

Financial Statements and Report of
Independent Certified Public
Accountants

**The Philadelphia Theological Seminary of
St. Charles Borromeo**

June 30, 2020 and 2019

Contents

	Page
Report of Independent Certified Public Accountants	3
Financial Statements	
Statements of financial position	5
Statements of activities	6
Statements of cash flows	8
Notes to the financial statements	9
Supplementary Information	
Financial responsibility supplemental schedule	29

GRANT THORNTON LLP

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

D +1 215 561 4200

F +1 215 561 1066

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Trustees
The Philadelphia Theological Seminary of St. Charles Borromeo

We have audited the accompanying financial statements of The Philadelphia Theological Seminary of St. Charles Borromeo, which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Philadelphia Theological Seminary of St. Charles Borromeo as of June 30, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Financial Responsibility Supplemental Schedule as of and for the year ended June 30, 2020, in accordance with the U.S. Department of Education's (ED) Final Rule: *Student Assistance General Provisions, Federal Family Education Loan Program, and William D. Ford Federal Direct Loan Programs*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.



Philadelphia, Pennsylvania
November 16, 2020

The Philadelphia Theological Seminary of St. Charles Borromeo

STATEMENTS OF FINANCIAL POSITION

June 30,

	2020	2019
ASSETS		
Cash and cash equivalents	\$ 13,284,049	\$ 46,525,808
Accounts receivable, students	339,569	162,793
Other receivables	165,207	175,525
Note receivable including accrued interest	7,796,024	-
Prepaid expenses and other assets	4,006,813	4,627,875
Investments	39,454,155	19,459,339
Restricted cash	145,000	272,000
Property and equipment, net	370,352	254,190
Beneficial interest in perpetual trusts	1,643,672	1,722,765
Beneficial interest in Foundation	407,060	396,351
	Total assets	Total assets
	\$ 67,611,901	\$ 73,596,646
LIABILITIES		
Accounts payable and accrued expenses	\$ 873,276	\$ 927,793
Deferred revenue	1,364,518	278,051
Capital leases payable	94,470	45,936
Charitable gift annuities payable	74,776	93,753
Note payable	995,751	1,231,411
	Total liabilities	Total liabilities
	3,402,791	2,576,944
Net assets		
Net assets without donor restrictions	42,105,037	48,588,667
Net assets with donor restrictions	22,104,073	22,431,035
	Total net assets	Total net assets
	64,209,110	71,019,702
	Total liabilities and net assets	Total liabilities and net assets
	\$ 67,611,901	\$ 73,596,646

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

The Philadelphia Theological Seminary of St. Charles Borromeo

STATEMENT OF ACTIVITIES

Year ended June 30, 2020

	Net assets without donor restrictions	Net assets with donor restrictions	Total
Revenues			
Tuition and fees	\$ 3,917,196	\$ -	\$ 3,917,196
Less: student aid	(592,683)	-	(592,683)
Net tuition and fees	3,324,513	-	3,324,513
Contributions	5,104,342	92,212	5,196,554
Contributed services	782,460	-	782,460
Investment return, net	742,947	402,977	1,145,924
Other income	599,969	127,571	727,540
Auxiliary enterprises			
Cafeteria	1,082,429	-	1,082,429
Dormitory	528,074	-	528,074
Change in charitable gift annuities	18,977	-	18,977
Net assets released from restrictions	949,722	(949,722)	-
Total revenues	13,133,433	(326,962)	12,806,471
Expenses			
Program services			
Instruction	1,561,548	-	1,561,548
Academic support	1,756,108	-	1,756,108
Student services	789,164	-	789,164
Management and general			
Operations and maintenance	2,095,516	-	2,095,516
Institutional support	3,924,434	-	3,924,434
Auxiliary enterprises	766,886	-	766,886
Total expenses	10,893,656	-	10,893,656
Change in net assets before other gain (loss)	2,239,777	(326,962)	1,912,815
Gain on sale of artwork and rare books	1,276,593	-	1,276,593
Loss on IRRP Risk Mitigation Payment	(10,000,000)	-	(10,000,000)
Change in net assets	(6,483,630)	(326,962)	(6,810,592)
Net assets			
Beginning of year	48,588,667	22,431,035	71,019,702
End of year	\$ 42,105,037	\$ 22,104,073	\$ 64,209,110

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

The Philadelphia Theological Seminary of St. Charles Borromeo

STATEMENT OF ACTIVITIES

Year ended June 30, 2019

	Net assets without donor restrictions	Net assets with donor restrictions	Total
Revenues			
Tuition and fees	\$ 4,169,325	\$ -	\$ 4,169,325
Less: student aid	(561,319)	-	(561,319)
Net tuition and fees	3,608,006	-	3,608,006
Contributions	4,630,630	227,925	4,858,555
Contributed services	732,650	-	732,650
Investment return, net	126,485	1,239,517	1,366,002
Other income	810,806	125,056	935,862
Auxiliary enterprises			
Cafeteria	1,429,290	-	1,429,290
Dormitory	703,476	-	703,476
Change in charitable gift annuities	3,023	-	3,023
Net assets released from restrictions	1,054,623	(1,054,623)	-
Total revenues	13,098,989	537,875	13,636,864
Expenses			
Program services			
Instruction	1,533,269	-	1,533,269
Academic support	1,845,654	-	1,845,654
Student services	789,040	-	789,040
Management and general			
Operations and maintenance	3,329,934	-	3,329,934
Institutional support	4,046,478	-	4,046,478
Auxiliary enterprises	774,516	-	774,516
Total expenses	12,318,891	-	12,318,891
Change in net assets before other gains	780,098	537,875	1,317,973
Gain on sale of artwork and rare books	17,209	-	17,209
Gain on sale of property	48,343,130	-	48,343,130
Change in net assets	49,140,437	537,875	49,678,312
Net assets (deficit)			
Beginning of year	(551,770)	21,893,160	21,341,390
End of year	\$ 48,588,667	\$ 22,431,035	\$ 71,019,702

