

Financial Statements and Report of
Independent Certified Public
Accountants

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

June 30, 2021 and 2020

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

We have audited the accompanying financial statements of the Archdiocese of Philadelphia, Office of Catholic Education Administration Account (“OCE”), which comprise the statements of financial position as of June 30, 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 of Catholic Education Administration Account 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 OCE within the Archdiocese of Philadelphia. Our opinion is not modified with respect to this matter.

Grant Thornton LLP

Philadelphia, Pennsylvania
December 6, 2021

**Archdiocese of Philadelphia, Office of Catholic Education
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STATEMENTS OF FINANCIAL POSITION

June 30,

	2021	2020
ASSETS		
Cash and cash equivalents, including amounts held by affiliate	\$ 4,272,635	\$ 2,909,312
Accounts receivable	11,085	36,144
Due from other Archdiocesan entities (Note I)	-	1,397,568
Other assets	50,764	1,275
Investments (Notes C and K)	13,153,176	10,238,367
Beneficial interest in perpetual trust (Note K)	33,568,339	28,902,341
Right-of-use assets (Note M)	54,679	-
	\$ 51,110,678	\$ 43,485,007
Total assets	\$ 51,110,678	\$ 43,485,007
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 108,460	\$ 301,281
Accrued vacation	110,824	121,086
Accrued severance	194,870	13,150
Accrued salaries	99,591	96,512
Due to other Archdiocesan entities (Note I)	806,625	752,779
Lease liabilities (Note M)	54,679	-
Deferred revenue	2,225	-
	1,377,274	1,284,808
Total liabilities	1,377,274	1,284,808
Net assets		
Without donor restrictions (Note E)	2,639,735	2,200,083
With donor restrictions (Notes F and G)	47,093,669	40,000,116
	49,733,404	42,200,199
Total net assets	49,733,404	42,200,199
Total liabilities and net assets	\$ 51,110,678	\$ 43,485,007

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

**Archdiocese of Philadelphia, Office of Catholic Education
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STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues			
Subsidies			
Office of Catholic Education -			
Diocesan High Schools	\$ 4,618,106	\$ -	\$ 4,618,106
Schools of Special Education	105,000	-	105,000
Parishes	1,230,200	-	1,230,200
Contributions			
Ambassador's Fund for Catholic Education	-	120,000	120,000
Donations	95	901,252	901,347
Contributed services (Note J)	136,635	-	136,635
Program revenues	171,229	2,000	173,229
Investment return, net	421,897	2,780,479	3,202,376
Change in beneficial interest in perpetual trust	-	4,665,998	4,665,998
Distribution of beneficial interest in perpetual trust	-	1,600,000	1,600,000
Other revenue	5,183	-	5,183
Net assets released from restrictions	2,976,176	(2,976,176)	-
Total revenues	9,664,521	7,093,553	16,758,074
Expenses			
Salaries and benefits	5,549,222	-	5,549,222
Purchased services	938,288	-	938,288
Intradiocesan expenses	352,557	-	352,557
Support expenses	2,384,802	-	2,384,802
Total expenses	9,224,869	-	9,224,869
CHANGE IN NET ASSETS	439,652	7,093,553	7,533,205
Net assets, beginning of year	2,200,083	40,000,116	42,200,199
Net assets, end of year	\$ 2,639,735	\$ 47,093,669	\$ 49,733,404

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

**Archdiocese of Philadelphia, Office of Catholic Education
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STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended June 30, 2020

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

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

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STATEMENTS OF CASH FLOWS

Years ended June 30,

	2021	2020
Cash flows from operating activities:		
Change in net assets	\$ 7,533,205	\$ (823,067)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Net realized and unrealized (gains) losses on investments	(2,801,345)	130,556
Change in beneficial interest in perpetual trust	(4,665,998)	760,553
Changes in operating assets and liabilities:		
Accounts receivable	25,059	(635)
Due from other Archdiocesan entities	1,397,568	(1,283,241)
Other assets	(49,489)	113,160
Right-of-use assets	(54,679)	-
Accounts payable	(192,821)	164,105
Accrued vacation	(10,262)	(540)
Accrued severance	181,720	(2,873)
Accrued salaries	3,079	26,120
Due to other Archdiocesan entities	53,846	716,526
Lease liabilities	54,679	-
Deferred revenue	2,225	(7,330)
	1,476,787	(206,666)
Cash flows from investing activities:		
Purchase of investments	(1,246,148)	(1,127,163)
Proceeds from sale of investments	1,132,684	1,000,463
	(113,464)	(126,700)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS, INCLUDING AMOUNTS HELD BY AFFILIATE	1,363,323	(333,366)
Cash and cash equivalents, including amounts held by affiliate, beginning of year	2,909,312	3,242,678
Cash and cash equivalents, including amounts held by affiliate, end of year	\$ 4,272,635	\$ 2,909,312

