

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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Grant Thornton

Report of Independent Certified Public Accountants

To the Secretary of Catholic Education
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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 | <u>98,480,990</u> | <u>-</u> | <u>-</u> | <u>98,480,990</u> |
| Less: | | | | |
| Tuition reductions | 1,171,101 | - | - | 1,171,101 |
| Net tuition | <u>97,309,889</u> | <u>-</u> | <u>-</u> | <u>97,309,889</u> |
| 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 | <u>18,189,848</u> | <u>4,724,365</u> | <u>265,600</u> | <u>23,179,813</u> |
| 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 | <u>(64,400)</u> | <u>(1,996,794)</u> | <u>(52,667)</u> | <u>(2,113,861)</u> |
| 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 | <u>124,193,597</u> | <u>(6,030,689)</u> | <u>212,933</u> | <u>118,375,841</u> |
| 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 | <u>118,514,133</u> | <u>-</u> | <u>-</u> | <u>118,514,133</u> |
| 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 | <u>(2,510,191)</u> | <u>-</u> | <u>-</u> | <u>(2,510,191)</u> |
| Change in net assets | 2,169,273 | (6,496,885) | 284,308 | (4,043,304) |
| Net assets | | | | |
| Beginning of year | <u>49,572,181</u> | <u>34,808,776</u> | <u>35,029,339</u> | <u>119,410,296</u> |
| End of year | <u>\$ 51,741,454</u> | <u>\$ 28,311,891</u> | <u>\$ 35,313,647</u> | <u>\$ 115,366,992</u> |

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 | 2,650,595 |
| | <u>(1,709,751)</u> |
| Net cash used in investing activities | |
| Cash flows from financing activities | |
| Repayments of long-term note payable | (3,577,929) |
| | <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 (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total fair value |
|----------------------------------|----------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|----------------------|
| 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.

Archdiocese of Philadelphia, Office of Catholic Education
High Schools

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE G - TEMPORARILY RESTRICTED NET ASSETS

At June 30, 2012, temporarily restricted net assets are available for the following purposes:

| | |
|--------------------------------------------------------------------------------|----------------------|
| Tuition assistance for all schools | \$ 4,938,134 |
| Tuition assistance for specific schools | 5,314,390 |
| Property, plant and equipment for Roman Catholic High School, held by Trustees | 6,820,879 |
| Operations and improvements for all schools | 1,106,625 |
| Operations and improvements for specific schools | 382,344 |
| Accumulated earnings in excess of spending of endowments | |
| Tuition assistance for all schools | 960,053 |
| Tuition assistance for specific schools | 107,429 |
| Operations for Roman Catholic High School, held by Trustees | 20,147 |
| Operations and improvements for all schools | 8,658,922 |
| Other for specific schools | <u>2,968</u> |
| Total | <u>\$ 28,311,891</u> |

NOTE H - PERMANENTLY RESTRICTED NET ASSETS

At June 30, 2012, income from permanently restricted net assets is available for the following purposes:

| | |
|-------------------------------------------------------------|----------------------|
| Tuition assistance for all schools | \$ 6,416,788 |
| Tuition assistance for specific schools | 1,633,806 |
| Operations for Roman Catholic High School, held by Trustees | 1,303,260 |
| Operations and improvements for all schools | 25,931,693 |
| Other for specific schools | <u>28,100</u> |
| Total | <u>\$ 35,313,647</u> |

NOTE I - ENDOWMENTS

The High Schools' endowments consist of donor-restricted endowment funds established for a variety of purposes. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

For the majority of the endowments, the donor has directed how the earnings are to be used. When documentation does not provide specific direction, the High Schools follow the Commonwealth of Pennsylvania Act 141.

(Continued)

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE I - ENDOWMENTS - Continued

1. Interpretation of Relevant Law

In accordance with Commonwealth of Pennsylvania Act 141, and unless directed otherwise by the donor, the High Schools classify as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment; (b) the original value of subsequent gifts to the permanent endowment; and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor-gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the High Schools in a manner consistent with the standard of prudence prescribed by relevant law. The High Schools do not release any portion of the permanently restricted funds. Pennsylvania law permits the Archdiocese of Philadelphia to release a percentage, which is elected annually, of the market value of its endowment funds into unrestricted income. The spending rate percentage, between 2% and 7%, is applied to the three-year average of the market value of the endowment funds' assets.