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

The Philadelphia Theological Seminary of St. Charles Borromeo

STATEMENTS OF CASH FLOWS

Years ended June 30,

	2020	2019
Cash flows from operating activities		
Change in net assets	\$ (6,810,592)	\$ 49,678,312
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation and accretion of capital asset retirement obligation	110,032	1,312,005
Net depreciation (appreciation) in fair value of investments	239,730	(224,118)
Distributions from beneficial interest in trusts	31,064	164,368
Change in fair value of beneficial interest in trusts	37,320	(74,347)
Realized gains on investments	(457,516)	(608,575)
Gain on sale of property	-	(48,343,130)
Gain on sale of artwork and rare books	(1,276,593)	(17,209)
Changes in operating assets and liabilities		
Accounts receivable, students	(176,776)	(146,172)
Other receivables	10,318	(82,085)
Prepaid expenses and other assets	621,062	(4,557,595)
Accounts payable and accrued expenses	(54,517)	(1,495,449)
Deferred revenue	1,086,467	37,814
Charitable gift annuities payable	(18,977)	(3,023)
Net cash used in operating activities	<u>(6,658,978)</u>	<u>(4,359,204)</u>
Cash flows from investing activities		
Increase (decrease) in restricted cash	127,000	(145,000)
Purchases of property and equipment	(226,194)	(165,773)
(Purchases) and sales of investments, net	(19,777,030)	303,424
Note receivable including accrued interest	(7,796,024)	-
Proceeds from sale of property	-	43,019,624
Sale of artwork and rare books	1,276,593	17,209
Net cash (used in) provided by investing activities	<u>(26,395,655)</u>	<u>43,029,484</u>
Cash flows from financing activities		
Payments on note payable	(235,660)	(224,235)
Capital lease borrowings (payments)	48,534	(48,505)
Net cash used in financing activities	<u>(187,126)</u>	<u>(272,740)</u>
Net (decrease) increase in cash and cash equivalents	<u>(33,241,759)</u>	<u>38,397,540</u>
Cash and cash equivalents		
Beginning of year	<u>46,525,808</u>	<u>8,128,268</u>
End of year	<u>\$ 13,284,049</u>	<u>\$ 46,525,808</u>

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

The Philadelphia Theological Seminary of St. Charles Borromeo

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE A - OPERATIONS OF THE SEMINARY

The Philadelphia Theological Seminary of St. Charles Borromeo (the "Seminary"), which is incorporated in the Commonwealth of Pennsylvania, operates for the benefit of the Roman Catholic community in general and the Roman Catholic Archdiocese of Philadelphia in particular. The Seminary's principal function is the academic and spiritual preparation of future priests. To fulfill this objective, the Seminary operates a four-year liberal arts college and a four-year school of theology.

Other educational programs that have been developed for summer and evening students are provided by the Graduate School of Theology Division.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of the Seminary have been prepared on the accrual basis of accounting.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, *Revenue from Contracts with Customers*, to improve financial reporting by creating common revenue recognition guidance. 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. ASU 2014-09 is effective for periods beginning after December 15, 2019. An entity will apply this update using either a full retrospective application, which applies the standard to each prior period presented, or under the modified retrospective application, in which an entity recognizes the cumulative effect of initially applying the new standard as an adjustment to the opening statement of financial position at the date of initial application. The Seminary is evaluating the impact of ASU 2014-09 at this time.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which requires that most leased assets be recognized on the balance sheet as assets and liabilities for the rights and obligations created by these leases. ASU 2016-02 is effective for fiscal years beginning after December 15, 2021. The Seminary has not yet determined the effect the adoption of this standard may have on the consolidated financial statements.

Classes of Net Assets

Resources are reported for accounting purposes in separate classes of net assets based on the existence or absence of donor-imposed restrictions. In the accompanying financial statements, net assets that have similar characteristics have been combined into similar categories as follows:

- Net assets without donor restrictions are not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.
- Net assets with donor restrictions are subject to donor-imposed stipulations that they be maintained permanently by the Seminary or expire over the passage of time. Generally, the donors of these assets permit the Seminary to use all or part of the investment return on these assets. Such assets primarily include the Seminary's donor-restricted endowment funds.

The Philadelphia Theological Seminary of St. Charles Borromeo

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

Revenues and Expenses

Expenses are generally reported as decreases in net assets without donor restrictions. Expirations of donor-imposed stipulations that simultaneously increase one class of net assets and decrease another are reported as reclassifications between the applicable classes of net assets.

Contributions and investment return with donor-imposed restrictions that are met in the same year as received are recorded as revenues without donor restrictions. Contributions restricted for the acquisition of land, buildings and equipment are reported as revenues with donor restrictions. These contributions are reclassified to net assets without donor restrictions upon acquisition of the assets.

