr/>	<hr/>
Total expenses	80,248,990	-	80,248,990
	<hr/>	<hr/>	<hr/>
Change in net assets before other items	31,127,962	(994,260)	30,133,702
<b>Other items</b>			
Risk mitigation and other IRRP contributions	28,005,000	-	28,005,000
	<hr/>	<hr/>	<hr/>
<b>CHANGE IN NET ASSETS</b>	59,132,962	(994,260)	58,138,702
<b>Net assets (deficit)</b>			
Beginning of year	(71,214,061)	32,223,736	(38,990,325)
	<hr/>	<hr/>	<hr/>
End of year	\$ (12,081,099)	\$ 31,229,476	\$ 19,148,377
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The accompanying notes are an integral part of this financial statement.

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

**STATEMENTS OF CASH FLOWS**

Years ended June 30,

	<u>2021</u>	<u>2020</u>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 44,469,863	\$ 58,138,702
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net gain on sale of real estate and terminated affiliation	(8,151,716)	(12,500,729)
Depreciation expense	1,788,410	1,996,210
Bad debt (recovery) expense	(3,345,727)	1,207,186
Net unrealized (appreciation) depreciation on investments	(8,181,210)	711,768
Net realized gain on investments	(2,198,044)	(1,187,687)
Net (appreciation) depreciation in beneficial interest in supporting charitable trusts	(555,615)	81,799
Changes in assets and liabilities		
Due from Archdiocesan entities	409,131	(1,452,391)
Note receivable	(13,300)	(3,000,000)
Other accounts receivable	9,920,259	(10,354,700)
Prepaid expenses	800,416	(532,353)
Accounts payable	(4,805,509)	2,387,262
Accrued expenses and other payables	(49,483,591)	(51,596,988)
Deferred revenue	9,812,287	(29,191)
	<u>(9,534,346)</u>	<u>(16,131,112)</u>
<b>Net cash used in operating activities</b>		
<b>Cash flows from investing activities:</b>		
Capital expenditures	(1,176,625)	(890,356)
Proceeds from sale of real estate and physical plant	9,538,252	12,500,729
Purchase of investments	(21,853,302)	(3,634,810)
Proceeds from sale of investments	8,034,842	6,404,719
Repayment of loans receivable	2,182,457	1,303,899
	<u>(3,274,376)</u>	<u>15,684,181</u>
<b>Net cash (used in) provided by investing activities</b>		
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of promissory note (Note H)	2,535,173	11,434,800
Repayment of promissory note (Note H)	(7,700,000)	(1,200,000)
Change in deposits - parishes, institutions and related organizations	(1,434,450)	(12,045,163)
	<u>(6,599,277)</u>	<u>(1,810,363)</u>
<b>Net cash used in financing activities</b>		
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<u>(19,407,999)</u>	<u>(2,257,294)</u>
<b>Cash and cash equivalents</b>		
Beginning of year	<u>67,164,676</u>	<u>69,421,970</u>
End of year	<u>\$ 47,756,677</u>	<u>\$ 67,164,676</u>

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



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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2021 and 2020**

**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"); and
- 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, disability and auto insurance policies for 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, prescription and vision insurance coverages for 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.

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

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

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2021 and 2020**

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 (“OCE”), which includes:
  - Diocesan High Schools;
  - Administration Account; and
  - Schools of Special Education;
- 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;
- Nutritional Development Services (a Pennsylvania nonprofit corporation; incorporated as Nutritional Development Services of the Archdiocese of Philadelphia)
- 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; and
- Archdiocese of Philadelphia Independent Reconciliation and Reparation Program Trust (“IRRP”).

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

***Recently Adopted Accounting Pronouncements***

In July 2018, the Financial Accounting Standards Board issued Accounting Standards Update (“ASU”) 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework- Changes to the Disclosure Requirements for Fair Value Measurement*. Following this new guidance, for investments in certain entities that calculate net asset value, the requirement to disclose the estimated period of time over which the underlying assets might be liquidated is modified to only require disclosure if the investee has communicated the timing to OFS or announced the timing publicly. The adoption of this guidance during the year ended June 30, 2021 did not have a material impact on OFS’ financial statements.

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

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2021 and 2020**

OFS implemented ASU 2014-09, *Revenue from Contracts with Customers*, which is codified as ASC 606 (“ASC 606”) as of July 1, 2020 and replaced ASC 605, *Revenue Recognition*. The core principle of ASC 606 is that an entity should recognize revenue to depict the transfer of 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. ASC 606 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes nearly all existing revenue recognition guidance, including industry-specific guidance. The new guidance also requires added disclosures, as applicable, about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgment and changes in judgments and assets recognized from costs incurred to fulfill a contract.

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

The revenue streams under this standard for the year ended June 30, 2021 included print, advertising and other services, and are included in Fees for services in the Statement of Activities and Changes in Net Assets. OFS used the modified retrospective approach for adoption, which required the entity to record the cumulative effect of the transition through net assets as of July 1, 2020. The adoption had no impact on net assets as of July 1, 2020.

***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 or absence 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 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 net assets released from restrictions and the composition of net assets with donor 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.

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

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2021 and 2020**

***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 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; and
- **Medical Benefits:** Billings for health, prescription and vision provided to parishes and other Archdiocesan entities by the Welfare Benefits Trust.

Loans Receivable:

The Deposit and Loan Program Trust maintains the balance remaining on loans that existed prior to the issuance of the moratorium. 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, 2021 and 2020, the 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"), a subsidiary of CHCS. 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 due from SJNPLP, as well as loans receivable due from parishes as part of the Deposit and Loan Program Trust.

Other Related Party Receivables:

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

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

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2021 and 2020**

**Note Receivable**

On June 30, 2020, the Archdiocese entered into an agreement with the board of directors of Saint John Vianney Center ("SJVC"), a nonprofit corporation formed by the Archdiocese that operates a facility in Downingtown, Pennsylvania. The agreement terminated the affiliation of SJVC with the Archdiocese, and converted SJVC into a nonprofit corporation governed by a self-perpetuating board. The Archdiocese received consideration for entering into the agreement in the amount of \$12,000,000. A cash payment was received in the amount of \$9,000,000 upon closing and the remaining portion of the consideration \$3,000,000, was in the form of a promissory note payable over 12 years. SJVC will make interest payments only for the first seven years, at an interest rate of 5.32%. Upon the expiration of this initial term, SJVC will repay 60 monthly installments of interest and principal at a variable interest rate of the 5-year U.S. Treasury Rate plus 350 basis points.

