

The Philadelphia Theological Seminary of St. Charles Borromeo

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

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.

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

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

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

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

The following table presents the fair values of the assets held by the Seminary 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 Unobservable Inputs (Level 3)	Total Fair Value
Investments in SEI funds	\$ 21,160,773	\$ -	\$ -	\$ 21,160,773
Money market funds	5,083,445	-	-	5,083,445
U.S. Treasuries	365,963	-	-	365,963
Fixed income funds	9,971,719	-	-	9,971,719
Mutual funds	7,746,190	-	-	7,746,190
Total investments	44,328,090	-	-	44,328,090
Beneficial interest in perpetual trusts	-	-	1,631,663	1,631,663
Beneficial interest in foundation	-	-	425,319	425,319
Total assets	\$ 44,328,090	\$ -	\$ 2,056,981	\$ 46,385,072

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

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Investments in SEI funds	\$ 19,995,286	\$ -	\$ -	\$ 19,995,286
Money market funds	1,488,946	-	-	1,488,946
Fixed income funds	14,078,511	-	-	14,078,511
Mutual funds	10,945,623	-	-	10,945,623
Total investments	46,508,366	-	-	46,508,366
Beneficial interest in perpetual trusts	-	-	1,499,867	1,499,867
Beneficial interest in foundation	-	-	406,689	406,689
Total assets	\$ 46,508,366	\$ -	\$ 1,906,556	\$ 48,414,922

The table below sets forth a summary of changes in the fair value of the Seminary's Level 3 assets for the years ended June 30, 2023 and 2022:

	Beneficial Interest in Perpetual Trusts	Beneficial Interest in Foundation
Balance at June 30, 2021	\$ 1,859,979	\$ 1,590,361
Change in fair value of assets	(435,958)	(68,397)
Loss on write-off of beneficial interest in foundation	-	(1,108,816)
Contributions	91,494	11,975
Distributions	(15,648)	(18,434)
Balance at June 30, 2022	1,499,867	406,689
Change in fair value of assets	(1,082)	38,767
Contributions	142,482	2,339
Distributions	(9,604)	(22,476)
Balance at June 30, 2023	\$ 1,631,663	\$ 425,319

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NOTE E - STUDENT & AUXILIARY REVENUES

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

	2023	2022
Tuition and fees	\$ 3,722,760	\$ 3,808,097
Less: scholarships	(705,500)	(682,868)
Net tuition and fees	\$ 3,017,260	\$ 3,125,229

NOTE F - PROPERTY AND EQUIPMENT, NET

The following summarizes property and equipment, net at June 30:

	2023	2022
Building and building improvements	\$ 8,266,054	\$ 365,940
Land	2,250,000	-
Equipment	497,594	806,597
Construction in progress	6,888,920	1,032,265
	17,902,568	2,204,802
Less: accumulated depreciation	(637,245)	(774,106)
Property and equipment, net	\$ 17,265,323	\$ 1,430,696

Depreciation expense of \$198,614 and \$155,143 has been recorded in the statements of cash flows for the years ended June 30, 2023 and 2022, respectively.

NOTE G - NET ASSETS

Net assets with donor restrictions as to purpose or time are available for the following at June 30, 2023 and 2022:

	2023	2022
Student scholarships and student grants	\$ 3,653,639	\$ 3,731,460
Other related donor-restricted projects	1,225,864	931,616
Beneficial interest in foundation	425,319	406,689
	\$ 5,304,822	\$ 5,069,765

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Net assets with donor restrictions that they be held in perpetuity at June 30, 2023 and 2022 are restricted as follows:

	2023	2022
Endowment funds to be held in perpetuity, primarily to support student scholarships	\$ 17,813,030	\$ 16,779,282
Beneficial interests in perpetual trusts	1,631,663	1,499,867
	\$ 19,444,693	\$ 18,279,149

NOTE H - NET ASSETS RELEASED FROM DONOR RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses, satisfying the restricted purposes, or by occurrence of other events specified by donors for the years ended June 30, 2023 and 2022 as follows:

