

Combined Financial Statements and Report of  
Independent Certified Public Accountants

**Archdiocese of Philadelphia**  
**Office of Catholic Education**  
**High Schools**

June 30, 2013 and 2012

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**Report of Independent Certified Public Accountants**

To the Secretary of Catholic Education/Chief Operating Officer  
Archdiocese of Philadelphia

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**Report on the financial statements**

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

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

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the High Schools’ preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the High Schools’ 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 combined financial statements.

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

**Opinion**

In our opinion, the 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, 2013 and 2012, and the changes in their net assets and their 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 the High Schools within the Archdiocese of Philadelphia. Our opinion is not modified with respect to this matter.

**Other matter**

Our audits were conducted for the purpose of forming an opinion on the combined financial statements taken as a whole. The supplementary information contained in the accompanying combining statements of financial position as of June 30, 2013 and 2012 and the related combining statements of activities and changes in net assets for the years then ended is presented for purposes of additional analysis and is not a required part of the combined financial statements. Such supplementary 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 audits 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 supplementary information is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

Grant Thornton LLP

Philadelphia, Pennsylvania

December 3, 2013

Archdiocese of Philadelphia, Office of Catholic Education  
High Schools

**COMBINED STATEMENTS OF FINANCIAL POSITION**

June 30,

	<u>2013</u>	<u>2012</u>
<b>ASSETS</b>		
Cash and cash equivalents, including amounts held by affiliate	\$ 31,711,965	\$ 27,984,396
Parental tuition and fees receivable, less allowance for doubtful accounts of \$4,784,994 and \$4,992,712	4,176,220	3,904,814
Due from related organizations (Note J)	41,244	2,012,517
Pledges receivable, net (Note C)	272,435	189,050
Other receivables	1,455,368	1,057,930
Prepaid expenses	1,823,674	1,864,077
Beneficial interest in financially inter-related organizations	8,907,274	8,144,286
Investments (Note D)	52,150,009	48,255,170
Property and equipment, net (Note F)	<u>115,674,455</u>	<u>117,730,162</u>
 Total assets	 <u>\$ 216,212,644</u>	 <u>\$ 211,142,402</u>
 <b>LIABILITIES AND NET ASSETS</b>		
Accounts payable	\$ 3,903,832	\$ 2,735,808
Accrued payroll	6,457,867	6,874,309
Accrued non-pension retirement benefits (Note K)	3,443,758	4,253,650
Accrued vacation (Note K)	554,759	516,180
Due to related organizations (Note J)	1,504,898	365,370
Deferred revenue	2,931,815	3,783,969
Notes payable to Archdiocese of Philadelphia (Note J)	<u>76,223,782</u>	<u>77,246,124</u>
 Total liabilities	 <u>95,020,711</u>	 <u>95,775,410</u>
 Net assets:		
Unrestricted	52,467,483	51,741,454
Temporarily restricted (Note G)	33,128,157	28,311,891
Permanently restricted (Note H)	<u>35,596,293</u>	<u>35,313,647</u>
 Total net assets	 <u>121,191,933</u>	 <u>115,366,992</u>
 Total liabilities and net assets	 <u>\$ 216,212,644</u>	 <u>\$ 211,142,402</u>

