Financial Statements and Report of
Independent Certified Public Accountants

The Philadelphia Theological Seminary of St. Charles Borromeo

June 30, 2013 and 2012

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Report of Independent Certified Public Accountants

The Board of Trustees
The Philadelphia Theological Seminary of St. Charles Borromeo

Report on the financial statements

We have audited the accompanying financial statements of The Philadelphia Theological Seminary of St. Charles Borromeo (the "Seminary"), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities 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 entity'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 entity'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 Seminary as of June 30, 2013 and 2012, 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.

Emphasis of matter

As discussed in Note C, the 2012 financial statements have been restated to correct an error. Our opinion is not modified with respect to this matter.

Grant Thornton LLP

Philadelphia, Pennsylvania

October 29, 2013

The Philadelphia Theological Seminary of St. Charles Borromeo

STATEMENTS OF FINANCIAL POSITION

June 30,

	2013	2012 (restated)
Assets		
Cash and cash equivalents	$ 1,917,434	$ 1,519,721
Accounts receivable, students	7,191	8,690
Accounts receivable, other	16,806	745,631
Prepaid expenses	39,490	84,998
Investments	16,259,663	13,400,013
Beneficial interest in perpetual trusts	1,629,400	1,512,177
Restricted cash - capital campaign	-	641,296
Property and equipment, net	9,183,111	10,070,023
Total assets	$ 29,053,095	$ 27,982,549
Liabilities		
Accounts payable and accrued expenses	$ 1,251,171	$ 754,346
Deferred revenue	173,148	96,047
Funds held for the benefit of others	-	641,296
Capital leases payable	127,039	185,015
Accounts payable, Archdiocese of Philadelphia, net	52,848	76,116
Charitable gift annuities payable	434,739	466,724
Deferred interest	87,788	-
Note payable, Archdiocese of Philadelphia	2,576,678	2,656,678
Conditional asset retirement obligation	7,676,660	7,381,404
Total liabilities	12,380,071	12,257,626
Net assets		
Unrestricted	403,674	910,215
Temporarily restricted	1,499,214	1,108,393
Permanently restricted	14,770,136	13,706,315
Total net assets	16,673,024	15,724,923
Total liabilities and net assets	$ 29,053,095	$ 27,982,549

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

The Philadelphia Theological Seminary of St. Charles Borromeo

STATEMENT OF ACTIVITIES

Year ended June 30, 2013

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains and other support				
Tuition and fees	$ 3,084,638	$ -	$ -	$ 3,084,638
Less: student aid	142,757	-	-	142,757
Net tuition and fees	2,941,881	-	-	2,941,881
Contributions	3,528,736	399,707	3,620	3,932,063
Contributed services	534,560	-	-	534,560
Investment income	62,098	30,162	336,812	429,072
Other income	471,200	-	-	471,200
Auxiliary enterprises				
Cafeteria	1,043,945	-	-	1,043,945
Dormitory	565,696	-	-	565,696
Net (depreciation) appreciation in fair value of investments	(2,594)	93,021	1,057,313	1,147,740
Net realized gains on sale of investments	181,860	29,370	340,454	551,684
Change in charitable gift annuities	31,984	-	-	31,984
Net assets released from restrictions	835,817	(161,439)	(674,378)	-
Total revenues, gains and other support	10,195,183	390,821	1,063,821	11,649,825
Expenses				
Program services				
Instruction	1,315,114	-	-	1,315,114
Academic support	1,546,098	-	-	1,546,098
Student services	484,799	-	-	484,799
Management and general				
Operations and maintenance	3,663,889	-	-	3,663,889
Institutional support	3,064,272	-	-	3,064,272
Auxiliary enterprises	627,552	-	-	627,552
Total expenses	10,701,724	-	-	10,701,724
Change in net assets	(506,541)	390,821	1,063,821	948,101
Net assets				
Beginning of year, as restated	910,215	1,108,393	13,706,315	15,724,923
End of year	$ 403,674	$ 1,499,214	$ 14,770,136	$ 16,673,024

