

Financial Statements and Report of
Independent Certified Public
Accountants

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

June 30, 2022 and 2021

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Archbishop of Philadelphia
Archdiocese of Philadelphia

Opinion

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, 2022 and 2021, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the OCE as of June 30, 2022 and 2021, 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.

Basis for opinion

We conducted our audits of the financial statements in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of OCE and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about OCE’s ability to continue as a going concern for one year after the date the financial statements are issued.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 OCE's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about OCE's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.



Philadelphia, Pennsylvania
December 5, 2022

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

STATEMENTS OF FINANCIAL POSITION

June 30,

	2022	2021
ASSETS		
Cash and cash equivalents, including amounts held by affiliate	\$ 4,624,623	\$ 4,272,635
Accounts receivable	49,058	11,085
Due from other Archdiocesan entities (Note I)	44,841	-
Other assets	-	50,764
Investments (Notes C and K)	10,897,782	13,153,176
Beneficial interest in perpetual trust (Note K)	29,484,733	33,568,339
Right-of-use assets (Note M)	34,099	54,679
	\$ 45,135,136	\$ 51,110,678
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 216,266	\$ 108,460
Accrued vacation	109,963	110,824
Accrued severance	7,404	194,870
Accrued salaries	111,162	99,591
Due to other Archdiocesan entities (Note I)	80,127	806,625
Lease liabilities (Note M)	34,099	54,679
Deferred revenue	2,674	2,225
	561,695	1,377,274
Net assets		
Without donor restrictions (Note E)	3,080,772	2,639,735
With donor restrictions (Notes F and G)	41,492,669	47,093,669
	44,573,441	49,733,404
	\$ 45,135,136	\$ 51,110,678

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

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

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended June 30, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues			
Subsidies			
Office of Catholic Education -			
Diocesan High Schools	\$ 4,190,458	\$ -	\$ 4,190,458
Schools of Special Education	215,000	-	215,000
Parishes	891,200	-	891,200
Contributions			
Ambassador's Fund for Catholic Education	-	220,948	220,948
Donations	4,733	1,440,656	1,445,389
Contributed services (Note J)	89,832	-	89,832
Gain on forgiveness of loan from related party (Note I)	789,778	-	789,778
Program revenues	299,020	-	299,020
Investment return, net	(258,982)	(1,736,972)	(1,995,954)
Change in beneficial interest in perpetual trust	-	(4,083,606)	(4,083,606)
Distribution from beneficial interest in perpetual trust	-	1,675,000	1,675,000
Other revenue	780	-	780
Net assets released from restrictions	3,117,026	(3,117,026)	-
	<u>9,338,845</u>	<u>(5,601,000)</u>	<u>3,737,845</u>
Expenses			
Salaries and benefits	4,900,834	-	4,900,834
Purchased services	985,498	-	985,498
Intradiocesan expenses	374,590	-	374,590
Support expenses	2,636,886	-	2,636,886
	<u>8,897,808</u>	<u>-</u>	<u>8,897,808</u>
	441,037	(5,601,000)	(5,159,963)
CHANGE IN NET ASSETS			
Net assets, beginning of year	<u>2,639,735</u>	<u>47,093,669</u>	<u>49,733,404</u>
Net assets, end of year	<u>\$ 3,080,772</u>	<u>\$ 41,492,669</u>	<u>\$ 44,573,441</u>

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

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

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended June 30, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
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 from 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)	-
	<u>9,664,521</u>	<u>7,093,553</u>	<u>16,758,074</u>
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
	<u>9,224,869</u>	<u>-</u>	<u>9,224,869</u>
	CHANGE IN NET ASSETS	7,093,553	7,533,205
Net assets, beginning of year	<u>2,200,083</u>	<u>40,000,116</u>	<u>42,200,199</u>
Net assets, end of year	<u>\$ 2,639,735</u>	<u>\$ 47,093,669</u>	<u>\$ 49,733,404</u>

