

Financial Statements and Report of
Independent Certified Public
Accountants

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

June 30, 2023 and 2022

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Archbishop of Philadelphia
Archdiocese of Philadelphia

Opinion

We have audited the accompanying financial statements of the Archdiocese of Philadelphia, Office of Catholic Education Administration Account ("OCE"), which comprise the statements of financial position as of June 30, 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 OCE 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 OCE and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of matter

We draw attention to Note A to the financial statements, which describes the legal structure of OCE within the Archdiocese of Philadelphia. Our opinion is not modified with respect to this matter.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about OCE's ability to continue as a going concern for one year after the date the financial statements are 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 OCE's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about OCE's ability to continue as a going concern for a reasonable period of time.

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

Grant Thornton LLP

Philadelphia, Pennsylvania
December 18, 2023

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

STATEMENTS OF FINANCIAL POSITION

June 30,

	2023	2022
ASSETS		
Cash and cash equivalents, including amounts held by affiliate	\$ 4,629,654	\$ 4,624,623
Accounts receivable	12,284	49,058
Due from other Archdiocesan entities (Note I)	101,057	44,841
Investments (Notes C and K)	11,859,123	10,897,782
Beneficial interest in perpetual trust (Note K)	30,377,227	29,484,733
Right-of-use assets (Note M)	11,331	34,099
	\$ 46,990,676	\$ 45,135,136
Total assets	\$ 46,990,676	\$ 45,135,136
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 87,191	\$ 216,266
Accrued vacation	132,058	109,963
Accrued severance	4,531	7,404
Accrued salaries	-	111,162
Due to other Archdiocesan entities (Note I)	27,470	80,127
Lease liabilities (Note M)	11,331	34,099
Deferred revenue	4,800	2,674
	267,381	561,695
Total liabilities	267,381	561,695
Net assets		
Without donor restrictions (Note E)	3,321,468	3,080,772
With donor restrictions (Notes F and G)	43,401,827	41,492,669
	46,723,295	44,573,441
Total net assets	46,723,295	44,573,441
Total liabilities and net assets	\$ 46,990,676	\$ 45,135,136

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

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

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues			
Subsidies			
Office of Catholic Education -			
Diocesan High Schools	\$ 4,827,078	\$ -	\$ 4,827,078
Schools of Special Education	200,000	-	200,000
Parishes	891,200	-	891,200
Contributions			
Ambassador's Fund for Catholic Education	700	144,446	145,146
Donations	69,609	1,045,081	1,114,690
Contributed services (Note J)	79,745	-	79,745
Program revenues	96,613	-	96,613
Investment return, net	282,264	1,059,641	1,341,905
Change in beneficial interest in perpetual trust	-	892,494	892,494
Distribution from beneficial interest in perpetual trust	-	1,450,000	1,450,000
Other revenue	1,296	1,083	2,379
Net assets released from restrictions	2,683,587	(2,683,587)	-
	9,132,092	1,909,158	11,041,250
Expenses			
Salaries and benefits	5,110,801	-	5,110,801
Purchased services	795,271	-	795,271
Intradiocesan expenses	470,334	-	470,334
Support expenses	2,514,990	-	2,514,990
	8,891,396	-	8,891,396
	CHANGE IN NET ASSETS	1,909,158	2,149,854
	240,696	1,909,158	2,149,854
Net assets, beginning of year	3,080,772	41,492,669	44,573,441
Net assets, end of year	\$ 3,321,468	\$ 43,401,827	\$ 46,723,295

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

**Archdiocese of Philadelphia, Office of Catholic Education
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STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended June 30, 2022

