

Financial Statements and Report of
Independent Certified Public
Accountants

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

June 30, 2023 and 2022

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Archbishop of Philadelphia
Archdiocese of Philadelphia - Office for Financial Services

Opinion

We have audited the accompanying financial statements of the Archdiocese of Philadelphia - Office for Financial Services ("OFS"), which comprise the statements of financial position as of June 30, 2023 and 2022, 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 Archdiocese of Philadelphia - Office for Financial Services as of June 30, 2023 and 2022, 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 OFS 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 OFS 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 OFS's ability to continue as a going concern for one year after the date the financial statements are available to be 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 OFS'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 OFS'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.

Supplementary information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information contained in the combining statement of financial position and combining statement of activities and changes in net assets as of and for the year ended June 30, 2023 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 audit of the financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the

United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Grant Thornton LLP

Philadelphia, Pennsylvania
November 6, 2023

Archdiocese of Philadelphia - Office for Financial Services

STATEMENTS OF FINANCIAL POSITION

June 30,

	<u>2023</u>	<u>2022</u>
ASSETS		
Cash and cash equivalents	\$ 60,427,329	\$ 62,151,729
Due from Archdiocesan entities, net (Note C)		
Assessments and other amounts due, net	1,236,493	1,230,978
Loans receivable, net	7,843,849	9,378,896
Note receivable from related party, net	1,095,000	1,095,000
Interest receivable from related parties, net	987,589	973,213
Other related party receivables	764,686	1,265,538
Other accounts receivable	1,956,038	21,850
Prepaid expenses	2,546,310	3,026,629
Note receivable (Note B)	3,000,000	3,000,000
Investments (Note F)	66,827,909	53,383,431
Beneficial interest in supporting charitable trusts (Note B)	2,604,068	2,188,190
Right-of-use assets (Note D)	201,488	258,953
Real estate and physical plant held for sale (Note B)	25,159	-
Real estate and physical plant, net (Note B)	<u>14,572,679</u>	<u>15,918,546</u>
 Total assets	 <u><u>\$ 164,088,597</u></u>	 <u><u>\$ 153,892,953</u></u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 3,521,896	\$ 4,304,588
Accrued expenses and other payables (Note H)	23,731,300	22,548,711
Deferred revenue (Note B)	1,564,611	518,214
Deferred lease revenue (Note B)	11,251,949	9,541,802
Deposits - parishes, institutions and related organizations (Note N)	39,627,424	38,477,039
Lease liabilities (Note D)	201,488	258,953
Promissory note payable (Note J)	<u>891,367</u>	<u>1,603,510</u>
 Total liabilities	 <u>80,790,035</u>	 <u>77,252,817</u>
Net assets		
Without donor restrictions	50,176,293	45,016,720
With donor restrictions	<u>33,122,269</u>	<u>31,623,416</u>
 Total net assets	 <u>83,298,562</u>	 <u>76,640,136</u>
 Total liabilities and net assets	 <u><u>\$ 164,088,597</u></u>	 <u><u>\$ 153,892,953</u></u>

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

Archdiocese of Philadelphia - Office for Financial Services

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support			
Parish assessments	\$ 21,321,200	\$ -	\$ 21,321,200
Contributions from related parties (Note N)	2,828,793	-	2,828,793
Collections, bequests and donations	4,781,139	270,754	5,051,893
Tuition income	42,690	-	42,690
Investment return, net	2,593,850	3,086,734	5,680,584
Interest income	982,977	30,314	1,013,291
Fees for services	1,822,600	-	1,822,600
Intradiocesan income	1,934,130	-	1,934,130
Other income (Note P)	4,870,394	-	4,870,394
Premium income from Archdiocesan insurance programs	62,909,188	-	62,909,188
Net assets released from restrictions	<u>1,888,949</u>	<u>(1,888,949)</u>	<u>-</u>
 Total revenues, gains, losses and other support	 <u>105,975,910</u>	 <u>1,498,853</u>	 <u>107,474,763</u>
 Expenses			
Subsidies	934,803	-	934,803
Salaries and wages	10,326,410	-	10,326,410
Payroll taxes and fringe benefits	4,256,622	-	4,256,622
Purchased services	9,919,995	-	9,919,995
Intradiocesan expenses	61,642	-	61,642
Support expense	6,395,585	-	6,395,585
Interparochial assistance (Note N)	1,984,766	-	1,984,766
Depreciation expense	1,984,680	-	1,984,680
Interest expense (Note N)	565,942	-	565,942
Insurance program expenses	<u>64,355,192</u>	<u>-</u>	<u>64,355,192</u>
 Total expenses	 <u>100,785,637</u>	 <u>-</u>	 <u>100,785,637</u>
 Change in net assets before other items	 5,190,273	 1,498,853	 6,689,126
 Other items			
IRRP funding expense	<u>(30,700)</u>	<u>-</u>	<u>(30,700)</u>
 Total other Items	 <u>(30,700)</u>	 <u>-</u>	 <u>(30,700)</u>
 CHANGE IN NET ASSETS	 5,159,573	 1,498,853	 6,658,426
 Net assets			
Beginning of year	<u>45,016,720</u>	<u>31,623,416</u>	<u>76,640,136</u>
 End of year	 <u>\$ 50,176,293</u>	 <u>\$ 33,122,269</u>	 <u>\$ 83,298,562</u>

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

Archdiocese of Philadelphia - Office for Financial Services

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support			
Parish assessments	\$ 21,423,600	\$ -	\$ 21,423,600
Contributions from related parties (Note N)	468,640	-	468,640
Collections, bequests and donations	1,629,010	24,289	1,653,299
Tuition income	31,959	-	31,959
Investment return, net	(3,362,120)	(5,880,789)	(9,242,909)
Interest income	538,297	44,506	582,803
Fees for services	2,222,379	-	2,222,379
Inradiocesan income	2,670,446	-	2,670,446
Other income (Note P)	4,139,710	-	4,139,710
Net gain on sale of real estate	21,219,191	-	21,219,191
Premium income from Archdiocesan insurance programs	58,390,047	-	58,390,047
Net assets released from restrictions	1,592,387	(1,592,387)	-
	<u>110,963,546</u>	<u>(7,404,381)</u>	<u>103,559,165</u>
Expenses			
Subsidies	843,633	-	843,633
Salaries and wages	9,856,581	-	9,856,581
Payroll taxes and fringe benefits	4,254,243	-	4,254,243
Purchased services	10,174,579	-	10,174,579
Inradiocesan expenses (income)	(71,599)	-	(71,599)
Support expense	5,818,237	-	5,818,237
Interparochial assistance (Note N)	1,709,075	-	1,709,075
Depreciation expense	1,903,240	-	1,903,240
Interest expense (Note N)	569,653	-	569,653
Insurance program expenses	56,304,822	-	56,304,822
	<u>91,362,464</u>	<u>-</u>	<u>91,362,464</u>
Change in net assets before other items	19,601,082	(7,404,381)	12,196,701
Other items			
IRRP funding expense	(1,154,985)	-	(1,154,985)
Gain on PPP debt forgiveness	1,980,180	-	1,980,180
	<u>825,195</u>	<u>-</u>	<u>825,195</u>
CHANGE IN NET ASSETS	20,426,277	(7,404,381)	13,021,896
Net assets			
Beginning of year	<u>24,590,443</u>	<u>39,027,797</u>	<u>63,618,240</u>
End of year	<u>\$ 45,016,720</u>	<u>\$ 31,623,416</u>	<u>\$ 76,640,136</u>

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

Archdiocese of Philadelphia - Office for Financial Services

STATEMENTS OF CASH FLOWS

Years ended June 30,

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Change in net assets	\$ 6,658,426	\$ 13,021,896
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Net gain on sale of real estate	-	(21,219,191)
Depreciation expense	1,984,680	1,903,240
Bad debt recovery	(1,217,593)	(936,401)
Net unrealized (appreciation) depreciation on investments	(3,103,685)	14,982,472
Net realized gain on investments	(1,017,851)	(5,594,334)
Net (appreciation) depreciation in beneficial interest in supporting charitable trusts	(415,878)	551,999
Gain on PPP debt forgiveness	-	(1,980,180)
Changes in assets and liabilities:		
Due from Archdiocesan entities	1,025,793	712,630
Note receivable	-	13,300
Other accounts receivable	(1,934,188)	412,591
Prepaid expenses	480,319	(784,735)
Real estate and physical plant held for sale	(25,159)	-
Right-of-use assets	57,465	-
Accounts payable	(782,692)	(407,754)
Accrued expenses and other payables	1,182,589	(3,995,247)
Deferred revenue	1,046,397	(767,582)
Deferred lease revenue	1,710,147	(289,853)
Lease liabilities	(57,465)	-
	<u>5,591,305</u>	<u>(4,377,149)</u>
Cash flows from investing activities:		
Capital expenditures	(638,815)	(709,391)
Proceeds from sale of real estate and physical plant	-	23,189,565
Purchase of investments	(14,667,271)	(9,447,708)
Proceeds from sale of investments	5,344,330	6,850,010
Repayment of loans receivable	2,207,809	1,464,003
	<u>(7,753,947)</u>	<u>21,346,479</u>
Cash flows from financing activities:		
Repayment of promissory note (Note J)	(712,143)	(1,486,283)
Change in deposits - parishes, institutions and related organizations	1,150,385	(1,087,995)
	<u>438,242</u>	<u>(2,574,278)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,724,400)	14,395,052
Cash and cash equivalents		
Beginning of year	<u>62,151,729</u>	<u>47,756,677</u>
End of year	<u>\$ 60,427,329</u>	<u>\$ 62,151,729</u>

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

Archdiocese of Philadelphia - Office for Financial Services

NOTES TO FINANCIAL STATEMENTS

June 30, 2023 and 2022

NOTE A - ORGANIZATION

The Archdiocese of Philadelphia (the "Archdiocese") was proclaimed a Catholic diocese in 1808 and raised to an Archdiocese in 1875. The Archdiocese oversees the activities of the Roman Catholic Church (the "Church") for the five counties of Philadelphia, Bucks, Chester, Delaware and Montgomery in the southeastern part of the Commonwealth of Pennsylvania and is operated in accordance with the provisions of the 1983 Code of Canon Law, as amended, of the Church. The Archdiocese of Philadelphia - Office for Financial Services ("OFS") provides programs and services to the parishes, schools and other related ecclesiastical entities in the territory of the Archdiocese. OFS is considered to be a component of the Archdiocese of Philadelphia and not a separate legal entity.

