

Financial Statements and Report of  
Independent Certified Public  
Accountants

**Archdiocese of Philadelphia,  
Office of Catholic Education High Schools**

June 30, 2023 and 2022

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**GRANT THORNTON LLP**

Two Commerce Square  
2001 Market St, Suite 700  
Philadelphia, PA 19103

**D** +1 215 561 4200

**F** +1 215 561 1066

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

To the Archbishop of Philadelphia  
Office of Catholic Education High Schools

**Opinion**

We have audited the financial statements of the Archdiocese of Philadelphia, Office of Catholic Education High Schools (“Diocesan High Schools”), 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 Diocesan High Schools 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 Diocesan High Schools 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 Diocesan High Schools 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 Diocesan High Schools’ 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 Diocesan High Schools' 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 Diocesan High Schools' 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.

*Grant Thornton LLP*

Philadelphia, Pennsylvania  
December 18, 2023

**Archdiocese of Philadelphia, Office of Catholic Education  
High Schools**

**STATEMENTS OF FINANCIAL POSITION**

**As of June 30,**

	<b>2023</b>	<b>2022</b>
<b>ASSETS</b>		
Cash and cash equivalents, including amounts held by affiliate	\$ 52,948,535	\$ 59,057,300
Parental tuition and fees receivable, less allowance for doubtful accounts of \$2,132,934 and \$2,281,344, respectively	1,448,199	1,359,608
Due from related organizations (Note J)	33,679	81,775
Pledges receivable, net (Note C)	2,630,438	2,048,489
Other receivables	4,439,135	1,960,667
Prepaid expenses and other assets	1,356,322	627,676
Beneficial interest in financially inter-related organizations	17,820,137	16,401,309
Investments (Note D)	110,589,042	90,943,748
Right-of-use assets – operating leases (Note M)	1,292,632	1,288,527
Right-of-use assets – finance leases (Note M)	173,798	242,237
Property and equipment, net (Note F)	103,680,649	100,805,686
Property held for sale (Note F)	-	711,199
	<b>\$ 296,412,566</b>	<b>\$ 275,528,221</b>
<b>LIABILITIES AND NET ASSETS</b>		
Accounts payable	\$ 5,130,267	\$ 4,008,767
Accrued payroll	5,256,033	4,919,844
Accrued non-pension retirement benefits (Note K)	1,062,412	1,264,356
Accrued vacation (Note K)	795,123	758,764
Incurred but not reported medical claims (Note B)	450,000	522,000
Due to related organizations (Note J)	631,093	381,789
Deferred revenue	14,945,632	13,806,336
Deferred lease payment	12,329,395	12,448,379
Lease liability - operating leases (Note M)	1,292,965	1,288,527
Lease liability - finance leases (Note M)	73,727	131,423
Notes payable to related parties (Note J)	31,583,706	47,519,171
	<b>73,550,353</b>	<b>87,049,356</b>
<b>Net assets</b>		
Without donor restrictions (Note G)	111,509,304	88,695,561
With donor restrictions (Note H)	111,352,909	99,783,304
	<b>222,862,213</b>	<b>188,478,865</b>
<b>Total net assets</b>	<b>222,862,213</b>	<b>188,478,865</b>
<b>Total liabilities and net assets</b>	<b>\$ 296,412,566</b>	<b>\$ 275,528,221</b>

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

**Archdiocese of Philadelphia, Office of Catholic Education  
High Schools**

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**

Year ended June 30, 2023

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>Revenues:</b>			
Tuition and fees, net	\$ 95,831,113	\$ -	\$ 95,831,113
Contributions of cash and other financial assets	8,772,985	13,639,498	22,412,483
Contributions of nonfinancial assets			
Contributed services (Note O)	937,251	-	937,251
Other in-kind contributions	407,736	-	407,736
Grant revenues	5,159	-	5,159
Fundraising income, net of disbursements	841,514	130,861	972,375
Resale items, net of purchases	219,660	-	219,660
Commissions	746,833	-	746,833
Rental income	1,494,007	-	1,494,007
Ticket sales	1,277,898	-	1,277,898
Program revenue	454,718	-	454,718
Other revenues	1,781,228	17,674	1,798,902
Investment return, net	2,666,348	8,208,412	10,874,760
	<u>19,605,337</u>	<u>21,996,445</u>	<u>41,601,782</u>
Total other operating revenues			
Net assets released from restriction			
Satisfaction of purpose restrictions - CL2000	1,529,405	(1,529,405)	-
Satisfaction of purpose restrictions - Heritage of Faith	700,000	(700,000)	-
Satisfaction of purpose restrictions - General	9,962,334	(9,962,334)	-
	<u>127,628,189</u>	<u>9,804,706</u>	<u>137,432,895</u>
Total revenues			
<b>Expenses:</b>			
Salaries	50,242,855	-	50,242,855
Employee benefits	16,239,294	-	16,239,294
Purchased services	17,584,571	-	17,584,571
Plant	15,905,193	-	15,905,193
Support expenses	11,581,126	-	11,581,126
Debt service	1,490,743	-	1,490,743
	<u>113,043,782</u>	<u>-</u>	<u>113,043,782</u>
Total expenses			
Change in net assets before other items	14,584,407	9,804,706	24,389,113
Change in beneficial interest in financially inter-related organizations	(346,071)	1,764,899	1,418,828
Benefit-related changes other than net periodic benefit costs (Note K)	269,081	-	269,081
Other components of net periodic benefit costs (Note K)	(136,351)	-	(136,351)
Net gain on sale of property and equipment	2,718,876	-	2,718,876
Gain on sale of property held for sale	5,723,801	-	5,723,801
	<u>22,813,743</u>	<u>11,569,605</u>	<u>34,383,348</u>
<b>CHANGE IN NET ASSETS</b>			
Net assets, beginning of year	88,695,561	99,783,304	188,478,865
Net assets, end of year	<u>\$ 111,509,304</u>	<u>\$ 111,352,909</u>	<u>\$ 222,862,213</u>

