

Office of Catholic Education

Narrative Explaining Audited Financial Statements for the Year Ended June 30, 2014

This narrative accompanies the audited financial statements for the year ended June 30, 2014 for the Office of Catholic Education entities including the High Schools (see audited financial statements for Archdiocese of Philadelphia Office of Catholic Education High Schools), Schools of Special Education (see audited financial statements for Archdiocese of Philadelphia Office of Catholic Education Schools of Special Education), and the OCE Administration Account (see Archdiocese of Philadelphia Office of Catholic Education Administration Account). The High Schools include combined financial statements for the seventeen high schools owned by the Archdiocese. The Schools of Special Education include the financial statements for the four schools for children with special needs. A more detailed description of the entities, including those that are not included in the financial statements, appears in Note A of each set of financial statements.

The audited financial statements for all three entities provide information on the fiscal year ended June 30, 2014 (Fiscal 2014) and year ended June 30, 2013 (Fiscal 2013).

High Schools



Figure 1 Bishop McDevitt High School Graduation 2014

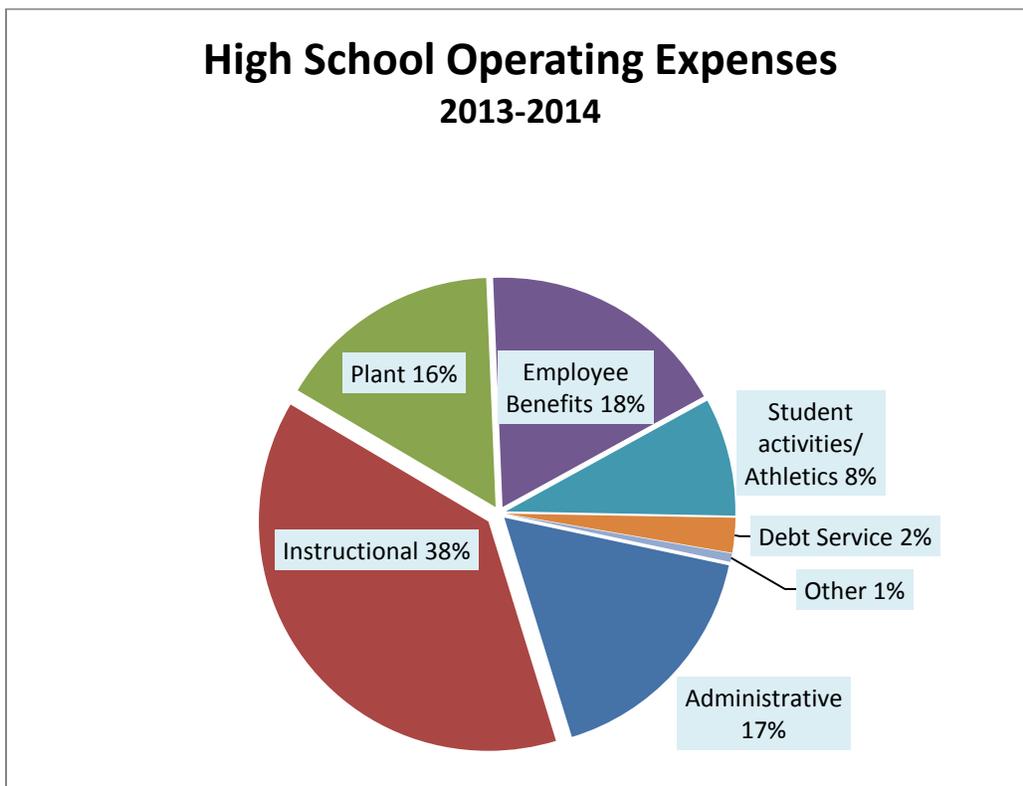
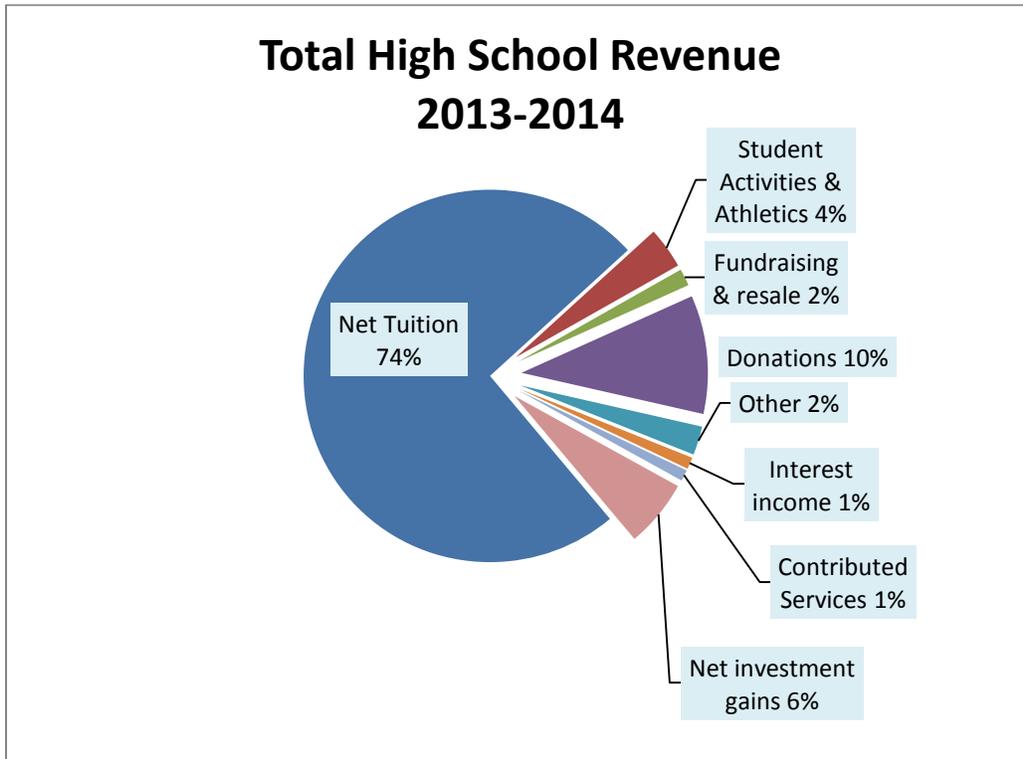
The High Schools financial statements provide the overall financial position and results for the operations of the high schools which educated 13,794 in Fiscal 2014 and 14,205 students in Fiscal 2013. The statements combine the centralized High School Operations Account with the seventeen locally managed Presidents Accounts. The Supplemental Schedules provide detail on the combination with pages 32 and 33 showing the breakdown of Operations Account revenue and expenses and locally funded revenue and expenses (the Presidents' accounts). Tuition was the primary source of Operations Account revenue which