The accompanying financial statements include the following funds which operate under the auspices of OFS:

General Fund - Includes the accounts of separate ministry departments of the Archdiocese. The fund also includes all the OFS without donor and with donor-restricted resources available for support of the Archdiocesan operations including:

- Investments in real estate and physical plant;
- Support for the benefit of financially struggling parishes through the Interparochial Cooperation Commission ("IPCC"); and
- Support for retired priests residing in the Villa St. Joseph and Regina Coeli residences.

Custodian Fund - Includes funds received, via special collections, and held by the Archdiocese for the beneficiaries of those special collections. All collected funds received are remitted to the beneficiary or used solely to support the individual mandate of the specific special collection. OFS does not have variance power as it relates to these funds and as such records a related payable at the time of receipt.

Archdiocese of Philadelphia Risk Insurance Trust ("Risk Insurance Trust") - Represents the risk management program of the Archdiocese, including property, general liability, workers' compensation, disability and auto insurance policies for all participating Archdiocesan entities, as well as the management and administration of the program.

Archdiocese of Philadelphia Welfare Benefits Trust ("Welfare Benefits Trust") - Represents the medical benefits program of the Archdiocese, including health, prescription and vision insurance coverages for all participating Archdiocesan entities, as well as the management and administration of the program.

Archdiocese of Philadelphia Deposit and Loan Program Trust Fund ("Deposit and Loan Program Trust") - Represents a cooperative deposit and lending program established primarily for the benefit of the parishes and other Archdiocesan entities. This trust replaced the existing Trust and Loan Fund as of September 1, 2014, at which time the assets and liabilities of the Trust and Loan Fund were assigned to and assumed by the Deposit and Loan Program Trust. Effective February 17, 2017, the Trustees of the Deposit and Loan Program Trust instituted a moratorium on accepting deposits, opening new accounts and making new loans under the program. This moratorium remains in effect.

The accompanying financial statements do not include the assets, liabilities or activities of the approximate 200 parishes and 100 parochial schools located in the territory of the Archdiocese, except for parish deposits maintained in the Deposit and Loan Program Trust and other receivables set forth in the accompanying financial statements. The parishes and schools are separate canonical operating entities distinct from the offices and funds included herein. The parishes and schools maintain separate accounts and their respective assets in their own names, and carry out their own programs. Other ecclesiastical

Archdiocese of Philadelphia - Office for Financial Services

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

entities and organizations, which are related to, but operated separately and distinctly from OFS, are also not included in the accompanying financial statements.

The excluded financial reporting entities include, but are not limited to, the following:

- Archdiocese of Philadelphia Office of Catholic Education (“OCE”), which includes:
 - Archdiocesan High Schools;
 - Administration Account; and
 - Schools of Special Education;
- The Philadelphia Theological Seminary of St. Charles Borromeo (a Pennsylvania nonprofit corporation, a.k.a. St. Charles Borromeo Seminary);
- Catholic Housing and Community Services (“CHCS”) of the Archdiocese of Philadelphia (a Pennsylvania nonprofit corporation).
- Catholic Social Services (a Pennsylvania nonprofit corporation; incorporated as Catholic Charities of the Archdiocese of Philadelphia) and affiliated nonprofit organizations;
- Nutritional Development Services (a Pennsylvania nonprofit corporation; incorporated as Nutritional Development Services of the Archdiocese of Philadelphia);
- Archdiocese of Philadelphia Catholic Charities Appeal Fund (a Pennsylvania nonprofit corporation, incorporated as Catholic Charities Appeal of the Archdiocese of Philadelphia);
- Heritage of Faith - Vision of Hope (a Pennsylvania nonprofit corporation; “HOF~VOH”);
- The Archdiocese of Philadelphia - Office of Catholic Cemeteries (“Cemeteries Office”);
- The Archdiocese of Philadelphia - Philadelphia Catholic Cemeteries, LLC;
- Archdiocese of Philadelphia Cemetery Permanent Lot Care Fund Irrevocable Trust; and
- Archdiocese of Philadelphia Independent Reconciliation and Reparation Program Trust (“IRRP”).

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Recently Adopted Accounting Pronouncements

Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 842, *Leases*, was issued in February 2016, to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing transactions.

This ASU is required for financial statements with fiscal years beginning after December 15, 2021. OFS adopted this ASU retrospectively effective July 1, 2021. This resulted in a restatement of the June 30, 2022 balance sheet as described in Note E.

OFS recognizes a lease liability and a lease 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.

Archdiocese of Philadelphia - Office for Financial Services

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

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 OFS uses its incremental borrowing rate. The implicit rates of OFS leases are not readily determinable and accordingly, the incremental borrowing rate was based on information available at the commencement date for all leases. OFS' 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 right-of-use (ROU) asset is subsequently measured throughout the lease term at the amount of the measured lease liability (i.e., present value of the remaining lease payments), plus the unamortized initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received, and any impairment recognized. The lease cost for lease payments is recognized on a straight-line basis over the lease term.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Classes of Net Assets

Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Net assets without donor restrictions - Net assets available for general use and not subject to donor restrictions. Net assets without donor restrictions include the investment in real estate and physical plant, less accumulated depreciation. From time-to-time management may designate a portion of these net assets without donor restrictions for a specific purpose.

Net assets with donor restrictions - Net assets including gifts, pledges, trusts, remainder interests, income and appreciation, subject to donor-imposed restrictions. Such restrictions include purpose restrictions where donors have specified the purpose for which the net assets are to be spent, and/or time restrictions imposed by donors or implied by the nature of the gift. Some net assets with donor restrictions include a stipulation that requires the corpus be invested in perpetuity and only the income be made available from operations in accordance with donor restrictions.

See Notes Q and S for more information on net assets released from restrictions and the composition of net assets with and without donor restrictions, respectively.

Cash and Cash Equivalents

OFS considers all highly liquid investments with an original maturity of three months or less, and which are not held as components of its respective investment portfolio, to be cash equivalents.

Due from/to Archdiocesan Entities

Assessments and Other Amounts Due:

The balance includes outstanding amounts due from Archdiocesan entities (parishes and other related ecclesiastical entities) related to:

- Parish Assessments: An assessment is levied on parishes to fund the work of the Archbishop and the operations and support functions of the pastoral center; and maintain the apostolic ministries and programs shared by the whole local Church;

Archdiocese of Philadelphia - Office for Financial Services

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

- Risk Insurance: Risk insurance billings for property, general liability, workers' compensation, auto, and disability insurance coverage provided to parishes and other Archdiocesan entities by the Risk Insurance Trust; and
- Medical Benefits: Billings for health, prescription and vision provided to parishes and other Archdiocesan entities by the Welfare Benefits Trust.

Loans Receivable:

The Deposit and Loan Program Trust maintains the balance remaining on loans that existed prior to the issuance of the moratorium. Loans are due in varying amounts over terms not more than 25 years. The loans to parishes bear interest using the simple interest rate method on principal amounts outstanding. Except in arrangements which have been specifically negotiated, at both June 30, 2023 and 2022, the interest rate on outstanding loans is 4.50%.

Note Receivable from Related Party:

The note receivable balance is comprised of a note that is due from St. John Neumann Place, L.P. ("SJNPLP"), a subsidiary of CHCS. The note due from SJNPLP represents a second mortgage due to OFS for property acquired by SJNPLP, used to create affordable housing which qualifies for federal low-income housing tax credits. The 30-year mortgage bears interest at 6.25% compounded annually through December 2036.

Interest Receivable from Related Parties:

The interest receivable balance consists of interest accrued on the note receivable due from SJNPLP, as well as loans receivable due from parishes as part of the Deposit and Loan Program Trust.

Other Related Party Receivables:

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

Note Receivable

On June 30, 2020, the Archdiocese granted a promissory note in the amount of \$3,000,000 to the Saint John Vianney Center ("SJVC"), an unaffiliated nonprofit corporation, payable over 12 years. SJVC will make interest only payments for the first seven years, at an interest rate of 5.32%. Upon the expiration of this initial term, SJVC will repay 60 monthly installments of interest and principal at a variable rate of the five-year U.S. Treasury Rate plus 350 basis points. At June 30, the note receivable consists of:

	<u>2023</u>	<u>2022</u>
St. John Vianney Center Note receivable	<u>\$ 3,000,000</u>	<u>\$ 3,000,000</u>
Note receivable	<u>\$ 3,000,000</u>	<u>\$ 3,000,000</u>

Allowance for Doubtful Accounts

The allowance for doubtful accounts is provided based upon management's judgments including such factors as prior collection history, economic condition of the counterparty and type of receivable. The amount of expected impairment is based on management's best estimate.