	<u>2021</u>	<u>2020</u>
St. John Vianney Center		
Note receivable	\$ 3,000,000	\$ 3,000,000
Interest receivable	13,300	-
	<u>\$ 3,013,300</u>	<u>\$ 3,000,000</u>
Note and interest receivable, net		

**Allowance for Doubtful Accounts**

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 and Welfare Benefits Trust pay 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.

**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 Archdiocesan 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. Realized and unrealized gains and losses are included in the statements of activities and changes in net assets as net realized and unrealized appreciation on investments and beneficial interest in supporting charitable trusts.

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

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2021 and 2020**

***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, 2021 and 2020. 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 Mortality Tables and discount rates set when the annuity agreement is established, which range between 3.08% and 6.17%. The liability at June 30, 2021 and 2020 was \$296,896 and \$351,650, respectively, and are 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. 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:

	2021	2020
Anthony P. Falcone	\$ 1,697,210	\$ 1,310,475
William P. Mulvihill	1,042,979	874,099
	<u>\$ 2,740,189</u>	<u>\$ 2,184,574</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. Realized and unrealized gains and losses are included in the statements of activities and changes in net assets as net realized and unrealized appreciation on investments and beneficial interest in 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.

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

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2021 and 2020**

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, 2021 and 2020.

Expenditures for maintenance and repairs are charged to expense, whereas major betterments are capitalized.

Real estate and physical plant and accumulated depreciation at June 30, consist of:

	<u>2021</u>	<u>2020</u>
Land	\$ 1,121,157	\$ 1,048,768
Buildings	40,179,046	39,189,046
Building improvements	12,171,377	12,062,879
Equipment	<u>2,731,158</u>	<u>2,725,420</u>
	56,202,738	55,026,113
Accumulated depreciation	<u>(39,090,343)</u>	<u>(37,301,933)</u>
Real estate and physical plant, net	<u>\$ 17,112,395</u>	<u>\$ 17,724,180</u>

Depreciation expense of \$1,788,410 and \$1,996,210 was incurred for the years ended June 30, 2021 and 2020, 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, 2021 and 2020. The carrying value of assets held for sale previously classified under real estate and physical plant, net, consists of the following at June 30:

	<u>2021</u>	<u>2020</u>
Land	\$ 45,639	\$ 45,639
Buildings	<u>1,924,735</u>	<u>3,311,271</u>
Real estate and physical plant held for sale, net	<u>\$ 1,970,374</u>	<u>\$ 3,356,910</u>

Sproul Road

Effective as of November 8, 2017, the Archdiocese was under agreement to sell approximately 213 acres located at Sproul Road in Marple Township, Delaware County ("Sproul Road Property") to Sproul Road Developers LLC. In order to reflect the agreement of the parties to proceed with phased closings, the Archdiocese created a "Planned Community" with separate units within the Sproul Road Property.

Unit 1 of the Planned Community is an 89.19 acre portion of the Sproul Road Property referred to as the "By-Right Parcel". Effective August 25, 2020, the Archdiocese entered into a Purchase Agreement with Marple Glen Road Developers LLC for the sale of Unit 1. The purchase price for this parcel was \$10,252,500, and the sale closed on September 4, 2020.

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

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2021 and 2020**

Unit 2 of the Planned Community is a 124.14 acre portion of the Sproul Road Property and includes a 52.67 acre section referred to as the CU Parcel and a 71.47 acre section referred to as the IU Parcel.

Simultaneously with the closing for the By-Right Parcel, the Archdiocese entered into (i) a Purchase Agreement with O'Hara CU Developers LLC for the sale of the CU Parcel, and (ii) a Purchase Agreement with Sproul Road Developers LLC for the sale of the IU Parcel. The sales under those two agreements were scheduled to close by June 2024, but the event described in the next paragraph will likely alter that timetable.

On July 22, 2021, Delaware County filed a "Declaration of Taking" in the Court of Common Pleas of Delaware County against Unit 2 (the 52.67 acre CU Parcel and 71.47 acre IU Parcel). The Declaration of Taking was an exercise of the County's power of eminent domain to take title to private property for public purposes, specifically the establishment of a public park on the Sproul Road Property. In accordance with applicable law, Delaware County must pay just compensation in order to acquire fee simple title to the property. Payment of the County's determination of estimated just compensation is expected to be received in November 2021. This amount is subject to appeal by the Archdiocese in accordance with applicable law.

***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, 2021 and 2020. 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. The self-insurance reserve also includes management's estimate of open claims to be settled within the IRRP (Note J). 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, 2021 and 2020. 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, 2021 and 2020. Self-insurance reserves are included in the accrued expenses and other payables caption on the statements of financial position.



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

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2021 and 2020**

***Deferred Revenue***

Deferred revenue consists of \$11,117,451 and \$1,305,164 at June 30, 2021 and 2020, respectively, for medical insurance invoices billed by the Welfare Benefits Trust in June for the July coverage period, funds received by Villa Saint Joseph for future capital improvements and deferred lease payments. The revenue is recognized in the respective subsequent fiscal years.

***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 years ended June 30, 2021 and 2020 was based upon 12.25% of the parish's operating income for the preceding year. 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 \$1,230,200 for the years ended June 30, 2021 and 2020.

