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Financial Statements and Report of  
Independent Certified Public Accountants

**Archdiocese of Philadelphia,  
Office of Catholic Education  
Administration Account**

June 30, 2013 and 2012

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## **Report of Independent Certified Public Accountants**

To the Secretary of Catholic Education  
Archdiocese of Philadelphia

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### **Report on the financial statements**

We have audited the accompanying financial statements of the Archdiocese of Philadelphia, Office of Catholic Education Administration Account (“OCE”), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

### **Management’s responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor’s responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to OCE’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of OCE’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Archdiocese of Philadelphia, Office of Catholic Education Administration Account as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of matter**

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

*Grant Thornton LLP*

Philadelphia, Pennsylvania

November 22, 2013

Archdiocese of Philadelphia, Office of Catholic Education  
Administration Account

**STATEMENTS OF FINANCIAL POSITION**

June 30,

ASSETS	2013	2012
Cash and cash equivalents, including amounts held by affiliate	\$ 2,532,031	\$ 2,031,656
Accounts receivable	32,938	29,946
Due from other Archdiocesan entities (Note I)	96,021	22,671
Other assets	8,128	11,600
Investments (Note C)	8,126,289	7,271,581
Beneficial interest in perpetual trust	<u>27,046,817</u>	<u>25,592,666</u>
 Total assets	 <u>\$ 37,842,224</u>	 <u>\$ 34,960,120</u>
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 171,527	\$ 135,292
Accrued vacation	83,300	51,347
Accrued severance	172,657	60,405
Accrued salaries	15,863	-
Due to other Archdiocesan entities (Note I)	108,086	117,268
Deferred revenue	<u>57,392</u>	<u>37,535</u>
 Total liabilities	 <u>608,825</u>	 <u>401,847</u>
Net assets		
Unrestricted	956,495	724,243
Unrestricted - designated	1,279,234	1,134,488
Temporarily restricted (Note E)	5,363,816	4,634,385
Permanently restricted (Note F)	<u>29,633,854</u>	<u>28,065,157</u>
 Total net assets	 <u>37,233,399</u>	 <u>34,558,273</u>
 Total liabilities and net assets	 <u>\$ 37,842,224</u>	 <u>\$ 34,960,120</u>

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

Archdiocese of Philadelphia, Office of Catholic Education  
Administration Account

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**

Year ended June 30, 2013

	<u>Unrestricted</u>	<u>Unrestricted - designated</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues					
Subsidies					
Office of Catholic Education -					
Diocesan High Schools Operations					
Account	\$ 2,930,150	\$ -	\$ -	\$ -	\$ 2,930,150
Schools of Special Education	150,000	-	-	-	150,000
Contributions					
Archdiocesan Educational Fund	943,200	-	-	-	943,200
Donations	302,055	-	276,294	-	578,349
Contributed services (Note J)	115,530	-	-	-	115,530
Program revenues	570,153	-	-	-	570,153
Investment income	15,924	30,620	139,968	22,661	209,173
Net realized and unrealized gains on investments	-	122,666	558,240	91,885	772,791
Change in beneficial interest in perpetual trust	-	-	-	1,454,151	1,454,151
Distribution of beneficial interest in perpetual trust	-	-	1,421,300	-	1,421,300
Other revenue	44,460	-	2,266	-	46,726
Funds with deficiencies (Note G)	146,196	-	(146,196)	-	-
Net assets released from restrictions	<u>1,530,981</u>	<u>(8,540)</u>	<u>(1,522,441)</u>	<u>-</u>	<u>-</u>
Total revenues	<u>6,748,649</u>	<u>144,746</u>	<u>729,431</u>	<u>1,568,697</u>	<u>9,191,523</u>
Expenses					
Salaries and benefits	3,195,776	-	-	-	3,195,776
Cost of sales	33,253	-	-	-	33,253
Purchased services	950,798	-	-	-	950,798
Intradiocesan expenses	329,330	-	-	-	329,330
Support expenses	<u>2,007,240</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,007,240</u>
Total expenses	<u>6,516,397</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,516,397</u>
Change in net assets	232,252	144,746	729,431	1,568,697	2,675,126
Net assets, beginning of year	<u>724,243</u>	<u>1,134,488</u>	<u>4,634,385</u>	<u>28,065,157</u>	<u>34,558,273</u>
Net assets, end of year	<u>\$ 956,495</u>	<u>\$ 1,279,234</u>	<u>\$ 5,363,816</u>	<u>\$ 29,633,854</u>	<u>\$ 37,233,399</u>