2. Return Objectives and Risk Parameters

The High Schools have adopted investment policies established by the Archdiocese of Philadelphia's Investment Committee and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by their endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity. Under this policy, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of plus-3% over the consumer price index while assuming a moderate level of investment risk. The High Schools expect their endowment funds, over time, to provide an average rate of return of approximately 5% annually. Actual returns in any given year may vary from that amount.

3. Spending Policy

In accordance with state law, net realized and unrealized gains on permanently restricted investments are included as temporarily restricted net assets, unless subject to donor restrictions for the corpus. Commonwealth of Pennsylvania law permits the High Schools to adopt a spending policy for endowment earnings, subject to certain limitations. The High Schools follow the total return concept of endowment investment and spending. Under this concept, a prudent amount of appreciation earned on the investments may be spent in the event that the interest and dividends earned are insufficient to meet that period's spending rate. The Archdiocese of Philadelphia's spending policy for the year ended June 30, 2012 allowed for a 3% draw of the three-year average market value of the permanently restricted endowments, unless directed otherwise by the donor.

4. Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the original gift amount maintained as permanently restricted net assets. As of June 30, 2012, there were no deficiencies of this nature.

(Continued)

Archdiocese of Philadelphia, Office of Catholic Education
High Schools

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE I - ENDOWMENTS - Continued

As of June 30, 2012, \$35,313,647 in donor-restricted endowment funds were recorded within permanently restricted net assets.

The High Schools had the following endowment activities during the year ended June 30, 2012, delineated by net asset class. All endowment activities were donor-restricted:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--------------------------------------------------------------|---------------------|-----------------------------------|-----------------------------------|----------------------|
| Endowment net assets, beginning of year | \$ - | \$ 11,950,232 | \$ 35,029,339 | \$ 46,979,571 |
| Investment income | - | 924,544 | - | 924,544 |
| Net depreciation (realized and unrealized losses) | <u>-</u> | <u>(1,818,543)</u> | <u>(52,667)</u> | <u>(1,871,210)</u> |
| Total investment return | - | (893,999) | (52,667) | (946,666) |
| Contributions | - | 17,520 | 265,600 | 283,120 |
| Distributions | - | (1,123,776) | - | (1,123,776) |
| Change in financially inter-related organization | - | (57,708) | - | (57,708) |
| Redesignation of net assets (from) to permanently restricted | <u>-</u> | <u>(71,375)</u> | <u>71,375</u> | <u>-</u> |
| Endowment net assets, June 30, 2012 | <u>\$ -</u> | <u>\$ 2,820,894</u> | <u>\$ 35,313,647</u> | <u>\$ 45,134,541</u> |

NOTE J - RELATED PARTY TRANSACTIONS

As of June 30, 2012, amounts due from related organizations consisted of the following:

| | |
|-------------------------------------------------------|---------------------|
| Office of Catholic Education - Administrative Account | \$ 734 |
| Schools of Special Education | 1,097 |
| Srs. of St. Francis Convent | 3,500 |
| Office for Financial Services | <u>2,007,186</u> |
| | <u>\$ 2,012,517</u> |

As of June 30, 2012, amounts due to related organizations consisted of the following:

| | |
|-------------------------------------------------------|-------------------|
| Office for Financial Services | \$ 120,327 |
| Roman Catholic High School Alumni Association | 234,000 |
| Office of Catholic Education - Administrative Account | <u>11,043</u> |
| | <u>\$ 365,370</u> |

(Continued)

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE J - RELATED PARTY TRANSACTIONS - Continued

Although there exists no formalized repayment terms, these amounts are typically repaid during the subsequent fiscal year.

During the fiscal year ended June 30, 2012, the High Schools entered into transactions with the following related parties:

- Archdiocese of Philadelphia's Property and Liability Insurance Fund provides insurance for the High Schools. Total premiums paid for fiscal 2012 were \$1,732,712.
- \$88,300 was paid in fiscal 2012 to Information Technology Services for support of the computer systems.
- \$1,460,000 was paid in fiscal 2012 to the Office of Catholic Education for administrative costs.
- \$993,500 was paid in fiscal 2012 to Educational Financial Services for administrative costs.
- \$45,000 was paid in fiscal 2012 to the Office for Financial Services for administrative costs associated with property services and legal services.