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

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NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

NOTE A - NATURE OF OPERATIONS

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

- Diocesan High Schools
- Schools of Special Education
- Office for Financial Services (“OFS”)
- Heritage of Faith ~ Vision of Hope
- Trustee Account of the Archdiocese of Philadelphia for Estates and Trusts
- Independent Reconciliation and Reparations Trust

OCE is considered to be a component of the Archdiocese of Philadelphia and not a separate legal entity. Effective September 1, 2012, the Archdiocese of Philadelphia entered into an agreement with Faith in the Future Foundation (“FIF”). The agreement was for a period of five school years and renews automatically for successive three-year periods unless prior written notification is provided 90 days before the scheduled expiration date. This agreement was extended through 2022 in February of 2016. Pursuant to the aforementioned agreement, FIF assumes strategic and operational management of the 17 Catholic secondary schools and the 4 individual Schools of Special Education and provides certain financial assistance to the schools. OCE has primary responsibility for, and FIF has oversight and approval responsibility over, school operations. The five senior management positions of OCE report directly to FIF’s Chief Executive Officer. The Secretary for Elementary Education and Deputy Secretary for Catechetical Formation report directly to the Auxiliary Bishop for Education.

COVID-19 Pandemic

The outbreak of a novel coronavirus (“COVID-19”) as a pandemic has caused significant uncertainty of the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S. and international economies. Management does not expect significant negative impact from COVID-19.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

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June 30, 2021 and 2020

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

Revenue Recognition

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, to improve financial reporting by creating common revenue recognition guidance. The core principle of this guidance is that an entity should recognize revenue in an amount that reflects the consideration to which the entity expects to be entitled in exchange for these goods and services at the date the performance obligation has occurred. The standard outlines a five-step model whereby revenue is recognized as performance obligations within a contract are satisfied. The five-step model includes (i) identifying the contract(s) with a customer; (ii) identifying the performance obligations in the contract; (iii) determining the transaction price; (iv) allocating the transaction price to the performance obligations in the contract; and (v) recognizing revenue when (or as) the entity satisfies a performance obligation. OCE adopted the guidance during the year ended June 30, 2021 using the modified retrospective method and has determined that there is no effect on net assets in connection with the adoption of ASU 2014-09.

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

OCE receives subsidy payments from related organizations representing costs of salaries, benefits and other operating costs for administrative support provided by OCE to the parishes and schools. Revenue is recognized for these services as performance obligations are met.

OCE recognizes revenue from gifts and grants in accordance with ASU 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. In accordance with Topic 958, OCE evaluates whether a transfer of assets is (1) an exchange transaction in which a resource provider is receiving commensurate value in return for the resources transferred or (2) a contribution. If the transfer of assets is determined to be an exchange transaction, OCE applies the guidance under Topic 606. If the transfer of assets is determined to be a contribution, OCE evaluates whether the contribution is conditional based upon whether the agreement includes both (1) one or more barriers that must be overcome before OCE is entitled to the assets transferred and promised and (2) a right of return of assets transferred or a right of release of a promisor’s obligation to transfer assets.

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

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

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

Uses of Estimates

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

Cash and Cash Equivalents, Including Amounts Held by Affiliate

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

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

Investments

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

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

Beneficial Interest in Perpetual Trust

OCE is the sole beneficiary of the income of a trust established by Francis W. Sullivan held in perpetuity by a third party. The supporting perpetual trust requires the income to be paid to OCE. The beneficial interest in perpetual trust is recorded at the fair value of the assets. At June 30, 2021 and 2020, the fair value of the net assets of the trust was \$33,568,339 and \$28,902,341, respectively. The underlying investments of the beneficial interest in perpetual trust consist of cash, government obligations, corporate obligations, mutual funds, and equity securities. OCE receives statements from the trustees, which detail the fair value of each investment in the perpetual trust. During 2021 and 2020, OCE recognized \$4,665,998 and \$(760,553), respectively, of donor-restricted appreciation (depreciation) related to this trust.

