

Combined Financial Statements and Report of
Independent Certified Public Accountants

**Archdiocese of Philadelphia
Office of Catholic Education
High Schools**

June 30, 2013 and 2012

Contents

	Page
Report of Independent Certified Public Accountants	3
Combined financial statements	
Combined statements of financial position	5
Combined statements of activities and changes in net assets	6
Combined statements of cash flows	8
Notes to combined financial statements	9
Supplemental information	
Combining statements of financial position	31
Combining statements of activities and changes in net assets	33



Report of Independent Certified Public Accountants

To the Secretary of Catholic Education/Chief Operating Officer
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Report on the financial statements

We have audited the accompanying combined financial statements of the Archdiocese of Philadelphia, Office of Catholic Education High Schools (“High Schools”), which comprise the combined statements of financial position as of June 30, 2013 and 2012, and the related combined statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the combined financial statements.

Management’s responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the High Schools’ preparation and fair presentation of the combined 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 High Schools’ 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of the Archdiocese of Philadelphia, Office of Catholic Education High Schools as of June 30, 2013 and 2012, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of matter

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

Other matter

Our audits were conducted for the purpose of forming an opinion on the combined financial statements taken as a whole. The supplementary information contained in the accompanying combining statements of financial position as of June 30, 2013 and 2012 and the related combining statements of activities and changes in net assets for the years then ended is presented for purposes of additional analysis and is not a required part of the combined 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audits of the combined 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 combined financial statements, or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants. In our opinion, the supplementary information is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

Grant Thornton LLP

Philadelphia, Pennsylvania

December 3, 2013

Archdiocese of Philadelphia, Office of Catholic Education
High Schools

COMBINED STATEMENTS OF FINANCIAL POSITION

June 30,

	2013	2012
ASSETS		
Cash and cash equivalents, including amounts held by affiliate	\$ 31,711,965	\$ 27,984,396
Parental tuition and fees receivable, less allowance for doubtful accounts of \$4,784,994 and \$4,992,712	4,176,220	3,904,814
Due from related organizations (Note J)	41,244	2,012,517
Pledges receivable, net (Note C)	272,435	189,050
Other receivables	1,455,368	1,057,930
Prepaid expenses	1,823,674	1,864,077
Beneficial interest in financially inter-related organizations	8,907,274	8,144,286
Investments (Note D)	52,150,009	48,255,170
Property and equipment, net (Note F)	115,674,455	117,730,162
 Total assets	 \$ 216,212,644	 \$ 211,142,402
 LIABILITIES AND NET ASSETS		
Accounts payable	\$ 3,903,832	\$ 2,735,808
Accrued payroll	6,457,867	6,874,309
Accrued non-pension retirement benefits (Note K)	3,443,758	4,253,650
Accrued vacation (Note K)	554,759	516,180
Due to related organizations (Note J)	1,504,898	365,370
Deferred revenue	2,931,815	3,783,969
Notes payable to Archdiocese of Philadelphia (Note J)	76,223,782	77,246,124
 Total liabilities	 95,020,711	 95,775,410
 Net assets:		
Unrestricted	52,467,483	51,741,454
Temporarily restricted (Note G)	33,128,157	28,311,891
Permanently restricted (Note H)	35,596,293	35,313,647
 Total net assets	 121,191,933	 115,366,992
 Total liabilities and net assets	 \$ 216,212,644	 \$ 211,142,402

