

Financial Statements and Report of
Independent Certified Public
Accountants

**The Philadelphia Theological Seminary of
St. Charles Borromeo**

June 30, 2021 and 2020

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Trustees
The Philadelphia Theological Seminary of St. Charles Borromeo

We have audited the accompanying financial statements of The Philadelphia Theological Seminary of St. Charles Borromeo, which comprise the statements of financial position as of June 30, 2021 and 2020, and the related statements of activities, 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 Philadelphia Theological Seminary of St. Charles Borromeo 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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Financial Responsibility Supplemental Schedule as of and for the year ended June 30, 2021, in accordance with the U.S. Department of Education's Final Rule: *Student Assistance General Provisions, Federal Family Education Loan Program, and William D. Ford Federal Direct Loan Programs*, is presented for purposes of additional analysis 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 audits of the financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.



Philadelphia, Pennsylvania
November 30, 2021

The Philadelphia Theological Seminary of St. Charles Borromeo

STATEMENTS OF FINANCIAL POSITION

June 30,

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and cash equivalents	\$ 25,481,742	\$ 13,284,049
Accounts receivable, students	132,122	339,569
Other receivables	137,727	165,207
Note receivable including accrued interest	-	7,796,024
Prepaid expenses and other assets	3,607,062	4,006,813
Investments	44,912,482	39,454,155
Restricted cash	-	145,000
Property and equipment, net	601,223	370,352
Beneficial interest in perpetual trusts	1,859,979	1,643,672
Beneficial interest in Foundation	1,590,361	407,060
	<u>78,322,698</u>	<u>67,611,901</u>
Total assets	<u>\$ 78,322,698</u>	<u>\$ 67,611,901</u>
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 947,313	\$ 873,276
Deferred revenue	314,574	1,364,518
Capital leases payable	101,145	94,470
Charitable gift annuities payable	73,427	74,776
Note payable	-	995,751
	<u>1,436,459</u>	<u>3,402,791</u>
Total liabilities	<u>1,436,459</u>	<u>3,402,791</u>
Net assets		
Net assets without donor restrictions	47,376,007	42,105,037
Net assets with donor restrictions	29,510,232	22,104,073
	<u>76,886,239</u>	<u>64,209,110</u>
Total net assets	<u>76,886,239</u>	<u>64,209,110</u>
Total liabilities and net assets	<u>\$ 78,322,698</u>	<u>\$ 67,611,901</u>

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

The Philadelphia Theological Seminary of St. Charles Borromeo

STATEMENT OF ACTIVITIES

Year ended June 30, 2021

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Revenues			
Tuition and fees, net	3,330,284	-	3,330,284
Government grants	1,397,843	-	1,397,843
Contributions	6,962,848	1,727,850	8,690,698
Contributed services	740,420	-	740,420
Investment return, net	185,501	6,491,056	6,676,557
Other income	715,174	117,161	832,335
Auxiliary enterprises			
Cafeteria	1,271,821	-	1,271,821
Dormitory	613,028	-	613,028
Change in charitable gift annuities	1,349	-	1,349
Net assets released from restrictions	929,908	(929,908)	-
	<u>16,148,176</u>	<u>7,406,159</u>	<u>23,554,335</u>
Expenses			
Program services			
Instruction	1,406,059	-	1,406,059
Academic support	1,735,640	-	1,735,640
Student services	842,680	-	842,680
Management and general			
Operations and maintenance	2,062,897	-	2,062,897
Institutional support	4,068,408	-	4,068,408
Auxiliary enterprises	765,030	-	765,030
	<u>10,880,714</u>	<u>-</u>	<u>10,880,714</u>
	5,267,462	7,406,159	12,673,621
Gain on sale of artwork and books	3,508	-	3,508
	<u>5,270,970</u>	<u>7,406,159</u>	<u>12,677,129</u>
Net assets			
Beginning of year	42,105,037	22,104,073	64,209,110
End of year	<u>\$ 47,376,007</u>	<u>\$ 29,510,232</u>	<u>\$ 76,886,239</u>

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

The Philadelphia Theological Seminary of St. Charles Borromeo

STATEMENT OF ACTIVITIES

Year ended June 30, 2020

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Revenues			
Tuition and fees, net	\$ 3,324,513	\$ -	\$ 3,324,513
Contributions	5,104,342	92,212	5,196,554
Contributed services	782,460	-	782,460
Investment return, net	742,947	402,977	1,145,924
Other income	599,969	127,571	727,540
Auxiliary enterprises			
Cafeteria	1,082,429	-	1,082,429
Dormitory	528,074	-	528,074
Change in charitable gift annuities	18,977	-	18,977
Net assets released from restrictions	949,722	(949,722)	-
	<u>13,133,433</u>	<u>(326,962)</u>	<u>12,806,471</u>
Total revenues			
Expenses			
Program services			
Instruction	1,561,548	-	1,561,548
Academic support	1,756,108	-	1,756,108
Student services	789,164	-	789,164
Management and general			
Operations and maintenance	2,095,516	-	2,095,516
Institutional support	3,924,434	-	3,924,434
Auxiliary enterprises	766,886	-	766,886
	<u>10,893,656</u>	<u>-</u>	<u>10,893,656</u>
Total expenses			
CHANGE IN NET ASSETS BEFORE OTHER GAIN (LOSS)	2,239,777	(326,962)	1,912,815
Gain on sale of artwork and books	1,276,593	-	1,276,593
Loss on IRRP Risk Mitigation Payment	(10,000,000)	-	(10,000,000)
	<u>(6,483,630)</u>	<u>(326,962)</u>	<u>(6,810,592)</u>
Change in net assets			
Net assets			
Beginning of year	48,588,667	22,431,035	71,019,702
End of year	<u>\$ 42,105,037</u>	<u>\$ 22,104,073</u>	<u>\$ 64,209,110</u>

