

Financial Statements and Report of
Independent Certified Public Accountants

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

June 30, 2013 and 2012

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Report of Independent Certified Public Accountants

To the Secretary of Catholic Education
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, 2013 and 2012, 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, 2013 and 2012, 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 22, 2013

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

STATEMENTS OF FINANCIAL POSITION

June 30,

	<u>2013</u>	<u>2012</u>
Assets		
Cash and cash equivalents, including amounts held by affiliate	\$ 784,174	\$ 816,247
Parental tuition receivable (less allowance for doubtful accounts of \$46,630 in 2013 and \$22,959 in 2012)	35,696	47,403
Due from related organizations (Note H)	2,931	22,834
Other receivables	27,978	26,029
Prepaid expenses and other assets	1,662	36,379
Investments (Note C)	2,894,874	2,818,371
Property and equipment, net (Note D)	<u>69,000</u>	<u>71,057</u>
 Total assets	 <u>\$ 3,816,315</u>	 <u>\$ 3,838,320</u>
Liabilities		
Accounts payable	\$ 6,023	\$ 6,392
Accrued salaries and wages	260,309	291,357
Deferred revenue	142,625	94,739
Due to related organizations (Note H)	<u>103,390</u>	<u>30,979</u>
 Total liabilities	 <u>512,347</u>	 <u>423,467</u>
Net assets		
Unrestricted	91,463	170,143
Unrestricted - designated funds	1,954,387	2,038,529
Temporarily restricted (Note F)	<u>1,258,118</u>	<u>1,206,181</u>
 Total net assets	 <u>3,303,968</u>	 <u>3,414,853</u>
 Total liabilities and net assets	 <u>\$ 3,816,315</u>	 <u>\$ 3,838,320</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, 2013

	Unrestricted	Unrestricted - designated funds	Temporarily restricted	Total
Revenue, gains and other support				
Tuition and fees	\$ 881,540	\$ -	\$ -	\$ 881,540
Less: tuition assistance	<u>266,963</u>	<u>-</u>	<u>-</u>	<u>266,963</u>
Net tuition and fees	<u>614,577</u>	<u>-</u>	<u>-</u>	<u>614,577</u>
Other operating revenues				
Subsidy from Catholic Charities Appeal	1,162,363	-	-	1,162,363
Contributions and donations	155,678	-	295,978	451,656
Fundraising	150,034	-	-	150,034
Contributed services (Note I)	43,279	-	-	43,279
Miscellaneous income	72,959	-	-	72,959
Interest and investment income	<u>5,846</u>	<u>34,208</u>	<u>20,244</u>	<u>60,298</u>
Total other operating revenues	<u>1,590,159</u>	<u>34,208</u>	<u>316,222</u>	<u>1,940,589</u>
Net realized gains on investments	-	55,393	23,959	79,352
Net unrealized gains on investments	<u>-</u>	<u>130,083</u>	<u>83,425</u>	<u>213,508</u>
Total investment gains	<u>-</u>	<u>185,476</u>	<u>107,384</u>	<u>292,860</u>
Net assets released from restrictions				
Satisfaction of purpose restrictions	<u>675,495</u>	<u>(303,826)</u>	<u>(371,669)</u>	<u>-</u>
Total revenues	<u>2,880,231</u>	<u>(84,142)</u>	<u>51,937</u>	<u>2,848,026</u>
Operating expenses				
Administrative expenses	390,466	-	-	390,466
Instruction expense	1,760,506	-	-	1,760,506
Operation and maintenance of plant	241,434	-	-	241,434
Employee benefits	<u>566,505</u>	<u>-</u>	<u>-</u>	<u>566,505</u>
Total operating expenses	<u>2,958,911</u>	<u>-</u>	<u>-</u>	<u>2,958,911</u>
Change in net assets	(78,680)	(84,142)	51,937	(110,885)
Net assets				
Beginning of year	<u>170,143</u>	<u>2,038,529</u>	<u>1,206,181</u>	<u>3,414,853</u>
End of year	<u>\$ 91,463</u>	<u>\$ 1,954,387</u>	<u>\$ 1,258,118</u>	<u>\$ 3,303,968</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, 2012