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

Archdiocese of Philadelphia, Office of Catholic Education  
Administration Account

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**

Year ended June 30, 2012

	<u>Unrestricted</u>	<u>Unrestricted - designated</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues					
Subsidies					
Office of Catholic Education -					
Diocesan High Schools Operations					
Account	\$ 1,710,000	\$ -	\$ -	\$ -	\$ 1,710,000
Schools of Special Education	112,000	-	-	-	112,000
Contributions					
Archdiocesan Educational Fund	1,009,000	-	-	-	1,009,000
Donations	350,000	-	15,375	-	365,375
Contributed services (Note J)	121,211	-	-	-	121,211
Program revenues	764,036	-	-	-	764,036
Investment income	25,041	30,574	142,112	23,099	220,826
Net realized and unrealized losses					
on investments	-	(47,624)	(223,774)	(37,537)	(308,935)
Change in beneficial interest in perpetual					
trust	-	-	-	(413,322)	(413,322)
Distribution of beneficial interest in					
perpetual trust	-	-	1,380,000	-	1,380,000
Other revenue	91,234	-	16,500	-	107,734
Funds with deficiencies (Note G)	(90,027)	-	90,027	-	-
Net assets released from restrictions	<u>1,630,861</u>	<u>(7,271)</u>	<u>(1,623,590)</u>	<u>-</u>	<u>-</u>
Total revenues	<u>5,723,356</u>	<u>(24,321)</u>	<u>(203,350)</u>	<u>(427,760)</u>	<u>5,067,925</u>
Expenses					
Salaries and benefits	2,376,511	-	-	-	2,376,511
Cost of sales	43,560	-	-	-	43,560
Purchased services	840,049	-	-	-	840,049
Intradiocesan expenses	294,173	-	-	-	294,173
Support expenses	<u>2,190,213</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,190,213</u>
Total expenses	<u>5,744,506</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,744,506</u>
Change in net assets	(21,150)	(24,321)	(203,350)	(427,760)	(676,581)
Net assets, beginning of year	<u>745,393</u>	<u>1,158,809</u>	<u>4,837,735</u>	<u>28,492,917</u>	<u>35,234,854</u>
Net assets, end of year	<u>\$ 724,243</u>	<u>\$ 1,134,488</u>	<u>\$ 4,634,385</u>	<u>\$ 28,065,157</u>	<u>\$ 34,558,273</u>

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

Archdiocese of Philadelphia, Office of Catholic Education  
Administration Account

**STATEMENTS OF CASH FLOWS**

Year ended June 30,

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities		
Change in net assets	\$ 2,675,126	\$ (676,581)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Net realized and unrealized (gains) losses on investments	(772,791)	308,935
Change in beneficial interest in perpetual trust	(1,454,151)	413,322
Changes in operating assets and liabilities		
Accounts receivable	(2,992)	(13,427)
Due from other Archdiocesan entities	(73,350)	(18,890)
Other assets	3,472	3,795
Accounts payable	36,235	80,513
Accrued vacation	31,953	(73)
Accrued severance	112,252	57,885
Accrued salaries	15,863	(52,268)
Due to other Archdiocesan entities	(9,182)	(78,088)
Deferred revenue	<u>19,857</u>	<u>(309,276)</u>
Net cash provided by (used in) operating activities	<u>582,292</u>	<u>(284,153)</u>
Cash flows from investing activities		
Purchase of investments	(181,862)	(195,785)
Proceeds from sale of investments	<u>99,945</u>	<u>251,211</u>
Net cash (used in) provided by investing activities	<u>(81,917)</u>	<u>55,426</u>
Net increase (decrease) in cash and cash equivalents, including amounts held by affiliate	500,375	(228,727)
Cash and cash equivalents, including amounts held by affiliate, beginning of year	<u>2,031,656</u>	<u>2,260,383</u>
Cash and cash equivalents, including amounts held by affiliate, end of year	<u>\$ 2,532,031</u>	<u>\$ 2,031,656</u>