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

**Archdiocese of Philadelphia, Office of Catholic Education  
High Schools**

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**

Year ended June 30, 2022

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>Revenues:</b>			
Tuition and fess, net	\$ 92,072,222	\$ -	\$ 92,072,222
Contributions of cash and other financial assets	8,844,077	6,388,725	15,232,802
Contributions of nonfinancial assets			
Contributed services (Note O)	1,299,791	-	1,299,791
Other in-kind contributions	949,608	-	949,608
Grant revenues	2,290,906	-	2,290,906
Fundraising income, net of disbursements	813,977	122,971	936,948
Resale items, net of purchases	211,174	-	211,174
Commissions	703,809	-	703,809
Rental income	1,329,302	-	1,329,302
Ticket sales	1,099,982	-	1,099,982
Program revenue	434,074	-	434,074
Other revenues	1,905,407	6,500	1,911,907
Investment return, net	(1,398,531)	(13,239,607)	(14,638,138)
	18,483,576	(6,721,411)	11,762,165
<b>Total other operating revenues</b>			
Net assets released from restriction			
Satisfaction of purpose restrictions - CL2000	1,885,100	(1,885,100)	-
Satisfaction of purpose restrictions - Heritage of Faith	700,000	(700,000)	-
Satisfaction of purpose restrictions - General	6,404,123	(6,404,123)	-
	119,545,021	(15,710,634)	103,834,387
<b>Total revenues</b>			
<b>Expenses:</b>			
Salaries	49,861,971	-	49,861,971
Employee benefits	17,745,031	-	17,745,031
Purchased services	16,133,810	-	16,133,810
Plant	15,991,548	-	15,991,548
Support expenses	11,502,609	-	11,502,609
Debt service	1,942,716	-	1,942,716
	113,177,685	-	113,177,685
<b>Total expenses</b>			
Change in net assets before other items	6,367,336	(15,710,634)	(9,343,298)
Change in beneficial interest in financially inter-related organizations	317,511	(1,212,689)	(895,178)
Benefit-related changes other than net periodic benefit costs (Note K)	348,855	-	348,855
Other components of net periodic benefit costs (Note K)	(147,608)	-	(147,608)
Net gain on sale of property and equipment	6,458,932	-	6,458,932
Change in designation of net assets	(100,000)	100,000	-
	13,245,026	(16,823,323)	(3,578,297)
<b>CHANGE IN NET ASSETS</b>			
<b>Net assets, beginning of year</b>	75,450,535	116,606,627	192,057,162
<b>Net assets, end of year</b>	\$ 88,695,561	\$ 99,783,304	\$ 188,478,865

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

**Archdiocese of Philadelphia, Office of Catholic Education  
High Schools**

**STATEMENTS OF CASH FLOWS**

Years ended June 30,

	<b>2023</b>	<b>2022</b>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 34,383,348	\$ (3,578,297)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	7,583,235	7,575,580
Amortization of right-of-use assets - finance leases	68,439	31,493
Bad debt expense	297,828	646,852
Gain on sale of property and equipment	(2,718,876)	(6,458,932)
Gain on sale of property held for sale	(5,723,801)	-
Net change in unrealized (gains) losses on investments	(5,983,867)	24,722,829
Net realized gains on investments	(531,867)	(256,203)
Change in beneficial interest in financially inter-related organizations	(1,418,828)	895,178
Contributions restricted for long-term purposes	(212,940)	(418,606)
Other in-kind contributions	(407,736)	(949,608)
Changes in assets and liabilities:		
Parental tuition and fees receivable	(386,419)	(596,913)
Due from related organizations	48,096	(64,381)
Pledges receivable	(581,949)	1,038,308
Other receivables	(2,478,468)	(1,223,389)
Prepaid expenses and other assets	(728,646)	660,155
Right-of-use assets – operating leases	(4,105)	6,967
Accounts payable	1,073,688	29,628
Accrued payroll	336,189	(406,424)
Accrued non-pension retirement benefits	(201,944)	(269,975)
Accrued vacation	36,359	42,042
Incurred but not reported medical claims	(72,000)	(116,000)
Due to related organizations	249,304	76,092
Deferred revenue	1,139,296	741,191
Deferred lease payment	(118,984)	12,448,379
Lease liability – operating leases	4,438	(6,967)
	<u>23,649,790</u>	<u>34,568,999</u>
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(10,153,678)	(6,424,637)
Proceeds from sale of property and equipment	2,869,904	9,103,289
Proceeds from sale of property held for sale	6,435,000	-
Proceeds from sale of investments	11,429,468	7,632,597
Purchase of investments	(24,559,028)	(24,227,194)
	<u>(13,978,334)</u>	<u>(13,915,945)</u>
<b>Cash flows from financing activities:</b>		
Payment of lease liability - finance leases	(57,696)	(72,697)
Repayments of notes payable to related parties	(15,935,465)	(1,669,654)
Contributions restricted for long-term purposes	212,940	418,606
	<u>(15,780,221)</u>	<u>(1,323,745)</u>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS, INCLUDING AMOUNTS HELD BY AFFILIATE</b>	<u>(6,108,765)</u>	<u>19,329,309</u>
<b>Cash and cash equivalents, including amounts held by affiliate, beginning of year</b>	<u>59,057,300</u>	<u>39,727,991</u>
<b>Cash and cash equivalents, including amounts held by affiliate, end of year</b>	<u><u>52,948,535</u></u>	<u><u>\$ 59,057,300</u></u>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for interest	<u>\$ 1,490,743</u>	<u>\$ 1,942,716</u>
Capital expenditures through accounts payable	<u>\$ 455,548</u>	<u>\$ 6,182</u>
Reclassification of property and equipment to property held for sale	<u>\$ -</u>	<u>\$ 711,199</u>

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



**Archdiocese of Philadelphia, Office of Catholic Education High Schools**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2023 and 2022**

**NOTE A - NATURE OF OPERATIONS**

The accompanying financial statements of the Office of Catholic Education High Schools (“Diocesan High Schools”) include the funds generated from and designated for the operations and maintenance of the 15 high schools owned by the Archdiocese of Philadelphia, Office of Catholic Education. They exclude certain entities of the Archdiocese of Philadelphia, which relate to the Diocesan High Schools but are considered separate reporting entities. These entities are as follows:

- Office of Catholic Education Schools of Special Education (“SPED”)
- Office of Catholic Education Administration Account (“OCE”)
- Office for Financial Services (“OFS”)
- Trustee Account of the Archdiocese of Philadelphia for Estates and Trusts
- Catholic Housing and Community Services (“CHCS”)
- Catholic Social Services (“CSS”)
- Office of Catholic Cemeteries
- Lay Employees Retirement Plan
- Risk Insurance Trust
- Welfare Benefits Trust
- Deposit and Loan Program Trust
- Independent Reconciliation and Reparations Trust
- Heritage of Faith ~ Vision of Hope
- Archdiocese of Philadelphia Priest’s Retirement Benefits Funding Trust
- Trustees of Roman Catholic High School
- Nutritional Development Services of the Archdiocese of Philadelphia

The Diocesan High Schools are considered to be a component of the Archdiocese of Philadelphia and not a separate legal entity. From September 1, 2012 through June 30, 2022, the Archdiocese of Philadelphia entered into an agreement with Faith in the Future Foundation (“FIF”). Pursuant to the aforementioned agreement, FIF assumed strategic and operational management of the Catholic secondary schools and the Schools of Special Education and provided certain financial assistance to the schools. OCE had primary responsibility for, and FIF had oversight and approval responsibility over, school operations. The five senior management positions of OCE reported directly to FIF’s Chief Executive Officer. All facilities continue to be owned by the Archdiocese of Philadelphia.

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

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Basis of Presentation***

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

Net assets with donor restrictions include gifts, trusts, income and gains which have either a time or use restriction, but which may ultimately be expended. Since endowment investment income and net realized and unrealized gains and losses may eventually be spent, such earnings are recorded in the financial statements as net assets with donor restrictions, until transferred to net assets without donor restrictions.

