

Financial Statements and Report of
Independent Certified Public Accountants

Archdiocese of Philadelphia
Catholic Charities Appeal Fund

June 30, 2017 and 2016

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Report of Independent Certified Public Accountants

Archdiocese of Philadelphia
Catholic Charities Appeal Fund
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Report on the financial statements

We have audited the accompanying financial statements of the Archdiocese of Philadelphia Catholic Charities Appeal Fund (the "Appeal Fund"), which comprise the statements of financial position as of June 30, 2017 and 2016, 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 the Appeal Fund'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 the Appeal Fund'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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Archdiocese of Philadelphia Catholic Charities Appeal Fund as of June 30, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information contained in the Supplemental Schedule of Appeal Fund Allocations for the years ended June 30, 2017 and 2016 is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audits of the 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

A handwritten signature in black ink that reads "Grant Thornton LLP". The signature is written in a cursive, flowing style.

Philadelphia, Pennsylvania

January 18, 2018

Archdiocese of Philadelphia Catholic Charities Appeal Fund

STATEMENTS OF FINANCIAL POSITION

June 30,

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 1,732,424	\$ 1,703,447
Pledges and other receivables, net of allowance for doubtful accounts of \$126,801 and \$101,893 at June 30, 2017 and 2016, respectively	758,591	381,297
Investments	435,348	420,219
Beneficial interest in perpetual trusts	<u>779,409</u>	<u>744,742</u>
 Total assets	 <u>\$ 3,705,772</u>	 <u>\$ 3,249,705</u>
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Charitable gift annuities payable	\$ 241,632	\$ 248,578
Accrued expenses and other payables	<u>439</u>	<u>53,495</u>
 Total liabilities	 <u>242,071</u>	 <u>302,073</u>
 NET ASSETS		
Unrestricted	2,566,279	2,096,518
Temporarily restricted	118,013	106,372
Permanently restricted	<u>779,409</u>	<u>744,742</u>
 Total net assets	 <u>3,463,701</u>	 <u>2,947,632</u>
 Total liabilities and net assets	 <u>\$ 3,705,772</u>	 <u>\$ 3,249,705</u>

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

Archdiocese of Philadelphia Catholic Charities Appeal Fund

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Years ended June 30,

	2017				2016			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues								
Contributions	\$ 12,572,338	\$ -	\$ -	\$ 12,572,338	\$ 10,686,760	\$ -	\$ -	\$ 10,686,760
Total revenues	12,572,338	-	-	12,572,338	10,686,760	-	-	10,686,760
Other support								
Income from invested funds	3,376	3,510	22,790	29,676	2,999	3,089	29,428	35,516
Net realized and unrealized appreciation (depreciation) on investments	21,136	23,836	68,724	113,696	(4,101)	(5,042)	(45,393)	(54,536)
Net assets released from restrictions	57,357	(510)	(56,847)	-	52,716	(448)	(52,268)	-
Change in charitable gift annuities	(13,502)	(15,195)	-	(28,697)	(13,038)	(13,941)	-	(26,979)
Total revenues and other support	12,640,705	11,641	34,667	12,687,013	10,725,336	(16,342)	(68,233)	10,640,761
Expenditures								
Subsidies	10,064,593	-	-	10,064,593	8,766,758	-	-	8,766,758
Fundraising and administrative expenses	2,060,528	-	-	2,060,528	1,988,673	-	-	1,988,673
Bad debt expense	30,062	-	-	30,062	61,805	-	-	61,805
Investment advisory fees	15,761	-	-	15,761	10,544	-	-	10,544
Total expenditures	12,170,944	-	-	12,170,944	10,827,780	-	-	10,827,780
Change in net assets	469,761	11,641	34,667	516,069	(102,444)	(16,342)	(68,233)	(187,019)
Net assets, beginning of year	2,096,518	106,372	744,742	2,947,632	2,198,962	122,714	812,975	3,134,651
Net assets, end of year	\$ 2,566,279	\$ 118,013	\$ 779,409	\$ 3,463,701	\$ 2,096,518	\$ 106,372	\$ 744,742	\$ 2,947,632

