Financial Statements and Report of Independent Certified Public Accountants

The Philadelphia Theological Seminary of St. Charles Borromeo

June 30, 2012

Contents

Grant Thornton

Grant Thornton LLP
2001 Market Street, Suite 3100
Philadelphia, PA 19103-7080

T 215.561.4200
F 215.561.1066
GrantThornton.com
linkd.in/GrantThorntonUS
twitter.com/GrantThorntonUS

Report of Independent Certified Public Accountants

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

We have audited the accompanying statement of financial position of The Philadelphia Theological Seminary of St. Charles Borromeo (the "Seminary"), as of June 30, 2012, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Seminary's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Seminary's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Philadelphia Theological Seminary of St. Charles Borromeo as of June 30, 2012, and its activities and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Philadelphia, Pennsylvania

March 27, 2013

The Philadelphia Theological Seminary of St. Charles Borromeo

STATEMENT OF FINANCIAL POSITION

June 30, 2012

Assets	
Cash and cash equivalents	$ 1,519,721
Accounts receivable, students	8,690
Accounts receivable, other	24,572
Prepaid expenses	84,998
Investments	13,487,170
Beneficial interest in perpetual trusts	1,425,020
Restricted cash - capital campaign	641,296
Property and equipment, net	10,070,023
Total assets	$ 27,261,490
Liabilities	
Accounts payable and accrued expenses	754,346
Deferred revenue	96,047
Funds held for the benefit of others	641,296
Capital lease payable	185,015
Accounts payable, Archdiocese of Philadelphia, net	76,116
Charitable gift annuities payable	466,724
Note payable, Archdiocese of Philadelphia	2,656,678
Conditional asset retirement obligation	7,381,404
Total liabilities	12,257,626
Net assets	
Unrestricted	1,237,269
Temporarily restricted	1,273,447
Permanently restricted	12,493,148
Total net assets	15,003,864
Total liabilities and net assets	$ 27,261,490

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

The Philadelphia Theological Seminary of St. Charles Borromeo

STATEMENT OF ACTIVITIES

Year ended June 30, 2012

	Unrestricted	Temporarily restricted	Permanently restricted	Total
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	553,936	-	3,184,251
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	248,216	(248,216)	-	-
Total revenues	8,040,655	311,653	(213,062)	8,139,246
Expenses				
Program services				
Instruction	1,282,950	-	109,551	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	2,693,510	-	114,402	2,807,912
Auxiliary enterprises	648,553	-	-	648,553
Total expenses	10,462,200	-	223,953	10,686,153
Change in net assets	(2,421,545)	311,653	(437,015)	(2,546,907)
Net assets				
Beginning of year, as previously reported	10,050,108	8,724,785	5,401,046	24,175,939
Prior period adjustments:				
Agency transactions	-	(415,834)	-	(415,834)
Investment adjustments	(10,133)	191,463	-	181,330
Conditional asset retirement obligation	(6,359,521)	-	-	(6,359,521)
Securities lending loss	(1,640)	(29,503)	-	(31,143)
Net asset reclassification	(20,000)	(7,509,117)	7,529,117	-
	(6,391,294)	(7,762,991)	7,529,117	(6,625,168)
Beginning of year, as restated	3,658,814	961,794	12,930,163	17,550,771
End of year	$ 1,237,269	$ 1,273,447	$ 12,493,148	$ 15,003,864

