

Combined Financial Statements and Report of
Independent Certified Public Accountants

Archdiocese of Philadelphia
Office of Catholic Education
High Schools

June 30, 2012

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Report of Independent Certified Public Accountants

To the Secretary of Catholic Education
Archdiocese of Philadelphia

We have audited the accompanying combined statement of financial position of the Archdiocese of Philadelphia, Office of Catholic Education High Schools (“High Schools”) as of June 30, 2012 and the related combined statements of activities and changes in net assets and cash flows for the year then ended. These combined financial statements are the responsibility of the High Schools’ management. Our responsibility is to express an opinion on these combined financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the High Schools’ internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall combined financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Archdiocese of Philadelphia, Office of Catholic Education High Schools as of June 30, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

We draw attention to Note A of the combined financial statements, which describes the legal structure of the Office of Catholic Education High Schools within the Archdiocese of Philadelphia. Our opinion is not modified with respect to this matter.

Our audit was conducted for the purpose of forming an opinion on the combined financial statements taken as a whole. The accompanying combining statement of financial position as of June 30, 2012 and related combining statement of activities and changes in net assets for the year then ended are presented for purposes of additional analysis and are not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the combined financial statements, or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

Grant Thornton LLP

Philadelphia, Pennsylvania

July 24, 2013

Archdiocese of Philadelphia, Office of Catholic Education
High Schools

COMBINED STATEMENT OF FINANCIAL POSITION

June 30, 2012

ASSETS

Cash and cash equivalents, including amounts held by affiliate	\$ 27,984,396
Parental tuition and fees receivable, less allowance for doubtful accounts of \$4,992,712	3,904,814
Due from related organizations (Note J)	2,012,517
Pledges receivable, net (Note C)	189,050
Other receivables	1,057,930
Prepaid expenses	1,864,077
Beneficial interest in financially inter-related organization	8,144,286
Investments (Note D)	48,255,170
Property and equipment, net (Note F)	<u>117,730,162</u>
 Total assets	 <u><u>\$211,142,402</u></u>

LIABILITIES AND NET ASSETS

Accounts payable	\$ 2,735,808
Accrued payroll	6,874,309
Accrued non-pension retirement benefits (Note K)	4,253,650
Accrued vacation (Note K)	516,180
Due to related organizations (Note J)	365,370
Deferred revenue	3,783,969
Long-term note payable (Note J)	<u>77,246,124</u>
 Total liabilities	 <u>95,775,410</u>
 Net assets:	
Unrestricted	51,741,454
Temporarily restricted (Note G)	28,311,891
Permanently restricted (Note H)	<u>35,313,647</u>
 Total net assets	 <u>115,366,992</u>
 Total liabilities and net assets	 <u><u>\$211,142,402</u></u>

The accompanying notes are an integral part of this financial statement.

