

Financial Statements and Report of  
Independent Certified Public Accountants

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

June 30, 2015 and 2014

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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 Archdiocesan Capital Campaign, which comprise the statements of financial position as of June 30, 2015 and 2014, 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, 2015 and 2014, 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 5, 2016

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

**STATEMENTS OF FINANCIAL POSITION**

June 30,

ASSETS	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$ 29,526,799	\$ 32,960,037
Pledges receivable, net of allowance for doubtful accounts of \$31,343,619 and \$32,560,182 at June 30, 2015 and 2014, respectively	5,389,159	11,398,200
Investments	<u>20,508,155</u>	<u>19,749,053</u>
 Total assets	 <u>\$ 55,424,113</u>	 <u>\$ 64,107,290</u>
 <b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accrued expenses and other payables	\$ 35,105	\$ 61,816
Due to Archdiocesan entities	23,944	23,214
Due to Archdiocesan parishes	<u>8,791,354</u>	<u>8,786,700</u>
 Total liabilities	 <u>8,850,403</u>	 <u>8,871,730</u>
 Net assets		
Temporarily restricted	<u>46,573,710</u>	<u>55,235,560</u>
 Total net assets	 <u>46,573,710</u>	 <u>55,235,560</u>
 Total liabilities and net assets	 <u>\$ 55,424,113</u>	 <u>\$ 64,107,290</u>

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 ACTIVITIES AND CHANGES IN NET ASSETS**

Years ended June 30,

	2015			2014		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues, gains, and other support						
Contributions	\$ -	\$ 257,265	\$ 257,265	\$ -	\$ 731,284	\$ 731,284
Change in present value discount	-	255,531	255,531	-	1,551,164	1,551,164
Interest and dividend income	-	409,596	409,596	-	348,260	348,260
Net realized and unrealized (loss) gain on investments	-	(69,570)	(69,570)	-	2,231,628	2,231,628
Net assets released from restrictions	9,514,672	(9,514,672)	-	10,166,806	(10,166,806)	-
<b>Total revenues, gains, and other support</b>	<b>9,514,672</b>	<b>(8,661,850)</b>	<b>852,822</b>	<b>10,166,806</b>	<b>(5,304,470)</b>	<b>4,862,336</b>
Expenses						
Bad debt expense	255,531	-	255,531	2,788,755	-	2,788,755
Disbursements to campaign beneficiaries	8,707,076	-	8,707,076	6,629,421	-	6,629,421
Support office expenses	552,065	-	552,065	748,630	-	748,630
<b>Total expenses</b>	<b>9,514,672</b>	<b>-</b>	<b>9,514,672</b>	<b>10,166,806</b>	<b>-</b>	<b>10,166,806</b>
Change in net assets	-	(8,661,850)	(8,661,850)	-	(5,304,470)	(5,304,470)
Net assets at beginning of year	-	55,235,560	55,235,560	-	60,540,030	60,540,030
Net assets at end of year	<u>\$ -</u>	<u>\$ 46,573,710</u>	<u>\$ 46,573,710</u>	<u>\$ -</u>	<u>\$ 55,235,560</u>	<u>\$ 55,235,560</u>

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>2015</u>	<u>2014</u>
Cash flows from operating activities		
Change in net assets	\$ (8,661,850)	\$ (5,304,470)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Bad debt expense	255,531	2,788,755
Net realized and unrealized loss (gain) on investments	69,570	(2,231,628)
Change in due to/from Archdiocesan entities	5,384	133,485
Change in pledges receivable	5,753,510	10,257,251
Change in accrued expenses and other payables	<u>(26,711)</u>	<u>(24,534)</u>
Net cash (used in) provided by operating activities	<u>(2,604,566)</u>	<u>5,618,859</u>
Cash flows from investing activities		
Purchase of investments	(11,081,185)	(10,455,998)
Proceeds from the sale of investments	<u>10,252,513</u>	<u>7,408,592</u>
Net cash used in investing activities	<u>(828,672)</u>	<u>(3,047,406)</u>
Net (decrease) increase in cash	(3,433,238)	2,571,453
Cash and cash equivalents		
Beginning of year	<u>32,960,037</u>	<u>30,388,584</u>
End of year	<u>\$ 29,526,799</u>	<u>\$ 32,960,037</u>

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

## NOTES TO FINANCIAL STATEMENTS

June 30, 2015 and 2014

### 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 (the Archdiocese) 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, 2015 and 2014

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. At June 30, 2015, HOF~VOH has cash balances on deposit with financial institutions that exceeded the balance insured by the Federal Deposit Insurance Corporation (FDIC) of \$250,000. HOF~VOH has not experienced any losses in such accounts.

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, and 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. 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, 2015 and 2014. 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.

(Continued)

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2015 and 2014

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

On April 30, 2015, various funds previously held in the Non-Pension Asset Portfolio (NPAP) were liquidated and re-invested with a newly hired investment company, SEI, a provider of institutional asset management services. SEI created two publicly traded Catholic Values mutual funds: the Catholic Values Equity Fund and the Catholic Values Fixed Income Fund (Catholic Values Funds), which provide Catholic institutions with high quality investment products that align with their core values, without sacrificing diversification or return potential. Specifically, the Catholic Values Funds align with the investment directives set forth by the United States Conference of Catholic Bishops (USCCB). The Archdiocese appointed SEI Private Trust Company to act as custodian (the Custodian) of the investments, which consist of certain cash and securities and are more fully described in Note C. Investment allocation decisions are the responsibility of the applicable Archdiocesan entity's board or finance council.

Investments are reported at fair value. Realized gains and losses are reported to the participating entities monthly. Gains and losses realized by the participating entities as a result of sales are recorded in their specific accounts. Unrealized gains and losses are included in the statements of activities and changes in net assets as net appreciation or depreciation in the fair value of investments.