Archdiocese of Philadelphia - Office for Financial Services

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

Prepaid Expenses

Prepaid expenses consist primarily of amounts in the Risk Insurance Trust and Welfare Benefits Trust. The Risk Insurance Trust and Welfare Benefits Trust pay insurance premiums for coverage obtained on behalf of parishes and other Archdiocesan entities at the beginning of the respective policy periods. This cost is amortized over the respective policy period.

Investments

Investments are reported at fair value. Realized gains and losses are reported to the participating entities monthly. Gains and losses realized by the participating entities as a result of sales are recorded in their specific accounts. Realized and unrealized gains and losses are included in the statements of activities and changes in net assets as net income.

Investment allocation decisions are the responsibility of the Archdiocesan finance council. See Notes F and G.

Charitable Gift Annuities

The Archdiocese is responsible for processing the annuity payments for charitable gift annuities. These assets are included in the investments in the Catholic Values Funds described above at June 30, 2023 and 2022. Periodic annuity payments are made to the donor or their beneficiaries until death. Upon receipt of the assets, a liability is recorded at the present value of the estimated future payments to be distributed over the donor's and/or other beneficiaries' expected life, based on the Mortality Tables and discount rates set when the annuity agreement is established, which range between 3.08% and 6.17%. The liability at June 30, 2023 and 2022 was \$92,781 and \$229,539, respectively, and is classified in accrued expenses and other payables on the statements of financial position.

Beneficial Interest in Supporting Charitable Trusts

The Archdiocese is the sole beneficiary of the income of individual trusts established by Anthony P. Falcone, William P. Mulvihill and Marion Fort, all held in perpetuity by a third party. The supporting charitable trusts require the income to be paid to the Archdiocese. The beneficial interest in the supporting charitable trusts is recorded at the fair value of the assets. At June 30, the allocable fair value of the net assets of the trusts was as follows:

	<u>2023</u>	<u>2022</u>
Anthony P. Falcone	\$ 1,498,031	\$ 1,370,555
William P. Mulvihill	823,981	817,635
Marion Fort	<u>282,146</u>	<u>-</u>
	<u>\$ 2,604,068</u>	<u>\$ 2,188,190</u>

The underlying investments of the beneficial interest in the supporting charitable trusts consist of government obligations, corporate obligations, mutual funds and equity securities. OFS receives statements from each of the trustees, which detail the fair value of each investment in the supporting charitable trusts. Realized and unrealized gains and losses are included in the statements of activities and changes in net assets investment return.

Archdiocese of Philadelphia - Office for Financial Services

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

Real Estate and Physical Plant

Land, buildings, building improvements and equipment are capitalized at cost, or their fair market value if donated. Depreciation for fixed assets is computed on a straight-line basis over the estimated useful lives, which are as follows:

Buildings	30 years
Building improvements	15 - 20 years
Equipment	3 - 15 years

The legal title of real estate and improvements is generally held in the name of the Archbishop in trust for the exclusive benefit and charitable use of parishes or related ecclesiastical entities within the territory of the Archdiocese. The Archdiocese has legal title, but does not have any proprietary, equitable or beneficial interest in any such real property and improvements. Each parish or related ecclesiastical entity is a separate juridic person and is the owner and holder of the proprietary, beneficial and equitable interest in its personal and real property and related improvements which, in all events, is subject to the provisions of canon law. Accordingly, such real property and improvements and any other assets and associated liabilities of the parishes within the territory of the Archdiocese are not included in the accompanying financial statements.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the expected future cash flows from the use of the asset and its eventual disposition are less than the carrying amount of the asset, an impairment loss is recognized and measured using the asset's fair value. No impairment losses were recognized for the years ended June 30, 2023 and 2022.

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

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

	<u>2023</u>	<u>2022</u>
Land	\$ 1,111,405	\$ 1,121,157
Buildings	40,118,628	40,179,046
Building improvements	13,025,051	12,447,481
Equipment	<u>3,240,366</u>	<u>3,164,445</u>
	57,495,450	56,912,129
Accumulated depreciation	<u>(42,922,771)</u>	<u>(40,993,583)</u>
Real estate and physical plant, net	<u>\$ 14,572,679</u>	<u>\$ 15,918,546</u>

Depreciation expense of \$1,984,680 and \$1,903,240 was incurred for the years ended June 30, 2023 and 2022, respectively.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

Real Estate and Physical Plant Held for Sale

OFS had certain buildings which were being marketed for sale as of June 30, 2023. The carrying value of buildings held for sale previously classified under real estate and physical plant, net, consists of the following at June 30:

	<u>2023</u>	<u>2022</u>
Buildings	\$ 25,159	\$ -
Real estate and physical plant held for sale, net	<u>\$ 25,159</u>	<u>\$ -</u>

Sproul Road

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

Unit 1 of the Planned Community was an 89.19 acre portion of the Sproul Road Property. On September 4, 2020, the Archdiocese sold Unit 1 to Marple Glen Road Developers LLC for a purchase price of \$10,252,500.

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

Simultaneously with the closing of Unit 1, the Archdiocese entered into (i) a Purchase Agreement with O’Hara CU Developers LLC for the sale of the CU Parcel, and (ii) a Purchase Agreement with Sproul Road Developers LLC for the sale of the IU Parcel (the “Unit 2 Purchase Agreements”). The sales under the Unit 2 Purchase Agreements were scheduled to close by June 2024.

On July 22, 2021, Delaware County filed a “Declaration of Taking” in the Court of Common Pleas of Delaware County against Unit 2 (the 52.67 acre CU Parcel and 71.47 acre IU Parcel). The Declaration of Taking was an exercise of the County’s power of eminent domain to take title to private property for public purposes, specifically the establishment of a public park on the Sproul Road Property. In accordance with applicable law, Delaware County was required to pay the Archdiocese just compensation to acquire fee simple title to the Unit 2 property. Upon receipt of funds from County as just compensation for Unit 2, the Archdiocese realized the full amount of the agreed-upon purchase price under the Unit 2 Purchase Agreements. The Declaration of Taking process commenced by the County allowed the Archdiocese to receive compensation for Unit 2 almost two years in advance of the anticipated sale dates under the Unit 2 Purchase Agreements.

John W. Hallahan Catholic Girls High School

On March 16, 2022, the Archdiocese sold John W. Hallahan Catholic High School for Girls. As part of this transaction, \$6,133,393 was allocated to OFS and is included on the statement of activities and changes in net assets in net gain on sale of real estate.

Archdiocese of Philadelphia - Office for Financial Services

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

Self-Insurance Reserves

Risk Insurance Trust

The statements of financial position include liabilities with respect to self-insured general, property, workers' compensation and auto liability claims as of June 30, 2023 and 2022. These obligations represent an estimate of the expected ultimate cost for these claims, less amounts paid to date. The Risk Insurance Trust estimates the required reserves for such claims on a non-discounted basis utilizing an independent actuarial method that is based upon various assumptions which include, but are not limited to, historical loss experience and projected loss development factors.

The required liability is also subject to an annual adjustment in the future based upon the changes in claims experience, including changes in the number of incidents and changes in the ultimate cost per incident. Actual amounts ultimately paid could differ from these estimates. The self-insurance reserve also includes management's estimate of open claims to be settled within the IRRP (Note K). Self-insurance reserves are included in the accrued expenses and other payables caption on the statements of financial position.

Welfare Benefits Trust

The statements of financial position include self-insurance liabilities with respect to the medical insurance program as of June 30, 2023 and 2022. These obligations represent an estimate of the expected ultimate cost for claims incurred but not paid ("IBNP"). The Welfare Benefits Trust estimates the required reserves for such claims on a non-discounted basis utilizing a development method which assumes that the progression of claim payment follows runoff patterns that are assumed to remain stable over time. The results, produced by the development method, were adjusted for months where the data was deemed noncredible. These adjustments were made using the projection method, which is based on the change in costs per exposure unit over time. The medical estimate is based on historical incurred and paid claims data for the 48-month periods ended June 30, 2023 and 2022. Self-insurance reserves are included in the accrued expenses and other payables caption on the statements of financial position.

Deferred Revenue

Deferred revenue consists of \$1,564,611 and \$518,214 at June 30, 2023 and 2022, respectively, for medical insurance invoices billed by the Welfare Benefits Trust in June for the July coverage period, fees received in fiscal year 2023 for the July 2023 World Youth Day trip and funds received by Villa Saint Joseph for future capital improvements. The revenue is recognized in the respective subsequent fiscal years.

Deferred Lease Revenue

Deferred lease revenue consists of \$11,251,949 and \$9,541,802 at June 30, 2023 and 2022, respectively, for lease rental payments previously received to be recognized as income over the term of the lease.

