

Office of Catholic Education

Narrative Explaining Audited Financial Statements for the Year Ended June 30, 2015.

This narrative accompanies the audited financial statements for the year ended June 30, 2015 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 the fiscal year ended June 30, 2015 (Fiscal 2015) and year ended June 30, 2014 (Fiscal 2014).

High Schools

The High Schools financial statements report the overall financial position and results for the operations of the high schools which educated 13,565 in Fiscal 2015 and 13,794 students in Fiscal 2014. The statements combine the centralized High School Operations Account with the seventeen locally managed Presidents Accounts. The Supplemental Schedules provide detail on the combination with pages 33 and 34 showing 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.



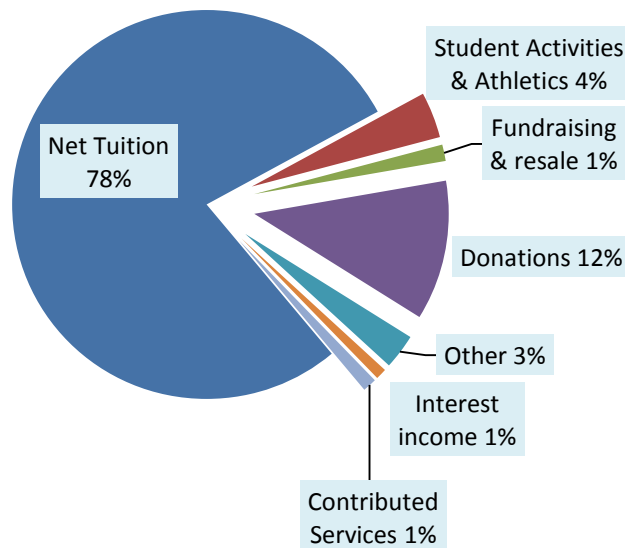
Figure 1. Elementary and high school students gather at the Art Museum for the announcement of the Papal Visit.

As shown in the table below, there was a total change in net assets of \$741,671 for Fiscal 2015 which is decrease from the change of \$5,078,133 in Fiscal 2014. Cash on hand at year end increased from \$22,594,312 in 2014 to \$28,852,151 in 2015.

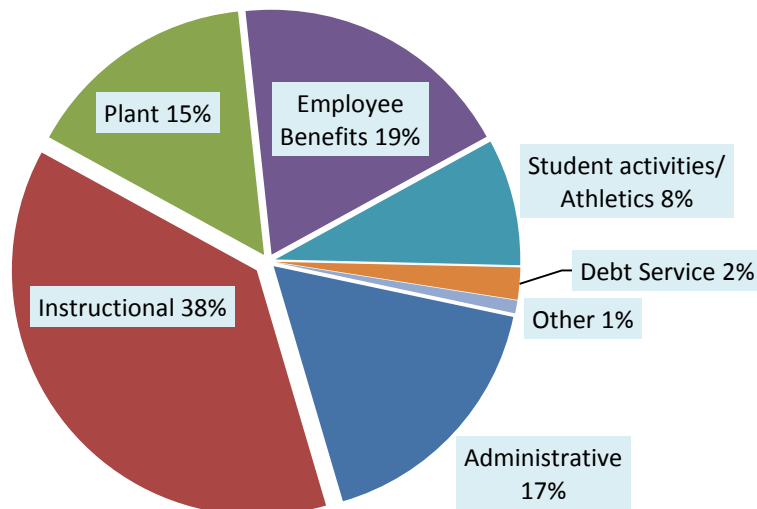
	Fiscal 2015	Fiscal 2014
Change in Unrestricted Net Assets	\$ 3,286,381	\$ (838,573)
Change in Temporarily Restricted Net Assets	(2,803,075)	5,281,477
Change in Permanently Restricted Net Assets	258,365	635,229
Total Change in Net Assets	\$ 741,671	\$ 5,078,133

In Fiscal 2015, tuition and fee revenue accounted for 78% of the revenue generating \$97.8 million. Donations generated another \$14.5 million or 12%. We are thankful for the generosity of our alumni and other benefactors who support our high schools. Most of the funds generated from alumni are used to help provide tuition assistance for needy families.

Total High School Revenue 2014-2015



High School Operating Expenses 2014-2015



In Fiscal 2015, High School operating expenses totaled \$124.2 million, thus the average total cost per student, including the cost of extracurricular activities, was \$9,160, an increase of \$250 from Fiscal 2014. 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 75% of the expenses, while local spending from each school through the presidents' accounts represented 25% 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.

Instructional costs make up the largest expense at 38%, followed by employee benefits at 19% of total operating expenses.

While unrestricted net assets were \$54.9 million at June 30, 2015, it should be noted that not all of this total was cash available for operations. Property and equipment represented \$110.9 million of total assets and there was long term debt of \$65.1 million for the construction of new schools. Thus, \$45.7 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, 2015. The high schools used \$1,546,800 for operations and maintenance from the earnings on this endowment in the Fiscal 2015.