	Unrestricted	Unrestricted - designated funds	Temporarily restricted	Total
Revenue, gains and other support				
Tuition and fees	\$ 843,301	\$ -	\$ -	\$ 843,301
Less: tuition assistance	<u>148,241</u>	<u>-</u>	<u>-</u>	<u>148,241</u>
Net tuition and fees	<u>695,060</u>	<u>-</u>	<u>-</u>	<u>695,060</u>
Other operating revenues				
Subsidy from Catholic Charities Appeal	1,325,000	-	-	1,325,000
Contributions and donations	236,698	-	158,287	394,985
Fundraising	157,337	-	-	157,337
Contributed services (Note I)	49,402	-	-	49,402
Miscellaneous income	53,249	-	-	53,249
Interest and investment income	<u>6,270</u>	<u>44,166</u>	<u>22,132</u>	<u>72,568</u>
Total other operating revenues	<u>1,827,956</u>	<u>44,166</u>	<u>180,419</u>	<u>2,052,541</u>
Change in value of split interest	-	-	(792)	(792)
Net realized losses on investments	-	(38,226)	(18,112)	(56,338)
Net unrealized losses on investments	<u>-</u>	<u>(54,856)</u>	<u>(25,878)</u>	<u>(80,734)</u>
Total investment losses	<u>-</u>	<u>(93,082)</u>	<u>(44,782)</u>	<u>(137,864)</u>
Net assets released from restrictions				
Satisfaction of purpose restrictions	<u>532,116</u>	<u>(301,316)</u>	<u>(230,800)</u>	<u>-</u>
Total revenues	<u>3,055,132</u>	<u>(350,232)</u>	<u>(95,163)</u>	<u>2,609,737</u>
Operating expenses				
Administrative expenses	400,481	-	-	400,481
Instruction expense	1,733,606	-	-	1,733,606
Operation and maintenance of plant	256,144	-	-	256,144
Employee benefits	<u>573,396</u>	<u>-</u>	<u>-</u>	<u>573,396</u>
Total operating expenses	<u>2,963,627</u>	<u>-</u>	<u>-</u>	<u>2,963,627</u>
Other expenses				
Transfer to Learning Disability Program	<u>50,084</u>	<u>-</u>	<u>-</u>	<u>50,084</u>
Total other expenses	<u>50,084</u>	<u>-</u>	<u>-</u>	<u>50,084</u>
Total expenses	<u>3,013,711</u>	<u>-</u>	<u>-</u>	<u>3,013,711</u>
Change in net assets	41,421	(350,232)	(95,163)	(403,974)
Net assets				
Beginning of year	<u>128,722</u>	<u>2,388,761</u>	<u>1,301,344</u>	<u>3,818,827</u>
End of year	<u>\$ 170,143</u>	<u>\$ 2,038,529</u>	<u>\$ 1,206,181</u>	<u>\$ 3,414,853</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,

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities		
Change in net assets	\$ (110,885)	\$ (403,974)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation expense	6,067	3,434
Provision for bad debts	23,671	22,959
Net realized (gains) losses on investments	(79,352)	56,338
Net unrealized (gains) losses on investments	(213,508)	80,734
Changes in operating assets and liabilities:		
Parental tuition receivable	(11,964)	(427)
Due from related organizations	19,903	90,643
Other receivable	(1,949)	(12,165)
Prepaid expenses and other assets	34,717	37,210
Accounts payable	(369)	2,893
Accrued salaries and wages	(31,048)	46,823
Deferred revenue	47,886	(27,570)
Due to related organizations	<u>72,411</u>	<u>10,366</u>
Net cash used in operating activities	<u>(244,420)</u>	<u>(92,736)</u>
Cash flows from investing activities		
Purchase of property and equipment	(4,010)	(74,491)
Purchase of investments	(72,942)	(59,908)
Proceeds from sale of investments	<u>289,299</u>	<u>288,784</u>
Net cash provided by investing activities	<u>212,347</u>	<u>154,385</u>
Net (decrease) increase in cash and cash equivalents, including amounts held by affiliate	(32,073)	61,649
Cash and cash equivalents, including amounts held by affiliate, beginning of year	<u>816,247</u>	<u>754,598</u>
Cash and cash equivalents, including amounts held by affiliate, end of year	<u>\$ 784,174</u>	<u>\$ 816,247</u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

