

Financial Statements and Report of  
Independent Certified Public Accountants

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

June 30, 2018 and 2017

# Contents

	<b>Page</b>
Report of Independent Certified Public Accountants	3
Financial statements	
Statements of financial position	5
Statements of activities and changes in net assets	6
Statements of cash flows	8
Notes to financial statements	9



Grant Thornton LLP  
Two Commerce Square  
2001 Market St., Suite 700  
Philadelphia, PA 19103  
T 215.561.4200  
F 215.561.1066  
[GrantThornton.com](http://GrantThornton.com)  
[linked.in/GrantThorntonUS](https://www.linkedin.com/company/GrantThorntonUS)  
[twitter.com/GrantThorntonUS](https://twitter.com/GrantThorntonUS)

## Report of Independent Certified Public Accountants

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

### **Report on the financial statements**

We have audited the accompanying financial statements of the Archdiocese of Philadelphia, Office of Catholic Education Schools of Special Education (“SPED”), which comprise the statements of financial position as of June 30, 2018 and 2017, 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 SPED’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 SPED’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, Office of Catholic Education Schools of Special Education as of June 30, 2018 and 2017, and the changes in its net assets 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**

We draw attention to Note A to the financial statements, which describes the legal structure of SPED within the Archdiocese of Philadelphia. Our opinion is not modified with respect to this matter.

*Grant Thornton LLP*

Philadelphia, Pennsylvania

November 26, 2018

Archdiocese of Philadelphia, Office of Catholic Education  
Schools of Special Education

**STATEMENTS OF FINANCIAL POSITION**

June 30,

	<u>2018</u>	<u>2017</u>
<b>Assets</b>		
Cash and cash equivalents, including amounts held by affiliate	\$ 1,235,201	\$ 950,427
Parental tuition receivable (less allowance for doubtful accounts of \$68,285 in 2018 and \$20,825 in 2017)	25,326	107,108
Other receivables	83,769	19,339
Prepaid expenses and other assets	78,645	52,487
Investments (Note C)	3,737,595	3,476,592
Property and equipment, net (Note D)	<u>90,916</u>	<u>67,083</u>
Total assets	<u>\$ 5,251,452</u>	<u>\$ 4,673,036</u>
<b>Liabilities</b>		
Accounts payable	\$ 45,462	\$ 22,274
Accrued salaries and wages	302,257	303,476
Deferred revenue	69,457	98,071
Due to related organizations (Note H)	<u>116</u>	<u>-</u>
Total liabilities	<u>417,292</u>	<u>423,821</u>
<b>Net assets</b>		
Unrestricted	587,364	459,880
Unrestricted - designated funds	2,022,364	1,946,256
Temporarily restricted (Note F)	1,973,035	1,590,646
Permanently restricted (Note F)	<u>251,397</u>	<u>252,433</u>
Total net assets	<u>4,834,160</u>	<u>4,249,215</u>
Total liabilities and net assets	<u>\$ 5,251,452</u>	<u>\$ 4,673,036</u>

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

Archdiocese of Philadelphia, Office of Catholic Education  
Schools of Special Education