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

STATEMENT OF CASH FLOWS

Year ended June 30, 2012

Cash flows from operating activities	
Change in net assets	$ (2,546,907)
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	1,681,983
Net depreciation in fair value of investments	462,736
Net depreciation in beneficial interest in trusts	99,841
Net realized losses on sale of investments	321,089
Changes in operating assets and liabilities	
Accounts receivable, students	4,351
Accounts receivable, other	138,680
Inventory, prepaid expenses and other assets	9,296
Related party receivables/payables	764,955
Annuities payable	91,649
Accounts payable and accrued expenses	(3,852)
Deferred revenues	5,847
Net cash provided by operating activities	1,029,668
Cash flows from investing activities	
Purchase of land, building and equipment	(361,379)
Purchase of investments	(2,088,783)
Proceeds from sales of investments	2,118,990
Increase in funds held for others	225,462
Increase in restricted cash	(225,462)
Net cash used in investing activities	(331,172)
Cash flows from financing activities	
Payments on notes payable, Archdiocese of Philadelphia	(80,000)
Capital lease payments during the year	(47,157)
Net cash used in financing activities	(127,157)
Net increase in cash and cash equivalents	571,339
Cash and cash equivalents	
Beginning of year	948,382
End of year	$ 1,519,721
Supplemental cash flow information	
Noncash financing/investing activity	
Equipment purchased with capital leases	$ 162,793

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

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

3. Restricted Cash

The Seminary holds restricted cash related to donations received from donor for the benefit of the capital campaign Heritage of Faith - Vision of Hope. A corresponding liability is recorded for this agency transaction. One of the goals of the campaign is to invest in the priestly formation and campus infrastructure at the Seminary. The cash is restricted until such time it is released to the Seminary by the Archdiocese of Philadelphia.

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, 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 per share (the "NAV") 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 measurement 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 and the Morney 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 $1,425,020 at June 30, 2012. 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 $434,596 are included in the NPAP at June 30, 2012. 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, 2012 is $466,724.

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, 2012, the conditional asset retirement liability is $7,381,404. Included in the balance at June 30, 2012 is $283,900 for the accretion of interest and $-0- of new liabilities related to conditional asset retirement obligations recognized during the year ended June 30, 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 $641,296.

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. There are no contributions receivable at June 30, 2012.

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

19. Adoption of Accounting Standard

In January 2010, the Financial Accounting Standards Board ("FASB") issued accounting guidance to enhance fair value measurement disclosures by requiring the reporting entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reason for the transfers. Furthermore, activity in Level 3 fair value measurements should separately provide information about purchases, sales, issues and settlements rather than providing that information as one net number. This guidance is effective for financial statements issued for periods beginning after December 15, 2009, with the exception of the enhanced Level 3 disclosures, which are effective for reporting periods beginning after December 15, 2010. The adoption of this guidance, with the exception of the enhanced Level 3 disclosures, which were adopted the fiscal year ended June 30, 2012, did not have a material impact on the financial statements.

20. New Accounting Pronouncement

In May 2011, the FASB issued guidance that expands the existing disclosure requirements for fair value measurements, primarily for Level 3 measurements, which are measurements based on unobservable inputs. This guidance is largely consistent with current fair value measurement principles with few exceptions that do not result in a change in general practice. The amendments will include enhancements to disclosures about fair value measurements, including the sensitivity of Level 3 measurements to changes in unobservable inputs and the interrelationships between those unobservable inputs, an entity's use of a nonfinancial asset that differs from its highest and best use, and the categorization by level of the fair value hierarchy for items not measured at fair value within the financial statements, but for which the fair value is required to be disclosed. The guidance will be applied prospectively and will be effective for the year ending June 30, 2013. The adoption of this guidance is not expected to have a material impact on the Seminary's financial position or results of activities as the guidance relates only to disclosure requirements.

NOTE C - PRIOR PERIOD ADJUSTMENT TO NET ASSETS

The beginning of the year net assets have been restated to correct for certain errors as follows:

Agency Transactions
During the past two fiscal years, the Seminary received monies on behalf of HOF. The Seminary recorded these transactions as contributions. The transactions should be recorded as agency transactions.

Investment Adjustments
The Seminary investments at June 30, 2011 did not include certain investments and charitable gift annuities that had been designated to the Seminary by the donor. The prior period net assets have been increased by the fair market value of these investments and liabilities.

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. This obligation was not recorded in prior years.