supported administrative and instructional salaries and benefits along with plant expenses. Revenue from school fees, donations, fund-raising, athletics and activities raised locally was expended for scholarships and tuition assistance, activities, athletics, and local administrative, instructional and other costs through the Presidents' Accounts.

As shown in the table below, there was a total change in net assets of \$5.1 million for Fiscal 2014 which is slight decrease from the change of \$5.8 million in Fiscal 2013. Investment gains in Fiscal 2014 were \$7.5 million a significant increase from Fiscal 2013 investment gains of \$5.1 million.

	Fiscal 2014	Fiscal 2013
Change in Unrestricted Net Assets	(\$838,573)	\$ 726,029
Change in Temporarily Restricted Net Assets	5,281,477	4,816,266
Change in Permanently Restricted Net Assets	635,229	282,646
Total Change in Net Assets	\$ 5,078,133	\$ 5,824,941

In Fiscal 2014, tuition and fee revenue accounted for 74% of the revenue generating \$95.3 million. Donations generated another \$13.2 million or 10%. We are thankful for the generosity of our alumni and other benefactors who support our high schools. Most of the funds generated from alumni are used to help provide tuition assistance for needy families.



In Fiscal 2014, High School operating expenses totaled \$122.9 million, thus the average total cost per student, including the cost of extracurricular activities, was \$8,910, an increase of \$544 from Fiscal 2013. Actual tuition and fee charges were lower since other sources of funding make up for the difference. The High School Operations Account portion of the total expenses, funded primarily through tuition, accounted for 76% of the expenses, while local spending by each school through the Presidents' accounts represented 24% of the expenses. This system allows economies of scale to be realized for certain centralized functions while giving site based responsibility for other costs better managed at the local level. The system has resulted in lower tuition costs for our Archdiocesan schools than for most Catholic high schools across the country.

Instructional costs make up the largest expense at 38%, followed by employee benefits at 18% of total operating expenses.

While unrestricted net assets were \$51.6 million at June 30, 2014, it should be noted that not all of this total was cash available for operations. Property and equipment represented \$114.3 million of total assets and there was long term debt of \$66.4 million representing debt incurred in the construction of new schools in 1997 and 2008. Thus, \$47.8 million of this total is net property and equipment. In addition, the net assets of the Presidents' accounts are only available for use at specific schools.