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

Year ended June 30, 2018

	Unrestricted	Unrestricted - designated funds	Temporarily restricted	Permanently restricted	Total
Revenue, gains and other support					
Tuition and fees	\$ 1,554,833	\$ -	\$ -	\$ -	\$ 1,554,833
Less: tuition assistance	<u>156,869</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>156,869</u>
Net tuition	<u>1,397,964</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,397,964</u>
Other operating revenues					
Subsidy from Catholic Charities Appeal	1,316,188	-	-	-	1,316,188
Contributions and donations	466,494	-	491,787	-	958,281
Fundraising	102,899	-	-	-	102,899
Contributed services (Note I)	28,212	-	-	-	28,212
Miscellaneous income	63,386	-	-	-	63,386
Interest and investment income	<u>5,409</u>	<u>26,611</u>	<u>18,785</u>	<u>-</u>	<u>50,805</u>
Total other operating revenues	<u>1,982,588</u>	<u>26,611</u>	<u>510,572</u>	<u>-</u>	<u>2,519,771</u>
Change in value of split interest	-	-	-	2,736	2,736
Net realized gains on investments	5,986	7,570	5,658	-	19,214
Net unrealized gains on investments	<u>2,838</u>	<u>115,877</u>	<u>84,300</u>	<u>-</u>	<u>203,015</u>
Total investment gains	<u>8,824</u>	<u>123,447</u>	<u>89,958</u>	<u>2,736</u>	<u>224,965</u>
Net assets released from restrictions					
Release of unrestricted - designated funds	115,493	(73,950)	(41,543)	-	-
Satisfaction of purpose restrictions	<u>176,598</u>	<u>-</u>	<u>(176,598)</u>	<u>-</u>	<u>-</u>
Total revenues	<u>3,681,467</u>	<u>76,108</u>	<u>382,389</u>	<u>2,736</u>	<u>4,142,700</u>
Operating expenses					
Administrative expenses	495,680	-	-	-	495,680
Instruction expense	2,088,775	-	-	-	2,088,775
Operation and maintenance of plant	220,835	-	-	-	220,835
Employee benefits	<u>752,465</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>752,465</u>
Total operating expenses	<u>3,557,755</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,557,755</u>
Non-operating					
Reclassification of net assets	<u>3,772</u>	<u>-</u>	<u>-</u>	<u>(3,772)</u>	<u>-</u>
Total non-operating	<u>3,772</u>	<u>-</u>	<u>-</u>	<u>(3,772)</u>	<u>-</u>
Change in net assets	127,484	76,108	382,389	(1,036)	584,945
Net assets					
Beginning of year	<u>459,880</u>	<u>1,946,256</u>	<u>1,590,646</u>	<u>252,433</u>	<u>4,249,215</u>
End of year	<u>\$ 587,364</u>	<u>\$ 2,022,364</u>	<u>\$ 1,973,035</u>	<u>\$ 251,397</u>	<u>\$ 4,834,160</u>

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

Archdiocese of Philadelphia, Office of Catholic Education  
Schools of Special Education

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

Year ended June 30, 2017

	Unrestricted	Unrestricted - designated funds	Temporarily restricted	Permanently restricted	Total
Revenue, gains and other support					
Tuition and fees	\$ 1,446,913	\$ -	\$ -	\$ -	\$ 1,446,913
Less: tuition assistance	203,938	-	-	-	203,938
Net tuition	<u>1,242,975</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,242,975</u>
Other operating revenues					
Subsidy from Catholic Charities Appeal	1,357,682	-	-	-	1,357,682
Contributions and donations	262,233	-	248,367	-	510,600
Fundraising	107,890	-	-	-	107,890
Contributed services (Note I)	49,178	-	-	-	49,178
Miscellaneous income	48,144	-	-	-	48,144
Interest and investment income	5,971	31,837	22,402	-	60,210
Total other operating revenues	<u>1,831,098</u>	<u>31,837</u>	<u>270,769</u>	<u>-</u>	<u>2,133,704</u>
Change in value of split interest	-	-	-	5,560	5,560
Net realized gains on investments	-	4,113	3,171	-	7,284
Net unrealized gains on investments	13,023	190,675	136,005	-	339,703
Total investment gains	<u>13,023</u>	<u>194,788</u>	<u>139,176</u>	<u>5,560</u>	<u>352,547</u>
Net assets released from restrictions					
Release of unrestricted - designated funds	150,019	(150,019)	-	-	-
Satisfaction of purpose restrictions	290,403	-	(290,403)	-	-
Total revenues	<u>3,527,518</u>	<u>76,606</u>	<u>119,542</u>	<u>5,560</u>	<u>3,729,226</u>
Operating expenses					
Administrative expenses	471,635	-	-	-	471,635
Instruction expense	1,955,888	-	-	-	1,955,888
Operation and maintenance of plant	226,302	-	-	-	226,302
Employee benefits	686,863	-	-	-	686,863
Total operating expenses	<u>3,340,688</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,340,688</u>
Non-operating					
Transfer from Faith in the Future	8,835	-	-	-	8,835
Reclassification of net assets	20,778	-	-	(20,778)	-
Total non-operating	<u>29,613</u>	<u>-</u>	<u>-</u>	<u>(20,778)</u>	<u>8,835</u>
Change in net assets	216,443	76,606	119,542	(15,218)	397,373
Net assets					
Beginning of year	243,437	1,869,650	1,471,104	267,651	3,851,842
End of year	<u>\$ 459,880</u>	<u>\$ 1,946,256</u>	<u>\$ 1,590,646</u>	<u>\$ 252,433</u>	<u>\$ 4,249,215</u>