Term Loans

On June 1, 2012, the Archdiocese of Philadelphia and related entities entered into several Term Loan Agreements with participating Archdiocesan entities to retire outstanding debt obligations. These obligations include the Variable Rate Revenue Bonds Series of 2008 issued through the Montgomery County Industrial Development Authority totaling \$47,007,923; the Variable Rate Revenue Bonds Series of 2001 issued through the Chester County Industrial Development Authority totaling \$50,708,547; and the various interest rate swap transactions associated with these debts totaling \$15,750,000. The transaction resulted in the Term Loan Receivables and Term Loans Payables totaling \$99,849,811 at participating Archdiocesan entities. In addition, the outstanding debt at Catholic Social Services, St. Gabriel's System of \$5,884,446 and St. Francis Home for Boys of \$7,732,214 were retired.

All of the Variable Rate Revenue Bonds Series of 2008 of \$47,007,923 was related to the construction of Pope John Paul II High School, while \$23,917,098 of the \$50,708,547 Variable Rate Revenue Bonds Series of 2001 was related to the construction of Bishop Shanahan High School.

During 2012, the High Schools transferred \$1,000,000 to OFS to make a payment on the bond principal.

Notes Payable due Archdiocese of Philadelphia

On June 1, 2012, OCE entered into two term loan agreements with OFS. The First Term Note totaled \$3,000,000, and the Second Term Note totaled \$3,466,471. Additionally, OCE entered into a \$3,000,000 loan with the Archdiocese of Philadelphia Catholic Cemeteries Office ("CCO"). The loans carry a fixed interest rate of 4% and are amortized over 30 years maturing on June 1, 2015. The Second Term Note with OFS of \$3,466,471 was retired by OCE on June 30, 2012.

(Continued)

Archdiocese of Philadelphia, Office of Catholic Education
High Schools

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE J - RELATED PARTY TRANSACTIONS - Continued

The principal payments relating to these notes receivable are as follows:

| | <u>OFS - First Term Note</u> | <u>CCO - First Term Note</u> |
|-------------------------|----------------------------------|----------------------------------|
| Fiscal year ending 2013 | \$ 39,647 | \$ 39,647 |
| Fiscal year ending 2014 | 54,738 | 54,738 |
| Fiscal year ending 2015 | 56,961 | 56,961 |
| Remaining payments | <u>2,844,332</u> | <u>2,844,332</u> |
| Total - notes payable | <u>\$ 2,995,678</u> | <u>\$ 2,995,678</u> |

Notes Payable due Catholic Health Care Services ("CHCS") as Administrative Agent

On June 1, 2012, on behalf of the OCE, the Archdiocese of Philadelphia entered into a Term Loan Credit Agreement ("Term Loan") with CHCS as Administrative Agent for the following Archdiocesan entities:

Lender

| | |
|------------------------------------------------------------------------------------------------------------|----------------------|
| Catholic Health Care Services of the Archdiocese of Philadelphia | \$ 48,713,240 |
| Catholic Charities of the Archdiocese of Philadelphia a/k/a Catholic Social Services | 2,868,194 |
| St. John's Orphan Asylum, a/k/a St. Francis Homes for Boys d/b/a St. Francis-St. Joseph Homes for Children | 6,823,192 |
| Don Guanella Village of the Archdiocese of Philadelphia | 3,328,206 |
| St. Edmond's Home for Crippled Children a/k/a St. Edmond's Home for Children a/k/a St. Edmond's Home | 7,212,174 |
| Divine Providence Village | <u>2,412,576</u> |
| Total notes payable | <u>\$ 71,357,582</u> |

The loans are collateralized by a first priority mortgage encumbering high school properties. In addition, the Archdiocese of Philadelphia pledges the High School Revenue associated with these specific schools. The loans carry a fixed interest rate of 4% amortized over 30 years maturing on June 1, 2015.