(Continued)

NOTE C - PRIOR PERIOD ADJUSTMENT TO NET ASSETS - Continued

Securities Lending Loss

Prior to June 30, 2011, the NPAP entered into a securities lending agreement whereby a portion of the collateral received in connection with this securities lending agreement was reinvested in common stock that was determined to be worthless prior to June 30, 2011. The Seminary did not recognize an other than temporary impairment on the stock in prior years.

Net Asset Reclassification

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

As a result of these items, the net assets balance at July 1, 2011 has been restated for the errors in the investment balance, as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets beginning of year, as previously reported	$ 10,050,108	$ 8,724,785	$ 5,401,046	$ 24,175,939
Prior period adjustments				
Agency transactions	-	(415,834)	-	(415,834)
Investment adjustments	(10,133)	191,463	-	181,330
Conditional asset retirement obligation	(6,359,521)	-	-	(6,359,521)
Securities lending loss	(1,640)	(29,503)	-	(31,143)
Net asset reclassification	(20,000)	(7,509,117)	7,529,117	-
Net assets beginning of year, as restated	$ 3,658,814	$ 961,794	$ 12,930,163	$ 17,550,771

NOTE D - INVESTMENTS

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

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Investments				
Mutual funds	$ -	$ 87,157	$ -	$ 87,157
Non-pension assets portfolio	657,895	1,673,990	11,068,128	13,400,013
Total investments	657,895	1,761,147	11,068,128	13,487,170
Beneficial interest in perpetual trusts	-	-	1,425,020	1,425,020
Total investments and beneficial interest in perpetual trusts	$ 657,895	$ 1,761,147	$ 12,493,148	$ 14,912,190

(Continued)

NOTE D - INVESTMENTS - Continued

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.

Equity Sub-Account (or "fund") - Invests in common stocks and is managed by multiple investment managers.

Fixed Income Sub-Account (or "fund") - Invests in mutual funds, corporate obligations, United States treasury obligations and municipal obligations and is managed by multiple investment managers.

Liquidity Sub-Account (or "fund") - Investments are liquid in nature and are used to buy and sell units of the equity and fixed income funds.

Each of the funds is unitized on a periodic basis to allow for the investment, at unit value, by entities in the NPAP. The Seminary's investment in the NPAP is stated at unit value.

The Investment Committee of the Archdiocese has primary responsibility for determining the allocation of amounts to be invested among the funds. Management is responsible for ensuring that investment allocations among the funds are maintained as determined by the Investment Committee.

2. Beneficial Interest in Perpetual Trusts

The Seminary is the beneficiary of the income of individual trusts held in perpetuity by third parties. At June 30, 2012, the allocable fair value of these trusts was $1,425,020. During fiscal year 2012, the Seminary recognized unrestricted net income of $16,567.

NOTE E - FAIR VALUE MEASUREMENTS

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.

(Continued)

NOTE E - FAIR VALUE MEASUREMENTS - Continued

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 Seminary 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 fair value of certain alternative investments is estimated using the NAV per share. These investments are classified as either Level 2, if the Seminary's investment can be redeemed at the reporting date or within the near term, or Level 3, if its investment is not redeemable at the NAV per share at or near the statement of financial position date.

Fair value measurements of investments in entities that calculate the NAV per share or its equivalent as of June 30, 2012 are as follows:

	Fair value	Unfunded commitments	Redemption frequency	Redemption notice period
NPAP (a)	$ 13,400,013	$ -	daily	1 day

(a) A pooled investment portfolio comprised of equity and fixed income securities. The primary objective of the NPAP is preservation of capital while reducing, to the greatest extent possible, the possibility of loss. The investment strategy and long-term asset allocation for the NPAP take into consideration the specific spending requirements and the present and future needs of the Archdiocese of Philadelphia and its respective participating Ecclesiastical Organizations. Therefore, the desired minimum rate of return is equal to the Consumer Price Index ("CPI") plus three percent (3%) on an annualized basis. The fair values are estimated using the NAV per share of the investments.