Net assets with donor restrictions also include the historical dollar amounts of gifts, which require by donor restriction that the corpus be invested in perpetuity and only the investment income be made available for

**Archdiocese of Philadelphia, Office of Catholic Education High Schools**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2023 and 2022**

operations in accordance with donor restrictions. Investment income and net realized and unrealized gains and losses, if permanently restricted by the donor, are included in net assets with donor restrictions. Net assets without donor restrictions are free from donor-imposed restrictions and are all the remaining net assets of the Diocesan High Schools.

***Revenue Recognition***

Diocesan High Schools recognize and measure its revenues in accordance with Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The core principle of this guidance is that an entity should recognize revenue in an amount that reflects the consideration to which the entity expects to be entitled in exchange for these goods and services at the date the performance obligation has occurred. The standard outlines a five-step model whereby revenue is recognized as performance obligations within a contract are satisfied.

Tuition and Fees, Net

The Diocesan High Schools recognize revenue from student tuition and other school fees within the fiscal year in which educational services are provided. Tuition and fees revenue are reflected net of discounts and waivers (“tuition reductions”) and scholarships and tuition assistance, which represent the difference between the stated charge for tuition and fees and the amount billed to the student or third parties making payments on behalf of the student. Tuition and other school fees collected for the upcoming school year are included in deferred revenue and recognized as revenue ratably over the applicable school year.

The following table details the tuition and fees, net for the years ended June 30:

	<u>2023</u>	<u>2022</u>
Basic tuition	\$ 88,051,364	\$ 85,987,006
Special tuition	205,200	197,513
International tuition	148,550	131,400
School fee	14,964,692	15,617,918
Other school fees	<u>6,132,737</u>	<u>5,777,330</u>
	109,502,543	107,711,167
Less: tuition reductions	(5,467,551)	(5,483,036)
Less: scholarships and tuition assistance	<u>(8,203,879)</u>	<u>(10,155,909)</u>
Tuition and fees, net	<u>\$ 95,831,113</u>	<u>\$ 92,072,222</u>

Registration fees and re-registration fees are recognized upon registration since these fees are non-refundable. For the years ended June 30, 2023 and 2022, registration and re-registration fees of \$1,631,229 and \$1,573,694, respectively, are included in other school fees.

The allowance for doubtful accounts is provided based upon management’s judgment, including such factors as prior collection history and the length of time a receivable is past due. The Diocesan High Schools write off receivables when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts.

Archdiocese of Philadelphia, Office of Catholic Education High Schools

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

Contributions and Donations

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

Contributions including unconditional promises to give are recorded as revenue in the period when received. Unconditional promises to give are recorded at their fair value when Diocesan High Schools are notified of these gifts. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

Contributions of assets other than cash, including long-lived assets, are recorded at their estimated fair value. During the years ended June 30, 2023 and 2022, certain building demolition expenses and construction costs were paid for by Friends of Father Judge High School on behalf of Father Judge High School amounting to \$356,669 and \$914,249, respectively, and recognized as part of other in-kind contributions in the statements of activities and changes in net assets. These contributed items are expensed and capitalized as appropriate, and they do not have donor-imposed restrictions.

Contributed services are recorded as the value of services performed by individuals, based on equivalent salaries of personnel performing similar duties less the compensation and benefit payments (if any) and faculty residence expenses paid for religious personnel. The value of contributed services is included as revenue and, correspondingly, charged as expense. Contributed services did not have donor-imposed 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. Gifts of cash and other assets are recorded as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the accompanying statement of activities and changes in net assets as net assets released from restrictions.

Other sources of revenue not otherwise categorized are recognized in the fiscal year in which they are earned.

***Cash and Cash Equivalents, Including Amounts Held by Affiliate***

Cash and cash equivalents represent demand deposits and other investments with an original maturity date of three months or less. The carrying amount approximates fair value. At June 30, 2023 and 2022, the Diocesan High Schools have cash balances on deposit with financial institutions that exceed the balance insured by the Federal Deposit Insurance Corporation. The Diocesan High Schools have not experienced any losses in such accounts.

**Archdiocese of Philadelphia, Office of Catholic Education High Schools**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2023 and 2022**

***Beneficial Interest in Financially Inter-Related Organizations***

Beneficial interest in financially inter-related organizations includes the net assets of the Trustees of Roman Catholic High School, a separate corporation identified as a financially inter-related organization to the Diocesan High Schools. It also includes the net assets of the Friends of Father Judge High School, a separate corporation identified as a financially inter-related organization to the Diocesan High Schools.

***Investments***

Investments are recorded at fair value. Mutual funds include equity, fixed income, and international mutual funds valued at the closing price of the traded fund at the statement of financial position date. To the extent these mutual funds are actively traded, they are categorized in Level 1 of the fair value hierarchy. If such information is not available, mutual funds are valued based on yields currently available on comparable securities for issuers with similar credit ratings and classified in Level 2 of the fair value hierarchy.

Money market funds include securities valued at amortized cost, which approximates fair value. The amortized cost of an instrument is determined by valuing it at its original cost and thereafter amortizing any discount or premium from its face value at a constant rate until maturity. Securities held by a money market fund are generally high quality and liquid; however, they are reflected as Level 2 because the inputs used to determine fair value are not quoted prices in an active market.

Common stocks are traded on a national securities exchange. These securities are stated at the last reported sales price on the day of valuation. To the extent these securities are actively traded, they are categorized in Level 1 of the fair value hierarchy.

Debt securities, including treasury notes, corporate and international securities, are valued at the closing price reported in the active market in which the note or bond is traded, if available, and classified as Level 1 in the fair value hierarchy. If such information is not available, debt securities are valued based on yields currently available on comparable securities for issuers with similar credit ratings and classified in Level 2 of the fair value hierarchy.

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

***Property and Equipment, Net***

Property and equipment are stated at cost, while donated assets are stated at fair market value on the date of donation. Depreciation has been provided by the straight-line method over the estimated useful lives of the related assets as follows:

Land improvements	10-25 years
Building	20-40 years
Building improvements	5-20 years
Leasehold improvements (Roman Catholic High School)	5-25 years
Furniture and fixtures	5-20 years
Vehicles	10 years

Roman Catholic High School's property and equipment are held in the name of the Trustees of Roman Catholic High School. Building and land improvements and purchases of furniture and fixtures for this facility are recorded as leasehold improvements. The related lease term is indefinite as long as the property and equipment are used as a Catholic high school. Accordingly, these leasehold improvements are depreciated

**Archdiocese of Philadelphia, Office of Catholic Education High Schools**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2023 and 2022**

over the stated useful lives, which are less than the lease term. Property and equipment improvements and purchases in excess of \$10,000 are capitalized.

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.