Revenue, Gains, Losses and Other Support

Parish Assessments

Parishes within the territory of the Archdiocese are assessed a fee to help support the mission of the Church in Philadelphia and the four surrounding counties as permitted by canon law. The parish assessment for the years ended June 30, 2023 and 2022 was based upon 12.25% of the parish's operating income for the preceding year. Operating income includes Sunday collections, other parish collections, church socials and donations, interest, dividends, rental income and net cemetery income. Included within the 12.25% is a provision for an allocation to OCE of \$891,200 for the years ended June 30, 2023 and 2022, respectively.

Archdiocese of Philadelphia - Office for Financial Services

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

Pledges/Contributions, Collections, Bequests and Donations

Unconditional promises to give (i.e., pledges) are recorded as receivables and revenues at fair value at the date the promise is received within the appropriate net asset category. Donor-restricted gifts that are received and either spent or deemed spent within the same year are reported as revenues without donor restrictions. Gifts of long-lived assets received without donor restrictions are reported at fair value as revenues without donor restrictions. Gifts specified for the acquisition or construction of long-lived assets are reported as net assets without donor restrictions when the assets are placed in service.

OFS reports gifts of cash and other assets, including allocations from Catholic Charities Appeal, as revenue with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities and changes in net assets as net assets released from restrictions.

Premium Income from Archdiocesan Insurance Programs

The Risk Insurance Trust and Welfare Benefits Trust act on behalf of participating Archdiocesan entities and parishes to procure adequate insurance coverage. The costs of the premiums and related expenses are billed to the participating entities and reported as premium income from Archdiocesan insurance programs. Unpaid insurance billings are included in amounts due from Archdiocesan entities.

Other Revenue

OFS follows ASC 606, *Revenue from Contracts with Customers*. This guidance requires the use of a five-step model to achieve the core underlying principle that an entity should recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. These steps include (1) identifying the contract with the customer, (2) identifying the performance obligations, (3) determining the transaction price, (4) allocating the transaction price to the performance obligations, and (5) recognizing revenue as the entity satisfies the performance obligation(s).

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

The other revenue streams under this standard include print, advertising and other services, and are included in fees for services in the statements of activities and changes in net assets.

Income Tax Status

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

The Archdiocese follows guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance provides that the tax effects from an uncertain tax position can only be recognized in the financial statements if the position is "more likely than not" to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the

Archdiocese of Philadelphia - Office for Financial Services

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

technical merits of the position, without regard to the likelihood that the tax position may be challenged. The Archdiocese has determined that there are no material uncertain tax positions that require recognition or disclosure in its consolidated financial statements.

Use of Estimates

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

Reclassifications

Certain amounts in the prior year's financial statements have been reclassified to conform to the presentation in the current year's financial statements. This reclassification had no impact on the change in net assets.

NOTE C - DUE FROM ARCHDIOCESAN ENTITIES

A summary of the various receivable balances held by OFS due from Archdiocesan entities at June 30, is presented as follows:

Assessments and Other Amounts Due, Net

	<u>2023</u>	<u>2022</u>
Assessments due from parishes	\$ 13,569,561	\$ 13,955,029
Risk and medical insurance premiums due from Archdiocesan entities and parishes	22,577,339	22,071,182
Other	<u>186,977</u>	<u>109,137</u>
	36,333,877	36,135,348
Allowance for doubtful accounts	<u>(35,097,384)</u>	<u>(34,904,370)</u>
Assessments and other amounts due, net	<u>\$ 1,236,493</u>	<u>\$ 1,230,978</u>

Loans Receivable, Net

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

	<u>2023</u>	<u>2022</u>
Gross loans receivable	\$ 12,331,296	\$ 14,539,105
Allowance for doubtful accounts	<u>(4,487,447)</u>	<u>(5,160,209)</u>
Loans receivable, net	<u>\$ 7,843,849</u>	<u>\$ 9,378,896</u>

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

Note Receivable from Related Party, Net

	<u>2023</u>	<u>2022</u>
SJNPLP	\$ 2,860,000	\$ 2,860,000
Allowance for doubtful account	<u>(1,765,000)</u>	<u>(1,765,000)</u>
	\$ 1,095,000	\$ 1,095,000
Note receivable from related party, net	<u>\$ 1,095,000</u>	<u>\$ 1,095,000</u>

Credit Quality of Loans Receivable

Prior to the moratorium described in Note A regarding the Deposit and Loan Program Trust, OFS received loan requests from parishes and other Archdiocesan entities. These loans, when approved, were made through the Deposit and Loan Program Trust. All loan requests were subject to a due diligence review of the requesting parish's ability to support future loan payments. This review was performed by OFS. Upon completion of this due diligence, the loan request was presented to the College of Consultors for approval. Allowances for doubtful accounts are established for all loans based upon prior collection experience and current factors specific to each entity that, in management's opinion, may influence the entity's ability to repay the loan. All loan balances deemed to be impaired are adjusted to the net realizable value at the time this determination is established.

Deposit and Loan Program Trust Promissory Note

On May 31, 2012, the Archdiocese created a promissory note to the Deposit and Loan Program Trust. On May 20, 2013, the promissory note was amended to increase the note to \$82,000,000. The promissory note is collateralized by specific pledged real estate assets as documented in the October 28, 2020 amendment to the promissory note. As pledged assets are sold or monetized, net proceeds from the transactions are used to fulfill the obligation acknowledged via the promissory note. If a transaction for any of the pledged properties results in net proceeds in excess of \$20,000,000, the Archdiocese has discretion to use the excess for another purpose so long as the value for remaining pledged properties is at least equal to the remaining obligation. The balance of this note was \$24,075,393 for the years ended June 30, 2023 and 2022.

The promissory note is recorded as an asset and liability on the financial statements of the Deposit and Loan Program Trust and General Fund, respectively, and is eliminated within the OFS statements of financial position.

Interest Receivable from Related Parties, Net

	<u>2023</u>	<u>2022</u>
Note receivable from SJNPLP	\$ 4,956,211	\$ 4,496,433
Deposit and Loan Program Trust	<u>2,176,323</u>	<u>2,439,547</u>
	7,132,534	6,935,980
Allowance for doubtful accounts	<u>(6,144,945)</u>	<u>(5,962,767)</u>
Interest receivable from related parties, net	<u>\$ 987,589</u>	<u>\$ 973,213</u>

Archdiocese of Philadelphia - Office for Financial Services

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

Other Related Party Receivables

OFS maintains receivable balances due from other related Archdiocesan entities. The balance of other related party receivables at June 30, is comprised of:

	<u>2023</u>	<u>2022</u>
Due from OCE	\$ 40,473	\$ 14,511
Intra-diocesan charges for utilities and other items, net	117,469	255,284
Other	<u>606,744</u>	<u>995,743</u>
Other related party receivables	<u>\$ 764,686</u>	<u>\$ 1,265,538</u>

NOTE D - LEASES

Lessor

On September 27, 2019, the Archdiocese entered into a Master Development Agreement with EM Race Vine Ventures, LLC, a Delaware limited liability company ("EMV"). The Master Development Agreement grants EMV the right to rezone, ground lease and develop two portions of the Archdiocese's property located at 17th and Vine Streets in Philadelphia, on which the Cathedral Basilica of Saints Peter and Paul, the Archdiocesan Pastoral Center, and other buildings are located. EMV plans to develop such portions of this site into a mixed use, residential, retail and office urban destination. The Master Development Agreement provides for EMV to ground lease the sites in two phases.

Phase 1 of the ground lease was executed on November 23, 2020, upon closing, OFS received an upfront lease payment of \$10,000,000. The Archdiocese received an additional \$2,000,000 in December 2022. OFS will receive annual lease payments beginning in year 6 of the agreement as follows:

- Years 6 through 15: annual lease payments of \$25,000
- Years 16 through 25: annual lease payments of \$110,000
- Years 26 through 35: annual lease payments of \$126,500
- Years 36 through 45: annual lease payments of \$145,475
- Years 46 through 55: annual lease payments of \$167,296
- Years 56 through 65: annual lease payments of \$192,391
- Years 66 through 75: annual lease payments of \$221,249
- Years 76 through 85: annual lease payments of \$254,437
- Years 86 through 95: annual lease payments of \$292,602
- Years 96 through 99: annual lease payments of \$336,493

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

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

Lessee

OFS is the lessee of certain vehicles and office equipment under operating leases expiring through 2027. Some of these leases provide for options to renew subsequent to the current term. The option to renew the leases were not considered when assessing the value of the ROU asset if OFS was not reasonably certain that it would assert its option to renew the lease.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

Quantitative information regarding OFS's leases for the year ended June 30, 2023, is as follows:

Lease cost	\$	57,465
Weighted-average remaining lease term (in years)		3.53
Weighted-average discount rate		4.00%

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

FY 2024	\$	65,359
FY 2025		57,875
FY 2026		53,368
FY 2027		39,218
		<hr/>
		215,820
Less present value discount		<hr/>
		(14,332)
Total	\$	<hr/> <hr/> 201,488

NOTE E - ASC 842 ACCOUNTING ADOPTION

As described in Note B, OFS adopted ASC 842, *Leases*, during the year ended June 30, 2023. This resulted in the restatement of the June 30, 2022 balance sheet as follows:

Increase in right-of-use asset	\$	258,953
Increase in lease liabilities	\$	258,953

NOTE F - INVESTMENTS

SEI, a provider of institutional asset management services, created two publicly traded Catholic Values mutual funds: the Catholic Values Equity Fund and the Catholic Values Fixed Income Fund ("Catholic Values Funds"), which provide Catholic institutions with high-quality investment products that align with their core values, without sacrificing diversification or return potential. Specifically, the Catholic Values Funds align with the investment directives set forth by the United States Conference of Catholic Bishops ("USCCB"). The Archdiocese appointed SEI Private Trust Company to act as custodian (the "Custodian") of the investments, which consist of certain cash and securities.