(Continued)

NOTE E - FAIR VALUE MEASUREMENTS - Continued

The following table presents the fair values of the investments held by the Seminary by level within the fair value hierarchy, as of June 30, 2012:

	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
Assets				
Investments:				
Mutual funds	$ 87,157	$ -	$ -	$ 87,157
NPAP	-	13,400,013	-	13,400,013
Total investments	87,157	13,400,013	-	13,487,170
Beneficial interest in perpetual trusts	-	-	1,425,020	1,425,020
Total investments and beneficial interest in perpetual trusts	$ 87,157	$ 13,400,013	$ 1,425,020	$ 14,912,190

The following table presents assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2012:

Investment type	Beneficial interest in perpetual trusts
Beginning balance	$ 1,524,996
Net realized gains	40,182
Net unrealized losses	(70,337)
Purchases	37,559
Redemptions	(107,380)
	$ 1,425,020

During 2012, no investments were transferred from Level 3 to Level 2.

NOTE F - STUDENT REVENUES

Net revenues received from students consist of the following for the year ended June 30, 2012:

College and Theologate	$ 2,438,844
Graduate School of Theology	340,538
Net tuition and fees	$ 2,779,382

(Continued)

NOTE F - STUDENT REVENUES - Continued

Total student revenues for financial reporting purposes have been classified as follows at June 30, 2012:

Net tuition and fees	$ 2,779,382
Dormitory	521,472
Cafeteria	1,022,406
	$ 4,323,260

NOTE G - PROPERTY AND EQUIPMENT

The following summarizes property and equipment at June 30, 2012:

Land and land improvements	$ 23,521
Buildings and building improvements	46,860,256
Equipment	7,443,635
	54,327,412
Accumulated depreciation	(44,257,389)
	$ 10,070,023

Depreciation expense of $1,681,983 has been recorded in the statement of activities for the year ended June 30, 2012.

NOTE H - NOTE PAYABLE, ARCHDIOCESE OF PHILADELPHIA

Effective October 6, 2005, the Seminary entered into a loan agreement with the Archdiocese of Philadelphia to borrow $3,000,000 for the purpose of financing the re-construction of the Ryan Memorial Library. The note payable resulting from this agreement carries a fixed interest rate of 4.5% per annum. At June 30, 2012, the outstanding balance was $2,656,678. In March 2009, the loan agreement with the Archdiocese of Philadelphia was amended. The amended loan agreement changed the term of the loan to 15 years with quarterly payments of $20,000 for the first five years. At year six, the quarterly payments increase to $62,917. The Seminary's long-term debt obligations for each of the next five years and beyond are:

2013	$ 80,000
2014	122,917
2015	251,668
2016	251,668
2017	251,668
Beyond 2017	1,698,757
Total	$ 2,656,678

NOTE I - CAPITAL LEASES

The following is a schedule by years of minimum future rentals on noncancelable capital leases as of June 30, 2012:

2013	$ 75,083
2014	58,183
2015	53,573
2016	23,695
2017	2,834
Total minimum payments required	213,368
Less: amount representing interest	(28,353)
Present value of minimum lease payments	$ 185,015

NOTE J - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted assets are available for the following purposes at June 30, 2012:

Student scholarships and student grants	$ 1,273,447
	$ 1,273,447

Permanently restricted net assets at June 30, 2012 are restricted for:

Endowment funds to be held in perpetuity, primarily to support student scholarships	$ 12,493,148
	$ 12,493,148

NOTE K - FUNCTIONAL EXPENSES

The following table summarizes program and supporting expenses for the year ended June 30, 2012:

Program expenses	$ 3,629,804
Supporting expenses	7,056,349
	$ 10,686,153

Program expenses consist of instruction, academic support, and student services. Supporting expenses consist of supporting compensation, operations and maintenance, fixed charges and miscellaneous costs.