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

Archdiocese of Philadelphia, Office of Catholic Education  
High Schools

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

Year ended June 30, 2013

	Unrestricted	Temporarily restricted	Permanently restricted	Total
<b>Revenues:</b>				
Tuition and fees funded by:				
Parents and guardians	\$ 92,548,801	\$ -	\$ -	\$ 92,548,801
Third-party organizations	3,599,600	-	-	3,599,600
Tax credit programs	1,265,954	-	-	1,265,954
Office of Catholic Education	752,180	-	-	752,180
School and alumni organizations	3,387,794	-	-	3,387,794
Summer School	184,375	-	-	184,375
Total	<u>101,738,704</u>	<u>-</u>	<u>-</u>	<u>101,738,704</u>
<b>Less:</b>				
Scholarship and tuition assistance eliminations	6,581,285	-	-	6,581,285
Tuition reductions	<u>1,182,283</u>	<u>-</u>	<u>-</u>	<u>1,182,283</u>
Net tuition and fees	<u>93,975,136</u>	<u>-</u>	<u>-</u>	<u>93,975,136</u>
Student activities	2,446,219	-	-	2,446,219
Athletics	2,158,694	-	-	2,158,694
Resale items income - net of disbursements	484,245	-	-	484,245
Contributions and donations	8,881,540	3,991,257	118,727	12,991,524
Other	2,710,800	56,325	-	2,767,125
Fund-raising - net of disbursements	1,495,987	39,620	-	1,535,607
Interest and investment income	314,312	1,038,256	-	1,352,568
Contributed services (Note M)	<u>1,590,159</u>	<u>-</u>	<u>-</u>	<u>1,590,159</u>
Total other operating revenues	<u>20,081,956</u>	<u>5,125,458</u>	<u>118,727</u>	<u>25,326,141</u>
Net realized gains on investments	17,009	935,868	163,919	1,116,796
Net change in unrealized gains	<u>88,224</u>	<u>3,856,316</u>	<u>-</u>	<u>3,944,540</u>
Total investment gains	<u>105,233</u>	<u>4,792,184</u>	<u>163,919</u>	<u>5,061,336</u>
Funds with deficiencies	<u>(120,883)</u>	<u>120,883</u>	<u>-</u>	<u>-</u>
Net assets released from restriction				
Satisfaction of purpose restrictions - CL2000	1,045,000	(1,045,000)	-	-
Satisfaction of purpose restrictions - Heritage of Faith	1,400,000	(1,400,000)	-	-
Satisfaction of purpose restrictions - General	<u>2,579,396</u>	<u>(2,579,396)</u>	<u>-</u>	<u>-</u>
Total revenues	<u>119,065,838</u>	<u>5,014,129</u>	<u>282,646</u>	<u>124,362,613</u>
<b>Expenses:</b>				
Administration	18,437,271	-	-	18,437,271
Instruction	46,619,766	-	-	46,619,766
Operations and maintenance of plant	19,484,114	-	-	19,484,114
Employee benefits	20,713,029	-	-	20,713,029
Student activities	3,669,898	-	-	3,669,898
Athletics	6,303,555	-	-	6,303,555
Debt service	3,069,466	-	-	3,069,466
Other	<u>548,593</u>	<u>-</u>	<u>-</u>	<u>548,593</u>
Total expenses	<u>118,845,692</u>	<u>-</u>	<u>-</u>	<u>118,845,692</u>
Change in net assets before other items	220,146	5,014,129	282,646	5,516,921
Change in financially inter-related organizations	625,620	(317,600)	-	308,020
Redesignation of net assets (from) to temporarily restricted	<u>(119,737)</u>	<u>119,737</u>	<u>-</u>	<u>-</u>
Change in net assets	<u>726,029</u>	<u>4,816,266</u>	<u>282,646</u>	<u>5,824,941</u>
<b>Net assets</b>				
Beginning of year	<u>51,741,454</u>	<u>28,311,891</u>	<u>35,313,647</u>	<u>115,366,992</u>
End of year	<u>\$ 52,467,483</u>	<u>\$ 33,128,157</u>	<u>\$ 35,596,293</u>	<u>\$ 121,191,933</u>

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

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
<b>Revenues:</b>				
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
School and alumni organizations	5,639,066	-	-	5,639,066
Summer School	227,168	-	-	227,168
Total	<u>103,911,542</u>	<u>-</u>	<u>-</u>	<u>103,911,542</u>
<b>Less:</b>				
Scholarship and tuition assistance eliminations	5,430,552	-	-	5,430,552
Tuition reductions	1,171,101	-	-	1,171,101
Net tuition and fees	<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>
<b>Expenses:</b>				
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 organizations	-	(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)
<b>Net assets</b>				
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 these combined financial statements.

Archdiocese of Philadelphia, Office of Catholic Education  
High Schools

**COMBINED STATEMENTS OF CASH FLOWS**

Year ended June 30,

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities		
Change in net assets	\$ 5,824,941	\$ (4,043,304)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	5,777,851	3,500,761
Bad debt expense	1,334,459	1,236,267
Net unrealized (gains) losses on investments	(3,944,540)	1,209,112
Net realized (gains) losses on investments	(1,116,796)	904,749
Change in financially inter-related organizations	(762,988)	394,821
Net transfer from Office for Financial Services for property	-	2,510,191
Changes in assets and liabilities		
Parental tuition and fees receivable	(1,605,865)	(1,803,946)
Due from related organizations	1,971,273	(1,443,045)
Pledges receivable, net	(83,385)	478,619
Other receivables	(397,438)	(699,677)
Prepaid expenses	40,403	1,556,636
Accounts payable	1,168,024	(941,211)
Accrued payroll	(416,442)	(654,226)
Accrued non-pension retirement benefits	(809,892)	76,535
Accrued vacation	38,579	(128,338)
Due to related organizations	1,139,528	(517,515)
Deferred revenue	(852,154)	787,269
Net cash provided by operating activities	<u>7,305,558</u>	<u>2,423,698</u>
Cash flows from investing activities		
Purchase of property and equipment	(3,722,145)	(3,094,419)
Purchase of investments	(1,145,764)	(1,265,927)
Proceeds from sale of investments	<u>2,312,262</u>	<u>2,650,595</u>
Net cash used in investing activities	<u>(2,555,647)</u>	<u>(1,709,751)</u>
Cash flows from financing activities		
Repayments of long-term note payable	<u>(1,022,342)</u>	<u>(3,577,929)</u>
Net cash used in financing activities	<u>(1,022,342)</u>	<u>(3,577,929)</u>
Net increase (decrease) in cash and cash equivalents	3,727,569	(2,863,982)
Cash and cash equivalents		
Beginning of year	<u>27,984,396</u>	<u>30,848,378</u>
End of year	<u>\$ 31,711,965</u>	<u>\$ 27,984,396</u>
Supplemental disclosure of cash flow information		
Cash paid for interest	<u>\$ 2,307,227</u>	<u>\$ 257,858</u>

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



## NOTES TO COMBINED FINANCIAL STATEMENTS

June 30, 2013 and 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. 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 schools of SPED 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 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.