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



## NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

### NOTE A - NATURE OF OPERATIONS

The accompanying financial statements of the Archdiocese of Philadelphia, Office of Catholic Education Administration Account ("OCE") include the Office of Catholic Education and the departments of elementary and secondary schools, and the Office of Catechetical Formation. On July 1, 2012, OCE assumed responsibility for the Educational Financial Services office, which previously reported through the Office for Financial Services. The revenues and expenses for this office are reflected in the statement of activities and changes in net assets for the year ended June 30, 2013. The financial statements exclude certain entities of the Archdiocese of Philadelphia, which relate to OCE but are considered separate reporting entities. These entities are as follows:

- Diocesan High Schools
- Individual High School Presidents' Accounts
- Schools of Special Education
- Office for Financial Services
- Trustee Account of the Archdiocese of Philadelphia for Estates and Trusts
- Archdiocesan Educational Fund

OCE is considered to be a component of the Archdiocese of Philadelphia and not a separate legal entity. Effective September 1, 2012, the Archdiocese of Philadelphia entered into an agreement with Faith in the Future Foundation ("FIF"). The agreement is for the period of five school years and shall automatically renew for successive three-year periods unless prior written notification is provided 90 days before the scheduled expiration date. Pursuant to the aforementioned agreement, FIF assumes strategic and operational management of the 17 Catholic secondary schools and the four individual Schools of Special Education and provides certain financial assistance to the schools. OCE has primary responsibility for, and FIF has oversight and approval responsibility over, school operations. The Secretary for Catholic Education/Chief Operating Officer of OCE reports directly to FIF's Chief Executive Officer. All facilities continue to be owned by the Archdiocese of Philadelphia.

### NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 1. Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis. Net assets and their revenues, expenses, gains and losses are classified into three categories, based on the existence or absence of donor-imposed restrictions. The categories are temporarily restricted, permanently restricted and unrestricted 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 by OCE, such earnings are recorded in the 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.

(Continued)

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2013 and 2012

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

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

**2. Revenue Recognition**

Various programs for the benefit of the schools are operated by OCE. Revenues from the programs are reported gross in the statement of activities and changes in net assets, and expenses are reported in the appropriate category of administration expenses when the services are performed.

Cash contributions are recorded as revenue when received. Unconditional promises to give are recorded at their fair value when OCE 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 of cash and other assets are recorded as restricted support if they are received with donor stipulations that limit the use of the 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 restrictions.

**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 disclosures 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, including amounts held by affiliate represent demand deposits and other investments with a maturity date of three months or less. The carrying amount approximates fair value.

OCE maintains cash balances with financial institutions that at times may exceed Federal Depository Insurance Corporation limits. Management does not believe the credit risk related to these deposits to be significant.

**5. 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 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.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

6. Beneficial Interest in Perpetual Trust

OCE is the sole beneficiary of the income of a trust established by Francis W. Sullivan held in perpetuity by a third party. The supporting perpetual trust requires the income to be paid to OCE. The beneficial interest in perpetual trust is recorded at the fair value of the assets. At June 30, 2013, the allocable fair value of the net assets of the trust is \$27,046,817. The underlying investments of the beneficial interest in perpetual trust consist of cash, government obligations, corporate obligations, mutual funds, mortgage-backed securities and equity securities. OCE receives statements from the trustees, which detail the fair value of each investment in the perpetual trust.