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

The Philadelphia Theological Seminary of St. Charles Borromeo

STATEMENTS OF CASH FLOWS

Years ended June 30,

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Change in net assets	\$ 12,677,129	\$ (6,810,592)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation expense	113,624	110,032
Net (appreciation) depreciation in fair value of investments	(4,361,719)	239,730
Contributions to beneficial interest in trusts	(1,061,200)	-
Distributions from beneficial interest in trusts	252,355	31,064
Change in fair value of beneficial interest in trusts	(590,763)	37,320
Realized gains on investments	(1,143,832)	(457,516)
Gain on sale of artwork and books	(3,508)	(1,276,593)
Changes in operating assets and liabilities:		
Accounts receivable, students	207,447	(176,776)
Other receivables	27,480	10,318
Prepaid expenses and other assets	399,751	621,062
Accounts payable and accrued expenses	74,037	(54,517)
Deferred revenue	(1,049,944)	1,086,467
Charitable gift annuities payable	(1,349)	(18,977)
	<u>5,539,508</u>	<u>(6,658,978)</u>
Net cash provided by (used in) operating activities		
Cash flows from investing activities:		
Decrease in restricted cash	145,000	127,000
Purchases of property and equipment	(344,495)	(226,194)
Purchases and sales of investments, net	47,224	(19,777,030)
Note receivable including accrued interest	7,796,024	(7,796,024)
Sale of artwork and books	3,508	1,276,593
	<u>7,647,261</u>	<u>(26,395,655)</u>
Net cash provided by (used in) investing activities		
Cash flows from financing activities:		
Payments on note payable	(995,751)	(235,660)
Capital lease borrowings	6,675	48,534
	<u>(989,076)</u>	<u>(187,126)</u>
Net cash used in financing activities		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	12,197,693	(33,241,759)
Cash and cash equivalents		
Beginning of year	<u>13,284,049</u>	<u>46,525,808</u>
End of year	<u>\$ 25,481,742</u>	<u>\$ 13,284,049</u>

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

The Philadelphia Theological Seminary of St. Charles Borromeo

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2021 and 2020

NOTE A - OPERATIONS OF THE SEMINARY

The Philadelphia Theological Seminary of St. Charles Borromeo (the Seminary), which is incorporated in the Commonwealth of Pennsylvania, operates for the benefit of the Roman Catholic community in general and the Roman Catholic Archdiocese of Philadelphia in particular. The Seminary's principal function is the academic and spiritual preparation of future priests. To fulfill this objective, the Seminary operates a four-year liberal arts college and a four-year school of theology.

Other educational programs that have been developed for summer and evening students are provided by the Graduate School of Theology Division.

On April 14, 2021, the Seminary and Gwynedd Mercy University signed a purchase agreement that will allow the Seminary to relocate to Gwynedd Mercy University's campus. The estimated time for the campus transition to be completed is approximately two to three years provided all conditions are met. With the successful completion of the transaction, Gwynedd Mercy University and the Seminary will remain two separate and distinct institutions. Each will continue to maintain a separate governance structure, academic freedom, and ability to offer programming consistent with their missions and core values. The \$10,000,000 purchase price, funded entirely by proceeds from the sale of the Seminary's Overbrook campus in 2019, will include approximately 15 acres of space and two existing buildings from Gwynedd Mercy University. Once the transaction closes, the Seminary will begin the building and renovation process to shape the new location for its needs. Plans call for the construction of a new chapel and student life center which will include a refectory, classrooms, library, administrative offices, fitness center and additional housing for seminarians and resident faculty. The Seminary plans to begin classes at this new site in fiscal year 2025.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of the Seminary have been prepared on the accrual basis of accounting.

Classes of Net Assets

Resources are reported for accounting purposes in separate classes of net assets based on the existence or absence of donor-imposed restrictions. In the accompanying financial statements, net assets that have similar characteristics have been combined into similar categories as follows:

- Net assets without donor restrictions are not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.
- Net assets with donor restrictions are subject to donor-imposed stipulations that they be maintained permanently by the Seminary or expire over the passage of time. Generally, the donors of these assets permit the Seminary to use all or part of the investment return on these assets. Such assets primarily include the Seminary's donor-restricted endowment funds.

Revenues and Expenses

Expenses are generally reported as decreases in net assets without donor restrictions. Expirations of donor-imposed stipulations that simultaneously increase one class of net assets and decrease another are reported as reclassifications between the applicable classes of net assets.

Contributions and investment return with donor-imposed restrictions that are met in the same year as received are recorded as revenues without donor restrictions. Contributions restricted for the acquisition of

The Philadelphia Theological Seminary of St. Charles Borromeo

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

land, buildings and equipment are reported as revenues with donor restrictions. These contributions are reclassified to net assets without donor restrictions upon acquisition of the assets.