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

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

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STATEMENTS OF CASH FLOWS

Years ended June 30,

	2023	2022
Cash flows from operating activities:		
Change in net assets	\$ 2,149,854	\$ (5,159,963)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized (gains) losses on investments	(864,140)	3,488,638
Distribution from beneficial interest in perpetual trust	1,450,000	1,675,000
Change in fair value of beneficial interest in perpetual trust	(2,342,494)	2,408,606
Changes in operating assets and liabilities:		
Accounts receivable	36,774	(37,973)
Due from other Archdiocesan entities	(56,216)	(44,841)
Other assets	-	50,764
Right-of-use assets	22,768	20,580
Accounts payable	(129,075)	107,806
Accrued vacation	22,095	(861)
Accrued severance	(2,873)	(187,466)
Accrued salaries	(111,162)	11,571
Due to other Archdiocesan entities	(52,657)	(726,498)
Lease liabilities	(22,768)	(20,580)
Deferred revenue	2,126	449
	102,232	1,585,232
Cash flows from investing activities:		
Purchase of investments	(694,518)	(1,486,756)
Proceeds from sale of investments	597,317	253,512
	(97,201)	(1,233,244)
NET INCREASE IN CASH AND CASH EQUIVALENTS, INCLUDING AMOUNTS HELD BY AFFILIATE	5,031	351,988
Cash and cash equivalents, including amounts held by affiliate, beginning of year	4,624,623	4,272,635
Cash and cash equivalents, including amounts held by affiliate, end of year	\$ 4,629,654	\$ 4,624,623

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

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NOTES TO FINANCIAL STATEMENTS

June 30, 2023 and 2022

NOTE A - NATURE OF OPERATIONS

The accompanying financial statements of the Archdiocese of Philadelphia, Office of Catholic Education Administration Account (“OCE”) include the Office of Catholic Education and the departments of elementary and secondary schools, and Educational Financial Services. The financial statements exclude certain entities of the Archdiocese of Philadelphia which relate to OCE but are considered separate reporting entities. These entities are as follows:

- Diocesan High Schools
- Schools of Special Education
- Office for Financial Services (“OFS”)
- Heritage of Faith ~ Vision of Hope
- Trustee Account of the Archdiocese of Philadelphia for Estates and Trusts
- Independent Reconciliation and Reparations Trust

OCE is considered to be a component of the Archdiocese of Philadelphia and not a separate legal entity. 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. The five senior management positions of OCE reported directly to FIF’s Chief Executive Officer. All facilities continued 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 their revenues, expenses, gains and losses are classified as either with donor restrictions or without donor restrictions based on the existence or absence of donor-imposed restrictions.

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

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

Revenue Recognition

OCE recognizes and measures its revenues in accordance with Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The core principle of this guidance is that an entity should recognize revenue in an amount that reflects the consideration to which the entity expects

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

June 30, 2023 and 2022

to be entitled in exchange for these goods and services at the date the performance obligation has occurred. The standard outlines a five-step model whereby revenue is recognized as performance obligations within a contract are satisfied.

Various programs for the benefit of the schools are operated by OCE. Revenues from the programs are reported gross in the statements of activities and changes in net assets, and expenses are reported in the appropriate category of administration expenses when the services are performed.

OCE receives subsidy payments from related organizations representing costs of salaries, benefits and other operating costs for administrative support provided by OCE to the parishes and schools. Revenue is recognized for these services as performance obligations are met.

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

Contributions including unconditional promises to give are recorded as revenue in the period when received. Unconditional promises to give are recorded at their fair value when OCE is notified of these gifts. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Gifts specified for the acquisition or construction of long-lived assets are reported as net assets without donor restrictions when the assets are placed in service.

Gifts of cash and other assets are recorded as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the accompanying statements of activities and changes in net assets as net assets released from restrictions.

OCE measures the value of contributed services performed by members of religious groups based on the lay equivalent salaries of personnel performing similar duties, less the stipend allowances and housing allowances paid for the religious personnel. The value of contributed services is included as revenue and, correspondingly, charged to expenditures. Contributed services did not have donor-imposed restrictions.

Use of Estimates

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

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

Cash and Cash Equivalents, Including Amounts Held by Affiliate

Cash and cash equivalents, including amounts held by affiliate, represent demand deposits and other investments with a maturity date of three months or less. The carrying amount approximates fair value.

OCE maintains cash balances with financial institutions that at times may exceed Federal Deposit Insurance Corporation limits. Management does not believe the credit risk related to these deposits is significant.