(Continued)

## NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

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

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.

#### 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 statements 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.

(Continued)

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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. At June 30, 2013, the High Schools have cash balances on deposit with financial institutions that exceed the balance insured by the Federal Deposit Insurance Corporation ("FDIC") of \$250,000. The High Schools have not experienced any losses in such accounts.

5. Allowance 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.

6. Other Receivables

At June 30, 2013, the High Schools have a receivable of \$671,000 due from FIF, which is included in other receivables.

7. 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.

8. 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 statements 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 statements of financial position.

(Continued)

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

9. 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.

10. Functional Expenses

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

11. 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.

12. Reclassifications

Certain accounts in the prior year combined financial statements have been reclassified for comparative purposes to conform to the presentation in the current year combined financial statements. The reclassifications had no impact on total assets, total liabilities, total net assets or change in net assets.

Archdiocese of Philadelphia, Office of Catholic Education  
High Schools

**NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED**

June 30, 2013 and 2012

**NOTE C - PLEDGES RECEIVABLE, NET**

A summary of pledges receivable is as follows at June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Less than one year	\$ 208,915	\$ 299,725
One year to five years	<u>355,502</u>	<u>183,850</u>
	564,417	483,575
Less: allowance for doubtful accounts	(282,210)	(282,425)
Less: discount*	<u>(9,772)</u>	<u>(12,100)</u>
	<u>\$ 272,435</u>	<u>\$ 189,050</u>

\* The discount rate used was 2%.

**NOTE D - INVESTMENTS**

At June 30, 2013 and 2012, the High Schools' investments were summarized and classified as follows:

<u>2013</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Archdiocese of Philadelphia				
Non-Pension Assets Portfolio	\$ 8,276	\$ 17,748,562	\$ 32,825,699	\$ 50,582,537
Money market funds	31,614	89,075	627	121,316
Mutual funds	853,964	264,884	122,785	1,241,633
Common stocks	67,693	98,599	-	166,292
Debt securities	<u>-</u>	<u>38,231</u>	<u>-</u>	<u>38,231</u>
	<u>\$ 961,547</u>	<u>\$ 18,239,351</u>	<u>\$ 32,949,111</u>	<u>\$ 52,150,009</u>
 <u>2012</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, 2013 and 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, 2013 and 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 believe 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 the NAV per share or its equivalent as of June 30, 2013 and 2012 are as follows:

	<u>2013</u> <u>Fair value</u>	<u>2012</u> <u>Fair value</u>	<u>Unfunded</u> <u>commitments</u>	<u>Redemption</u> <u>frequency</u>	<u>Redemption</u> <u>notice</u> <u>period</u>
Archdiocese of Philadelphia NPAP <sup>(a)</sup>	\$ 50,582,537	\$ 46,174,568	\$ -	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 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, 2013 and 2012

**NOTE E - FAIR VALUE MEASUREMENTS - Continued**

The following tables represent the fair value of the investment held by the High Schools by level within the fair value hierarchy as of June 30, 2013 and 2012:

	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
<u>2013</u>				
Assets				
Investments:				
Archdiocese of Philadelphia NPAP	\$ -	\$ 50,582,537	\$ -	\$ 50,582,537
Money market funds	121,316	-	-	121,316
Mutual funds	1,241,633	-	-	1,241,633
Common stocks	166,292	-	-	166,292
Debt securities	<u>38,231</u>	<u>-</u>	<u>-</u>	<u>38,231</u>
Total of assets at June 30, 2013	<u>\$ 1,567,472</u>	<u>\$ 50,582,537</u>	<u>\$ -</u>	<u>\$ 52,150,009</u>
	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
<u>2012</u>				
Assets				
Investments:				
Archdiocese of Philadelphia 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>



Archdiocese of Philadelphia, Office of Catholic Education  
High Schools

**NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED**

June 30, 2013 and 2012

**NOTE F - PROPERTY AND EQUIPMENT, NET**

Property and equipment and accumulated depreciation at June 30, 2013 and 2012 consist of:

	<u>2013</u>	<u>2012</u>
Land	\$ 6,383,642	\$ 6,383,642
Land improvements	12,505,768	12,195,151
Building	84,000,192	83,410,144
Building improvements	36,786,078	34,782,423
Leasehold improvements	5,448,233	5,268,224
Furniture and fixtures	14,282,720	13,664,353
Vehicles	<u>244,704</u>	<u>225,256</u>
	159,651,337	155,929,193
Accumulated depreciation	<u>(43,976,882)</u>	<u>(38,199,031)</u>
Property and equipment, net	<u>\$ 115,674,455</u>	<u>\$ 117,730,162</u>

Depreciation expense was \$5,777,851 and \$3,500,761 for the years ended June 30, 2013 and 2012, respectively. 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.