Cash and Cash Equivalents

The Seminary considers all highly liquid investments with an original maturity of three months or less, and that are not held as components of its respective investment portfolio, to be cash equivalents. At June 30, 2021 and 2020, cash equivalents consisted principally of money market funds. The carrying amount approximates fair value.

The Seminary has restricted cash that is legally restricted for letters of credit.

Investments

Investments are held in two publicly traded SEI Catholic Values public 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 ("USCCB"). The Archdiocese of Philadelphia appointed SEI Private Trust Company to act as custodian (the "Custodian") of the Trustee Accounts. Investments are reported at fair value.

Fair value for investments held outside of the SEI Investment Portfolio is determined as more fully described in the fair value measurements footnote (see Note D). Management is responsible for the fair value measurement of investments reported in the financial statements and believes the reported values are reasonable. Realized gains and losses on securities sold are determined using the specific-identification method. For securities owned at the end of the year, the difference between the original cost and fair value represents unrealized gain (loss) on investments.

Beneficial Interest in Perpetual Trusts

The Seminary is the sole beneficiary of a perpetual charitable trust established by John Creahan and is a beneficiary of a share in the perpetual charitable trusts established by Jeremiah J. Harrigan, Anthony P. Falcone, Joseph L. Anderjko and the Moroney Family Trust. The supporting charitable trusts require the income to be used by the Seminary to assist in the educational cost of Seminary students. The Seminary's beneficial interest in the supporting charitable trusts is recorded at the fair value of the assets underlying the trusts of \$1,859,979 and \$1,643,672 at June 30, 2021 and 2020, respectively. Various financial institutions serve as trustees for the charitable trusts.

The underlying investments of the beneficial interest in the perpetual charitable trusts consist of mutual funds and fixed income and equity securities.

Beneficial Interest in Foundation

The Seminary contributed certain funds to an outside foundation and is the sole beneficiary of The Cardinal Foley Chair Endowment Fund ("Endowment Fund") and The Cardinal Foley Chair Program Fund ("Program Fund") held by an outside foundation. The Endowment Fund requires the income to be used by the Seminary for the exclusive purposes of maintaining The John Cardinal Foley Chair for Homiletics and Social Communications. The Program Fund requires the income to be used by the Seminary for the exclusive purposes of maintaining The John Cardinal Foley Chair for Homiletics and Social Communications and renovations. The renovation funds shall be distributed as required to design and furnish all necessary equipment for the new Homiletics room but may not exceed \$100,000. The Seminary's beneficial interest in the foundation is recorded at the fair market value of the assets underlying the Endowment Fund of \$124,545 and \$104,149 and Program Fund of \$357,000 and \$302,911 at June 30, 2021 and 2020,

The Philadelphia Theological Seminary of St. Charles Borromeo

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

respectively. The Endowment Fund and the Program Fund are recorded as net assets with donor restrictions in accordance with the restrictions of the original donors.

The Seminary is also the sole beneficiary of the Sevick & Kuzmick Scholarship Fund ("Scholarship Fund") held by an outside foundation and established on January 7, 2021. The Scholarship Fund operates as an endowment fund in that the objective is to maintain and preserve the principal of the Scholarship Fund, with the annual total return from the Scholarship Fund's investments, after expenses, being used for the Scholarship Fund's charitable purposes. The Seminary's beneficial interest in the foundation is recorded at the fair market value of the assets underlying the Scholarship Fund of \$1,108,816 at June 30, 2021.

The underlying investments of the beneficial interest in foundation consist of mutual funds and fixed income and equity securities.

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is recognized over the estimated useful life of the asset, which ranges from 3 to 40 years, depending on the asset's classification. Depreciation expense is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment.

Charitable Gift Annuities Payable

The Seminary enters into gift annuities, whereby the Seminary receives assets that are recorded at fair value when received. The assets of \$103,633 and \$93,965 are included in investments at June 30, 2021 and 2020, respectively. Periodic annuity payments are made to the donor until the donor's 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 IAR Mortality Tables and discount rates set when the annuity agreement is established, which range between 3.25% and 3.75%. The liability at June 30, 2021 and 2020 is \$73,427 and \$74,776, respectively.

Revenue Recognition

Tuition and Fees

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, 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 Seminary 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.

The Seminary maintains a policy of offering qualified applicants' admission without regard to financial circumstances. This policy provides for financial aid to those admitted in the form of direct grants, scholarships funded by the endowment, gifts, loans, and employment during the academic year. Direct grants represent the difference between the stated charge for tuition and fees and the amount billed to the student or third parties making payments on behalf of the student. Financial aid in direct grants to students was \$601,929 and \$592,683 for the years ended June 30, 2021 and 2020, respectively. Tuition and fees have been reduced by these direct grants.

The Seminary recognizes revenue when control of the promised goods or services are transferred to outside parties in an amount that reflects the consideration the Seminary expects to be entitled to in

The Philadelphia Theological Seminary of St. Charles Borromeo

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

exchange for those goods or services. The standard outlines a five-step model whereby revenue is recognized as performance obligations within a contract are satisfied.

The Seminary recognizes revenue from student tuition and fees within the fiscal year in which educational services are provided. Tuition and fees received in advance of services to be rendered are recorded as deferred revenue.

One summer term is offered from the beginning of July to mid-August. Payments for tuition and housing for the summer term are recognized as performance obligations are met. Because the invoicing for the summer programming is billed in advance, the payments received in advance are included in deferred revenue. Tuition and fees of \$85,664 and \$46,133 were included in deferred revenue at June 30, 2021 and 2020.