Temporarily restricted funds have donor imposed restrictions that the High Schools must follow in the use of these funds. As described in Note G to the financial statements, these funds are typically restricted for tuition assistance or operations and improvements.

Permanently restricted funds have donor imposed restrictions that require the asset to be maintained permanently, but which allow the High Schools to spend all or part of the income. As described in Note H to the financial statements, the endowments are generally for tuition assistance or operations and improvements. The largest fund is the endowment from the Catholic Life 2000 campaign which totaled \$25.9 million at June 30, 2014. The high schools used approximately \$1.1 million for operations and maintenance from the earnings on this endowment in the Fiscal 2014.

Schools of Special Education



Figure 2 Bishop Thomas visit to St. Katherine Day School

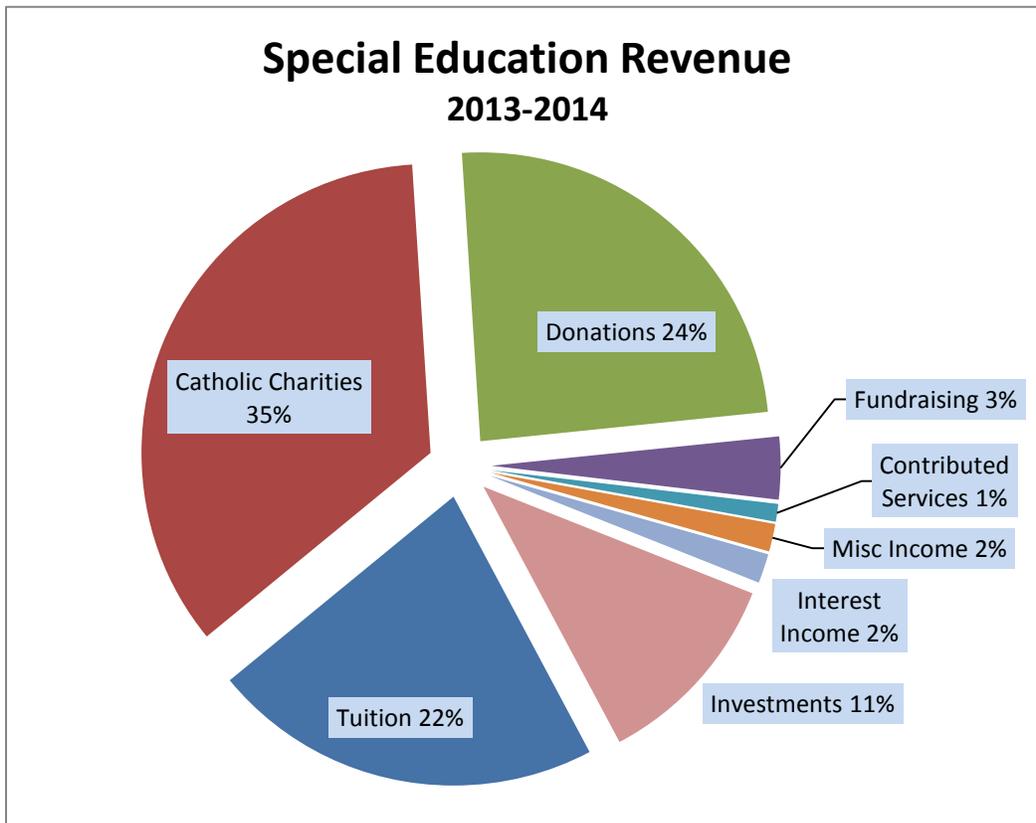
The Schools of Special Education include Archbishop Ryan Academy, St. Lucy Day School, St. Katherine Day School and Our Lady of Confidence Day School. These schools provide a Catholic education to students with autism spectrum disorder and cognitive impairments and students with sensory impairments such as visual loss or deafness or hearing loss. The students receive specially designed instruction that includes supplementary aids and services in the least restrictive environment, as well as the full benefits of a Catholic education. These

schools are one of a kind; there are no other alternatives for parents seeking a Catholic education for their special needs students in Philadelphia. In Fiscal 2014, the schools enrolled 204 students.

