

Financial Statements and Report of  
Independent Certified Public Accountants

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

June 30, 2019 and 2018

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**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

To the Archbishop of Philadelphia and the Faith in the Future Foundation  
Archdiocese of Philadelphia

We have audited the accompanying financial statements of the Archdiocese of Philadelphia, Office of Catholic Education High Schools (“High Schools”), which comprise the statements of financial position as of June 30, 2019 and 2018, 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 High Schools’ 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 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 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, Office of Catholic Education High Schools as of June 30, 2019 and 2018, 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.



Philadelphia, Pennsylvania  
April 9, 2020

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

**STATEMENTS OF FINANCIAL POSITION**

**As of June 30,**

	<b>2019</b>	<b>2018</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 28,973,733	\$ 28,380,019
Parental tuition and fees receivable, less allowance for doubtful accounts of \$4,782,898 and \$5,332,291	2,405,213	2,140,238
Due from related organizations (Note I)	905,821	132
Pledges receivable, net (Note C)	3,530,698	4,819,123
Other receivables	3,809,424	1,832,359
Prepaid expenses and other assets	2,114,301	2,414,291
Beneficial interest in financially inter-related organizations	14,726,996	14,062,733
Investments (Note D)	78,296,394	76,379,943
Property and equipment, net (Note F)	109,856,566	110,736,096
 Total assets	 \$ 244,619,146	 \$ 240,764,934
<b>LIABILITIES AND NET ASSETS</b>		
Accounts payable	\$ 5,137,227	\$ 3,374,808
Accrued payroll	5,923,528	6,211,928
Accrued non-pension retirement benefits (Note J)	1,759,123	1,844,828
Accrued vacation (Note J)	794,844	783,397
Incurred but not reported medical claims (Note B)	753,000	1,034,000
Due to related organizations (Note I)	569,157	250,056
Deferred revenue	12,871,347	12,316,155
Notes payable to Archdiocese of Philadelphia (Note I)	52,335,227	53,816,960
 Total liabilities	 80,143,453	 79,632,132
<b>Net assets</b>		
Without donor restrictions	70,106,372	69,361,489
With donor restrictions (Note G)	94,369,321	91,771,313
 Total net assets	 164,475,693	 161,132,802
 Total liabilities and net assets	 \$ 244,619,146	 \$ 240,764,934

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

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

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

Year ended June 30, 2019

	Without donor restrictions	With donor restrictions	Total
<b>Revenues:</b>			
Basic tuition	\$ 91,200,992	\$ -	\$ 91,200,992
Supplemental and special tuition	653,956	-	653,956
International tuition	512,800	-	512,800
School fee	16,059,466	-	16,059,466
Other school fees	6,852,547	-	6,852,547
Total gross tuition and fees	<u>115,279,761</u>	<u>-</u>	<u>115,279,761</u>
<b>Less:</b>			
Scholarships and tuition assistance	7,991,171	-	7,991,171
Tuition reductions	6,983,274	-	6,983,274
Net tuition and fees	<u>100,305,316</u>	<u>-</u>	<u>100,305,316</u>
Donations	7,809,859	5,701,429	13,511,288
Fundraising income-net of disbursements	1,342,523	164,215	1,506,738
Resale-net of purchases	302,760	-	302,760
Commissions	698,811	-	698,811
Rental income	1,704,168	-	1,704,168
Ticket sales	1,404,486	-	1,404,486
Program revenue	620,259	-	620,259
Other revenues	2,112,309	4,650	2,116,959
Interest and investment income	379,465	2,809,041	3,188,506
Contributed services (Note N)	561,094	-	561,094
Total other operating revenues	<u>16,935,734</u>	<u>8,679,335</u>	<u>25,615,069</u>
Net realized (losses) gains on investments	(33,643)	699,545	665,902
Net change in unrealized gains on investments	194,399	965,774	1,160,173
Total investment gains	<u>160,756</u>	<u>1,665,319</u>	<u>1,826,075</u>
Net assets released from restriction			
Satisfaction of purpose restrictions - CL2000	1,748,760	(1,748,760)	-
Satisfaction of purpose restrictions - Heritage of Faith	900,000	(900,000)	-
Satisfaction of purpose restrictions - General	5,191,091	(5,191,091)	-
Total revenues	<u>125,241,657</u>	<u>2,504,803</u>	<u>127,746,460</u>
<b>Expenses:</b>			
Salaries	56,329,726	-	56,329,726
Employee benefits	20,704,129	-	20,704,129
Purchased services	18,392,235	-	18,392,235
Plant	14,913,376	-	14,913,376
Support expenses	12,601,485	-	12,601,485
Debt service	2,130,637	-	2,130,637
Total expenses	<u>125,071,588</u>	<u>-</u>	<u>125,071,588</u>
Change in net assets before other items	170,069	2,504,803	2,674,872
Change in beneficial interest in financially inter-related organizations	(115,641)	779,903	664,262
Gain on sale of property	3,757	-	3,757
Change in designation of net assets	686,698	(686,698)	-
Change in net assets	<u>744,883</u>	<u>2,598,008</u>	<u>3,342,891</u>
<b>Net assets, beginning of year</b>	<u>69,361,489</u>	<u>91,771,313</u>	<u>161,132,802</u>
<b>Net assets, end of year</b>	<u>\$ 70,106,372</u>	<u>\$ 94,369,321</u>	<u>\$ 164,475,693</u>