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

Archdiocese of Philadelphia Catholic Charities Appeal Fund

STATEMENTS OF CASH FLOWS

Years ended June 30,

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Change in net assets	\$ 516,069	\$ (187,019)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Bad debt expense	30,062	61,805
Net realized and unrealized (gains) losses on investments	(44,972)	9,143
Change in due from related parties	-	311,364
Change in pledges and other receivables	(407,356)	(177,172)
Change in beneficial interest in perpetual trusts	(34,667)	68,233
Change in due to related parties	-	(35,000)
Change in accrued expenses and other payables	<u>(60,002)</u>	<u>80,474</u>
Net cash (used in) provided by operating activities	<u>(866)</u>	<u>131,828</u>
Cash flows from investing activities		
Purchase of investments	(77,070)	(6,088)
Proceeds from sale of investments	<u>106,913</u>	<u>1,139</u>
Net cash provided by (used in) investing activities	<u>29,843</u>	<u>(4,949)</u>
Net increase in cash and cash equivalents	28,977	126,879
Cash and cash equivalents		
Beginning of year	<u>1,703,447</u>	<u>1,576,568</u>
End of year	<u>\$ 1,732,424</u>	<u>\$ 1,703,447</u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE A - NATURE OF OPERATIONS

The Catholic Charities Appeal Fund (the "Appeal Fund") is a Pennsylvania nonprofit corporation governed by a Board of Directors. The Appeal Fund conducts the annual solicitation of funds within the parishes of the Archdiocese of Philadelphia to help support the financial needs of many of the social ministry programs of the Archdiocese of Philadelphia ("Archdiocese").

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

2. Financial Statement Presentation

Information regarding the financial position and activities of the Appeal Fund is reported according to three classes of net assets based on the existence or absence of donor-imposed restrictions as follows: unrestricted, temporarily restricted and permanently restricted net assets.

Unrestricted net assets - Net assets that are not subject to donor-imposed restrictions and that may be expendable for any purpose in performing the primary objectives of the Appeal Fund.

Temporarily restricted net assets - Gifts, pledges, and income and appreciation subject to donor-imposed stipulations that may or will be met either by actions of the Appeal Fund and/or through the passage of time. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying financial statements as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted contributions. Temporarily restricted net assets consist of charitable gift annuities.

Permanently restricted net assets - Gifts, pledges, and income and appreciation subject to donor-imposed stipulations that require that the amounts contributed be invested in perpetuity. In the absence of donor-imposed restrictions on the use of the income generated by permanently restricted net assets, income and gains generated from such contributions are available for the general operations. Permanently restricted net assets consist of interests in perpetual trusts.

3. Cash and Cash Equivalents

The Appeal Fund considers all unrestricted highly liquid investments with an original maturity of three months or less, and that are not held as components of its respective investment portfolio, to be cash equivalents. At June 30, 2017, the Appeal Fund has cash balances on deposit with a financial institution that exceed the balance insured by the Federal Deposit Insurance Corporation of \$250,000 by \$1,482,424. At June 30, 2017 and 2016, the Appeal Fund has not experienced any losses in such accounts.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

4. Pledges, Contributions and Other Receivables

Unconditional promises to give (“pledges”) are recorded as receivables and revenues at fair value within the appropriate net asset category at the date the promise is received. Donor-restricted gifts that are received and either spent or deemed spent within the same year are reported as unrestricted revenues and expenses. All pledges are considered due in one year. The Appeal Fund is not the recipient of any conditional pledges. Other receivables are amounts due to the Appeal Fund from payors other than donors.

5. Allowance for Doubtful Accounts

The Appeal Fund provides for an allowance for doubtful accounts when information available indicates that it is probable that a receivable has been impaired. The allowance for doubtful accounts is provided based upon management’s judgments including such factors as prior collection history and the passage of time relative to the campaign. The amount of expected impairment is based on management’s best estimate. Pledges are written off on a specific identification basis.

6. Subsidies

The Appeal Fund recognizes expenditures relating to commitments and grants in the statements of activities and changes in net assets when such funds are made available to the grantee, or when specific grants are recommended by the Board of Directors and approved by the Archbishop of Philadelphia.

7. Investments

SEI, a provider of institutional asset management services, created two publicly traded Catholic Values mutual funds: the Catholic Values Equity Fund and the Catholic Values Fixed Income Fund (“Catholic Values Funds”), which provide Catholic institutions with high quality investment products that align with their core values, without sacrificing diversification or return potential. Specifically, the Catholic Values Funds align with the investment directives set forth by the United States Conference of Catholic Bishops (“USCCB”). The Archdiocese appointed SEI Private Trust Company to act as custodian (the “Custodian”) of the investments, which consist of certain cash and securities and are more fully described in Notes C and D. Investment allocation decisions are the responsibility of the applicable Archdiocesan entity’s board or finance council.

Investments are reported at fair value. Realized gains and losses are reported to the participating entities monthly. Gains and losses realized by the participating entities as a result of sales are recorded in their specific accounts. Unrealized gains and losses are included in the statements of activities and changes in net assets as net appreciation or depreciation in the fair value of investments.

