

Office of Catholic Education

Narrative Explaining Audited Financial Statements for the Year Ended June 30, 2016.

This narrative accompanies the audited financial statements for the year ended June 30, 2016 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, 2016 (Fiscal 2016) and year ended June 30, 2015 (Fiscal 2015).

High Schools

The High Schools financial statements report the overall financial position and results for the operations of the high schools which educated 13,369 in Fiscal 2016 and 13,565 students in Fiscal 2015. 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.

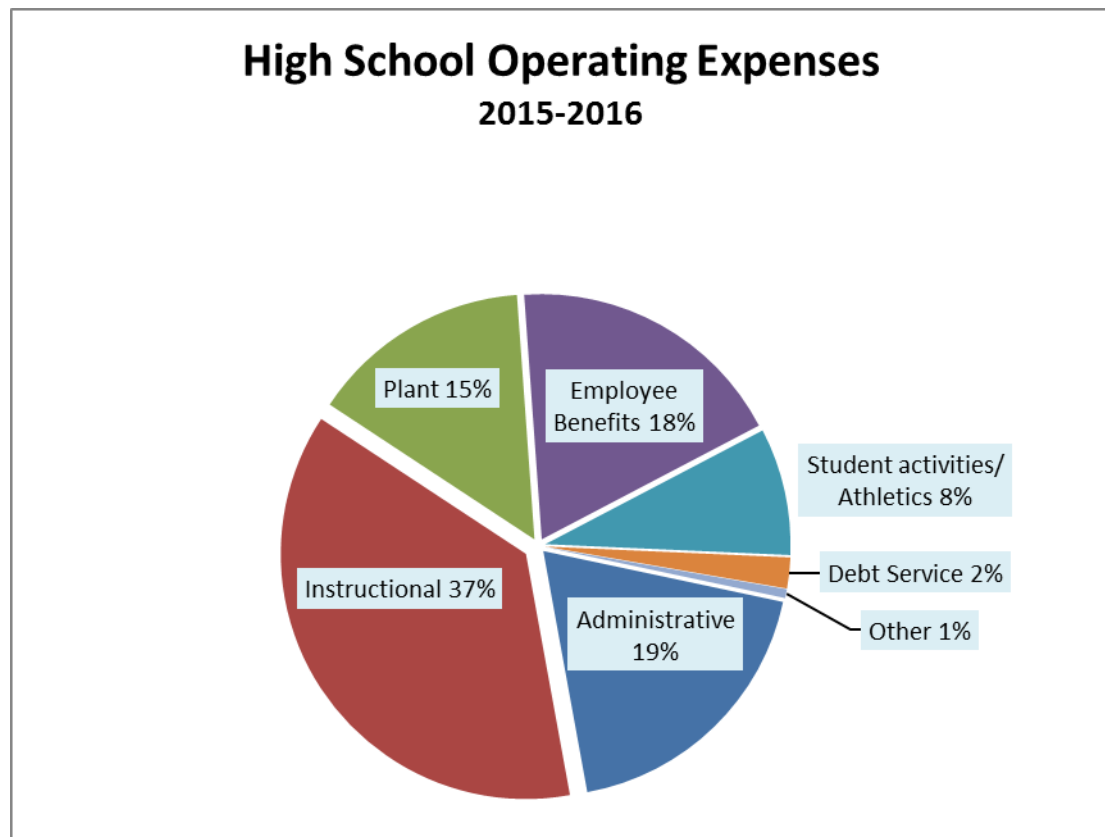
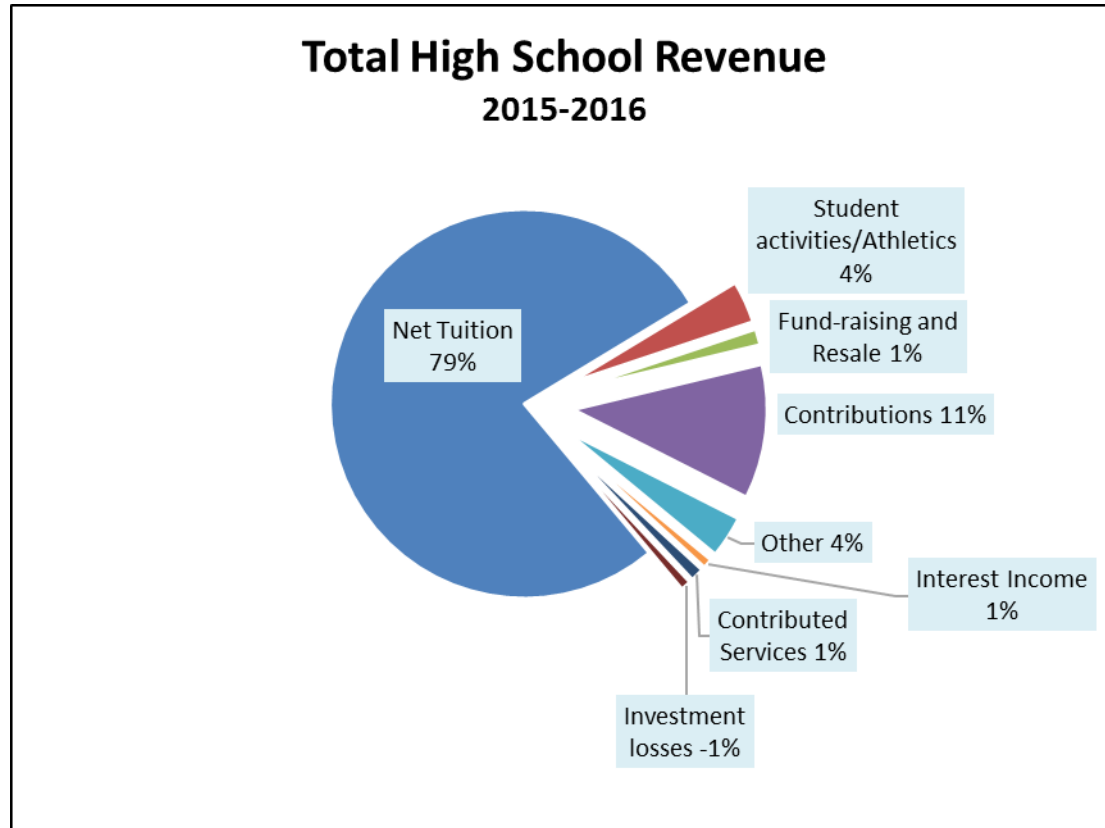
As shown in the table below, there was a total change in net assets of \$4,516,838 for Fiscal 2016 which is an increase from the change in net assets of \$741,671 in Fiscal 2015. A portion of the net assets was designated in Fiscal 2016 to address future needs in technology, academics, and other operational areas.