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

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

STATEMENTS OF CASH FLOWS

Years ended June 30,

	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ (5,159,963)	\$ 7,533,205
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized losses (gains) on investments	3,488,638	(2,801,345)
Distribution from beneficial interest in perpetual trust	1,675,000	1,600,000
Change in fair value of beneficial interest in perpetual trust	2,408,606	(6,265,998)
Changes in operating assets and liabilities:		
Accounts receivable	(37,973)	25,059
Due from other Archdiocesan entities	(44,841)	1,397,568
Other assets	50,764	(49,489)
Right-of-use assets	20,580	(54,679)
Accounts payable	107,806	(192,821)
Accrued vacation	(861)	(10,262)
Accrued severance	(187,466)	181,720
Accrued salaries	11,571	3,079
Due to other Archdiocesan entities	(726,498)	53,846
Lease liabilities	(20,580)	54,679
Deferred revenue	449	2,225
	1,585,232	1,476,787
Cash flows from investing activities:		
Purchase of investments	(1,486,756)	(1,246,148)
Proceeds from sale of investments	253,512	1,132,684
	(1,233,244)	(113,464)
NET INCREASE IN CASH AND CASH EQUIVALENTS, INCLUDING AMOUNTS HELD BY AFFILIATE	351,988	1,363,323
Cash and cash equivalents, including amounts held by affiliate, beginning of year	4,272,635	2,909,312
Cash and cash equivalents, including amounts held by affiliate, end of year	\$ 4,624,623	\$ 4,272,635

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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

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, 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 and was terminated by agreement of the parties on June 30, 2022. Pursuant to the aforementioned agreement, FIF assumed strategic and operational management of the Catholic secondary schools and the Schools of Special Education and provided certain financial assistance to the schools. OCE has primary responsibility for, and FIF had oversight and approval responsibility over, school operations. The five senior management positions of OCE reported directly to FIF’s Chief Executive Officer. The Secretary for Elementary Education reports directly to the Auxiliary Bishop for Education.

With the termination of the management agreement, the Office of Catholic Education of the Archdiocese of Philadelphia manages the schools directly.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

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

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

Revenue Recognition

OCE recognizes and measures its revenues in accordance with Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. 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.

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.

Contributions including unconditional promises to give are recorded as revenue in the period when received. Unconditional promises to give are recorded at their fair value when OCE is notified of these gifts. 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. Gifts specified for the acquisition or construction of long-lived assets are reported as net assets without donor restrictions when the assets are placed in service.

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.

During the year ended June 30, 2022, the OCE adopted ASU 2020-07, *Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which increased the transparency of contributed nonfinancial assets through enhancements to presentation and disclosure.

OCE measured the value of contributed services performed by members of religious groups 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. Contributed services did not have donor-imposed restrictions.

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

June 30, 2022 and 2021

Use 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, 2022 and 2021, the fair value of the net assets of the trust was \$29,484,733 and \$33,568,339, 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 2022 and 2021, OCE recognized (\$4,083,606) and \$4,665,998, respectively, of donor-restricted (depreciation) appreciation related to this trust.

Leases

OCE recognizes and measures its leases in accordance with ASU 2016-02, *Leases*. OCE recognizes 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 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

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

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

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 mix. The asset mix of the mutual funds is SEI's responsibility.

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

	2022	2021
Catholic Values Equity Fund	\$ 7,567,088	\$ 9,301,045
Catholic Values Fixed Income Fund	3,330,694	3,852,131
Total investments	\$ 10,897,782	\$ 13,153,176

NOTE D - EMPLOYEE BENEFIT PLANS

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

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

OCE made annual contributions to the Plan at an average rate of 5.9% of the salaries of the eligible staff for the period from July 1, 2021 through June 30, 2022 and for the period August 14, 2020 through June 30, 2021 of \$363,845 and \$207,636, respectively. The expense of such contributions is included in employee benefits. Separate accounts for vested benefits and pension fund assets are not maintained for each institution.