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

SEI Catholic Value Funds

Catholic Values Equity Fund (or "equity fund") - Invests in common stocks, and is valued at the closing price of the traded fund.

Catholic Values Fixed Income Fund (or "fixed income fund") - Invests in mutual funds, corporate obligations, United States Treasury obligations and municipal obligations, and is valued at the closing price of the traded fund.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

Vanguard

Invests in the Vanguard Ultra Short-Term Bond Fund and is valued at the closing price of the traded fund.

Josephine Nalle Unitrust

Invests in equity and fixed income funds, and is valued at the closing price of the traded fund.

Richard Lyne Trust

Investments are liquid in nature and are invested in short duration U.S. government bonds.

Total investments at June 30, are detailed as follows:

	2023	2022
Investment in SEI Catholic Values Funds	\$ 53,220,710	\$ 48,406,099
Investment in Vanguard Ultra Short-Term Bond Fund	11,855,035	3,248,612
Investment in trust of Josephine Nalle Unitrust	1,556,481	1,537,798
Investment in trust of Richard Lynne	195,683	190,922
	<hr/>	<hr/>
Total investments	\$ 66,827,909	\$ 53,383,431

NOTE G - FAIR VALUE MEASUREMENTS

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

Level 1 - Quoted prices in active markets for identical assets or liabilities as of the measurement date;

Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities; and

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

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

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

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

The following table presents the fair values of the assets by level within the fair value hierarchy, as of June 30, 2023:

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Inputs Supported by Little or No Market Activity (Level 3)	Total Fair Value
Assets				
Investments				
Investment in SEI Catholic Values Funds	\$ 53,220,710	\$ -	\$ -	\$ 53,220,710
Investment in Vanguard Ultra Short-Term Bond Shares Fund	11,855,035	-	-	11,855,035
Investment in the trust of Josephine Nalle Unitrust	-	-	1,556,481	1,556,481
Investment in the trust of Richard Lynne	-	-	195,683	195,683
	<u>65,075,745</u>	-	1,752,164	66,827,909
Beneficial interest in supporting charitable trusts	-	-	2,604,068	2,604,068
Total assets at fair value at June 30, 2023	<u>\$ 65,075,745</u>	<u>\$ -</u>	<u>\$ 4,356,232</u>	<u>\$ 69,431,977</u>

The following table presents the fair values of the assets by level within the fair value hierarchy, as of June 30, 2022:

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Inputs Supported by Little or No Market Activity (Level 3)	Total Fair Value
Assets				
Investments				
Investment in SEI Catholic Values Funds	\$ 48,406,099	\$ -	\$ -	\$ 48,406,099
Investment in Vanguard Ultra Short-Term Bond Shares Fund	3,248,612	-	-	3,248,612
Investment in the trust of Josephine Nalle Unitrust	-	-	1,537,798	1,537,798
Investment in the trust of Richard Lynne	-	-	190,922	190,922
	<u>516,54,711</u>	-	1,728,720	53,383,431
Beneficial interest in supporting charitable trusts	-	-	2,188,190	2,188,190
Total assets at fair value at June 30, 2022	<u>\$ 51,845,633</u>	<u>\$ -</u>	<u>\$ 3,916,910</u>	<u>\$ 55,571,621</u>

During the years ended June 30, 2023 and 2022, the change in assets classified in Level 3 of the fair value hierarchy are withdrawals of \$139,856 and \$139,293, respectively.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

NOTE H - ACCRUED EXPENSES AND OTHER PAYABLES

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

	<u>2023</u>	<u>2022</u>
Self-insurance reserves (Note K)	\$ 17,322,741	\$ 15,826,166
IBNP Welfare Benefits Trust	3,580,000	3,568,000
Risk insurance trust claim accrual	282,824	187,877
Conditional asset retirement obligation	407,995	392,303
Charitable gift annuities	92,781	229,539
Accrued legal and professional fees	112,100	199,792
Other	<u>1,932,859</u>	<u>2,145,034</u>
	<u>\$ 23,731,300</u>	<u>\$ 22,548,711</u>

NOTE I - LINE OF CREDIT

Affiliated Ecclesiastical Entity

The Archdiocese signed an agreement with an affiliated ecclesiastical entity for a secured Line of Credit in the amount of \$15,000,000 on November 3, 2020 bearing interest at 4.25%, with a maturity date of November 3, 2025. There were no borrowings for the years ended June 30, 2023 or 2022.

NOTE J - PROMISSORY NOTES

Paycheck Protection Program

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

In July 2021, the Small Business Administration granted loan forgiveness in the amount of \$2,769,973 for the full amount of principal and accrued interest. A \$1,980,180 gain on debt forgiveness was recognized by OFS when the forgiveness was granted. The \$789,793 balance of the gain on debt forgiveness was recognized by an affiliated ecclesiastical entity.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

Priests' Pension and Ancillary Benefits Trusts

On July 28, 2020, OFS signed four promissory notes with the trusts named below for a combined total amount of \$10,000,000. Each note states that interest will be charged on unpaid principal until the full amount of principal advanced has been repaid. The promissory notes require quarterly principal and interest payments for a combined total of \$187,500. The maturity date for all notes is October 1, 2035 and the interest rate is fixed at 3% annually. During the year ended June 30, 2021, OFS borrowed \$3,000,000 in total from the trusts. There have been no borrowings during the fiscal years ended June 30, 2023 and June 30, 2022. During the year ended June 30, 2023, OFS made payments of \$712,143 and \$38,070 in principal and interest payments, respectively, in total to the trusts. During the year ended June 30, 2022, OFS made payments of \$696,490 and \$58,449 in principal and interest payments, respectively, in total to the trusts. The details for the fiscal year ended June 30, 2023 are as follows:

	Total Available for Borrowing	Opening Balance July 1, 2022	Principal Payments	Balance Owed at June 30, 2023	Interest Expense
Ancillary Benefits Trust #1	\$ 5,488,000	\$ 880,008	\$ 390,824	\$ 489,184	\$ 20,893
Priest Pension Trust	3,600,000	577,264	256,371	320,893	13,705
Ancillary Benefits Trust #2	449,000	71,989	31,975	40,014	1,709
Priest Pension Plan for Priests Removed from Ministry	463,000	74,249	32,973	41,276	1,763
	<u>\$10,000,000</u>	<u>\$ 1,603,510</u>	<u>\$ 712,143</u>	<u>\$ 891,367</u>	<u>\$ 38,070</u>

NOTE K - COMMITMENTS AND CONTINGENCIES

Claims Related to Clergy Abuse

Independent Reconciliation and Reparation Program

The Archdiocese commenced the IRRP on November 13, 2018, committed to furthering its efforts to help survivors. The IRRP was a voluntary compensation program for survivors who alleged they were sexually abused as minors by clergy of the Archdiocese. Regardless of when the harm occurred, eligible claimants could have participated in the IRRP. Claimants presented their claims to Independent Claims Administrators, Kenneth Feinberg and Camille Biros ("Administrators"), who determined whether and what amount of compensation to offer each claimant in full and final settlement of their claim against the Archdiocese. The IRRP claim period ended September 30, 2019, which meant that all claim forms were to be postmarked by that date. The Archdiocese committed to paying, on a claim-by-claim basis, the amounts that the Administrators independently determined to be appropriate in each case. While the Archdiocese could not challenge the determinations of the Administrators, each claimant was free to accept or reject the compensation offered. The Archdiocese's payment obligation could not be specifically quantified until each claimant received his or her unique compensation offer and then chose whether to accept the settlement. If the claimant accepted the settlement, he or she also signed a release relinquishing any right to sue the Archdiocese and its affiliates in the future.

On May 12, 2022, the Independent Oversight Committee issued a final report summarizing the conclusion of the IRRP, noting that three claims remain pending with the administrators. As of June 30, 2023 and 2022, the IRRP reserve included in accrued expenses and other payables on the statements of financial position was \$540,000. The estimate is based on claims and program expenses paid through June 30, 2023 and claims and program expenses that still needed to be settled. As of June 30, 2023, the Archdiocese had

Archdiocese of Philadelphia - Office for Financial Services

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

made claim payments totaling \$78,465,000 and paid program expenses of approximately \$3,448,824. The remaining amount required under this program will be funded through available liquidity.

Litigation Claims

In 2019, the States of New Jersey and New York enacted “window legislation” which permitted plaintiffs in sexual abuse cases to file suits regardless of when their alleged abuse occurred. The Archdiocese was named as a defendant in forty-one cases in New Jersey and one case in New York. In all of these cases, the Archdiocese has challenged, is challenging, and/or will challenge the authority of state and federal courts in New Jersey to assert personal jurisdiction over the Archdiocese. For the one case in New York, the Archdiocese filed a motion to dismiss, and the New York court granted the motion and dismissed the Archdiocese on September 21, 2021, based upon a lack of personal jurisdiction. In the forty-one cases filed in New Jersey state or federal courts, the Archdiocese has moved to dismiss each case. In thirteen cases, the trial court granted the motion to dismiss the Archdiocese. In seven of those cases, the plaintiff filed an appeal to the New Jersey Appellate Division. No appeals have been filed in federal courts. The remaining cases are either stayed by court order or are inactive pending rulings by the Appellate Division.