Leases

OCE elected to early adopt ASU 2016-02, *Leases*, as amended, effective July 1, 2020, as permitted in the guidance, using the modified retrospective approach. OCE has also elected to utilize the available practical expedients. Upon implementation, OCE recognized and measured leases existing at, or entered into after July 1, 2020 on the statement of financial position. OCE recognized a lease liability and a right-of-use (ROU) asset at the commencement date of the lease. The lease liability is initially and subsequently recognized based on the present value of its future lease payments. Variable payments are included in the future lease payments when those variable payments depend on an index or a rate. The discount rate is the implicit rate if it is readily determinable otherwise OCE uses its incremental borrowing rate. The implicit rates of OCE leases are not readily determinable and accordingly, the incremental borrowing rate was based on the

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

information available at the commencement date for all leases. OCE's incremental borrowing rate for a lease is the rate of interest it would have to pay on a collateralized basis to borrow an amount equal to the lease payments under similar terms and in a similar economic environment. The ROU asset is subsequently measured throughout the lease term at the amount of the remeasured lease liability (i.e., present value of the remaining lease payments), plus unamortized initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received, and any impairment recognized. Lease cost for lease payments is recognized on a straight-line basis over the lease term. No change to beginning net assets was required in connection with the adoption of the standard.

Recently Issued Accounting Pronouncement

In September 2020, the FASB issued ASU 2020-07, *Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets*, to increase the transparency of contributed nonfinancial assets through enhancements to presentation and disclosure. The guidance requires contributed nonfinancial assets to be presented as a separate line item on the consolidated statements of activities, apart from cash and other financial asset contributions. The guidance also requires disclosure of the types of contributed nonfinancial assets and, for each category, information about whether the assets were monetized or utilized, a description of the policies to monetize or utilize such assets, a description of donor-imposed restrictions associated with the contributions, and a description of the valuation techniques and principal market used to arrive at a fair value measure at initial recognition. ASU 2020-07 is effective for years beginning after June 15, 2021. Organizations are required to apply the guidance on a retrospective basis. OCE is assessing the impact of the new standard at this time.

NOTE C - INVESTMENTS

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

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

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

Account holders have the option of six asset classifications in which to invest. The options include a short-duration U.S. government bond fund, a 100% fixed income bond fund and four equity funds with varying fixed income to equity mixes of 30/70, 50/50, 60/40 or 70/30. Management has primary responsibility for determining fixed income to equity fund. The asset mix of the mutual funds is SEI's responsibility.

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

	2021	2020
Catholic Values Equity Fund	\$ 9,301,045	\$ 7,184,396
Catholic Values Fixed Income Fund	3,852,131	3,053,971
Total investments	\$ 13,153,176	\$ 10,238,367

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

NOTE D - EMPLOYEE BENEFIT PLANS

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

Through June 30, 2014, the eligible lay employees of OCE were covered under the Archdiocese of Philadelphia Lay Employees' Retirement Plan (the "Plan"), which is a defined benefit pension plan covering substantially all lay employees of the Archdiocese of Philadelphia, based on age and service requirements. On June 30, 2014, the Archdiocese froze the Plan. All active employees as of the freeze date retained benefits they had earned through June 30, 2014. After the date of the freeze, accrued pension benefits do not increase for additional service or increases in pay. The Plan is administered by the Trustees of the Plan.

OCE made annual contributions to the Plan at an average rate of 5.9% of the salaries of the eligible staff for the period from August 14, 2020 through June 30, 2020 and for the period July 1, 2019 through September 13, 2019 of \$207,636 and \$160,119, respectively. The expense of such contributions is included in employee benefits. Separate accounts for vested benefits and pension fund assets are not maintained for each institution. The Plan Trustees approved suspending contributions into the Plan as of September 14, 2019 and reinstated the contribution effective August 14, 2020. The contributions which would have gone into the Plan between September 14, 2019 and August 13, 2020 were made to a special fund held by the Archdiocese of Philadelphia, OFS. During the year ended June 30, 2020, the contributions made to the special fund after December 31, 2019 in the amount of \$104,161 was shown as other non-operating expense in the statement of activities and changes in net assets.

