

Financial Statements and Report of  
Independent Certified Public Accountants

**Archdiocese of Philadelphia**  
**Heritage of Faith ~ Vision of Hope**  
**Archdiocesan Capital Campaign**

June 30, 2014 and 2013

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## **Report of Independent Certified Public Accountants**

To the Board of Directors  
Heritage of Faith ~ Vision of Hope Archdiocesan Capital Campaign  
Philadelphia, Pennsylvania

### **Report on the financial statements**

We have audited the accompanying financial statements of the Archdiocese of Philadelphia, Heritage of Faith ~ Vision of Hope Capital Campaign, which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities and changes in net assets 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 Archdiocese of Philadelphia, Heritage of Faith ~ Vision of Hope Archdiocesan Capital Campaign as of June 30, 2014 and 2013, 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.

*Grant Thornton, LLP*

Philadelphia, Pennsylvania

February 10, 2015

Archdiocese of Philadelphia  
Heritage of Faith ~ Vision of Hope Archdiocesan Capital Campaign

**STATEMENTS OF FINANCIAL POSITION**

June 30,

ASSETS	<u>2014</u>	<u>2013</u>
Cash and cash equivalents	\$ 32,960,037	\$ 30,388,584
Pledges receivable	43,958,382	58,268,320
Allowance for present value discount and doubtful accounts	(32,560,182)	(33,824,114)
Investments	<u>19,749,053</u>	<u>14,470,019</u>
 Total assets	 <u>\$ 64,107,290</u>	 <u>\$ 69,302,809</u>
 <b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accrued expenses and other payables	\$ 61,816	\$ 86,350
Due to Archdiocesan entities	23,214	704,326
Due to Archdiocesan parishes	<u>8,786,700</u>	<u>7,972,103</u>
 Total liabilities	 <u>8,871,730</u>	 <u>8,762,779</u>
 Net assets		
Temporarily restricted	<u>55,235,560</u>	<u>60,540,030</u>
 Total net assets	 <u>55,235,560</u>	 <u>60,540,030</u>
 Total liabilities and net assets	 <u>\$ 64,107,290</u>	 <u>\$ 69,302,809</u>

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

**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**

Years ended June 30,

	2014			2013		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues, gains, and other support						
Contributions	\$ -	\$ 731,284	\$ 731,284	\$ -	\$ 255,023	\$ 255,023
Change in present value discount	-	1,551,164	1,551,164	-	432,833	432,833
Interest and dividend income	-	348,260	348,260	-	171,553	171,553
Net realized and unrealized gain (loss) on investments	-	2,231,628	2,231,628	-	(249,831)	(249,831)
Net assets released from restrictions	10,166,806	(10,166,806)	-	15,045,393	(15,045,393)	-
Total revenues, gains, and other support	10,166,806	(5,304,470)	4,862,336	15,045,393	(14,435,815)	609,578
Expenses						
Bad debt expense	2,788,755	-	2,788,755	680,783	-	680,783
Disbursements to campaign beneficiaries	6,629,421	-	6,629,421	13,624,224	-	13,624,224
Support office expenses	748,630	-	748,630	719,471	-	719,471
Postage and printing	-	-	-	20,915	-	20,915
Total expenses	10,166,806	-	10,166,806	15,045,393	-	15,045,393
Change in net assets	-	(5,304,470)	(5,304,470)	-	(14,435,815)	(14,435,815)
Net assets at beginning of year	-	60,540,030	60,540,030	-	74,975,845	74,975,845
Net assets at end of year	\$ -	\$ 55,235,560	\$ 55,235,560	\$ -	\$ 60,540,030	\$ 60,540,030

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

Archdiocese of Philadelphia  
Heritage of Faith ~ Vision of Hope Archdiocesan Capital Campaign

**STATEMENTS OF CASH FLOWS**

Years ended June 30,

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities		
Change in net assets	\$ (5,304,470)	\$ (14,435,815)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Allowance for doubtful accounts	2,788,755	680,783
Net realized and unrealized (gain) loss on investments	(2,231,628)	249,831
Change in due to/from Archdiocesan entities	133,485	5,866,076
Change in pledges receivable	10,257,251	17,724,905
Change in other receivable	-	4,437
Change in accrued expenses and other payables	<u>(24,534)</u>	<u>(2,282,862)</u>
Net cash provided by operating activities	<u>5,618,859</u>	<u>7,807,355</u>
Cash flows from investing activities		
Purchase of investments	(10,455,998)	(14,697,790)
Proceeds from the sale of investments	<u>7,408,592</u>	<u>-</u>
Net cash used in investing activities	<u>(3,047,406)</u>	<u>(14,697,790)</u>
Net increase (decrease) in cash	2,571,453	(6,890,435)
Cash		
Beginning of year	<u>30,388,584</u>	<u>37,279,019</u>
End of year	<u>\$ 32,960,037</u>	<u>\$ 30,388,584</u>