NOTE C - INVESTMENTS

At June 30, 2013 and 2012, OCE's investments are summarized and classified as follows:

<u>2013</u>	<u>Unrestricted - designated</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Archdiocese of Philadelphia Non-Pension Assets Portfolio	\$ <u>1,279,234</u>	\$ <u>4,260,018</u>	\$ <u>2,587,037</u>	\$ <u>8,126,289</u>
<u>2012</u>				
Archdiocese of Philadelphia Non-Pension Assets Portfolio	\$ <u>1,134,488</u>	\$ <u>3,664,602</u>	\$ <u>2,472,491</u>	\$ <u>7,271,581</u>

For administrative and other needs, the Archdiocese of Philadelphia formed the Archdiocese of Philadelphia Non-Pension Assets Portfolio ("NPAP") to pool together certain investments in order to more efficiently manage the investments of various entities and related organizations within 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 Archdiocese of Philadelphia's 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.

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2013 and 2012

**NOTE D - PENSION PLAN**

The eligible lay employees of OCE 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. OCE made annual contributions to the Plan at an average rate of 5.0% of the salaries of eligible employees for the years ended June 30, 2013 and 2012. The amount expensed by OCE for contributions to the Plan was \$54,926 and \$79,606 for the years ended June 30, 2013 and 2012, respectively. 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. On November 5, 2013, the Archdiocese of Philadelphia announced that it would freeze the Plan effective June 30, 2014. See Note N, Subsequent Events, for further details.

**NOTE E - TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following purposes at June 30:

	<u>2013</u>	<u>2012</u>
Tuition assistance/scholarships	\$ 4,364,636	\$ 3,997,823
Programs/grants	713,261	606,744
Scholarships/programs	242,314	-
Accumulated earnings in excess of spending of endowments:		
Tuition assistance/scholarships	4,294	2,650
Other	<u>39,311</u>	<u>27,168</u>
	<u>\$ 5,363,816</u>	<u>\$ 4,634,385</u>

During 2013 and 2012, net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose of \$1,522,441 and \$1,623,590, respectively.

**NOTE F - PERMANENTLY RESTRICTED NET ASSETS**

Permanently restricted net assets are available for the following purposes at June 30:

	<u>2013</u>	<u>2012</u>
Programs/grants	\$ 27,046,817	\$ 25,592,666
Tuition assistance/scholarships	2,519,016	2,404,470
Other	<u>68,021</u>	<u>68,021</u>
	<u>\$ 29,633,854</u>	<u>\$ 28,065,157</u>

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

### NOTE G - ENDOWMENTS

OCE's 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.

#### 1. Interpretation of Relevant Law

In accordance with Commonwealth of Pennsylvania Act 141, and unless directed otherwise by the donor, OCE classifies 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 OCE in a manner consistent with the standard of prudence prescribed by relevant law. OCE does 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

OCE has 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 its 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. OCE expects its 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 OCE to adopt a spending policy for endowment earnings, subject to certain limitations. OCE follows 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 years ended June 30, 2013 and 2012 allowed for a 3% draw of the three-year average market value of the permanently restricted endowments, unless directed otherwise by the donor.

(Continued)

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

### NOTE G - ENDOWMENTS - Continued

#### 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. Deficiencies of this nature totaled \$187,453 and \$333,650 as of June 30, 2013 and 2012, respectively. Such deficiencies are recorded as unrestricted net assets. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions.

As of June 30, 2013 and 2012, \$2,587,037 and \$2,472,491, respectively, in donor-restricted endowment funds were recorded within permanently restricted net assets.

Changes in endowment net assets for the year ended June 30, 2013:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets at June 30, 2012	\$ -	\$ 29,818	\$ 2,472,491	\$ 2,502,309
Investment income	-	36,904	22,661	59,565
Net appreciation (realized and unrealized gains and losses)	<u>-</u>	<u>149,511</u>	<u>91,885</u>	<u>241,396</u>
Total investment return		186,415	114,546	300,961
Contributions	-	-	-	-
Appropriation of endowment assets for expenditure	-	(26,432)	-	(26,432)
Funds with deficiencies	<u>-</u>	<u>(146,196)</u>	<u>-</u>	<u>(146,196)</u>
Endowment net assets at June 30, 2013	<u>\$ -</u>	<u>\$ 43,605</u>	<u>\$ 2,587,037</u>	<u>\$ 2,630,642</u>