The principal payments relating to these notes payable are as follows:

| | |
|-------------------------|----------------------|
| Fiscal year ending 2013 | \$ 943,047 |
| Fiscal year ending 2014 | 1,301,995 |
| Fiscal year ending 2015 | 1,354,861 |
| Remaining payments | <u>67,654,865</u> |
| Total notes payable | <u>\$ 71,254,768</u> |

(Continued)

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE J - RELATED PARTY TRANSACTIONS - Continued

The outstanding debt obligations at June 30, 2012 are as follows:

| | |
|------------------------------------------------------|----------------------|
| Office for Financial Services | \$ 2,995,678 |
| Catholic Cemeteries Office | 2,995,678 |
| Catholic Healthcare Services as Administrative Agent | <u>71,254,768</u> |
| Total notes payable | <u>\$ 77,246,124</u> |

Performance Agreements

In an effort to apportion responsibility for the operating costs of the individual high schools, the Office of Catholic Education maintains Performance Agreements with certain diocesan high schools. The Performance Agreements require the schools to reimburse the High School Operations Account for operations deficits incurred by the school. The High School Operations Account records a receivable for these deficits and reduces this receivable when a school remits payment from its Presidents account or if a school has a subsequent operations account surplus. The balance of Performance Agreements receivable as of June 30, 2012 was \$7,398,208, which is fully reserved by the High School Operations Account. During 2012, \$931,772 was reimbursed to OCE by eight of the High Schools, and the net change in amounts due OCE was \$851,970. This transfer of funds is eliminated in the High Schools' combined financial statements.

NOTE K - EMPLOYEE BENEFITS

1. Vacation

All full-time lay office and maintenance employees, upon completion of one full year of service, are eligible for paid vacations. The policy provides for compensated absences at varying amounts based on years of service.

2. Pension Plan

The eligible lay employees of the High Schools are covered under the Archdiocese of Philadelphia Lay Employees' Retirement Plan (the "Plan"), which is a defined benefit pension plan that covers substantially all lay employees, once age and service requirements are met, of the Archdiocese of Philadelphia, its institutions and parishes. The Plan is administered by the Trustees of the Lay Employees' Retirement Plan. The High Schools made annual contributions to the Plan at an average rate of 5.0% of the salaries of the eligible teachers and non-teachers for the year ended June 30, 2012. The contributions of the High Schools totaled \$2,615,798 for the year ended June 30, 2012. The expense of such contributions is included in employee benefits. Separate accounts for vested benefits and pension fund assets are not maintained for each institution.

3. Non-pension Retirement Benefits

Lay teachers are provided postretirement benefits if they meet certain conditions. Pursuant to ASC 715, *Compensation-Retirement*, such postretirement benefits are recognized on the accrual basis; that is, over the estimated service life of the employee.

(Continued)

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE K - EMPLOYEE BENEFITS - Continued

In accordance with the agreement between the Association of Catholic Teachers Local Union No. 1776 National Association of Catholic Teachers and the Secondary School System of the Archdiocese of Philadelphia (the "Teachers' Agreement"), a teacher who has twenty-five (25) years of service and who is between the ages of fifty-nine and a half (59.5) and sixty-five (65), and is eligible for and elects to begin receiving an early retirement pension under the terms of the Archdiocese of Philadelphia Lay Employees' Retirement Plan, shall have the option at the time of his/her retirement of having the full cost of the medical insurance premium paid to a maximum of \$10,000 per year, or of receiving \$5,000 per year as a supplement to his/her early retirement pension. A teacher who has twenty-five (25) years of service and who is between the ages of fifty-five (55) and sixty-five (65), and is eligible for and elects to begin receiving a disability retirement pension under the terms of the Archdiocese of Philadelphia Lay Employees' Retirement Plan, shall have the option at the time of his/her retirement of having the full cost of the medical insurance premium paid to a maximum of \$10,000 per year, or of receiving \$5,000 per year as a supplement to his/her early retirement pension. These payments shall cease at the beginning of the month the teacher reaches the normal retirement age as defined by the Lay Employees' Retirement Plan. The teacher shall have the option of changing his/her election of coverage one time during the period in which the teacher retires and subsequently attains the normal retirement age.