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

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

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

Year ended June 30, 2018

	Without donor restrictions	With donor restrictions	Total
<b>Revenues:</b>			
Basic tuition	\$ 93,991,951	\$ -	\$ 93,991,951
Supplemental and special tuition	1,083,964	-	1,083,964
International tuition	718,356	-	718,356
School fee	15,789,019	-	15,789,019
Other school fees	6,712,862	-	6,712,862
Total gross tuition and fees	<u>118,296,152</u>	<u>-</u>	<u>118,296,152</u>
<b>Less:</b>			
Scholarships and tuition assistance	7,359,968	-	7,359,968
Tuition reductions	5,929,820	-	5,929,820
Net tuition and fees	<u>105,006,364</u>	<u>-</u>	<u>105,006,364</u>
Donations	7,101,987	10,554,750	17,656,737
Fundraising income-net of disbursements	1,066,361	100,127	1,166,488
Resale-net of purchases	219,638	-	219,638
Commissions	730,187	-	730,187
Rental income	1,367,285	-	1,367,285
Ticket sales	1,488,482	-	1,488,482
Program revenue	1,089,294	-	1,089,294
Other revenue	1,832,540	36,245	1,868,785
Interest and investment income	366,326	1,036,628	1,402,954
Contributed services (Note N)	788,333	-	788,333
Total other operating revenues	<u>16,050,433</u>	<u>11,727,750</u>	<u>27,778,183</u>
Net realized (losses) gains on investments	(57,841)	525,276	467,435
Net change in unrealized gains on investments	(65,501)	3,617,051	3,551,550
Total investment (losses) gains	<u>(123,342)</u>	<u>4,142,327</u>	<u>4,018,985</u>
Net assets released from restriction			
Satisfaction of purpose restrictions - CL2000	1,698,000	(1,698,000)	-
Satisfaction of purpose restrictions - Heritage of Faith	900,000	(900,000)	-
Satisfaction of purpose restrictions - General	6,345,321	(6,345,321)	-
Total revenues	<u>129,876,776</u>	<u>6,926,756</u>	<u>136,803,532</u>
<b>Expenses:</b>			
Salaries	57,595,142	-	57,595,142
Employee benefits	22,535,091	-	22,535,091
Purchased services	18,519,701	-	18,519,701
Plant	14,296,001	-	14,296,001
Support expenses	13,245,523	-	13,245,523
Debt Service	2,158,320	-	2,158,320
Total expenses	<u>128,349,778</u>	<u>-</u>	<u>128,349,778</u>
Change in net assets before other items	1,526,998	6,926,756	8,453,754
Change in beneficial interest in financially inter-related organizations	(20,112)	4,262,128	4,242,016
Change in designation of net assets	90,980	(90,980)	-
Gain on sale of property	13,026	-	13,026
Change in net assets	<u>1,610,892</u>	<u>11,097,904</u>	<u>12,708,796</u>
<b>Net assets, beginning of year</b>	<u>67,750,597</u>	<u>80,673,409</u>	<u>148,424,006</u>
<b>Net assets, end of year</b>	<u>\$ 69,361,489</u>	<u>\$ 91,771,313</u>	<u>\$ 161,132,802</u>

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

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

**STATEMENTS OF CASH FLOWS**

Years ended June 30,

	<b>2019</b>	<b>2018</b>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 3,342,891	\$ 12,708,796
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation expense	7,227,525	6,950,213
Bad debt expense	828,885	2,091,621
Gain on sale of property	(3,757)	(13,026)
Net change in unrealized gains on investments	(1,160,173)	(3,551,550)
Net realized gains on investments	(665,902)	(467,435)
Change in beneficial interest in financially inter-related organizations	(664,263)	(4,242,016)
Changes in assets and liabilities		
Parental tuition and fees receivable, net	(1,093,860)	(148,667)
Due from related organizations	(905,689)	112,116
Pledges receivable, net	1,288,425	(5,132,538)
Other receivables	(1,977,065)	(688,992)
Prepaid expenses and other assets	299,990	(120,338)
Accounts payable	1,762,419	(584,393)
Accrued payroll	(288,400)	(623,825)
Accrued non-pension retirement benefits	(85,705)	(255,876)
Accrued vacation	11,447	39,637
Incurred but not reported medical claims	(281,000)	117,000
Due to related organizations	319,101	(194,185)
Deferred revenue	555,192	721,470
	<b>8,510,061</b>	<b>6,718,012</b>
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(6,344,238)	(6,014,384)
Purchase of investments, net	(90,376)	5,339,226
	<b>(6,434,614)</b>	<b>(675,158)</b>
<b>Cash flows from financing activities:</b>		
Repayments of notes payable to Archdiocese of Philadelphia	(1,481,733)	(1,391,378)
	<b>(1,481,733)</b>	<b>(1,391,378)</b>
Net increase in cash and cash equivalents	593,714	4,651,476
<b>Cash and cash equivalents, beginning of year</b>	<b>28,380,019</b>	<b>23,728,543</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 28,973,733</b>	<b>\$ 28,380,019</b>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for interest	<b>\$ 2,130,637</b>	<b>\$ 2,158,320</b>