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

Archdiocese of Philadelphia, Office of Catholic Education  
Schools of Special Education

**STATEMENTS OF CASH FLOWS**

Year ended June 30,

	2018	2017
Cash flows from operating activities		
Change in net assets	\$ 584,945	\$ 397,373
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation expense	8,679	8,911
Provision for bad debts	68,285	19,754
Net realized gains on investments	(19,214)	(7,284)
Net unrealized gains on investments	(203,015)	(339,703)
Change in value of beneficial interest in perpetual trusts	(2,736)	(5,560)
Changes in operating assets and liabilities		
Decrease (increase) in parental tuition receivable	13,497	(78,158)
(Increase) decrease in other accounts receivable	(64,430)	51,864
Increase in prepaid expenses and other assets	(26,158)	(16,528)
Increase (decrease) in accounts payable	23,188	(14,578)
Increase (decrease) in due to related organizations	116	(200,000)
Decrease in accrued salaries and wages	(1,219)	(14,089)
(Decrease) increase in deferred revenue	(28,614)	26,041
Net cash provided by (used in) operating activities	353,324	(171,957)
Cash flows from investing activities		
Purchase of property and equipment	(32,512)	-
Purchase of investments	(132,345)	(281,118)
Proceeds from sale of investments	96,307	416,823
Net cash (used in) provided by investing activities	(68,550)	135,705
Net increase (decrease) in cash and cash equivalents, including amounts held by affiliate	284,774	(36,252)
Cash and cash equivalents, including amounts held by affiliate, beginning of year	950,427	986,679
Cash and cash equivalents, including amounts held by affiliate, end of year	\$ 1,235,201	\$ 950,427

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

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2018 and 2017

NOTE A - NATURE OF OPERATIONS

The accompanying financial statements of the Archdiocese of Philadelphia, Office of Catholic Education Schools of Special Education (“SPED”) have been prepared on the accrual basis of accounting and include the funds generated from and for the operation and maintenance of SPED. They exclude certain entities of the Archdiocese of Philadelphia, which relate to SPED but are considered separate reporting entities. These entities are as follows:

- Individual High School Presidents’ Accounts (“DHS”)
- High School Operations Account (“DHS”)
- Office of Catholic Education (“OCE”) Administration Account
- Office for Financial Services
- Catholic Charities of the Archdiocese of Philadelphia (a Pennsylvania civil corporation; a.k.a. Catholic Charities Appeal of the Archdiocese of Philadelphia)
- Trustee Account of the Archdiocese of Philadelphia for Estates and Trusts

The Schools of Special Education consist of:

- St. Lucy Day School
- Archbishop Ryan Academy for Children with Hearing Impairment
- Our Lady of Confidence Day School
- St. Katherine Day School

In addition, auxiliary organizations’ accounts of the individual Schools of Special Education which account for certain fundraising activities, donations, student activities and special projects are not included in these financial statements.

SPED is 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.

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2018 and 2017

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis. Net assets and their revenues, expenses, gains and losses are classified into three categories, based on the existence or absence of donor-imposed restrictions. The categories are temporarily restricted, permanently restricted and unrestricted net assets.

Temporarily restricted net assets include gifts, trusts, income and gains which have either a time or use restriction but which may ultimately be expended.

Permanently restricted net assets include the historical dollar amounts of gifts, which require by donor restriction that the corpus be invested in perpetuity and only the investment income be made available for operations in accordance with donor restrictions. Investment income and net realized and unrealized gains and losses, if permanently restricted by the donor, are included in permanently restricted net assets.

Within the category of unrestricted net assets, management has elected to separately report as Designated Funds, funds which have internal purpose designations determined by the Archbishop or his designee. Although the funds are legally unrestricted, the management of SPED follows this designation in the use of these funds.