Cash and Cash Equivalents

The Seminary considers all highly liquid investments with an original maturity of three months or less, and that are not held as components of its respective investment portfolio, to be cash equivalents. At June 30, 2020 and 2019, cash equivalents consisted principally of money market funds. The carrying amount approximates fair value.

The Seminary has restricted cash that is legally restricted for letters of credit.

Allowance for Doubtful Accounts

The allowance for doubtful accounts for student receivables is provided based upon management's judgment, including such factors as prior collection history and the type of receivable. The Seminary writes off receivables when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts. At both June 30, 2020 and 2019, the Seminary recorded an allowance for doubtful accounts of \$20,000.

Deferred Revenue

Deferred revenue relates to tuition, deposits and other payments for the upcoming summer semester received prior to fiscal year end as well as the proceeds of the Seminary's Paycheck Protection Program ("PPP") loan from the Small Business Administration under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). See Note Q for details related to the Seminary's PPP loan.

Investments

Investments are held in two publicly traded SEI Catholic Values public 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 ("USCCB"). The Archdiocese of Philadelphia appointed SEI Private Trust Company to act as custodian (the "Custodian") of the Trustee Accounts. Investments are reported at fair value.

Fair value for investments held outside of the SEI Investment Portfolio is determined as more fully described in the fair value measurements footnote (see Note D). Management is responsible for the fair value measurement of investments reported in the financial statements and believes the reported values are reasonable. Realized gains and losses on securities sold are determined using the specific-identification method. For securities owned at the end of the year, the difference between the original cost and fair value represents unrealized gain (loss) on investments.

The Philadelphia Theological Seminary of St. Charles Borromeo

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

Beneficial Interest in Perpetual Trusts

The Seminary is the sole beneficiary of a perpetual charitable trust established by John Creahan and is a beneficiary of a share in the perpetual charitable trusts established by Jeremiah J. Harrigan, Anthony P. Falcone, Joseph L. Anderjko and the Moroney Family Trust. The supporting charitable trusts require the income to be used by the Seminary to assist in the educational cost of Seminary students. The Seminary's beneficial interest in the supporting charitable trusts is recorded at the fair value of the assets underlying the trusts of \$1,643,672 and \$1,722,765 at June 30, 2020 and 2019, respectively. Various financial institutions serve as trustees for the charitable trusts.

The underlying investments of the beneficial interest in the perpetual charitable trusts consist of mutual funds and fixed income and equity securities.

Beneficial Interest in Charitable Trusts

The Seminary was a beneficiary of a share in the charitable trusts established by Francis J. McElory and Margaret Chinnici. The income from charitable trusts was available to be used for operations upon satisfaction of certain time-restrictive purposes. The trusts were liquidated during 2019 and distributions in the amount of \$134,929 were paid to the Seminary.

Beneficial Interest in Foundation

The Seminary contributed certain funds to an outside foundation and is the sole beneficiary of The Cardinal Foley Chair Endowment Fund ("Endowment Fund") and The Cardinal Foley Chair Program Fund ("Program Fund") held by an outside foundation. The Endowment Fund requires the income to be used by the Seminary for the exclusive purposes of maintaining The John Cardinal Foley Chair for Homiletics and Social Communications. The Program Fund requires the income to be used by the Seminary for the exclusive purposes of maintaining The John Cardinal Foley Chair for Homiletics and Social Communications and renovations. The renovation funds shall be distributed as required to design and furnish all necessary equipment for the new Homiletics room but may not exceed \$100,000. The Seminary's beneficial interest in the foundation is recorded at the fair market value of the assets underlying the Endowment Fund of \$104,149 and \$100,470 and Program Fund of \$302,911 and \$295,881 at June 30, 2020 and 2019, respectively. The Endowment Fund and the Program Fund are recorded as net assets with donor restrictions in accordance with the restrictions of the original donors.

The underlying investments of the beneficial interest in foundation consist of mutual funds and fixed income and equity securities.

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is recognized over the estimated useful life of the asset, which ranges from 3 to 40 years, depending on the asset's classification. Depreciation expense is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment.

The Philadelphia Theological Seminary of St. Charles Borromeo

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

Charitable Gift Annuities Payable

The Seminary enters into gift annuities, whereby the Seminary receives assets that are recorded at fair value when received. The assets of \$93,965 and \$95,989 are included in investments at June 30, 2020 and 2019, respectively. Periodic annuity payments are made to the donor until the donor's death. Upon receipt of the assets, a liability is recorded at the present value of the estimated future payments to be distributed over the donor's and/or other beneficiaries' expected life, based on the GAM-2000 Mortality Tables and discount rates set when the annuity agreement is established, which range between 3.08% and 6.17%. The liability at June 30, 2020 and 2019 is \$74,776 and \$93,753, respectively.

Conditional Asset Retirement Obligation

The Seminary considers a conditional asset retirement an obligation that includes a legal obligation associated with the retirement of a tangible long-lived asset in which the timing and/or method of settling the obligation is conditional on a future event that may or may not be within the control of the Seminary. Recognition of a liability is required for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated, even if conditional on a future event. The Seminary records the fair value of a liability for a legal obligation associated with an asset retirement in the period in which the obligation is incurred. When the liability is initially recorded, the cost of the asset retirement obligation is capitalized.