In the Teachers' Agreement, each teacher is entitled to twelve (12) sick days with full pay during each school year, which could be accumulated indefinitely prior to August 31, 2012. Beginning September 1, 2012, sick days may only be accumulated up to three hundred (300) days. In the event that a teacher has already accumulated more than three hundred (300) days, the teacher will retain the accumulated sick days but cannot accumulate additional days until all days over three hundred (300) have been used.

Upon retirement, a teacher may redeem all unused sick days up to a maximum of 200 days at the rate of \$50 per day. For teachers hired effective September 1, 1992 through August 31, 1994, the maximum number of unused sick days redeemable upon retirement will be 100. For teachers hired beginning with the 1994-95 school year, the maximum number of unused sick days redeemable upon retirement will be 75.

The Archdiocese of Philadelphia - Office of Catholic Education follows ASC 715-20, which requires that the statement of financial position reflect the funded status of the non-pension retirement benefits. The funded status of the plan is measured as the difference between the plan assets at fair value, if any, and the accumulated postretirement benefit obligation.

Net Periodic Cost

The components of net periodic benefit costs are as follows:

| | | |
|----------------------|----|----------------|
| Service cost | \$ | 47,527 |
| Interest cost | | 187,971 |
| Amortization of | | |
| Net loss | | 288,076 |
| Prior service credit | | <u>(461)</u> |
| | \$ | <u>523,113</u> |

(Continued)

Archdiocese of Philadelphia, Office of Catholic Education
High Schools

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE K - EMPLOYEE BENEFITS - Continued

Obligations and Funded Status

The following shows changes in the benefit obligation, plan assets and funded status:

| | |
|--------------------------------------------------------------|-----------------------|
| Change in benefit obligation | |
| Benefit obligation at beginning of year | \$ 4,177,115 |
| Service cost | 47,527 |
| Interest cost | 187,971 |
| Actual plan participants' contributions | 54,249 |
| Amendments | - |
| Actual loss | 1,012,793 |
| Actual benefit paid | <u>(1,226,005)</u> |
| Benefit obligation at end of year | <u>\$ 4,253,650</u> |
| Change in plan assets | |
| Fair value of plan assets at beginning of year | \$ - |
| Employer contributions | 1,171,756 |
| Plan participants' contributions | 54,249 |
| Benefit payments (expected) | <u>(1,226,005)</u> |
| Fair value of plan assets at end of year | <u>\$ -</u> |
| Funded status | |
| Funded status at June 30, 2012 | <u>\$ (4,253,650)</u> |
| Amounts recognized in unrestricted net assets | |
| Net actuarial loss | \$ 3,401,223 |
| Prior service credit | <u>(2,113)</u> |
| | <u>\$ 3,399,110</u> |
| Information for plans with ABO/APBO in excess of plan assets | |
| Projected benefit obligation | \$ 4,253,650 |
| Accumulated benefit obligation | 4,253,650 |
| Fair value of plan assets | - |

The estimated amount that will be amortized from unrestricted net assets to net periodic benefit cost in 2012 is as follows:

| | |
|----------------------|------------|
| Net loss | \$ 285,591 |
| Prior service credit | (461) |

(Continued)

Archdiocese of Philadelphia, Office of Catholic Education
High Schools

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE K - EMPLOYEE BENEFITS - Continued

Weighted average assumptions used to determine benefit obligation at year end:

| | |
|-------------------------------------|-------|
| Discount rate | 3.25% |
| Healthcare cost trend | 6.50% |
| Ultimate rate of increase | 4.5% |
| Year that ultimate rate is attained | 2017 |

A one-percentage point change in amended healthcare cost trend rates would have the following effect:

| | <u>1% point increase</u> | <u>1% point decrease</u> |
|---------------------------------------------------------|------------------------------|------------------------------|
| Effect on accumulated postretirement benefit obligation | \$ 3,384 | \$ (3,122) |

Plan Assets

There are no plan assets.

| | |
|---------------------------------------------------------|------------|
| <u>Cash flows and estimated future benefit payments</u> | |
| Employer contributions June 30, 2013 (expected) | \$ 871,340 |
| Employee contributions June 30, 2013 (expected) | 54,000 |
| Expected benefit payments | |
| June 30, 2013 | \$ 871,340 |
| June 30, 2014 | 716,468 |
| June 30, 2015 | 588,236 |
| June 30, 2016 | 506,732 |
| June 30, 2017 | 416,352 |
| June 30, 2018 - June 30, 2022 | 1,094,058 |