**NOTE G - TEMPORARILY RESTRICTED NET ASSETS**

At June 30, 2013 and 2012, temporarily restricted net assets are available for the following purposes:

	<u>2013</u>	<u>2012</u>
Tuition assistance for all schools	\$ 4,096,010	\$ 4,158,815
Tuition assistance for specific schools	5,057,662	5,314,390
Property, plant and equipment for Roman Catholic High School, held by Trustees	6,483,765	6,820,879
Tuition assistance/operations/improvements for specific schools	487,032	443,144
Operations and improvements for specific schools	3,078,091	1,825,144
Accumulated earnings in excess of spending of endowments		
Tuition assistance for all schools	1,508,063	960,053
Tuition assistance for specific schools	157,575	107,429
Operations for Roman Catholic High School, held by Trustees	179,729	20,147
Operations and improvements for all schools	12,076,567	8,658,922
Other for specific schools	<u>3,663</u>	<u>2,968</u>
Total	<u>\$ 33,128,157</u>	<u>\$ 28,311,891</u>

Archdiocese of Philadelphia, Office of Catholic Education  
High Schools

**NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED**

June 30, 2013 and 2012

**NOTE H - PERMANENTLY RESTRICTED NET ASSETS**

At June 30, 2013 and 2012, income from permanently restricted net assets is available for the following purposes:

	<u>2013</u>	<u>2012</u>
Tuition assistance for all schools	\$ 6,594,562	\$ 6,416,788
Tuition assistance for specific schools	1,738,678	1,633,806
Operations for Roman Catholic High School, held by Trustees	1,303,260	1,303,260
Operations and improvements for all schools	25,931,693	25,931,693
Other for specific schools	<u>28,100</u>	<u>28,100</u>
Total	<u>\$ 35,596,293</u>	<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.

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.

(Continued)

**NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED**

June 30, 2013 and 2012

**NOTE I - ENDOWMENTS - Continued**

**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, 2013 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. Deficiencies of this nature totaled \$120,883 as of June 30, 2013. 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, 2012, there were no deficiencies of this nature.

As of June 30, 2013 and 2012, \$35,596,293 and \$35,313,647, respectively, in donor-restricted endowment funds were recorded within permanently restricted net assets.

(Continued)

Archdiocese of Philadelphia, Office of Catholic Education  
High Schools

**NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED**

June 30, 2013 and 2012

**NOTE I - ENDOWMENTS - Continued**

The High Schools had the following endowment activities during the years ended June 30, 2013 and 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, June 30, 2011	\$ -	\$ 11,950,232	\$ 35,029,339	\$ 46,979,571
Investment income	-	924,544	-	924,544
Net depreciation (realized and unrealized losses)	-	(1,818,543)	(52,667)	(1,871,210)
Total investment return	-	(893,999)	(52,667)	(946,666)
Contributions	-	17,520	265,600	283,120
Appropriation of endowment assets for expenditure	-	(1,123,776)	-	(1,123,776)
Change in financially inter-related organizations	-	(57,708)	-	(57,708)
Redesignation of net assets (from) to permanently restricted	-	(71,375)	71,375	-
Endowment net assets, June 30, 2012	-	9,820,894	35,313,647	45,134,541
Investment income	-	876,709	-	876,709
Net appreciation (realized and unrealized gains)	-	4,443,851	163,919	4,607,770
Total investment return	-	5,320,560	163,919	5,484,479
Contributions	-	19,000	118,727	137,727
Appropriation of endowment assets for expenditure	-	(1,515,327)	-	(1,515,327)
Change in financially inter-related organizations	-	159,582	-	159,582
Funds with deficiencies	-	120,883	-	120,883
Endowment net assets, June 30, 2013	<u>\$ -</u>	<u>\$ 13,925,592</u>	<u>\$ 35,596,293</u>	<u>\$ 49,521,885</u>

Archdiocese of Philadelphia, Office of Catholic Education  
High Schools

**NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED**

June 30, 2013 and 2012

**NOTE J - RELATED PARTY TRANSACTIONS**

As of June 30, 2013 and 2012, amounts due from related organizations consisted of the following:

	<u>2013</u>	<u>2012</u>
Office for Financial Services	\$ -	\$ 2,007,186
Other	<u>41,244</u>	<u>5,331</u>
	<u>\$ 41,244</u>	<u>\$ 2,012,517</u>

As of June 30, 2013 and 2012, amounts due to related organizations consisted of the following:

	<u>2013</u>	<u>2012</u>
Office for Financial Services	\$ 440,342	\$ 120,327
Catholic Health Care Services	703,117	-
Roman Catholic Alumni Association	234,000	234,000
Other	<u>127,439</u>	<u>11,043</u>
	<u>\$ 1,504,898</u>	<u>\$ 365,370</u>