The Seminary previously recognized the cost associated with the eventual remediation and abatement of asbestos and other regulated substances located within the construction of the Seminary's real estate and campus or physical plant. The cost of the abatement was estimated by a third-party firm that conducted a survey for asbestos identification and prepared contractor estimates for the cost of potential remediation consistent with management's future remediation plans. During the year ended June 30, 2019, the liability was de-recognized as part of the sale of the Seminary property (see Note F). Included in total expenses at June 30, 2020 and 2019 is \$0 and \$342,460, respectively, for the accretion of interest.

Tuition and Fees

The Seminary maintains a policy of offering qualified applicants admission without regard to financial circumstances. This policy provides for financial aid to those admitted in the form of federal grants and loans during the academic year. Tuition and fees have been reduced by these financial aid programs.

Contributions

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The Seminary adopted the guidance during the year ended June 30, 2020 using the modified retrospective method and has determined that there is no effect on net assets in connection with the adoption of ASU 2018-08.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. 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. An allowance for uncollectible contributions receivable is provided based upon management's judgment, including such factors as prior collection history, type of contribution, and nature of the fund-raising activity. A receivable of \$47,700 and \$56,666 for the Seminary appeal pledge is recorded as of June 30, 2020 and 2019, respectively, within other receivables.

The Philadelphia Theological Seminary of St. Charles Borromeo

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

Contributed Services

The salaries of priests and members of religious groups assigned to the Seminary are nominal in relation to the services rendered. The difference between the fair value of these services, as determined from the Fact Book on Theological Education, published by the Association of Theological Schools, and the actual compensation paid and other benefits provided by the Seminary, are recorded as contributed services and the related functional expenses in the statements of activities.

Estimates by Management

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make 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 reported period. The most significant management estimates and assumptions relate to the determination of valuation of investments without a readily determinable market value; useful lives of fixed assets; actuarial estimates for the charitable gift annuities payable; the reported fair values of certain of the Seminary's assets and liabilities; and the functional allocation of expenses. Actual results could differ from those estimates.

Concentrations of Credit Risk

The Seminary's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents and investments. These funds are held in various high-quality financial institutions managed by Seminary personnel and outside advisors. The Seminary maintains its cash and cash equivalents in financial institutions that typically significantly exceed federally insured limits. The Seminary believes that the concentrations of credit risk are reasonable for its cash and cash equivalents and investments.

Auxiliary Enterprises

Auxiliary enterprises consist of activities distinct from the primary purpose of education. These activities include food services and housing with revenues and expenditures determined as follows:

Dormitory and Cafeteria Revenues - Monies received from students have been apportioned to room and board based upon the Seminary's quoted fees in the student catalogue.

Dormitory Expenditures - The Seminary estimates that approximately 20.0% of direct physical plant operations expenditures were directly related to the dormitories.

Cafeteria Expenditures - Represents all food service-related expenditures and 5.7% of physical plant operations expenditures.

As a result of COVID-19, the Seminary campus was closed beginning in mid-March 2020 and instruction was moved to online only. As a result, dormitory and cafeteria revenues of \$397,222 were refunded for Seminarians during the year ended June 30, 2020.

Tax-Exempt Status

Under provisions of Internal Revenue Code Section 501(c)(3) and the applicable income tax regulations of Pennsylvania, the Seminary is exempt from taxes on income other than unrelated business income.

The Seminary recognizes or derecognizes a tax position based on a "more likely than not" threshold. This applies to positions taken or expected to be taken in a tax return. The Seminary does not believe its financial statements include any material uncertain tax positions.

The Philadelphia Theological Seminary of St. Charles Borromeo

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

As of June 30, 2020, the Seminary's tax years ended June 30, 2016 through June 30, 2020 for federal tax jurisdiction remain open to examination.

NOTE C - INVESTMENTS

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

Investments held by SEI

Catholic Values Equity Fund - Invests in common stocks.

Catholic Values Fixed Income Fund - Invests in mutual funds, corporate obligations, United States Treasury obligations and municipal obligations.

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. The Finance and Budget Committee of the Philadelphia Theological Seminary of St. Charles Borromeo has primary responsibility for determining fixed income to equity mix. The asset mix of the mutual funds is SEI's responsibility.

Investments held by Haverford Trust

Investments held by Haverford Trust consist of certificates of deposit, corporate bonds and notes, and money market funds.

At June 30, 2020 and 2019, the Seminary held the following categories of investments:

	<u>2020</u>	<u>2019</u>
Certificates of deposit	\$ 2,000,000	\$ -
Corporate bonds and notes	999,753	-
Money market funds	17,287,736	-
Catholic Values Equity Fund	13,224,999	13,816,131
Catholic Values Fixed Income Fund	5,941,667	5,643,208
	<u>\$ 39,454,155</u>	<u>\$ 19,459,339</u>
Total investments		

The Philadelphia Theological Seminary of St. Charles Borromeo

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE D - FAIR VALUE MEASUREMENTS

FASB Accounting Standards Codification (“ASC”) 820, *Fair Value Measurements*, 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 Seminary believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain investments could result in a different fair value measurement at the reporting date.