Auxiliary Enterprises

Auxiliary services exist to furnish goods or services to students, faculty, and staff and charges a fee directly related to, although not necessarily equal to, the cost of the goods or services.

Auxiliary services revenue includes revenues from contracts with customers to provide student housing and dining facilities.

Performance obligations for housing and dining services are delivered over the academic terms. Consequently, revenue from housing and dining services is recognized ratably as services are rendered.

Auxiliary enterprises consist of activities distinct from the primary purpose of education. These activities include food services and housing with revenues and expenditures determined as follows:

Dormitory and Cafeteria Revenues – Monies received from students have been apportioned to room and board based upon the Seminary's quoted fees in the student catalogue.

As a result of COVID-19, the Seminary campus was closed beginning in mid-March 2020 and instruction was moved to online only until Fall 2021. As a result, dormitory and cafeteria revenues of \$33,810 and \$397,222 were refunded during the years ended June 30, 2021 and 2020, respectively.

Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. An allowance for uncollectible contributions receivable is provided based upon management's judgment, including such factors as prior collection history, type of contribution, and nature of the fundraising activity.

Deferred Revenue

Deferred revenue relates to tuition, deposits and other payments for the upcoming summer semester received prior to fiscal year end as well as, for the year ended June 30, 2020, proceeds in the amount of \$716,600 from the Seminary's Paycheck Protection Program (PPP) loan from the Small Business Administration under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). This program was designed to help small businesses, with less than 500 employees, with funds to cover compensation costs and other qualifying expenses (mortgage interest, rent and utilities). Under the program terms, PPP loans are forgiven and recognized as grant revenue if the loan proceeds have been used as outlined in the guidelines. Qualifying expenses were incurred and official loan forgiveness was received during the year

The Philadelphia Theological Seminary of St. Charles Borromeo

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

ended June 30, 2021, thus the Seminary recognized the PPP loan proceeds as grant revenue within government grants in the accompanying statement of activities for the year ended June 30, 2021.

Contributed Services

The salaries of priests and members of religious groups assigned to the Seminary are nominal in relation to the services rendered. The difference between the fair value of these services, as determined from the Fact Book on Theological Education, published by the Association of Theological Schools, and the actual compensation paid and other benefits provided by the Seminary, are recorded as contributed services and the related functional expenses in the statements of activities.

Allowance for Doubtful Accounts

The allowance for doubtful accounts for student receivables is provided based upon management's judgment, including such factors as prior collection history and the type of receivable. The Seminary writes off receivables when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts. At both June 30, 2021 and 2020, the Seminary recorded an allowance for doubtful accounts of \$20,000.

Estimates by Management

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. The most significant management estimates and assumptions relate to the determination of valuation of investments without a readily determinable market value; useful lives of fixed assets; actuarial estimates for the charitable gift annuities payable; the reported fair values of certain of the Seminary's assets and liabilities; and the functional allocation of expenses. Actual results could differ from those estimates.

Concentrations of Credit Risk

The Seminary's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents and investments. These funds are held in various high-quality financial institutions managed by Seminary personnel and outside advisors. The Seminary maintains its cash and cash equivalents in financial institutions that typically significantly exceed federally insured limits. The Seminary believes that the concentrations of credit risk are reasonable for its cash and cash equivalents and investments.

Tax-Exempt Status

Under provisions of Internal Revenue Code Section 501(c)(3) and the applicable income tax regulations of Pennsylvania, the Seminary is exempt from taxes on income other than unrelated business income.

The Seminary recognizes or derecognizes a tax position based on a "more-likely-than-not" threshold. This applies to positions taken or expected to be taken in a tax return. The Seminary does not believe its financial statements include any material uncertain tax positions.

The Philadelphia Theological Seminary of St. Charles Borromeo

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases*, which requires that most leased assets be recognized on the balance sheet as assets and liabilities for the rights and obligations created by these leases. ASU 2016-02, as amended, is effective for fiscal years beginning after December 15, 2021. The Seminary has not yet determined the effect the adoption of this standard may have on the financial statements.

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.

NOTE C - INVESTMENTS

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

Investments held by SEI

Catholic Values Equity Fund - Invests in common stocks.

Catholic Values Fixed Income Fund - Invests in mutual funds, corporate obligations, United States Treasury obligations and municipal obligations.

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. The Finance and Budget Committee of the Philadelphia Theological Seminary of St. Charles Borromeo has primary responsibility for determining fixed income to equity mix. The asset mix of the mutual funds is SEI's responsibility.

Investments held by Haverford Trust

Investments held by Haverford Trust consist of certificates of deposit, corporate bonds and notes, fixed income and mutual funds, and money market funds.

The Philadelphia Theological Seminary of St. Charles Borromeo

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

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

	2021	2020
Certificates of deposit	\$ 1,000,000	\$ 2,000,000
Corporate bonds and notes	998,802	999,753
Money market funds	551,256	17,287,736
Fixed income funds	6,992,399	-
Mutual funds	10,773,310	-
Catholic values equity fund	17,217,700	13,224,999
Catholic values fixed income fund	7,379,015	5,941,667
	\$ 44,912,482	\$ 39,454,155
Total investments		

NOTE D - FAIR VALUE MEASUREMENTS

FASB Accounting Standards Codification (“ASC”) 820, *Fair Value Measurements*, 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 the Seminary 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 investments could result in a different fair value measurement at the reporting date.