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, including allocations from Catholic Charities Appeal, 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 Programs

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

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

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2021 and 2020**

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

***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.

**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>2021</u>	<u>2020</u>
Assessments due from parishes	\$ 14,329,346	\$ 14,833,444
Risk and medical insurance premiums due from Archdiocesan entities and parishes	21,988,931	22,712,027
Other	<u>57,593</u>	<u>-</u>
	36,375,870	37,545,471
Allowance for doubtful accounts	<u>(35,029,397)</u>	<u>(36,120,270)</u>
Assessments and other amounts due, net	<u>\$ 1,346,473</u>	<u>\$ 1,425,201</u>

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

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2021 and 2020**

Loans Receivable:

The loans receivable consists of loans made by the Deposit and Loan Program Trust to parishes and other Archdiocesan entities. The amount due from parishes and other Archdiocesan entities at June 30, is as follows:

	<u>2021</u>	<u>2020</u>
Gross loans receivable	\$ 16,003,108	\$ 18,185,565
Allowance for doubtful accountants	<u>(5,539,871)</u>	<u>(8,596,723)</u>
Loans receivable, net	<u>\$ 10,463,237</u>	<u>\$ 9,588,842</u>

Note receivable from related party:

SJNPLP	\$ 2,860,000	\$ 2,860,000
Allowance for doubtful account	<u>(1,765,000)</u>	<u>(1,765,000)</u>
Note receivable from related party, net	<u>\$ 1,095,000</u>	<u>\$ 1,095,000</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. Allowances for doubtful accounts are established for all loans based upon prior collection experience and current factors specific to each entity that, in management's opinion, may influence the entity's 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.

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 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 \$20,000,000, 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, 2021, the Archdiocese received \$8,025,000 in real estate sale proceeds that were used to pay down the promissory note. The balance of this note was \$24,075,393 and \$32,100,393 at June 30, 2021 and 2020, respectively.

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

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2021 and 2020**

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>2021</u>	<u>2020</u>
Note receivable from SJNPLP	\$ 4,063,702	\$ 3,656,426
Deposit and Loan Program Trust	<u>2,389,062</u>	<u>2,284,298</u>
	6,452,764	5,940,724
Allowance for doubtful accounts	<u>(5,962,217)</u>	<u>(4,752,942)</u>
Interest receivable from related parties, net of allowance for doubtful accounts	<u>\$ 490,547</u>	<u>\$ 1,187,782</u>

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>2021</u>	<u>2020</u>
Archdiocesan payroll receivable	\$ -	\$ 159,759
Due from OCE	789,793	652,468
Intra-diocesan charges for utilities and other items, net	359,430	251,500
Other	<u>639,377</u>	<u>69,166</u>
	<u>\$ 1,788,600</u>	<u>\$ 1,132,893</u>

**NOTE D - LEASE AGREEMENT**

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 rezone, 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.

Phase 1 of the ground lease was executed on November 23, 2020, upon closing, OFS received an upfront lease payment of \$10,000,000. In addition to the upfront lease payment, the Archdiocese will receive \$2,000,000 upon the rent commencement date and annual lease payments beginning in year 6 of the agreement as follows:

- Years 6 through 15: annual lease payments of \$25,000
- Years 16 through 25: annual lease payments of \$110,000
- Years 26 through 35: annual lease payments of \$126,500
- Years 36 through 45: annual lease payments of \$145,475
- Years 46 through 55: annual lease payments of \$167,296

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

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2021 and 2020**

- Years 56 through 65: annual lease payments of \$192,391
- Years 66 through 75: annual lease payments of \$221,249
- Years 76 through 85: annual lease payments of \$254,437
- Years 86 through 95: annual lease payments of \$292,602
- Years 96 through 99: annual lease payments of \$336,493

As a real estate lease, OFS has deferred the lease rental payments received to date and is recognizing these payments into income on a straight-line basis over the life of the lease.

Phase two of the Master Development agreement is anticipated to close during or before 2025.

**NOTE E - INVESTMENTS**

Total investments at June 30, are detailed as follows:

	2021	2020
Investment in SEI Catholic Values Funds	\$ 58,041,173	\$ 34,193,933
Investment in the Trust of Josephine Nalle Unitrust	1,888,897	1,576,796
Mutual funds	243,801	205,428
 Total investments	 \$ 60,173,871	 \$ 35,976,157

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.

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

At June 30, 2021, investments are summarized and classified as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Investment in SEI Catholic Values Funds	\$ 15,391,870	\$ 42,649,303	\$ 58,041,173
Investment in the Trust of Josephine Nalle Unitrust	-	1,888,897	1,888,897
Mutual funds	-	243,801	243,801
	 \$ 15,391,870	 \$ 44,782,001	 \$ 60,173,871

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

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2021 and 2020**

At June 30, 2020, 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	\$ 720,955	\$ 33,472,978	\$ 34,193,933
Investment in the Trust of Josephine Nalle Unitrust	-	1,576,796	1,576,796
Mutual funds	-	205,428	205,428
	<u>\$ 720,955</u>	<u>\$ 35,255,202</u>	<u>\$ 35,976,157</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; and
- 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.

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

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2021 and 2020**

The following table presents the fair values of the assets by level within the fair value hierarchy, as of June 30, 2021:

	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
<b>Assets</b>				
<b>Investments</b>				
Investment in SEI Catholic Values Funds	\$ 58,041,173	\$ -	\$ -	\$ 58,041,173
Investment in the Trust of Josephine Nalle Unitrust	-	-	1,888,897	1,888,897
Mutual funds	243,801	-	-	243,801
	<u>58,284,974</u>	-	1,888,897	60,173,871
Beneficial interest in supporting charitable trusts	-	-	2,740,189	2,740,189
Total assets at fair value at June 30, 2021	<u>\$ 58,284,974</u>	<u>\$ -</u>	<u>\$ 4,629,086</u>	<u>\$ 62,914,060</u>

The following table presents the fair values of the assets held by OFS by level within the fair value hierarchy, as of June 30, 2020:

	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
<b>Assets</b>				
<b>Investments</b>				
Investment in SEI Catholic Values Funds	\$ 34,193,933	\$ -	\$ -	\$ 34,193,933
Investment in the Trust of Josephine Nalle Unitrust	-	-	1,576,796	1,576,796
Mutual funds	205,428	-	-	205,428
	<u>34,399,361</u>	-	1,576,796	35,976,157
Beneficial interest in supporting charitable trusts	-	-	2,184,574	2,184,574
Total assets at fair value at June 30, 2020	<u>\$ 34,399,361</u>	<u>\$ -</u>	<u>\$ 3,761,370</u>	<u>\$ 38,160,731</u>

During the years ended June 30, 2021 and June 30, 2020, the change in assets classified in Level 3 of the fair value hierarchy are withdrawals of \$1,668,262 and \$246,689, respectively.