NOTE L - LEASE COMMITMENTS

The High Schools have entered into lease agreements for equipment and vehicles. The following is a schedule of future minimum payments required under operating leases that have lease terms in excess of one year as of June 30, 2012:

| | |
|---------------------|-------------------|
| 2013 | \$ 323,164 |
| 2014 | 245,938 |
| 2015 | 157,206 |
| 2016 | 115,275 |
| 2017 and thereafter | <u>23,414</u> |
| | <u>\$ 864,997</u> |

Lease expenses were \$418,937 for the year ended June 30, 2012.

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE M - CONTRIBUTED SERVICES

Contributed services consist of the following as of June 30, 2012:

| | |
|--------------------------------------------------------------------|---------------------|
| Salaries and benefits - lay equivalent value of religious services | \$ 5,595,052 |
| Expended for religious services | |
| Salaries, related employee benefits and faculty house expenses | <u>(4,189,562)</u> |
| Total contributed services | <u>\$ 1,405,490</u> |

NOTE N - INCOME TAXES

As part of the Archdiocese of Philadelphia, the Office of Catholic Education, which includes the High Schools, has received exempt status from federal taxation under Section 501(c)(3) of the Internal Revenue Code.

The High Schools follow the accounting guidance for uncertainties in income tax positions which requires that a tax position be recognized or derecognized based on a "more likely than not" threshold. This applies to positions taken or expected to be taken in a tax return. The High Schools do not believe their combined financial statements include any material uncertain tax positions.

NOTE O - PRIOR PERIOD ADJUSTMENT OF THE HIGH SCHOOL OPERATIONS ACCOUNT

Net assets as of July 1, 2011 of the High School Operations Account, which have been previously issued in stand-alone financial statements, have been adjusted for the following issues: a) recording of fixed assets and b) inclusion of funds previously recorded as part of the Trustee Account of the Archdiocese of Philadelphia for Estates and Trusts.

- a) Recording of fixed assets - In the prior year, the management of the Archdiocese of Philadelphia determined that the fixed assets of the High Schools were the property of the Archdiocese of Philadelphia, and not the property of the High Schools. Therefore, they were previously recorded by the High Schools as capital outlay expenses. Management of the Archdiocese of Philadelphia subsequently determined that these should be recorded in the general ledger of the High Schools. A prior period adjustment of \$22,921,968 was recorded to capitalize the fixed assets of the High School Operations Account.
- b) Inclusion of funds previously recorded as part of the Trustee Account of the Archdiocese of Philadelphia for Estates and Trusts - Management reviewed the funds held as part of the Trustee Account of the Archdiocese of Philadelphia for Estates and Trusts and determined that certain funds were more appropriately recorded as part of the High Schools' combined financial statements. As a result, temporarily restricted net assets were increased by \$1,441,199 to include an investment fund. Management also determined that the net assets of the Trustees of Roman Catholic High School, a financially inter-related organization, should be recorded on the High Schools' combined financial statements. Therefore, the temporarily restricted net assets were also increased by \$7,235,847, and permanently restricted net assets were increased by \$1,303,260.

(Continued)

Archdiocese of Philadelphia, Office of Catholic Education
High Schools

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE O - PRIOR PERIOD ADJUSTMENT OF THE HIGH SCHOOL OPERATIONS ACCOUNT -
Continued

The effect of these adjustments on the individual net asset categories of the High School Operations Account is summarized as follows:

| | <u>Unrestricted</u> | <u>Temporarily restricted</u> | <u>Permanently restricted</u> | <u>Total</u> |
|---------------------------------------------------------------------------------------------------------------------------------|----------------------|-----------------------------------|-----------------------------------|----------------------|
| Net assets at July 1, 2011, as previously reported | \$ 13,445,208 | \$ 18,492,811 | \$ 32,339,715 | \$ 64,277,734 |
| Recording of fixed assets | 22,921,968 | - | - | 22,921,968 |
| Inclusion of funds previously recorded as part of the Trustee Account of the Archdiocese of Philadelphia for Estates and Trusts | <u>-</u> | <u>8,677,046</u> | <u>1,303,260</u> | <u>9,980,306</u> |
| Net assets at July 1, 2011, as adjusted | <u>\$ 36,367,176</u> | <u>\$ 27,169,857</u> | <u>\$ 33,642,975</u> | <u>\$ 97,180,008</u> |