Estimates of the actuarially determined present value of accumulated plan benefits at June 30, 2021 and 2020 totaled approximately \$599,400,000 and \$564,500,000, respectively. 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 of Philadelphia established a 403(b) defined contribution plan. Under the 403(b) plan, and subject to statutory limits, all employees at least 18 years of age are immediately eligible to make voluntary deferred salary contributions into the 403(b) plan.

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

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

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

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

In 2021 and 2020, OCE's contribution rate was 4.5% of base salary for eligible employees, and there was a 0.35% charge for administration. The contributions into the 403(b) plan totaled \$176,440 and \$163,795 for the years ended June 30, 2021 and 2020, respectively.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

NOTE E - NET ASSETS WITHOUT DONOR RESTRICTIONS

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

	2021	2020
Without donor restrictions	\$ 928,292	\$ 907,778
Archdiocesan designations functioning as endowment		
Elementary division	1,575,274	1,156,136
Elementary needs	136,169	136,169
	\$ 2,639,735	\$ 2,200,083

In June of 2012, the Archdiocese of Philadelphia received \$3,100,000 from the Estate of Leo J. Baney, which was to be used for “educational purposes in the Archdiocese of Philadelphia.” In June of 2004, a decision was made to divide the principal into three areas and internally designate how the funds were to be used.

In April of 2015, Most Reverend Michael J. Fitzgerald, Auxiliary Bishop of Philadelphia signed a memorandum of understanding directing that \$1,000,000 of the fund be set aside in a fund functioning as an endowment with an annual distribution being provided to OCE to support the elementary division. The balance in the fund, included in the net assets without donor restrictions as Archdiocesan designations functioning as endowment, is to be used for elementary needs as determined by the Secretary for Elementary Education. During 2021 and 2020, net assets were released from designated funds by incurring expenses satisfying the designated purpose of \$0 and \$47,000, respectively.

NOTE F - NET ASSETS WITH DONOR RESTRICTIONS

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

	2021	2020
Net assets subject to time or use donor-imposed restrictions		
Tuition assistance and scholarships	\$ 7,170,288	\$ 5,652,911
Programs	2,087,022	2,171,503
Accumulated earnings in excess of spending endowments		
Tuition assistance and scholarships	743,456	169,023
Other	20,779	1,317
Total net assets subject to time or use donor-imposed restrictions	10,021,545	7,994,754
Funds held in perpetuity		
Program grants (beneficial interest in perpetual trust)	33,568,339	28,902,341
Tuition assistance and scholarships	3,435,764	3,035,000
Other	68,021	68,021
Total funds held in perpetuity	37,072,124	32,005,362
Total net assets with donor restrictions	\$ 47,093,669	\$ 40,000,116

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

During 2021 and 2020, net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose of \$2,976,176 and \$2,230,841, respectively.

NOTE G - ENDOWMENTS

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

Interpretation of Relevant Law

In accordance with Commonwealth of Pennsylvania Act 141, and unless directed otherwise by the donor, OCE classifies as net assets with donor restrictions: (a) the original value of gifts donated to the permanent endowment; (b) the original value of subsequent gifts to the permanent endowment; and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not held in perpetuity is also included in net assets with donor restrictions until those amounts are appropriated for expenditure by OCE in a manner consistent with the standard of prudence prescribed by relevant law. OCE does not release any portion of the funds held in perpetuity. Commonwealth of Pennsylvania law permits the Archdiocese of Philadelphia to release a percentage, which is elected annually, of the market value of its endowment funds into unrestricted income. The spending rate percentage, between 2% and 7%, is applied to the three-year average of the market value of the endowment funds' assets.

Return Objectives and Risk Parameters

OCE has adopted investment policies established by the Archdiocese of Philadelphia's Investment Committee and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity. Under this policy, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of plus 3% over the consumer price index while assuming a moderate level of investment risk. OCE expects its endowment funds, over time, to provide an average rate of return of approximately 5% annually. Actual returns in any given year may vary from that amount.

Spending Policy

Commonwealth of Pennsylvania law permits OCE to adopt a spending policy for endowment earnings, subject to certain limitations. OCE follows the total return concept of endowment investment and spending. Under this concept, a prudent amount of appreciation earned on the investments may be spent in the event that the interest and dividends earned are insufficient to meet that period's spending rate. OCE's spending policy for the years ended June 30, 2021 and 2020 allowed for between a 2% and 7% draw of the three-year average market value of the restricted endowments, unless directed otherwise by the donor.