**Leases**

The Diocesan High Schools recognize and measure their leases in accordance with ASU 2016-02, *Leases*. The Diocesan High Schools are lessees in several non-cancelable leases for equipment and vehicles and recognized a lease liability and a right-of-use ("ROU") asset at the commencement date of the lease. The lease liability is initially and subsequently recognized based on the present value of its future lease payments. Variable payments are included in the future lease payments when those variable payments depend on an index or a rate. The discount rate is the implicit rate if it is readily determinable otherwise, the Diocesan High Schools use their incremental borrowing rate. The implicit rates for some of the Diocesan High Schools leases are not readily determinable and accordingly, the incremental borrowing rate was based on the information available at the commencement date for all leases. The Diocesan High Schools' incremental borrowing rate for a lease is the rate of interest it would have to pay on a collateralized basis to borrow an amount equal to the lease payments under similar terms and in a similar economic environment. The ROU asset is subsequently measured throughout the lease term at the amount of the remeasured lease liability (i.e., present value of the remaining lease payments), plus unamortized initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received, and any impairment recognized. Lease cost for lease payments is recognized on a straight-line basis over the lease term.

***Incurred but Not Reported Medical Claims***

The statements of financial position include self-insurance liabilities with respect to the medical, prescription drug and dental insurance programs as of June 30, 2023 and 2022. These obligations represent an estimate of the expected ultimate cost for claims incurred but not paid. Liabilities for medical, prescription drug and dental benefits were estimated based on the Development Method. The underlying principle of the Development Method is that the progression of claim payment follows runoff patterns that are assumed to remain stable over time. Independence Blue Cross provided claim data summarized by the incurred and paid period. The results, produced by applying the Development Method to these data, were then adjusted for months where data was deemed non-credible. These adjustments were made using the Projection Method, which is based on the change in costs per exposure unit over time. For the years presented, the estimate is based on the last 48 months of incurred and paid claims for each of the years ended June 30, 2023 and 2022.

***Functional Expenses***

All expenses relate to the operation and maintenance of the Diocesan High Schools. Expenses directly attributable to a specific functional area of the Diocesan High Schools are reported as expenses of those functional areas. Administration includes expenses of the administrative offices with the school as well as development and admission offices. Academic includes instruction, spiritual, technology and summer programs. Activities/athletics includes student clubs and sports, dances/proms, graduation, and booster

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clubs to support athletics. Other includes expenses related to school store, staff development center, and vacant properties.

**Concentrations of Credit Risk**

Financial instruments which potentially subject the institution to concentration of credit risk consist principally of temporary cash investments and parental receivables. Management places its temporary cash investments with high credit quality financial institutions. Concentration of credit risk with respect to parental receivables is limited due to the large number of parents; however, management evaluates each of these credit risks and establishes an appropriate allowance for doubtful accounts.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make significant estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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.

**Pending Accounting Pronouncement**

In June 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-13, *Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 replaced the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss ("CECL") methodology. CECL requires an estimate of credit losses for the remaining estimated life of the financial asset using historical experience, current conditions, and reasonable and supportable forecasts and generally applies to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities, and some off-balance sheet credit exposures such as unfunded commitments to extend credit. Financial assets measured at amortized cost must be presented at the net amount expected to be collected by using an allowance for credit losses. This guidance is effective for fiscal year 2024 for the Diocesan High Schools. The Diocesan High Schools is currently evaluating the impact of the new guidance on the financial statements.

**NOTE C - PLEDGES RECEIVABLE, NET**

A summary of pledges receivable is as follows at June 30:

	<u>2023</u>	<u>2022</u>
Less than one year	\$ 1,800,631	\$ 921,752
One year to five years	<u>1,162,382</u>	<u>1,445,216</u>
	2,963,013	2,366,968
Less: allowance for doubtful accounts	(233,461)	(170,336)
Less: discount	<u>(99,114)</u>	<u>(148,143)</u>
	<u>\$ 2,630,438</u>	<u>\$ 2,048,489</u>

Pledges receivable are recorded at fair value using a discount rate commensurate with the risks associated with the pledge. The discount rate used was 2% at both June 30, 2023 and 2022.

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**June 30, 2023 and 2022**

**NOTE D - INVESTMENTS**

At June 30, the Diocesan High Schools' investments are classified as follows:

	<u>2023</u>	<u>2022</u>
Mutual funds	\$ 86,887,910	\$ 80,342,805
Money market funds	1,857,591	870,240
Common stocks	6,957,332	6,712,827
Debt securities	<u>14,886,209</u>	<u>3,017,876</u>
	<u>\$ 110,589,042</u>	<u>\$ 90,943,748</u>

**NOTE E - FAIR VALUE MEASUREMENTS**

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

Level 1 - Quoted prices in active markets for identical assets or liabilities;

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

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

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

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

Fair value calculations may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Diocesan High Schools believe their 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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**June 30, 2023 and 2022**

The following tables present the fair values of the investments held by the Diocesan High Schools by level within the fair value hierarchy as of June 30:

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
<u>2023</u>				
Assets				
Investments				
Mutual funds	\$ 86,302,931	\$ 584,979	\$ -	\$ 86,887,910
Money market funds	3,140	1,854,451	-	1,857,591
Common stocks	6,957,332	-	-	6,957,332
Debt securities	12,690,174	2,196,035	-	14,886,209
	<u>\$ 105,953,577</u>	<u>\$ 4,635,465</u>	<u>\$ -</u>	<u>\$ 110,589,042</u>
Total investments				
Beneficial interest in financially inter-related organizations	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,820,137</u>	<u>\$ 17,820,137</u>
<u>2022</u>				
Assets				
Investments				
Mutual funds	\$ 79,810,305	\$ 532,500	\$ -	\$ 80,342,805
Money market funds	11,868	858,372	-	870,240
Common stocks	6,712,827	-	-	6,712,827
Debt securities	747,735	2,270,141	-	3,017,876
	<u>\$ 87,282,735</u>	<u>\$ 3,661,013</u>	<u>\$ -</u>	<u>\$ 90,943,748</u>
Total investments				
Beneficial interest in financially inter-related organizations	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,401,309</u>	<u>\$ 16,401,309</u>

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

Balance at June 30, 2021	\$ 17,296,487
Change in fair value of assets	<u>(895,178)</u>
Balance at June 30, 2022	16,401,309
Change in fair value of assets	<u>1,418,828</u>
Balance at June 30, 2023	<u>\$ 17,820,137</u>



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**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2023 and 2022**

**NOTE F – PROPERTY AND EQUIPMENT, NET AND PROPERTY HELD FOR SALE**

***Property and equipment, net***

Property and equipment and accumulated depreciation at June 30 consist of:

	<u>2023</u>	<u>2022</u>
Land	\$ 6,280,841	\$ 6,280,841
Land improvements	22,782,835	20,032,996
Building	83,699,944	83,991,387
Building improvements	60,558,260	57,461,770
Leasehold improvements	9,145,985	8,452,508
Furniture and fixtures	23,982,645	22,467,549
Vehicles	562,772	537,583
Work in progress	<u>2,456,416</u>	<u>1,062,872</u>
	209,469,698	200,287,506
Less: accumulated depreciation	<u>(105,798,049)</u>	<u>(99,481,820)</u>
Property and equipment, net	<u>\$ 103,680,649</u>	<u>\$ 100,805,686</u>

Depreciation expense was \$7,583,235 and \$7,575,580 for the years ended June 30, 2023 and 2022, respectively.