Unrestricted net assets are free from donor-imposed restrictions and are all the remaining net assets of SPED.

2. Revenue Recognition

Tuition and other school fees collected for the upcoming school year are included in deferred revenue and recognized as revenue ratably over the applicable school year.

Cash contributions and fundraising revenues are recorded as revenue when received. Unconditional promises to give are recorded at their fair value when SPED 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 unrestricted net assets when the assets are placed in service.

Gifts of cash and other assets are recorded as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statements of activities and changes in net assets as net assets released from restrictions.

Contributed services are recorded as the value of services performed by members of religious groups, based on the lay equivalent salaries of personnel performing similar duties less the stipend allowances and faculty residence expenses paid for the religious personnel. The value of contributed services is included as revenue and, correspondingly, charged as expense.

(Continued)

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2018 and 2017

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

3. 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 disclosures 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.

4. Cash and Cash Equivalents, Including Amounts Held by Affiliate

Cash and cash equivalents, including amounts held by affiliate, represent demand deposits and other investments with an original maturity of three months or less. The carrying value approximates fair value.

SPED maintains cash balances with financial institutions that at times may exceed Federal Deposit Insurance Corporation limits. Management does not believe the credit risk related to these deposits to be significant.

5. Allowances 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. SPED writes off receivables when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts.

6. Investments

Trustee Accounts are invested with two publicly traded SEI Catholic Values public mutual funds. The Catholic Values Equity Fund and the Catholic Values Fixed Income Fund (“Catholic Values Funds”) provide Catholic institutions with high quality products that align with their core values, without sacrificing diversification or return potential. Specifically, the funds align with the investment directives set forth by the United States Conference of Catholic Bishops (“USCCB”). The Archdiocese of Philadelphia appointed SEI Private Trust Company to act as custodian (the “Custodian”) of the Trustee Accounts. The investment in the Trustee Accounts and other investments are reported at fair value.

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.

(Continued)

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2018 and 2017

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

7. Property and Equipment

Property and equipment purchased 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	20 years
Building improvements	20 years
Furniture and fixtures	5 years
Vehicles	5-10 years

8. New 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. SPED has not yet determined the effect the adoption of ASU 2014-09 may have on the financial statements.

ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, intends to make certain improvements to the current reporting requirements for not-for-profit entities including: (1) the presentation for two classes of net assets at the end of the period, rather than the currently required three classes, as well as the annual change in each of the two classes; (2) the removal of the requirement to present or disclose the indirect method (reconciliation) when using the direct method for the statement of cash flows; and (3) the requirement to provide various enhanced disclosures relating to various not-for-profit specific topics. The new standard is effective for annual financial statements beginning after December 15, 2017. SPED is evaluating the pronouncement at this time.

ASU No. 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.

Archdiocese of Philadelphia, Office of Catholic Education  
Schools of Special Education

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2018 and 2017

NOTE C - INVESTMENTS

The investments in the Trustee Accounts and other investments are reported at fair value and consist of the following:

*Catholic Values Equity Fund (or "fund")* - Invests in common stocks and is managed by SEI.

*Catholic Values Fixed Income Fund (or "fund")* - Invests in mutual funds, corporate obligations, United States Treasury obligations and municipal obligations and is managed by SEI.

Account holders have the option of six asset classifications in which to invest. The options include a short-duration U.S. government bond fund, a 100% fixed income bond fund and four equity funds with varying fixed income to equity mixes of 30/70, 50/50, 60/40 or 70/30. The Investment Committee of the Archdiocese of Philadelphia ("Investment Committee") has primary responsibility for determining fixed income to equity mix. The asset mix of the mutual funds is SEI's responsibility.

At June 30, 2018 and 2017, SPED held the following categories of investments:

	2018	2017
Catholic Values Equity Fund	\$ 2,174,710	\$ 1,867,943
Catholic Values Fixed Income Fund	1,311,488	1,356,216
Total investments	\$ 3,486,198	\$ 3,224,159

SPED is the beneficiary of individual trusts held in perpetuity by third parties. At June 30, 2018 and 2017, the allocable fair value of these trusts was \$251,397 and \$252,433, respectively, and is recorded within investments in the accompanying statements of financial position. During 2018 and 2017, SPED recognized permanently restricted appreciation of \$2,736 and \$5,560, respectively, related to these trusts.

