

Office of Catholic Education

Narrative Explaining Audited Financial Statements for the Year Ended June 30, 2012

This narrative accompanies the audited financial statements for the year ended June 30, 2012 for the Office of Catholic Education entities including the High Schools (see audited financial statements for Archdiocese of Philadelphia Office of Catholic Education High Schools), Schools of Special Education (see audited financial statements for Archdiocese of Philadelphia Office of Catholic Education Schools of Special Education), and the OCE Administration Account (see Archdiocese of Philadelphia Office of Catholic Education Administration Account). The High Schools include combined financial statements for the seventeen high schools owned by the Archdiocese. The Schools of Special Education include the financial statements for the four schools for children with special needs. A more detailed description of the entities, including those that are not included in the financial statements, appears in Note A of each set of financial statements.

The audited financial statements for all three entities provide information on only the fiscal year ended June 30, 2012 (Fiscal 2012) due to a significant accounting change to record fixed assets and to implement the appropriate accounting for long lived assets (i.e. record depreciation expense). Comparative financial statements providing two years of information will be presented next year.

High Schools

The High Schools financial statements provide the overall financial position and results for the operations of the high schools which educated 15,172 students in Fiscal 2012; combining the centralized High School Operations Account with the seventeen locally managed Presidents Accounts. The Supplemental Schedules provide detail on the combination. Page 28 of the financial statements shows the breakdown of Operations Account revenue and expenses and locally funded revenue and expenses (Presidents' account). Tuition was the primary source of Operations Account revenue which supported administrative and instructional salaries and benefits along with plant expenses. Revenue from school fees, donations, fund-raising, and athletic and activities raised locally was expended for scholarships and tuition assistance, activities, athletics, and local administrative, instructional and other costs through the Presidents' Accounts.

As described in Note O to the financial statements, there was an adjustment of the net assets of the High School Operations Account at June 30, 2011 to record fixed assets of \$22,921,968. The high school properties were previously recorded as assets in the financial statements of the Archdiocese of Philadelphia - Office for Financial Services. Management of the Archdiocese of Philadelphia subsequently determined that these properties should be reflected as assets in OCE's financial statements. Therefore OCE has properly capitalized improvements made to the properties with useful lives exceeding one year. In addition, as noted elsewhere, depreciation expense is also being recorded for long-lived assets.

On June 1, 2012, the plant assets and corresponding debt for the two newest high school properties, Bishop Shanahan and Pope John Paul High II School, were transferred to the High Schools. The High Schools had been paying for the cost of debt service since the construction of these buildings so this transfer made the financial statement presentations more complete and representative of the reporting entity.

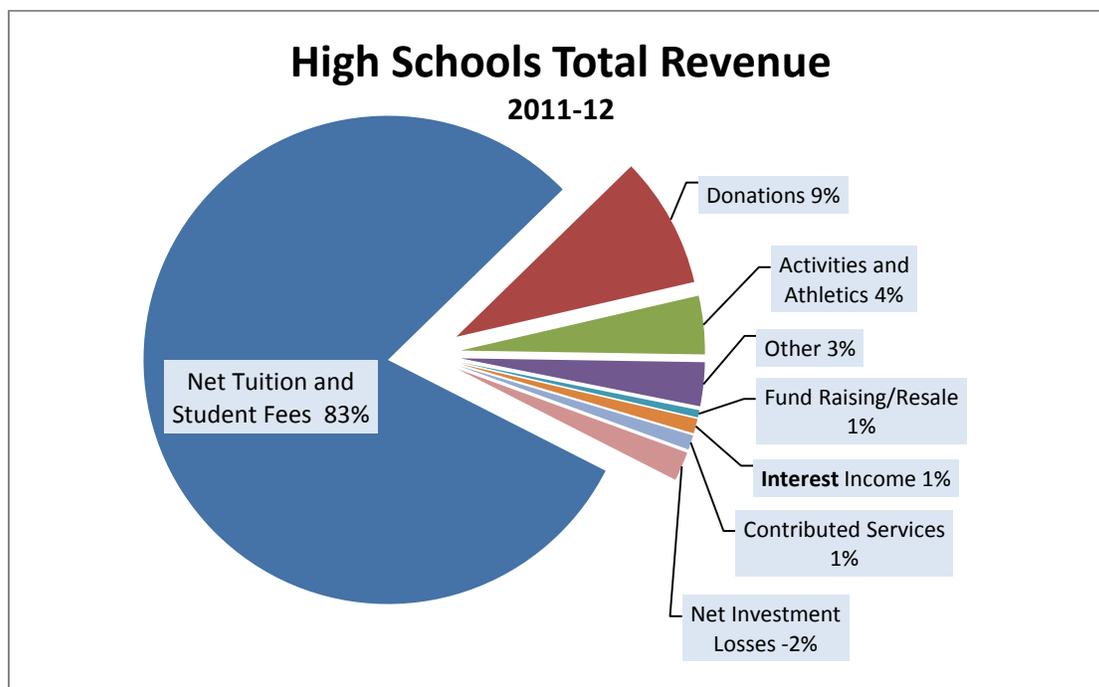
Another adjustment to the net assets of the High School Operations Account at June 30, 2011 was to record investments previously reported as part of the Archdiocese of Philadelphia Estates and Trusts and to record the net assets (primarily plant assets) of the Trustees of Roman Catholic High School which is a separate financially inter-related entity.