On May 1, 2023, the Diocesan High Schools sold the former Kennedy-Kenrick Catholic High School properties in Montgomery, PA to Arborplace Homes, LLC and received net proceeds of \$2,869,904. A gain of \$2,820,000 was recognized and presented as part of net gain on sale of property and equipment in the June 30, 2023 statement of activities and changes in net assets.

On March 17, 2022, the Archdiocese sold the John W. Hallahan High School and former Cathedral School properties in Philadelphia, PA to Rec Hallahan, LLC. The proceeds from the sale were allocated between OFS and Diocesan High Schools based on the respective square footage of the two buildings. The Diocesan High School received \$6,242,563 for its proportionate share and recognized a gain of \$4,355,201 presented as part of net gain on sale of property and equipment in the June 30, 2022 statement of activities and changes in net assets.

On July 15, 2021, Diocesan High Schools sold its Archbishop Prendergast property in Drexel Hill, PA and received net proceeds of \$2,860,726 and recognized a gain of \$2,800,224 presented as part of net gain on sale of property and equipment in the June 30, 2022 statement of activities and changes in net assets.

***Property Held for Sale***

On August 3, 2022, the Diocesan High Schools sold the Bishop McDevitt High School property in Wyncote, PA, which was no longer in use and was being held for sale as of June 30, 2022, to Arcadia University and the Diocesan High Schools received net proceeds of \$6,435,000. A gain of \$5,723,801 was recognized and presented as gain on sale of property held for sale in the June 30, 2023 statement of activities and changes in net assets.

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**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2023 and 2022**

**NOTE G - NET ASSETS WITHOUT DONOR RESTRICTIONS**

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

	<u>2023</u>	<u>2022</u>
Without donor restrictions	\$ 101,843,983	\$ 79,959,421
Board-designated endowment:		
West Catholic Prep Endowment Fund	<u>9,665,321</u>	<u>8,736,140</u>
	<u>\$ 111,509,304</u>	<u>\$ 88,695,561</u>

In February 2022, a Memorandum of Understanding was signed to establish a board-designated endowment for the benefit of West Catholic Preparatory High School (WCPHS).

**NOTE H - NET ASSETS WITH DONOR RESTRICTIONS**

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

	<u>2023</u>	<u>2022</u>
Net assets subject to time or use donor-imposed restrictions:		
Tuition assistance for all schools	\$ 5,691,493	\$ 3,960,276
Tuition assistance for specific schools	6,551,446	6,062,011
Property and equipment for Roman Catholic High School held by Trustees	8,943,883	9,636,511
Tuition assistance/operations/improvements for specific schools	355,084	519,860
Operations and improvements for specific schools	8,231,257	5,170,362
Others, for specific schools	6,718,021	4,826,259
Accumulated earnings in excess of spending of endowments		
Tuition assistance for all schools	3,918,653	3,341,645
Tuition assistance for specific schools	994,844	788,344
Operations for Roman Catholic High School held by Trustees	1,185,271	928,755
Operations and improvements for all schools	26,745,313	22,791,958
Others, for specific schools	<u>42,317</u>	<u>35,936</u>
Total net assets subject to time or use donor-imposed restrictions	<u>\$ 69,377,582</u>	<u>\$ 58,061,917</u>
Funds held in perpetuity:		
Tuition assistance for all schools	\$ 7,942,593	\$ 7,869,343
Tuition assistance for specific schools	6,673,983	6,493,293
Operations for Roman Catholic High School held by Trustees	1,303,260	1,303,260
Operations and improvements for all schools	25,931,693	25,931,693
Others, for specific schools	<u>123,798</u>	<u>123,798</u>
Total funds held in perpetuity	<u>41,975,327</u>	<u>41,721,387</u>
Total net assets with donor restrictions	<u>\$ 111,352,909</u>	<u>\$ 99,783,304</u>

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**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2023 and 2022**

**NOTE I - ENDOWMENTS**

The Diocesan High Schools' endowments consist of a board-designated endowment fund and 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.

For the majority of the endowments, the donor has directed how the earnings are to be used. When documentation does not provide specific direction, the Diocesan High Schools follow the Commonwealth of Pennsylvania Act 141.

***Interpretation of Relevant Law***

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

***Return Objectives and Risk Parameters***

The Diocesan High Schools have adopted investment policies established by the Investment Committee and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by their endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity. Under this policy, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of plus 3% over the consumer price index while assuming a moderate level of investment risk. The Diocesan High Schools expect their 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 from funds held in perpetuity are included in net assets with donor restriction. Commonwealth of Pennsylvania law permits the Diocesan High Schools to adopt a spending policy for endowment earnings, subject to certain limitations. The Diocesan High Schools follow 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 Diocesan High Schools' spending policy for the years ended June 30, 2023 and 2022 allowed for between a 2% and 7% draw of the three-year average market value of the permanently restricted endowments, unless directed otherwise by the donor.

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**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2023 and 2022**

The changes in endowments funds for the years ended June 30, delineated by net asset class, are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, June 30, 2021	\$ -	\$ 84,804,972	\$ 84,804,972
Investment income	62,232	8,762,062	8,824,294
Net realized and unrealized depreciation	<u>(899,380)</u>	<u>(20,857,233)</u>	<u>(21,756,613)</u>
Total investment return	(837,148)	(12,095,171)	(12,932,319)
Contributions	-	418,606	418,606
Board designation	9,575,000	-	9,575,000
Appropriation of endowment assets for expenditure	(1,712)	(3,053,940)	(3,055,652)
Change in beneficial interest in financially inter-related organizations	<u>-</u>	<u>(466,442)</u>	<u>(466,442)</u>
Endowment net assets, June 30, 2022	\$ 8,736,140	\$ 69,608,025	\$ 78,344,165
Investment income	222,515	2,187,990	2,410,505
Net realized and unrealized appreciation	<u>742,068</u>	<u>5,211,648</u>	<u>5,953,716</u>
Total investment return	964,583	7,399,638	8,364,221
Contributions	-	212,940	212,940
Appropriation of endowment assets for expenditure	(35,402)	(2,615,394)	(2,650,796)
Change in beneficial interest in financially inter-related organizations	<u>-</u>	<u>256,516</u>	<u>256,516</u>
Endowment net assets, June 30, 2023	<u>\$ 9,665,321</u>	<u>\$ 74,861,725</u>	<u>\$ 84,527,046</u>

***Funds with Deficiencies***

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the original gift amount maintained as funds to be held in perpetuity. There were no such deficiencies of this nature as of June 30, 2023 and 2022.