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

STATEMENT OF ACTIVITIES

Year ended June 30, 2012

	Unrestricted (restated)	Temporarily restricted (restated)	Permanently restricted (restated)	Total (restated)
Revenues, gains and other support				
Tuition and fees	$ 2,960,641	$ -	$ -	$ 2,960,641
Less: student aid	181,259	-	-	181,259
Net tuition and fees	2,779,382	-	-	2,779,382
Contributions	2,630,315	34,497	1,240,498	3,905,310
Contributed services	484,236	-	-	484,236
Investment income	42,298	65,700	342,533	450,531
Other income	563,185	-	-	563,185
Auxiliary enterprises				
Cafeteria	1,022,406	-	-	1,022,406
Dormitory	521,472	-	-	521,472
Net depreciation in fair value of investments	(93,117)	(9,651)	(359,968)	(462,736)
Net realized losses on sale of investments	(75,346)	(50,116)	(195,627)	(321,089)
Change in charitable gift annuities	(82,392)	-	-	(82,392)
Net assets released from restrictions	472,169	(248,216)	(223,953)	-
Total revenues, gains and other support	8,264,608	(207,786)	803,483	8,860,305
Expenses				
Program services				
Instruction	1,392,501	-	-	1,392,501
Academic support	1,697,453	-	-	1,697,453
Student services	539,850	-	-	539,850
Management and general				
Operations and maintenance	3,599,884	-	-	3,599,884
Institutional support	2,807,912	-	-	2,807,912
Auxiliary enterprises	648,553	-	-	648,553
Total expenses	10,686,153	-	-	10,686,153
Change in net assets	(2,421,545)	(207,786)	803,483	(1,825,848)
Net assets				
Beginning of year	3,331,760	1,316,179	12,902,832	17,550,771
End of year	$ 910,215	$ 1,108,393	$ 13,706,315	$ 15,724,923

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

The Philadelphia Theological Seminary of St. Charles Borromeo

STATEMENTS OF CASH FLOWS

Year ended June 30,

	2013	2012 (restated)
Cash flows from operating activities		
Change in net assets	$ 948,101	$ (1,825,848)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	1,639,691	1,681,983
Net (appreciation) depreciation in fair value of investments	(1,147,740)	462,736
Net (appreciation) depreciation in beneficial interest in trusts	(117,223)	99,841
Net realized (gains) losses on sale of investments	(551,684)	321,089
Changes in operating assets and liabilities		
Accounts receivable, students	1,499	4,351
Accounts receivable, other	728,825	(582,379)
Inventory, prepaid expenses and other assets	45,508	9,296
Related party receivables/payables	(23,268)	764,955
Annuities payable	(31,985)	91,649
Accounts payable and accrued expenses	496,825	(3,852)
Deferred interest	87,788	-
Deferred revenues	77,101	5,847
Net cash provided by operating activities	2,153,438	1,029,668
Cash flows from investing activities		
Purchase of land, building and equipment	(581,637)	(361,379)
Purchase of investments	(4,115,733)	(2,088,783)
Proceeds from sales of investments	3,079,620	2,118,990
(Decrease) increase in funds held for others	(641,296)	225,462
Decrease (increase) in restricted cash	641,296	(225,462)
Net cash used in investing activities	(1,617,750)	(331,172)
Cash flows from financing activities		
Payments on notes payable, Archdiocese of Philadelphia	(80,000)	(80,000)
Capital lease payments during the year	(57,975)	(47,157)
Net cash used in financing activities	(137,975)	(127,157)
Net increase in cash and cash equivalents	397,713	571,339
Cash and cash equivalents		
Beginning of year	1,519,721	948,382
End of year	$ 1,917,434	$ 1,519,721
Supplemental cash flow information		
Noncash financing/investing activity		
Equipment purchased with capital leases	$ 57,976	$ 162,793

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

NOTE A - OPERATIONS OF THE SEMINARY

The Philadelphia Theological Seminary of St. Charles Borromeo (the "Seminary"), which is incorporated in the Commonwealth of Pennsylvania, operates for the benefit of the Roman Catholic community in general and the Roman Catholic Archdiocese of Philadelphia in particular. The Seminary's principal function is the academic and spiritual preparation of future priests. To fulfill this objective, the Seminary operates a four-year liberal arts college and a four-year school of theology.