As shown in the table below, there was a net operating loss of \$138,292 for the year, attributable to unrealized losses on investments of \$1,209,112. Items of a non-recurring nature included a loss on the transfer of plant assets of \$2,510,191, a \$1,000,000 transfer to pay the principal on the bond issues prior to their refinancing in June 2012, and a loss of \$394,821 on funds held by a financially inter-related party. These transactions, when combined with the net operating deficit, resulted in a change of net assets of \$(4,043,304). When the former Kennedy-Kenrick and St. Pius X High School buildings are sold in later years, the expected difference between the assets' recorded values and the net sale price will be recorded as gains and the proceeds will be used to reduce the loan balance.

Net Deficit from Operations	\$ (138,292)
Change in Financially Interrelated Organization	(394,821)
Bond Principal Payment to OFS	(1,000,000)
Net Property Transfer From OFS	<u>(2,510,191)</u>
Change in Net Assets	<u>\$ (4,043,304)</u>

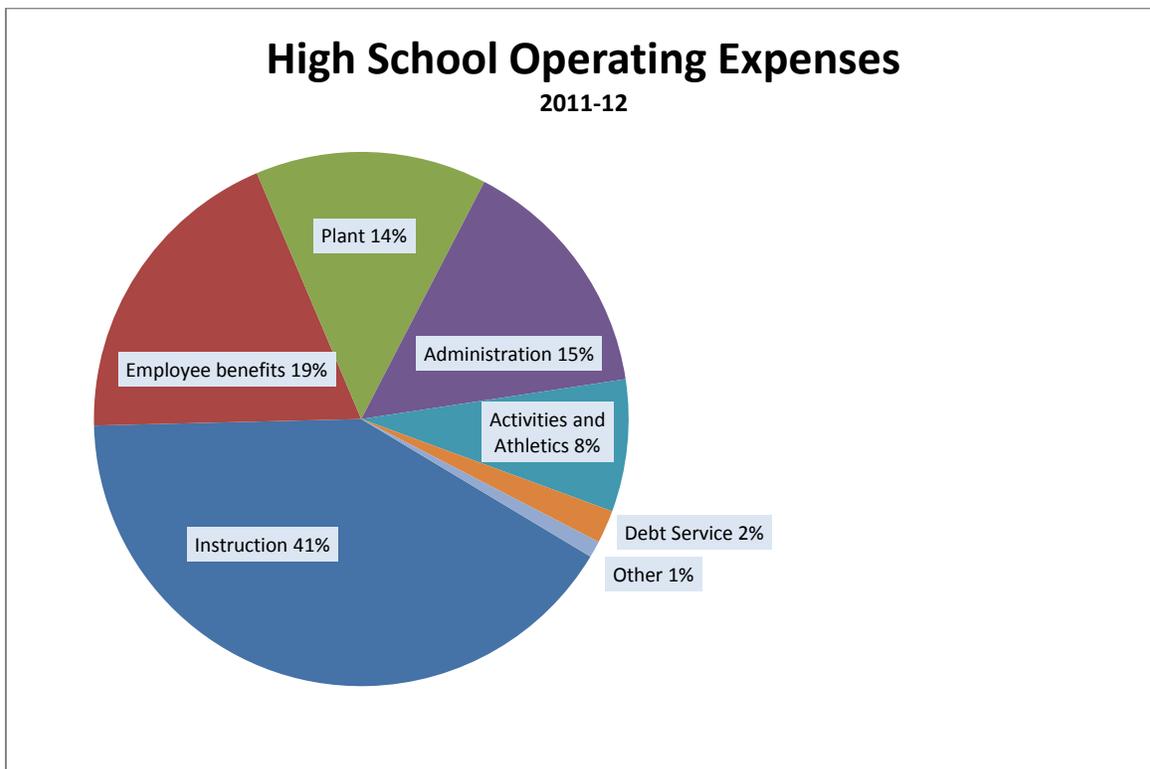
Tuition and fee revenue accounts for 83% of the revenue of the high schools generating \$97.3 million. Donations generated another \$10.9 million or 9%. During Fiscal 2012, donations increased by \$1.9 million or 21% due to the generosity of our alumni and other benefactors. Most of the funds generated from alumni are used to help provide tuition assistance for needy families.