Figure 1. Nearly 400 Students Gather in Front of the Cathedral Basilica of Saints Peter and Paul to Kick-Off the 2016-2017 School Year in the Archdiocese with Prayer and a Pep Rally.

	Fiscal 2016	Fiscal 2015
Change in Unrestricted Net Assets	\$ 5,854,962	\$ 3,286,381
Change in Designated Net Assets	1,821,855	-
Change in Temporarily Restricted Net Assets	(3,212,256)	(2,803,075)
Change in Permanently Restricted Net Assets	52,277	258,365
Total Change in Net Assets	\$ 4,516,838	\$ 741,671

In Fiscal 2016, tuition and fee revenue accounted for 79% of the revenue generating \$102.3 million. Donations generated another \$14.8 million or 11%. 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.



In Fiscal 2016, High School operating expenses totaled \$126.8 million, thus the average total cost per student, including the cost of extracurricular activities, was \$9,482, an increase of \$322 from Fiscal 2015. 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 37%, followed by Administrative costs at 19% of total operating expenses.

While unrestricted net assets were \$60.8 million at June 30, 2016, it should be noted that not all of this total was cash available for operations. Property and equipment represented \$111.1 million of total assets and there was long term debt of \$63.8 million for the construction of new schools. Thus, \$47.3 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, 2016. The high schools used \$1,650,000 for operations and maintenance from the earnings on this endowment in the Fiscal 2016.

Schools of Special Education

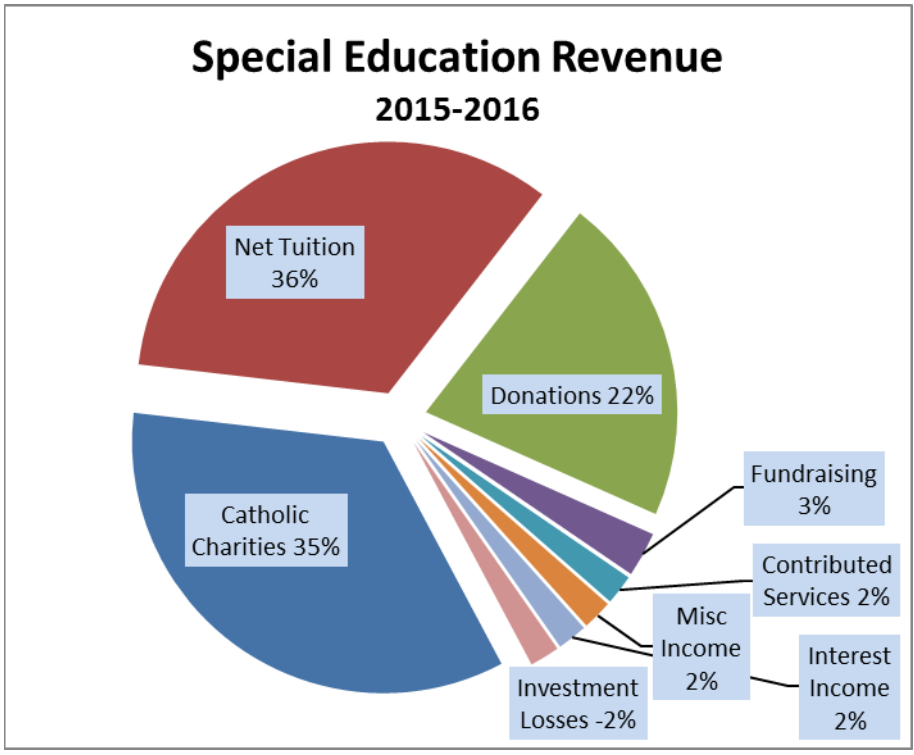
The Schools of Special Education include Archbishop Ryan Academy, St. Lucy Day School, St. Katherine Day School and Our Lady of Confidence Day School. These schools provide a Catholic education to students with autism spectrum disorder and cognitive impairments and students with sensory impairments such 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 2016, the schools enrolled 180 students.



Figure 2: Archbishop Charles Chaput talks with students from St. Lucy Day School after celebrating a Mass to mark the 60th anniversary of the school. (Photos by Sarah Webb)

As shown in the table on the next page, there was a total change in net assets of \$(315,651) for Fiscal 2016 which is a decrease from the change of \$(194,148) in Fiscal 2015.

	Fiscal 2016	Fiscal 2015
Change in Unrestricted Net Assets	\$ (8,835)	\$ (155,092)
Change in Designated Net Assets	(212,673)	(159,117)
Change in Temporarily Restricted Net Assets	(86,684)	128,370
Change in Permanently Restricted Net Assets	(7,459)	(8,309)
Total Change in Net Assets	\$ (315,651)	\$ (194,148)