	2023	2022
Purpose restrictions accomplished		
Catholic Life 2000	\$ 293,223	\$ 294,254
Scholarship fund	588,445	549,818
Estates and trusts	26,306	21,776
Krol Chair	114,402	108,130
Loss on write-off of beneficial interest in foundation	-	1,108,816
Expenses related to other projects	137,792	110,882
	\$ 1,160,168	\$ 2,193,676

NOTE I - ENDOWMENTS

The Seminary holds approximately 10 individual donor-restricted endowments. The Seminary's endowments consist of donor-restricted endowment funds established for a variety of purposes. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

In accordance with Commonwealth of Pennsylvania Act 141, the Seminary classifies as endowments: (a) the original value of gifts donated to the permanent endowment; (b) the original value of subsequent gifts to the permanent endowment; and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Pennsylvania law permits the Seminary to release a percentage, which is elected annually, of the market value of its endowment funds into income without donor restrictions. The spending rate percentage, between 2% and 7%, is applied to the three-year average of the market value of the endowment funds' assets.

Return Objectives and Risk Parameters

The Seminary has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the

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June 30, 2023 and 2022

purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period. Under this policy, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of 3% over the consumer price index while assuming a moderate level of investment risk. The Seminary expects its endowment funds, over time, to provide an average rate of return of approximately 5% annually. Actual returns in any given year may vary from that amount.

Spending Policy

In accordance with state law, net realized and unrealized gains on restricted endowment investments are included as net assets with donor restrictions, even absent donor restrictions on the use of gains. Commonwealth of Pennsylvania law permits the Seminary to adopt a spending policy for endowment earnings, subject to certain limitations. The Seminary follows the total return concept of endowment investment and spending. Under this concept, a prudent amount of appreciation earned on the investments may be spent in the event that the interest and dividends earned are insufficient to meet that period's spending rate. The Seminary's spending policy for the years ended June 30, 2023 and 2022 allowed for a 5% draw of the three-year average market value of the donor-restricted endowments, estates and trusts.

The Seminary had the following endowment activities during the years ended June 30, 2023 and 2022, delineated by net asset class. All endowment activities were donor restricted:

	2023		
	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets at June 30, 2022	\$ -	\$ 16,779,282	\$ 16,779,282
Investment return			
Net investment income	-	248,774	248,774
Net appreciation (realized and unrealized)	-	1,611,305	1,611,305
Total investment gain	-	1,860,079	1,860,079
Appropriation of endowment assets for expenditure	-	(826,331)	(826,331)
Endowment net assets at June 30, 2023	<u>\$ -</u>	<u>\$ 17,813,030</u>	<u>\$ 17,813,030</u>
	2022		
	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets at June 30, 2021	\$ -	\$ 20,653,494	\$ 20,653,494
Investment return			
Net investment income	-	228,870	228,870
Net depreciation (realized and unrealized)	-	(3,313,929)	(3,313,929)
Total investment return	-	(3,085,059)	(3,085,059)
Appropriation of endowment assets for expenditure	-	(789,153)	(789,153)
Endowment net assets at June 30, 2022	<u>\$ -</u>	<u>\$ 16,779,282</u>	<u>\$ 16,779,282</u>

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NOTE J - EXPENSES BY BOTH NATURE AND FUNCTION

Program expenses consist of instruction, academic support and student services. Supporting expenses consist of supporting compensation, operations and maintenance, fixed charges and miscellaneous costs.

Functional expenses by natural classification as of June 30, 2023 and 2022:

	Program Services			Management and General			Total Expenses 2023
	Instruction	Academic Support	Student Services	Operations and Maintenance	Institutional Support	Auxiliary Enterprises	
Salaries and benefits	\$ 1,387,522	\$ 1,403,465	\$ 635,496	\$ 46,323	\$ 1,297,171	\$ -	\$ 4,769,977
Professional services	45,108	3,102	55,415	1,221,978	2,124,806	787,680	4,238,089
Depreciation	-	-	-	198,614	-	-	198,614
Other	246,501	250,786	214,401	2,516	515,175	-	1,229,379
Repairs, maintenance, and utilities	24,876	49,204	2,734	1,084,848	31,549	-	1,193,211
Total	\$ 1,704,007	\$ 1,706,557	\$ 908,046	\$ 2,554,279	\$ 3,968,701	\$ 787,680	\$ 11,629,270

