

BORROMEO SEMINARY
FINANCIAL REPORT
JUNE 30, 2021 and 2020

BORROMEO SEMINARY

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Independent Auditors' Report

Board of Trustees
Borromeo Seminary
Cleveland, Ohio

We have audited the accompanying financial statements of Borromeo Seminary (a nonprofit organization), which comprise the statements of financial position as of June 30, 2021 and 2020, and the related statements of activities, functional expenses, 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.

Auditors' 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 auditors' 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 auditors consider 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 Borromeo Seminary as of June 30, 2021 and 2020, 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.



Cleveland, Ohio
September 15, 2021

BORROMEO SEMINARY

STATEMENTS OF FINANCIAL POSITION

June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>	<u>Percent Change</u>
<u>ASSETS</u>			
CURRENT ASSETS			
Cash and cash equivalents:			
Operating	\$ 496,598	\$ 654,827	(24.16) %
Savings	610,545	1,072,350	(43.06)
Agency cash - Rector's Fund	1,120,212	890,407	25.81
Accounts receivable - room and board	2,539	2,668	(4.84)
Accounts receivable - other	8,274	88,045	(90.60)
Affiliate receivable - Center for Pastoral Leadership	383	13,946	(97.25)
Prepaid expenses	<u>6,959</u>	<u>9,738</u>	(28.54)
Total current assets	2,245,510	2,731,981	(17.81)
 EQUIPMENT, net of accumulated depreciation of \$191,083 and \$167,617	 48,886	 72,352	 (32.43)
 LONG-TERM ASSETS			
Investments, at market	585,005	473,404	23.57
Beneficial interest in perpetual trust	752,102	644,519	16.69
Loan receivable - Center for Pastoral Leadership	<u>462,336</u>	<u>-</u>	100.00
Total long-term assets	1,799,443	1,117,923	60.96
 TOTAL ASSETS	 <u>\$4,093,839</u>	 <u>\$3,922,256</u>	 4.37
 <u>LIABILITIES AND NET ASSETS</u>			
CURRENT LIABILITIES			
Accounts payable	\$ 5,054	\$ 3,869	30.63
Accrued payroll and related taxes	5,913	5,386	9.78
Unearned revenue	4,406	14,229	(69.04)
Funds held for others - Rector's Fund	<u>1,120,212</u>	<u>890,407</u>	25.81
Total current liabilities	1,135,585	913,891	24.26
 NET ASSETS			
Without donor restrictions	1,801,495	2,021,672	(10.89)
With donor restrictions	<u>1,156,759</u>	<u>986,693</u>	17.24
Total net assets	2,958,254	3,008,365	(1.67)
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$4,093,839</u>	 <u>\$3,922,256</u>	 4.37

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

BORRAMEO SEMINARY
STATEMENT OF ACTIVITIES

Year Ended June 30, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>Percent Change</u>
REVENUES, GAINS AND LOSSES				
Tuition reimbursements	\$ 91,631		\$ 91,631	(47.07) %
Investment income	37,672	\$ 2,831	40,503	(28.61)
Net realized and unrealized gain on investments	63,853	40,449	104,302	416.50
Change in value of beneficial interest in perpetual trust		107,583	107,583	8,748.15
Gifts and grants	3,408	28,620	32,028	(59.56)
Priestly formation endowment earnings contribution	870,642		870,642	17.14
Room and board	146,763		146,763	(26.14)
Contributed services - priest/religious faculty	237,518		237,518	(0.95)
Special events, net		48,450	48,450	869.00
Net assets released from restrictions	<u>57,867</u>	<u>(57,867)</u>	<u>-</u>	-
Total revenues, gains and losses	1,509,354	170,066	1,679,420	0.88
EXPENDITURES				
Program services	1,348,179		1,348,179	(0.63)
Management and general	368,357		368,357	(2.64)
Fundraising	<u>12,995</u>		<u>12,995</u>	(5.14)
Total expenditures	<u>1,729,531</u>	<u> </u>	<u>1,729,531</u>	(1.10)
CHANGE IN NET ASSETS	(220,177)	170,066	(50,111)	40.35
NET ASSETS – BEGINNING OF YEAR	<u>2,021,672</u>	<u>986,693</u>	<u>3,008,365</u>	(2.72)
NET ASSETS – END OF YEAR	<u>\$1,801,495</u>	<u>\$1,156,759</u>	<u>\$2,958,254</u>	(1.67)