NOTE L - RELATED PARTIES

The Seminary has agreements with several entities of the Archdiocese of Philadelphia for use of the Seminary's facilities. These arrangements are with Philadelphia Historical Records and Archives Center, Vocations Office and Permanent Diaconate. The Seminary recorded revenue of $59,696 in fiscal year 2012 for monies received.

The Seminary remits payments for all insurance, except lay medical insurance, to the Archdiocese of Philadelphia, Office for Financial Services, which purchases insurance coverage for all Archdiocesan entities. Total expenses were $290,676 in fiscal year 2012.

The Seminary reimburses the Office for Financial Services for salaries and expenses incurred on behalf of the Seminary employees for annual audit fees and for program and project expenses.

The Trustee Account of the Archdiocese of Philadelphia for Estates and Trusts ("Estates and Trusts") manages Seminary investments held in the non-pension assets portfolio. No fee is charged by Estates and Trusts for the investment management services.

The Seminary entered into a revolving credit note with the Archdiocese of Philadelphia. The note is due June 30, 2013 in the amount of the lesser of $750,000 or as much may from time to time be outstanding, together with interest accrued and unpaid. The note bears no interest. Should the Seminary default on the note, the interest is 2% in excess of the Wall Street Journal prime rate. No amounts were outstanding at June 30, 2012.

The Seminary participates in the Federal Stafford Student Loan Program, the Federal Pell Grant Program, the Federal Supplemental Educational Opportunity Grant Program and the Pennsylvania Higher Education Assistance Agency ("PHEAA") Grant Program. Besides these federal and state programs, financial aid may also be provided by private donors and foundations.

The Archdiocese of Philadelphia will reimburse diocesan priests who remain in good standing, incardinated in the Archdiocese of Philadelphia, under the Archdiocese of Philadelphia's Priest Student Loan Policy, for the full cost of student loans they may have taken for their education while attending the Seminary. Shortly after ordination, each newly ordained priest will receive from the Office of Clergy a petition by which he can request repayment by the Archdiocese of Philadelphia of student loans he may have taken for his education while attending the Seminary. The reimbursement amount is funded by the Estate of Catherine M. Kerner, deceased.

Under the Archdiocese of Philadelphia's Priest Student Loan Policy, priests are reimbursed for payments made toward student debt that was incurred for their studies at the Seminary. The reimbursements are contingent upon loan payments being made by the priest and are limited annually to a maximum repayment amount predetermined by the Archdiocese of Philadelphia. The Archdiocese of Philadelphia assumes no liability related to the outstanding balances on these loans until payment is made by the priests. Upon payment, the Archdiocese of Philadelphia assumes the liability. The reimbursement cost is split evenly between the Archdiocese of Philadelphia and the Seminary. During the year ended June 30, 2012, the combined reimbursement totaled $184,584. As of June 30, 2012, the potential Priest Student Loan balance outstanding totaled $513,036. The Seminary's accounts payable and accrued expenses include one-half of the Priest Student Loan balance at June 30, 2012. The reimbursement amount was funded by the Estate of Catherine M. Kerner, deceased.

NOTE M - PENSION PLAN

The eligible lay employees of the Seminary are covered under the Archdiocese of Philadelphia Lay Employees' Retirement Plan (the "Plan"), which is a defined benefit pension plan covering substantially all lay employees, once age and service requirements are met, of the Archdiocese of Philadelphia, its institutions and parishes. The Plan is administered by the Trustees of the Lay Employees' Retirement Plan. The Seminary made annual contributions to the Plan at an average rate of 5.00% of the salaries of the eligible employees for the year ended June 30, 2012. The contributions of the Seminary were $105,988 for the year ended June 30, 2012. Separate accounts for vested benefits and pension fund assets are not maintained for each institution.