In addition, the Archdiocese has three active cases pending in the Philadelphia County, Pennsylvania, and one active case filed in Delaware County, Pennsylvania, in which plaintiffs allege that they were sexually abused by a priest.

Legislation

The Pennsylvania Legislature continues to contemplate bills to reopen the statute of limitations to allow previously time-barred claims of abuse to proceed in court. The Legislature also commenced the process toward the passage of a constitutional amendment to allow individuals who were sexually abused as children to bring claims against the entities that employed their abusers. The constitutional amendment, if passed by the legislature and electorate would provide survivors of abuse whose claims are presently barred by the applicable statute of limitations with a period of two years to commence civil litigation.

Reserves

Self-insurance

The principal insurance policies providing property, auto and general liability coverage have a self-insured retention (“SIR”) of \$250,000, \$500,000, and \$250,000 per occurrence, respectively. In addition, the property coverage has an annual aggregate deductible of \$2,500,000. There are certain special policies with lower per claim deductibles or SIR’s and some policies with guaranteed cost, first dollar coverage.

The estimated ultimate claims cost is calculated as of June 30, 2023 and 2022 and considers incurred and paid losses and retention amounts to determine loss development factors. The estimated reserve liability is comprised of both a limited case outstanding reserve and estimated development.

Effective July 1, 2016, the workers’ compensation program, which is included in the Risk Insurance Trust, was converted to a fully insured program, and workers’ compensation claims incurred after that date will not require loss reserves. Prior to July 2016, the workers’ compensation policy had a self-insurance reserve of \$500,000 per claim. The liability for self-insured workers’ compensation claims will be reduced over time as those claims incurred prior to July 2016 are settled. The self-insured workers’ compensation and auto obligations are collateralized with surety bonds in favor of the Commonwealth of Pennsylvania.

Other

The Archdiocese is involved in numerous other legal proceedings arising out of and incidental to its operations. In management’s opinion, the ultimate liability which may arise from these other legal

Archdiocese of Philadelphia - Office for Financial Services

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

proceedings would not have a material adverse effect on the financial statements of OFS. In addition, the Archdiocese believes that if any liability were established, it would have adequate insurance coverage to meet the resulting obligations.

Priests' Student Loans

Under the Archdiocese of Philadelphia's Priest Student Loan Policy, priests are reimbursed for payments made toward student debt incurred for their studies at St. Charles Borromeo Seminary. The reimbursements are contingent upon loan payments being made by the priest and are limited annually to a maximum repayment amount predetermined by the Archdiocese. The Archdiocese assumes no liability related to the outstanding balances on these loans until payment is made by the priests. Upon payment, the Archdiocese assumes the liability. Beginning in fiscal year 2023, OFS assumed full responsibility for the outstanding priest student loan liability and the reimbursement cost which was formerly divided evenly between the AOP and St. Charles Borromeo Seminary. For the years ended June 30, 2023 and 2022, the reimbursement totaled \$87,180 and \$113,888, respectively. As of June 30, 2023 and 2022, the potential outstanding priest student loan liability totaled \$448,845 and \$523,601, respectively.

NOTE L - RISK AND UNCERTAINTIES

Credit Risk

Cash, cash equivalents and investments are exposed to various risks, such as interest rate, market volatility and credit risks. To minimize such risks, the Archdiocese has a diversified investment portfolio managed by several independent investment managers in a variety of asset classes. The Archdiocese regularly evaluates its investments including performance thereof. The Archdiocese maintains its cash and cash equivalents in various bank deposit accounts which, at times, may exceed federally insured limits. OFS has not experienced any losses in such accounts and does not believe it is subject to significant credit risk. The Archdiocese's cash accounts were placed with high-credit-quality financial institutions. However, due to inherent risks and potential volatility in investment valuations, the amounts reported in the accompanying financial statements can vary substantially from year to year. It is reasonably possible that changes in investments will occur in the near term and such changes could materially affect the amounts reported in the accompanying financial statements. Credit risk with respect to related party receivables originates from the activities of related parties within the Archdiocese such as parishes, which are supported primarily by Catholic parishioners of the Philadelphia area. Related party receivables mainly include accounts receivable from Archdiocesan parishes and loans provided to parishes and other related ecclesiastical entities.

NOTE M - PENSION PLANS

The Archdiocese of Philadelphia Lay Employees' Retirement Plan ("LERP"), the Archdiocese of Philadelphia 403(b) retirement plan and priests' retirement plans are distinct and autonomous benefit plans separately administered by the Archdiocese in trust for each of the plans' beneficiaries and are not part of these financial statements. These plans are funded by contributions from the various participating entities, including parishes. The plans are administered by the respective trustees of each plan.

Priests' Retirement Plans

For financial reporting purposes within these financial statements, the priests' retirement plans are accounted for as multiemployer plans. Expenses are recognized as contributions and are made in accordance with established provisions followed by all parishes and participating entities within the territory of the Archdiocese. OFS did not contribute to the priests' retirement plans for the years ended June 30, 2023 and 2022.

Archdiocese of Philadelphia - Office for Financial Services

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

The actuarially determined present value of accumulated plan benefits at June 30, 2023 and 2022, for priests' pension, retiree health, auto and life insurance totaled approximately \$113,607,000 and \$114,613,000, respectively. At June 30, 2023 and 2022, the net assets available to provide for these benefits totaled approximately \$122,575,000 and \$116,594,000, respectively.

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

Through June 30, 2014, the eligible lay employees of OFS were covered under the LERP, which is a defined benefit pension plan that covered substantially all lay employees, once age and service requirements were met, of the Archdiocese, its related ecclesiastical entities, institutions and parishes. For financial reporting purposes within these financial statements, the LERP is accounted for as a multiemployer plan. On June 30, 2014, the Archdiocese froze the LERP. All active employees as of the freeze date retained benefits they had earned through June 30, 2014. After the date of the freeze, accrued pension benefits do not increase for additional service or increases in pay.

OFS made contributions to the plan of \$214,760 and \$341,590 for the years ended June 30, 2023 and 2022, respectively.

Estimates of the actuarially determined present value of accumulated plan benefits at June 30, 2023 and 2022 totaled approximately \$568,600,000 and 588,100,000, respectively. At June 30, 2023 and 2022, the assets available to provide for these benefits totaled approximately \$473,900,000 and \$479,900,000, respectively.

Archdiocese of Philadelphia 403(b) Retirement Plan

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

Vesting in employer contributions was immediate for employees who completed 12 months of service as of June 30, 2014. Vesting in employer contributions for all other employees takes place after the completion of 12 months of service.

During the years ended June 30, 2023 and 2022, the employer contribution rate was 4.5% of eligible compensation for eligible employees. The contributions by OFS into the 403(b) plan totaled \$293,387 and \$276,756 for the years ended June 30, 2023 and 2022, respectively.

NOTE N - RELATED PARTY AMOUNTS AND TRANSACTIONS

OFS entered into transactions with the following related parties:

OFS recorded \$724,000 during the years ended June 30, 2023 and 2022 in contributed rent related to the use of facilities owned by OFS, but used without charge by Catholic Social Services/CHCS.

Archdiocese of Philadelphia - Office for Financial Services

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

Billings and collections of parish assessments, risk insurances, medical benefits and parish loans and interest are as follows:

	2023		2022	
	Billed	Collected	Billed	Collected
Parish assessment	\$ 21,321,200	\$ 21,706,668	\$ 21,423,600	\$ 21,797,917
Risk Insurance Program ¹	23,340,939	22,868,003	22,704,962	22,546,574
Welfare Benefits Program ¹	41,463,385	42,287,935	37,517,051	36,668,427
Parish loans and interest	274,265	2,749,928	333,796	1,747,774

¹ These billed amounts are reflected on the statements of activities and changes in net assets under the caption, "Premium income from Archdiocesan insurance programs." Amounts listed above exclude intercompany eliminations.

Archdiocesan parishes and agencies have funds on deposit in the Deposit and Loan Program Trust. Funds on deposit totaled \$39,627,424 and \$38,477,039 as of June 30, 2023 and 2022, respectively. Deposited funds earned an interest rate of 1.25% for the years ended June 30, 2023 and 2022. Interest paid on the deposited funds amounted to \$512,180 and \$496,115 during the years ended June 30, 2023 and 2022, respectively. Total interest expense for the years ended June 30, was as follows:

	2023	2022
Interest on deposits	\$ 512,180	\$ 496,115
Interest on Priests' trusts loans	38,070	58,449
Interest accretion on conditional asset retirement obligation	15,692	15,089
	<u>\$ 565,942</u>	<u>\$ 569,653</u>

Loans were historically made to parishes and other Archdiocesan entities through the Deposit and Loan Program Trust (see Notes A, B and C). Interest earned on these loans amounted to \$453,921 and \$345,836 for the years ended June 30, 2023 and 2022, respectively.

OFS received \$2,828,793 from certain Archdiocesan offices, agencies and related ecclesiastical organizations, which are reflected as contributions on the statements of activities and changes in net assets for the years ended June 30, 2023 and 2022, respectively.