Investments

Trustee Accounts are invested with two publicly traded SEI Catholic Values mutual funds. The Catholic Values Equity Fund and the Catholic Values Fixed Income Fund ("Catholic Values Funds") provide Catholic institutions with high-quality products that align with their core values, without sacrificing diversification or return potential. Specifically, the funds align with the investment directives set forth by the United States Conference of Catholic Bishops. The Archdiocese of Philadelphia appointed SEI Private Trust Company ("SEI") to act as custodian of the Trustee Accounts. The investment in the Trustee Accounts and other investments are reported at fair value.

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

Beneficial Interest in Perpetual Trust

OCE is the sole beneficiary of the income of a trust established by Francis W. Sullivan held in perpetuity by a third party. The supporting perpetual trust requires the income to be paid to OCE. The beneficial interest in perpetual trust is recorded at the fair value of the assets. At June 30, 2023 and 2022, the fair value of the net assets of the trust was \$30,377,227 and \$29,484,733, respectively. The underlying investments of the beneficial interest in perpetual trust consist of cash, government obligations, corporate obligations, mutual funds, and equity securities. OCE receives statements from the trustees, which detail the fair value of each investment in the perpetual trust. During the years ended June 30, 2023 and 2022, OCE recognized \$892,404 and (\$4,083,606), respectively, of donor-restricted appreciation (depreciation) related to this trust.

Leases

OCE recognizes and measures its leases in accordance with ASU 2016-02, *Leases*. OCE recognizes a lease liability and a right-of-use ("ROU") asset at the commencement date of the lease. The lease liability is initially and subsequently recognized based on the present value of its future lease payments. Variable payments are included in future lease payments when those variable payments depend on an index or a rate. The discount rate is the implicit rate if it is readily determinable otherwise OCE uses its incremental borrowing rate. The implicit rates of OCE leases are not readily determinable and accordingly, the incremental borrowing rate was based on the information available at the commencement date for all leases. OCE's incremental borrowing rate for a lease is the rate of interest it would have to pay on a collateralized basis to borrow an amount equal to the lease payments under similar terms and in a similar economic environment. The ROU asset is subsequently measured throughout the lease term at the amount of the remeasured lease liability (i.e., the 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.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

NOTE C - INVESTMENTS

The investments in the Trustee Accounts are reported at fair value and consist of the following:

Catholic Values Equity Fund (or "fund") - Invests in common stocks and is managed by SEI.

Catholic Values Fixed Income Fund (or "fund") - Invests in mutual funds, corporate obligations, United States Treasury obligations and municipal obligations and is managed by SEI.

Account holders have the option of six asset classifications in which to invest. The options include a short-duration U.S. government bond fund, a 100% fixed-income bond fund and four equity funds with varying fixed income to equity mixes of 30/70, 50/50, 60/40 or 70/30. Management has primary responsibility for determining fixed income to equity fund mix. The asset mix of the mutual funds is SEI's responsibility.

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

	2023	2022
Catholic Values Equity Fund	\$ 8,306,871	\$ 7,567,088
Catholic Values Fixed Income Fund	3,552,252	3,330,694
Total investments	\$ 11,859,123	\$ 10,897,782

NOTE D - EMPLOYEE BENEFIT PLANS

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

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

OCE made annual contributions to the Plan at an average rate of 3.50% of the salaries of the eligible staff for the year ended June 30, 2023 and 5.90% for the year ended June 30, 2022, which amounted to \$125,714 and \$363,845, 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 to the 403(b) plan.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

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

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

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

Vesting in employer contributions is immediate for grandfathered employees who have completed 12 months of service as of June 30, 2014. Vesting in employer contributions for all other employees will take place after the completion of 12 months of service.

In 2023 and 2022, OCE's contribution rate was 4.50% of the base salary for eligible employees, and there was a 0.35% charge for administration. The contributions into the 403(b) plan totaled \$174,204 and \$152,307 for the years ended June 30, 2023 and 2022, respectively.