(Continued)

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

### NOTE G - ENDOWMENTS - Continued

Changes in endowment net assets for the year ended June 30, 2012:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets at June 30, 2011	\$ -	\$ 32,646	\$ 2,486,929	\$ 2,519,575
Investment income	-	37,567	23,099	60,666
Net depreciation (realized and unrealized gains and losses)	<u>-</u>	<u>(60,858)</u>	<u>(37,537)</u>	<u>(98,395)</u>
Total investment return	-	(23,291)	(14,438)	(37,729)
Contributions	-	-	-	-
Appropriation of endowment assets for expenditure	-	(69,564)	-	(69,564)
Funds with deficiencies	<u>-</u>	<u>90,027</u>	<u>-</u>	<u>90,027</u>
Endowment net assets at June 30, 2012	<u>\$ -</u>	<u>\$ 29,818</u>	<u>\$ 2,472,491</u>	<u>\$ 2,502,309</u>

### NOTE H - INCOME TAXES

As part of the Archdiocese of Philadelphia, OCE has received exempt status from federal taxation under Section 501(c)(3) of the Internal Revenue Code.

OCE follows 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. OCE does not believe its financial statements include any material uncertain tax positions. As of June 30, 2013, the OCE tax years ended June 30, 2010 through June 30, 2013 for federal tax jurisdiction remain open to examination.

### NOTE I - RELATED PARTY TRANSACTIONS

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

	<u>2013</u>	<u>2012</u>
Other	\$ -	\$ 749
Combined Diocesan High Schools	<u>96,021</u>	<u>21,922</u>
	<u>\$ 96,021</u>	<u>\$ 22,671</u>

(Continued)

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

### NOTE I - RELATED PARTY TRANSACTIONS - Continued

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

	<u>2013</u>	<u>2012</u>
Other	\$ 339	\$ 1,995
Combined Diocesan High Schools	12,867	734
Office for Financial Services	<u>94,880</u>	<u>114,539</u>
	<u>\$ 108,086</u>	<u>\$ 117,268</u>

OCE receives subsidies from the Diocesan High Schools Operations account. Subsidies were \$2,930,150 (\$2,624,067 for administration costs and \$306,083 for marketing expense) and \$1,710,000 (1,555,739 for administration costs and \$154,261 for marketing expense) for the years ended June 30, 2013 and 2012, respectively. Subsidies for the year ended June 30, 2013 included revenues for the Educational Financial Services office. See Note A, Nature of Operations, for further details.

During the fiscal years ended June 30, 2013 and 2012, OCE charged the Schools of Special Education \$150,000 and \$112,000, respectively, for management services, which amounts are included in subsidies revenue.

Cash and cash equivalents include \$1,553,773 and \$1,787,069 at June 30, 2013 and 2012, respectively, held in trust funds maintained by the Office for Financial Services of the Archdiocese of Philadelphia. There are no conditions restricting the withdrawal of these funds.

### NOTE J - CONTRIBUTED SERVICES

The value of contributed services performed by members of religious groups is based on the lay equivalent salaries of personnel performing similar duties, less the stipend allowances and housing allowances paid for the religious personnel. The value of contributed services is included as revenue and, correspondingly, charged to expenditures.

The following is a schedule of contributed services as of June 30:

	<u>2013</u>	<u>2012</u>
Salaries and benefits - lay equivalent of religious services	\$ 219,859	\$ 220,838
Expended for religious services		
Salaries, related employee benefits and faculty house expenses	<u>(104,329)</u>	<u>(99,627)</u>
	<u>\$ 115,530</u>	<u>\$ 121,211</u>



**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2013 and 2012

**NOTE K - 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.

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 OCE believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The fair value of certain alternative investments is estimated using the NAV per share. These investments are classified as either Level 2, if OCE's investment can be redeemed at the reporting date or within the near term, or Level 3, if its investment is not redeemable at the NAV per share at or near the statement of financial position date.