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



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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2019 and 2018**

**NOTE A - NATURE OF OPERATIONS**

The accompanying 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. 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:

- Office of Catholic Education Schools of Special Education (“SPED”)
- Office of Catholic Education Administration Account (“OCE”)
- Office for Financial Services (“OFS”)
- Trustee Account of the Archdiocese of Philadelphia for Estates and Trusts
- Catholic Cemeteries Office (“CCO”)
- Catholic Housing and Community Services (“CHCS”)
- Catholic Social Services (“CSS”)
- Trustees of Roman Catholic High School
- Archdiocese of Philadelphia Priest’s Retirement Benefits Funding Trust

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. This agreement was extended through 2022 in February of 2016. Pursuant to the aforementioned agreement, FIF assumes strategic and operational management of the 17 Catholic secondary schools and the four schools of special education and provides certain financial assistance to the schools. OCE has primary responsibility for, and FIF has oversight and approval responsibility over, school operations. The five senior management positions of OCE report 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**

***Basis of Presentation***

The accompanying 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 without donor restrictions and with donor restrictions.

Net assets with donor restrictions 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 financial statements as net assets with donor restrictions, unless donor restricted for the corpus, until transferred to net assets without donor restrictions.

Net assets with donor restrictions also 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 net assets with donor restrictions. Net assets without donor restrictions are free from donor-imposed restrictions and are all the remaining net assets of the High Schools.

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

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2019 and 2018**

***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. Gifts specified for the acquisition or construction of long-lived assets are reported as net assets without donor restrictions 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, the net assets are reclassified to net assets without donor restrictions and reported in the accompanying statements of activities and changes in net assets as net assets released from restriction.

Contributed services are 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.

***Uses of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") 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.

***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, 2019 and 2018, the High Schools have cash balances on deposit with financial institutions that exceed the balance insured by the Federal Deposit Insurance Corporation of \$250,000. The High Schools have not experienced any losses in such accounts.

***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.

***Beneficial Interest in Financially Inter-related Organizations***

Beneficial interest in financially inter-related organizations 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. It also includes the net assets of the Friends of Father Judge High School, a separate corporation identified as a financially inter-related organization to the High Schools.

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

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2019 and 2018**

***Investments***

Investments are recorded at fair value. Mutual funds include equity, fixed income, and international mutual funds valued at the closing price of the traded fund at the statement of financial position date. To the extent these mutual funds are actively traded, they are categorized in Level 1 of the fair value hierarchy. If such information is not available, mutual funds are valued based on yields currently available on comparable securities for issuers with similar credit ratings and classified in Level 2 of the fair value hierarchy.

Money market funds include securities valued at amortized cost, which approximates fair value. The amortized cost of an instrument is determined by valuing it at its original cost and thereafter amortizing any discount or premium from its face value at a constant rate until maturity. Securities held by a money market fund are generally high quality and liquid; however, they are reflected as Level 2 because the inputs used to determine fair value are not quoted prices in an active market.

Common stocks are traded on a national securities exchange. These securities are stated at the last reported sales price on the day of valuation. To the extent these securities are actively traded, they are categorized in Level 1 of the fair value hierarchy.

Debt securities, including corporate and international securities, are valued at the closing price reported in the active market in which the bond is traded, if available, and classified as Level 1 in the fair value hierarchy.

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.

***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	10-25 years
Building	20-40 years
Building improvements	5-20 years
Leasehold improvements (Roman Catholic High School)	5-25 years
Furniture and fixtures	5-20 years
Vehicles	10 years

Roman Catholic High School's property and equipment are held in the name of 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. The related lease term is indefinite as long as the property and equipment are used as a Catholic high school. Accordingly, these leasehold improvements are depreciated over the stated useful lives, which are less than the lease term. Property and equipment improvements and purchases in excess of \$10,000 are capitalized.

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

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2019 and 2018**

***Incurred but Not Reported Medical Claims***

The statements of financial position include self-insurance liabilities with respect to the medical, prescription drug and dental insurance programs as of June 30, 2019 and 2018. These obligations represent an estimate of the expected ultimate cost for claims incurred but not paid (“IBNP”). Liabilities for medical, prescription drug and dental benefits were estimated based on the Development Method. The underlying principle of the Development Method is that the progression of claim payment follows runoff patterns that are assumed to remain stable over time. Independence Blue Cross (“IBC”) provided claim data summarized by the incurred and paid period. The results, produced by applying the Development Method to these data, were then adjusted for months where data were deemed non-credible. These adjustments were made using the Projection Method, which is based on the change in costs per exposure unit over time. For the periods presented, the estimate is based on the last 48 months of incurred and paid claims for each of the years ended June 30, 2019 and 2018.

