



## **Narrative Accompaniment to the Archdiocesan Office for Financial Services Audited Financial Statements for the Fiscal Year Ended June 30, 2024**

This narrative is intended to be used in connection with a review of the Archdiocese of Philadelphia – Office for Financial Services (“OFS”) audited financial statements in order to provide a general understanding of the financial situation of OFS.

OFS provides programs and administrative support to the parishes, schools and other related ecclesiastical entities of the Archdiocese. While OFS provides services to multiple entities, for financial reporting purposes, it is considered a wholly-owned subsidiary of the Archdiocese.

A description of the offices and funds that are included in the OFS financial statements can be found in Note A in the audited financial statements for OFS which are available on CatholicPhilly.com.

*Please note that the OFS financial statements do not include financial results for the Office for Catholic Education, Catholic Housing and Community Services, Catholic Social Services, Saint Charles Borromeo Seminary, Catholic Charities Appeal Fund, the Heritage of Faith-Vision of Hope Capital Campaign, Nutritional Development Services, Saint John’s Hospice, Saint Edmond’s Home for Crippled Children, Divine Providence Village, Don Guanella Village, Saint Francis-Saint Joseph Homes for Children, Saint Gabriel’s System, the Cemetery Permanent Lot Care Fund Irrevocable Trust, Office of Catholic Cemeteries, or Philadelphia Catholic Cemeteries, LLC. Audited financial statements for those entities will be posted separately.*

*Also note that none of these reports will include financial statements for parishes and parochial schools. All parishes are independent and autonomous entities.*

### Analysis of FY 2024 Results

The analysis below presents the “Change in Net Assets Before Other Items” for the year ended June 30, 2024. This amount (i.e. the \$7.4 million surplus shaded below) can be found in the Statement of Activities and Changes in Net Assets under the caption “Change in Net Assets Before Other Items” in the “Without Donor Restrictions” column (the actual amount is \$7,415,936, which has been rounded to \$7.4 million in the presentation below). We believe that the analysis presented below provides a meaningful disclosure of results after adjusting for the impact of items that are non-recurring in nature.

	<u>(in millions)</u>	<u>FY 2024</u>
	Change in Net Assets	\$ 7.4
	<u>Non-Recurring Items</u>	
A	Risk Insurance and Welfare Benefits Trust experience	(3.5)
	Investment Gains, net	(2.8)
A	Deposit and Loan Program experience	(0.1)
B	Other Miscellaneous Income	<u>(0.8)</u>
	Recurring Surplus including Depreciation Expense	0.2
	Depreciation expense	<u>2.0</u>
	Recurring Surplus excluding Depreciation Expense	<u>\$ 2.2</u>

A The experience of the Risk Insurance Welfare Benefits and the Deposit and Loan Program Trusts should be considered separately and treated as non-recurring. The assets in these trusts are not available for general operating needs.

B Primarily includes a special assessment to cover debt service (\$0.8).

The “Recurring Surplus excluding Depreciation Expense” caption above represents what we refer to as our “core” (excludes items of a non-recurring nature and depreciation) operating result.

## **Discussion of Other Significant Matters**

In connection with our recent financial disclosures, we have provided specific commentary regarding certain balance sheet obligations. As of June 30, 2024, the following balance sheet obligations remain underfunded:

- Deposit and Loan Program Trust
- Lay Employees' Retirement Plan

Please find an update as of June 30, 2024, for each of these obligations below.

### **Deposit and Loan Program**

Included in the financial statements for the Office for Financial Services are all assets and liabilities of the Archdiocese of Philadelphia Deposit and Loan Program Trust Fund ("Deposit and Loan Program Trust" or "D&L"). The Deposit and Loan Program Trust is a separate legal entity that provided a deposit and loan program for the benefit of parishes to assure continuation of the ecclesial goals of the Archdiocese and the parishes. Parish funds on deposit in the D&L receive a competitive interest rate. Historically these funds have been loaned to other parishes for construction and other projects. As noted at the asterisk (\*) below effective on February 17, 2017, the trustees of the D&L instituted a moratorium on accepting deposits, opening new accounts and making new loans.