Starting in Fiscal 2012, funding from the Office for Financial Services (OFS) for the High Schools was discontinued. In Fiscal 2011, the high schools received \$3.5 million in funding from OFS. This subsidy was eliminated as part of the budget initiatives implemented by the Archdiocese.



High School operating expenses totaled \$118.5 million, thus the average total cost per student, including the cost of extracurricular activities, was \$7,811. Actual tuition and fee charges were lower since other sources of funding make up for the difference. The High School Operations Account portion of the total expenses, funded primarily through tuition, accounted for 78% of the expenses, while local spending from each school through the presidents' accounts represented 22% of the expenses. This system allows economies of scale to be realized for certain centralized functions while giving site based responsibility for other costs better managed at the local level. The system has resulted in lower tuition costs for our Archdiocesan schools than for most Catholic high schools across the country.

Instructional costs make up the largest expense at 41%, followed by employee benefits at 19% of total operating expenses.



While unrestricted net assets were \$51.7 million at June 30, 2012, it should be noted that not all of this total was cash available for operations. Property and equipment represented \$117.7 million of total assets and there was long term debt of \$77.2 million for the construction of new schools. Thus, \$40.5 million of this total is net property and equipment. In addition, the net assets of the Presidents' accounts are only available for use at specific schools.

Temporarily restricted funds have donor imposed restrictions that the High Schools must follow in the use of these funds. As described in Note G to the financial statements, these funds are typically restricted for tuition assistance or operations and improvements.

Permanently restricted funds have donor imposed restrictions that require the asset to be maintained permanently, but which allow the High Schools to spend all or part of the income. As described in Note H to the financial statements, the endowments are generally for tuition assistance or for operations and improvements. The largest fund is the endowment from the Catholic Life 2000 campaign which totaled

\$25.9 million at June 30, 2012. The high schools used \$984,178 for operations and maintenance from the earnings on this endowment in the Fiscal 2012.

Schools of Special Education



The Schools of Special Education include Archbishop Ryan Academy, St. Lucy Day School, St. Katherine Day School and Our Lady of Confidence Day School. These schools provide a Catholic education to students with autism spectrum disorder and cognitive impairments and students with sensory impairments such as visual loss or deafness or hearing loss. The students receive specially designed instruction that includes supplementary aids and services in the least restrictive environment, as well as the full benefits of a Catholic education. These schools are one of a kind; there are

no other alternatives for parents seeking a Catholic education for their special needs students in Philadelphia. In Fiscal 2012, the schools enrolled 211 students.

As described in Note B to the financial statements, there was a prior period adjustment to change the classification of a fund from temporarily restricted to internally designated. This fund is from an unrestricted bequest given to the Archdiocese in 2002 which the Archbishop gave to Special Education with internal restrictions in order to preserve the principal. Since the Schools of Special Education are a part of the Archdiocese of Philadelphia, the auditors determined that this should be a designated fund rather than a temporarily restricted fund. A similar restatement was made for a fund resulting from the sale of the former Archbishop Ryan Memorial property from which only \$50,000 may be used each year. Lastly, there was a restatement to include a fund previously included as part of the assets of the Archdiocese of Philadelphia Estates and Trusts.

The Schools of Special Education had a net change in unrestricted funds of \$41,421 in Fiscal 2012, but designated net assets declined by \$350,232 and temporarily restricted net assets declined by \$95,163 due to the use of funds for operations and due to a net loss on investments for the year. In total, net assets declined by \$403,974.