***Functional Expenses***

All expenses relate to the operation and maintenance of the High Schools. Expenses directly attributable to a specific functional area of the High Schools are reported as expenses of those functional areas. Administration includes expenses of the administrative offices with the school as well as development and admission offices. Academic includes instruction, spiritual, technology and summer programs. Activities/athletics includes student clubs and sports, dances/proms, graduation, and booster clubs to support athletics. Building maintenance includes expenses on buildings and grounds, dormitories and religious faculty houses. Other includes expenses related to school store, staff development center, and vacant properties.

***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.

***Recently Issued Accounting Pronouncements***

Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) No. 2014-09, *Revenue (Topic 606): Revenue from Contracts with Customers*, outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts, whether or not written, with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of ASU 2014-09 is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services by applying five steps listed in the guidance. ASU 2014-09 also requires disclosure of both quantitative and qualitative information that enables users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from customers. The new guidance is effective for fiscal years beginning after December 15, 2018. Entities have the option of using either a full retrospective or a modified retrospective approach. Early adoption is permitted. The High Schools are assessing the effect the adoption of ASU 2014-09 may have on the financial statements.

**Archdiocese of Philadelphia, Office of Catholic Education  
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**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2019 and 2018**

In February 2016, the FASB issued ASU 2016-02, *Leases*, which requires that most leased assets be recognized on the balance sheet as assets and liabilities for the rights and obligations created by these leases. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2019. An entity is required to apply the amendments in ASU 2016-02 under the modified retrospective transition approach. This approach includes a number of optional practical expedients, which are described in the final standard. Under these practical expedients, an organization will continue to account for leases that commence before the effective date in accordance with current U.S. GAAP, unless the lease is modified. However, lessees are required to recognize on the balance sheet leased assets and liabilities for operating leases at each reporting date. The High Schools are assessing the impact of the new standard at this time.

ASU 2018-08, *Not-for-profit Entities: Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, intends to clarify and improve the scope and accounting guidance for contributions received and contributions made. The amendment provides (1) a framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction, including how to evaluate whether a resource provider is receiving commensurate value in an exchange transaction, and (2) guidance to assist entities in determining whether a contribution is either conditional or unconditional. Guidance applies to both recipients and resource providers. For contributions received, the new standard is effective for annual financial statements beginning after December 15, 2018. For transactions in which the High Schools serves as resource provider, the new standard is effective for annual financial statements beginning after December 15, 2019. The High Schools are assessing the impact of the new standard at this time.

***Recently Adopted Accounting Pronouncements***

In 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not for Profit Entities*. The High Schools adopted the provisions of the ASU 2016-14 during the year ended June 30, 2019. In addition to the changes in terminology used to describe net assets throughout the financial statements, new disclosures were added regarding liquidity (Note M), net assets (Note G) and functional expenses (Note K).

***Reclassifications***

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results.

**NOTE C - PLEDGES RECEIVABLE, NET**

A summary of pledges receivable is as follows at June 30, 2019 and 2018:

	2019	2018
Less than one year	\$ 1,836,743	\$ 1,794,277
One year to five years	3,026,549	4,463,344
	4,863,292	6,257,621
Less: allowance for doubtful accounts	(964,620)	(986,097)
Less: discount	(367,974)	(452,401)
	\$ 3,530,698	\$ 4,819,123

Pledges receivable are recorded at fair value using a discount rate commensurate with the risks associated with the pledge. The discount rate used was 2% at both June 30, 2019 and 2018.

**Archdiocese of Philadelphia, Office of Catholic Education  
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**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2019 and 2018**

**NOTE D - INVESTMENTS**

At June 30, 2019 and 2018, the High Schools' investments are classified as follows:

	2019	2018
Mutual funds	\$ 76,438,470	\$ 73,461,640
Money market funds	585,820	490,073
Common stocks	66,779	1,637,698
Debt securities	1,205,325	790,532
	\$ 78,296,394	\$ 76,379,943

**NOTE E - FAIR VALUE MEASUREMENTS**

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.
- Level 2 Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities.
- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Fair value calculations may not be indicative of net realizable value or reflective of future fair values. Furthermore, although 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.