In May 2012, the Archdiocese executed a promissory note to the D&L. In May 2013, the promissory note was amended to increase the amount of the note to \$82 million, which represented the excess of deposits over assets as of June 30, 2012. The promissory note is collateralized by specific pledged real estate assets which are documented in the note. As pledged properties are sold or monetized, net proceeds from these collateral transactions will be deposited into the D&L, in accordance with the provisions of the promissory note. In the event a transaction generates in excess of \$20 million in net proceeds, the Archdiocese has discretion regarding alternative uses for the excess so long as remaining pledged assets are at least equal to the then outstanding principal amount owed.

As of June 30, 2024, the underfunded obligation (i.e. the excess of deposits over assets) in the D&L was as follows:

	<b><u>(in millions)</u></b>
D&L Deposits	\$ 38.3
D&L Assets ( <i>excludes promissory note</i> )	<u>22.6</u>
Excess of Deposits Over Assets	<u>\$ 15.7</u>

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\* As disclosed in the audited financial statements, effective February 17, 2017 the trustees of the D&L instituted a moratorium on accepting deposits, opening new accounts and making new loans under the program. During the year ended June 30, 2017, the trustees implemented a distribution from the D&L of parish cemetery perpetual care funds and endowment funds so that these balances could be more appropriately invested. Cash distributions, equal to 20% of depositor balances, were also made to each depositor. During the year ended June 30, 2018, all depositors' balances less than \$12,500 were fully distributed and cash distributions equal to 17.5% of remaining balances were also made to each depositor. During the year ended June 30, 2019, all depositors' balances less than \$15,000 were fully distributed and cash distributions equal to 15% of remaining balances were also made to each depositor.

As of June 30, 2024, the balance outstanding on the promissory note was \$24.1 million, which is greater than the underfunded obligation noted above. We estimate that the value associated with the remaining pledged properties will be sufficient to resolve the remaining underfunded obligation in the Deposit and Loan Program Trust.

**Insurance Fund/Risk Insurance Trust**

The Risk Insurance Trust administers the risk management program of the Archdiocese. As part of the risk management program, levels of self-insurance risk are retained. As of June 30, 2024, insurance related assets exceeded insurance related liabilities, as follows:

	<b><u>(in millions)</u></b>
Insurance Related Assets ( <i>excl. prepaid expenses</i> )	\$ 19.5
Insurance Related Liabilities	<u>18.7</u>
Excess of assets over liabilities	<u>\$ 0.8</u>

**Lay Employees' Retirement Plan**

The Lay Employees' Retirement Plan (LERP) is considered a multiemployer plan for financial reporting purposes. As such, the assets and actuarially determined liabilities for this plan are not included in the OFS financial statements. The Archdiocese froze this defined benefit pension plan effective June 30, 2014.