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

During the fiscal year ended June 30, 2013, the High Schools entered into transactions with the following related parties:

- The Archdiocese of Philadelphia's Property and Liability Insurance Fund provides insurance for the High School Operations Account. Total premiums paid for fiscal years 2013 and 2012 were \$1,807,719 and \$1,732,712, respectively.
- The High School Operations Account paid \$68,000 and \$88,300 in fiscal years 2013 and 2012, respectively, to Information Technology Services for support of the computer systems.
- The High School Operations Account paid \$993,500 in fiscal year 2012 to the Office for Financial Services for the administrative costs of Educational Financial Services. In July of 2012, the Office of Catholic Education assumed the financial responsibility of Educational Financial Services. The High School Operations Account paid \$2,624,067 and \$1,460,000 in fiscal years 2013 and 2012, respectively, to the Office of Catholic Education for administrative costs.

(Continued)

**NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED**

June 30, 2013 and 2012

**NOTE J - RELATED PARTY TRANSACTIONS - Continued**

- The High School Operations Account paid \$306,083 and \$250,000 in fiscal years 2013 and 2012, respectively, to the Office of Catholic Education for marketing costs.
- The High Schools paid \$45,000 in fiscal years 2013 and 2012 to the Office for Accounting Services for administrative costs associated with capital projects.

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 debts at St. Gabriel's System of \$5,884,446 and St. Francis-St. Joseph Homes for Children 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 to 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, 2013 and 2012

**NOTE J - RELATED PARTY TRANSACTIONS - Continued**

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

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	9,122,935
St. John's Orphan Asylum, a/k/a St. Francis Homes for Boys d/b/a St. Francis-St. Joseph Homes for Children	568,451
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 outstanding debt obligations at June 30, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Office for Financial Services	\$ 2,956,030	\$ 2,995,678
Catholic Cemeteries Office	2,956,030	2,995,678
Catholic Health Care Services of the Archdiocese of Philadelphia	47,999,269	48,713,240
Catholic Charities of the Archdiocese of Philadelphia a/k/a Catholic Social Services	8,989,224	9,109,791
St. John's Orphan Asylum, a/k/a St. Francis Homes for Boys d/b/a St. Francis-St. Joseph Homes for Children	560,119	567,632
Don Guanella Village of the Archdiocese of Philadelphia	3,279,426	3,323,411
St. Edmond's Home for Crippled Children a/k/a St Edmond's Home for Children a/k/a St. Edmond's Home	7,106,468	7,131,594
Divine Providence Village	<u>2,377,216</u>	<u>2,409,100</u>
Total notes payable	<u>\$ 76,223,782</u>	<u>\$ 77,246,124</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.

(Continued)

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE J - RELATED PARTY TRANSACTIONS - Continued

The principal payments relating to the notes payable to Archdiocesan entities are as follows:

Fiscal year ending 2014	\$ 1,411,472
Fiscal year ending 2015	1,468,783
Remaining payment	<u>73,343,527</u>
Total notes payable	<u>\$ 76,223,782</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 schools. The High School Operations Account records a receivable for these deficits and reduces this receivable when a school remits payment from its President's account or if a school has a subsequent operations account surplus. The balance of performance agreements receivable as of June 30, 2013 and 2012 was \$2,962,113 and \$7,398,208, respectively, which are fully reserved by the High School Operations Account. In addition, during 2013 and 2012, \$1,109,696 and \$931,772 was reimbursed, respectively, to OCE by seven of the high schools in 2013 and eight of the high schools in 2012. 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, 2013. The amount expensed by the High Schools for contributions to the Plan totaled \$2,437,419 and \$2,615,798 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 O, Subsequent Events, for further details.

(Continued)



NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE K - EMPLOYEE BENEFITS - Continued

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.

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.

OCE 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.

(Continued)

**NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED**

June 30, 2013 and 2012

**NOTE K - EMPLOYEE BENEFITS - Continued**

Net Periodic Cost

The components of net periodic benefit costs are as follows:

	<u>2013</u>	<u>2012</u>
Service cost	\$ 43,262	\$ 47,527
Interest cost	123,888	187,971
Amortization of		
Net loss	300,163	288,076
Prior service credit	<u>(18,969)</u>	<u>(461)</u>
	<u>\$ 448,344</u>	<u>\$ 523,113</u>

Obligations and Funded Status

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

	<u>2013</u>	<u>2012</u>
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 4,253,650	\$ 4,177,115
Service cost	43,262	47,527
Interest cost	123,888	187,971
Actual plan participants' contributions	18,999	54,249
Amendments	(261,327)	-
Actual loss	346,448	1,012,793
Actual benefit paid	<u>(1,081,162)</u>	<u>(1,226,005)</u>
Benefit obligation at end of year	<u>\$ 3,443,758</u>	<u>\$ 4,253,650</u>
Change in plan assets		
Fair value of plan assets at beginning of year	\$ -	\$ -
Employer contributions	1,062,163	1,171,756
Plan participants' contributions	18,999	54,249
Benefit payments (expected)	<u>(1,081,162)</u>	<u>(1,226,005)</u>
Fair value of plan assets at end of year	<u>\$ -</u>	<u>\$ -</u>
Funded status		
Funded status at end of year	<u>\$ (3,443,758)</u>	<u>\$ (4,253,650)</u>