Estimates of the actuarially determined present value of accumulated plan benefits at June 30 2021, totaled approximately \$599,400,000. At June 30, 2022 and 2021, the assets available to provide for these benefits totaled approximately \$479,943,000 and \$573,800,000, respectively.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

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 2022 and 2021, 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 \$152,307 and \$176,440 for the years ended June 30, 2022 and 2021, respectively.

NOTE E - NET ASSETS WITHOUT DONOR RESTRICTIONS

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

	2022	2021
Undesignated	\$ 1,632,629	\$ 928,292
Archdiocesan designations functioning as endowment		
Elementary division	1,311,974	1,575,274
Elementary needs	136,169	136,169
	\$ 3,080,772	\$ 2,639,735

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 2022 and 2021, there were no amounts spent from the designated funds.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

NOTE F - NET ASSETS WITH DONOR RESTRICTIONS

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

	2022	2021
Net assets subject to time or use donor-imposed restrictions:		
Tuition assistance and scholarships Programs	\$ 5,880,976 2,554,108	\$ 7,170,288 2,087,022
Accumulated earnings in excess of spending of endowments:		
Tuition assistance and scholarships Other	315,230 8,285	743,456 20,779
Total net assets subject to time or use donor-imposed restrictions	8,758,599	10,021,545
Funds held in perpetuity:		
Program/grants (beneficial interest in perpetual trust) Tuition assistance/scholarships Other	29,484,733 3,181,316 68,021	33,568,339 3,435,764 68,021
Total funds held in perpetuity	32,734,070	37,072,124
Total net assets with donor restrictions	\$ 41,492,669	\$ 47,093,669

During 2022 and 2021, net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose of \$3,117,026 and \$2,976,176, 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.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

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, 2022 and 2021 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, 2022, and 2021, \$3,249,337 and \$3,503,785, respectively, in donor-restricted endowment funds held in perpetuity were included within net assets with donor restrictions.

Changes in donor-restricted endowments for the year ended June 30, 2022 are as follows:

Endowment net assets, June 30, 2021	\$ 4,268,020
Investment income	483,010
Net realized and unrealized depreciation	(1,135,678)
Total investment return	(652,668)
Appropriation of endowment assets for expenditure	(42,500)
Endowment net assets, June 30, 2022	\$ 3,572,852

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	900,354
Total investment return	1,027,759
Appropriation of endowment assets for expenditure	(33,100)
Endowment net assets, June 30, 2021	\$ 4,268,020

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

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:

	2022	2021
Diocesan High Schools	\$ 44,841	\$ -
	<u>\$ 44,841</u>	<u>\$ -</u>

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

	2022	2021
Office of Child and Youth Protection	\$ 9,430	\$ 9,330
Propagation of the Faith	-	5
Diocesan High Schools	12,300	117
Office for Financial Services	58,397	797,173
	<u>\$ 80,127</u>	<u>\$ 806,625</u>

In 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. 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, accordingly, OCE recognized the gain on forgiveness of loan from related party in the June 30, 2022 statement of activities and changes in net assets.

OCE receives subsidies from the Diocesan High Schools. Subsidies totaled \$4,190,458 (\$4,145,617 for administration costs and \$44,841 for marketing expense) and \$4,618,106 (\$4,552,994 for administration costs and \$65,112 for marketing expense) for the years ended June 30, 2022 and 2021, respectively.

OCE charged the Schools of Special Education \$215,000 and \$105,000, respectively, for the years ended June 30, 2022 and 2021, for management services, which amounts are included in subsidies revenue.

OCE received donations of \$611,179 and \$612,155, respectively, for the years ended June 30, 2022 and 2021 from the Heritage of Faith ~ Vision of Hope for tuition assistance in the elementary schools.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

Cash and cash equivalents include \$82,995 and \$81,966 at June 30, 2022 and 2021, respectively, held in trust funds maintained by OFS. There are no conditions restricting the withdrawal of these funds.