The Philadelphia Theological Seminary of St. Charles Borromeo

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

The following table presents the fair values of the assets held by the Seminary 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 Unobservable Inputs (Level 3)	Total Fair Value
Assets				
Investments in SEI funds	\$ 24,596,715	\$ -	\$ -	\$ 24,596,715
Certificates of deposit	1,000,000	-	-	1,000,000
Corporate bonds and notes	998,802	-	-	998,802
Money market funds	551,256	-	-	551,256
Fixed income funds	6,992,399	-	-	6,992,399
Mutual funds	10,773,310	-	-	10,773,310
Beneficial interest in perpetual trusts	-	-	1,859,979	1,859,979
Beneficial interest in foundation	-	-	1,590,361	1,590,361
Total	\$ 44,912,482	\$ -	\$ 3,450,340	\$ 48,362,822

The table below sets forth a summary of changes in the fair value of the Seminary's Level 3 assets for the year ended June 30, 2021:

	Beneficial Interest in Perpetual Trusts	Beneficial Interest in Foundation
Balance at June 30, 2020	\$ 1,643,672	\$ 407,060
Change in fair value of assets	452,167	138,596
Contributions	-	1,061,200
Distributions	(235,860)	(16,495)
Balance at June 30, 2021	\$ 1,859,979	\$ 1,590,361

The Philadelphia Theological Seminary of St. Charles Borromeo

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

The following table presents the fair values of the assets held by the Seminary 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 Unobservable Inputs (Level 3)	Total Fair Value
Assets				
Investments in SEI funds	\$ 19,166,666	\$ -	\$ -	\$ 19,166,666
Certificates of deposit	2,000,000	-	-	2,000,000
Corporate bonds and notes	999,753	-	-	999,753
Money market funds	17,287,736	-	-	17,287,736
Beneficial interest in perpetual trusts	-	-	1,643,672	1,643,672
Beneficial interest in foundation	-	-	407,060	407,060
Total	\$ 39,454,155	\$ -	\$ 2,050,732	\$ 41,504,887

The table below sets forth a summary of changes in the fair value of the Seminary's Level 3 assets for the year ended June 30, 2020:

	Beneficial Interest in Perpetual Trusts	Beneficial Interest in Foundation
Balance at June 30, 2019	\$ 1,722,765	\$ 396,351
Change in fair value of assets	(63,987)	26,667
Distributions	(15,106)	(15,958)
Balance at June 30, 2020	<u>\$ 1,643,672</u>	<u>\$ 407,060</u>

NOTE E - STUDENT & AUXILIARY REVENUES

Net revenues received from students consist of the following for the years ended June 30:

	2021	2020
College and Theologate	\$ 3,010,071	\$ 2,990,595
Graduate School of Theology	320,213	333,918
Net tuition and fees	<u>\$ 3,330,284</u>	<u>\$ 3,324,513</u>

The Philadelphia Theological Seminary of St. Charles Borromeo

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

A discount to tuition and fees results when the Seminary reduces the obligation of a student by granting financial aid. The following details the gross and net amounts of tuition and fees at June 30:

	2021	2020
Tuition and fees	\$ 3,932,213	\$ 3,917,196
Less: direct grants and allowance	(601,929)	(592,683)
Tuition and fees, net	\$ 3,330,284	\$ 3,324,513

Auxiliary enterprises revenue includes revenues from contracts with customers to provide student housing and dining facilities and the following details the disaggregated components of auxiliary services revenues at June 30:

	2021	2020
Cafeteria	\$ 1,271,821	\$ 1,082,429
Dormitory	613,018	528,074
Auxiliary enterprises	\$ 1,884,849	\$ 1,610,503

NOTE F - PROPERTY AND EQUIPMENT

The following summarizes property and equipment at June 30:

	2021	2020
Building and leasehold improvements	\$ 365,940	\$ 365,940
Equipment	716,537	509,751
Construction in progress	137,709	-
	1,220,186	875,691
Accumulated depreciation	(618,963)	(505,339)
Property and equipment, net	\$ 601,223	\$ 370,352

Depreciation expense of \$113,624 and \$110,032 has been recorded for the years ended June 30, 2021 and 2020, respectively.

NOTE G - NOTE PAYABLE

Effective October 2005, the Seminary entered into a loan agreement with the Archdiocese of Philadelphia Deposit and Loan Program Trust to borrow \$3,000,000 for the purpose of financing the re-construction of the Ryan Memorial Library. The note payable resulting from this agreement carried a fixed interest rate of 4.5% per annum. In March 2009, the loan agreement with the Archdiocese of Philadelphia Deposit and Loan Program Trust was amended. The amended loan agreement changed the term of the loan to 15 years with quarterly payments of \$20,000 for the first five years, with a variable interest rate ranging from 4% to 8%. At year six, the quarterly payments were increased to \$62,917.

The Philadelphia Theological Seminary of St. Charles Borromeo

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

In May 2018, the outstanding principal of \$1,509,985 was sold to the Priests' Retirement Benefits Funding Trust with a 5% interest rate and a maturity date of March 31, 2024 and payments to be made quarterly starting June 2018. At June 30, 2020, the outstanding balance was \$995,751. On April 30, 2021, the Seminary paid down its remaining obligation on the note payable.