(Continued)

Archdiocese of Philadelphia, Office of Catholic Education  
High Schools

**NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED**

June 30, 2013 and 2012

**NOTE K - EMPLOYEE BENEFITS - Continued**

	<u>2013</u>	<u>2012</u>
Amounts recognized in unrestricted net assets		
Net actuarial loss	\$ 3,447,508	\$ 3,401,223
Prior service credit	<u>(244,471)</u>	<u>(2,113)</u>
	<u>\$ 3,203,037</u>	<u>\$ 3,399,110</u>
Information for plans with ABO/APBO in excess of plan assets		
Projected benefit obligation	\$ 3,443,758	\$ 4,253,650
Accumulated benefit obligation	3,443,758	4,253,650
Fair value of plan assets	-	-

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

	<u>2013</u>	<u>2012</u>
Net loss	\$ 281,081	\$ 285,591
Prior service credit	(18,969)	(461)

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

	<u>2013</u>	<u>2012</u>
Discount rate	3.25%	3.25%
Healthcare cost trend	8.50%	6.50%
Ultimate rate of increase	5.00%	4.50%
Year that ultimate rate is attained	2022	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	\$ 2,542	\$ (2,212)

(Continued)

Archdiocese of Philadelphia, Office of Catholic Education  
High Schools

**NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED**

June 30, 2013 and 2012

**NOTE K - EMPLOYEE BENEFITS - Continued**

Plan Assets

There are no plan assets.

	<u>2013</u>
<u>Cash flows and estimated future benefit payments</u>	
Employer contributions June 30, 2014 (expected)	\$ 769,564
Employee contributions June 30, 2014 (expected)	19,000
 Expected benefit payments	
June 30, 2014	\$ 769,564
June 30, 2015	607,838
June 30, 2016	500,394
June 30, 2017	419,257
June 30, 2018	302,398
June 30, 2019 - June 30, 2023	802,204

**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, 2013:

2014	\$ 485,973
2015	473,367
2016	178,583
2017	63,888
2018 and thereafter	<u>10,919</u>
	<u>\$ 1,212,730</u>

Lease expenses were \$506,440 and \$418,937 for the years ended June 30, 2013 and 2012, respectively.

Archdiocese of Philadelphia, Office of Catholic Education  
High Schools

**NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED**

June 30, 2013 and 2012

**NOTE M - CONTRIBUTED SERVICES**

	<u>2013</u>	<u>2012</u>
Salaries and benefits - lay equivalent value of religious services	\$ 5,885,688	\$ 5,595,052
EFS services provided to West Catholic	44,515	-
Expended for religious services		
Salaries, related employee benefits and faculty house expenses	<u>(4,340,044)</u>	<u>(4,189,562)</u>
Total contributed services	<u>\$ 1,590,159</u>	<u>\$ 1,405,490</u>

**NOTE N - INCOME TAXES**

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

As of June 30, 2013, the DHS tax years ended June 30, 2010 through June 30, 2013 for federal tax jurisdiction remain open to examination.

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 - SUBSEQUENT EVENTS**

Management evaluated the High Schools' June 30, 2013 and 2012 combined financial statements for subsequent events through December 3, 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 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.

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## SUPPLEMENTAL INFORMATION

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Archdiocese of Philadelphia, Office of Catholic Education  
High Schools