NOTE D - PROPERTY AND EQUIPMENT

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

	2018	2017
Land improvements	\$ 29,850	\$ 29,850
Building improvements	11,070	11,070
Furniture and fixtures	7,416	5,180
Vehicles	91,599	61,321
	139,935	107,421
Accumulated depreciation	(49,019)	(40,338)
Property and equipment, net	\$ 90,916	\$ 67,083

Depreciation expense was \$8,679 and \$8,911 for the years ended June 30, 2018 and 2017, respectively.

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2018 and 2017

NOTE E - EMPLOYEE BENEFIT PLANS

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

Through June 30, 2014, the eligible lay employees of SPED were covered under the Archdiocese of Philadelphia Lay Employees' Retirement Plan (the "Plan"), 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 Plan. 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. SPED made annual contributions to the Plan at an average rate of 5.9% of the salaries of eligible teachers and non-teachers for the years ended June 30, 2018 and 2017. The amount expensed by SPED for contributions to the Plan was \$100,395 and \$74,152 for the years ended June 30, 2018 and 2017, respectively. The expense of such contributions is included in employee benefits. Separate accounts for vested benefits and pension fund assets are not maintained for each institution.

At June 30, 2018, the assets available to fund the Plan benefits were 86.6% of the actuarially determined present value of the accumulated Plan benefits. The assets available to fund the Plan benefits were 82.1% of the preliminary estimate of the actuarially determined present value of the accumulated Plan benefits at June 30, 2017.

2. 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 the employer contributions:

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

*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.

In 2018 and 2017, SPED's contribution rate was 4.5% of base salary for eligible employees and there was a 0.35% charge for administration. The contributions into the 403(b) plan and the administrative charges totaled \$86,329 and \$73,206, and \$6,714 and \$5,135 for the years ended June 30, 2018 and 2017, respectively.

Archdiocese of Philadelphia, Office of Catholic Education  
Schools of Special Education

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2018 and 2017

NOTE F - PERMANENTLY AND TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at June 30:

	2018	2017
Tuition assistance	\$ 147,858	\$ 102,184
Specified school operations purposes	1,825,177	1,488,462
Total temporarily restricted net assets	\$ 1,973,035	\$ 1,590,646

During 2018 and 2017, net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose of \$176,598 and \$480,874, respectively.

Permanently restricted net assets at June 30, 2018 and 2017, related to funds held in perpetuity, consisted of the following:

	2018	2017
Jeremiah J. Harrigan Trust	\$ 91,800	\$ 91,800
George Grover Trust	159,597	160,633
Total permanently restricted net assets	\$ 251,397	\$ 252,433

Trusts held by third parties included in permanently restricted funds include funds for the benefit of Archbishop Ryan Academy for Children with Hearing Impairment (“Archbishop Ryan Academy”) which had 10 students during the year ended June 30, 2018. The provisions for both trusts established under wills stipulate that if the named institution ceases to exist that the income from the trusts would be divided among the remaining institutions named in the individual wills. These institutions do not include any of the other schools of special education.

In 2016, PNC Bank, the trustee for the Jeremiah J. Harrigan Trust, raised the question of whether Archbishop Ryan should benefit from this trust under will because it was not a residential facility. The will specifically named the school and provided funding to be used “for the welfare, support and maintenance of the inmates thereof.” PNC Bank took this issue to the courts for clarification, and this matter was resolved in July 2018 in the school’s favor. Distributions in the amount of \$14,473 were received subsequent to year-end.

Archdiocese of Philadelphia, Office of Catholic Education  
Schools of Special Education

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2018 and 2017

NOTE G - INCOME TAXES

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

SPED follows 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. SPED does not believe its financial statements include any material uncertain tax positions. As of June 30, 2018, the SPED tax years ended June 30, 2014 through June 30, 2017 for federal tax jurisdiction remain open to examination.