The primary source of revenue for the Schools of Special Education is Catholic Charities which provided \$1,325,000 in Fiscal 2012 or 51% of total revenue. Revenue from Catholic Charities for Special Education declined \$64,000 from Fiscal 2011. The people of the Archdiocese of Philadelphia have generously supported these schools through Catholic Charities for decades. Up until 1989 the schools were able to operate without having to charge tuition. Tuition revenue accounted for 26% of revenue while donations raised by the local schools generated 15% of total revenue.

The Catholic Charities Appeal is a separately incorporated 501(c)(3) non-profit organization governed by a Board of Directors.

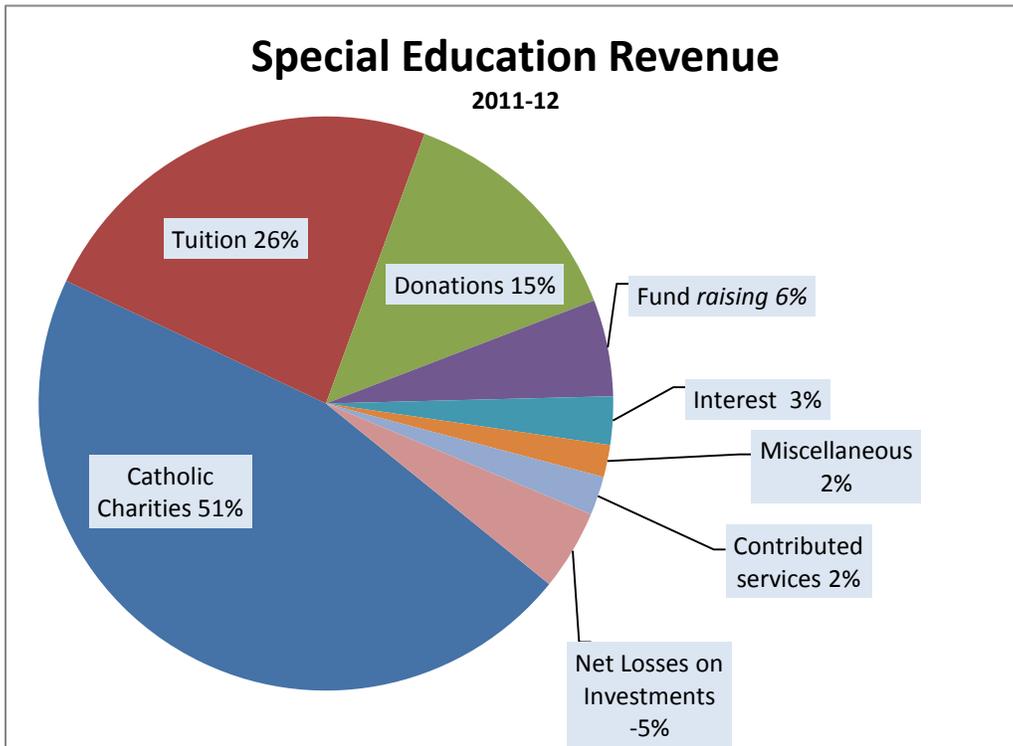
You may contribute to the Catholic Charities Appeal in many ways:

- Pledge Gift
- One Time Gift
- Credit Card Gifts
- Matching Gifts
- Electronic Fund Transfer (EFT)
- Gifts of Securities
- Planned Gifts