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

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2021 and 2020**

**NOTE G - ACCRUED EXPENSES AND OTHER PAYABLES**

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

	2021	2020
Self-insurance reserves (see Note J)	\$ 19,745,329	\$ 69,072,850
IBNP Welfare Benefits Trust	3,851,000	3,461,000
Risk insurance trust claim accrual	51,808	1,299,325
St. Charles Borromeo Seminary loan interest accrual	-	296,024
Conditional asset retirement obligation	377,214	362,706
Charitable gift annuities	296,896	351,650
Accrued legal and professional fees	232,290	100,000
Other	1,989,421	1,083,994
	<u>\$ 26,543,958</u>	<u>\$ 76,027,549</u>

**NOTE H - LINES OF CREDIT**

PNC

On January 24, 2020, the unsecured line of credit with PNC was extended from January 31, 2020 to April 30, 2020. On May 13, 2020, an amendment was executed to contemporaneously extend the line of credit to June 30, 2020, reduce the allowable borrowings to \$3,000,000 and to increase the interest rate to the Daily LIBOR plus 350 basis points. On June 30, 2020, OFS repaid the outstanding principal and interest. This facility was replaced with a line of credit from the Archdiocese of Philadelphia Welfare Benefits Trust.

Welfare Benefits Trust

On June 30, 2020, OFS signed a Line of Credit Note promising to pay to the Archdiocese of Philadelphia Welfare Benefits Trust the principal sum of up to \$4,000,000 together with accrued interest. OFS may borrow, repay and reborrow until the expiration date of June 30, 2021. Outstanding balances bear interest at the Daily LIBOR plus 350 basis points. Accrued interest on borrowings is due on the first day of each month. The outstanding principal balance and any accrued, but unpaid interest is due on the expiration date. The note is secured by rent payments made pursuant to the Cemetery Lease Agreement involving the Archdiocese and specific pledged real estate assets. There were no borrowings for the year ended June 30, 2021. Effective July 1, 2021, the line of credit was renewed extending the expiration date to June 30, 2022.

Affiliated Ecclesiastical Entity

The Archdiocese has signed an agreement with an affiliated ecclesiastical entity for a secured Line of Credit in the amount of \$15,000,000 on November 3, 2020 bearing interest at 4.25%. This Line of Credit is secured by certain real property owned by the Archdiocese of Philadelphia. There were no borrowings for the years ended June 30, 2020 and June 30, 2021.



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

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2021 and 2020**

**NOTE I - PROMISSORY NOTES AND SECURITY AGREEMENTS**

St. Charles Borromeo Seminary

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 bears an annual interest rate of 4.25% calculated by the number of elapsed days that the principal is outstanding based upon a year of 360 days. Principal and interest were 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 (Note D).

On June 30, 2020 an amendment was executed to extend the maturity date of the SCBS Loan to December 31, 2020. Principal and unpaid interest were due and payable on December 31, 2020.

On November 23, 2020, OFS paid \$7,500,000 and \$425,295 of principal and accrued interest, respectively, to SCBS. With these payments, the SCBS loan was paid in full.

Payroll Protection Plan

On April 20, 2020, OFS was granted a loan (the "Loan") from PNC Bank in the amount of \$2,734,800, pursuant to the Paycheck Protection Program ("PPP"), under Division A, Title I of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), which was enacted March 27, 2020. The PPP provides loans to qualifying businesses for amounts up to 2.5 times the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable after the covered period as long as the borrower uses the loan proceeds for eligible purposes and certain conditions are met. The amount of the loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the covered period. The loan is included in promissory notes payable on the statement of financial position.

In July 2021, the Small Business Association granted loan forgiveness in the amount of \$2,769,973 for the full amount of principal and accrued interest. A gain on debt forgiveness was recognized when the forgiveness was granted.

Priests' Pension and Ancillary Benefits Trusts

On July 28, 2020, OFS signed four promissory notes with the trusts named below for a combined total amount of \$10,000,000. Each Note states that interest will be charged on unpaid principal until the full amount of principal advanced has been repaid. The promissory notes require quarterly principal and interest payments for a combined total of \$187,500. The maturity date for all notes is October 1, 2035 and the interest rate is fixed at 3% annually. During the year ended June 30, 2021, OFS borrowed \$3,000,000 in total from the trusts and made payments of \$700,000 and \$6,985 in principal and interest payments, respectively, in total to the trusts. The details are as follows:

	Total Available for Borrowing	Borrowings	Principal Payments	Balance Owed at June 30, 2021	Interest Expense
Ancillary Benefits Trust #1	\$ 5,488,000	\$ 1,646,400	\$ 384,160	\$ 1,262,240	\$ 3,834
Priest Pension Trust	3,600,000	1,080,000	252,000	828,000	2,515
Ancillary Benefits Trust #2	449,000	134,700	31,430	103,270	313
Priest Pension Plan for Priests Removed from Ministry	463,000	138,900	32,410	106,490	323
	<u>\$10,000,000</u>	<u>\$ 3,000,000</u>	<u>\$ 700,000</u>	<u>\$ 2,300,000</u>	<u>\$ 6,985</u>

Archdiocese of Philadelphia - Office for Financial Services

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

**NOTE J - COMMITMENTS AND CONTINGENCIES**

***Claims Related to Clergy Abuse***

Independent Reconciliation and Reparation Program

As of June 30, 2021, the Archdiocese maintained an active program to help survivors of clergy abuse. Committed to furthering its efforts to help survivors, the Archdiocese commenced the 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.

At June 30, 2021, management of the Archdiocese estimated that the claims and related program expenses would be approximately \$83,100,000. As of June 30, 2021 and 2020, the IRRP reserve included in accrued expenses and other payables on the statements of financial position was \$2,356,350 and \$49,859,000, respectively. The estimate is based on claims and program expenses paid through June 30, 2021 and claims and program expenses that still needed to be settled. As of June 30, 2021, the Archdiocese had made claim payments totaling \$77,465,000 and paid program expenses of approximately \$3,244,000. The remaining amount required under this program will be funded through available liquidity.