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**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2023 and 2022**

**NOTE J - RELATED PARTY TRANSACTIONS**

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

	<u>2023</u>	<u>2022</u>
Roman Catholic Alumni Association	\$ 21,661	\$ 39,075
Office of Catholic Education Administration Account	2,869	12,300
Friends of Father Judge	-	22,630
Schools of Special Education	27	2,550
Office for Financial Services	2,000	5,220
Other	7,122	-
	<u>\$ 33,679</u>	<u>\$ 81,775</u>

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

	<u>2023</u>	<u>2022</u>
Office for Financial Services	\$ 544,745	\$ 280,800
Catholic Housing and Community Services	-	27,733
Office of Catholic Education Administration Account	81,057	44,841
Catholic Social Services	-	28,215
Other	5,291	200
	<u>\$ 631,093</u>	<u>\$ 381,789</u>

Although there exist no formalized repayment terms, these amounts are typically repaid during the subsequent fiscal year.

During the years ended June 30, 2023 and 2022, the Diocesan High Schools entered into transactions with the following related parties:

- Archdiocese of Philadelphia’s Risk Insurance Trust provides insurance for the Diocesan High Schools. Total premiums paid for the years ended June 30, 2023 and 2022 were \$1,803,109 and \$1,755,714, respectively.
- The Diocesan High Schools paid \$140,201 and \$187,733 to Catholic Housing and Community Services for support of computer systems for the years ended June 30, 2023 and 2022, respectively.
- The Diocesan High Schools paid \$4,746,021 and \$4,145,617 for the years ended June 30, 2023 and 2022, respectively, to OCE for administrative costs.
- The Diocesan High Schools paid \$81,057 and \$44,841 for the years ended June 30, 2023 and 2022, respectively, to OCE for marketing costs.
- The Diocesan High Schools paid \$49,000 for both of the years ended June 30, 2023 and 2022 to OFS for administrative costs associated with capital projects and legal services.
- The Diocesan High Schools received donations of \$700,000 for both years ended June 30, 2023 and 2022, from the Heritage of Faith ~ Vision of Hope.

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**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2023 and 2022**

**Notes Payable to Related Parties**

On June 1, 2012, the Archdiocese of Philadelphia and related entities entered into several Term Loan Agreements with participating Archdiocesan entities to retire outstanding external debt obligations. The Diocesan High Schools' loans were related to the construction of Bishop Shanahan High School and Pope John Paul II High School.

On June 1, 2012, the Diocesan High Schools entered into term loan agreements with a three-year maturity with the following entities:

Office of Financial Services	\$ 3,000,000
Office of Catholic Cemeteries	3,000,000
CHCS as Administrative Agent	71,357,582

CHCS served as Administrative Agent for Catholic Charities (a.k.a. Catholic Social Services), St. John's Orphan Asylum, Don Guanella Village, St. Edmond's Home for Children, and Divine Providence Village.

On June 27, 2014, the loan agreements were amended to extend the maturity date and to settle certain amounts due to the entities. A new term loan agreement was established with the Trust and Loan Fund of the Archdiocese of Philadelphia as administered by OFS in the amount of \$4,200,000. The loan carries a fixed interest rate of 4% maturing on June 1, 2042.

On May 31, 2018, the Trust and Loan Fund of the Archdiocese of Philadelphia sold the principal amount of \$4,200,000 to the Archdiocese of Philadelphia Priests' Retirement Benefits Funding Trust. The sold loan was priced as of the transaction date by an independent financial firm, reflecting a slight discount. At the time of the sale, the outstanding principal amount of the loan was \$3,800,188. As a result of the sale, the stated interest rate of 4.0% remained the same, and there was a slight modification in the amortization schedule, which changed the maturity date to 2041.

During the year ended June 30, 2023, the proceeds from the sale of John W. Hallahan High School, Bishop McDevitt High School, and the former Kennedy-Kerrick Catholic High School properties were used to fully settle the outstanding notes payable to Priest Pension Funding Trust and the remainder was applied toward the principal on the Catholic Housing and Community Services notes payable.

During the years ended June 30, 2023 and 2022, the Diocesan High Schools made total loan principal payments of \$15,935,465 and \$1,669,654, respectively.

The outstanding debt obligations at June 30 are as follows:

	<u>2023</u>	<u>2022</u>
Priest Pension Funding Trust	\$ -	\$ 3,376,540
Catholic Housing and Community Services	<u>31,583,706</u>	<u>44,142,631</u>
 Total notes payable to related parties	 <u>\$ 31,583,706</u>	 <u>\$ 47,519,171</u>

The loans are collateralized by a first priority mortgage encumbering high school properties. In addition, the Archdiocese of Philadelphia pledges the high school revenue associated with these specific schools.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

The principal payments relating to the notes payable to related parties are as follows for the years ending June 30:

2024	\$ 2,130,514
2025	2,217,021
2026	2,307,041
2027	2,400,717
2028	2,498,195
Thereafter	<u>20,030,218</u>
Total notes payable to related parties	<u>\$ 31,583,706</u>

**NOTE K - EMPLOYEE BENEFITS**

***Vacation***

All full-time lay office and maintenance employees, upon completion of one full year of service, are eligible for paid vacations. The policy provides for compensated absences at varying amounts based on years of service.

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

Through June 30, 2014, the eligible lay employees of the Diocesan High Schools were covered under the Archdiocese of Philadelphia Lay Employees' Retirement Plan ("LERP"), which is a defined benefit pension plan covering substantially all lay employees of the Archdiocese of Philadelphia, based on age and service requirements. The funded status of the LERP is measured as the difference between the plan assets at fair value, if any, and the accumulated postretirement benefit obligation. 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. The LERP is administered by the trustees of the LERP.

The Diocesan High Schools made annual contributions to the LERP at an average rate of 3.5% of the salaries of eligible employees for the year ended June 30, 2023 and 5.9% for the year ended June 30, 2022, which amounted to \$1,457,771 and \$2,384,579, respectively. The expense of such contributions is included in employee benefits. Separate accounts for vested benefits and pension fund assets are not maintained for each institution.

Estimates of the actuarially determined present value of accumulated plan benefits at June 30, 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 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 employer contributions:

**Archdiocese of Philadelphia, Office of Catholic Education High Schools**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2023 and 2022**

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

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

Vesting in employer contributions is immediate for grandfathered employees who have completed 12 months of service as of June 30, 2014. Vesting in employer contributions for all other employees will take place after the completion of 12 months of service. For the years ended June 30, 2023 and 2022, the Archdiocese of Philadelphia employer contribution rate was 4.5%, of base salary for eligible employees, and there was a 0.35% charge for administration. The contributions by the Diocesan High Schools into the 403(b) plan totaled \$1,841,183 and \$1,692,329 and the administrative charges totaled \$145,967 and \$124,877 for the years ended June 30, 2023 and 2022, respectively.

***Non-Pension Retirement Benefits***

Lay teachers are provided post-retirement benefits if they meet certain conditions. Pursuant to ASC 715, *Compensation - Retirement*, such postretirement benefits are recognized on the accrual basis; that is, over the estimated service life of the employee.