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

Archdiocese of Philadelphia, Office of Catholic Education
High Schools

COMBINED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended June 30, 2013

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues:				
Tuition and fees funded by:				
Parents and guardians	\$ 92,548,801	\$ -	\$ -	\$ 92,548,801
Third-party organizations	3,599,600	-	-	3,599,600
Tax credit programs	1,265,954	-	-	1,265,954
Office of Catholic Education	752,180	-	-	752,180
School and alumni organizations	3,387,794	-	-	3,387,794
Summer School	184,375	-	-	184,375
Total	101,738,704	-	-	101,738,704
Less:				
Scholarship and tuition assistance eliminations	6,581,285	-	-	6,581,285
Tuition reductions	1,182,283	-	-	1,182,283
Net tuition and fees	93,975,136	-	-	93,975,136
Student activities	2,446,219	-	-	2,446,219
Athletics	2,158,694	-	-	2,158,694
Resale items income - net of disbursements	484,245	-	-	484,245
Contributions and donations	8,881,540	3,991,257	118,727	12,991,524
Other	2,710,800	56,325	-	2,767,125
Fund-raising - net of disbursements	1,495,987	39,620	-	1,535,607
Interest and investment income	314,312	1,038,256	-	1,352,568
Contributed services (Note M)	1,590,159	-	-	1,590,159
Total other operating revenues	20,081,956	5,125,458	118,727	25,326,141
Net realized gains on investments	17,009	935,868	163,919	1,116,796
Net change in unrealized gains	88,224	3,856,316	-	3,944,540
Total investment gains	105,233	4,792,184	163,919	5,061,336
Funds with deficiencies	(120,883)	120,883	-	-
Net assets released from restriction				
Satisfaction of purpose restrictions - CL2000	1,045,000	(1,045,000)	-	-
Satisfaction of purpose restrictions - Heritage of Faith	1,400,000	(1,400,000)	-	-
Satisfaction of purpose restrictions - General	2,579,396	(2,579,396)	-	-
Total revenues	119,065,838	5,014,129	282,646	124,362,613
Expenses:				
Administration	18,437,271	-	-	18,437,271
Instruction	46,619,766	-	-	46,619,766
Operations and maintenance of plant	19,484,114	-	-	19,484,114
Employee benefits	20,713,029	-	-	20,713,029
Student activities	3,669,898	-	-	3,669,898
Athletics	6,303,555	-	-	6,303,555
Debt service	3,069,466	-	-	3,069,466
Other	548,593	-	-	548,593
Total expenses	118,845,692	-	-	118,845,692
Change in net assets before other items	220,146	5,014,129	282,646	5,516,921
Change in financially inter-related organizations	625,620	(317,600)	-	308,020
Redesignation of net assets (from) to temporarily restricted	(119,737)	119,737	-	-
Change in net assets	726,029	4,816,266	282,646	5,824,941
Net assets				
Beginning of year	51,741,454	28,311,891	35,313,647	115,366,992
End of year	\$ 52,467,483	\$ 33,128,157	\$ 35,596,293	\$ 121,191,933