Litigation Claims

In 2019, the Superior Court of Pennsylvania issued a decision in *Rice v. Diocese of Altoona - Johnstown* which overturned the decision of a trial court entering judgment against the plaintiff based upon the statute of limitations. In 2020, the Archdiocese was sued in approximately 69 cases in which the plaintiff relied on the *Rice* decision in an attempt to avoid the statute of limitations. In many of these cases, the Archdiocese was sued in cases in which the plaintiff alleges abuse by priests associated with other dioceses in Pennsylvania and alleges that the Archdiocese had oversight responsibility for those dioceses. On July 21, 2021, the Pennsylvania Supreme Court reversed the decision of the Superior Court and reinstated the judgment in favor of the Diocese of Altoona-Johnstown based upon the statute of limitations. As a result, the plaintiffs in all pending post-Rice cases have agreed to dismiss the cases.

In 2019, the States of New Jersey and New York enacted "window legislation" which permit plaintiffs in sexual abuse cases to file suits regardless of when the abuse occurred. The Archdiocese was named as a defendant in 14 cases in New Jersey and one case in New York. In all of these cases, the Archdiocese has or will challenge the authority of the courts to assert personal jurisdiction over the Archdiocese. For one case in New York, the Archdiocese filed a motion to dismiss, and the New York court granted the motion and dismissed the Archdiocese based upon a lack of personal jurisdiction. The 14 cases filed in New Jersey state or federal courts have the following status:

- The Archdiocese was dismissed from one case in New Jersey state court due to lack of involvement with the priest or victim at issue in the case;

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

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2021 and 2020**

- Two cases either filed in or removed to federal court were transferred to federal courts in Pennsylvania. In one of those cases, the Archdiocese successfully asserted the statute of limitations through a motion for judgment on the pleadings. In the other federal case in Pennsylvania, the plaintiff dismissed the case voluntarily with the intent to re-file it in state court in New Jersey but has not yet done so;
- Two cases were stayed pending the bankruptcy of the Diocese of Camden; and
- Nine cases are active in state courts of New Jersey pending decisions on the personal jurisdiction issue.

In addition, the Archdiocese has three active cases pending in the Philadelphia County, Pennsylvania in which plaintiffs allege that they were sexually abused by a priest within the existing statute of limitations.

Legislation

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. Act 87 also prospectively extended the period of time during which an individual who was sexually abused as a minor, or who was abused between the ages of 18 and 24, could bring a civil action for damages. For those abused as minors, actions may be brought until the individual reaches age 55. For those abused between the ages of 18 and 24, actions may be brought until the individual reaches age 30. 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 14 of the 2021-22 Session, Pamphlet Laws Resolution No. 2) to allow individuals who were sexually abused as children to bring claims against the entities that employed their abusers. HB 14 would provide survivors of abuse whose claims are presently barred by the applicable statute of limitations with a period of two years to commence civil litigation. The proposed constitutional amendment has been passed once by the General Assembly (in the current 2021-2022 Legislative Session). In order to become law, identical legislation must be passed again in the 2023-2024 Legislative Session and subsequently adopted by the voters.

**Reserves**

Self-insurance - The principal insurance policies providing property, auto and general liability coverage have a self-insured retention ("SIR") of \$250,000, \$500,000, 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, 2021 and 2020 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.

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

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2021 and 2020**

***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.

***Priests' Student Loans***

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 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, 2021 and 2020, the combined reimbursement totaled \$130,230 and \$151,349, respectively. As of June 30, 2021, and 2020, the potential combined outstanding priest student loans totaled \$621,310 and \$679,741, respectively.

**NOTE K - RISK AND UNCERTAINTIES**

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. OFS has not experienced any losses in such accounts and does not believe it is subject to significant credit risk. 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.

Other Risk

**COVID-19**

The outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus, has been declared a pandemic by the World Health Organization. The outbreak of the disease has affected travel, commerce, and financial markets globally. OFS has been and continues to closely monitor the COVID-19 pandemic and its impact on its operations. Though the full impact of COVID-19 and the scope of any impact on OFS' operations and financial condition cannot yet be determined, potential adverse consequences to OFS of COVID-19 may include a decline in assessment income.

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

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2021 and 2020**

**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 plans are administered by the respective trustees of each plan.

***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 and 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 \$0 and \$116,043 for the years ended June 30, 2021 and 2020, respectively.

The actuarially determined present value of accumulated plan benefits at June 30, 2021 and 2020, for priests' pension, retiree health, auto and life insurance totaled approximately \$117,675,000 and \$104,900,000, respectively. At June 30, 2021 and 2020, the net assets available to provide for these benefits totaled approximately \$136,417,000 and \$114,800,000, respectively.

***Lay Employees' Retirement Plan - 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 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.

OFS made contributions to the plan of \$337,403 and \$93,770 for the years ended June 30, 2021 and 2020, respectively.

Estimates of the actuarially determined present value of accumulated plan benefits at June 30, 2021 and 2020 totaled approximately \$599,400,000 and \$564,500,000. At June 30, 2021 and 2020, the assets available to provide for these benefits totaled approximately \$573,800,000 and \$473,300,000, 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, 2021 and 2020, the employer contribution rate was 4.5% of base salary for eligible employees. The contributions by OFS into the 403(b) plan totaled \$276,036 and \$313,402 for the years ended June 30, 2021 and 2020, respectively.

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

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2021 and 2020**

**NOTE M - RELATED PARTY AMOUNTS AND TRANSACTIONS**

OFS entered into transactions with the following related parties:

OFS recorded \$724,000 during the years ended June 30, 2021 and 2020 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:

	2021		2020	
	Billed	Collected	Billed	Collected
Parish assessment	\$ 22,230,200	\$ 22,734,298	\$ 22,760,700	\$ 22,685,301
Risk Insurance Program <sup>1</sup>	22,703,303	23,563,185	21,697,157	21,124,589
Welfare Benefits Program <sup>1</sup>	40,256,885	40,406,926	42,590,060	42,330,824
Parish loans and interest	381,930	2,455,267	473,991	1,636,060

<sup>1</sup> 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.