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

## NOTES TO FINANCIAL STATEMENTS

June 30, 2014 and 2013

### NOTE A - GENERAL DESCRIPTION

Heritage of Faith ~ Vision of Hope Archdiocesan Capital Campaign (HOF~VOH) is a charitable organization which conducted a capital campaign designed to raise funds to enable the Archdiocese of Philadelphia to meet six goals: (1) provide financial support to parishes, (2) ensure access to high quality Catholic education, (3) restore the Cathedral Basilica of Saints Peter and Paul, (4) invest in priestly formation and campus infrastructure at St. Charles Borromeo Seminary, (5) care for retired clergy, and (6) minister to the needy by providing vital human services.

### NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 1. Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America (US GAAP).

#### 2. Financial Statement Presentation

Information regarding the financial position and activities of HOF~VOH is reported according to three classes of net assets, based on the existence or absence of donor-imposed restrictions, as follows: unrestricted, temporarily restricted and permanently restricted net assets.

*Unrestricted net assets* - Net assets that are not subject to donor-imposed restrictions and may be expendable for any purpose in performing the primary objectives of HOF~VOH.

*Temporarily restricted net assets* - Gifts, pledges, income and appreciation that are either subject to a donor's explicit stipulation or from circumstances surrounding the receipt of the contribution that make clear the donor's implicit restriction on use. These restrictions may or will be met either by actions of HOF~VOH and/or through the passage of time. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying financial statements as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted contributions.

*Permanently restricted net assets* - Gifts, pledges, income and appreciation subject to donor-imposed stipulations that require that the amounts contributed be invested in perpetuity. In the absence of donor-imposed restrictions on the use of the income generated by permanently restricted net assets, income and gains generated from such contributions are available for the general operations.

The HOF~VOH campaign documents provided to potential donors explicitly refer to the intended use of the funds and, consequently, denote the contribution as restricted. The HOF~VOH funds received during the campaign are initially designated as temporarily restricted net assets on the HOF~VOH financial statements. As the restrictions related to each case statement are met, these temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying financial statements as net assets released from restrictions.

(Continued)



NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

3. Cash and Cash Equivalents

HOF~VOH considers all unrestricted 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.

4. Pledges/Contributions

Unconditional promises to give (pledges) are recorded as receivables and revenues, within the appropriate net asset category, at fair value at the date the promise is received. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flow. The discounts on those amounts are computed using a risk-adjusted interest rate applicable to the years in which the promises are received.

5. Allowance for Doubtful Accounts

HOF~VOH recognizes an allowance for doubtful accounts when information is available, indicates that it is probable that a pledge receivable has been impaired as of the date of the financial statements and the amount of loss can be reasonably estimated. The allowance for doubtful accounts is provided based upon management's judgments including such factors as prior collection history and the length of the capital campaign. The amount of expected impairment is based on management's best estimate. Pledges receivable balances are written off on a specific identification basis.

6. Investment in the Trustee Account of the Archdiocese of Philadelphia for Estates and Trusts (the Trustee Account)

The investment in the Trustee Account and other investments are reported at fair value. The investment in the Trustee Account and other investments held by the Organization do not have a readily determinable fair value, and as such, have elected to use the net asset value (the NAV) per share as calculated on the reporting entity's measurement date as the fair value of the investment, based on the NAV of the investment as a practical expedient.

Realized gains and losses at the manager level are spread to the participant accounts monthly. Gains and losses created at the participant level due to unit sales are recorded in the specific participant accounts. Unrealized gains and losses are included in the statements of activities and changes in net assets as investment income.

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**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2014 and 2013

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

7. Investments

Included within the investments balance are amounts held in seven U.S. Bank investment accounts, each one applicable to an account administered through the HOF~VOH capital campaign. The investments held by U.S. Bank are allocated among cash and mutual funds (equity and fixed income) and, as such, are measured at their fair market value as of the fiscal years ended June 30, 2014 and 2013. The realized and unrealized gains and losses, as well as interest and dividends, related to the U.S. Bank investments are reported as such on the statements of activities and changes in net assets.

