

Office of Catholic Education

Narrative Explaining Audited Financial Statements for the Year Ended June 30, 2018.

This narrative accompanies the audited financial statements for the year ended June 30, 2018 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, 2018 (Fiscal 2018) and year ended June 30, 2017 (Fiscal 2017).

High Schools

The High Schools financial statements report the overall financial position and results for the operations of the high schools, which educated 12,382 students in Fiscal 2018 and 12,947 students in Fiscal 2017. 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 30 and 31 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.

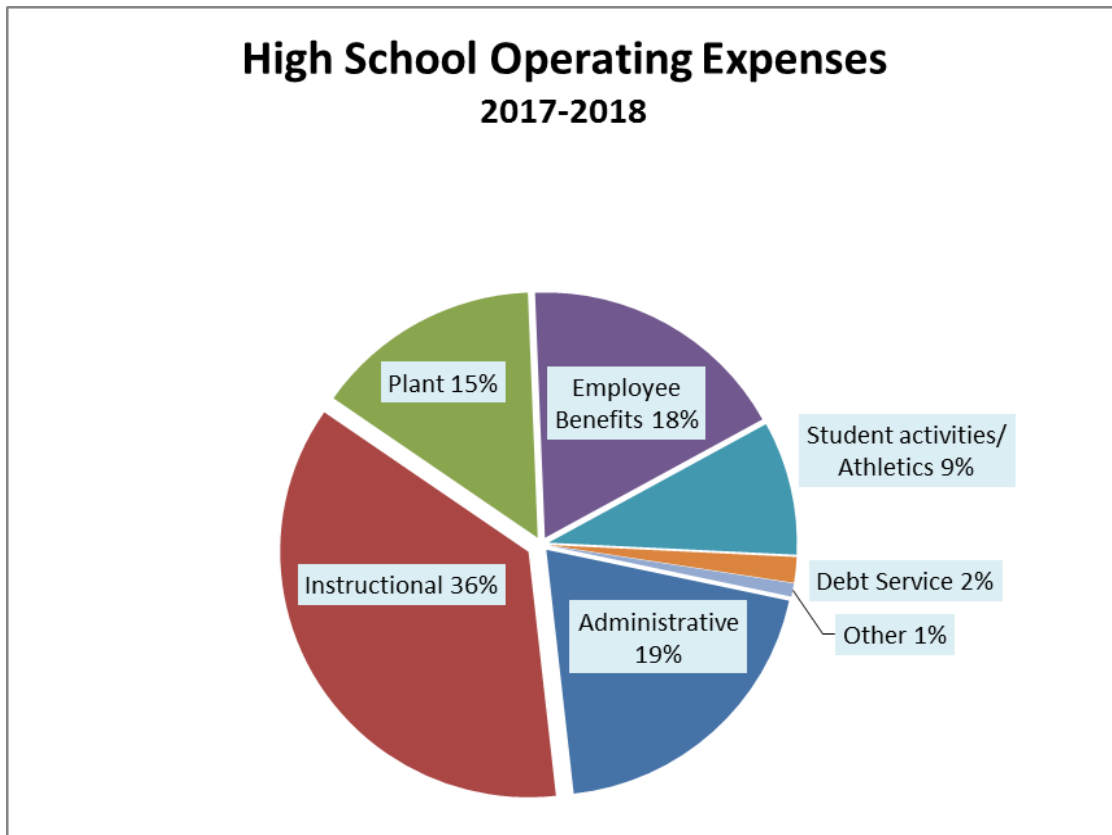
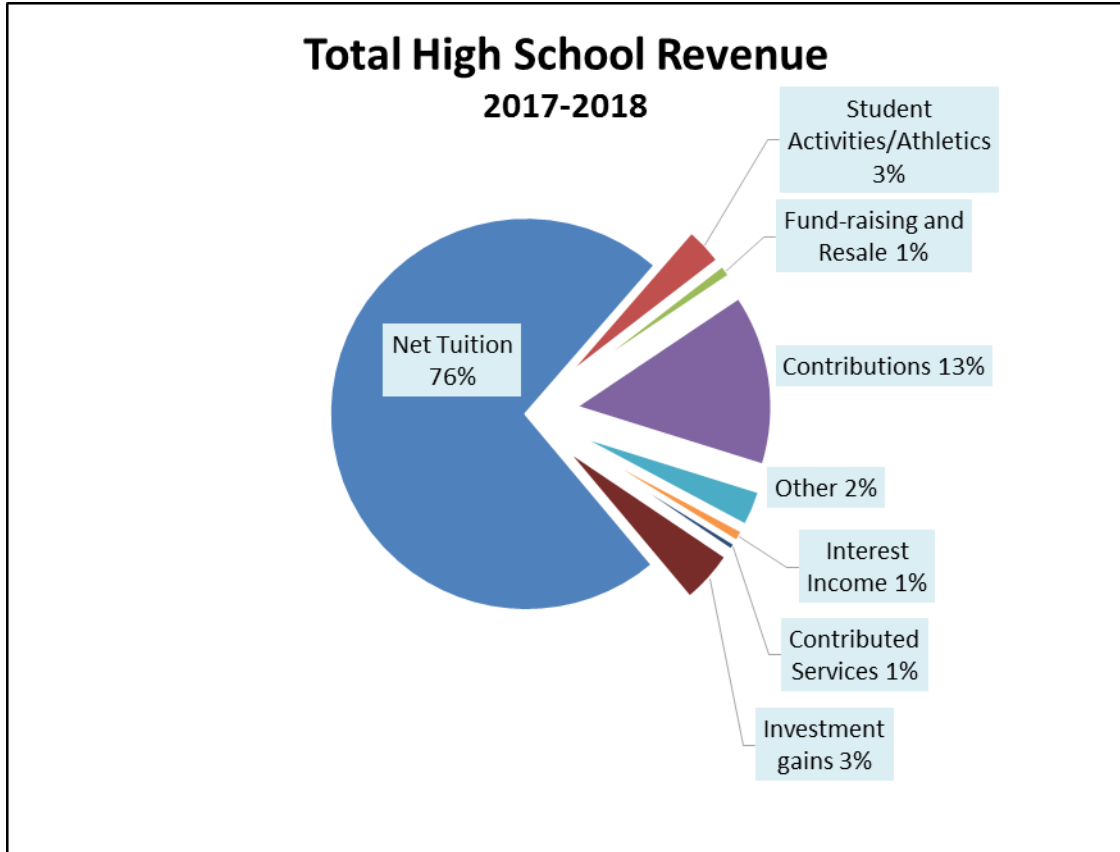
As shown in the table below, there was a total change in net assets of \$12,708,796 for Fiscal 2018, which is a decrease from the change in net assets of \$16,895,431 in Fiscal 2017. The net amount of \$4,647,929 was designated in Fiscal 2018 to address future needs in technology, academics, and other operational areas.