Archdiocesan parishes and agencies have funds on deposit in the Deposit and Loan Program Trust. Funds on deposit totaled \$39,565,034 and \$40,999,484 as of June 30, 2021 and 2020, respectively. Deposited funds earned an interest rate of 1.25% for the years ended June 30, 2021 and 2020. Interest paid on the deposited funds amounted to \$507,610 and \$585,614 during the years ended June 30, 2021 and 2020, respectively. Total interest expense for the years ended June 30, was as follows:

	2021	2020
Interest paid on deposits	\$ 507,610	\$ 585,614
Interest paid on PNC line of credit	-	30,587
Interest paid to SCBS	129,271	296,024
Interest paid on PPP loan	35,173	-
Interest paid to Priests' Trusts	6,986	-
Interest accretion on conditional asset retirement obligation	14,508	14,466
	<u>\$ 693,548</u>	<u>\$ 926,691</u>

Loans were historically made to parishes and other Archdiocesan entities through the Deposit and Loan Program Trust (see Notes A, B and C). Interest earned on these loans amounted to \$385,099 and \$578,193 for the years ended June 30, 2021 and 2020, respectively.

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

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2021 and 2020**

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>2021</u>	<u>2020</u>
Heritage of Faith - Vision of Hope	\$ 347,860	\$ 250,682
Saint John Vianney Center	-	250,000
Other	<u>426,654</u>	<u>203</u>
	<u>\$ 774,514</u>	<u>\$ 500,885</u>

Certain parishes, which for a variety of reasons, 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>2021</u>	<u>2020</u>
Assessment	\$ 1,293,618	\$ 1,124,221
Priests’ retirement	5,000	4,996
Priests’ health insurance	30,792	30,792
Risk insurance	413,865	67,926
General and extraordinary subsidy	<u>208,672</u>	<u>324,909</u>
	<u>\$ 1,951,947</u>	<u>\$ 1,552,844</u>

**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 into 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, 2021 and 2020, the billings of \$1,509,779 and \$785,775, respectively, and incurred claims totaling \$1,135,735 and \$989,927, respectively, were included in intradiocesan expenses on the statements of activities and changes in net assets.

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

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2021 and 2020**

**NOTE O - OTHER INCOME**

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

	2021	2020
Allocations from the Catholic Charities Appeal	\$ 2,550,272	\$ 2,159,365
Rental income	1,057,947	884,482
Contributions	1,193,943	843,537
Other	829,918	-
	<u>\$ 5,632,080</u>	<u>\$ 3,887,384</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:

	2021	2020
Purpose restrictions accomplished	\$ 99,541	\$ 834,146
Release of appropriated endowment amounts with purpose restrictions	1,453,992	1,153,531
	<u>\$ 1,553,533</u>	<u>\$ 1,987,677</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. 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. Due to the COVID-19 pandemic, the allowable spending rate was increased to 10% by the Pennsylvania legislature for the calendar years 2020 through 2022.

***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



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

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2021 and 2020**

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, 2021 and 2020 allowed for a 6% and a 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:

	2021		
	Management- Designated Without Donor Restrictions	Endowments With Donor Restrictions	Total
Endowment net assets, July 1, 2020	\$ 6,273,193	\$ 26,994,421	\$ 33,267,614
Investment income	79,451	316,054	395,505
Net appreciation (realized and unrealized gains)	1,841,214	7,852,587	9,693,801
Total investment return	1,920,665	8,168,641	10,089,306
Designations	3,187	-	3,187
Appropriation of endowment assets for expenditure	(363,370)	(1,459,946)	(1,823,316)
Endowment net assets, June 30, 2021	<u>\$ 7,833,675</u>	<u>\$ 33,703,116</u>	<u>\$ 41,536,791</u>
	2020		
	Management- Designated Without Donor Restrictions	Endowments With Donor Restrictions	Total
Endowment net assets, July 1, 2019	\$ 6,347,431	\$ 27,477,627	\$ 33,825,058
Investment income	95,727	400,493	496,220
Net appreciation (realized and unrealized gains)	98,531	269,832	368,363
Total investment return	194,258	670,325	864,583
Designations	27,528	-	27,528
Appropriation of endowment assets for expenditure	(296,024)	(1,153,531)	(1,449,555)
Endowment net assets, June 30, 2020	<u>\$ 6,273,193</u>	<u>\$ 26,994,421</u>	<u>\$ 33,267,614</u>

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

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2021 and 2020**

**NOTE R - NET ASSETS**

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

	<u>2021</u>	<u>2020</u>
Net assets (deficit) without donor restrictions:		
Undesignated	\$ 16,756,768	\$ (18,354,292)
Board-designated endowment	7,833,675	6,273,193
	<hr/>	<hr/>
Total net (deficit) without donor restrictions	24,590,443	(12,081,099)
Net assets with donor restrictions:		
Subject to expenditure for specified purpose:		
Archdiocesan ministries support	4,431,072	3,476,276
Retired priest and religious support	793,609	658,779
Renovations	100,000	100,000
	<hr/>	<hr/>
Total subject to expenditure for specified purpose	5,324,681	4,235,055
Investments to be held in perpetuity, funds restricted in perpetuity:		
Archdiocesan ministries support	30,526,601	24,476,116
Archdiocesan operation support	419,325	320,123
Educational assistance	17,001	13,608
Perpetual trusts held by others	2,740,189	2,184,574
	<hr/>	<hr/>
Total investments to be held in perpetuity, funds restricted in perpetuity	33,703,116	26,994,421
	<hr/>	<hr/>
Total net assets with donor restrictions	39,027,797	31,229,476
	<hr/>	<hr/>
Total net assets	\$ 63,618,240	\$ 19,148,377

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

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2021 and 2020**

**NOTE 5 - LIQUIDITY AND FUNDS AVAILABLE**

The following table reflects OFS' financial assets as of June 30, 2021 and 2020, 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.