Schools of Special Education



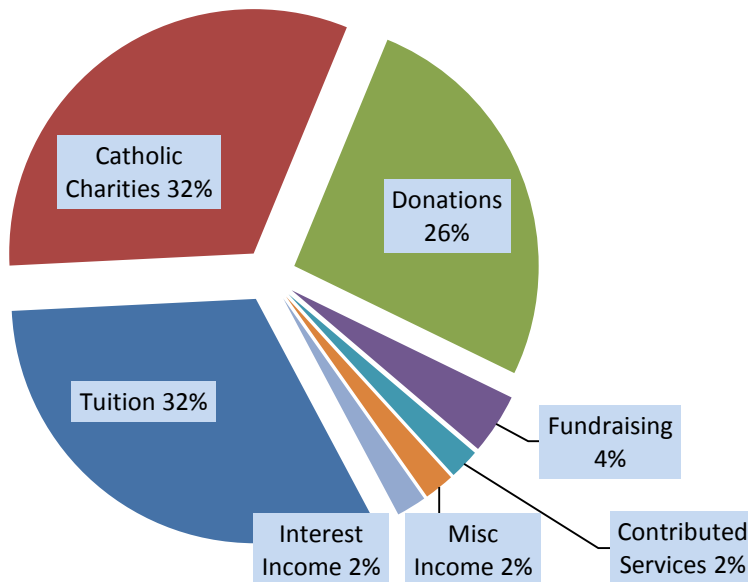
Figure 2. Our Lady of Confidence students prepare for Holy Week by making palm fronds.

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 2015, the schools enrolled 194 students.

As shown in the table on the next page, there was a total change in net assets of \$(194,148) for Fiscal 2015 which is decrease from the change of \$1,057,673 in Fiscal 2014.

	Fiscal 2015	Fiscal 2014
Change in Unrestricted Net Assets	(\$ 155,092)	\$ 315,901
Change in Designated Net Assets	(159,117)	287,053
Change in Temporarily Restricted Net Assets	128,370	171,300
Change in Permanently Restricted Net Assets	(8,309)	283,419
Total Change in Net Assets	(\$ 194,148)	(\$1,057,673)

Special Education Revenue 2014-2015



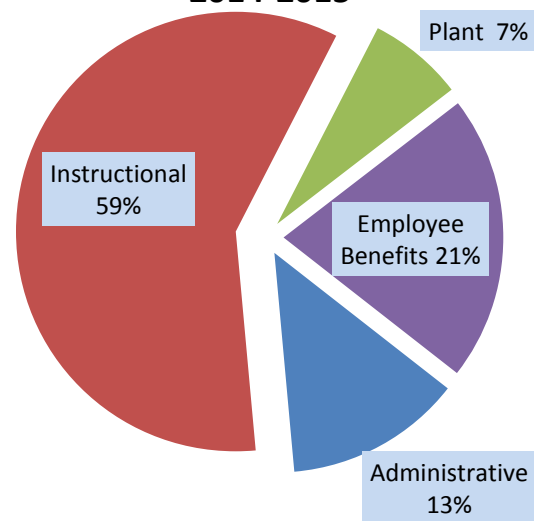
Tuition revenue and contributions from Catholic Charities each accounted for 32% of the revenue for the special education schools. Tuition revenue was \$968,623, an increase of \$105,566 from Fiscal 2014. Catholic Charities provided \$964,405 in Fiscal 2015, a decrease of \$416,593 from Fiscal 2014. Donations raised by the local schools generated \$772,373 or 26% of total revenue.

Instructional expenses represented the largest portion of expenses at 59%, followed by employee benefits at 21%. The cost per student was \$16,521 in Fiscal 2015. With the support of the Catholic Charities Appeal, tuition charges are well below this cost.

Enrollment for 2014-15 was as follows:

Archbishop Ryan	9
St. Lucy	29
St. Katherine	86
Our Lady of Confidence	<u>70</u>
Total	194

Special Education Expenses 2014-2015



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 provides services and training for teachers and administrators and direction on curriculum and instruction and the use of technology in instruction.

In Fiscal 2015, there was a loss in net assets of \$1,699,214. There was gain in net assets of \$4,632,806 in Fiscal 2014. Favorable investment performance was responsible for most of the financial results in Fiscal 2014. The value of a beneficial trust held by a third party decreased by \$3,817,615 in Fiscal 2015 vs an increase of \$1,183,841 in Fiscal 2014.

	Fiscal 2015	Fiscal 2014
Change in Unrestricted Net Assets	\$ (79,412)	\$ 282,914
Change in Designated Net Assets	(215,753)	124,963
Change in Temporarily Restricted Net Assets	(248,699)	1,430,222
Change in Permanently Restricted Net Assets	(1,155,350)	2,794,707
Total Change in Net Assets	\$ (1,699,214)	\$ 4,632,806

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 parish religious education programs.

During Fiscal 2015, revenue for the office came from the following sources:

High Schools and Special Education Schools	51%
Donations	21%
Distribution from Sullivan Trust	19%
Program Revenue	12%
Archdiocesan Educational Fund	7%
Other	5%
Change in Beneficial Trust (Sullivan)	(16%)

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. 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 by \$200,000 each year.

Net assets at June 30, 2015 include \$6,545,339 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 \$31,273,211 (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.