The following table presents the fair values of the assets held by the Seminary by level within the fair value hierarchy, as of June 30, 2020:

	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
Assets				
Investments in SEI funds	\$ 19,166,666	\$ -	\$ -	\$ 19,166,666
Certificates of deposit	2,000,000	-	-	2,000,000
Corporate bonds and notes	999,753	-	-	999,753
Money market funds	17,287,736	-	-	17,287,736
Beneficial interest in perpetual trusts	-	-	1,643,672	1,643,672
Beneficial interest in Foundation	-	-	407,060	407,060
Total	\$ 39,454,155	\$ -	\$ 2,050,732	\$ 41,504,887

The Philadelphia Theological Seminary of St. Charles Borromeo

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

The table below sets forth a summary of changes in the fair value of the Seminary's Level 3 assets for the year ended June 30, 2020:

	Beneficial interest in perpetual trusts	Beneficial interest in Foundation
	<u> </u>	<u> </u>
Balance at June 30, 2019	\$ 1,722,765	\$ 396,351
Change in fair value of assets	(63,987)	26,667
Distributions	<u>(15,106)</u>	<u>(15,958)</u>
Balance at June 30, 2020	<u>\$ 1,643,672</u>	<u>\$ 407,060</u>

The following table presents the fair values of the assets held by the Seminary by level within the fair value hierarchy, as of June 30, 2019:

	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Assets				
Investments in SEI funds	\$ 19,459,339	\$ -	\$ -	\$ 19,459,339
Beneficial interest in perpetual trusts	-	-	1,722,765	1,722,765
Beneficial interest in Foundation	-	-	<u>396,351</u>	<u>396,351</u>
Total	<u>\$ 19,459,339</u>	<u>\$ -</u>	<u>\$ 2,119,116</u>	<u>\$ 21,578,455</u>

The table below sets forth a summary of changes in the fair value of the Seminary's Level 3 assets for the year ended June 30, 2019:

	Beneficial interest in perpetual trusts	Beneficial interest in charitable trusts	Beneficial interest in Foundation
	<u> </u>	<u> </u>	<u> </u>
Balance at June 30, 2018	\$ 1,701,867	\$ 133,866	\$ 373,404
Change in fair value of assets	36,306	1,063	36,978
Distributions	<u>(15,408)</u>	<u>(134,929)</u>	<u>(14,031)</u>
Balance at June 30, 2019	<u>\$ 1,722,765</u>	<u>\$ -</u>	<u>\$ 396,351</u>

The Philadelphia Theological Seminary of St. Charles Borromeo

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE E - STUDENT REVENUES

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

	2020	2019
College and Theologate	\$ 2,990,595	\$ 3,237,297
Graduate School of Theology	333,918	370,709
Net tuition and fees	\$ 3,324,513	\$ 3,608,006

NOTE F - PROPERTY AND EQUIPMENT

The following summarizes property and equipment at June 30:

	2020	2019
Building and leasehold improvements	\$ 365,940	\$ 234,480
Equipment	509,751	415,017
	875,691	649,497
Accumulated depreciation	(505,339)	(395,307)
Property and equipment, net	\$ 370,352	\$ 254,190

Depreciation expense (including accretion of the capital asset retirement obligation) of \$110,032 and \$1,312,005 has been recorded in the statements of cash flows for the years ended June 30, 2020 and 2019, respectively.

The Seminary has no outstanding commitments on construction contracts as of June 30, 2020 and 2019.

As part of the Seminary's relocation and affiliation plans, the Seminary sold its property consisting of approximately 71 acres of land together with all buildings and improvements erected thereon located at 100 Wynnewood Road, Wynnewood, Pennsylvania to Main Line Health, Inc. on May 16, 2019. The gross sales price was \$43,500,000. At closing of the property sale, the Seminary entered into a lease agreement with Main Line Health such that the Seminary will lease back the sold property for a period of up to 5 years from the date of closing. Subject to the provisions of the lease, possession of the real property during the term shall belong solely to the Seminary for the continuation of the educational and religious activities presently conducted thereon. The lease calls for base rent payable by the Seminary to Main Line Health during the term of the lease equal to \$1 and the Seminary is responsible to pay directly all utilities, insurance, operating expenses and such other expenses and perform such obligations that are customarily paid and performed by tenants. There are no other future commitments, obligation provisions, or circumstances that require or result in the Seminary's continuing involvement and this transaction was, therefore, accounted for as a real estate sale.

The Philadelphia Theological Seminary of St. Charles Borromeo

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

The Seminary recognized a net gain on the sale transaction as of June 30, 2019 as follows:

Gross sales price	\$ 43,500,000
Transaction costs	(480,376)
Loss on write-off of property and equipment	(4,358,785)
Derecognition of conditional asset retirement obligation	<u>9,682,291</u>
 Gain on sale of property	 <u>\$ 48,343,130</u>

NOTE G - NOTE PAYABLE

Effective October 2005, the Seminary entered into a loan agreement with the Archdiocese of Philadelphia Deposit and Loan Program Trust to borrow \$3,000,000 for the purpose of financing the re-construction of the Ryan Memorial Library. The note payable resulting from this agreement carried a fixed interest rate of 4.5% per annum. In March 2009, the loan agreement with the Archdiocese of Philadelphia Deposit and Loan Program Trust was amended. The amended loan agreement changed the term of the loan to 15 years with quarterly payments of \$20,000 for the first five years, with a variable interest rate ranging from 4% to 8%. At year six, the quarterly payments were increased to \$62,917.

In May 2018, the outstanding principal of \$1,509,985 was sold to the Priests' Retirement Benefits Funding Trust with a 5% interest rate and a maturity date of March 31, 2024 and payments to be made quarterly starting June 2018. At June 30, 2020 and 2019, the outstanding balance was \$995,751 and \$1,231,411, respectively.