	Program Services			Management and General			Total Expenses 2022
	Instruction	Academic Support	Student Services	Operations and Maintenance	Institutional Support	Auxiliary Enterprises	
Salaries and benefits	\$ 1,226,321	\$ 1,445,417	\$ 571,372	\$ 39,227	\$ 1,319,931	\$ -	\$ 4,602,268
Professional services	31,347	31,646	75,871	1,193,354	2,102,078	798,692	4,232,988
Depreciation	-	-	-	155,143	-	-	155,143
Other	138,698	245,074	120,493	815	762,465	-	1,271,545
Repairs, maintenance, and utilities	17,906	51,862	2,078	723,919	55,892	-	851,657
Total	\$ 1,414,272	\$ 1,773,999	\$ 769,814	\$ 2,112,458	\$ 4,240,366	\$ 798,692	\$ 11,109,601

NOTE K - RELATED PARTIES

The Seminary has agreements with several entities of the Archdiocese of Philadelphia for use of the Seminary's facilities. These arrangements are with the Vocations Office and Archbishop. The Seminary recorded revenue of \$53,770 and \$55,225 for the years ended June 30, 2023 and 2022, respectively, for monies received.

The Seminary remits payments for all insurance, except lay medical insurance, to the Archdiocese of Philadelphia, Office for Financial Services, which purchases insurance coverage for all Archdiocesan entities. Total expenses were \$724,522 and \$621,203 for the years ended June 30, 2023 and 2022, respectively.

The Seminary reimburses the Office for Financial Services for salaries and expenses incurred on behalf of the Seminary employees.

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

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Under the Archdiocese of Philadelphia's Priest Student Loan Policy, priests are reimbursed for payments made toward student debt that was incurred for their studies at the Seminary. The reimbursements are contingent upon loan payments being made by the priest and are limited annually to a maximum repayment amount predetermined by the Archdiocese of Philadelphia. The Archdiocese of Philadelphia assumes no liability related to the outstanding balances on these loans until payment is made by the priests. Upon payment, the Archdiocese of Philadelphia assumes the liability. The reimbursement cost is split evenly between the Archdiocese of Philadelphia and the Seminary. During the years ended June 30, 2023 and 2022, the combined reimbursement totaled \$87,180 and \$113,888, respectively. As of June 30, 2023 and 2022, the potential Priest Student Loan balance outstanding totaled \$448,845 and \$523,601, respectively. The Seminary's accounts payable and accrued expenses include one-half of the Priest Student Loan balance at June 30, 2023 and 2022.

NOTE L - PENSION PLANS

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

Through June 30, 2014, the eligible lay employees of the Seminary were covered under the Archdiocese of Philadelphia Lay Employees' Retirement Plan (the "Plan"), which is a defined benefit pension plan covering substantially all lay employees of the Archdiocese of Philadelphia, based on age and service requirements. The Plan is administered by the Trustees of the Plan. The Seminary made annual contributions to the Plan at a rate of 4% of the salaries of eligible employees for each of the years ended June 30, 2023 and 2022. The amount expensed by the Seminary for contributions to the Plan was \$64,049 and \$107,761 for the years ended June 30, 2023 and 2022, respectively. Separate accounts for vested benefits and pension fund assets are not maintained for each institution.

Archdiocese of Philadelphia 403(b) Retirement Plan

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

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

Grandfathered Employees - Any employee who was accruing benefits as an active participant in the Plan as of its freeze date of June 30, 2014 is a grandfathered employee and will be eligible to receive employer contributions beginning with the first payroll on or after September 1, 2014.

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

Vesting - Vesting in employer contributions to a 403(b) plan account will be immediate for any grandfathered employee who has completed 12 months of service as of June 30, 2014. Vesting in employer contributions for all other employees will take place after the completion of 12 months of service.