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

Archdiocese of Philadelphia, Office of Catholic Education
High Schools

COMBINED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended June 30, 2012

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues:				
Tuition and fees funded by:				
Parents and guardians	\$ 93,738,137	\$ -	\$ -	\$ 93,738,137
Third-party organizations	2,729,713	-	-	2,729,713
Tax credit programs	1,191,352	-	-	1,191,352
Office of Catholic Education	386,106	-	-	386,106
School and alumni organizations	5,639,066	-	-	5,639,066
Summer School	227,168	-	-	227,168
Total	103,911,542	-	-	103,911,542
Less:				
Scholarship and tuition assistance eliminations	5,430,552	-	-	5,430,552
Tuition reductions	1,171,101	-	-	1,171,101
Net tuition and fees	97,309,889	-	-	97,309,889
Student activities	2,594,050	-	-	2,594,050
Athletics	2,047,233	-	-	2,047,233
Resale items income - net of disbursements	556,342	(3,250)	-	553,092
Contributions and donations	7,103,109	3,519,570	265,600	10,888,279
Other	3,029,659	44,087	-	3,073,746
Fund-raising - net of disbursements	1,150,616	23,439	-	1,174,055
Interest and investment income	303,349	1,140,519	-	1,443,868
Contributed services (Note M)	1,405,490	-	-	1,405,490
Total other operating revenues	18,189,848	4,724,365	265,600	23,179,813
Net realized gains (losses) on investments	4,912	(856,994)	(52,667)	(904,749)
Net change in unrealized losses	(69,312)	(1,139,800)	-	(1,209,112)
Total investment losses	(64,400)	(1,996,794)	(52,667)	(2,113,861)
Net assets released from restriction				
Satisfaction of purpose restrictions - CL2000	984,178	(984,178)	-	-
Satisfaction of purpose restrictions - Heritage of Faith	3,972,842	(3,972,842)	-	-
Satisfaction of purpose restrictions - General	3,801,240	(3,801,240)	-	-
Total revenues	124,193,597	(6,030,689)	212,933	118,375,841
Expenses:				
Administration	17,572,891	-	-	17,572,891
Instruction	48,141,290	-	-	48,141,290
Operations and maintenance of plant	16,172,341	-	-	16,172,341
Employee benefits	22,962,417	-	-	22,962,417
Student activities	3,917,054	-	-	3,917,054
Athletics	6,222,760	-	-	6,222,760
Debt service	2,655,394	-	-	2,655,394
Other	869,986	-	-	869,986
Total expenses	118,514,133	-	-	118,514,133
Change in net assets before other items	5,679,464	(6,030,689)	212,933	(138,292)
Change in financially inter-related organizations	-	(394,821)	-	(394,821)
Redesignation of net assets (from) to permanently restricted	-	(71,375)	71,375	-
Transfer to Office for Financial Services for bond principal payment	(1,000,000)	-	-	(1,000,000)
Net transfer from Office for Financial Services for property	(2,510,191)	-	-	(2,510,191)
Change in net assets	2,169,273	(6,496,885)	284,308	(4,043,304)
Net assets				
Beginning of year	49,572,181	34,808,776	35,029,339	119,410,296
End of year	\$ 51,741,454	\$ 28,311,891	\$ 35,313,647	\$ 115,366,992

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

Archdiocese of Philadelphia, Office of Catholic Education
High Schools

COMBINED STATEMENTS OF CASH FLOWS

Year ended June 30,

	2013	2012
Cash flows from operating activities		
Change in net assets	\$ 5,824,941	\$ (4,043,304)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	5,777,851	3,500,761
Bad debt expense	1,334,459	1,236,267
Net unrealized (gains) losses on investments	(3,944,540)	1,209,112
Net realized (gains) losses on investments	(1,116,796)	904,749
Change in financially inter-related organizations	(762,988)	394,821
Net transfer from Office for Financial Services for property	-	2,510,191
Changes in assets and liabilities		
Parental tuition and fees receivable	(1,605,865)	(1,803,946)
Due from related organizations	1,971,273	(1,443,045)
Pledges receivable, net	(83,385)	478,619
Other receivables	(397,438)	(699,677)
Prepaid expenses	40,403	1,556,636
Accounts payable	1,168,024	(941,211)
Accrued payroll	(416,442)	(654,226)
Accrued non-pension retirement benefits	(809,892)	76,535
Accrued vacation	38,579	(128,338)
Due to related organizations	1,139,528	(517,515)
Deferred revenue	(852,154)	787,269
Net cash provided by operating activities	<u>7,305,558</u>	<u>2,423,698</u>
Cash flows from investing activities		
Purchase of property and equipment	(3,722,145)	(3,094,419)
Purchase of investments	(1,145,764)	(1,265,927)
Proceeds from sale of investments	<u>2,312,262</u>	<u>2,650,595</u>
Net cash used in investing activities	<u>(2,555,647)</u>	<u>(1,709,751)</u>
Cash flows from financing activities		
Repayments of long-term note payable	<u>(1,022,342)</u>	<u>(3,577,929)</u>
Net cash used in financing activities	<u>(1,022,342)</u>	<u>(3,577,929)</u>
Net increase (decrease) in cash and cash equivalents	3,727,569	(2,863,982)
Cash and cash equivalents		
Beginning of year	<u>27,984,396</u>	<u>30,848,378</u>
End of year	<u>\$ 31,711,965</u>	<u>\$ 27,984,396</u>
Supplemental disclosure of cash flow information		
Cash paid for interest	<u>\$ 2,307,227</u>	<u>\$ 257,858</u>