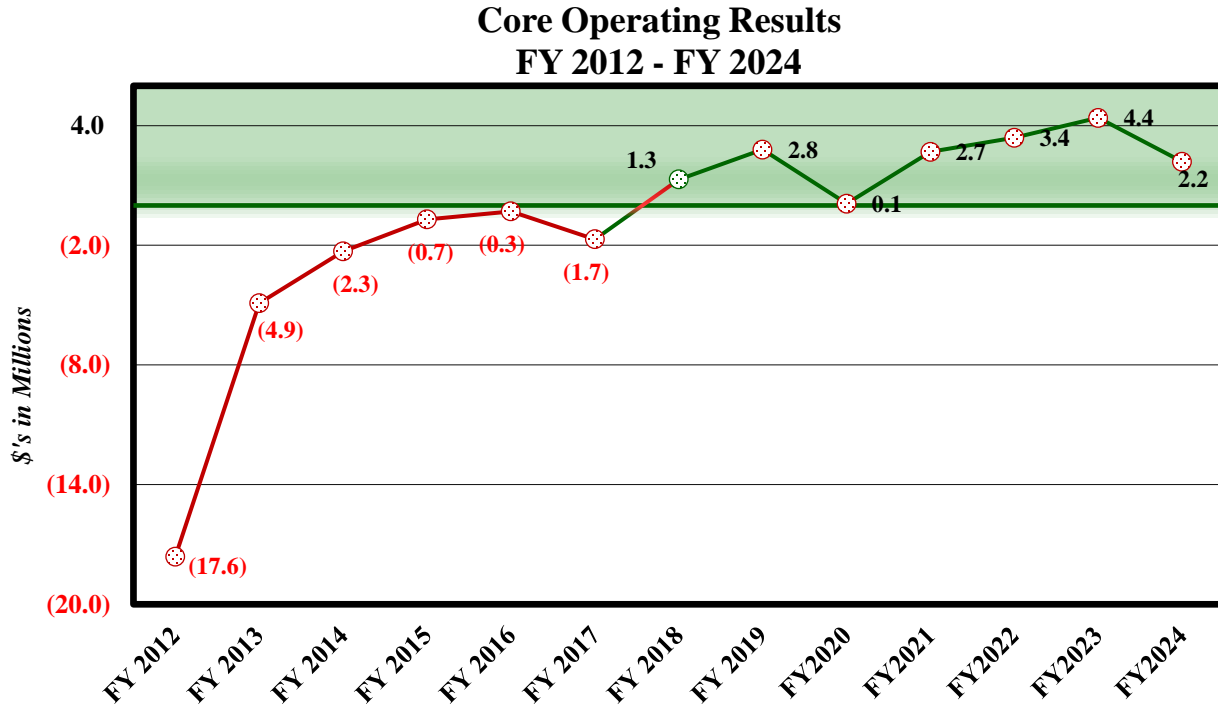
While not a direct liability of OFS, the amount by which the plan liability exceeds plan assets is a liability of the Archdiocese. The latest actuarially determined liability for this plan was as of June 30, 2024, and amounted to \$539.1 million.

When the June 30, 2024, estimated liability is compared to plan assets available for benefits as of June 30, 2024 (approximately \$474.2 million), the plan's shortfall is approximately \$64.9 million. The funded status of the LERP as of June 30, 2024, has increased to 88.0%, versus 81.6% as of June 30, 2023. The funded status increased slightly from the prior year primarily due to investment returns on plan assets during the fiscal year.

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**Looking Forward**

The core operating result has been stabilized significantly since FY 2012’s deficit of \$17.6 million. Since that time, we have taken steps to ensure a break-even result and did achieve a surplus in each of the seven fiscal years ending in FY 2024 as a result of these steps. Our core operating results are presented graphically below.



Despite the uncertainty in the market, we continue to make progress against our underfunded balance sheet obligations over the last 12 years.

<u>(in millions)</u>	<u>Under/(over)funded balance at</u>	
	<u>June 30, 2012</u>	<u>June 30, 2024</u>
Deposit and Loan Program	\$ 82.0	\$ 15.7
Risk Insurance Trust	30.4	(0.8)
Lay Employees’ Retirement Plan	152.0	64.9
Priests’ retirement plans <b>A</b>	<u>90.0</u>	<u>(10.8)</u>
	<u>\$ 354.4</u>	<u>\$ 69.0</u>

**\$285.4 million improvement  
in 12 years.**

**A** Priests’ retirement plans’ assets (\$128.1M) exceeded liabilities (\$117.3M) by \$10.8M at June 30, 2024.

As noted earlier, we estimate that the value associated with properties pledged for the Deposit and Loan Program promissory note is sufficient to resolve the remaining underfunded obligation once those properties are sold.

Going forward our remaining balance sheet issue will be the underfunded LERP.

We have taken the following significant steps to address the underfunded LERP:

- Froze the plan effective June 30, 2014;
- completed approximately \$107 million of lump sum distributions in calendar year 2015 to 3,797 eligible participants at a rate equivalent to 85.1% of the present value of their normal retirement benefit;
- made an additional contribution of \$7.5 million during the year ended June 30, 2016 and an additional contribution of \$30 million during the year ended June 30, 2017;
- instituted an ongoing lump sum distribution program effective October 1, 2017 through October 1, 2022. During the plan years ended June 30, 2018, through 2022, lump sum distributions totaling \$19.8 million were made to 707 eligible participants at rates equivalent to between 74.0% to 95.7% of the present value of their normal retirement benefit.