As of June 30, 2021 and 2020, \$3,503,785 and \$3,103,021, respectively, in donor-restricted endowment funds held in perpetuity were included within net assets with donor restrictions.

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June 30, 2021 and 2020

Changes in donor-restricted endowments for the year ended June 30, 2021 are as follows:

Endowment net assets, June 30, 2020	\$ 3,273,361
Investment income	127,405
Net realized and unrealized appreciation	<u>900,354</u>
Total investment return	1,027,759
Appropriation of endowment assets for expenditure	<u>(33,100)</u>
Endowment net assets, June 30, 2021	<u>\$ 4,268,020</u>

Changes in endowment net assets for the year ended June 30, 2020 are as follows:

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

NOTE H - INCOME TAXES

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

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

NOTE I - RELATED PARTY TRANSACTIONS

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

	2021	2020
Schools of Special Education	\$ -	\$ 48,083
Office of Financial Services	-	98,486
Diocesan High Schools	-	<u>1,250,999</u>
	<u>\$ -</u>	<u>\$ 1,397,568</u>

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

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

	2021	2020
Office of Child and Youth Protection	\$ 9,330	\$ 9,300
Office for General Services	-	11,337
Propagation of the Faith	5	-
Diocesan High Schools	117	20,537
Office for Financial Services	797,173	711,605
	\$ 806,625	\$ 752,779

During the year ended June 30, 2020, OFS was the recipient of a Paycheck Protection Program (“PPP”) loan granted by the Small Business Administration (“SBA”) under the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”). Certain OCE employee expenses at June 30, 2021 and 2020, totaling to \$137,310 and \$652,468, respectively, were included in the loan received by OFS. These amounts were included in the due to OFS amount as of June 30, 2021 and 2020. Under the program terms, PPP loans are forgiven and recognized as revenue if the loan proceeds are used to maintain compensation costs and employee headcount, and other qualifying expenses (mortgage interest, rent and utilities) incurred following receipt of the loan. The loan was forgiven by the SBA on July 26, 2021, and OFS forgave OCE’s portion in August 2021.

OCE receives subsidies from the Diocesan High Schools. Subsidies totaled \$4,618,106 (\$4,552,994 for administration costs and \$65,112 for marketing expense) and \$4,737,192 (\$4,541,181 for administration costs and \$196,011 for marketing expense) for the years ended June 30, 2021 and 2020, respectively.

OCE charged the Schools of Special Education \$105,000 and \$173,500, respectively, for the years ended June 30, 2021 and 2020, for management services, which amounts are included in subsidies revenue.

OCE received donations of \$612,155 and \$489,159, respectively, for the years ended June 30, 2021 and 2020 from the Heritage of Faith ~ Vision of Hope for tuition assistance in the elementary schools.

Cash and cash equivalents include \$81,966 and \$302,573 at June 30, 2021 and 2020, respectively, held in trust funds maintained by OFS. There are no conditions restricting the withdrawal of these funds.

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

NOTE J - CONTRIBUTED SERVICES

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

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

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

	2021	2020
Salaries and benefits - lay equivalent value of religious services Expended for religious services	\$ 338,746	\$ 412,611
Salaries, related employee benefits and faculty house expenses	(202,111)	(248,799)
	\$ 136,635	\$ 163,812

NOTE K - FAIR VALUE MEASUREMENTS

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

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

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

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

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

In August 2018, the FASB issued ASU 2018-13, *Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*, modifying the disclosure requirements on fair value measurement. The amendments in the ASU are effective for all entities with annual periods beginning after December 15, 2019, however early adoption was permitted. OCE adopted ASU 2018-13 for the year ended June 30, 2021. The adoption of this guidance did not have a material impact on OCE's financial statements.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

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

<u>2021</u>	<u>Quoted Prices in Active Markets Level 1</u>	<u>Significant Other Observable Inputs Level 2</u>	<u>Significant Unobservable Inputs Level 3</u>	<u>Total Fair Value</u>
Assets				
Investments	\$ 13,153,176	\$ -	\$ -	\$ 13,153,176
Beneficial interest in perpetual trust	\$ -	\$ -	\$ 33,568,339	\$ 33,568,339
 <u>2020</u>				
Assets				
Investments	\$ 10,238,367	\$ -	\$ -	\$ 10,238,367
Beneficial interest in perpetual trust	\$ -	\$ -	\$ 28,902,341	\$ 28,902,341