8. Charitable Gift Annuities Payable

HOF~VOH enters into charitable gift annuity arrangements, whereby the assets are held by the Archdiocese of Philadelphia Non-Pension Assets Portfolio (NPAP) and are recorded at fair value when received. The assets are included in the investments in the NPAP portfolio as of June 30, 2014 and 2013. Periodic annuity payments are made to the donor or their beneficiaries until 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 2.00% and 4.51%.

9. Due to Archdiocesan Parishes

As part of the HOF~VOH capital campaign, a portion of all of the funds collected are designated for the benefit of the parishes within the Archdiocese of Philadelphia. The portion allocated in this manner is recorded as a liability on the financial statements until disbursed to each respective parish.

10. Income Tax Status

HOF~VOH is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code through its inclusion in the United States Conference of Catholic Bishops (USCCB) group ruling and listing in the Official Catholic Directory.

Under US GAAP, enterprises are required to assess an income tax position to determine whether the benefit of the position can be recognized in the financial statements. The benefit recognition threshold requires that the position be more likely than not to be sustained based upon its technical merit under applicable tax laws. This threshold or standard is defined as a likelihood of more than 50 percent. This position must then be measured to determine the amount that is recorded in the financial statements. HOF~VOH does not believe its financial statements include any material uncertain tax positions. The Archdiocese is no longer subject to U.S. Federal and state tax examinations for years prior to the year ended June 30, 2011.

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**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2014 and 2013

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

11. Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make significant estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts or revenue and expenses during the reporting period. These significant estimates include the allowance for doubtful accounts, fair values of investments and accrued expenses. Actual results could differ from these estimates.

NOTE C - INVESTMENTS

The total investments of HOF~VOH at June 30, 2014 and 2013 are detailed as follows:

	2014	2013
Investment in the Trustee Account	\$ 25,177	\$ 22,602
Cash - U.S. Bank	2,428,901	783,923
Mutual Funds - U.S. Bank	17,294,975	13,663,494
Total investments	\$ 19,749,053	\$ 14,470,019

The investment in the Trustee Account consists of investments in the NPAP. For administrative and other needs, the Archdiocese of Philadelphia formed the NPAP to pool together certain investments in order to more efficiently manage the investments of various entities and related organizations within the Archdiocese of Philadelphia. The investments in the NPAP are held by a custodian and are managed based on sub-accounts as follows:

*Equity Sub-Account (or "fund")* - Invests in common stocks and is managed by multiple investment managers.

*Fixed Income Sub-Account (or "fund")* - Invests in mutual funds, corporate obligations, United States Treasury obligations and municipal obligations and is managed by multiple investment managers.

*Liquidity Sub-Account (or "fund")* - Investments are liquid in nature and are used to buy and sell units of the equity and fixed income funds or for expected short-term needs.

The Trustee Account is unitized on a periodic basis to allow for the investment, at unit value, by entities in the NPAP. HOF~VOH's investment in the Trustee Account is stated at unit value. The Investment Committee of the Archdiocese of Philadelphia has primary responsibility for determining the asset investment allocations to be used. Management is responsible for ensuring that asset investment allocations among the funds are maintained as determined by the Investment Committee of the Archdiocese of Philadelphia.

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2014 and 2013

**NOTE D - FAIR VALUE MEASUREMENTS**

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, 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.
- 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 HOF~VOH 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.

The fair value of certain alternative investments is estimated using the NAV per share. These investments are classified as either Level 2, if the HOF~VOH's investment can be redeemed at the reporting date or within the near term, or Level 3, if its investment is not redeemable at the NAV per share at or near the statement of financial position date.

(Continued)

Archdiocese of Philadelphia  
Heritage of Faith ~ Vision of Hope Archdiocesan Capital Campaign

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2014 and 2013

NOTE D - FAIR VALUE MEASUREMENTS - Continued

Fair value measurements of investments in entities that calculate the NAV per share or its equivalent as of June 30, 2014 and 2013 are as follows:

	Fair value		Unfunded commitments	Redemption frequency	Redemption notice period
	2014	2013			
Archdiocese of Philadelphia NPAP <sup>(a)</sup>	\$ 25,177	\$ 22,602	\$ -	daily	1 day

<sup>(a)</sup> A pooled investment portfolio comprised of equity and fixed income securities. The primary objective of the NPAP is preservation of capital while reducing, to the greatest extent possible, the possibility of loss.