**COMBINING STATEMENT OF FINANCIAL POSITION**

June 30, 2013

	Operations Account	Presidents' Accounts	Eliminations	Total
<b>ASSETS</b>				
Cash and cash equivalents, including amounts held by affiliate	\$ 18,432,475	\$ 13,279,490	\$ -	\$ 31,711,965
Parental tuition and fees receivable, less allowance for doubtful accounts of \$4,344,586 and \$440,408, respectively	3,351,486	824,734	-	4,176,220
Due from related organizations	41,244	-	-	41,244
Accounts receivable - intrafund	2,448,343	55,940	(2,504,283)	-
Pledges receivable, net	95,874	176,561	-	272,435
Other receivables	1,098,852	356,516	-	1,455,368
Prepaid expenses	1,225,281	598,393	-	1,823,674
Beneficial interest in financially inter-related organizations	7,966,753	940,521	-	8,907,274
Investments	50,241,041	1,908,968	-	52,150,009
Property and equipment, net	104,324,739	11,349,716	-	115,674,455
<b>Total assets</b>	<u>\$189,226,088</u>	<u>\$ 29,490,839</u>	<u>\$ (2,504,283)</u>	<u>\$216,212,644</u>
<b>LIABILITIES AND NET ASSETS</b>				
Accounts payable	\$ 2,248,711	\$ 1,655,121	\$ -	\$ 3,903,832
Accrued payroll	6,457,867	-	-	6,457,867
Accrued non-pension retirement benefits	3,443,758	-	-	3,443,758
Accrued vacation	502,122	52,637	-	554,759
Due to related organizations	1,270,898	234,000	-	1,504,898
Accounts payable - intrafund	55,940	5,421,432	(5,477,372)	-
Deferred revenue	523,436	2,408,379	-	2,931,815
Notes payable to Archdiocese of Philadelphia	76,223,782	-	-	76,223,782
<b>Total liabilities</b>	<u>90,726,514</u>	<u>9,771,569</u>	<u>(5,477,372)</u>	<u>95,020,711</u>
<b>Net assets:</b>				
Unrestricted	39,476,164	10,018,230	2,973,089	52,467,483
Temporarily restricted	25,193,895	7,934,262	-	33,128,157
Permanently restricted	33,829,515	1,766,778	-	35,596,293
<b>Total net assets</b>	<u>98,499,574</u>	<u>19,719,270</u>	<u>2,973,089</u>	<u>121,191,933</u>
<b>Total liabilities and net assets</b>	<u>\$189,226,088</u>	<u>\$ 29,490,839</u>	<u>\$ (2,504,283)</u>	<u>\$216,212,644</u>

Archdiocese of Philadelphia, Office of Catholic Education  
High Schools

**COMBINING STATEMENT OF FINANCIAL POSITION**

June 30, 2012

	Operations Account	Presidents' Accounts	Eliminations	Total
<b>ASSETS</b>				
Cash and cash equivalents, including amounts held by affiliate	\$ 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, respectively	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 organizations	8,144,286	-	-	8,144,286
Investments	45,872,070	2,383,100	-	48,255,170
Property and equipment, net	<u>106,614,986</u>	<u>11,115,176</u>	<u>-</u>	<u>117,730,162</u>
<b>Total assets</b>	<u><b>\$184,621,312</b></u>	<u><b>\$ 27,916,132</b></u>	<u><b>\$ (1,395,042)</b></u>	<u><b>\$211,142,402</b></u>
<b>LIABILITIES AND NET ASSETS</b>				
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
Notes payable to Archdiocese of Philadelphia	<u>77,246,124</u>	<u>-</u>	<u>-</u>	<u>77,246,124</u>
<b>Total liabilities</b>	<u><b>91,359,166</b></u>	<u><b>9,589,681</b></u>	<u><b>(5,173,437)</b></u>	<u><b>95,775,410</b></u>
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	<u>33,651,741</u>	<u>1,661,906</u>	<u>-</u>	<u>35,313,647</u>
<b>Total net assets</b>	<u><b>93,262,146</b></u>	<u><b>18,326,451</b></u>	<u><b>3,778,395</b></u>	<u><b>115,366,992</b></u>
<b>Total liabilities and net assets</b>	<u><b>\$184,621,312</b></u>	<u><b>\$ 27,916,132</b></u>	<u><b>\$ (1,395,042)</b></u>	<u><b>\$211,142,402</b></u>



COMBINING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended June 30, 2013