Other educational programs which have been developed for summer and evening students are provided by the Graduate School of Theology Division.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

1. Basis of Presentation

The financial statements of the Seminary have been prepared on the accrual basis of accounting.

Resources are reported for accounting purposes in separate classes of net assets based on the existence or absence of donor-imposed restrictions. In the accompanying financial statements, net assets that have similar characteristics have been combined into similar categories as follows:

- Unrestricted - Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

- Temporarily restricted - Net assets whose use by the Seminary is subject to donor-imposed stipulations that can be fulfilled by actions of the Seminary pursuant to those stipulations or that expire by the passage of time.

- Permanently restricted - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Seminary. Generally, the donors of these assets permit the Seminary to use all or part of the investment return on these assets. Such assets primarily include the Seminary's permanent endowment funds.

Expenses are generally reported as decreases in unrestricted net assets. Expirations of donor-imposed stipulations that simultaneously increase one class of net assets and decrease another are reported as reclassifications between the applicable classes of net assets.

Contributions and investment return with donor-imposed restrictions that are met in the same year as received are recorded as unrestricted revenues. Other contributions and investment return are classified as temporarily restricted if the purpose of the contribution has yet to be specified by the donor.

Contributions restricted for the acquisition of land, buildings and equipment are reported as temporarily restricted revenues. These contributions are reclassified to unrestricted net assets upon acquisition of the assets.

(Continued)

NOTE B - SIGNIFICANT ACCOUNTING POLICIES - Continued

2. Cash and Cash Equivalents

The Seminary 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, 2013 and 2012, cash equivalents consisted principally of money market funds. The carrying amount approximates fair value.

3. Restricted Cash

In 2012, the Seminary held restricted cash related to donations received from donor for the benefit of the capital campaign Heritage of Faith - Vision of Hope. A corresponding liability was recorded for this agency transaction. One of the goals of the campaign was to invest in the priestly formation and campus infrastructure at the Seminary. The cash was restricted in the statement of financial position as of June 30, 2012.

4. Allowance for Doubtful Accounts

The allowance for doubtful accounts for student and other receivables are provided based upon management's judgment, including such factors as prior collection history and the type of receivable. The Seminary writes off receivables when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts. At June 30, 2013 and 2012, management believes an allowance for doubtful accounts is not needed.

5. Deferred Revenue

Deferred revenue relates to tuition, deposits and other payments for the upcoming summer semester received prior to fiscal year end.

6. Investments

Investments are reported at fair value. The investments held by the Seminary in the non-pension assets portfolio ("NPAP") do not have a readily determinable fair value, and as such, the Seminary has elected to use the net asset value (the "NAV") per share as calculated on the reporting entity's measurement date as the fair value of the investment, based on the NAV of the investment as a practical expedient.

Realized gains and losses at the manager level are spread to the participant accounts monthly. Gains and losses created at the participant level due to unit sales are recorded in the specific participant accounts. Unrealized gains and losses are included in the statement of activities as net depreciation in the fair value of investments.

Fair value for investments held outside of the NPAP is determined as more fully described in the fair value measurements footnote (see Note E). Management is responsible for the fair value measurement of investments reported in the financial statements and believes the reported values are reasonable. Realized gains and losses on securities sold are determined using the specific identification method. For securities owned at the end of the year, the difference between the original cost and fair value represents unrealized gain (loss) on investments.

(Continued)

NOTE B - SIGNIFICANT ACCOUNTING POLICIES - Continued

7. Beneficial Interest in Trusts

The Seminary is the sole beneficiary of a charitable trust established by John Creahan and is a beneficiary of a share in the charitable trusts established by Jeremiah J. Harrigan, Anthony P. Falcone, Joseph L. Anderjko, Francis J. McElroy and the Moroney Family Trust. The supporting charitable trusts require the income to be used by the Seminary to assist in the educational cost of Seminary students. The Seminary's beneficial interest in the supporting charitable trusts is recorded at the fair value of the assets underlying the trusts of $1,629,400 and $1,512,177 at June 30, 2013 and 2012, respectively. Various financial institutions serve as trustees for the charitable trusts.