**Archdiocese of Philadelphia, Office of Catholic Education  
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**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2019 and 2018**

The following table presents the fair values of the investments held by the High Schools by level within the fair value hierarchy as of June 30, 2019 and 2018:

<u>2019</u>	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
<b>Assets</b>				
Investments				
Mutual funds	\$ 76,212,500	\$ 225,970	\$ -	\$ 76,438,470
Money market funds	81,941	503,879	-	585,820
Common stocks	66,779	-	-	66,779
Debt securities	71,229	1,134,096	-	1,205,325
<b>Total investments</b>	<b>76,432,449</b>	<b>1,863,945</b>	<b>-</b>	<b>78,296,394</b>
Beneficial interest in financially inter-related organizations	-	-	14,726,996	14,726,996
<b>Total assets at June 30, 2019</b>	<b>\$ 76,432,449</b>	<b>\$ 1,863,945</b>	<b>\$ 14,726,996</b>	<b>\$ 93,023,390</b>
 <u>2018</u>				
<b>Assets</b>				
Investments				
Mutual funds	\$ 73,255,105	\$ 206,535	\$ -	\$ 73,461,640
Money market funds	-	490,073	-	490,073
Common stocks	1,637,698	-	-	1,637,698
Debt securities	790,532	-	-	790,532
<b>Total investments</b>	<b>75,683,335</b>	<b>696,608</b>	<b>-</b>	<b>76,379,943</b>
Beneficial interest in financially inter-related organizations	-	-	14,062,733	14,062,733
<b>Total assets at June 30, 2018</b>	<b>\$ 75,683,335</b>	<b>\$ 696,608</b>	<b>\$ 14,062,733</b>	<b>\$ 90,442,676</b>

**Archdiocese of Philadelphia, Office of Catholic Education  
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**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2019 and 2018**

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

Property and equipment and accumulated depreciation at June 30, 2019 and 2018 consist of:

	2019	2018
Land	\$ 6,383,642	\$ 6,383,642
Land improvements	18,261,010	17,874,663
Building	84,770,110	84,681,860
Building improvements	55,459,748	52,597,647
Leasehold improvements	7,567,344	6,500,330
Furniture and fixtures	20,620,934	18,793,228
Vehicles	454,617	373,485
Work in progress	49,372	19,668
	193,566,777	187,224,523
Accumulated depreciation	(83,710,211)	(76,488,427)
Property and equipment, net	\$ 109,856,566	\$ 110,736,096

Depreciation expense was \$7,227,525 and \$6,950,213 for the years ended June 30, 2019 and 2018, respectively.

**NOTE G - NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions are available for the following purposes at June 30:

	2019	2018
Net assets subject to time or use donor-imposed restrictions:		
Tuition assistance for all schools	\$ 3,296,787	\$ 3,288,615
Tuition assistance for specific schools	4,628,841	4,534,364
Property and equipment for Roman Catholic High School held by Trustees	11,390,309	10,840,165
Tuition assistance/operations/improvements for specific schools	652,879	627,308
Operations and improvements for specific schools	5,822,433	7,054,915
Accumulated earnings in excess of spending of endowments		
Tuition assistance for all schools	3,460,267	3,181,179
Tuition assistance for specific schools	404,425	356,903
Operations for Roman Catholic High School held by Trustees	899,759	780,512
Operations and improvements for all schools	21,576,834	20,323,910
Others, for specific schools	1,313,657	145,363
	\$ 53,446,191	\$ 51,133,234
Total net assets subject to time or use donor-imposed restrictions	\$ 53,446,191	\$ 51,133,234



**Archdiocese of Philadelphia, Office of Catholic Education  
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**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2019 and 2018**

	2019	2018
Funds held in perpetuity:		
Tuition assistance for all schools	\$ 7,350,594	\$ 7,752,071
Tuition assistance for specific schools	6,326,048	5,622,620
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
Others, for specific schools	11,535	28,435
Total funds held in perpetuity	40,923,130	40,638,079
Total net assets with donor restrictions	\$ 94,369,321	\$ 91,771,313

**NOTE H - 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.

***Interpretation of Relevant Law***

In accordance with Commonwealth of Pennsylvania Act 141, and unless directed otherwise by the donor, the High Schools classify as net assets with donor restrictions: (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 held in perpetuity are also included in net assets with donor restrictions 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 funds held in perpetuity. 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.

***Return Objectives and Risk Parameters***

The High Schools have adopted investment policies established by the 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.

**Archdiocese of Philadelphia, Office of Catholic Education  
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**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2019 and 2018**

***Spending Policy***

In accordance with state law, net realized and unrealized gains from funds held in perpetuity are included in net assets with donor restriction, 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 years ended June 30, 2019 and 2018 allowed for between a 2% and 7% draw of the three-year average market value of the permanently restricted endowments, unless directed otherwise by the donor.

As of June 30, 2019 and 2018, \$40,923,130 and \$40,638,079, respectively, in donor-restricted endowment funds held in perpetuity were included within net assets with donor restrictions.

***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 funds to be held in perpetuity. There were no such deficiencies of this nature as of both June 30, 2019 and 2018.

The High Schools had the following endowment activities during the years ended June 30, 2019 and 2018, delineated by net asset class. All endowment activities were donor-restricted.