	<u>2021</u>	<u>2020</u>
Financial assets:		
Cash and cash equivalents	\$ 47,756,677	\$ 67,164,676
Due from Archdiocesan entities and other receivables	18,631,598	27,784,418
Investments	60,173,871	35,976,157
Beneficial interest in supporting charitable trusts	<u>2,740,189</u>	<u>2,184,574</u>
Financial assets, at year end	129,302,335	133,109,825
Less those unavailable for general expenditure within one year, due to:		
Cash not available for general expenditures	42,647,204	50,764,572
Perpetual trusts held by others	2,740,189	2,184,574
Contribution and accounts receivable collectible beyond one year	12,849,863	18,070,572
Investments and other financial assets held for others	2,232,698	1,882,224
Perpetual and term endowments and accumulated earnings subject to appropriation beyond one year	30,964,419	24,809,847
Investments not for general expenditures	12,969,941	-
Investments in management-designated endowments	<u>7,833,675</u>	<u>6,273,193</u>
	<u>112,237,989</u>	<u>103,984,982</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 17,064,346</u>	<u>\$ 29,124,843</u>

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

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2021 and 2020**

**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, 2021					
	Program Activities					Total
	Clergy	Ministry	Risk Insurance Trust	Welfare Benefits Trust	Supporting Management and General	
Subsidies	\$ -	\$ 775,037	\$ -	\$ -	\$ -	\$ 775,037
Salaries and wages	1,063,963	3,415,515	90,281	113,342	4,924,345	9,607,446
Payroll taxes and fringe benefits	2,921,080	841,454	23,988	734,883	1,244,460	5,765,865
Purchased services	659,066	787,297	3,051,679	378,872	5,553,661	10,430,575
Intra-diocesan expenses	5,602	(148,517)	2,347	-	14,405	(126,163)
Support expenses	243,040	(1,291,692)	(422,695)	393,682	3,809,327	2,731,662
Interparochial assistance	-	1,951,947	-	-	-	1,951,947
Depreciation expense	383,553	200,652	-	-	1,204,205	1,788,410
Interest expense	-	-	-	-	693,548	693,548
Insurance program expenses	-	-	(1,764,975)	44,573,883	-	42,808,908
<b>Total expenses</b>	<b>\$ 5,276,304</b>	<b>\$ 6,531,693</b>	<b>\$ 980,625</b>	<b>\$46,194,662</b>	<b>\$17,443,951</b>	<b>\$76,427,235</b>

	June 30, 2020					
	Program Activities					Total
	Clergy	Ministry	Risk Insurance Trust	Welfare Benefits Trust	Supporting Management and General	
Subsidies	\$ -	\$ 1,107,934	\$ -	\$ -	\$ -	\$ 1,107,934
Salaries and wages	1,140,819	3,876,597	88,966	70,162	5,685,443	10,861,987
Payroll taxes and fringe benefits	3,089,518	591,884	22,975	766,835	1,870,157	6,341,369
Purchased services	650,918	1,178,392	6,020,442	228,005	8,191,585	16,269,342
Intra-diocesan expenses	6,730	(152,435)	7,790	-	53,303	(84,612)
Support expenses	172,147	1,655,524	910,625	334,675	4,067,931	7,140,902
Interparochial assistance	-	1,552,844	-	-	-	1,552,844
Depreciation expense	370,810	222,731	-	-	1,402,669	1,996,210
Interest expense	-	-	-	-	926,691	926,691
Withdrawals	-	212,250	-	-	260,081	472,331
Insurance program expenses	-	-	(5,784,573)	39,448,565	-	33,663,992
<b>Total expenses</b>	<b>\$ 5,430,942</b>	<b>\$10,245,721</b>	<b>\$ 1,266,225</b>	<b>\$40,848,242</b>	<b>\$22,457,860</b>	<b>\$80,248,990</b>

**NOTE U - SUBSEQUENT EVENTS**

OFS has evaluated subsequent events through November 24, 2021, the date which the financial statements were available for distribution. No subsequent events are required to be disclosed, except as stated in Notes B and I.

SUPPLEMENTAL INFORMATION

Archdiocese of Philadelphia - Office for Financial Services

COMBINING STATEMENT OF FINANCIAL POSITION

June 30, 2021

	Total General Fund	Deposit and Loan Program Trust	Risk Insurance Trust	Welfare Benefits Trust	Eliminations	OFS Total
<b>ASSETS</b>						
Cash and cash equivalents	\$ 9,402,389	\$ 11,637,779	\$ 13,738,951	\$ 12,977,558	\$ -	\$ 47,756,677
Due from Archdiocesan entities, net						
Assessments and other amounts due, net	167,075	-	879,545	299,853	-	1,346,473
Loans receivable, net	-	10,463,237	-	-	-	10,463,237
Notes receivable from related parties, net	1,095,000	24,075,393	-	-	(24,075,393)	1,095,000
Interest receivable from related parties, net	-	490,547	-	-	-	490,547
Other related party receivables	1,788,873	-	19,032	4,999	(24,304)	1,788,600
Other accounts receivable	250,000	-	184,441	-	-	434,441
Prepaid expenses	111,471	-	2,130,423	-	-	2,241,894
Real estate and physical plant held for sale	1,970,374	-	-	-	-	1,970,374
Note receivable	3,013,300	-	-	-	-	3,013,300
Investments	47,203,930	-	-	12,969,941	-	60,173,871
Beneficial interest in supporting charitable trusts	2,740,189	-	-	-	-	2,740,189
Real estate and physical plant, net	17,112,395	-	-	-	-	17,112,395
<b>Total assets</b>	<b>\$ 84,854,996</b>	<b>\$ 46,666,956</b>	<b>\$ 16,952,392</b>	<b>\$ 26,252,351</b>	<b>\$ (24,099,697)</b>	<b>\$ 150,626,998</b>
<b>Liabilities</b>						
Accounts payable	\$ 4,008,373	\$ (48,590)	\$ 592,423	\$ 160,136	\$ -	\$ 4,712,342
Accrued expenses and other payables	1,895,795	-	19,797,137	4,851,026	-	26,543,958
Deferred revenue	9,972,186	-	-	1,145,265	-	11,117,451
Deposits - parishes, institutions and related organizations	-	39,589,338	-	-	(24,304)	39,565,034
Promissory note payable	29,145,366	-	-	-	(24,075,393)	5,069,973
<b>Total liabilities</b>	<b>45,021,720</b>	<b>39,540,748</b>	<b>20,389,560</b>	<b>6,156,427</b>	<b>(24,099,697)</b>	<b>87,008,758</b>
<b>Net assets</b>						
Without donor restrictions	805,479	7,126,208	(3,437,168)	20,095,924	-	24,590,443
With donor restrictions	39,027,797	-	-	-	-	39,027,797
<b>Total net assets</b>	<b>39,833,276</b>	<b>7,126,208</b>	<b>(3,437,168)</b>	<b>20,095,924</b>	<b>-</b>	<b>63,618,240</b>
<b>Total liabilities and net assets</b>	<b>\$ 84,854,996</b>	<b>\$ 46,666,956</b>	<b>\$ 16,952,392</b>	<b>\$ 26,252,351</b>	<b>\$ (24,099,697)</b>	<b>\$ 150,626,998</b>