The Seminary's long-term debt obligations as of June 30, 2020 are as follows:

2021	\$ 247,664
2022	260,282
2023	273,542
2024	<u>214,263</u>
 Total	 <u>\$ 995,751</u>

NOTE H - CAPITAL LEASES

The following is a schedule by years of minimum future rentals on non-cancelable capital leases as of June 30, 2020:

2021	\$ 38,891
2022	28,779
2023	28,123
2024	<u>11,886</u>
 Total minimum payments required	 107,679
Less: amount representing interest	<u>13,209</u>
 Total	 <u>\$ 94,470</u>

The Philadelphia Theological Seminary of St. Charles Borromeo

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE I - NET ASSETS

Net assets with donor restrictions as to purpose or time are available for the following at June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Student scholarships and student grants	\$ 3,560,876	\$ 3,475,710
Other related donor-restricted projects	411,271	361,658
Beneficial interest in foundation	<u>407,060</u>	<u>396,351</u>
	<u>\$ 4,379,207</u>	<u>\$ 4,233,719</u>

Net assets with donor restrictions that they be held in perpetuity at June 30, 2020 and 2019 are restricted as follows:

	<u>2020</u>	<u>2019</u>
Endowment funds to be held in perpetuity, primarily to support student scholarships	\$ 16,081,194	\$ 16,474,551
Beneficial interests in third-party trusts	<u>1,643,672</u>	<u>1,722,765</u>
	<u>\$ 17,724,866</u>	<u>\$ 18,197,316</u>

NOTE J - NET ASSETS RELEASED FROM DONOR RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses, satisfying the restricted purposes, or by occurrence of other events specified by donors for the years ended June 30, 2020 and 2019 as follows:

	<u>2020</u>	<u>2019</u>
Purpose restrictions accomplished		
Catholic Life 2000	\$ 271,327	\$ 262,366
Scholarship fund	356,254	411,906
Estates and trusts	31,065	166,155
Krol Chair	101,201	63,512
Expenses related to other projects	<u>189,875</u>	<u>150,684</u>
	<u>\$ 949,722</u>	<u>\$ 1,054,623</u>

The Philadelphia Theological Seminary of St. Charles Borromeo

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE K - ENDOWMENTS

The Seminary holds approximately 12 individual donor-restricted endowments. The Seminary's endowments consist of donor-restricted endowment funds established for a variety of purposes. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

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

Return Objectives and Risk Parameters

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

Spending Policy

In accordance with state law, net realized and unrealized gains on restricted endowment investments are included as net assets with donor restrictions, even absent donor restrictions on the use of gains. Commonwealth of Pennsylvania law permits the Seminary to adopt a spending policy for endowment earnings, subject to certain limitations. The Seminary follows the total return concept of endowment investment and spending. Under this concept, a prudent amount of appreciation earned on the investments may be spent in the event that the interest and dividends earned are insufficient to meet that period's spending rate. The Seminary's spending policy for the years ended June 30, 2020 and 2019 allowed for a 5% draw of the three-year average market value of the donor-restricted endowments, estates and trusts.

The Philadelphia Theological Seminary of St. Charles Borromeo

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

The Seminary had the following endowment activities during the years ended June 30, 2020 and 2019, delineated by net asset class. All endowment activities were donor restricted:

<u>2020</u>	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Endowment net assets at June 30, 2019	\$ -	\$ 16,474,551	\$ 16,474,551
Investment return			
Net investment income	-	267,720	267,720
Net appreciation (realized and unrealized)	-	67,462	67,462
	-	335,182	335,182
Total investment return	-	335,182	335,182
Appropriation of endowment assets for expenditure	-	(728,539)	(728,539)
Endowment net assets at June 30, 2020	<u>\$ -</u>	<u>\$ 16,081,194</u>	<u>\$ 16,081,194</u>
<u>2019</u>	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Endowment net assets at June 30, 2018	\$ -	\$ 16,152,839	\$ 16,152,839
Investment return			
Net investment income	-	284,622	284,622
Net appreciation (realized and unrealized)	-	706,317	706,317
	-	990,939	990,939
Total investment return	-	990,939	990,939
Appropriation of endowment assets for expenditure	-	(669,227)	(669,227)
Endowment net assets at June 30, 2019	<u>\$ -</u>	<u>\$ 16,474,551</u>	<u>\$ 16,474,551</u>

The Philadelphia Theological Seminary of St. Charles Borromeo

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE L - EXPENSES BY BOTH NATURE AND FUNCTION

Program expenses consist of instruction, academic support and student services. Supporting expenses consist of supporting compensation, operations and maintenance, fixed charges and miscellaneous costs. While certain natural classifications of supporting expenses could be attributable to one or more program or supporting functions of the Seminary including depreciation and facilities repairs and maintenance (net of salaries and benefits), these costs are not allocated to the respective programs.