The underlying investments of the beneficial interest in the supporting charitable trusts consist of mutual funds and fixed income and equity securities.

8. Buildings and Equipment

Buildings and equipment acquisitions are recorded at cost. Depreciation is recognized over the estimated useful life of the asset, which ranges from 3 to 40 years, depending on the asset's classification. Depreciation expense is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in the depreciation total in the financial statements.

9. Charitable Gift Annuities Payable

The Seminary enters into gift annuities, whereby the Seminary receives assets which are recorded at fair value when received. The assets of $241,723 and $255,567 are included in the NPAP at June 30, 2013 and 2012, respectively. Periodic annuity payments are made to the donor until the donor's 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, and range between 3.08% and 6.17%. The liability at June 30, 2013 and 2012 is $434,739 and $466,724, respectively.

10. Conditional Asset Retirement Obligation

The Seminary has recognized the cost associated with the eventual remediation and abatement of asbestos and other regulated substances located within the construction of the Seminary's real estate and campus or physical plant. The cost of the abatement was estimated by a third-party firm that conducted a survey for asbestos identification and prepared contractor estimates for the cost of potential remediation consistent with management's future remediation plans. As of June 30, 2013 and 2012, the conditional asset retirement liability is $7,676,660 and $7,381,404, respectively. Included in the balance at June 30, 2013 and 2012 is $295,256 and $283,900, respectively, for the accretion of interest. There were no new liabilities related to conditional asset retirement obligations recognized during the years ended June 30, 2013 and 2012.

(Continued)

NOTE B - SIGNIFICANT ACCOUNTING POLICIES - Continued

10. Conditional Asset Retirement Obligation - Continued

The Seminary considers a conditional asset retirement an obligation that includes a legal obligation associated with the retirement of a tangible long-lived asset in which the timing and/or method of settling the obligation is conditional on a future event that may or may not be within the control of the Seminary. Recognition of a liability is required for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated, even if conditional on a future event. The Seminary records the fair value of a liability for a legal obligation associated with an asset retirement in the period in which the obligation is incurred. When the liability is initially recorded, the cost of the asset retirement obligation is capitalized.

11. Funds Held for the Benefit of Others

The Seminary receives certain monies in which the Seminary acts as an intermediary between the donor and the Heritage of Faith - Vision of Hope Campaign ("HOF"), a related party. These monies are reported as increases in assets and liabilities when received; distributions to HOF are reported as decreases in those accounts. The assets are included in restricted cash and funds held for the benefit of others in the amount of $-0- and $641,296 at June 30, 2013 and 2012, respectively.

12. Tuition and Fees

The Seminary maintains a policy of offering qualified applicants admission without regard to financial circumstances. This policy provides for financial aid to those admitted in the form of federal grants and loans during the academic year. Tuition and fees have been reduced by these financial aid programs.

13. Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. An allowance for uncollectible contributions receivable is provided based upon management's judgment, including such factors as prior collection history, type of contribution, and nature of the fund-raising activity. Contributions receivable are $-0- and $721,059 at June 30, 2013 and 2012, respectively.

14. Contributed Services

The salaries of priests and members of religious groups assigned to the Seminary are nominal in relation to the services rendered. The difference between the fair value of these services, as determined from the Fact Book on Theological Education (2009), published by the Association of Theological Schools, and the actual compensation paid and other benefits provided by the Seminary, is recorded as contributed services and the related functional expenses in the statement of activities.

(Continued)

NOTE B - SIGNIFICANT ACCOUNTING POLICIES - Continued

15. Estimates by Management

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make 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 reported period. The most significant management estimates and assumptions relate to the determination of valuation of investments without a readily determinable market value; useful lives of fixed assets; conditional asset retirement obligations; actuarial estimates for the charitable gift annuities payable; and the reported fair values of certain of the Seminary's assets and liabilities. Actual results could differ from those estimates.

16. Concentrations of Credit Risk

The Seminary's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents and investments. These funds are held in various high-quality financial institutions managed by Seminary personnel and outside advisors. The Seminary maintains its cash and cash equivalents in financial institutions that typically significantly exceed federally insured limits. The Seminary believes that the concentrations of credit risk are reasonable for its cash and cash equivalents and investments.