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

	<u>2021</u>	<u>2020</u>
Beginning balance	\$ 28,902,341	\$ 29,662,894
Change in fair value of assets	6,265,998	864,447
Distributions from perpetual trust	(1,600,000)	(1,625,000)
	<u>\$ 33,568,339</u>	<u>\$ 28,902,341</u>

NOTE L - FUNCTIONAL EXPENSES

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

<u>2021</u>	<u>Administration</u>	<u>Scholarship and Tuition Assistance</u>	<u>Programs</u>	<u>Catholic Youth Organization</u>	<u>Total</u>
Salaries and benefits	\$ 5,549,222	\$ -	\$ -	\$ -	\$ 5,549,222
Purchased services	263,885	-	674,403	-	938,288
Intradiocesan expense	352,557	-	-	-	352,557
Support expenses	111,282	1,904,904	366,999	1,617	2,384,802
Total	<u>\$ 6,276,946</u>	<u>\$ 1,904,904</u>	<u>\$ 1,041,402</u>	<u>\$ 1,617</u>	<u>\$ 9,224,869</u>

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

<u>2020</u>	<u>Administration</u>	<u>Scholarship and Tuition Assistance</u>	<u>Programs</u>	<u>Catholic Youth Organization</u>	<u>Total</u>
Salaries and benefits	\$ 5,339,216	\$ -	\$ -	\$ -	\$ 5,339,216
Purchased services	581,180	-	538,769	795	1,120,744
Intradiocesan expense	333,373	-	-	-	333,373
Support expenses	272,813	1,230,019	295,992	73,769	1,872,593
Total	<u>\$ 6,526,582</u>	<u>\$ 1,230,019</u>	<u>\$ 834,761</u>	<u>\$ 74,564</u>	<u>\$ 8,665,926</u>

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

NOTE M - LEASES

OCE is the lessee of certain vehicles and office equipment under operating leases expiring through 2024. Some of OCE's leases provide for options to renew subsequent to the current term. The options to renew the leases were not considered when assessing the value of the ROU asset if OCE was not reasonably certain that it would assert its option to renew the lease.

Quantitative information regarding OCE's leases for the year ended June 30, 2021 is as follows:

Lease cost	\$ 33,344
Other information	
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows	\$ 33,344
Right-of-use assets obtained in exchange for new lease liabilities	\$ 88,023
Weighted-average remaining lease term (in years)	1.92
Weighted-average discount rate	4%

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

2022	\$ 29,944
2023	25,522
2024	1,240
Total minimum payments	<u>56,706</u>
Less: present value discount	<u>(2,027)</u>
	<u>\$ 54,679</u>

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

NOTE N - LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following reflects OCE's financial assets as of June 30 reduced by amounts not available for general use within one year because of donor-imposed restrictions or internal designations. Amounts available include annual distributions from the Leo J. Baney Designated Fund. In addition, OCE expects to receive funding from subsidies during the year ended June 30, 2022 for a total of \$6,110,500 from the Diocesan High Schools, parishes, and the Schools of Special Education.

	2021	2020
Financial assets		
Cash and cash equivalents	\$ 4,272,635	\$ 2,909,312
Accounts receivable and due from other Archdiocesan entities	11,085	1,433,712
Investments	13,153,176	10,238,367
Perpetual trusts held by others	33,568,339	28,902,341
Financial assets, at year end	51,005,235	43,483,732
Donor-imposed restrictions		
Perpetual trusts held by others	33,568,339	28,902,341
Endowment funds	3,503,785	3,103,021
Tuition assistance and scholarship donor restrictions	7,913,744	5,821,934
Other donor-imposed restrictions	2,107,801	2,172,820
Archdiocesan designations		
Functioning endowment for OCE Elementary department	1,711,443	1,292,305
Financial assets available to meet cash needs for general expenditures within one year	\$ 2,200,123	\$ 2,191,311

NOTE O - SUBSEQUENT EVENTS

OCE evaluated subsequent events through December 6, 2021, the date which the financial statements were available for distribution, noting no items requiring accrual or disclosure in the financial statements, except as disclosed in Note I.