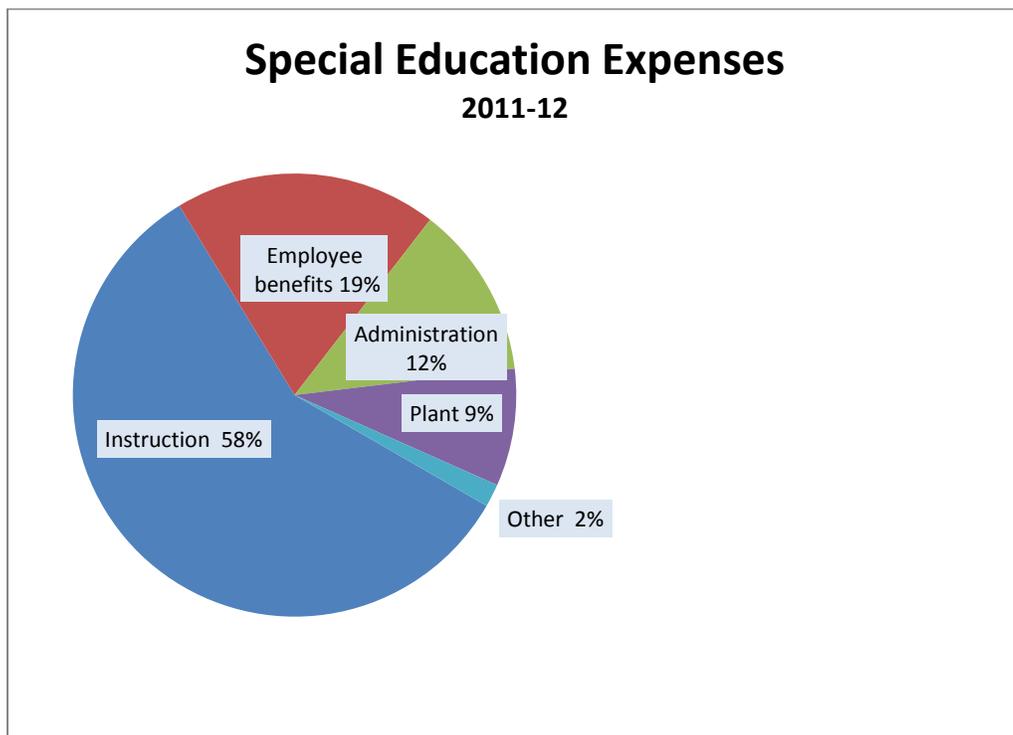
For more information on any of these options please visit our website at catholiccharitiesappeal.org, email us at cca@adphila.org or call us at 215.587.5650.

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Instructional expenses represented the largest portion of expenses at 58%, followed by employee benefits at 19%. Due to the need for low student/teacher ratios, the cost per student was \$13,937 in Fiscal 2012. The Schools of Special Education only own one property, St. Katherine's Day School. The other schools use space in elementary and high schools.



Office of Catholic Education Administration

The Office of Catholic Education is responsible for providing administrative support to elementary, special education, and high schools, as well as, providing for support for the Catechetical programs in the Archdiocese. The Office operates a number of programs to provide training for teachers and administrators, and direction on curriculum and instruction and the use of technology in instruction.

There was a loss on unrestricted net assets of \$21,150, a loss on designated funds of \$24,321, a loss on temporarily restricted funds of \$203,350 and a loss of \$427,760 on permanently restricted funds for a total reduction in net assets of \$676,581. Most of the loss is attributable to a loss on investment income, with \$413,322 attributable to a change in the value of a trust which is managed by outside trustees.

The Office of Catholic Education does not receive any direct financial support from the Archdiocese or any of the elementary schools. Elementary schools are operated at the local level by parishes or regional boards, so their financial results are not included in any of the financial reports of the Office of Catholic Education. Similarly, the report does not include the financial activity of religious education programs which are operated by the parishes.

During Fiscal 2012, revenue for the office came from the following sources:

High Schools and Special Education Schools	36%
Archdiocesan Educational Fund	20%
Distribution from Sullivan Trust	27%
Program Revenue	15%
Donations	7%
Other	3%
Change in Beneficial Trust (Sullivan)	(8%)

The Archdiocesan Educational Fund is a third-party endowment fund established to support educational needs of the Archdiocese of Philadelphia which is managed by a separate board that makes an annual determination of how much will be allocated to support Catholic Education. In Fiscal 2013, the Board determined that it would reduce its support for the Administration of the Office of Catholic Education beginning in Fiscal 2014.

Salaries and benefits accounted for 41% of the total expenses.

Net assets at June 30, 2012 include \$4,634,385 in temporarily restricted net assets (see Note E to the financial statements) to be used for tuition assistance or programs. Permanently restricted net assets include \$28,065,157 (see Note F to the financial statements) to be used for programs and tuition assistance. The permanently restricted net assets include the Francis W. Sullivan Trust which is managed by an outside trust which provides annual support for tuition assistance and educational programs for all levels of education.

The tuition assistance funds included in the Office of Catholic Education financial statements support elementary programs or provide for general funding at any level of education. Funds which can only be used in high schools or special education schools are included in those financial statements.