	Operations Account			Presidents' Accounts			Eliminations		Total		
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted
Revenues:											
Tuition and fees funded by:											
Parents and guardians	\$ 77,254,268	\$ -	\$ -	\$ 77,254,268	\$ 15,294,533	\$ -	\$ -	\$ 15,294,533	\$ 92,548,801	\$ -	\$ -
Third-party organizations	3,599,600	-	-	3,599,600	-	-	-	-	3,599,600	-	-
Tax credit programs	1,265,954	-	-	1,265,954	-	-	-	-	1,265,954	-	-
Office of Catholic Education	752,180	-	-	752,180	-	-	-	-	752,180	-	-
School and alumni organizations	3,387,794	-	-	3,387,794	-	-	-	-	3,387,794	-	-
Summer School	184,375	-	-	184,375	-	-	-	-	184,375	-	-
Total	86,444,171	-	-	86,444,171	15,294,533	-	-	15,294,533	101,738,704	-	-
Less:											
Scholarship and tuition assistance eliminations	-	-	-	-	-	-	-	-	6,581,285	-	-
Tuition reductions	1,182,283	-	-	1,182,283	-	-	-	-	1,182,283	-	-
Net tuition and fees	85,261,888	-	-	85,261,888	15,294,533	-	-	15,294,533	93,975,136	-	-
Student activities	-	-	-	-	2,446,219	-	-	2,446,219	2,446,219	-	-
Athletics	-	-	-	-	2,158,694	-	-	2,158,694	2,158,694	-	-
Resale items income - net of disbursements	-	-	-	-	484,245	-	-	484,245	484,245	-	-
Contributions and donations	-	-	-	-	11,381,974	-	-	11,381,974	11,381,974	-	-
Other	-	-	-	-	56,325	-	-	56,325	56,325	-	-
Fund-raising - net of disbursements	154,500	1,451,138	3,912	1,609,550	8,727,040	2,540,119	114,815	11,381,974	8,881,540	3,991,257	118,727
Interest and investment income	1,588,801	-	-	1,588,801	1,321,999	56,325	-	1,378,324	2,710,800	56,325	-
Contributed services	240,269	919,380	-	1,159,649	1,495,987	39,620	-	1,535,607	1,495,987	39,620	-
Total other operating revenues	1,493,705	2,370,518	3,912	5,651,705	16,804,681	2,754,940	114,815	19,674,436	15,901,159	1,038,256	-
Net realized gains (losses) on investments	-	929,500	173,862	1,103,362	17,009	6,368	(9,943)	13,434	17,009	935,868	163,919
Net change in unrealized gains	-	3,792,348	-	3,792,348	88,224	63,968	-	152,192	88,224	3,856,316	-
Total investment gains (losses)	-	4,721,848	173,862	4,895,710	105,233	70,336	(9,943)	165,626	105,233	4,792,184	163,919
Funds with deficiencies	-	-	-	-	(120,883)	-	-	-	(120,883)	-	-
Net assets released from restriction	1,045,000	(1,045,000)	-	-	-	-	-	-	1,045,000	(1,045,000)	-
Satisfaction of purpose restrictions - CL2000	1,400,000	(1,400,000)	-	-	-	-	-	-	1,400,000	(1,400,000)	-
Satisfaction of purpose restrictions - Heritage of Faith	674,075	(674,075)	-	-	1,905,321	(1,905,321)	-	-	2,579,396	(2,579,396)	-
Satisfaction of purpose restrictions - General	91,658,238	3,973,291	177,774	95,809,303	33,988,885	1,040,838	104,872	35,134,595	119,065,838	5,014,129	282,646
Total revenues	11,238,445	3,973,291	177,774	15,389,510	7,198,826	1,040,838	104,872	8,344,536	18,437,271	5,014,129	282,646
Expenses:											
Administration	-	-	-	-	6,581,285	-	-	6,581,285	-	-	-
Scholarship and tuition assistance	-	-	-	-	4,209,797	-	-	4,209,797	-	-	-
Instruction	-	-	-	-	4,066,239	-	-	4,066,239	-	-	-
Operations and maintenance of plant	-	-	-	-	1,441,902	-	-	1,441,902	-	-	-
Employee benefits	-	-	-	-	3,669,898	-	-	3,669,898	-	-	-
Student activities	-	-	-	-	6,303,555	-	-	6,303,555	-	-	-
Athletics	-	-	-	-	-	-	-	-	-	-	-
Debt service	-	-	-	-	461,436	-	-	461,436	-	-	-
Other	-	-	-	-	33,632,938	-	-	33,632,938	-	-	-
Total expenses	-	-	-	-	55,947	-	-	55,947	-	-	-
Change in net assets before other items	(135,801)	3,973,291	177,774	4,015,264	355,947	1,040,838	104,872	1,501,657	220,146	5,014,129	282,646
Change in financially inter-related organizations	-	(177,532)	-	(177,532)	625,620	(140,068)	-	485,552	625,620	(317,600)	-
Redesignation of net assets (from) to temporarily restricted	-	-	-	-	(119,737)	119,737	-	-	(119,737)	119,737	-
Payment of operations deficits	-	-	-	-	(1,109,696)	-	-	(1,109,696)	-	-	-
Change in amounts due Office of Catholic Education for operations	-	-	-	-	805,306	-	-	805,306	-	-	-
Transfer of funds to (expense)/from income	-	-	-	-	(290,000)	-	-	(290,000)	-	-	-
Change in net assets	1,263,895	3,795,759	177,774	5,237,428	267,440	1,020,507	104,872	1,392,819	726,029	4,816,266	282,646
Net assets											
Beginning of year	38,212,269	21,398,136	33,651,741	93,262,146	9,750,790	6,913,755	1,661,906	18,326,451	51,741,454	28,311,891	35,313,647
End of year	\$ 39,476,164	\$ 25,193,895	\$ 33,829,515	\$ 98,499,574	\$ 10,018,230	\$ 7,934,262	\$ 1,766,778	\$ 19,719,270	\$ 52,467,483	\$ 33,128,157	\$ 35,596,293

Revenues:

### Parents and guardians

## Tax credit programs

School and alumni organizations

Total

less:

Tuition reductions

Net tuition and fees

Student activities  
Athletics

Resale items income - net of disburse  
Contributions and donations

Other  
Fund-raising - net of disbursements

Interest and investment income

Total other operating revenues

Net realized (losses) gains on investments

Total investment (losses) gain

Net assets released from restriction

Satisfaction of purpose restriction

Total revenues

enses:

Scholarship and tuition assistance

### Operations and maintenance of plants

Student activities

Debt service

Total expenses

Change in net assets before o

change in financially inter-related organi-

Transfer to Office for Financial Services

ment of operations deficits

transfer of funds to (expense)/from income

Change in net assets

assets

10