8. Beneficial Interest in Perpetual Trusts

The Archdiocese is the sole beneficiary of the income of individual trusts held in perpetuity that were established by third parties. The supporting charitable trusts require the income to be paid to the Appeal Fund. The beneficial interest in the supporting charitable trusts is recorded at the fair value of the assets.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The underlying investments of the beneficial interest in the supporting charitable trusts consist of government obligations, mutual funds, and equity securities. The Appeal Fund receives statements from each of the trustees, which detail the fair value of each investment in the supporting charitable trusts.

9. Charitable Gift Annuities Payable

The Appeal Fund enters into charitable gift annuity arrangements, whereby the assets are included in the investments in the Catholic Values Funds described above at June 30, 2017 and 2016. Periodic annuity payments are made to the donor or their beneficiaries until death. Upon receipt of the assets, a liability is recorded at the present value of the estimated future payments to be distributed over the donor's and/or other beneficiaries' expected life, based on the GAM-2000 Mortality Tables and discount rates set when the annuity agreement is established, which range between 2.00% and 4.51%. The annuity agreement stipulates that the Appeal Fund has unrestricted and unencumbered assets in the form of cash, cash equivalents, or publicly traded securities of at least \$100,000 plus one-half of the principal value of any annuities issued by the Archdiocese and now in effect. The Appeal Fund's unrestricted net assets at June 30, 2017 and 2016 totaled \$2,566,279 and \$2,096,518, respectively, which exceeds the agreement stipulation.

10. Income Tax Status

The Appeal Fund is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code through its inclusion in the USCCB group ruling and listing in the Official Catholic Directory. Accordingly, donations to the Appeal Fund qualify for the charitable contribution deduction.

The Appeal Fund follows the accounting guidance for uncertainties in income tax positions which requires that a tax position be recognized or not recognized based on a "more likely than not" threshold. This applies to positions taken or expected to be taken in a tax return. The Appeal Fund does not believe its financial statements include any material uncertain tax positions. The Appeal Fund is no longer subject to U.S. federal and state tax examinations for years prior to the year ended June 30, 2014.

11. Risks and Uncertainties

The Appeal Fund's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents and investments. Cash and cash equivalents are held in a high-quality financial institution. The Appeal Fund has various investment securities invested in SEI Catholic Values Funds. These securities are exposed to various risks such as interest rate, market and credit. Due to the level of risk associated with investments, it is at least reasonably possible that changes in the value of investments will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

12. Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP 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 or revenue and expenses during the reporting period. These significant estimates include the fair values of investments, allowance for doubtful accounts, allocation of functional expenses and assumptions related to annuities payable. Actual results could differ from these estimates.

NOTE C - INVESTMENTS

The total investments of the Appeal Fund at June 30, 2017 and 2016 are detailed as follows:

	<u>2017</u>	<u>2016</u>
Investment in SEI Catholic Values Funds	\$ <u>435,348</u>	\$ <u>420,219</u>
Total investments	\$ <u><u>435,348</u></u>	\$ <u><u>420,219</u></u>

Investment in SEI Catholic Values Funds

Investments held at SEI are reported at fair value and consist of the following:

Catholic Values Equity Fund (or "equity fund") - Invests in common stocks and is managed by SEI. The equity fund is valued at the closing price of the traded fund.

Catholic Values Fixed Income Fund (or "fixed income fund") - Invests in mutual funds, corporate obligations, United States Treasury obligations and municipal obligations and is managed by SEI. The fixed income fund is valued at the closing price of the traded fund.

Cash Plus (or "fund") - Investments are liquid in nature and invested in short-duration U.S. government bonds.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

NOTE D - FAIR VALUE MEASUREMENTS

Financial Accounting Standards Board (“FASB”) 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 as of the measurement date.
- 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 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.