Endowment net assets, June 30, 2017	\$	62,515,113
Investment income		937,357
Net appreciation (realized and unrealized gains)		3,886,025
Total investment return		4,823,382
Contributions		109,028
Appropriation of endowment assets for expenditure		(2,137,079)
Change in financially inter-related organizations		115,502
Endowment net assets, June 30, 2018		65,425,946
Investment income		2,585,656
Net appreciation (realized and unrealized gains)		1,514,697
Total investment return		4,100,353
Contributions		242,395
Appropriation of endowment assets for expenditure		(2,860,480)
Change in financially inter-related organizations		119,247
Endowment net assets, June 30, 2019	\$	67,027,461

**Archdiocese of Philadelphia, Office of Catholic Education  
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**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2019 and 2018**

**NOTE I - RELATED PARTY TRANSACTIONS**

As of June 30, 2019 and 2018, amounts due from related organizations consisted of the following:

	<u>2019</u>	<u>2018</u>
Office of Catholic Education Administration Account	\$ 5,789	\$ 16
Archdiocese of Philadelphia Heritage of Faith	900,000	-
Schools of Special Education	<u>32</u>	<u>116</u>
	<u>\$ 905,821</u>	<u>\$ 132</u>

As of June 30, 2019 and 2018, amounts due to related organizations consisted of the following:

	<u>2019</u>	<u>2018</u>
Office of Catholic Education Administration Account	\$ 114,327	\$ 20,841
Roman Catholic Alumni Association	133,365	133,365
Catholic Charities	7,000	-
Catholic Social Services	20,717	-
Office for Financial Services	280,800	95,294
Other	<u>12,948</u>	<u>556</u>
	<u>\$ 569,157</u>	<u>\$ 250,056</u>

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

During the fiscal years ended June 30, 2019 and 2018, the High Schools entered into transactions with the following related parties:

- Archdiocese of Philadelphia's Property and Liability Insurance Fund provides insurance for the High School Operations Account. Total premiums paid for the years ended June 30, 2019 and 2018 were \$832,699 and \$747,060, respectively.
- High School Operations paid \$200,000 for both of the years ended June 30, 2019 and 2018 to Information Technology Services for support of computer systems.
- High School Operations paid \$4,611,869 and \$4,652,796 for the years ended June 30, 2019 and 2018, respectively, to the Office of Catholic Education for administrative costs.
- High School Operations paid \$800,000 and \$900,000 for the years ended June 30, 2019 and 2018, respectively, to the Office of Catholic Education for marketing costs.
- The High Schools paid \$49,000 for both of the years ended June 30, 2019 and 2018 to OFS for administrative costs associated with capital projects and legal services.

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

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2019 and 2018**

***Notes Payable***

On June 1, 2012, the Archdiocese of Philadelphia and related entities entered into several Term Loan Agreements with participating Archdiocesan entities to retire outstanding external debt obligations. OCE's loans were related to the construction of Bishop Shanahan High School and Pope John Paul II High School.

On June 1, 2012, OCE entered into term loan agreements with a three-year maturity with the following entities:

OFS	\$ 3,000,000
CCO	3,000,000
CHCS as Administrative Agent	71,357,582

CHCS served as Administrative Agent for Catholic Charities (a.k.a. Catholic Social Services), St. John's Orphan Asylum, Don Guanella Village, St. Edmond's Home for Children, and Divine Providence Village.

On June 27, 2014, the loan agreements were amended to extend the maturity date and to settle certain amounts due to the entities. A new term loan agreement was established with the Trust and Loan Fund of the Archdiocese of Philadelphia as administered by OFS in the amount of \$4,200,000. The loans carry a fixed interest rate of 4% maturing on June 1, 2042.

On May 31, 2018, the Trust and Loan Fund of the Archdiocese of Philadelphia sold the loan to OCE dated June 27, 2014 in the stated principal amount of \$4,200,000 to the Archdiocese of Philadelphia Priests' Retirement Benefits Funding Trust. The sold loan was priced as of the transaction date by an independent financial firm, reflecting a slight discount. At the time of the sale, the outstanding principal amount of the loan was \$3,800,188. As a result of the sale, the stated interest rate of 4.0% remained the same and there was a slight modification in the amortization schedule which changed the maturity date to 2041.

During the year ended June 30, 2019 and 2018, OCE made loan principal payments of \$1,481,733 and \$1,391,378, respectively.

The outstanding debt obligations at June 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Priest Pension Funding Trust	\$ 3,700,513	\$ 3,800,188
Catholic Housing and Community Services	<u>48,634,714</u>	<u>50,016,772</u>
Total notes payable	<u>\$ 52,335,227</u>	<u>\$ 53,816,960</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.