The contributions by the Seminary into the 403(b) plan totaled \$89,108 and \$96,435 for the years ended June 30, 2023 and 2022, respectively.

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Archdiocese of Philadelphia Priests' Pension Plan

In addition, the priests of the Seminary are covered under the Archdiocese of Philadelphia Priests' Pension Plan (the "Priest Plan"), which is a defined benefit pension plan that covers substantially all priests, once age requirements are met, of the Archdiocese of Philadelphia, its institutions and parishes. The contributions of the Seminary were \$42,750 and \$36,400 for the years ended June 30, 2023 and 2022, respectively. Separate accounts for vested benefits and pension fund assets are not maintained for each institution.

NOTE M - OTHER INCOME

Other income recognized by the Seminary is comprised of the following for the years ended June 30, 2023 and 2022:

	2023	2022
Fees for service	\$ 42,090	\$ 27,450
Third-party trust income	63,703	62,808
Institutional assistance grant	2,656	1,876
Miscellaneous income	50,973	42,201
Third-party grant income	15,056	50,000
Interest income	173,770	4,919
Rental of facilities	53,770	55,225
Permanent diaconate income	88,459	81,359
Rector's/Archdiocesan discretionary fund	111,000	-
Spanish Mission income	48,183	-
Vocations office income	251,151	242,057
	\$ 900,811	\$ 567,895

NOTE N - COMMITMENTS AND CONTINGENCIES

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

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NOTE O - LIQUIDITY AND FUNDS AVAILABLE

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

	June 30,	
	2023	2022
Financial assets:		
Cash and cash equivalents	\$ 21,977,606	\$ 18,481,178
Accounts and other receivables, net	209,656	236,146
Investments	44,328,090	46,508,366
Beneficial interest in perpetual trusts and foundation	2,056,982	1,906,556
Financial assets at year end	68,572,334	67,132,246
Less those unavailable for general expenditure within one year, due to:		
Designated by the board of trustees for construction of new Seminary	(29,993,979)	(28,180,141)
Investments and perpetual trusts held by others and not convertible to cash within next 12 months	(25,336,293)	(24,998,170)
Financial assets available to meet cash needs for general expenditures within one year	\$ 13,242,062	\$ 13,953,935

NOTE P - SUBSEQUENT EVENTS

The Seminary has evaluated subsequent events through November 9, 2023, the date on which the financial statements were available for distribution, noting no items requiring accrual or disclosure in the financial statements.

SUPPLEMENTARY INFORMATION

The Philadelphia Theological Seminary of St. Charles Borromeo

FINANCIAL RESPONSIBILITY SUPPLEMENTAL SCHEDULE

Year ended June 30, 2023

Primary Reserve Ratio

Expendable net assets

Net assets without donor restrictions	\$ 61,559,188
Net assets with donor restrictions	24,749,515
Less: net assets restricted in perpetuity (Note G)	(19,444,693)
Less: property and equipment, net	<u>(17,265,323)</u>
Total expendable net assets	49,598,687

Total expenses

Expenses without donor restrictions	11,629,270
Relocation expenses	<u>1,024,597</u>
Total expenses	12,653,867

Primary Reserve Ratio

3.9196

Equity Ratio

Modified net assets

Net assets without donor restrictions	\$ 61,559,188
Net assets with donor restrictions	<u>24,749,515</u>
Total modified net assets	86,308,703

Modified assets

Total assets	<u>88,551,267</u>
Total modified assets	88,551,267

Equity Ratio

0.9747

Net Income Ratio

Change in net assets without donor restrictions	<u>\$ 13,959,083</u>
Total revenue without donor restrictions (less: net assets released from restrictions)	\$ 25,383,213

Net Income Ratio

0.5499

	<u>Ratio</u>	<u>Strength</u>	<u>Weight</u>	<u>Composite</u>
Primary reserve	3.9196	3.0000	40%	1.2000
Equity	0.9747	3.0000	40%	1.2000
Net income	0.5499	3.0000	20%	0.6000

Financial Responsibility Composite Score (maximum of 3.0)

3.0