Archdiocese of Philadelphia, Office of Catholic Education
High Schools

COMBINED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended June 30, 2012

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues:				
Tuition and fees funded by:				
Parents and guardians	\$ 93,738,137	\$ -	\$ -	\$ 93,738,137
Third-party organizations	2,729,713	-	-	2,729,713
Tax credit programs	1,191,352	-	-	1,191,352
Office of Catholic Education	386,106	-	-	386,106
Summer School	227,168	-	-	227,168
School and alumni organizations	208,514	-	-	208,514
Total	98,480,990	-	-	98,480,990
Less:				
Tuition reductions	1,171,101	-	-	1,171,101
Net tuition	97,309,889	-	-	97,309,889
Student activities	2,594,050	-	-	2,594,050
Athletics	2,047,233	-	-	2,047,233
Resale items income - net of disbursements	556,342	(3,250)	-	553,092
Contributions and donations	7,103,109	3,519,570	265,600	10,888,279
Other	3,029,659	44,087	-	3,073,746
Fund-raising - net of disbursements	1,150,616	23,439	-	1,174,055
Interest and investment income	303,349	1,140,519	-	1,443,868
Contributed services (Note M)	1,405,490	-	-	1,405,490
Total other operating revenues	18,189,848	4,724,365	265,600	23,179,813
Net realized gains (losses) on investments	4,912	(856,994)	(52,667)	(904,749)
Net change in unrealized losses	(69,312)	(1,139,800)	-	(1,209,112)
Total investment losses	(64,400)	(1,996,794)	(52,667)	(2,113,861)
Net assets released from restriction				
Satisfaction of purpose restrictions - CL2000	984,178	(984,178)	-	-
Satisfaction of purpose restrictions - Heritage of Faith	3,972,842	(3,972,842)	-	-
Satisfaction of purpose restrictions - General	3,801,240	(3,801,240)	-	-
Total revenues	124,193,597	(6,030,689)	212,933	118,375,841
Expenses:				
Administration	17,572,891	-	-	17,572,891
Instruction	48,141,290	-	-	48,141,290
Operations and maintenance of plant	16,172,341	-	-	16,172,341
Employee benefits	22,962,417	-	-	22,962,417
Student activities	3,917,054	-	-	3,917,054
Athletics	6,222,760	-	-	6,222,760
Debt service	2,655,394	-	-	2,655,394
Other	869,986	-	-	869,986
Total expenses	118,514,133	-	-	118,514,133
Change in net assets before other items	5,679,464	(6,030,689)	212,933	(138,292)
Change in financially inter-related organization	-	(394,821)	-	(394,821)
Redesignation of net assets (from) to permanently restricted	-	(71,375)	71,375	-
Transfer to Office for Financial Services for bond principal payment	(1,000,000)	-	-	(1,000,000)
Net transfer from Office for Financial Services for property	(2,510,191)	-	-	(2,510,191)
Change in net assets	2,169,273	(6,496,885)	284,308	(4,043,304)
Net assets				
Beginning of year	49,572,181	34,808,776	35,029,339	119,410,296
End of year	\$ 51,741,454	\$ 28,311,891	\$ 35,313,647	\$ 115,366,992

The accompanying notes are an integral part of this financial statement.

Archdiocese of Philadelphia, Office of Catholic Education
High Schools

COMBINED STATEMENT OF CASH FLOWS

Year ended June 30, 2012

Cash flows from operating activities	
Change in net assets	\$ (4,043,304)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation expense	3,500,761
Bad debt expense	1,236,267
Net unrealized losses on investments	1,209,112
Net realized losses on investments	904,749
Change in financially inter-related organization	394,821
Net transfer from Office for Financial Services for property	2,510,191
Changes in assets and liabilities	
Parental tuition and fees receivable	(1,803,946)
Due from related organizations	(1,443,045)
Pledges receivable, net	478,619
Other receivables	(699,677)
Prepaid expenses	1,556,636
Accounts payable	(941,211)
Accrued payroll	(654,226)
Accrued non-pension retirement benefits	76,535
Accrued vacation	(128,338)
Due to related organizations	(517,515)
Deferred revenue	787,269
	<u>2,423,698</u>
Net cash provided by operating activities	
Cash flows from investing activities	
Purchase of property and equipment	(3,094,419)
Purchase of investments	(1,265,927)
Proceeds from sale of investments	<u>2,650,595</u>
	<u>(1,709,751)</u>
Net cash used in investing activities	
Cash flows from financing activities	
Repayments of long-term note payable	<u>(3,577,929)</u>
	<u>(3,577,929)</u>
Net cash used in financing activities	
Net decrease in cash and cash equivalents	(2,863,982)
Cash and cash equivalents	
Beginning of year	<u>30,848,378</u>
End of year	<u>\$ 27,984,396</u>

The accompanying notes are an integral part of this financial statement.

NOTES TO COMBINED FINANCIAL STATEMENTS

June 30, 2012

NOTE A - NATURE OF OPERATIONS

The accompanying combined financial statements of the Office of Catholic Education High Schools ("High Schools") include the funds generated from and designated for the operations and maintenance of the seventeen (17) high schools owned by the Archdiocese of Philadelphia, Office of Catholic Education. These combined financial statements consolidate the centrally managed High School Operations Account and the individual Presidents' accounts maintained by each school. They exclude certain entities of the Archdiocese of Philadelphia, which relate to the high schools, but are considered separate reporting entities. These entities are as follows:

- Schools of Special Education ("SPED")
- Office of Catholic Education ("OCE") Administration Account
- Office for Financial Services
- Trustee Account of the Archdiocese of Philadelphia for Estates and Trusts
- Catholic Cemeteries Office
- Catholic Health Care Services
- Catholic Social Services

The High Schools are considered to be a component of the Archdiocese of Philadelphia and not a separate legal entity.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Basis of Presentation

The accompanying combined financial statements have been prepared on the accrual basis. Net assets and revenues, expenses, gains and losses are classified into categories, based on the existence or absence of donor-imposed restrictions. The categories are unrestricted, temporarily restricted and permanently restricted net assets.

