

Financial Statements and Report of
Independent Certified Public Accountants

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

June 30, 2016 and 2015

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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, 2016 and 2015, 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, 2016 and 2015, 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 20, 2017

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

STATEMENTS OF FINANCIAL POSITION

June 30,

	2016	2015
ASSETS		
Cash and cash equivalents	\$ 26,764,737	\$ 29,526,799
Pledges receivable, net of allowance for doubtful accounts of \$31,237,502 and \$31,343,619 at June 30, 2016 and 2015, respectively	3,614,358	5,389,159
Investments	20,001,141	20,508,155
 Total assets	 \$ 50,380,236	 \$ 55,424,113
 LIABILITIES AND NET ASSETS		
Liabilities		
Accrued expenses and other payables	\$ 22,095	\$ 35,105
Due to Archdiocesan entities	23,944	23,944
Due to Archdiocesan parishes	7,014,007	8,791,354
 Total liabilities	 7,060,046	 8,850,403
 Net assets		
Temporarily restricted	43,320,190	46,573,710
 Total net assets	 43,320,190	 46,573,710
 Total liabilities and net assets	 \$ 50,380,236	 \$ 55,424,113

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,

	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues, gains, and other support						
Contributions	\$ -	\$ 119,595	\$ 119,595	\$ -	\$ 257,265	\$ 257,265
Change in present value discount	-	487,123	487,123	-	255,531	255,531
Interest and dividend income	-	414,438	414,438	-	409,596	409,596
Net realized and unrealized loss on investments	-	(475,539)	(475,539)	-	(69,570)	(69,570)
Net assets released from restrictions	<u>3,799,137</u>	<u>(3,799,137)</u>	<u>-</u>	<u>9,514,672</u>	<u>(9,514,672)</u>	<u>-</u>
Total revenues, gains, and other support	<u>3,799,137</u>	<u>(3,253,520)</u>	<u>545,617</u>	<u>9,514,672</u>	<u>(8,661,850)</u>	<u>852,822</u>
Expenses						
Bad debt expense	704,667	-	704,667	255,531	-	255,531
Disbursements to campaign beneficiaries	2,790,575	-	2,790,575	8,707,076	-	8,707,076
Support office expenses	<u>303,895</u>	<u>-</u>	<u>303,895</u>	<u>552,065</u>	<u>-</u>	<u>552,065</u>
Total expenses	<u>3,799,137</u>	<u>-</u>	<u>3,799,137</u>	<u>9,514,672</u>	<u>-</u>	<u>9,514,672</u>
Change in net assets	-	(3,253,520)	(3,253,520)	-	(8,661,850)	(8,661,850)
Net assets at beginning 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>
Net assets at end of year	<u>\$ -</u>	<u>\$ 43,320,190</u>	<u>\$ 43,320,190</u>	<u>\$ -</u>	<u>\$ 46,573,710</u>	<u>\$ 46,573,710</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>2016</u>	<u>2015</u>
Cash flows from operating activities		
Change in net assets	\$ (3,253,520)	\$ (8,661,850)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Bad debt expense	704,667	255,531
Net realized and unrealized loss on investments	475,539	69,570
Change in (due to)/from Archdiocesan parishes and entities	(1,777,347)	5,384
Change in pledges receivable	1,070,134	5,753,510
Change in accrued expenses and other payables	<u>(12,255)</u>	<u>(26,711)</u>
Net cash used in operating activities	<u>(2,792,782)</u>	<u>(2,604,566)</u>
Cash flows from investing activities		
Purchase of investments	(5,925,204)	(11,081,185)
Proceeds from the sale of investments	<u>5,955,924</u>	<u>10,252,513</u>
Net cash provided by (used in) investing activities	<u>30,720</u>	<u>(828,672)</u>
Net decrease in cash	(2,762,062)	(3,433,238)
Cash and cash equivalents		
Beginning of year	<u>29,526,799</u>	<u>32,960,037</u>
End of year	<u>\$ 26,764,737</u>	<u>\$ 29,526,799</u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

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, 2016 and 2015

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, 2016, 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, 2016 and 2015. 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, 2016 and 2015

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 unrealized gains (losses).

7. Charitable Gift Annuities Payable

HOF~VOH enters into charitable gift annuity arrangements, whereby the assets are included in the investments in the Catholic Values Funds described above at June 30, 2016 and 2015. 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, 2016 and 2015, was \$11,651 and \$11,897, 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.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016 and 2015

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, 2013.

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, 2016 and 2015 are detailed as follows:

	2016	2015
Mutual Funds - U.S. Bank	\$ 19,977,785	\$ 20,483,532
Mutual Funds - SEI Catholic Values Funds	23,356	24,623
Total investments	\$ 20,001,141	\$ 20,508,155

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).

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016 and 2015

NOTE D - FAIR VALUE MEASUREMENTS - Continued

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 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.

The following tables present the fair values of the investments held by HOF~VOH by level within the fair value hierarchy, as of June 30, 2016 and 2015:

	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, 2016</u>				
Assets				
Investments:				
Mutual Funds - U.S. Bank	\$ 19,977,785	\$ -	\$ -	\$ 19,977,785
Mutual Funds - SEI Catholic Values Funds	<u>23,356</u>	<u>-</u>	<u>-</u>	<u>23,356</u>
Total of assets at June 30, 2016	<u>\$ 20,001,141</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,001,141</u>

(Continued)

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016 and 2015

NOTE D - FAIR VALUE MEASUREMENTS - Continued

	Quoted prices in active markets <u>(Level 1)</u>	Significant other observable inputs <u>(Level 2)</u>	Significant inputs supported by little or no market activity <u>(Level 3)</u>	Total fair value <u> </u>
<u>June 30, 2015</u>				
Assets				
Investments:				
Mutual Funds - U.S. Bank	\$ 20,483,532	\$ -	\$ -	\$ 20,483,532
Mutual Funds - SEI Catholic Values Funds	<u>24,623</u>	<u>-</u>	<u>-</u>	<u>24,623</u>
Total of assets at June 30, 2015	<u>\$ 20,508,155</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,508,155</u>

NOTE E - PLEDGES RECEIVABLE

A summary of gross pledges receivable as of June 30, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Pledges receivable expected to be collected in:		
Less than one year	\$ 1,020,576	\$ 3,407,956
One year to five years	<u>33,831,284</u>	<u>33,324,822</u>
Pledges receivable, end of year	<u>\$ 34,851,860</u>	<u>\$ 36,732,778</u>

Pledge activity for 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Pledges receivable, beginning of year	\$ 36,732,778	\$ 43,958,382
New pledges	119,595	62,095
Collections	(1,676,852)	(6,071,136)
Write-offs	<u>(323,661)</u>	<u>(1,216,563)</u>
Pledges receivable, end of year	34,851,860	36,732,778
Less allowance for doubtful accounts	<u>(31,237,502)</u>	<u>(31,343,619)</u>
Net pledges receivable balance, end of year	<u>\$ 3,614,358</u>	<u>\$ 5,389,159</u>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016 and 2015

NOTE F - RELATED PARTY TRANSACTIONS

During the fiscal years ended June 30, 2016 and 2015, \$2,790,575 and \$8,707,076, respectively, was disbursed from the HOF~VOH cash account with approval of 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 \$125,325 and \$278,500 plus expenses of \$178,570 and \$273,565 for the years ended June 30, 2016 and 2015, 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, 2016 and through February 20, 2017, 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.