In accordance with the agreement between the Association of Catholic Teachers Local Union No. 1776 National Association of Catholic Teachers and the Secondary School System of the Archdiocese of Philadelphia (the "Teachers' Agreement"), a teacher who has 25 years of service, is between the ages of 59½ and 65, and is eligible for and elects to begin receiving an early retirement pension under the terms of the LERP, shall have the option at the time of their retirement of having the full cost of the medical insurance premium paid to a maximum of \$10,000 per year or of receiving \$5,000 per year as a supplement to their early retirement pension. A teacher who has 25 years of service, is between the ages of 55 and 65, and is eligible for and elects to begin receiving a disability retirement pension under the terms of the LERP, shall have the option at the time of their retirement of having the full cost of the medical insurance premium paid to a maximum of \$10,000 per year or of receiving \$5,000 per year as a supplement to their early retirement pension. These payments shall cease at the beginning of the month the teacher reaches the normal retirement age as defined by the LERP. The teacher shall have the option of changing their election of coverage one time during the period in which the teacher retires and subsequently attains the normal retirement age.

In the Teachers' Agreement, each teacher is entitled to 12 sick days with full pay during each school year, which could be accumulated indefinitely prior to August 31, 2012. Beginning September 1, 2012, sick days may only be accumulated up to 300 days. In the event that a teacher has already accumulated more than 300 days, the teacher will retain the accumulated sick days but cannot accumulate additional days until all days over 300 have been used.

Upon retirement, a teacher may redeem all unused sick days up to a maximum of 200 days at the rate of \$50 per day. For teachers hired effective September 1, 1992 through August 31, 1994, the maximum number of unused sick days redeemable upon retirement will be 100. For teachers hired beginning with the 1994-95 school year, the maximum number of unused sick days redeemable upon retirement will be 75.

The Diocesan High Schools present the funded status of the non-pension retirement benefits in the statement of financial position.



**Archdiocese of Philadelphia, Office of Catholic Education High Schools**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2023 and 2022**

***Net Periodic Cost and Other Changes***

The components of net periodic benefit costs and other benefit-related changes are as follows at June 30:

	<u>2023</u>	<u>2022</u>
Components of net periodic benefit cost recognized in employee benefits		
Service cost	\$ 35,511	\$ 52,084
Other components of net periodic benefit cost - included in other items		
Interest cost	\$ 43,704	\$ 32,129
Amortization of net loss	111,155	133,987
Amortization of prior service credit	<u>(18,508)</u>	<u>(18,508)</u>
	<u>\$ 136,351</u>	<u>\$ 147,608</u>
Benefit-related changes other than net periodic benefit cost - included in other items		
Net actuarial gains	\$ (176,434)	\$ (233,376)
Amortization of prior service credit	18,508	18,508
Amortization of net loss	<u>(111,155)</u>	<u>(133,987)</u>
	<u>\$ (269,081)</u>	<u>\$ (348,855)</u>

***Obligations and Funded Status***

The following shows changes in the benefit obligation, plan assets and funded status at June 30:

	<u>2023</u>	<u>2022</u>
Change in plan assets		
Fair value of plan assets at beginning of year	\$ -	\$ -
Employer contributions	104,725	120,812
Plan participants' contributions	1,905	3,265
Actual benefits paid	<u>(106,630)</u>	<u>(124,077)</u>
	<u>\$ -</u>	<u>\$ -</u>
Funded status		
Funded status at end of year	<u>\$ (1,062,412)</u>	<u>\$ (1,264,356)</u>

**Archdiocese of Philadelphia, Office of Catholic Education High Schools**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 1,264,356	\$ 1,534,331
Service cost	35,511	52,084
Interest cost	43,704	32,129
Actual plan participants' contributions	1,905	3,265
Actuarial gain	(176,434)	(233,376)
Actual benefits paid	<u>(106,630)</u>	<u>(124,077)</u>
	<u>\$ 1,062,412</u>	<u>\$ 1,264,356</u>
Benefit obligation at end of year		
Amounts recognized in net assets without donor restriction		
Net actuarial loss	\$ 1,441,716	\$ 1,729,305
Prior service credit	<u>(57,739)</u>	<u>(76,247)</u>
	<u>\$ 1,393,977</u>	<u>\$ 1,653,058</u>
Information for plans with accumulated benefit obligation in excess of plan assets		
Projected benefit obligation	\$ 1,062,412	\$ 1,264,356
Accumulated benefit obligation	1,062,412	1,264,356

The estimated amount that will be amortized from net assets without donor restrictions to net periodic benefit cost is as follows at June 30:

	<u>2023</u>	<u>2022</u>
Net actuarial loss	\$ 100,715	\$ 113,197
Prior service credit	(18,508)	(18,508)

Weighted-average assumptions used to determine benefit obligation at year end:

	<u>2023</u>	<u>2022</u>
Discount rate	5.00%	4.50%
Healthcare cost trend	7.20%	6.90%
Ultimate rate of increase	4.50%	4.50%
Year that ultimate rate is attained	2033	2031

**Cash Flows and Estimated Future Benefit Payments**

Employer contributions June 30, 2024 (expected) \$ 93,000

Expected benefit payments for the years ending June 30:

2024	\$ 93,000
2025	77,000
2026	85,000
2027	95,000
2028	95,000
2029 - 2032	442,000

**Archdiocese of Philadelphia, Office of Catholic Education High Schools**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2023 and 2022**

**NOTE L - FUNCTIONAL EXPENSES**

The Diocesan High Schools provide services in order to operate and maintain schools included in Note A. Expenses by functional and natural classification related to providing these services are as follows for the years ended June 30:

	<u>Administration</u>	<u>Academic</u>	<u>Activities/ Athletics</u>	<u>Other</u>	<u>2023 Total</u>
Salaries	\$ 9,288,150	\$ 36,348,786	\$ 4,518,768	\$ 87,151	\$ 50,242,855
Employee benefits	1,969,106	13,576,038	681,292	12,858	16,239,294
Purchased services	9,289,512	4,872,730	2,889,073	533,256	17,584,571
Plant	685,934	11,997,540	3,157,007	64,712	15,905,193
Support expenses	3,124,258	3,995,850	4,329,217	131,801	11,581,126
Debt service	1,490,743	-	-	-	1,490,743
<b>Total</b>	<b>\$ 25,847,703</b>	<b>\$ 70,790,944</b>	<b>\$ 15,575,357</b>	<b>\$ 829,778</b>	<b>\$ 113,043,782</b>

	<u>Administration</u>	<u>Academic</u>	<u>Activities/ Athletics</u>	<u>Other</u>	<u>2022 Total</u>
Salaries	\$ 9,835,113	\$ 35,847,497	\$ 4,071,372	\$ 107,989	\$ 49,861,971
Employee benefits	1,920,275	15,106,980	700,483	17,293	17,745,031
Purchased services	9,283,851	4,239,951	2,560,300	49,708	16,133,810
Plant	1,217,409	11,749,301	2,995,034	29,804	15,991,548
Support expenses	3,033,857	4,628,502	3,785,885	54,365	11,502,609
Debt service	1,942,716	-	-	-	1,942,716
<b>Total</b>	<b>\$ 27,233,221</b>	<b>\$ 71,572,231</b>	<b>\$ 14,113,074</b>	<b>\$ 259,159</b>	<b>\$ 113,177,685</b>

**NOTE M - LEASES**

**Lessee**

The Diocesan High Schools have entered into lease agreements for equipment and vehicles which expire at various dates through 2028. The options to renew the leases were not considered when assessing the value of the ROU asset if the Diocesan High Schools were not reasonably certain that it would assert its option to renew the lease.