NOTE E - NET ASSETS WITHOUT DONOR RESTRICTIONS

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

	2023	2022
Without donor restrictions	\$ 1,737,533	\$ 1,632,629
Quasi endowment:		
Elementary division functioning endowment	1,476,321	1,311,974
Elementary needs	107,614	136,169
	\$ 3,321,468	\$ 3,080,772

In June of 2002, the Archdiocese of Philadelphia received \$3,100,000 from the Estate of Leo J. Baney, which was to be used for "educational purposes in the Archdiocese of Philadelphia." In June of 2004, a decision was made to divide the principal into three areas and internally designate how the funds were to be used.

In April of 2015, Most Reverend Michael J. Fitzgerald, Auxiliary Bishop of Philadelphia signed a memorandum of understanding directing that \$1,000,000 of the fund be set aside in a fund functioning as an endowment with an annual distribution being provided to OCE to support the elementary division. The balance in the fund, included in the net assets without donor restrictions as Archdiocesan designations functioning as endowment, is to be used for elementary needs as determined by the Secretary for Elementary Education. During the years ended June 30, 2023 and 2022, there was \$28,555 and \$0 spent, respectively, from the designated funds.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

NOTE F - NET ASSETS WITH DONOR RESTRICTIONS

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

	2023	2022
Net assets subject to time or use donor-imposed restrictions:		
Tuition assistance and scholarships Programs	\$ 6,306,526 2,779,750	\$ 5,880,976 2,554,108
Accumulated earnings in excess of spending of endowments:		
Tuition assistance and scholarships Other	515,623 16,083	315,230 8,285
Total net assets subject to time or use donor-imposed restrictions	9,617,982	8,758,599
Funds held in perpetuity:		
Programs/grants (beneficial interest in perpetual trust) Tuition assistance/scholarships Other	30,377,227 3,338,597 68,021	29,484,733 3,181,316 68,021
Total funds held in perpetuity	33,783,845	32,734,070
Total net assets with donor restrictions	\$ 43,401,827	\$ 41,492,699

During the years ended June 30, 2023 and 2022, net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose of \$2,683,587 and \$3,117,026, respectively.

NOTE G - ENDOWMENTS

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

Interpretation of Relevant Law

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

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

Return Objectives and Risk Parameters

OCE has adopted investment policies established by the Archdiocese of Philadelphia's Investment Committee and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity. Under this policy, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of plus 3% over the consumer price index while assuming a moderate level of investment risk. OCE expects its endowment funds, over time, to provide an average rate of return of approximately 5% annually. Actual returns in any given year may vary from that amount.

Spending Policy

Commonwealth of Pennsylvania law permits OCE to adopt a spending policy for endowment earnings, subject to certain limitations. OCE follows the total return concept of endowment investment and spending. Under this concept, a prudent amount of appreciation earned on the investments may be spent in the event that the interest and dividends earned are insufficient to meet that period's spending rate. OCE's spending policy for the years ended June 30, 2023 and 2022 allowed for between a 2% and 7% draw of the three-year average market value of the restricted endowments, unless directed otherwise by the donor.

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	\$ 1,711,443	\$ 4,268,020	\$ 5,979,463
Investment income	194,039	483,010	677,049
Net realized and unrealized depreciation	<u>(457,339)</u>	<u>(1,135,678)</u>	<u>(1,593,017)</u>
Total investment return	(263,300)	(652,668)	915,968
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(42,500)</u>	<u>(42,500)</u>
Endowment net assets, June 30, 2022	\$ 1,448,143	\$ 3,572,852	\$ 5,020,995
Investment income	47,895	117,920	165,815
Net realized and unrealized appreciation	<u>116,452</u>	<u>285,577</u>	<u>402,029</u>
Total investment return	164,347	403,497	567,844
Appropriation of endowment assets for expenditure	<u>(28,555)</u>	<u>(38,025)</u>	<u>(66,580)</u>
Endowment net assets, June 30, 2023	<u>\$ 1,583,935</u>	<u>\$ 3,938,324</u>	<u>\$ 5,522,259</u>

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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.