Temporarily restricted net assets include gifts, trusts, income and gains which have either a time or use restriction but which may ultimately be expended. Since endowment investment income and net realized and unrealized gains and losses may eventually be spent, such earnings are recorded in the combined financial statements as temporarily restricted net assets, unless donor restricted for the corpus, until transferred to unrestricted net assets.

Permanently restricted net assets include the historical dollar amounts of gifts, which require by donor restriction that the corpus be invested in perpetuity and only the investment income be made available for operations in accordance with donor restrictions. Investment income and net realized and unrealized gains and losses, if permanently restricted by the donor, are included in permanently restricted net assets.

Unrestricted net assets are free from donor-imposed restrictions and are all the remaining net assets of the High Schools.

(Continued)

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

2. Revenue Recognition

Tuition and other school fees collected for the upcoming school year are included in deferred revenue and recognized as revenue over the applicable school year. Registration fees and re-registration fees are recognized upon registration or re-registration since these fees are non-refundable.

Cash contributions and fundraising revenues are recorded as revenue when received. Unconditional promises to give are recorded at their fair value when management is notified of these gifts. Conditional promises to give are recognized when the conditions are substantially met. Donor restricted gifts which are received and expended within the same year are reported as unrestricted revenues. Gifts specified for the acquisition or construction of long-lived assets are reported as unrestricted net assets when the assets are placed in service.

Gifts of cash and other assets are recorded as restricted support if they are received with donor stipulations that limit the use of donated assets. When a donor restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statement of activities and changes in net assets as net assets released from restriction.

Contributed services is recorded as the value of services performed by members of religious communities, based on lay equivalent salaries of personnel performing similar duties less the stipend and benefit payments and faculty residence expenses paid for religious personnel. The value of contributed services is included as revenue and, correspondingly, charged as expense.

3. Uses of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make significant estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

4. Cash and Cash Equivalents, Including Amounts Held by Affiliate

Cash and cash equivalents represent demand deposits and other investments with an original maturity date of three months or less. The carrying amount approximates fair value.

5. Allowances for Doubtful Accounts

The allowance for doubtful accounts is provided based upon management's judgment, including such factors as prior collection history and the length of time a receivable is past due. The High Schools write off receivables when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts.

(Continued)

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

6. Beneficial Interest in Financially Inter-related Organization

Beneficial interest in financially inter-related organization includes the net assets of the Trustees of Roman Catholic High School, a separate corporation identified as a financially inter-related organization to the High Schools.

7. Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value, with gains and losses included in the combined statement of activities and changes in net assets. The fair value of certain alternative investments is estimated using the net asset value ("NAV") per share.

Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility risks. Due to the level of risks associated with certain investment securities, it is reasonably possible that changes in the value of investments could occur in the near term and that such changes could materially affect the amounts reported in the accompanying combined statement of financial position.

8. Property and Equipment

Property and equipment are stated at cost, while donated assets are stated at fair market value on the date of donation. Depreciation has been provided by the straight-line method over the estimated useful lives of the related assets as follows:

Land improvements	10-20 years
Building (new construction)	20-40 years
Building improvements	5-20 years
Leasehold improvements	5-20 years
Furniture and fixtures	5-20 years
Vehicles	10 years

Roman Catholic High School's property and equipment are owned by the Trustees of Roman Catholic High School. Building and land improvements and purchases of furniture and fixtures for this facility are recorded as leasehold improvements.

9. Functional Expenses

All expenses relate to the operation and maintenance of the High Schools.

(Continued)

Archdiocese of Philadelphia, Office of Catholic Education
High Schools

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

10. Concentrations of Credit Risk

Financial instruments which potentially subject the institution to concentration of credit risk consist principally of temporary cash investments and parental receivables. Management places its temporary cash investments with high credit quality financial institutions. Concentration of credit risk with respect to parental receivables is limited due to the large number of parents; however, management evaluates each of these credit risks and establishes an appropriate allowance for doubtful accounts.

NOTE C - PLEDGES RECEIVABLE, NET

A summary of pledges receivable is as follows at June 30, 2012:

Less than one year	\$ 299,725
One year to five years	<u>183,850</u>
	483,575
Less: allowance for doubtful accounts	(282,425)
Less: discount	<u>(12,100)</u>
	<u>\$ 189,050</u>

The discount rate used was 2%.