Functional expenses by natural classification as of June 30, 2020 and 2019:

	Program Services			Management and General			Total expenses 2020
	Instruction	Academic support	Student services	Operations and maintenance	Institutional support	Auxiliary enterprises	
Salaries and benefits	\$ 1,372,195	\$ 1,403,601	\$ 534,421	\$ 114,034	\$ 1,235,533	\$ -	\$ 4,659,784
Professional services	113,810	52,756	81,396	1,138,199	2,199,488	766,494	4,352,143
Depreciation	-	-	-	110,031	-	-	110,031
Other	51,533	244,302	168,302	17,095	406,030	392	887,654
Repairs, maintenance and utilities	24,010	55,449	5,045	716,157	83,383	-	884,044
Total	\$ 1,561,548	\$ 1,756,108	\$ 789,164	\$ 2,095,516	\$ 3,924,434	\$ 766,886	\$ 10,893,656

	Program Services			Management and General			Total expenses 2019
	Instruction	Academic support	Student services	Operations and maintenance	Institutional support	Auxiliary enterprises	
Salaries and benefits	\$ 1,292,249	\$ 1,356,113	\$ 526,802	\$ 109,396	\$ 1,607,553	\$ -	\$ 4,892,113
Professional services	62,605	20,636	77,133	1,133,382	1,836,884	773,436	3,904,076
Depreciation	-	-	-	1,312,005	-	-	1,312,005
Other	151,065	413,050	180,241	32,428	524,689	1,080	1,302,553
Repairs, maintenance and utilities	27,350	55,855	4,864	742,723	77,352	-	908,144
Total	\$ 1,533,269	\$ 1,845,654	\$ 789,040	\$ 3,329,934	\$ 4,046,478	\$ 774,516	\$ 12,318,891

NOTE M - RELATED PARTIES

The Seminary has agreements with several entities of the Archdiocese of Philadelphia for use of the Seminary's facilities. These arrangements are with the Vocations Office and Archbishop. The Seminary recorded revenue of \$69,987 and \$82,160 for the years ended June 30, 2020 and 2019, respectively, for monies received.

The Seminary remits payments for all insurance, except lay medical insurance, to the Archdiocese of Philadelphia, Office for Financial Services, which purchases insurance coverage for all Archdiocesan entities. Total expenses were \$617,604 and \$619,953 for the years ended June 30, 2020 and 2019, respectively.

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

The Philadelphia Theological Seminary of St. Charles Borromeo

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

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

Under the Archdiocese of Philadelphia's Priest Student Loan Policy, priests are reimbursed for payments made toward student debt that was incurred for their studies at the Seminary. The reimbursements are contingent upon loan payments being made by the priest and are limited annually to a maximum repayment amount predetermined by the Archdiocese of Philadelphia. The Archdiocese of Philadelphia assumes no liability related to the outstanding balances on these loans until payment is made by the priests. Upon payment, the Archdiocese of Philadelphia assumes the liability. The reimbursement cost is split evenly between the Archdiocese of Philadelphia and the Seminary. During the years ended June 30, 2020 and 2019, the combined reimbursement totaled \$151,349 and \$154,374, respectively. As of June 30, 2020, and 2019, the potential Priest Student Loan balance outstanding totaled \$679,244 and \$739,742, respectively. The Seminary's accounts payable and accrued expenses include one-half of the Priest Student Loan balance at June 30, 2020 and 2019.

On July 17, 2019, the Board of Trustees approved a one-year, unsecured bridge loan of \$7,500,000 to the Archdiocese of Philadelphia. The loan was made in two advances (\$6,250,000 on July 19, 2019 and \$1,250,000 on October 4, 2019). The loan bears an annual interest rate of 4.25% calculated by the number of days elapsed that principal is outstanding based upon a 360-day year. Principal and interest is due at the earlier of one year from the date of borrowing or the receipt of proceeds from the phase one closing of a Master Development Agreement entered into by the Archdiocese of Philadelphia. On June 30, 2020, an amendment approved by the Board of Trustees was signed extending the maturity date to December 31, 2020. The balance is reported as note receivable including accrued interest in the statement of financial position.

On November 22, 2019, in accordance with the plan established to fund the Independent Reconciliation and Reparations Program ("IRRP"), the Seminary approved a \$10,000,000 risk-mitigation payment to the Archdiocese of Philadelphia. The actual payment was made on December 5, 2019. This transaction is reported as Loss on IRRP Risk Mitigation Payment in the statement of activities for the year ended June 30, 2020.

NOTE N - PENSION PLANS

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

Through June 30, 2014, the eligible lay employees of the Seminary were covered under the Archdiocese of Philadelphia Lay Employees' Retirement Plan (the "Plan"), which is a defined benefit pension plan covering substantially all lay employees of the Archdiocese of Philadelphia, based on age and service requirements. The Plan is administered by the Trustees of the Plan. The Seminary made annual contributions to the Plan at a rate of 4% of the salaries of eligible employees for each of the years ended June 30, 2020 and 2019. The amount expensed by the Seminary for contributions to the Plan was \$105,673 and \$106,960 for the years ended June 30, 2020 and 2019, respectively. Separate accounts for vested benefits and pension fund assets are not maintained for each institution.

The Philadelphia Theological Seminary of St. Charles Borromeo

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

Archdiocese of Philadelphia 403(b) Retirement Plan

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

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

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

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

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

The contributions by the Seminary into the 403(b) plan totaled \$83,168 and \$93,202 for the years ended June 30, 2020 and 2019, respectively.

Archdiocese of Philadelphia Priests' Pension Plan

In addition, the priests of the Seminary are covered under the Archdiocese of Philadelphia Priests' Pension Plan (the "Priest Plan"), which is a defined benefit pension plan that covers substantially all priests, once age requirements are met, of the Archdiocese of Philadelphia, its institutions and parishes. The contributions of the Seminary were \$37,500 and \$55,500 for the years ended June 30, 2020 and 2019, respectively. Separate accounts for vested benefits and pension fund assets are not maintained for each institution.