Fair value calculations may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Appeal Fund 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 following table presents the fair values of the investments held by the Appeal Fund by level within the fair value hierarchy, as of June 30, 2017:

	Quoted prices in active markets <u>(Level 1)</u>	Significant other observable inputs <u>(Level 2)</u>	Significant inputs supported by little or no market activity <u>(Level 3)</u>	Total fair value <u></u>
Assets				
Investments:				
Investment in SEI Catholic Values Funds	\$ 435,348	\$ -	\$ -	\$ 435,348
Beneficial interest in perpetual trusts	<u>-</u>	<u>-</u>	<u>779,409</u>	<u>779,409</u>
Total assets at June 30, 2017	<u>\$ 435,348</u>	<u>\$ -</u>	<u>\$ 779,409</u>	<u>\$ 1,214,757</u>

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

NOTE D - FAIR VALUE MEASUREMENTS - Continued

The following table presents the fair values of the investments held by the Appeal Fund by level within the fair value hierarchy, as of June 30, 2016:

	Quoted prices in active markets <u>(Level 1)</u>	Significant other observable inputs <u>(Level 2)</u>	Significant inputs supported by little or no market activity <u>(Level 3)</u>	Total fair value <u>_____</u>
Assets				
Investments:				
Investment in SEI Catholic Values Funds	\$ 420,219	\$ -	\$ -	\$ 420,219
Beneficial interest in perpetual trusts	<u>-</u>	<u>-</u>	<u>744,742</u>	<u>744,742</u>
Total assets at June 30, 2016	<u>\$ 420,219</u>	<u>\$ -</u>	<u>\$ 744,742</u>	<u>\$ 1,164,961</u>

The following table present assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30, 2017 and 2016:

	<u>Beneficial interest in perpetual trusts</u>	
	<u>2017</u>	<u>2016</u>
Beginning balance	\$ 744,742	\$ 812,975
Gains	75,754	29,428
Losses	<u>-</u>	<u>(55,821)</u>
Net activity	75,754	(26,393)
Distributions from trusts	<u>(41,087)</u>	<u>(41,840)</u>
Total investments	<u>\$ 779,409</u>	<u>\$ 744,742</u>

NOTE E - FUNCTIONAL EXPENSES

The following table summarizes program and supporting expenses for the years ended June 30:

	<u>2017</u>	<u>2016</u>
Program expenses	\$ 10,064,593	\$ 8,766,758
Supporting expenses	<u>2,106,351</u>	<u>2,061,022</u>
Total expenditures	<u>\$ 12,170,944</u>	<u>\$ 10,827,780</u>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

NOTE F - RELATED PARTY TRANSACTIONS

Certain members of the Board of Directors for the Appeal Fund serve as board members of other Archdiocesan entities.

Effective July 1, 2013, the Catholic Foundation of Greater Philadelphia (“CFGP”) was formed to manage charitable fundraising for the Archdiocese. These efforts were previously managed by the Office for Stewardship and Development, a department within the Archdiocese of Philadelphia - Office for Financial Services (“OFS”). The entire Office for Stewardship and Development was transitioned to the CFGP during the fiscal year ended June 30, 2014. The administrative services agreement, previously between the Appeal Fund and OFS, to provide certain administrative and management services, was also transitioned to the CFGP during the fiscal year ended June 30, 2014. This expense totaled approximately \$1,620,000 and \$1,421,000 for the years ended June 30, 2017 and 2016, respectively. During the years ended June 30, 2017 and 2016, the Appeal Fund incurred an additional \$253,000 and \$410,000, respectively, of expenses from CFGP for additional work performed outside the scope of the administrative and management services contract.

The Appeal Fund provides subsidies to certain Archdiocesan entities. The amounts of subsidies provided by the Appeal Fund were \$10,064,593 and \$8,766,758 for the years ended June 30, 2017 and 2016, respectively.

NOTE G - SUBSEQUENT EVENTS

FASB ASC 855, *Subsequent Events*, establishes the principles and requirements for evaluating and reporting subsequent events, including: the period subject to evaluation for subsequent events; the circumstances requiring recognition of subsequent events in the financial statements; and the required disclosures. The Appeal Fund evaluated events subsequent to June 30, 2017 and through January 18, 2018, the date the financial statements were available to be issued. The Appeal Fund is not aware of any subsequent event that would require recognition or disclosure in the financial statements.

SUPPLEMENTAL INFORMATION

Archdiocese of Philadelphia Catholic Charities Appeal Fund

SUPPLEMENTAL SCHEDULE OF APPEAL FUND ALLOCATIONS

Years ended June 30,

	<u>2017</u>	<u>2016</u>
Catholic Social Services	\$ 4,907,663	\$ 4,201,189
Schools for Special Education	1,357,682	1,113,581
Interparochial Parish Cooperative Commission	1,022,429	875,248
Sick and Retired Priests	920,187	787,722
Cultural Ministries	613,457	525,148
Life, Family and Laity	511,216	437,623
Nutritional Development Services	362,612	421,854
Archbishop's Christmas Benefit for Children	369,147	396,982
Apostolic Impact Fund	<u>200</u>	<u>7,411</u>
	<u>\$ 10,064,593</u>	<u>\$ 8,766,758</u>