NOTE H - RELATED PARTY TRANSACTIONS

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

	<u>2018</u>	<u>2017</u>
Diocesan High Schools	\$ <u>116</u>	\$ <u>-</u>
	<u>\$ 116</u>	<u>\$ -</u>

OCE charges for financial and management services provided to SPED. Expenses charged in both 2018 and 2017 in relation to these services were \$215,000.

SPED receives funds from the Catholic Charities Appeal Fund, which is a fund administered by the Archdiocese of Philadelphia. Subsidies were \$1,316,188 and \$1,357,682 for the years ended June 30, 2018 and 2017, respectively.

Cash and cash equivalents include \$331,653 and \$395,570 at June 30, 2018 and 2017, respectively, on deposit with the Office for Financial Services of the Archdiocese of Philadelphia. There are no conditions restricting the withdrawal of these funds.

NOTE I - CONTRIBUTED SERVICES

Contributed services consist of the following as of June 30:

	<u>2018</u>	<u>2017</u>
Salaries and benefits - lay equivalent value of religious services	\$ 108,280	\$ 191,605
Expended for religious services		
Salaries, related employee benefits and faculty house expenses	<u>(80,068)</u>	<u>(142,427)</u>
	<u>\$ 28,212</u>	<u>\$ 49,178</u>

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2018 and 2017

NOTE J - FAIR VALUE MEASUREMENTS

FASB Accounting Standards Codification (“ASC”) 820, *Fair Value Measurements*, 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 SPED 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 tables present the fair values of the investments held by SPED by level within the fair value hierarchy, as of June 30:

	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
<u>2018</u>				
Assets				
SEI mutual funds	\$ 3,486,198	\$ -	\$ -	\$ 3,486,198
Trusts held by third parties	<u>-</u>	<u>-</u>	<u>251,397</u>	<u>251,397</u>
Total of assets at June 30, 2018	<u>\$ 3,486,198</u>	<u>\$ -</u>	<u>\$ 251,397</u>	<u>\$ 3,737,595</u>

(Continued)

Archdiocese of Philadelphia, Office of Catholic Education  
Schools of Special Education

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2018 and 2017

NOTE J - FAIR VALUE MEASUREMENTS - Continued

	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
<u>2017</u>				
Assets				
SEI mutual funds	\$ 3,224,159	\$ -	\$ -	\$ 3,224,159
Trusts held by third parties	-	-	252,433	252,433
Total of assets at June 30, 2017	\$ 3,224,159	\$ -	\$ 252,433	\$ 3,476,592

The table below sets forth a summary of changes in the fair value of SPED's Level 3 assets for the years ended June 30, 2018 and 2017:

Balance at June 30, 2016	\$ 246,873
Change in fair value of assets	14,228
Distributions from trusts held by third parties	(8,668)
Balance at June 30, 2017	252,433
Change in fair value of assets	7,751
Distributions from trusts held by third parties	(8,787)
Balance at June 30, 2018	\$ 251,397

NOTE K - FUNCTIONAL EXPENSES

SPED provides services in order to operate and maintain schools included in Note A. Expenses related to providing these services are as follows for the years ended June 30:

	2018	2017
School operations and maintenance	\$ 3,261,307	\$ 3,097,055
Support services	296,448	243,633
	\$ 3,557,755	\$ 3,340,688

Archdiocese of Philadelphia, Office of Catholic Education  
Schools of Special Education

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2018 and 2017

NOTE L - LEASE COMMITMENTS

SPED has entered into lease agreements with respect to vehicles. The following is a schedule of future minimum lease payments for operating leases with noncancellable lease terms in excess of one year:

Year ending June 30,	
2019	\$ 4,186
2020	4,186
2021	4,186
2022	<u>3,837</u>
	<u>\$ 16,395</u>

Rental expenses for the years ended June 30, 2018 and 2017 were \$4,299 and \$8,372, respectively.

NOTE M - SUBSEQUENT EVENTS

SPED evaluated its June 30, 2018 financial statements for subsequent events through November 26, 2018, the date the financial statements were available to be issued. Except as disclosed within Note F, SPED is not aware of any subsequent event which would require recognition or disclosure in the financial statements.