Certain parishes, which for a variety of reasons, are struggling financially as they minister to the needs of their parishioners, receive assistance through the IPCC. This subsidy is used by the parishes to meet operating expenses, fund parish programs and carry out capital improvements. This support is reflected as "interparochial assistance" in the accompanying statements of activities and changes in net assets for the years ended June 30, the subsidy consisted of the following:

	2023	2022
Assessment	\$ 1,157,095	\$ 1,166,073
Priests' retirement debt service	6,975	7,800
Priests' health insurance	45,725	47,472
Risk insurance	252,135	165,178
General and extraordinary subsidy	522,836	322,552
	<u>\$ 1,984,766</u>	<u>\$ 1,709,075</u>

Archdiocese of Philadelphia - Office for Financial Services

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

NOTE O - SELF-INSURED UNEMPLOYMENT COMPENSATION

A pooled insurance fund manages the unemployment compensation process for Special Education Schools, Parish Schools, select non-Archdiocesan schools, OFS, St. Charles Borromeo Seminary, and the administrative offices within the Office of Catholic Education (“Members”).

The Pennsylvania Catholic Conference (“PACC”) handles the claims administration and billings for the fund. Twice yearly, in February and May, PACC bills the Members. The funds collected by PACC from the billings are deposited into a bank account maintained by PACC. On a monthly basis, PACC processes claims and then electronically remits payments to the state. For the years ended June 30, 2023 and 2022, the billings of \$530,325 and \$998,175, respectively, and incurred claims totaling \$301,092 and \$305,802, respectively, were included in intradiocesan expenses on the statements of activities and changes in net assets.

NOTE P - OTHER INCOME

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

	<u>2023</u>	<u>2022</u>
Allocations from the Catholic Charities Appeal	\$ 2,582,428	\$ 2,056,855
Rental income	1,158,279	1,218,471
Bad debt recovery	950,362	615,214
Contributions	67,670	214,939
Other	<u>111,655</u>	<u>34,231</u>
	<u>\$ 4,870,394</u>	<u>\$ 4,139,710</u>

NOTE Q - NET ASSETS RELEASED FROM RESTRICTIONS

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

	<u>2023</u>	<u>2022</u>
Purpose restrictions accomplished	\$ 420,473	\$ 177,383
Release of appropriated endowment amounts with purpose restrictions	<u>1,468,476</u>	<u>1,415,004</u>
Total net assets released from restrictions	<u>\$ 1,888,949</u>	<u>\$ 1,592,387</u>

NOTE R - ENDOWMENTS

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

Interpretation of Relevant Law

In accordance with Commonwealth of Pennsylvania Act 141, OFS classifies as endowments: (a) the original value of gifts donated to the permanent endowment; (b) the original value of subsequent gifts to the permanent endowment; and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Archdiocese of Philadelphia - Office for Financial Services

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

Pennsylvania law permits the Archdiocese to release a percentage, which is elected annually, of the market value of its endowment funds into income without donor restrictions. The spending rate percentage, between 2% and 7%, is applied to the three-year average of the market value of the endowment funds' assets.

Return Objectives and Risk Parameters

OFS has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period. Under this policy, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of plus 3% over the consumer price index while assuming a moderate level of investment risk. OFS expects its endowment funds, over time, to provide an average rate of return of between 6% and 7% annually. Actual returns in any given year may vary from that amount.

Spending Policy

In accordance with state law, net realized and unrealized gains on restricted endowment investments are included as net assets with donor restrictions, even absent donor restrictions on the use of gains. Commonwealth of Pennsylvania law permits OFS to adopt a spending policy for endowment earnings, subject to certain limitations. OFS follows the total return concept of endowment investment and spending. Under this concept, a prudent amount of appreciation earned on the investments may be spent in the event that the interest and dividends earned are insufficient to meet that period's spending rate. The Archdiocese's spending policy for the years ended June 30, 2023 and 2022 allowed for 5.5% and 5.75% draw of the trailing three-year average market value of the endowments, estates and trusts.

Archdiocese of Philadelphia - Office for Financial Services

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

OFS had the following endowment activity during the years ended June 30, delineated by net assets class:

	Management- Designated Without Donor Restrictions	Endowments With Donor Restrictions	Total
	<u> </u>	<u> </u>	<u> </u>
Endowment net assets, July 1, 2021	\$ 7,833,675	\$ 33,703,116	\$ 41,536,791
Investment return	84,759	336,698	421,457
Net depreciation (realized and unrealized losses)	<u>(1,243,078)</u>	<u>(5,460,745)</u>	<u>(6,703,823)</u>
Total investment return	(1,158,319)	(5,124,047)	(6,282,366)
Designations/contributions	9,665	-	9,665
Appropriation of endowment assets for expenditure	<u>(358,056)</u>	<u>(1,419,383)</u>	<u>(1,777,439)</u>
Endowment net assets, June 30, 2022	6,326,965	27,159,686	33,486,651
Investment return	95,687	361,622	457,309
Net appreciation (realized and unrealized gains)	<u>632,459</u>	<u>2,512,535</u>	<u>3,144,994</u>
Total investment return	728,146	2,874,157	3,602,303
Designations/contributions	428,457	270,754	699,211
Appropriation of endowment assets for expenditure	<u>(376,031)</u>	<u>(1,468,476)</u>	<u>(1,844,507)</u>
Endowment net assets, June 30, 2023	<u>\$ 7,107,537</u>	<u>\$ 28,836,121</u>	<u>\$ 35,943,658</u>

Archdiocese of Philadelphia - Office for Financial Services

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

NOTE 5 - NET ASSETS

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

	<u>2023</u>	<u>2022</u>
Net assets without donor restrictions:		
Undesignated	\$ 43,068,756	\$ 38,689,755
Management designated endowment	7,107,537	6,326,965
	<hr/>	<hr/>
Total net assets without donor restrictions	50,176,293	45,016,720
Net assets with donor restrictions:		
Subject to expenditure for specified purpose:		
Archdiocesan ministries support	3,906,028	3,749,663
Retired priest and religious support	280,120	614,067
Renovations	100,000	100,000
	<hr/>	<hr/>
Total subject to expenditure for specified purposes	4,286,148	4,463,730
Investments to be held in perpetuity, funds restricted in perpetuity:		
Archdiocesan ministries support	25,838,694	24,612,181
Archdiocesan operation support	377,910	345,003
Educational assistance	15,449	14,312
Perpetual trusts held by others	2,604,068	2,188,190
	<hr/>	<hr/>
Total investments to be held in perpetuity, funds restricted in perpetuity	28,836,121	27,159,686
	<hr/>	<hr/>
Total net assets with donor restrictions	33,122,269	31,623,416
	<hr/>	<hr/>
Total net assets	\$ 83,298,562	\$ 76,640,136

Archdiocese of Philadelphia - Office for Financial Services

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

NOTE T - LIQUIDITY AND FUNDS AVAILABLE

The following table reflects OFS' financial assets as of June 30, 2023 and 2022, reduced by amounts not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year, trust assets, assets held for others, perpetual endowments and accumulated earnings net of appropriations within one year, or because management has set aside the funds for a specific contingency reserve or a long-term investment as management-designated endowments. These management designations could be drawn upon if management approves that action.

	<u>2023</u>	<u>2022</u>
Financial assets:		
Cash and cash equivalents	\$ 60,427,329	\$ 62,151,729
Due from Archdiocesan entities, other accounts receivable and notes receivable	11,927,617	16,965,475
Investments	66,827,909	53,383,431
Beneficial interest in supporting charitable trusts	<u>2,604,068</u>	<u>2,188,190</u>
Financial assets, at year-end	141,786,923	134,688,825
Less those unavailable for general expenditure within one year, due to:		
Cash not available for general expenditures	(39,604,177)	(35,644,190)
Perpetual trusts held by others	(2,604,068)	(2,188,190)
Contribution and accounts receivable collectible beyond one year	(7,461,855)	(12,975,271)
Investments and other financial assets held for others	(1,852,164)	(1,828,719)
Perpetual and term endowments and accumulated earnings subject to appropriation beyond one year	(26,232,041)	(24,971,496)
Investments not for general expenditure	(11,972,495)	(11,109,097)
Investments in management-designated endowments	<u>(7,107,537)</u>	<u>(6,326,965)</u>
	<u>(96,834,337)</u>	<u>(95,043,929)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 44,952,586</u>	<u>\$ 39,644,896</u>

Archdiocese of Philadelphia - Office for Financial Services

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

NOTE U - FUNCTIONAL EXPENSES

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation and IT, which are allocated on a square-footage basis and head-count basis, respectively. Interest is allocated by fund. Salaries and benefits are allocated on the basis of estimates of time and effort.