The Schools of Special Education had a net gain in unrestricted funds of \$315,901 in Fiscal 2014. Also, designated net assets increased by \$287,053 and, temporarily restricted net assets increased by \$171,300 due to the use of funds for operations and gains on investments for the year. In Fiscal 2014 two permanently restricted net assets of the Schools of Special Education were recorded for the George

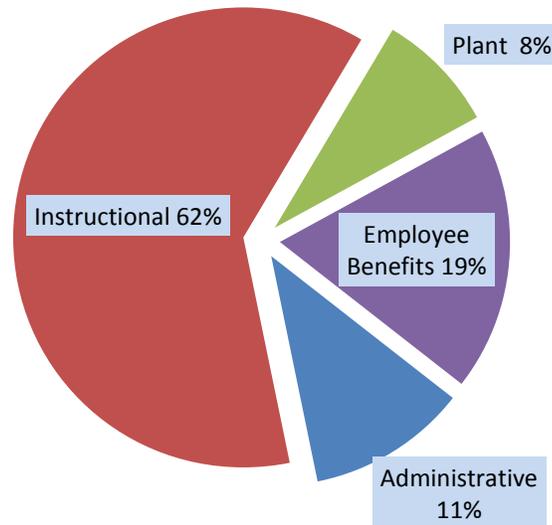
Grover Trust and Jeremiah Harrigan Trust which are separate financially inter-related entities. Due to the recording of these investments the permanently restricted net assets increased to \$283,419. In total, net assets increased by \$1.1 million.

The primary source of revenue for the Schools of Special Education is Catholic Charities which provided a distribution of \$1.4 million in Fiscal 2014 or 35% of total revenue. Revenue from Catholic Charities for Special Education increased \$218,635 from Fiscal 2013. The people of the Archdiocese of Philadelphia have generously supported these schools through Catholic Charities for decades. Up until 1989 the schools were able to operate without having to charge tuition. Tuition revenue accounted for 22% of revenue while donations raised by the local schools generated 24% of total revenue.



Special Education Expenses

2013-2014



Instructional expenses represented the largest portion of expenses at 62%, followed by employee benefits at 19%. Due to the need for low student/teacher ratios, the cost per student was \$14,595 in Fiscal 2014. The Schools of Special Education only own one property, St. Katherine's Day School. The other schools use space in elementary and high schools.

Office of Catholic Education Administration

The Office of Catholic Education is responsible for providing administrative support to elementary, special education, and high schools, as well as, providing for support for the Catechetical programs in the Archdiocese. The Office operates a number of programs to provide training for teachers and administrators, and direction on curriculum and instruction and the use of technology in instruction.

In Fiscal 2014, there was an increase in net assets of \$4.6 million. There was also an increase in net assets of \$2.7 million in Fiscal 2013. Favorable investment performance is responsible again for most of the improved financial results with realized gains of \$1,161,549 in Fiscal 2014 vs. gains of \$772,791 in Fiscal 2013. The value of a beneficial trust held by a third party increased by \$1.2 million in Fiscal 2014 which is similar to the Fiscal 2013 increase in value of \$1.2 million.

	Fiscal 2014	Fiscal 2013
Change in Unrestricted Net Assets	\$ 282,914	\$ 232,252
Change in Designated Net Assets	124,963	144,746
Change in Temporarily Restricted Net Assets	1,430,222	729,431
Change in Permanently Restricted Net Assets	2,794,707	1,568,697
Total Change in Net Assets	\$ 4,632,806	\$ 2,675,126

Elementary schools are operated at the local level by parishes or regional boards, so their financial results are not included in any of the financial reports of the Office of Catholic Education. Similarly, the report does not include the financial activity of parish religious education programs.

During Fiscal 2014, revenue for the Office came from the following sources:

High Schools and Special Education Schools	29%
Change in Beneficial Trust (Sullivan)	24%
Distribution from Sullivan Trust	13%
Archdiocesan Educational Fund	7%
Program Revenue	6%
Donations	6%
Other	15%

The Archdiocesan Educational Fund is a third-party endowment fund established to support educational needs of the Archdiocese of Philadelphia which is managed by a separate board. In Fiscal 2013, the Board determined that it would reduce its support for the Administration of the Office of Catholic Education beginning in Fiscal 2014 by \$200,000 each year.

Net assets at June 30, 2014 include \$6.8 million in temporarily restricted net assets (see Note E to the financial statements) to be used for tuition assistance or programs. Permanently restricted net assets include \$32.4 million (see Note F to the financial statements) to be used for programs and tuition assistance. The permanently restricted net assets include the Francis W. Sullivan Trust which is managed by an outside trust which provides annual support for tuition assistance and educational programs for all levels of education. The tuition assistance funds included in the Office of Catholic Education financial statements support elementary programs or provide for general funding at any level of education. Funds which can only be used in high schools or special education schools are included in those financial statements.