NOTE H - INCOME TAXES

As part of the Archdiocese of Philadelphia, OCE has received exempt status from federal taxation under Section 501(c)(3) of the Internal Revenue Code.

OCE follows the accounting guidance for uncertainties in income tax positions, which requires that a tax position be recognized or derecognized based on a “more-likely-than-not” threshold. This applies to positions taken or expected to be taken in a tax return. OCE does not believe its financial statements include any material uncertain tax positions.

NOTE I - RELATED PARTY TRANSACTIONS

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

	2023	2022
Schools of Special Education	\$ 20,000	\$ -
Diocesan High Schools	81,057	44,841
	\$ 101,057	\$ 44,841

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

	2023	2022
Office of Child of Youth Protection	\$ 11,577	\$ 9,430
Diocesan High Schools	4,159	12,300
Office for Financial Services	11,734	58,397
	\$ 27,470	\$ 80,127

In 2020, OFS was the recipient of a Paycheck Protection Program (“PPP”) loan granted by the Small Business Administration (“SBA”) under the Coronavirus Aid, Relief, and Economic Security Act. Certain OCE employee expenses totaling \$789,778 were included in the loan received by OFS and included in the due to OFS amount as of June 30, 2021. Under the program terms, PPP loans are forgiven and recognized as revenue if the loan proceeds are used to maintain compensation costs and employee headcount, and other qualifying expenses (mortgage interest, rent and utilities) incurred following receipt of the loan. The loan was forgiven by the SBA on July 26, 2021, and OFS forgave OCE’s portion in August 2021, accordingly, OCE recognized the gain on forgiveness of loan from related party in the June 30, 2022 statement of activities and changes in net assets.

OCE receives subsidies from the Diocesan High Schools. Subsidies totaled \$4,827,078 (\$4,746,021 for administration costs and \$81,057 for marketing expense) and \$4,190,458 (\$4,145,617 for administration costs and \$44,841 for marketing expense) for the years ended June 30, 2023 and 2022, respectively.

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OCE charged the Schools of Special Education \$200,000 and \$215,000, respectively, for the years ended June 30, 2023 and 2022, for management services, which amounts are included in subsidies revenue.

OCE received donations of \$638,763 and \$611,179, respectively, for the years ended June 30, 2023 and 2022 from the Heritage of Faith ~ Vision of Hope for tuition assistance in the elementary schools.

Cash and cash equivalents include \$84,037 and \$82,995 at June 30, 2023 and 2022, respectively, held in trust funds maintained by OFS. There are no conditions restricting the withdrawal of these funds.

NOTE J - CONTRIBUTED SERVICES

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

	2023	2022
Salaries and benefits – lay equivalent value of religious services Expended for religious services	\$ 219,976	\$ 260,946
Salaries, related employee benefits and faculty house expenses	(140,231)	(171,114)
	\$ 79,745	\$ 89,832

NOTE K - FAIR VALUE MEASUREMENTS

Financial Accounting Standards Board 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 OCE believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

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June 30, 2023 and 2022

The following table presents the fair values of the investments held by OCE by level within the fair value hierarchy, as of June 30:

<u>2023</u>	Quote Prices in Active Markets (Level 1)	Significant Other Unobservable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets				
Investments:				
SEI mutual funds	\$ 11,859,123	\$ -	\$ -	\$ 11,859,123
Beneficial interest in perpetual trust	-	-	30,377,227	30,377,227
Total	<u>\$ 11,859,123</u>	<u>\$ -</u>	<u>\$ 30,377,227</u>	<u>\$ 42,236,350</u>
 <u>2022</u>				
Assets				
Investments				
SEI mutual funds	\$ 10,897,782	\$ -	\$ -	\$ 10,897,782
Beneficial interest in perpetual trust	-	-	29,484,733	29,484,733
Total	<u>\$ 10,897,782</u>	<u>\$ -</u>	<u>\$ 29,484,733</u>	<u>\$ 40,382,515</u>