NOTE H - CAPITAL LEASES

The following is a schedule by years of minimum future rentals on non-cancelable capital leases as of June 30, 2021:

2022	\$	46,635
2023		45,620
2024		<u>19,062</u>
Total minimum payments required		111,317
Less: amount representing interest		<u>(10,172)</u>
Total		<u><u>\$ 101,145</u></u>

NOTE I - NET ASSETS

Net assets with donor restrictions as to purpose or time are available for the following at June 30:

	<u>2021</u>	<u>2020</u>
Student scholarships and student grants	\$ 4,409,352	\$ 3,560,876
Other related donor-restricted projects	997,047	411,271
Beneficial interest in Foundation	<u>1,590,361</u>	<u>407,060</u>
	<u><u>\$ 6,996,760</u></u>	<u><u>\$ 4,379,207</u></u>

Net assets with donor restrictions that they be held in perpetuity at June 30 are restricted as follows:

	<u>2021</u>	<u>2020</u>
Endowment funds to be held in perpetuity, primarily to support student scholarships	\$ 20,653,493	\$ 16,081,194
Beneficial interests in third-party trusts	<u>1,859,979</u>	<u>1,643,672</u>
	<u><u>\$ 22,513,472</u></u>	<u><u>\$ 17,724,866</u></u>

The Philadelphia Theological Seminary of St. Charles Borromeo

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

NOTE J - NET ASSETS RELEASED FROM DONOR RESTRICTIONS

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

	2021	2020
Purpose restrictions accomplished		
Catholic Life 2000	\$ 272,510	\$ 271,327
Scholarship fund	388,286	356,254
Estates and trusts	30,717	31,065
Krol Chair	102,931	101,201
Expenses related to other projects	135,464	189,875
	<u>\$ 929,908</u>	<u>\$ 949,722</u>

NOTE K - ENDOWMENTS

The Seminary holds approximately 12 individual donor-restricted endowments. The Seminary'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, the Seminary 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 Seminary to release a percentage, which is elected annually, of the market value of its endowment funds into income without donor restrictions. The spending rate percentage, between 2% and 7%, is applied to the three-year average of the market value of the endowment funds' assets.

Return Objectives and Risk Parameters

The Seminary has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period. Under this policy, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of 3% over the consumer price index while assuming a moderate level of investment risk. The Seminary 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

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 the Seminary to adopt a spending policy for endowment earnings, subject to certain limitations. The Seminary follows the total return concept of endowment investment and spending. Under this concept, a prudent amount of appreciation earned on the investments

The Philadelphia Theological Seminary of St. Charles Borromeo

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

may be spent in the event that the interest and dividends earned are insufficient to meet that period's spending rate. The Seminary's spending policy for the years ended June 30, 2021 and 2020 allowed for a 5% draw of the three-year average market value of the donor-restricted endowments, estates and trusts.

The Seminary had the following endowment activities during the years ended June 30, delineated by net asset class. All endowment activities were donor restricted:

<u>2021</u>	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets at June 30, 2020	\$ -	\$ 16,081,194	\$ 16,081,194
Contributions	-	226,639	226,639
Investment return			
Net investment income	-	210,793	210,793
Net appreciation (realized and unrealized)	-	4,868,300	4,868,300
Total investment return	-	5,079,093	5,079,093
Appropriation of endowment assets for expenditure	-	(733,432)	(733,432)
Endowment net assets at June 30, 2021	<u>\$ -</u>	<u>\$ 20,653,494</u>	<u>\$ 20,653,494</u>
	Without Donor Restriction	With Donor Restriction	Total
<u>2020</u>			
Endowment net assets at June 30, 2019	\$ -	\$ 16,474,551	\$ 16,474,551
Investment return			
Net investment income	-	267,720	267,720
Net appreciation (realized and unrealized)	-	67,462	67,462
Total investment return	-	335,182	335,182
Appropriation of endowment assets for expenditure	-	(728,539)	(728,539)
Endowment net assets at June 30, 2020	<u>\$ -</u>	<u>\$ 16,081,194</u>	<u>\$ 16,081,194</u>

NOTE L - EXPENSES BY BOTH NATURE AND FUNCTION

Program expenses consist of instruction, academic support and student services. Supporting expenses consist of supporting compensation, operations and maintenance, fixed charges and miscellaneous costs. While certain natural classifications of supporting expenses could be attributable to one or more program or supporting functions of the Seminary including depreciation and facilities repairs and maintenance (net of salaries and benefits), these costs are not allocated to the respective programs.

The Philadelphia Theological Seminary of St. Charles Borromeo

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

Functional expenses by natural classification as of June 30, 2021 and 2020:

	Program Services			Management and General			Total Expenses
	Instruction	Academic Support	Student Services	Operations and Maintenance	Institutional Support	Auxiliary Enterprises	
Salaries and benefits	\$ 1,214,556	\$ 1,452,143	\$ 550,492	\$ 92,051	\$ 1,223,929	\$ -	\$ 4,533,171
Professional services	28,420	21,354	70,807	1,180,501	2,252,024	765,030	4,318,136
Depreciation	-	-	-	113,624	-	-	113,624
Other	146,611	208,949	216,676	12,015	515,163	-	1,099,414
Repairs, maintenance and utilities	16,472	53,194	4,705	664,706	77,292	-	816,369
Total	\$ 1,406,059	\$ 1,735,640	\$ 842,680	\$ 2,062,897	\$ 4,068,408	\$ 765,030	\$ 10,880,714