In addition, the priests of the Seminary are covered under the Archdiocesan Priests' Pension Plan (the "Priest Plan"), which is a defined benefit pension plan that covers substantially all priests, once age requirements are met, of the Archdiocese of Philadelphia, its institutions and parishes. The contributions of the Seminary were $77,300 for the year ended June 30, 2012. Separate accounts for vested benefits and pension fund assets are not maintained for each institution.

NOTE N - NET ASSETS RELEASED FROM DONOR RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses, satisfying the restricted purposes or by occurrence of other events specified by donor for the year ended June 30, 2012.

Purpose restrictions accomplished	
Catholic Life 2000	$ 27,859
Scholarship Fund	27,147
J. Cardinal Krol Chair	57,517
Estates and Trusts	77,328
Expenses related to other projects	58,365
	$ 248,216

As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

NOTE O - ENDOWMENTS

The Seminary's permanently restricted net assets consist of approximately 12 individual donor-restricted endowments. The Seminary's 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.

(Continued)

NOTE O - ENDOWMENTS - Continued

1. Interpretation of Relevant Law

In accordance with Commonwealth of Pennsylvania Act 141, the Seminary classifies as permanently restricted net assets (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 is classified in permanently restricted net assets. Pennsylvania law permits the Seminary 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.

2. Return Objectives and Risk Parameters

The Seminary has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its 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 or for a donor-specified period, as well as board-designated funds. 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 Seminary expects its 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.

3. Spending Policy

In accordance with state law, net realized and unrealized gains on permanently restricted investments are included as permanently restricted net assets, even absent donor restrictions on the use of gains. Commonwealth of Pennsylvania law permits the Seminary to adopt a spending policy for endowment earnings, subject to certain limitations. The Seminary follows 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 Seminary's spending policy for the year ended June 30, 2012 allowed for a 5% draw of the three-year average market value of the permanently restricted endowments, estates and trusts.

4. 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 permanently restricted net assets. The Seminary did not have any deficiencies of this nature as of June 30, 2012.

(Continued)

NOTE O - ENDOWMENTS - Continued

The Seminary had the following endowment activities during the year ended June 30, 2012 delineated by net asset class. All endowment activities were donor-restricted:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets at June 30, 2011	$ 610,200	$ -	$ 13,006,807	$ 13,617,007
Investment return				
Net investment income	-	-	265,888	265,888
Net depreciation (realized and unrealized)	-	-	(555,595)	(555,595)
Total investment return	-	-	(289,707)	(289,707)
Contributions	-	-	76,336	76,336
Appropriation of endowment assets for expenditure	(610,200)	-	(300,288)	(910,488)
Endowment net assets at June 30, 2012	$ -	$ -	$ 12,493,148	$ 12,493,148

NOTE P - OTHER INCOME

Other income recognized by the Seminary is comprised of the following for the year ended June 30, 2012:

Fees for service	$ 63,472
Estates and Trust income	69,435
Institutional assistance grant	8,736
Federal grant income	81,258
Miscellaneous income	117,881
Rental of facilities	140,978
Parking income	81,425
	$ 563,185

NOTE Q - COMMITMENTS AND CONTINGENCIES

The Seminary is involved in numerous other legal proceedings arising out of and incidental to its operations. In management's opinion, the ultimate liability which may arise from these other legal proceedings would not have a material adverse effect on the financial statements of the Seminary. In addition, the Seminary believes that if liability were established, the Archdiocese of Philadelphia would have adequate insurance coverage to meet the resulting obligations.

NOTE R - SUBSEQUENT EVENTS

FASB ASC 855, *Subsequent Events*, establishes the principles and requirements for evaluating and reporting subsequent events, including the period subject to evaluation for subsequent events, the circumstances requiring recognition of subsequent events in the financial statements, and the required disclosures. The Seminary has evaluated subsequent events through March 27, 2013, the date which the financial statements were available for distribution.

On March 7, 2013, the Philadelphia Archbishop announced that the Seminary will consolidate some facilities and close some buildings on the Seminary campus. The building that houses the college division will be closed, and the Seminary consolidated into what is now the theology division.