**Archdiocese of Philadelphia, Office of Catholic Education  
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**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2019 and 2018**

The principal payments relating to the notes payable to Archdiocesan entities are as follows for the years ending June 30:

2020	\$ 1,541,896
2021	1,604,503
2022	1,669,653
2023	1,737,448
2024	1,807,996
Thereafter	<u>43,973,731</u>
Total notes payable	<u>\$ 52,335,227</u>

**NOTE J - EMPLOYEE BENEFITS**

***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.

***Lay Employees' Retirement Plan - Frozen Effective June 30, 2014***

Through June 30, 2014, the eligible lay employees of the High Schools were covered under the Archdiocese of Philadelphia Lay Employees' Retirement Plan ("LERP"), which is a defined benefit pension plan covering substantially all lay employees of the Archdiocese of Philadelphia, based on age and service requirements. On June 30, 2014, the Archdiocese froze the LERP. All active employees as of the freeze date retained benefits they had earned through June 30, 2014. After the date of the freeze, accrued pension benefits do not increase for additional service or increases in pay. The plan is administered by the trustees of the plan.

The High schools made annual contributions to the plan at an average rate of 5.9% of the salaries of the employees for the years ended June 30, 2019 and 2018. The contribution was \$2,845,404 and \$3,157,218, respectively, for the years ended June 30, 2019 and 2018.

Estimates of the actuarially determined present value of accumulated plan benefits at June 30, 2019 totaled approximately \$582,000,000. The actuarially determined present value of accumulated plan benefits at June 30, 2018 totaled approximately \$602,400,000. At June 30, 2019 and 2018, the assets available to provide for these benefits totaled approximately \$511,200,000 and \$521,500,000, respectively.

***Archdiocese of Philadelphia 403(b) Retirement Plan***

Effective July 1, 2014, the Archdiocese of Philadelphia established a 403(b) defined contribution plan. Under the 403(b) plan and subject to statutory limits, all employees at least 18 years of age are immediately eligible to make voluntary deferred salary contributions into the 403(b) plan.

Employer contributions, which cover employees meeting the eligibility requirements below, are discretionary. The following are the eligibility requirements for employer contributions:

*Grandfathered Employees* - Any employee who was accruing benefits as an active participant in the LERP as of its freeze date of June 30, 2014 is a grandfathered employee and will be eligible to receive employer contributions.

**Archdiocese of Philadelphia, Office of Catholic Education  
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**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2019 and 2018**

*Non-Grandfathered Employees* - Non-grandfathered employees are eligible to receive the employer contributions generally upon completion of 1,000 hours of service in the relevant measurement period.

Vesting in employer contributions is immediate for grandfathered employees who have completed 12 months of service as of June 30, 2014. Vesting in employer contributions for all other employees will take place after the completion of 12 months of service. For the years ended June 30, 2019 and 2018, the Archdiocese of Philadelphia employer contribution rate was 4.5% of base salary for eligible employees, and there was a 0.35% charge for administration. The contributions by the High Schools into the 403(b) plan totaled \$2,144,112 and \$2,237,801 and the administrative charges totaled \$167,311 and \$187,178 for the years ended June 30, 2019 and 2018, respectively.

***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 LERP, 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 LERP, 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 LERP. 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.

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**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2019 and 2018**

***Net Periodic Cost***

The components of net periodic benefit costs are as follows at June 30:

	2019	2018
Service cost	\$ 46,889	\$ 32,801
Interest cost	61,331	58,136
Amortization of		
Net loss	150,199	159,453
Prior service credit	(18,508)	(18,508)
	\$ 239,911	\$ 231,882

***Obligations and Funded Status***

The following shows changes in the benefit obligation, plan assets and funded status at June 30:

	2019	2018
Change in plan assets		
Fair value of plan assets at beginning of year	\$ -	\$ -
Employer contributions	248,150	279,481
Plan participants' contributions	6,074	7,979
Benefit payments (expected)	(254,224)	(287,460)
Fair value of plan assets at end of year	\$ -	\$ -
Funded status		
Funded status at end of year	\$ (1,759,123)	\$ (1,844,828)

**Archdiocese of Philadelphia, Office of Catholic Education  
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**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2019 and 2018**

	2019	2018
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 1,844,828	\$ 2,100,704
Service cost	46,889	32,801
Interest cost	61,331	58,136
Actual plan participants' contributions	6,074	7,979
Actual loss (gain)	54,225	(67,332)
Actual benefits paid	(254,224)	(287,460)
	<u>\$ 1,759,123</u>	<u>\$ 1,844,828</u>
Benefit obligation at end of year		
Amounts recognized in unrestricted net assets		
Net actuarial loss	\$ 2,447,261	\$ 2,543,235
Prior service credit	(131,771)	(150,279)
	<u>\$ 2,315,490</u>	<u>\$ 2,392,956</u>
Information for plans with accumulated benefit obligation in excess of plan assets		
Projected benefit obligation	\$ 1,759,123	\$ 1,844,828
Accumulated benefit obligation	1,759,123	1,844,828

The estimated amount that will be amortized from net assets without donor restrictions to net periodic benefit cost is as follows at June 30,:

	2019	2018
Net loss	\$ 146,067	\$ 154,268
Prior service credit	(18,508)	(18,508)

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

	2019	2018
Discount rate	3.25%	4.00%
Healthcare cost trend	7.20%	7.60%
Ultimate rate of increase	4.50%	4.50%
Year that ultimate rate is attained	2026	2026



**Archdiocese of Philadelphia, Office of Catholic Education  
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**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2019 and 2018**

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

	1% point increase	1% point decrease
Effect on service cost and interest cost	\$ 1,615	\$ (1,349)
Effect on accumulated benefit obligation	17,508	(14,905)

***Plan Assets***

There are no plan assets.