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

BORRAMEO SEMINARY
STATEMENT OF ACTIVITIES

Year Ended June 30, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUES, GAINS AND LOSSES			
Tuition reimbursements	\$ 173,101		\$ 173,101
Investment income	53,339	\$ 3,393	56,732
Net realized and unrealized gain on investments	12,363	7,831	20,194
Change in value of beneficial interest in perpetual trust		(1,244)	(1,244)
Gifts and grants	49,881	29,325	79,206
Priestly formation endowment earnings contribution	743,227		743,227
Priestly formation annual appeal	150,000		150,000
Room and board	198,694		198,694
Contributed services - priest/religious faculty	239,808		239,808
Special events, net		5,000	5,000
Net assets released from restrictions	<u>62,735</u>	<u>(62,735)</u>	<u>-</u>
Total revenues, gains and losses	1,683,148	(18,430)	1,664,718
EXPENDITURES			
Program services	1,356,686		1,356,686
Management and general	378,338		378,338
Fundraising	<u>13,699</u>		<u>13,699</u>
Total expenditures	<u>1,748,723</u>		<u>1,748,723</u>
CHANGE IN NET ASSETS	(65,575)	(18,430)	(84,005)
NET ASSETS – BEGINNING OF YEAR	<u>2,087,247</u>	<u>1,005,123</u>	<u>3,092,370</u>
NET ASSETS – END OF YEAR	<u>\$2,021,672</u>	<u>\$ 986,693</u>	<u>\$3,008,365</u>

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

BORROMEO SEMINARY
STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended June 30, 2021 and 2020

	As of June 30, 2021			
	Program Services	Management and General	Fundraising	Total
Salaries and benefits	\$ 562,042	\$ 96,453	\$ 3,924	\$ 662,419
Contributed services - priest/religious faculty	153,911	76,006	7,601	237,518
General office expense	23,954	68,258	1,470	93,682
Student support	56,983			56,983
Spiritual formation	35,799			35,799
Rent expense	382,920	127,640		510,560
Academic	22,894			22,894
Food service	86,210			86,210
Golf outing			25,234	25,234
Depreciation	<u>23,466</u>			<u>23,466</u>
Total expenses by function	1,348,179	368,357	38,229	1,754,765
Less expenses included with special events, net on the statements of activities			<u>(25,234)</u>	<u>(25,234)</u>
Total expenses included in the expenditures section on the statements of activities	<u>\$ 1,348,179</u>	<u>\$ 368,357</u>	<u>\$ 12,995</u>	<u>\$ 1,729,531</u>

	As of June 30, 2020			
	Program Services	Management and General	Fundraising	Total
Salaries and benefits	\$ 575,787	\$ 97,267	\$ 4,181	\$ 677,235
Contributed services - priest/religious faculty	155,395	76,739	7,674	239,808
General office expense	23,345	76,692	1,844	101,881
Student support	53,683			53,683
Spiritual formation	25,134			25,134
Rent expense	382,920	127,640		510,560
Academic	36,877			36,877
Food service	80,080			80,080
Golf outing deposit			500	500
Depreciation	<u>23,465</u>			<u>23,465</u>
Total expenses by function	1,356,686	378,338	14,199	1,749,223
Less expenses included with special events, net on the statements of activities			<u>(500)</u>	<u>(500)</u>
Total expenses included in the expenditures section on the statements of activities	<u>\$ 1,356,686</u>	<u>\$ 378,338</u>	<u>\$ 13,699</u>	<u>\$ 1,748,723</u>