NOTE J - CONTRIBUTED SERVICES

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

	<u>2022</u>	<u>2021</u>
Salaries and benefits - lay equivalent value of religious services Expended for religious services	\$ 260,946	\$ 338,746
Salaries, related employee benefits and faculty house expenses	<u>(171,114)</u>	<u>(202,111)</u>
	<u>\$ 89,832</u>	<u>\$ 136,635</u>

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.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

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>2022</u>	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets				
Investments:				
SEI mutual funds	\$ 10,897,782	\$ -	\$ -	\$ 10,897,782
Beneficial interest in perpetual trust	-	-	29,484,733	29,484,733
Total of assets at June 30, 2022	<u>\$ 10,897,782</u>	<u>\$ -</u>	<u>\$ 29,484,733</u>	<u>\$ 40,382,515</u>
 <u>2021</u>				
Assets				
Investments:				
SEI mutual funds	\$ 13,153,176	\$ -	\$ -	\$ 13,153,176
Beneficial interest in perpetual trust	-	-	33,568,339	33,568,339
Total of assets at June 30, 2021	<u>\$ 13,153,176</u>	<u>\$ -</u>	<u>\$ 33,568,339</u>	<u>\$ 46,721,515</u>

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

	<u>2022</u>	<u>2021</u>
Beginning balance	\$ 33,568,339	\$ 28,902,341
Change in fair value of assets	(2,408,606)	6,265,998
Distributions from perpetual trust	(1,675,000)	(1,600,000)
	<u>\$ 29,484,733</u>	<u>\$ 33,568,339</u>

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

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>2022</u>	<u>Administration</u>	<u>Scholarship and Tuition Assistance</u>	<u>Programs</u>	<u>Catholic Youth Organization</u>	<u>Total</u>
Salaries and benefits	\$ 4,900,834	\$ -	\$ -	\$ -	\$ 4,900,834
Purchased services	237,395	-	717,178	30,925	985,498
Intradiocesan expense	374,590	-	-	-	374,590
Support expenses	249,194	1,263,504	1,099,877	24,311	2,636,886
Total	<u>\$ 5,762,013</u>	<u>\$ 1,263,504</u>	<u>\$ 1,817,055</u>	<u>\$ 55,236</u>	<u>\$ 8,897,808</u>
<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>

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 2026. 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, 2022 is as follows:

Lease cost	\$ 27,629
Other information	
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows	\$ 27,629
Right-of-use assets obtained in exchange for new lease liabilities	\$ 15,779
Weighted-average remaining lease term (in years)	2.08
Weighted-average discount rate	4%

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June 30, 2022 and 2021

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

2023	\$	23,640
2024		5,344
2025		4,104
2026		<u>2,394</u>
Total minimum payments		35,482
Less present value discount		<u>(1,383)</u>
Total	\$	<u>34,099</u>

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, 2023 for a total of \$6,217,303 from the Diocesan High Schools, parishes, and the Schools of Special Education.

	2022	2021
Financial assets:		
Cash and cash equivalents, including amounts held by affiliate	\$ 4,624,623	\$ 4,272,635
Accounts receivable	49,058	11,085
Due from other Archdiocesan entities	44,841	-
Investments	10,897,782	13,153,176
Perpetual trusts held by others	<u>29,484,733</u>	<u>33,568,339</u>
Financial assets, at year-end	<u>45,101,037</u>	<u>51,005,235</u>
Donor-imposed restrictions:		
Perpetual trusts held by others	29,484,733	33,568,339
Endowment funds held in perpetuity	3,249,337	3,503,785
Tuition assistance and scholarship donor restrictions	6,196,206	7,913,744
Other donor imposed restrictions	2,562,393	2,107,801
Archdiocesan designations:		
Functioning endowment for OCE Elementary department	<u>1,448,143</u>	<u>1,711,443</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 2,160,225</u>	<u>\$ 2,200,123</u>

NOTE O - SUBSEQUENT EVENTS

OCE evaluated subsequent events through December 5, 2022, the date which the financial statements were available for distribution, noting no items requiring accrual or disclosure in the financial statements.