	June 30, 2023					
	Program Activities					Total
	Clergy	Ministry	Risk Insurance Trust	Welfare Benefits Trust	Supporting Management and General	
Subsidies	\$ -	\$ 934,803	\$ -	\$ -	\$ -	\$ 934,803
Salaries and wages	1,048,085	3,835,995	100,429	133,838	5,208,063	10,326,410
Payroll taxes and fringe benefits	2,712,971	(50,283)	23,223	36,139	1,534,572	4,256,622
Purchased services	506,780	1,309,169	2,113,474	340,000	5,650,572	9,919,995
Intra-diocesan expenses	19,640	32,436	2,342	-	7,224	61,642
Support expenses	488,239	1,214,266	839,448	57,876	3,795,756	6,395,585
Interparochial assistance	-	1,984,766	-	-	-	1,984,766
Depreciation expense	398,620	217,804	-	-	1,368,256	1,984,680
Interest expense	-	512,180	-	-	53,762	565,942
Insurance program expenses	-	-	20,466,728	43,888,464	-	64,355,192
Total expenses	\$ 5,174,335	\$ 9,991,136	\$ 23,545,644	\$ 44,456,317	\$ 17,618,205	\$100,785,637

	June 30, 2022					
	Program Activities					Total
	Clergy	Ministry	Risk Insurance Trust	Welfare Benefits Trust	Supporting Management and General	
Subsidies	\$ -	\$ 843,633	\$ -	\$ -	\$ -	\$ 843,633
Salaries and wages	1,010,688	3,589,882	92,990	119,607	5,043,414	9,856,581
Payroll taxes and fringe benefits	2,683,087	(58,866)	23,212	34,806	1,572,004	4,254,243
Purchased services	650,696	1,347,305	2,612,549	342,968	5,221,061	10,174,579
Intra-diocesan expenses	14,874	(117,435)	2,347	-	28,615	(71,599)
Support expenses	254,376	412,239	969,811	18,264	4,163,547	5,818,237
Interparochial assistance	-	1,709,075	-	-	-	1,709,075
Depreciation expense	378,183	201,039	-	-	1,324,018	1,903,240
Interest expense	-	496,115	-	-	73,538	569,653
Insurance program expenses	-	-	15,419,004	40,885,818	-	56,304,822
Total expenses	\$ 4,991,904	\$ 8,422,987	\$ 19,119,913	\$ 41,401,463	\$ 17,426,197	\$ 91,362,464

NOTE V - SUBSEQUENT EVENTS

OFS has evaluated subsequent events through November 6, 2023, the date which the financial statements were available for distribution, and no subsequent events are required to be disclosed.

SUPPLEMENTAL INFORMATION

Archdiocese of Philadelphia - Office for Financial Services

COMBINING STATEMENT OF FINANCIAL POSITION

June 30, 2023

	Total General Fund	Deposit and Loan Program Trust	Risk Insurance Trust	Welfare Benefits Trust	Eliminations	OFS Total
ASSETS						
Cash and cash equivalents	\$ 25,785,232	\$ 14,957,896	\$ 13,796,874	\$ 5,887,327	\$ -	\$ 60,427,329
Due from Archdiocesan entities, net						
Assessments and other amounts due, net	208,429	-	746,698	281,366	-	1,236,493
Loans receivable, net	-	7,843,849	-	-	-	7,843,849
Notes receivable from related party, net	1,095,000	24,075,393	-	-	(24,075,393)	1,095,000
Interest receivable from related parties, net	-	987,589	-	-	-	987,589
Other related party receivables	666,712	-	107,278	15,000	(24,304)	764,686
Other accounts receivable	-	-	1,956,038	-	-	1,956,038
Prepaid expenses	638,094	-	1,908,216	-	-	2,546,310
Real estate and physical plant held for sale	25,159	-	-	-	-	25,159
Note receivable	3,000,000	-	-	-	-	3,000,000
Investments	54,855,414	-	-	11,972,495	-	66,827,909
Beneficial interest in supporting charitable trusts	2,604,068	-	-	-	-	2,604,068
Right-of-use assets	201,488	-	-	-	-	201,488
Real estate and physical plant, net	14,572,679	-	-	-	-	14,572,679
Total assets	\$ 103,652,275	\$ 47,864,727	\$ 18,515,104	\$ 18,156,188	\$ (24,099,697)	\$ 164,088,597
Liabilities						
Accounts payable	\$ 3,255,797	\$ (26,159)	\$ 240,569	\$ 51,689	\$ -	\$ 3,521,896
Accrued expenses and other payables	917,196	-	18,145,564	4,668,540	-	23,731,300
Deferred revenue	456,288	-	-	1,108,323	-	1,564,611
Deferred lease revenue	11,251,949	-	-	-	-	11,251,949
Deposits - parishes, institutions and related organizations	-	39,651,728	-	-	(24,304)	39,627,424
Lease liabilities	201,488	-	-	-	-	201,488
Promissory note payable	24,966,760	-	-	-	(24,075,393)	891,367
Total liabilities	41,049,478	39,625,569	18,386,133	5,828,552	(24,099,697)	80,790,035
Net assets						
Without donor restrictions	29,480,529	8,239,157	128,971	12,327,636	-	50,176,293
With donor restrictions	33,122,269	-	-	-	-	33,122,269
Total net assets	62,602,798	8,239,157	128,971	12,327,636	-	83,298,562
Total liabilities and net assets	\$ 103,652,276	\$ 47,864,726	\$ 18,515,104	\$ 18,156,188	\$ (24,099,697)	\$ 164,088,597

Archdiocese of Philadelphia - Office for Financial Services

COMBINING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended June 30, 2023

	Without Donor Restriction					With Donor Restriction				Grand Total		
	General Fund	Deposit and Loan Program Trust	Risk Insurance Trust	Welfare Benefits Trust	Eliminations	Total	General Fund	Ministry Holding Fund	Estates and Trusts Fund		Villa St. Joseph Fund	Total
Revenues, gains, losses and other support												
Parish assessments	\$ 21,321,200	\$ -	\$ -	\$ -	\$ -	\$ 21,321,200	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 21,321,200
Contributions from related parties	8,061,707	-	-	-	(5,232,914)	2,828,793	-	-	-	-	-	2,828,793
Collections, bequests and donations	5,941,930	-	-	-	(1,160,791)	4,781,139	270,754	-	-	270,754	-	5,051,893
Tuition income	42,690	-	-	-	-	42,690	-	-	-	-	-	42,690
Investment income, net	1,730,452	-	-	863,398	-	2,593,850	168,568	-	2,918,166	3,086,734	-	5,680,584
Interest income	345,489	453,921	179,581	3,986	-	982,977	-	-	30,314	30,314	-	1,013,291
Fees for services	1,822,600	-	-	-	-	1,822,600	-	-	-	-	-	1,822,600
Intradiocesan income	2,202,152	-	-	-	(268,022)	1,934,130	-	-	-	-	-	1,934,130
Other income	3,920,032	950,362	-	-	-	4,870,394	-	-	-	-	-	4,870,394
Net assets released from restrictions	1,888,949	-	-	-	-	1,888,949	-	-	(1,888,949)	(1,888,949)	-	-
Premium income from Archdiocesan insurance programs	-	-	23,340,939	41,463,384	(1,895,135)	62,909,188	-	-	-	-	-	62,909,188
Total revenues, gains, losses and other support	47,277,201	1,404,283	23,520,520	42,330,768	(8,556,862)	105,975,910	439,322	-	1,059,531	-	1,498,853	107,474,763
Expenses												
Subsidies	5,406,669	-	-	-	(4,471,866)	934,803	-	-	-	-	-	934,803
Salaries and wages	10,092,143	-	100,429	133,838	-	10,326,410	-	-	-	-	-	10,326,410
Payroll taxes and fringe benefits	5,911,826	-	23,223	36,139	(1,714,566)	4,256,622	-	-	-	-	-	4,256,622
Purchased services	7,845,112	70,000	2,113,474	340,000	(448,591)	9,919,995	-	-	-	-	-	9,919,995
Intradiocesan expenses	59,300	-	2,342	-	-	61,642	-	-	-	-	-	61,642
Support expense	7,415,801	4,299	839,448	57,876	(1,921,839)	6,395,585	-	-	-	-	-	6,395,585
Interparochial assistance	1,984,766	-	-	-	-	1,984,766	-	-	-	-	-	1,984,766
Depreciation expense	1,984,680	-	-	-	-	1,984,680	-	-	-	-	-	1,984,680
Interest expense	53,762	512,180	-	-	-	565,942	-	-	-	-	-	565,942
Insurance program expenses	-	-	20,466,728	43,888,464	-	64,355,192	-	-	-	-	-	64,355,192
Total expenses	40,754,059	586,479	23,545,644	44,456,317	(8,556,862)	100,785,637	-	-	-	-	-	100,785,637
Change in net assets before other items	6,523,142	817,804	(25,124)	(2,125,549)	-	5,190,273	439,322	-	1,059,531	-	1,498,853	6,689,126
Other items												
IRRP funding expense	(30,700)	-	-	-	-	(30,700)	-	-	-	-	-	(30,700)
Total other items	(30,700)	-	-	-	-	(30,700)	-	-	-	-	-	(30,700)
CHANGE IN NET ASSETS	6,492,442	817,804	(25,124)	(2,125,549)	-	5,159,573	439,322	-	1,059,531	-	1,498,853	6,658,426
Net assets												
Beginning of year	22,988,087	7,421,353	154,095	14,453,185	-	45,016,720	4,364,340	5,289	27,153,787	100,000	31,623,416	76,640,136
End of year	<u>\$ 29,480,529</u>	<u>\$ 8,239,157</u>	<u>\$ 128,971</u>	<u>\$ 12,327,636</u>	<u>\$ -</u>	<u>\$ 50,176,293</u>	<u>\$ 4,803,662</u>	<u>\$ 5,289</u>	<u>\$ 28,213,318</u>	<u>\$ 100,000</u>	<u>\$ 33,122,269</u>	<u>\$ 83,298,562</u>