(Continued)

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

### NOTE K - FAIR VALUE MEASUREMENTS - Continued

Fair value measurements of investments in entities that calculate the NAV per share or its equivalent as of June 30, 2013 and 2012 are as follows:

	<u>Fair value</u>		<u>Unfunded</u>	<u>Redemption</u>	<u>Redemption</u>
	<u>2013</u>	<u>2012</u>	<u>commitments</u>	<u>frequency</u>	<u>notice</u>
					<u>period</u>
Archdiocese of Philadelphia					
NPAP <sup>(a)</sup>	\$ <u>8,126,289</u>	\$ <u>7,271,581</u>	\$ -	daily	1 day

- <sup>(a)</sup> 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 values are estimated using the NAV per share of the investments.

The following table presents the fair values of the investments held by OCE by level within the fair value hierarchy, as of June 30:

	<u>Quoted prices</u>	<u>Significant</u>	<u>Significant</u>	<u>Total fair</u>
	<u>in active</u>	<u>other</u>	<u>unobservable</u>	<u>value</u>
	<u>markets</u>	<u>observable</u>	<u>inputs</u>	
	<u>(Level 1)</u>	<u>inputs</u>	<u>(Level 3)</u>	
<u>2013</u>		<u>(Level 2)</u>		
Assets				
Investments:				
Archdiocese of Philadelphia NPAP	\$ -	\$ 8,126,289	\$ -	\$ 8,126,289
Beneficial interest in perpetual trust	-	-	27,046,817	27,046,817
Total of assets at June 30, 2013	\$ -	\$ 8,126,289	\$ 27,046,817	\$ 35,173,106
<u>2012</u>				
Assets				
Investments:				
Archdiocese of Philadelphia NPAP	\$ -	\$ 7,271,581	\$ -	\$ 7,271,581
Beneficial interest in perpetual trust	-	-	25,592,666	25,592,666
Total of assets at June 30, 2012	\$ -	\$ 7,271,581	\$ 25,592,666	\$ 32,864,247

(Continued)

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

### NOTE K - FAIR VALUE MEASUREMENTS - Continued

The following table present assets under the beneficial interest in perpetual trusts measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30:

	<u>2013</u>	<u>2012</u>
Beginning balance	\$ 25,592,666	\$ 26,005,988
Change in fair value of assets	2,875,451	966,678
Distributions from perpetual trusts	<u>(1,421,300)</u>	<u>(1,380,000)</u>
	<u>\$ 27,046,817</u>	<u>\$ 25,592,666</u>

### NOTE L - FUNCTIONAL EXPENSES

OCE provides services to schools and entities included in Note A. Expenses related to providing these services are as follows for the years ended June 30:

	<u>2013</u>	<u>2012</u>
Program:		
Tuition assistance/scholarships	\$ 840,191	\$ 1,107,207
Music and ministry programs	944,416	909,757
Sports	65,068	-
Administrative	<u>4,666,722</u>	<u>3,727,542</u>
	<u>\$ 6,516,397</u>	<u>\$ 5,744,506</u>

### NOTE M - LEASE COMMITMENTS

OCE has entered into lease agreements with respect to equipment. The following is a schedule of future minimum lease payments for operating leases with noncancellable lease terms in excess of one year:

Year ending June 30,

2014	\$ 18,345
2015	14,650
2016	<u>33,817</u>
	<u>\$ 66,812</u>

Rental expenses for the year ended June 30, 2013 and 2012 were \$20,428 and \$16,251, respectively.

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2013 and 2012

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**NOTE N - SUBSEQUENT EVENTS**

OCE evaluated its June 30, 2013 financial statements for subsequent events through November 22, 2013, the date the financial statements were available to be issued. OCE is not aware of any subsequent event which would require recognition or disclosure in the financial statements, except as disclosed below:

On November 5, 2013, the Archdiocese of Philadelphia announced that it would freeze the Plan effective June 30, 2014. All current employees will retain benefits they have earned and will continue to accrue benefits through the effective date of the freeze. After the date of the freeze, accrued pension benefits under the Plan will not increase for current employees with additional service or increases in pay after the freeze date. The Archdiocese of Philadelphia intends to establish a defined contribution plan on July 1, 2014 for all eligible employees.