7. Charitable Gift Annuities Payable

HOF~VOH enters into charitable gift annuity arrangements, whereby the assets are included in the investments in the Catholic Value funds described above at June 30, 2015 and the NPAP at June 30, 2014. 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%. The liability at June 30, 2015 and 2014, was \$11,897 and \$12,134, respectively, and is classified in accrued expenses and other payables on the statements of financial position.

8. 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. The portion allocated in this manner is recorded as a liability on the financial statements until disbursed to each respective parish.

9. 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 USCCB group ruling and listing in the Official Catholic Directory.

(Continued)

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2015 and 2014

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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, 2012.

10. 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, 2015 and 2014 are detailed as follows:

	2015	2014
Investment in the Trustee Account	\$ -	\$ 25,177
Investment in SEI Catholic Values Funds	24,623	-
Cash - U.S. Bank	-	2,428,901
Mutual Funds - U.S. Bank	20,483,532	17,294,975
Total investments	\$ 20,508,155	\$ 19,749,053

Investment in SEI Catholic Values Funds

Investments held at SEI are reported at fair value and consist of the following:

*Catholic Values Equity Fund (or "equity fund")* - Invests in common stocks and is managed by SEI. The equity fund is valued at the closing price of the traded fund.

*Catholic Values Fixed Income Fund (or "fixed income fund")* - Invests in mutual funds, corporate obligations, United States Treasury obligations and municipal obligations and is managed by SEI. The fixed income fund is valued at the closing price of the traded fund.

*Cash Plus (or "fund")* - Investments are liquid in nature and invested in short-duration U.S. government bonds.

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**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2015 and 2014

NOTE C - INVESTMENTS - Continued

Through April 30, 2015, the investment in the Trustee Account consists of investments in the NPAP. For administrative and other needs, the Archdiocese 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.

The investments in the NPAP were held by a custodian and were 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 was 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 was stated at unit value. The Investment Committee of the Archdiocese of Philadelphia had primary responsibility for determining the asset investment allocations to be used. Management was responsible for ensuring that asset investment allocations among the funds were maintained as determined by the Investment Committee of the Archdiocese of Philadelphia.

NOTE D - FAIR VALUE MEASUREMENTS

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements*, 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.

(Continued)

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2015 and 2014

NOTE D - FAIR VALUE MEASUREMENTS - Continued

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 net asset value (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.

Fair value measurements of investments in entities that calculate the NAV per share or its equivalent as of June 30, 2015 and 2014 are as follows:

	<u>Fair value</u>		<u>Unfunded</u>	<u>Redemption</u>	<u>Redemption</u>
	<u>2015</u>	<u>2014</u>	<u>commitments</u>	<u>frequency</u>	<u>notice</u>
					<u>period</u>
Archdiocese of Philadelphia Trustee Account <sup>(a)</sup>	\$ -	\$ 25,177	\$ -	daily	1 day

<sup>(a)</sup> A pooled investment portfolio comprised of equity and fixed income securities. The primary objective of the Trustee Account was preservation of capital while reducing, to the greatest extent possible, the possibility of loss. The investment strategy and long-term asset allocation for the Trustee Account took 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 was equal to the Consumer Price Index (CPI) plus three percent (3%) on an annualized basis. The fair values were estimated using the NAV per share of the investments.

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

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2015 and 2014

NOTE D - FAIR VALUE MEASUREMENTS - Continued

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, 2015 and 2014:

	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
<u>June 30, 2015</u>				
Assets				
Investments:				
Investment in SEI	\$ 24,623	\$ -	\$ -	\$ 24,623
Mutual Funds - U.S. Bank	<u>20,483,532</u>	<u>-</u>	<u>-</u>	<u>20,483,532</u>
Total of assets at June 30, 2015	<u>\$ 20,508,155</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,508,155</u>
<u>June 30, 2014</u>				
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>

NOTE E - PLEDGES RECEIVABLE

A summary of gross pledges receivable as of June 30, 2015 and 2014 is as follows:

Pledges receivable expected to be collected in:

	<u>2015</u>	<u>2014</u>
Less than one year	\$ 3,407,956	\$ 9,497,514
One year to five years	<u>33,324,822</u>	<u>34,460,868</u>
Pledges receivable, end of year	<u>\$ 36,732,778</u>	<u>\$ 43,958,382</u>

(Continued)

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2015 and 2014

NOTE E - PLEDGES RECEIVABLE - Continued

Pledge activity for 2015 and 2014 is as follows:

	2015	2014
Pledges receivable, beginning of year	\$ 43,958,382	\$ 58,268,320
New pledges	62,095	731,284
Collections	(6,071,136)	(12,539,699)
Write-offs	<u>(1,216,563)</u>	<u>(2,501,523)</u>
Pledges receivable, end of year	36,732,778	43,958,382
Less allowance for doubtful accounts	<u>(31,343,619)</u>	<u>(32,560,182)</u>
Net pledges receivable balance, end of year	<u>\$ 5,389,159</u>	<u>\$ 11,398,200</u>

NOTE F - RELATED PARTY TRANSACTIONS

During the fiscal years ended June 30, 2015 and 2014, \$8,707,076 and \$6,629,421, 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.

Since July 1, 2013, the Catholic Foundation of Greater Philadelphia (CFGP) has provided HOF~VOH administrative services previously provided by the Office for Financial Services, Archdiocese of Philadelphia. HOF~VOH entered into a services agreement, whereby the CFGP is to provide certain administrative and management services for an annual fixed fee of \$278,500 and \$500,000 plus expenses of \$273,500 and \$248,631 for the years ended June 30, 2015 and 2014, respectively. This expense is included in support office expenses in the statements 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, 2015 and through February 5, 2016, 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.