***Cash Flows and Estimated Future Benefit Payments***

Employer contributions June 30, 2020 (expected)	\$ 267,000
Expected benefit payments for the years ended June 30:	
2020	\$ 267,000
2021	164,000
2022	155,000
2023	113,000
2024	108,000
2025 - 2029	495,000

**NOTE K - FUNCTIONAL EXPENSES**

The High Schools provide services in order to operate and maintain schools included in Note A. Expenses by functional and natural classification related to providing these services are as follows for the year ended June 30, 2019:

	Administration	Academic	Activities/ athletics	Building maintenance	Others	Total
Salaries	\$ 10,528,447	\$ 39,859,381	\$ 3,832,915	\$ 1,643,716	\$ 465,267	\$ 56,329,726
Employee benefits	1,887,744	17,210,690	695,863	293,263	616,569	20,704,129
Purchased services	10,317,062	2,042,418	2,171,187	2,891,690	969,878	18,392,235
Plant	243,903	69,717	142,472	14,436,948	20,336	14,913,376
Support expenses	3,747,442	3,475,667	4,180,307	820,783	377,286	12,601,485
Debt service	-	-	-	2,130,637	-	2,130,637
Total	\$ 26,724,598	\$ 62,657,873	\$ 11,022,744	\$ 22,217,037	\$ 2,449,336	\$ 125,071,588

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**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2019 and 2018**

**NOTE L - LEASE COMMITMENTS**

The High Schools have entered into lease agreements for equipment and vehicles which expire at various dates through May 10, 2024. 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, 2019:

2020	\$ 723,814
2021	484,683
2022	207,017
2023	116,916
2024	12,175
	<u>1,544,605</u>

Lease expenses were \$676,353 and \$561,292 for the years ended June 30, 2019 and 2018, respectively.

**NOTE M - LIQUIDITY AND FUNDS AVAILABLE**

The following reflects the High Schools financial assets as of the June 30, 2019 and 2018, reduced by amounts not available for general use within one year because of donor-imposed restrictions or internal designations. Amounts available include annual distributions from the restricted funds. In addition, the High Schools expect to receive funding during the year ended June 30, 2020 of \$77,410,535 from tuition and \$22,255,610 in fees revenue and \$9,408,659 from unrestricted donations.

	<u>2019</u>	<u>2018</u>
Financial assets:		
Cash and cash equivalents	\$ 28,973,733	\$ 28,380,019
Parental receivable, due from related organization and other receivables	7,120,458	3,972,729
Pledges receivable, net	3,530,698	4,819,123
Investments	78,296,394	76,379,943
Financial assets, at year-end	<u>117,921,283</u>	<u>113,551,814</u>
Less those unavailable for general expenditure within one year, due to:		
Donor-imposed restrictions:		
Endowment funds	39,563,086	39,334,818
Tuition assistance	11,790,321	11,417,461
Operations and improvement	23,589,688	21,520,385
Restricted pledges receivable	3,415,312	3,525,391
Other donor imposed restrictions	1,671,041	2,403,741
Unrestricted pledges collectible beyond one year	<u>30,387</u>	<u>129,059</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 37,871,448</u>	<u>\$ 35,220,958</u>

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**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2019 and 2018**

**NOTE N - CONTRIBUTED SERVICES**

Contributed services consist of the following for the years ended June 30:

	2019	2018
Salaries and benefits - lay equivalent value of religious services	\$ 3,360,521	\$ 3,700,239
Expended for religious services		
Salaries, related employee benefits and faculty house expenses	(2,799,427)	(2,911,906)
Total contributed services	\$ 561,094	\$ 788,333

**NOTE O - 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. 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 financial statements include any material uncertain tax positions.

**NOTE P - SUBSEQUENT EVENTS**

OCE has evaluated subsequent events through April 9, 2020, the date which the financial statements were available for distribution.

Subsequent to year-end, the outbreak of a novel coronavirus (COVID-19) as a pandemic has caused significant uncertainty of the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S. and international economies. While school buildings have closed in response to the pandemic, learning has shifted to online platforms, but management is unable to determine whether there will be a material impact to its operations in the future. We are actively working to minimize the financial impact of this situation.

The United States and global markets experienced significant declines in value resulting from uncertainty caused by the world-wide coronavirus pandemic. The Archdiocese of Philadelphia is closely monitoring its investment portfolio and its liquidity. The financial statements do not include adjustments to fair value that have resulted from these declines.

In December 2019, in accordance with the plan established to fund the Independent Reconciliation and Reparations Program (IRRP), OCE made a \$7,242,941 risk-mitigation payment to the Archdiocese of Philadelphia Office for Financial Services.