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

BORROMEO SEMINARY

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (50,111)	\$ (84,005)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	23,466	23,465
Net realized and unrealized gain on investments	(104,302)	(20,194)
Change in value of beneficial interest in perpetual trust	(107,583)	1,244
Change in operating assets and liabilities:		
Decrease in accounts receivable - room and board	129	6,036
Decrease (increase) in accounts receivable - other	79,771	(79,356)
Change in affiliate receivable/payable - Center for Pastoral Leadership	13,563	(45,170)
Decrease (increase) in prepaid expenses	2,779	(5,573)
Increase (decrease) in accounts payable	1,185	(8,472)
Increase (decrease) in accrued payroll and related taxes	527	(121)
(Decrease) increase in unearned revenue	(9,823)	12,825
Total adjustments	<u>(100,288)</u>	<u>(115,316)</u>
Net cash used by operating activities	(150,399)	(199,321)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in loan receivable - Center for Pastoral Leadership	(462,336)	-
(Purchase) sale of investments	<u>(7,299)</u>	<u>905,436</u>
Net cash (used) provided by investing activities	<u>(469,635)</u>	<u>905,436</u>
 (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(620,034)	706,115
 CASH AND CASH EQUIVALENTS – BEGINNING	<u>1,727,177</u>	<u>1,021,062</u>
 CASH AND CASH EQUIVALENTS – ENDING	<u>\$ 1,107,143</u>	<u>\$ 1,727,177</u>

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

BORROMEO SEMINARY

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Organization

Borromeo Seminary (the Seminary) is organized as a non-profit corporation under the stewardship of the Bishop of the Catholic Diocese of Cleveland. The Catholic Diocese of Cleveland approved a plan in 1991 to restructure the Diocesan seminary programs. Accordingly, the academic year ending June 30, 1991 was the last year of degree-granting operations. The operations have continued as a house of formation.

Note 2. Summary of Significant Accounting Policies

The following significant accounting policies have been followed in the preparation of the financial statements:

- A. Basis of Presentation – The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Seminary has reported information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions.

A description of these categories follows:

Net assets without donor restrictions: Net assets available for use in general operations and not subject to donor-imposed stipulations.

Net assets with donor restrictions: Net assets from contributions or other inflows that are subject to donor-imposed stipulations that may or will be met either by actions of the Seminary and/or the passage of time. Also included in this category are net assets from contributions where the use is limited by donor-imposed restrictions that neither expire by passage of time nor can be fulfilled or removed by actions of the Seminary.

- B. Use of Estimates – 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 reporting period. Actual results could differ from those estimates.
- C. Cash and Investments – Cash and cash equivalents: For purposes of the statements of cash flows, the Seminary considers all highly liquid investments, with initial maturities of three months or less, to be cash equivalents. The Seminary maintains its cash accounts at a national financial institution. The balance, at times, may exceed federally insured limits.

Investments: The Seminary's long-term investments are in a pooled investment account at the Diocese of Cleveland, and are reported at fair value. Realized and unrealized gains and losses from securities in the pooled investment are allocated to the individual funds based on the market value of each fund to the total. Investment income has been recognized in the statements of activities in accordance with the terms of any donor restrictions.

BORROMEO SEMINARY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 2. Summary of Significant Accounting Policies (Continued)

- D. Accounts Receivable – Management estimates an allowance for uncollectible accounts based on their review of delinquent accounts and an assessment of the Seminary's historical evidence of collections. Management has deemed all accounts receivable collectible and, accordingly, no allowance is recorded at June 30, 2021 and 2020.
- E. Beneficial Interest in Perpetual Trust – In 2005, the Seminary became an income beneficiary of one trust fund. The fund is held in trust by others under legal trust instruments created by donors independent of the reporting organization. The Seminary has an irrevocable right to receive the income from the Trust's assets in perpetuity but will never receive the Trust's assets. The fund assets, which had a market value on June 30, 2021 and 2020 of \$752,102 and \$644,519, respectively, are included in the financial statements of the Seminary as net assets with donor restrictions. \$32,672 and \$32,051 was received from the trust in the fiscal years ending June 30, 2021 and 2020, respectively, and recognized as investment income.
- F. Equipment – The Seminary capitalizes all purchases or donations of equipment exceeding \$5,000 at cost or fair market value at date of donation. Equipment is depreciated utilizing the straight-line method over its estimated useful life ranging from five to ten years.
- G. Agency Fund – The agency fund represents assets held in trust to be used for disbursement at the discretion of the rector. Summary transactions for the fund for the years ended June 30, 2021 and 2020 were as follows:

	<u>2021</u>	<u>2020</u>
Donations received	\$ 287,870	\$ 157,048
Disbursements made	<u>(58,065)</u>	<u>(157,975)</u>
Net change in account	<u>\$ 229,805</u>	<u>\$ (927)</u>

- H. Fair Value of Financial Instruments – The Seminary's financial instruments include cash and cash equivalents, short term investments, accounts receivable and accounts payable. The carrying values of cash and cash equivalents, short term investments, accounts receivable and accounts payable are reasonable estimates of fair value due to the short-term nature of these financial instruments.