NOTE D - INVESTMENTS

At June 30, 2012, the High Schools' investments were summarized and classified as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Archdiocese of Philadelphia				
Non-Pension Assets Portfolio	\$ (6,129)	\$ 13,547,262	\$ 32,633,435	\$ 46,174,568
Money market funds	34,097	113,834	2,789	150,720
Mutual funds	1,030,084	379,426	179,817	1,589,327
Common stocks	57,612	99,197	-	156,809
Municipal securities	-	70,496	82,753	153,249
Treasury securities	<u>-</u>	<u>30,497</u>	<u>-</u>	<u>30,497</u>
	<u>\$ 1,115,664</u>	<u>\$ 14,240,712</u>	<u>\$ 32,898,794</u>	<u>\$ 48,255,170</u>

(Continued)

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE D - INVESTMENTS - Continued

For administrative and other needs, the Archdiocese of Philadelphia has formed the Archdiocese of Philadelphia Non-Pension Assets Portfolio (the "NPAP") to pool together certain investments in order to more efficiently manage the investments of various entities and related organizations with the Archdiocese of Philadelphia. The investments in the NPAP are held by a custodian and are 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.

The NPAP is unitized on a periodic basis to allow for the investment, at unit value, by entities in the NPAP. The High Schools' investment in the NPAP is stated at unit value.

The Investment Committee of the Archdiocese of Philadelphia has primary responsibility for determining the allocation of amounts to be invested among the funds. Management is responsible for ensuring that investment allocations among the funds are maintained as determined by the Investment Committee of the Archdiocese of Philadelphia.

NOTE E - FAIR VALUE MEASUREMENTS

Accounting Standards Codification ("ASC") 820, *Fair Value Measurements and Disclosures*, 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 COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE E - 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 the High Schools believes their 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 NAV per share. These investments are classified as either Level 2, if the High Schools' investment can be redeemed at the reporting date or within the near term, or Level 3, if their investment is not redeemable at the NAV per share at or near the combined statement of financial position date.

Fair value measurements of investments in equities that calculate NAV per share or its equivalent as of June 30, 2012 are as follows:

	<u>Fair value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Archdiocese NPAP (a)	\$ 46,174,568	\$ -	daily	1 day

- (a) A pooled investment portfolio comprised of equity and fixed income securities. The primary objective of the NPAP is preservation of capital while reducing, to the greatest extent possible, the possibility of loss. The investment strategy and long-term asset allocation for the NPAP takes 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 is equal to the Consumer Price Index ("CPI") plus three percent (3%) on an annualized basis. The fair value is estimated using the NAV per share of the investments.

(Continued)

Archdiocese of Philadelphia, Office of Catholic Education
High Schools

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE E - FAIR VALUE MEASUREMENTS - Continued

The following table represents the fair value of the investment held by the High Schools by level within the fair value hierarchy as of June 30, 2012:

	Quoted prices in active markets <u>(Level 1)</u>	Significant other observable inputs <u>(Level 2)</u>	Significant unobservable inputs <u>(Level 3)</u>	Total fair value <u> </u>
Assets				
Investments:				
Archdiocese NPAP	\$ -	\$ 46,174,568	\$ -	\$ 46,174,568
Money market funds	150,720	-	-	150,720
Mutual funds	1,589,327	-	-	1,589,327
Common stocks	156,809	-	-	156,809
Municipal securities	153,249	-	-	153,249
Treasury securities	<u>30,497</u>	<u>-</u>	<u>-</u>	<u>30,497</u>
Total of assets at June 30, 2012	<u>\$ 2,080,602</u>	<u>\$ 46,174,568</u>	<u>\$ -</u>	<u>\$ 48,255,170</u>

NOTE F - PROPERTY AND EQUIPMENT, NET

Property and equipment and accumulated depreciation at June 30, 2012 consist of:

Land	\$ 6,383,642
Land improvements	12,195,151
Building	83,410,144
Building improvements	34,782,423
Leasehold improvements	5,268,224
Furniture and fixtures	13,664,353
Vehicles	<u>225,256</u>
	155,929,193
Accumulated depreciation	<u>(38,199,031)</u>
Property and equipment, net	<u>\$ 117,730,162</u>

Depreciation expense was \$3,500,761 for the year ended June 30, 2012.

In June 2012, the Archdiocese of Philadelphia Office for Financial Services ("OFS") transferred all assets and debt related to the construction of Bishop Shanahan and Pope John Paul II high schools to the High Schools.