	Program Services			Management and General			Total Expenses
	Instruction	Academic Support	Student Services	Operations and Maintenance	Institutional Support	Auxiliary Enterprises	
Salaries and benefits	\$ 1,372,195	\$ 1,403,601	\$ 534,421	\$ 114,034	\$ 1,235,533	\$ -	\$ 4,659,784
Professional services	113,810	52,756	81,396	1,138,199	2,199,488	766,494	4,352,143
Depreciation	-	-	-	110,032	-	-	110,032
Other	51,533	244,302	168,302	17,094	406,030	392	887,653
Repairs, maintenance and utilities	24,010	55,449	5,045	716,157	83,383	-	884,044
Total	\$ 1,561,548	\$ 1,756,108	\$ 789,164	\$ 2,095,516	\$ 3,924,434	\$ 766,886	\$ 10,893,656

NOTE M - RELATED PARTIES

The Seminary has agreements with several entities of the Archdiocese of Philadelphia for use of the Seminary's facilities. These arrangements are with the Vocations Office and Archbishop. The Seminary recorded revenue of \$69,987 for both of the years ended June 30, 2021 and 2020 for monies received.

The Seminary remits payments for all insurance, except lay medical insurance, to the Archdiocese of Philadelphia, Office for Financial Services, which purchases insurance coverage for all Archdiocesan entities. Total expenses were \$600,372 and \$617,604 for the years ended June 30, 2021 and 2020, respectively.

The Archdiocese of Philadelphia will reimburse diocesan priests who remain in good standing, incardinated in the Archdiocese of Philadelphia, under the Archdiocese of Philadelphia's Priest Student Loan Policy, for the full cost of student loans they may have taken for their education while attending the Seminary. Shortly after ordination, each newly ordained priest will receive from the Office of Clergy a petition by which he can request repayment by the Archdiocese of Philadelphia of student loans he may have taken for his education while attending the Seminary.

Under the Archdiocese of Philadelphia's Priest Student Loan Policy, priests are reimbursed for payments made toward student debt that was incurred for their studies at the 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 of Philadelphia. The Archdiocese of Philadelphia assumes no liability related to the outstanding balances on these loans until payment is made by the priests. Upon payment, the Archdiocese of Philadelphia assumes the liability. The reimbursement cost is split evenly between the Archdiocese of Philadelphia and the 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 Priest Student Loan balance outstanding totaled \$621,310 and \$679,244, respectively.

The Philadelphia Theological Seminary of St. Charles Borromeo

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

The Seminary's accounts payable and accrued expenses include one-half of the Priest Student Loan balance at June 30, 2021 and 2020.

On July 17, 2019, the Board of Trustees approved a one-year, unsecured bridge loan of \$7,500,000 to the Archdiocese of Philadelphia. The loan was made in two advances (\$6,250,000 on July 19, 2019 and \$1,250,000 on October 4, 2019). The loan bears an annual interest rate of 4.25% calculated by the number of days elapsed that principal is outstanding based upon a 360-day year. Principal and interest is due at the earlier of one year from the date of borrowing or the receipt of proceeds from the phase one closing of a Master Development Agreement entered into by the Archdiocese of Philadelphia. On June 30, 2021, an amendment approved by the Board of Trustees was signed extending the maturity date to December 31, 2021. The loan balance and all accrued interest totaling \$7,925,295 was paid off on November 24, 2020.

On November 22, 2019, in accordance with the plan established to fund the Independent Reconciliation and Reparations Program ("IRRP"), the Seminary approved a \$10,000,000 risk-mitigation payment to the Archdiocese of Philadelphia. The actual payment was made on December 5, 2019. This transaction is reported as Loss on IRRP Risk Mitigation Payment in the statement of activities for the year ended June 30, 2020.

On June 1, 2021, the Seminary received a contribution in the amount of \$750,000 from the Heritage of Faith ~ Vision of Hope restricted for the purpose of paying a required deposit under the purchase agreement with Gwynedd Mercy University (see Note A). The Seminary paid the deposit during the year ended June 30, 2021 and released this related party contribution from restrictions within the accompanying statement of activities.

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

Through June 30, 2014, the eligible lay employees of the Seminary 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. The Plan is administered by the Trustees of the Plan. The Seminary made annual contributions to the Plan at a rate of 5.9% of the salaries of eligible employees for each of the years ended June 30, 2021 and 2020. The amount expensed by the Seminary for contributions to the Plan was \$109,952 and \$105,673 for the years ended June 30, 2021 and 2020, respectively. Separate accounts for vested benefits and pension fund assets are not maintained for each institution.

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 Plan as of its freeze date of June 30, 2014 is a grandfathered employee and will be eligible to receive employer contributions beginning with the first payroll on or after September 1, 2014.

The Philadelphia Theological Seminary of St. Charles Borromeo

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

Non-Grandfathered Employees - Non-grandfathered employees are eligible to receive the employer contribution beginning with the first payroll coinciding with or immediately following the completion of 1,000 hours of service during the 18-month period beginning July 1, 2014 through December 31, 2015. The employee must also have attained at least 18 years of age to be eligible. For a non-grandfathered employee hired prior to July 1, 2014 who does not meet the eligibility requirements for an employer contribution in the time frame described above, the period for determining whether or not one meets the 1,000-hour service requirement will shift to the calendar year beginning January 1, 2016.