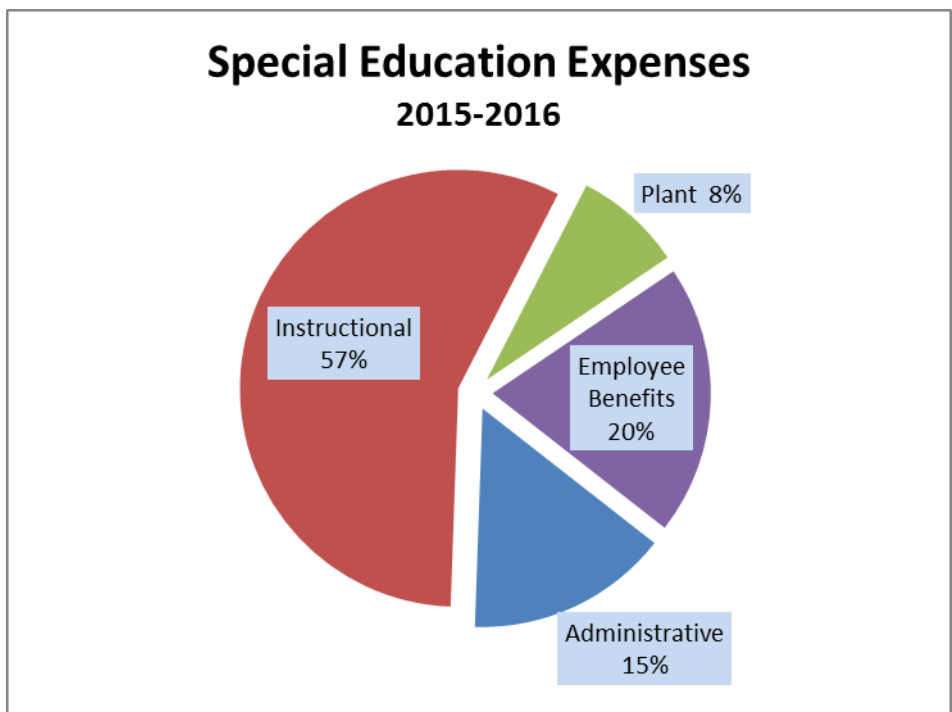


Tuition revenue and contributions from Catholic Charities accounted for 36% and 35%, respectively of the revenue for the special education schools. Tuition revenue was \$1,148,443, an increase of \$179,820 from Fiscal 2015. Catholic Charities provided \$1,113,581 in Fiscal 2016, an increase of \$149,176 from Fiscal 2015. Donations raised by the local schools generated \$712,705 or 22% of total revenue.

Instructional expenses represented the largest portion of expenses at 57%, followed by employee benefits at 20%. The cost per student was \$19,416 in Fiscal 2016. With the support of the Catholic Charities Appeal, tuition charges are well below this cost.

Enrollment for 2015-16 was as follows:

Archbishop Ryan	10
St. Lucy	29
St. Katherine	77
Our Lady of Confidence	<u>64</u>
Total	180



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 2016, there was a change in net assets of \$(812,636) as contrasted with the change in net assets of \$(1,699,214) in Fiscal 2015. The value of a beneficial trust held by a third party increased by \$927,221 in Fiscal 2016 versus a decrease of \$3,817,615 in Fiscal 2015.

	Fiscal 2016	Fiscal 2015
Change in Unrestricted Net Assets	\$ (331,415)	\$ (79,412)
Change in Designated Net Assets	(100,169)	(215,753)
Change in Temporarily Restricted Net Assets	(122,280)	(248,699)
Change in Permanently Restricted Net Assets	(258,772)	(1,155,350)
Total Change in Net Assets	\$ (812,636)	\$ (1,699,214)

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 2016, revenue for the office came from the following sources:

High Schools and Special Education Schools	52%
Distribution from Sullivan Trust	17%
Donations	14%
Program Revenue	13%
Archdiocesan Educational Fund	5%
Other	2%
Change in Beneficial Trust (Sullivan)	(3%)

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, 2016 include \$6,423,059 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 \$31,014,439 (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.