Figure 1. John W. Hallahan High School was granted permission in the mid-1930s to have Mickey Mouse, a registered Disney character, as a mascot.

	Fiscal 2018	Fiscal 2017
Change in Unrestricted Net Assets	\$ 159,488	\$ 2,345,436
Change in Designated Net Assets	1,451,404	2,813,053
Change in Temporarily Restricted Net Assets	10,914,808	7,824,123
Change in Permanently Restricted Net Assets	183,096	3,912,819
Total Change in Net Assets	\$ 12,708,796	\$ 16,895,431

In Fiscal 2018, tuition and fee revenue accounted for 76% of the revenue generating \$103.6 million. Donations generated another \$17.6 million or 13%. 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 2018, High School operating expenses totaled \$128 million, thus the average total cost per student, including the cost of extracurricular activities, was \$10,366, an increase of \$625 from Fiscal 2017. Actual tuition and fee charges were lower since other sources of funding supplemented the difference. The High School Operations Account portion of the total expenses, funded primarily through tuition, accounted for 84% of the expenses, while local spending from each school through the Presidents' accounts represented 16% of the expenses. Similar to Fiscal 2017 with the school fee, in Fiscal 2018 additional income from the other fees charged to students were moved to the Operations account along with an equal amount of expenses.

Instructional costs make up the largest expense at 36%, followed by Administrative costs at 19% of total operating expenses and then total benefits at 18% of the total costs.

While unrestricted net assets were \$63.3 million at June 30, 2018, it should be noted that not all of this total was cash available for operations. Property and equipment represented \$110.7 million of total assets and there was long-term debt of \$53.8 million for the construction of new schools. Thus, \$56.9 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. During Fiscal 2018 one school received a \$5 million dollar pledge over ten years to be used for operations and programs within the school. 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 that totaled \$25.9 million at June 30, 2018. The high schools used \$1,698,000 for operations and maintenance from the earnings on this endowment in the Fiscal 2018.

Schools of Special Education

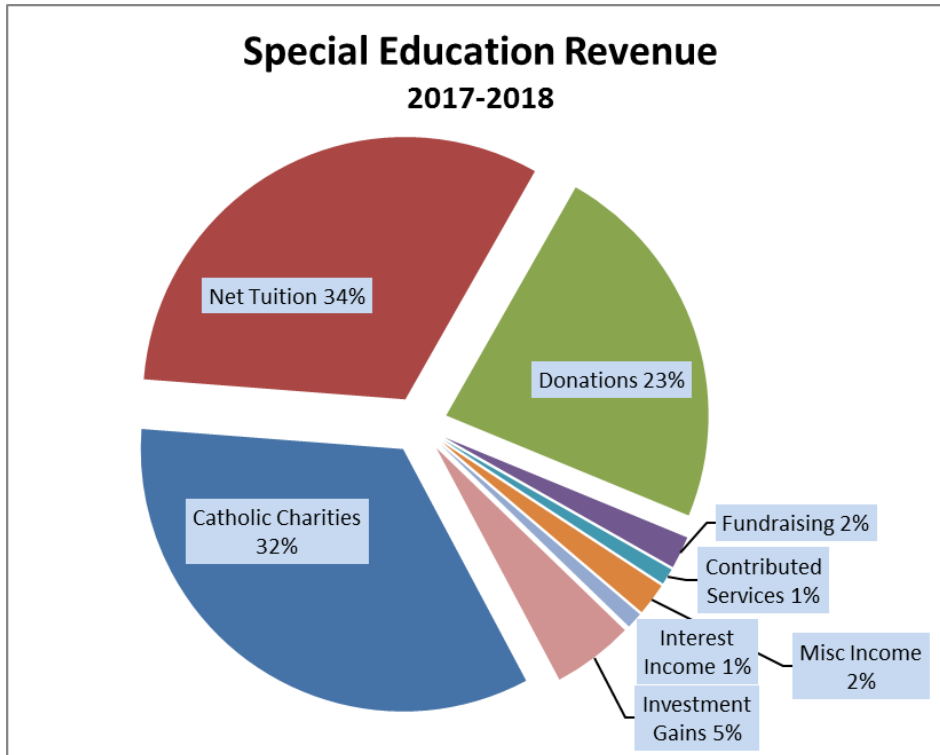
The Schools of Special Education include Archbishop Ryan Academy, St. Lucy Day School, St. Katherine Day School and Our Lady of Confidence Day School. These schools provide a Catholic education to students with autism spectrum disorder and cognitive impairments and students with sensory impairments such 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 2018, the schools enrolled 171 students.



Figure 2: A student at Archbishop Ryan is photographed signing in class.
(Photo by Sr. Lisa Lettiere, IHM)

As shown in the table on the next page, there was a total change in net assets of \$584,945 for Fiscal 2018, vs a total net change of \$397,373 in Fiscal 2017.