Vesting - Vesting in employer contributions to a 403(b) plan account will be immediate for any grandfathered employee who has 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.

The contributions by the Seminary into the 403(b) plan totaled \$89,147 and \$83,168 for the years ended June 30, 2021 and 2020, respectively.

Archdiocese of Philadelphia Priests' Pension Plan

In addition, the priests of the Seminary are covered under the Archdiocese of Philadelphia Priests' Pension Plan (the "Priest Plan"), which is a defined benefit pension plan that covers substantially all priests, once age requirements are met, of the Archdiocese of Philadelphia, its institutions and parishes. The contributions of the Seminary were \$32,500 and \$37,500 for the years ended June 30, 2021 and 2020, respectively. Separate accounts for vested benefits and pension fund assets are not maintained for each institution.

NOTE N - OTHER INCOME

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

	2021	2020
Fees for service	\$ 20,467	\$ 20,888
Third-party trust income	253,858	128,345
Institutional assistance grant	4,126	7,582
Miscellaneous income	28,537	57,060
Rental of facilities	90,795	98,526
Permanent diaconate income	78,195	32,365
Rector's/Archdiocesan discretionary fund	114,000	124,000
Vocations office grant income	-	16,720
Vocations office income	242,357	242,054
	<u>\$ 832,335</u>	<u>\$ 727,540</u>

NOTE O - COMMITMENTS AND CONTINGENCIES

The Seminary may be involved in legal proceedings arising out of and incidental to its operations. In management's opinion, the ultimate liability which may arise from other legal proceedings are not deemed probable and would not have a material adverse effect on the financial statements of the Seminary.

The Philadelphia Theological Seminary of St. Charles Borromeo

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

NOTE P - LIQUIDITY AND FUNDS AVAILABLE

The following table reflects the Seminary's 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, perpetual endowments and accumulated earnings net of appropriations within one year, or because the governing board has set aside the funds for specific contingency reserve or a long-term investment as board-designated endowments. These board designations could be drawn upon if the board approves that action.

	2021	2020
Financial assets:		
Cash and cash equivalents	\$ 25,481,742	\$ 13,284,049
Accounts and other receivable, net of allowance for doubtful accounts	269,849	504,776
Note receivable including accrued interest	-	7,796,024
Investments	44,912,482	39,454,155
Beneficial interest in perpetual trusts and Foundation	3,450,340	2,050,732
Financial assets at year end	74,114,413	63,089,736
Less those unavailable for general expenditure within one year, due to:		
Restricted by the board of trustees for construction of new Seminary	(29,098,463)	(27,588,543)
Investments and perpetual trusts held by others and not convertible to cash within next 12 months	(27,972,446)	(21,217,398)
Financial assets available to meet cash needs for general expenditures within one year	\$ 17,043,504	\$ 14,283,795

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus ("COVID-19") as a pandemic, which continues to spread throughout the United States. The spread of COVID-19 has caused significant volatility in U.S. and international markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its continued impact on the U.S. and international economies and, as such, the Seminary is unable to determine if it will have a material impact to its operations for the year ended June 30, 2022. The Seminary has been and continues to closely monitor the COVID-19 pandemic and its impact on the Seminary community. Though the full impact of COVID-19 and the scope of any impact on the Seminary's operations and financial condition cannot be determined, potential adverse consequences to the Seminary of COVID-19 may include a continued decline in enrollment, postponement or cancellation of public events, decline in demand for room and board, and a decrease in interest and investment income from the Seminary's investment assets.

NOTE Q - SUBSEQUENT EVENTS

The Seminary has evaluated subsequent events through November 30, 2021, the date on which the financial statements were available for distribution, noting no items requiring accrual or disclosure in the financial statements.

SUPPLEMENTARY INFORMATION

The Philadelphia Theological Seminary of St. Charles Borromeo

FINANCIAL RESPONSIBILITY SUPPLEMENTAL SCHEDULE

Year ended June 30, 2021

Primary Reserve Ratio

Expendable net assets

Net assets without donor restrictions	\$ 47,376,007
Net assets with donor restrictions	29,510,232
Less: net assets restricted in perpetuity (Note I)	(22,513,472)
Less: property and equipment, net	(601,223)
Total expendable net assets	<u>53,771,544</u>

Total expenses

Expenses and investment losses without donor restrictions	10,880,714
Less: losses on investments without donor restrictions	-
Total expenses	<u>10,880,714</u>

Primary Reserve Ratio

4.9419

Equity Ratio

Modified net assets	
Net assets without donor restrictions	\$ 47,376,007
Net assets with donor restrictions	<u>29,510,232</u>
Total modified net assets	<u>76,886,239</u>

Modified assets

Total assets	<u>78,322,698</u>
Total modified assets	<u>78,322,698</u>

Equity Ratio

0.9817

Net Income Ratio

Change in net assets without donor restrictions	\$ 5,270,970
Total revenue without donor restrictions (less: net assets released from restrictions)	15,218,268

Net Income Ratio

0.3464

	<u>Ratio</u>	<u>Strength</u>	<u>Weight</u>	<u>Composite</u>
Primary reserve	4.9419	3.0000	40%	1.2000
Equity	0.9817	3.0000	40%	1.2000
Net income	0.3464	3.0000	20%	0.6000

Financial Responsibility Composite Score (maximum of 3.0)

3.0