NOTE P - SUBSEQUENT EVENTS

Management evaluated the High Schools' June 30, 2012 combined financial statements for subsequent events through July 24, 2013, the date which the combined financial statements were available to be issued. Management is not aware of any subsequent event which would require recognition or disclosure in the combined financial statements, except as disclosed below:

On August 21, 2012, the Archdiocese of Philadelphia and the Faith in the Future Foundation ("Foundation") reached an agreement in principle for the Foundation to assume the operational management and leadership of the 17 Catholic secondary schools and the four schools of special education of the Archdiocese of Philadelphia effective September 1, 2012. The Secretary for Catholic Education/Chief Operating Officer of the Office of Catholic Education will report directly to the Foundation's Chief Executive Officer. The responsibilities of the Office of Catholic Education will remain unchanged. All facilities will continue to be owned and operated by the Archdiocese of Philadelphia.

SUPPLEMENTAL INFORMATION

Archdiocese of Philadelphia, Office of Catholic Education
High Schools

COMBINING STATEMENT OF FINANCIAL POSITION

June 30, 2012

| ASSETS | Operations Account | Presidents' Accounts | Eliminations | Total |
|------------------------------------------------------------------------------------------------------------|-----------------------|-------------------------|-----------------------|----------------------|
| Cash and cash equivalents | \$ 15,387,607 | \$ 12,596,789 | \$ - | \$ 27,984,396 |
| Parental tuition and fees receivable, less allowance for doubtful accounts of \$4,482,312 and \$510,400 | 3,310,435 | 594,379 | - | 3,904,814 |
| Due from related organizations | 2,011,828 | 689 | - | 2,012,517 |
| Accounts receivable - intrafund | 1,367,628 | 27,414 | (1,395,042) | - |
| Pledges receivable, net | 189,050 | - | - | 189,050 |
| Other receivables | 424,999 | 632,931 | - | 1,057,930 |
| Prepaid expenses | 1,298,423 | 565,654 | - | 1,864,077 |
| Beneficial interest in financially inter-related organization | 8,144,286 | - | - | 8,144,286 |
| Investments | 45,872,070 | 2,383,100 | - | 48,255,170 |
| Property and equipment, net | 106,614,986 | 11,115,176 | - | 117,730,162 |
| Total assets | \$184,621,312 | \$ 27,916,132 | \$ (1,395,042) | \$211,142,402 |
| LIABILITIES AND NET ASSETS | | | | |
| Accounts payable | \$ 1,206,134 | \$ 1,529,674 | \$ - | \$ 2,735,808 |
| Accrued payroll | 6,874,309 | - | - | 6,874,309 |
| Accrued non-pension retirement benefits | 4,253,650 | - | - | 4,253,650 |
| Accrued vacation | 516,180 | - | - | 516,180 |
| Due to related organizations | 131,370 | 234,000 | - | 365,370 |
| Accounts payable - intrafund | 27,414 | 5,146,023 | (5,173,437) | - |
| Deferred revenue | 1,103,985 | 2,679,984 | - | 3,783,969 |
| Long-term note payable | 77,246,124 | - | - | 77,246,124 |
| Total liabilities | 91,359,166 | 9,589,681 | (5,173,437) | 95,775,410 |
| Net assets: | | | | |
| Unrestricted | 38,212,269 | 9,750,790 | 3,778,395 | 51,741,454 |
| Temporarily restricted | 21,398,136 | 6,913,755 | - | 28,311,891 |
| Permanently restricted | 33,651,741 | 1,661,906 | - | 35,313,647 |
| Total net assets | 93,262,146 | 18,326,451 | 3,778,395 | 115,366,992 |
| Total liabilities and net assets | \$184,621,312 | \$ 27,916,132 | \$ (1,395,042) | \$211,142,402 |

Revenues:

28