17. Auxiliary Enterprises

Auxiliary enterprises consist of activities distinct from the primary purpose of education. These activities include food services and housing with revenues and expenditures determined as follows:

Tuition, Dormitory and Cafeteria Revenues - Monies received from students have been apportioned to tuition, room and board based upon the Seminary's quoted fees in the student catalogue.

Dormitory Expenditures - The Seminary estimates that approximately 20% of direct physical plant operations expenditures were directly related to the dormitories.

Cafeteria Expenditures - Represents all food service related expenditures and 5.7% of physical plant operations expenditures.

18. Tax-Exempt Status

Under provisions of Internal Revenue Code Section 501(c)(3) and the applicable income tax regulations of Pennsylvania, the Seminary is exempt from taxes on income other than unrelated business income.

The Seminary recognizes or derecognizes a tax position based on a "more likely than not" threshold. This applies to positions taken or expected to be taken in a tax return. The Seminary does not believe its financial statements include any material uncertain tax positions.

(Continued)

NOTE B - SIGNIFICANT ACCOUNTING POLICIES – Continued

As of June 30, 2013, the Seminary's tax years ended June 30, 2010 through June 30, 2012 for federal tax jurisdiction remain open to examination.

19. Reclassifications

Certain reclassifications have been made to prior year balances in order to conform to the current year presentation.

NOTE C - RESTATEMENT

Contributions
The Seminary received partial distribution of a bequest during fiscal year 2012. At June 30, 2012, the Seminary recognized $519,439 relating to the bequest. The full amount of the bequest was $1,240,498 and should have been recognized at June 30, 2012.

Net Asset Reclassification
The endowments included in the net asset classifications were not classified in accordance with the donor's designation.

The 2012 have been restated to reflect the above corrections.

	Previously reported	Adjustments	Restated
Statement of financial position			
Accounts receivable, other	$ 24,572	$ 721,059	$ 745,631
Total assets	27,261,490	721,059	27,982,549
Temporarily restricted net assets	1,627,832	(519,439)	1,108,393
Permanently restricted net assets	12,465,817	1,240,498	13,706,315
Total net assets	15,003,864	721,059	15,724,923
Total liabilities and net assets	27,261,490	721,059	27,982,549
Statement of activities			
Contributions - temporarily restricted	553,936	(519,439)	34,497
Contributions - permanently restricted	-	1,240,498	1,240,498
Contributions - total	3,184,251	721,059	3,905,310

(Continued)

NOTE C - RESTATEMENT – Continued

	Previously reported	Adjustments	Restated
Total revenues, gains and other support	8,139,246	721,059	8,860,305
Change in net assets	(2,546,907)	721,059	(1,825,848)
End of year net assets	15,003,864	721,059	15,724,923
Statement of cash flows			
Change in net assets	(2,546,907)	721,059	(1,825,848)
Change in accounts receivable, other	138,680	(721,059)	(582,379)

NOTE D - INVESTMENTS

The investments of the Seminary at June 30, 2013 and 2012 are summarized and classified as follows:

2013	Unrestricted	Temporarily restricted	Permanently restricted	Total
Investments				
Non-pension assets portfolio	$ 1,741,815	$ 2,575,295	$ 11,942,553	$ 16,259,663
Beneficial interest in perpetual trusts	-	-	1,629,400	1,629,400
Total investments and beneficial interest in perpetual trusts	$ 1,741,815	$ 2,575,295	$ 13,571,953	$ 17,889,063
2012				
Investments				
Non-pension assets portfolio	$ 657,895	$ 1,761,147	$ 10,980,971	$ 13,400,013
Beneficial interest in perpetual trusts	-	-	1,512,177	1,512,177
Total investments and beneficial interest in perpetual trusts	$ 657,895	$ 1,761,147	$ 12,493,148	$ 14,912,190

1. Non-Pension Assets Portfolio

For administrative and other needs, the Archdiocese formed the NPAP to pool together certain investments in order to more efficiently manage the investments of various entities and related organizations within the Archdiocese of Philadelphia. The investments in the NPAP are held by a custodian and are managed based on sub-accounts as follows.

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