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

NOTES TO COMBINED FINANCIAL STATEMENTS

June 30, 2013 and 2012

NOTE A - NATURE OF OPERATIONS

The accompanying combined financial statements of the Office of Catholic Education High Schools (“High Schools”) include the funds generated from and designated for the operations and maintenance of the seventeen (17) high schools owned by the Archdiocese of Philadelphia, Office of Catholic Education. These combined financial statements consolidate the centrally managed High School Operations Account and the individual Presidents’ accounts maintained by each school. They exclude certain entities of the Archdiocese of Philadelphia, which relate to the high schools, but are considered separate reporting entities. These entities are as follows:

- Schools of Special Education (“SPED”)
- Office of Catholic Education (“OCE”) Administration Account
- Office for Financial Services
- Trustee Account of the Archdiocese of Philadelphia for Estates and Trusts
- Catholic Cemeteries Office
- Catholic Health Care Services
- Catholic Social Services

The High Schools are considered to be a component of the Archdiocese of Philadelphia and not a separate legal entity. Effective September 1, 2012, the Archdiocese of Philadelphia entered into an agreement with Faith in the Future Foundation (“FIF”). The agreement is for the period of five school years and shall automatically renew for successive three-year periods unless prior written notification is provided 90 days before the scheduled expiration date. Pursuant to the aforementioned agreement, FIF assumes strategic and operational management of the 17 Catholic secondary schools and the four schools of SPED and provides certain financial assistance to the schools. OCE has primary responsibility for, and FIF has oversight and approval responsibility over, school operations. The Secretary for Catholic Education/Chief Operating Officer of OCE reports directly to FIF’s Chief Executive Officer. All facilities continue to be owned by the Archdiocese of Philadelphia.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Basis of Presentation

The accompanying combined financial statements have been prepared on the accrual basis. Net assets and revenues, expenses, gains and losses are classified into categories, based on the existence or absence of donor-imposed restrictions. The categories are unrestricted, temporarily restricted and permanently restricted net assets.

Temporarily restricted net assets include gifts, trusts, income and gains which have either a time or use restriction but which may ultimately be expended. Since endowment investment income and net realized and unrealized gains and losses may eventually be spent, such earnings are recorded in the combined financial statements as temporarily restricted net assets, unless donor restricted for the corpus, until transferred to unrestricted net assets.

(Continued)

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Permanently restricted net assets include the historical dollar amounts of gifts, which require by donor restriction that the corpus be invested in perpetuity and only the investment income be made available for operations in accordance with donor restrictions. Investment income and net realized and unrealized gains and losses, if permanently restricted by the donor, are included in permanently restricted net assets.

Unrestricted net assets are free from donor-imposed restrictions and are all the remaining net assets of the High Schools.

2. Revenue Recognition

Tuition and other school fees collected for the upcoming school year are included in deferred revenue and recognized as revenue over the applicable school year. Registration fees and re-registration fees are recognized upon registration or re-registration since these fees are non-refundable.

Cash contributions and fundraising revenues are recorded as revenue when received. Unconditional promises to give are recorded at their fair value when management is notified of these gifts. Conditional promises to give are recognized when the conditions are substantially met. Donor restricted gifts which are received and expended within the same year are reported as unrestricted revenues. Gifts specified for the acquisition or construction of long-lived assets are reported as unrestricted net assets when the assets are placed in service.

Gifts of cash and other assets are recorded as restricted support if they are received with donor stipulations that limit the use of donated assets. When a donor restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statements of activities and changes in net assets as net assets released from restriction.

Contributed services is recorded as the value of services performed by members of religious communities, based on lay equivalent salaries of personnel performing similar duties less the stipend and benefit payments and faculty residence expenses paid for religious personnel. The value of contributed services is included as revenue and, correspondingly, charged as expense.

3. Uses of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make significant 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.

(Continued)

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

4. Cash and Cash Equivalents, Including Amounts Held by Affiliate

Cash and cash equivalents represent demand deposits and other investments with an original maturity date of three months or less. The carrying amount approximates fair value. At June 30, 2013, the High Schools have cash balances on deposit with financial institutions that exceed the balance insured by the Federal Deposit Insurance Corporation ("FDIC") of \$250,000. The High Schools have not experienced any losses in such accounts.