The Philadelphia Theological Seminary of St. Charles Borromeo

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE O - OTHER INCOME

Other income recognized by the Seminary is comprised of the following for the years ended June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Fees for service	\$ 20,888	\$ 25,072
Third-party trust income	128,345	151,514
Institutional assistance grant	7,582	2,288
Miscellaneous income	57,060	131,858
Rental of facilities	98,526	156,220
Permanent diaconate income	32,365	62,070
Rector's/Archdiocesan discretionary fund	124,000	122,000
Vocations office grant income	16,720	44,501
Vocations office income	<u>242,054</u>	<u>240,339</u>
	<u>\$ 727,540</u>	<u>\$ 935,862</u>

NOTE P - COMMITMENTS AND CONTINGENCIES

The Seminary may be involved in legal proceedings arising out of and incidental to its operations. A liability associated with a settlement related to one legal proceeding was recorded in accounts payable and accrued expenses as of June 30, 2019 and there were no such liabilities recorded as of June 30, 2020. In management's opinion, the ultimate liability which may arise from other legal proceedings are not deemed probable and would not have a material adverse effect on the financial statements of the Seminary.

The Philadelphia Theological Seminary of St. Charles Borromeo

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE Q - LIQUIDITY AND FUNDS AVAILABLE

The following table reflects the Seminary's financial assets as of June 30, 2020 and 2019, reduced by amounts not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year, perpetual endowments and accumulated earnings net of appropriations within one year, or because the governing board has set aside the funds for specific contingency reserve or a long-term investment as board-designated endowments. These board designations could be drawn upon if the board approves that action.

	June 30,	
	2020	2019
Financial assets:		
Cash and cash equivalents	\$ 13,284,049	\$ 46,525,808
Accounts and contributions receivable, net of allowance for doubtful accounts	504,776	338,318
Note receivable including accrued interest	7,796,024	-
Investments	39,454,155	19,459,339
Beneficial interest in perpetual trusts and Foundation	2,050,732	2,119,116
Financial assets at year end	63,089,736	68,442,581
Less those unavailable for general expenditure within one year, due to:		
Restricted by the Board of Trustees for construction of new Seminary	(27,588,543)	(36,504,200)
Investments and perpetual trusts held by others and not convertible to cash within next 12 months	(21,217,398)	(21,578,455)
Financial assets available to meet cash needs for general expenditures within one year	\$ 14,283,795	\$ 10,359,926

The Seminary received a PPP loan of \$716,627 granted by the Small Business Administration under the CARES Act that is reflected as deferred revenue as of June 30, 2020. Under the program terms, PPP loans are forgiven and recognized as grant 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 Seminary expects to meet the forgiveness criteria and expects the amount included in deferred revenue will be recognized as grant revenue during the year ended June 30, 2021.

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continues to spread throughout the United States. The spread of COVID-19 has caused significant volatility in U.S. and international markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S. and international economies and, as such, the Seminary is unable to determine if it will have a material impact to its operations for the year ending June 30, 2021. The Seminary has been and continues to closely monitor the COVID-19 pandemic and its impact on the Seminary community. Though the full impact of COVID-19 and the scope of any impact on the Seminary's operations and financial condition cannot be determined, potential adverse consequences to the Seminary of COVID-19 may include a decline in enrollment, postponement or cancellation of public events, decline in demand for room and board, and a decrease in interest and investment income from the Seminary's investment assets.

The Philadelphia Theological Seminary of St. Charles Borromeo

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE R - SUBSEQUENT EVENTS

FASB ASC 855, *Subsequent Events*, establishes the principles and requirements for evaluating and reporting subsequent events, including the period subject to evaluation for subsequent events, the circumstances requiring recognition of subsequent events in the financial statements, and the required disclosures. The Seminary has evaluated subsequent events through November 16, 2020, the date on which the financial statements were available for distribution, noting no items requiring accrual or disclosure in the financial statements.

SUPPLEMENTARY INFORMATION

The Philadelphia Theological Seminary of St. Charles Borromeo

FINANCIAL RESPONSIBILITY SUPPLEMENTAL SCHEDULE

Year ended June 30, 2020

Primary Reserve Ratio

Expendable net assets

Net assets without donor restrictions	\$ 34,309,013
Net assets with donor restrictions	22,104,073
Less: net assets restricted in perpetuity	(17,724,866)
Less: property and equipment, net	(370,352)
Note payable	(995,751)
Total expendable net assets	37,322,117

Total Expenses

Expenses and investment losses without donor restrictions	10,893,656
Less: losses on investments without donor restrictions	-
Total expenses	10,893,656

Primary Reserve Ratio

3.4260

Equity Ratio

Modified net assets	
Net assets without donor restrictions	\$ 34,309,013
Net assets with donor restrictions	22,104,073
Total modified net assets	56,413,086

Modified assets

Total assets	67,611,901
Total modified assets	67,611,901

Equity Ratio

0.8344

Net Income Ratio

Change in net assets without donor restrictions	3,516,370
Total revenue without donor restrictions	14,410,026

Net Income Ratio

0.2440

	<u>Ratio</u>	<u>Strength</u>	<u>Weight</u>	<u>Composite</u>
Primary Reserve	3.4260	3.0000	40%	1.2000
Equity	0.8344	3.0000	40%	1.2000
Net Income	0.2440	3.0000	20%	0.6000

Financial Responsibility Composite Score (maximum of 3.0)

3.0