	Fiscal 2018	Fiscal 2017
Change in Unrestricted Net Assets	\$ 127,485	\$ 216,443
Change in Designated Net Assets	76,108	76,606
Change in Temporarily Restricted Net Assets	382,388	119,542
Change in Permanently Restricted Net Assets	(1,036)	(15,218)
Total Change in Net Assets	\$ 584,945	\$ 397,373

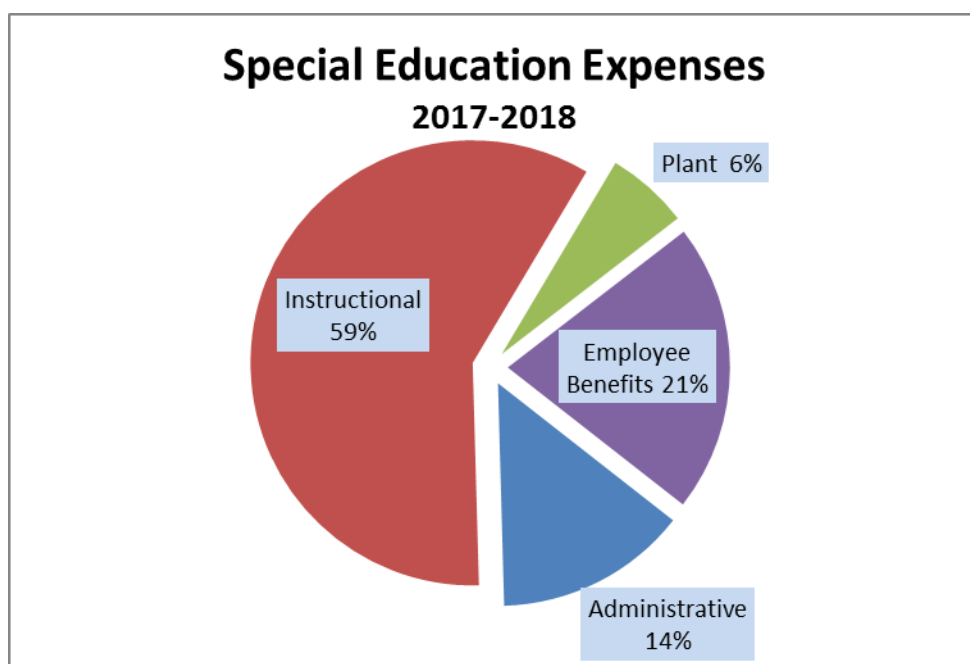


Contributions from Catholic Charities accounted for 32% of revenue, and net tuition accounted for 34% of the revenue for the special education schools. Tuition revenue was \$1,397,964, an increase of \$154,989 from Fiscal 2017. Catholic Charities provided \$1,316,188 in Fiscal 2018, a decrease of \$41,494 from Fiscal 2017. Donations raised by the local schools generated \$958,281 or 23% of total revenue.

Instructional expenses represented the largest portion of expenses at 59%, followed by employee benefits at 21%. The cost per student was \$20,805 in Fiscal 2018. With the support of the Catholic Charities Appeal, tuition charges are well below this cost.

Enrollment for 2017-18 was as follows:

Archbishop Ryan	10
St. Lucy	29
St. Katherine	78
Our Lady of Confidence	<u>54</u>
Total	171



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, instruction and the use of technology in instruction.

In Fiscal 2018, there was a change in net assets of \$447,873 as contrasted with the change in net assets of \$1,829,495 in Fiscal 2017. The value of a beneficial trust held by a third party decreased by \$17,764 in Fiscal 2018. In Fiscal 2017, the increase was \$656,687.

	Fiscal 2018	Fiscal 2017
Change in Unrestricted Net Assets	\$ (91,809)	\$ 500,811
Change in Designated Net Assets	59,486	112,778
Change in Temporarily Restricted Net Assets	406,044	422,847
Change in Permanently Restricted Net Assets	74,152	793,059
Total Change in Net Assets	\$ 447,873	\$ 1,829,495

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 2018, revenue for the office came from the following sources:

High Schools, Special Education Schools and Parishes	60%
Distribution from Sullivan Trust	13%
Program Revenues	11%
Donations	7%
Net Realized Gains on Investments	6%
Other	2%
Archdiocesan Educational Fund	1%

Net assets at June 30, 2018 include \$7,251,950 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 \$31,881,650 (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.