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

	<u>2023</u>	<u>2022</u>
Beginning balance	\$ 29,484,733	\$ 33,568,339
Change in fair value of assets	2,342,494	(2,408,606)
Distributions from perpetual trust	(1,450,000)	(1,675,000)
	<u>\$ 30,377,227</u>	<u>\$ 29,484,733</u>

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NOTE L - FUNCTIONAL EXPENSES

OCE provides services to schools and entities included in Note A. Expenses by functional and natural classification for the years ended June 30 are as follows:

	2023				Total
	Administration	Scholarship and Tuition Assistance	Programs	Catholic Youth Organization	
Salary & benefits	\$ 5,110,801	\$ -	\$ -	\$ -	\$ 5,110,801
Purchased services	340,171	-	455,100	-	795,271
Intradiocesan expense	470,334	-	-	-	470,334
Support expenses	273,686	1,322,974	918,330	-	2,514,990
Total	<u>\$ 6,194,992</u>	<u>\$1,322,974</u>	<u>\$1,373,430</u>	<u>\$ -</u>	<u>\$8,891,396</u>
	2022				Total
	Administration	Scholarship and Tuition Assistance	Programs	Catholic Youth Organization	
Salary & benefits	\$ 4,900,834	\$ -	\$ -	\$ -	\$ 4,900,834
Purchased services	237,395	-	717,178	30,925	985,498
Intradiocesan expense	374,590	-	-	-	374,590
Support expenses	249,194	1,263,504	1,099,877	24,311	2,636,886
Total	<u>\$ 5,762,013</u>	<u>\$1,263,504</u>	<u>\$1,817,055</u>	<u>\$ 55,236</u>	<u>\$8,897,808</u>

Support expenses include tuition assistance and scholarship awards, computer equipment, office supplies, conferences and workshops, travel-related expenses and auto expenses.

NOTE M - LEASES

OCE is the lessee of certain vehicles and office equipment under operating leases expiring through 2026. Some of OCE's leases provide for options to renew subsequent to the current term. The options to renew the leases were not considered when assessing the value of the ROU asset if OCE was not reasonably certain that it would assert its option to renew the lease.

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Quantitative information regarding OCE's leases for the years ended June 30, 2023 and 2022 are as follows:

2023

Lease cost	\$	22,768
Other information:		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows	\$	22,768
Weighted-average remaining lease term (in years)		2.31
Weighted-average discount rate		4%

2022

Lease cost	\$	20,580
Other information:		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows	\$	20,580
Right-of-use assets obtained in exchange for new lease liabilities	\$	15,779
Weighted-average remaining lease term (in years)		3.08
Weighted-average discount rate		4%

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

2024	\$	5,344
2025		4,104
2026		2,394
		11,842
Total minimum payments		11,842
Less present value discount		(511)
Total	\$	11,331

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NOTE N - LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following reflects OCE's financial assets as of June 30 reduced by amounts not available for general use within one year because of donor-imposed restrictions or internal designations. Amounts available include annual distributions from the Leo J. Baney Designated Fund. In addition, OCE expects to receive funding from subsidies during the year ended June 30, 2024 for a total of \$6,633,227 from the Diocesan High Schools, parishes, and the Schools of Special Education.

	2023	2022
Financial assets:		
Cash and cash equivalents, including amounts held by affiliate	\$ 4,629,654	\$ 4,624,623
Accounts receivable	12,284	49,058
Due from other Archdiocesan entities	101,057	44,841
Investments	11,859,123	10,897,782
Perpetual trusts held by others	30,377,227	29,484,733
Financial assets, at year-end	46,979,345	45,101,037
Donor-imposed restrictions:		
Perpetual trusts held by others	30,377,227	29,484,733
Endowment funds held in perpetuity	3,406,618	3,249,337
Tuition assistance and scholarship donor restrictions	6,822,149	6,196,206
Other donor-imposed restrictions	2,795,833	2,562,393
Archdiocesan designations:		
Functioning endowment for OCE Elementary department	1,583,935	1,448,143
Financial assets available to meet cash needs for general expenditures within one year	\$ 1,993,583	\$ 2,160,225

NOTE O - SUBSEQUENT EVENTS

OCE 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.