The Seminary's financial instruments are measured at fair value on a recurring basis in accordance with Fair Value Measurements standards, as defined by accounting principles generally accepted in the United States of America. Fair value is defined as the price that would be received to sell an asset or would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. The inputs used to measure fair value are classified into three levels:

Level 1 – Quoted market prices in active markets for identical assets and liabilities

Level 2 – Observable market-based inputs or unobservable inputs that are corroborated by market data

Level 3 – Unobservable inputs in which little or no market data exists

BORROMEO SEMINARY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 2. Summary of Significant Accounting Policies (Continued)

H. Fair Value of Financial Instruments (Continued)

The financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

The following tables set forth by level within the fair value hierarchy the Seminary's financial assets and liabilities that were accounted for at a fair value on a recurring basis as of June 30, 2021 and 2020:

		June 30, 2021		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets				
	Investments - pooled investment fund		\$585,005	
	Beneficial interest in perpetual trust			\$752,102
		June 30, 2020		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets				
	Investments - pooled investment fund		\$473,404	
	Beneficial interest in perpetual trust			\$644,519

Investments - pooled investment fund – The Seminary invests in a pooled investment fund managed by the Diocese of Cleveland, which invests in publicly traded fixed income and equity securities. Fair value of the pooled investments is indirectly observable through correlation with market data including quoted prices for similar assets in active markets, and is considered to be a Level 2 input.

Beneficial interest in perpetual trust – The beneficial interest in perpetual trust is held by others, not under the direct control of the Seminary. There is not an active market for the interest in the trust, therefore, it is classified as a Level 3 input.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. There have been no changes in the methodologies used from 2020 to 2021. Furthermore, while 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 financial instruments could result in a different fair value measurement at the reporting date.

- I. Revenue Recognition – In accordance with professional accounting standards, contributions received are recorded as without donor restrictions or with donor restrictions, depending on the existence and/or nature of any donor restrictions.

All contributions are considered without donor restrictions unless specifically restricted by the donor. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor restrictions.

BORRAMEO SEMINARY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 2. Summary of Significant Accounting Policies (Continued)

I. Revenue Recognition (Continued)

When a 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 statements of activities as net assets released from restrictions.

The Seminary recognizes revenue from tuition reimbursements during the year in which the related services are provided to students. The performance obligation of delivering educational services is simultaneously received and consumed by the students; therefore, the revenue is recognized ratably over the course of the academic year. In addition, the students have an option to room and board on the premises. The performance obligation of providing access to housing and meals is satisfied ratably over the academic period in which the student chooses to live on campus and purchase a meal plan. Contracts for tuition, room and board are combined into a single portfolio of similar contracts. Payments are generally required prior to the beginning of the school year. All amounts received prior to the commencement of the school year, including enrollment deposits, are deferred to the applicable period. All prior year deferred revenue was recognized as current year revenue.

J. Noncash Contributions – Donated items are reflected as gifts and grants at their estimated values at the date of contribution.

The Seminary estimates the value of faculty contributed services to include medical, pension, housing and other benefits. The donated amount is calculated by comparing actual amounts paid to or on behalf of faculty members with standard industry figures compiled by the Association of Theological Schools. The monetary value of services contributed by the priest faculty of \$237,518 and \$239,808 for the years ended June 30, 2021 and 2020, respectively, has been recorded in the financial statements as revenue from contributed services and a corresponding expense.

K. Income Taxes – The Seminary is a not-for-profit entity and has been granted an exemption from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Seminary is listed in the Official Catholic Directory and, therefore, exempt from filing a federal 990 tax return. The Seminary believes that it has the appropriate support for any tax positions taken and, as such, does not have any uncertain tax positions that are material to the financial statements.

L. Functional Expenses – The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The expenses that are allocated include occupancy expenses, which are allocated based on square footage, as well as salaries and benefits and contributed services, which are allocated on the basis of estimates of time and effort.