The investment strategy and long-term asset allocation for the NPAP takes into consideration the specific spending requirements and the present and future needs of the Archdiocese of Philadelphia and its respective participating Ecclesiastical Organizations. Therefore, the desired minimum rate of return is equal to the Consumer Price Index (CPI) plus three percent (3%) on an annualized basis. The fair values are estimated using the NAV per share of the investments.

The following table presents the fair values of the investments held by HOF~VOH by level within the fair value hierarchy, as of June 30, 2014 and 2013:

	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant inputs supported by little or no market activity (Level 3)	Total fair value
June 30, 2014				
Assets				
Investments:				
Investment in the Trustee Account	\$ -	\$ 25,177	\$ -	\$ 25,177
Cash - U.S. Bank	2,428,901	-	-	2,428,901
Mutual Funds - U.S. Bank	<u>17,294,975</u>	<u>-</u>	<u>-</u>	<u>17,294,975</u>
Total of assets at June 30, 2014	<u>\$ 19,723,876</u>	<u>\$ 25,177</u>	<u>\$ -</u>	<u>\$ 19,749,053</u>
June 30, 2013				
Assets				
Investments:				
Investment in the Trustee Account	\$ -	\$ 22,602	\$ -	\$ 22,602
Cash - U.S. Bank	783,923	-	-	783,923
Mutual Funds - U.S. Bank	<u>13,663,494</u>	<u>-</u>	<u>-</u>	<u>13,663,494</u>
Total of assets at June 30, 2013	<u>\$ 14,447,417</u>	<u>\$ 22,602</u>	<u>\$ -</u>	<u>\$ 14,470,019</u>

Archdiocese of Philadelphia  
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**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2014 and 2013

**NOTE E - PLEDGES RECEIVABLE**

A summary of gross pledges receivable as of June 30, 2014 and 2013 is as follows:

Pledges receivable expected to be collected in:

	2014	2013
Less than one year	\$ 9,497,514	\$ 16,065,976
One year to five years	34,460,868	42,202,344
More than five years	-	-
Pledges receivable, end of year	\$ 43,958,382	\$ 58,268,320

Pledge activity for 2014 and 2013 is as follows:

	2014	2013
Pledges receivable, beginning of year	\$ 58,268,320	\$ 80,242,039
New pledges	731,284	259,126
Collections	(12,539,699)	(18,416,863)
Write-offs	(2,501,523)	(3,815,982)
Pledges receivable, end of year	43,958,382	58,268,320
Less allowance for doubtful accounts	(32,560,182)	(33,824,114)
Net pledges receivable balance, end of year	\$ 11,398,200	\$ 24,444,206

**NOTE F - RELATED PARTY TRANSACTIONS**

During the fiscal years ended June 30, 2014 and 2013, \$7,998,176 and \$15,167,588, respectively, was disbursed from the HOF~VOH cash account with approval of the Director of Development and the Board of Directors of the HOF~VOH entity. The Archdiocese of Philadelphia provides administrative services for HOF~VOH. Effective July 1, 2011, the Office for Financial Services, Archdiocese of Philadelphia (OFS) and HOF~VOH entered into a services agreement whereby OFS is to provide certain administrative and management services for a flat annual fee of \$500,000. This expense is included in support office expenses for the year ended June 30, 2013 in the statement of activities and changes in net assets.

(Continued)

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2014 and 2013

**NOTE F - RELATED PARTY TRANSACTIONS - Continued**

Effective July 1, 2013, the Catholic Foundation of Greater Philadelphia was formed to manage charitable fund-raising for the Archdiocese of Philadelphia. These efforts were previously managed by the Office for Stewardship and Development, a department within OFS. The entire Office for Stewardship and Development was transitioned to the Catholic Foundation of Greater Philadelphia. The Catholic Foundation of Greater Philadelphia will provide the administrative services previously provided by OFS, and HOF~VOH entered into a services agreement whereby the Catholic Foundation of Greater Philadelphia is to provide certain administrative and management services for a flat annual fee of \$500,000. This expense is included in support office expenses for the year ended June 30, 2014 in the statement of activities and changes in net assets.

**NOTE G - 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. HOF~VOH has evaluated events subsequent to June 30, 2014 and through February 10, 2015, the date the financial statements were available to be issued. HOF~VOH is not aware of any subsequent event that would require recognition or disclosure in the financial statements.