5. Allowance for Doubtful Accounts

The allowance for doubtful accounts is provided based upon management's judgment, including such factors as prior collection history and the length of time a receivable is past due. The High Schools write off receivables when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts.

6. Other Receivables

At June 30, 2013, the High Schools have a receivable of \$671,000 due from FIF, which is included in other receivables.

7. Beneficial Interest in Financially Inter-related Organization

Beneficial interest in financially inter-related organization includes the net assets of the Trustees of Roman Catholic High School, a separate corporation identified as a financially inter-related organization to the High Schools.

8. Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value, with gains and losses included in the combined statements of activities and changes in net assets. The fair value of certain alternative investments is estimated using the net asset value ("NAV") per share.

Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility risks. Due to the level of risks associated with certain investment securities, it is reasonably possible that changes in the value of investments could occur in the near term and that such changes could materially affect the amounts reported in the accompanying combined statements of financial position.

(Continued)

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

9. Property and Equipment

Property and equipment are stated at cost, while donated assets are stated at fair market value on the date of donation. Depreciation has been provided by the straight-line method over the estimated useful lives of the related assets as follows:

Land improvements	10-20 years
Building (new construction)	20-40 years
Building improvements	5-20 years
Leasehold improvements	5-20 years
Furniture and fixtures	5-20 years
Vehicles	10 years

Roman Catholic High School's property and equipment are owned by the Trustees of Roman Catholic High School. Building and land improvements and purchases of furniture and fixtures for this facility are recorded as leasehold improvements.

10. Functional Expenses

All expenses relate to the operation and maintenance of the High Schools.

11. Concentrations of Credit Risk

Financial instruments which potentially subject the institution to concentration of credit risk consist principally of temporary cash investments and parental receivables. Management places its temporary cash investments with high credit quality financial institutions. Concentration of credit risk with respect to parental receivables is limited due to the large number of parents; however, management evaluates each of these credit risks and establishes an appropriate allowance for doubtful accounts.

12. Reclassifications

Certain accounts in the prior year combined financial statements have been reclassified for comparative purposes to conform to the presentation in the current year combined financial statements. The reclassifications had no impact on total assets, total liabilities, total net assets or change in net assets.

Archdiocese of Philadelphia, Office of Catholic Education
High Schools

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE C - PLEDGES RECEIVABLE, NET

A summary of pledges receivable is as follows at June 30, 2013 and 2012:

	2013	2012
Less than one year	\$ 208,915	\$ 299,725
One year to five years	355,502	183,850
	564,417	483,575
Less: allowance for doubtful accounts	(282,210)	(282,425)
Less: discount*	(9,772)	(12,100)
	\$ 272,435	\$ 189,050

* The discount rate used was 2%.

NOTE D - INVESTMENTS

At June 30, 2013 and 2012, the High Schools' investments were summarized and classified as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<u>2013</u>				
Archdiocese of Philadelphia				
Non-Pension Assets Portfolio	\$ 8,276	\$ 17,748,562	\$ 32,825,699	\$ 50,582,537
Money market funds	31,614	89,075	627	121,316
Mutual funds	853,964	264,884	122,785	1,241,633
Common stocks	67,693	98,599	-	166,292
Debt securities	-	38,231	-	38,231
	\$ 961,547	\$ 18,239,351	\$ 32,949,111	\$ 52,150,009
<u>2012</u>				
Archdiocese of Philadelphia				
Non-Pension Assets Portfolio	\$ (6,129)	\$ 13,547,262	\$ 32,633,435	\$ 46,174,568
Money market funds	34,097	113,834	2,789	150,720
Mutual funds	1,030,084	379,426	179,817	1,589,327
Common stocks	57,612	99,197	-	156,809
Municipal securities	-	70,496	82,753	153,249
Treasury securities	-	30,497	-	30,497
	\$ 1,115,664	\$ 14,240,712	\$ 32,898,794	\$ 48,255,170

(Continued)