M. Subsequent Events – The Seminary has evaluated subsequent events through September 15, 2021, which is the date the financial statements were available to be issued. There are no subsequent events that require disclosure.

BORRAMEO SEMINARY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 3. Investments

Long-term investments of the Seminary are held and managed by the finance office of the Catholic Diocese of Cleveland in a general fund that is part of a pooled investment fund. The pooled investment fund had investment targets of 60% equity and 40% fixed income as of June 30, 2021 and 2020. The actual allocations approximate target allocations. Investments are stated at fair value and are summarized as follows as of June 30, 2021 and 2020:

	2021			2020		
	Cost	Market	Unrealized Appreciation	Cost	Market	Unrealized Appreciation
Without donor restrictions	\$ 296,022	\$ 363,136	\$ 67,114	\$ 252,385	\$ 294,815	\$ 42,430
With donor restrictions	<u>177,016</u>	<u>221,869</u>	<u>44,853</u>	<u>149,373</u>	<u>178,589</u>	<u>29,216</u>
	<u>\$ 473,038</u>	<u>\$ 585,005</u>	<u>\$ 111,967</u>	<u>\$ 401,758</u>	<u>\$ 473,404</u>	<u>\$ 71,646</u>

Note 4. Endowment Funds

The Board of Trustees of the Seminary has elected to invest its endowment funds with the Catholic Diocese of Cleveland, as part of the general fund. The Catholic Diocese of Cleveland has an investment policy detailing the long-term goals, asset allocation, guidelines for security selection, measurable objectives and on-going communication. The investment funds are managed to produce growth and income while controlling risk.

The Seminary's endowment consists of both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by applicable standards, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Seminary maintains in perpetuity (a) the original value of donor-restricted gifts donated to the endowment and (b) the original value of subsequent donor-restricted gifts to the endowment. Any accumulations to the endowment are included in net assets with donor restrictions until those amounts are appropriated for expenditure by the Seminary in a manner consistent with the standard prudence prescribed by UPMIFA.

Endowment funds are appropriated based on an approval process through the Board of Trustees. The Seminary appropriates for distribution each year up to 5% of its endowment fund's average fair value over the last three years.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 4. Endowment Funds (Continued)

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Seminary to retain as a fund of perpetual duration. The Seminary has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. The Seminary had no funds with deficiencies at June 30, 2021 and 2020.

	June 30, 2021				
	With Donor Restrictions				Total
	Without Donor Restrictions	Original Gift Amount	Accumulated Gains	Total With Donor Restrictions	
Endowment net assets, beginning of year	\$ 45,165	\$ 115,000	\$ 63,589	\$ 178,589	\$ 223,754
Investment return:					
Investment income	619		2,831	2,831	3,450
Net appreciation (realized and unrealized)	8,849		40,449	40,449	49,298
Total investment return	9,468		43,280	43,280	52,748
Appropriation of endowment assets for expenditure				-	-
Endowment net assets, end of year	<u>\$ 54,633</u>	<u>\$ 115,000</u>	<u>\$ 106,869</u>	<u>\$ 221,869</u>	<u>\$ 276,502</u>
	June 30, 2020				
	With Donor Restrictions				Total
	Without Donor Restrictions	Original Gift Amount	Accumulated Gains	Total With Donor Restrictions	
Endowment net assets, beginning of year	\$ 42,710	\$ 115,000	\$ 52,365	\$ 167,365	\$ 210,075
Investment return:					
Investment income	742		3,393	3,393	4,135
Net appreciation (realized and unrealized)	1,713		7,831	7,831	9,544
Total investment return	2,455		11,224	11,224	13,679
Appropriation of endowment assets for expenditure				-	-
Endowment net assets, end of year	<u>\$ 45,165</u>	<u>\$ 115,000</u>	<u>\$ 63,589</u>	<u>\$ 178,589</u>	<u>\$ 223,754</u>

BORROMEO SEMINARY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 5. Pension and Annuity Plans

The Seminary participates in the Diocese of Cleveland's pension plan for eligible lay employees. The plan provides for the vesting of benefits after five years of employment. It is the policy of the Seminary to fund pension cost accrued. The pension expense was \$30,686 and \$30,218 for the years ended June 30, 2021 and 2020, respectively.