**Archdiocese of Philadelphia, Office of Catholic Education High Schools**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2023 and 2022**

Quantitative information regarding the Diocesan High Schools' leases for the year ended June 30, 2023 is as follows:

	<u>Finance Leases</u>	<u>Operating Leases</u>
Lease cost	\$ 68,439	\$ 646,597
Other information:		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows	-	646,597
Financing cash flows	57,696	-
ROU assets obtained in exchange for new lease liabilities	-	650,702
Weighted-average remaining lease term (in years)	2.40	3.41
Weighted-average discount rate	4%	4%

Quantitative information regarding the Diocesan High Schools' leases for the year ended June 30, 2022 is as follows:

	<u>Finance Leases</u>	<u>Operating Leases</u>
Lease cost	\$ 31,493	\$ 610,392
Other information:		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows	-	610,392
Financing cash flows	72,697	-
ROU assets obtained in exchange for new lease liabilities	-	603,425
Weighted-average remaining lease term (in years)	1.90	3.00
Weighted-average discount rate	4%	4%

**Archdiocese of Philadelphia, Office of Catholic Education High Schools**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2023 and 2022**

The following is a schedule of future minimum lease payments required under finance and operating leases with lease terms in excess of one year as of June 30, 2023:

<u>Years Ending June 30,</u>	<u>Finance Leases</u>	<u>Operating Leases</u>	<u>Total</u>
2024	\$ 52,082	\$ 523,417	\$ 575,499
2025	23,637	382,976	406,613
2026	-	246,674	246,674
2027	-	127,154	127,154
2028	-	97,807	97,807
	<hr/>	<hr/>	<hr/>
Total minimum payments	75,719	1,378,028	1,453,747
Less: present value discount	<u>(1,992)</u>	<u>(85,063)</u>	<u>(87,055)</u>
Total	<u>\$ 73,727</u>	<u>\$ 1,292,965</u>	<u>\$ 1,366,692</u>

**Lessor**

On September 16, 2021, the Archdiocese entered into a Master Development Agreement with EM WC Chestnut, LLC, a Delaware limited liability company ("EMWC"). The Master Development Agreement grants EMWC the right to ground lease and develop the Archdiocese's property located at 4519-45 Chestnut Street, Philadelphia PA 19139, and containing one surface parking lot adjacent to the WCPHS. EMWC plans to develop the site into a mixed-use, residential, and retail destination. The Master Development Agreement provides for EMWC to ground lease the sites.

The ground lease commenced on February 22, 2022, upon closing, the Diocesan High Schools received an upfront lease payment of \$12,500,000. A memorandum of understanding was signed to establish that these funds would be used to extinguish the debt of the WCPHS, to fund up to \$1,000,000 in capital improvements, and to establish a new board-designated endowment fund for the benefit of WCPHS.

In addition to the upfront lease payment, the Diocesan High School will receive annual lease payments at the beginning of year 5 of the agreement as follows:

- Years 5 through 14: annual lease payments of \$11,000
- Years 15 through 24: annual lease payments of \$12,100
- Years 25 through 34: annual lease payments of \$13,310
- Years 35 through 44: annual lease payments of \$14,641
- Years 45 through 54: annual lease payments of \$16,105
- Years 55 through 64: annual lease payments of \$17,716
- Years 65 through 74: annual lease payments of \$19,487
- Years 75 through 84: annual lease payments of \$21,436
- Years 85 through 94: annual lease payments of \$23,579
- Years 95 through 99: annual lease payments of \$25,937

As a real estate lease, the Diocesan High Schools 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.

**Archdiocese of Philadelphia, Office of Catholic Education High Schools**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2023 and 2022**

**NOTE N - LIQUIDITY AND FUNDS AVAILABLE**

The following reflects the Diocesan High Schools financial assets as of June 30, reduced by amounts not available for general use within one year because of donor-imposed restrictions or internal designations. Amounts available include anticipated annual distributions from the restricted funds. In addition, the Diocesan High Schools expect to receive funding during the year ended June 30, 2024 of \$91,333,128 from tuition, \$36,899,747 in fees revenue and \$10,241,052 from unrestricted donations.

	<u>2023</u>	<u>2022</u>
Financial assets:		
Cash and cash equivalents, including amounts held by affiliate	\$ 52,948,535	\$ 59,057,300
Parental tuition and fees receivable, net	1,448,199	1,359,608
Due from related organizations	33,679	81,775
Pledges receivable, net	2,630,438	2,048,489
Other receivables	4,439,135	1,960,667
Investments	<u>110,589,042</u>	<u>90,943,748</u>
Financial assets, at year-end	<u>172,089,028</u>	<u>155,451,587</u>
Less those unavailable for general expenditure within one year due to:		
Donor-imposed restrictions:		
Endowment funds	40,672,067	40,392,117
Tuition assistance	15,778,456	12,918,378
Operations and improvement	29,251,255	24,352,768
Restricted pledges receivable	2,630,438	2,047,755
Other donor-imposed restrictions	5,820,647	4,557,512
Board-designated endowment fund	<u>9,665,321</u>	<u>8,736,140</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 68,270,844</u>	<u>\$ 62,446,917</u>

**NOTE O - CONTRIBUTED SERVICES**

Contributed services consist of the following for the years ended June 30:

	<u>2023</u>	<u>2022</u>
Salaries and benefits - lay equivalent value	\$ 2,944,251	\$ 3,340,498
Expended for services		
Salaries, related employee benefits and faculty house expenses	<u>(2,007,000)</u>	<u>(2,040,707)</u>
Total contributed services	<u>\$ 937,251</u>	<u>\$ 1,299,791</u>

**Archdiocese of Philadelphia, Office of Catholic Education High Schools**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2023 and 2022**

**NOTE P - INCOME TAXES**

As part of the Archdiocese of Philadelphia, the Diocesan High Schools have received exempt status from federal taxation under Section 501(c)(3) of the Internal Revenue Code. The Diocesan High Schools follow the accounting guidance for uncertainties in income tax positions which requires that a tax position be recognized or derecognized based on a more-likely-than-not threshold. This applies to positions taken or expected to be taken in a tax return. The Diocesan High Schools do not believe their financial statements include any material uncertain tax positions.

**NOTE Q - SUBSEQUENT EVENTS**

The Diocesan High Schools have evaluated subsequent events through December 18, 2023, the date which the financial statements were available for distribution, noting no items requiring accrual or disclosure in the financial statements.