Archdiocese of Philadelphia - Office for Financial Services

COMBINING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended June 30, 2021

	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	Custodian Fund	Estates and Trusts Fund	Villa St. Joseph Fund		Total
<b>Revenues, gains, losses and other support</b>												
Parish assessments	\$ 22,230,200	\$ -	\$ -	\$ -	\$ -	\$ 22,230,200	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 22,230,200
Contributions from related parties	6,532,780	-	-	-	(5,758,266)	774,514	-	-	-	-	-	774,514
Collections, bequests and donations	4,107,004	-	-	-	(1,962,543)	2,144,461	-	-	59	-	59	2,144,520
Tuition income	21,895	-	-	-	-	21,895	-	-	-	-	-	21,895
Investment income, net	2,090,125	-	-	969,942	-	3,060,067	987,920	-	8,322,166	-	9,310,086	12,370,153
Interest income	180,095	385,099	2,124	20,438	-	587,756	-	-	41,709	-	41,709	629,465
Fees for services	1,821,030	-	-	-	-	1,821,030	-	-	-	-	-	1,821,030
Intradiocesan income	3,400,720	-	-	-	(216,942)	3,183,778	-	-	-	-	-	3,183,778
Other income	5,612,080	-	-	20,000	-	5,632,080	-	-	-	-	-	5,632,080
Net gain on sale of real estate and terminated affiliation	8,151,716	-	-	-	-	8,151,716	-	-	-	-	-	8,151,716
Net assets released from restrictions	1,553,533	-	-	-	-	1,553,533	-	-	(1,553,533)	-	(1,553,533)	-
Premium income from Archdiocesan insurance programs	-	-	22,703,303	40,256,885	(1,777,423)	61,182,765	-	-	-	-	-	61,182,765
<b>Total revenues, gains, losses and other support</b>	<b>55,701,178</b>	<b>385,099</b>	<b>22,705,427</b>	<b>41,267,265</b>	<b>(9,715,174)</b>	<b>110,343,795</b>	<b>987,920</b>	<b>-</b>	<b>6,810,401</b>	<b>-</b>	<b>7,798,321</b>	<b>118,142,116</b>
<b>Expenses</b>												
Subsidies	4,779,307	-	-	-	(4,004,270)	775,037	-	-	-	-	-	775,037
Salaries and wages	9,403,823	-	90,281	113,342	-	9,607,446	-	-	-	-	-	9,607,446
Payroll taxes and fringe benefits	6,533,291	-	23,988	734,883	(1,526,297)	5,765,865	-	-	-	-	-	5,765,865
Purchased services	7,415,373	52,719	3,051,679	378,872	(468,068)	10,430,575	-	-	-	-	-	10,430,575
Intradiocesan expenses	(128,510)	-	2,347	-	-	(126,163)	-	-	-	-	-	(126,163)
Support expense	8,724,004	(2,246,790)	(422,695)	393,682	(3,716,539)	2,731,662	-	-	-	-	-	2,731,662
Interparochial assistance	1,951,947	-	-	-	-	1,951,947	-	-	-	-	-	1,951,947
Depreciation expense	1,788,410	-	-	-	-	1,788,410	-	-	-	-	-	1,788,410
Interest expense	185,938	507,610	-	-	-	693,548	-	-	-	-	-	693,548
Insurance program expenses	-	-	(1,764,975)	44,573,883	-	42,808,908	-	-	-	-	-	42,808,908
<b>Total expenses</b>	<b>40,653,583</b>	<b>(1,686,461)</b>	<b>980,625</b>	<b>46,194,662</b>	<b>(9,715,174)</b>	<b>76,427,235</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>76,427,235</b>
<b>Change in net assets before other items</b>	<b>15,047,595</b>	<b>2,071,560</b>	<b>21,724,802</b>	<b>(4,927,397)</b>	<b>-</b>	<b>33,916,560</b>	<b>987,920</b>	<b>-</b>	<b>6,810,401</b>	<b>-</b>	<b>7,798,321</b>	<b>41,714,881</b>
<b>Other items</b>												
Risk mitigation and other IRRP contributions	2,754,982	-	28,570,532	-	(28,570,532)	2,754,982	-	-	-	-	-	2,754,982
IRRP funding expense	<u>28,570,532</u>	-	-	-	<u>(28,570,532)</u>	-	-	-	-	-	-	-
Risk mitigation and other IRRP contributions	(25,815,550)	-	28,570,532	-	-	2,754,982	-	-	-	-	-	2,754,982
<b>CHANGE IN NET ASSETS</b>	<b>(10,767,955)</b>	<b>2,071,560</b>	<b>50,295,334</b>	<b>(4,927,397)</b>	<b>-</b>	<b>36,671,542</b>	<b>987,920</b>	<b>-</b>	<b>6,810,401</b>	<b>-</b>	<b>7,798,321</b>	<b>44,468,863</b>
<b>Net assets</b>												
Beginning of year	<u>11,573,434</u>	<u>5,054,648</u>	<u>(53,732,502)</u>	<u>25,023,321</u>	<u>-</u>	<u>(12,081,099)</u>	<u>4,332,397</u>	<u>-</u>	<u>26,797,079</u>	<u>100,000</u>	<u>31,229,476</u>	<u>19,148,377</u>
End of year	<u>\$ 805,479</u>	<u>\$ 7,126,208</u>	<u>\$ (3,437,168)</u>	<u>\$ 20,095,924</u>	<u>\$ -</u>	<u>\$ 24,590,443</u>	<u>\$ 5,320,317</u>	<u>\$ -</u>	<u>\$ 33,607,480</u>	<u>\$ 100,000</u>	<u>\$ 39,027,797</u>	<u>\$ 63,618,240</u>