The clergy, except for the Borromeo Capuchins, are covered by the Priests' Retirement Trust Agreement and Plan of the Diocese of Cleveland. The total contribution to this program is paid by the Seminary. The expense was \$22,750 and \$37,018 for the years ended June 30, 2021 and 2020, respectively.

Note 6. Lease and Other Transactions With Related Organizations

The Seminary is affiliated with various religious organizations. The Seminary receives a contribution of earnings from the Catholic Diocese of Cleveland from its Priestly Formation Endowment Fund and from the Priestly Formation Annual appeal. For the years ended June 30, 2021 and 2020, the Seminary received \$870,642 and \$743,227, respectively, from the Priestly Formation Endowment earnings as well as \$-0- and \$150,000, respectively, from the Priestly Formation Annual Appeal.

The Seminary has entered into an ongoing lease commitment with the Center for Pastoral Leadership (CPL) calling for minimum annual rentals to be adjusted annually. The minimum lease payment as of June 30, 2021 and 2020 was \$10.00 per square foot. For both of the years ended June 30, 2021 and 2020, the Seminary paid a base rent of \$510,560. To assist with the second floor renovation, the Seminary loaned \$462,336 to CPL for the year ended June 30, 2021. It is anticipated that the repayment of these loans will be funded from the receipts of the Heart of a Shepherd campaign.

The Seminary shares various personnel, space and operating expenses with CPL and St. Mary Seminary. At June 30, 2021 and 2020, the Seminary had a receivable from CPL for \$383 and \$13,946, respectively.

Note 7. Net Assets With Donor Restrictions

Net assets with donor restrictions are designated for the following purposes as of June 30:

	<u>2021</u>	<u>2020</u>
Net Assets With Donor Restrictions:		
<u>Subject to expenditure for specified purpose:</u>		
Scholarships	\$ 182,788	\$ 163,585
Endowments:		
<u>Subject to NFP endowment spending policy and appropriation:</u>		
Unappropriated endowment earnings	106,869	63,589
Funds restricted in perpetuity	<u>115,000</u>	<u>115,000</u>
	221,869	178,589
<u>Not subject to spending policy and appropriation:</u>		
Beneficial interest in perpetual trust - operating	<u>752,102</u>	<u>644,519</u>
	<u>\$ 1,156,759</u>	<u>\$ 986,693</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 7. Net Assets With Donor Restrictions (Continued)

Separate accounts are required for the Reymann Fund, Kusiak Endowment Fund and Hrastar Memorial Scholarship Fund.

Note 8. Liquidity and Availability

The table below presents financial assets available for general expenditures within one year at June 30:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 1,107,143	\$ 1,727,177
Accounts receivable	10,813	90,713
Affiliate receivable	383	13,946
Distributions from beneficial interest in perpetual trusts	<u>32,700</u>	<u>32,100</u>
	<u>\$ 1,151,039</u>	<u>\$ 1,863,936</u>

The Seminary's resources are primarily from tuition and earnings from endowments held at the Diocese of Cleveland to support the Seminary. The Seminary considers contributions restricted for program services which are ongoing, major and central to its annual operations to be available to meet cash needs for general expenditures. The Seminary also receives general operating support from the Diocese of Cleveland on an annual basis. The Seminary manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged.

Additionally, the Seminary has a board-designated endowment of \$54,633 and \$45,165 as of June 30, 2021 and 2020, respectively. Although the Seminary does not intend to spend from its board-designated endowment funds other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process, amounts from its board-designated endowment could be made available if necessary. The Seminary also has long-term investments without donor restrictions of \$308,503 and \$249,650 as of June 30, 2021 and 2020, respectively, which could be made available if necessary.

Note 9. COVID-19 Global Pandemic

On January 30, 2020, the World Health Organization declared the outbreak of the coronavirus disease 2019 (COVID-19) a global health emergency and subsequently declared the COVID-19 outbreak a global pandemic in March 2020. The pandemic has adversely affected domestic and global economic activity and the full impact continues to evolve as of the date of this report.

The Seminary's operations are heavily dependent on tuition and private and public donations from individuals, foundations and corporations, as well as distributions from endowment funds. Access to donations and grants may decrease or may not be available depending on appropriations from other organizations and material declines in the market value of invested assets could impact the amount of resources available from these entities.