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 Archdiocese of Philadelphia Catholic Cemeteries Office
- The Archdiocese of Philadelphia Learning Disability Program ("Learning Disability Program"; program discontinued in June 2012)

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. Pursuant to the aforementioned agreement, FIF assumes strategic and operational management of the 17 Catholic secondary schools and the four schools of SPED and provides certain financial assistance to the schools. OCE has primary responsibility for, and FIF has oversight and approval responsibility over, school operations. The Secretary for Catholic Education/Chief Operating Officer of OCE reports 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, 2013 and 2012

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 two categories, based on the existence or absence of donor-imposed restrictions. The categories are temporarily 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.

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. Donor-restricted gifts which are received and expended within the same year are reported as unrestricted revenues. 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 statement of activities and changes in net assets as net assets released from restrictions.

Contributed services is 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, 2013 and 2012

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 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 Depository 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

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value, with gains and losses included in the statement of activities and changes in net assets. The fair value of certain alternative investments is estimated using the net asset value ("NAV") per share.

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	10 years

8. Reclassifications

Certain 2012 amounts have been reclassified to conform with the 2013 presentation.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE C - INVESTMENTS

At June 30, 2013 and 2012, SPED's investments are summarized and classified as follows:

<u>2013</u>	<u>Unrestricted - designated funds</u>	<u>Temporarily restricted</u>	<u>Total</u>
Archdiocese of Philadelphia Non-Pension Assets Portfolio	\$ <u>1,776,268</u>	\$ <u>1,118,606</u>	\$ <u>2,894,874</u>
 <u>2012</u>			
Archdiocese of Philadelphia Non-Pension Assets Portfolio	\$ <u>1,810,410</u>	\$ <u>1,007,961</u>	\$ <u>2,818,371</u>

For administrative and other needs, the Archdiocese of Philadelphia formed the Archdiocese of Philadelphia Non-Pension Assets Portfolio ("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.

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

The Investment Committee of the Archdiocese of Philadelphia 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 of the Archdiocese of Philadelphia.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE D - PROPERTY AND EQUIPMENT

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

	<u>2013</u>	<u>2012</u>
Land improvements	\$ 29,850	\$ 29,850
Building improvements	11,070	11,070
Furniture and fixtures	5,180	5,180
Vehicles	<u>32,401</u>	<u>28,391</u>
	78,501	74,491
Accumulated depreciation	<u>(9,501)</u>	<u>(3,434)</u>
Property and equipment, net	<u>\$ 69,000</u>	<u>\$ 71,057</u>

Depreciation expense was \$6,067 and \$3,434 for the years ended June 30, 2013 and 2012, respectively.

NOTE E - PENSION PLAN

The eligible lay employees of SPED are covered under the Archdiocese of Philadelphia Lay Employees' Retirement Plan (the "Plan"), which is a defined benefit pension plan that covers 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. SPED made annual contributions to the Plan at an average rate of 5.0% of the salaries of eligible teachers and nonteachers for the years ended June 30, 2013 and 2012. The amount expensed by SPED for contributions to the Plan was \$69,056 and \$69,374 for the years ended June 30, 2013 and 2012, 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. On November 5, 2013, the Archdiocese of Philadelphia announced that it would freeze the Plan effective June 30, 2014. See Note M, Subsequent Events, for further details.

NOTE F - TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2013</u>	<u>2012</u>
Tuition assistance	\$ 60,032	\$ 52,697
Specified school operations purposes	<u>1,198,086</u>	<u>1,153,484</u>
	<u>\$ 1,258,118</u>	<u>\$ 1,206,181</u>

During 2013 and 2012, net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose of \$371,669 and \$230,800, respectively.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

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, 2013, the SPED tax years ended June 30, 2010 through June 30, 2013 for federal tax jurisdiction remain open to examination.

NOTE H - RELATED PARTY TRANSACTIONS

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

	<u>2013</u>	<u>2012</u>
Office for Financial Services	\$ 2,931	\$ 22,784
Office of Catholic Education Administration Account	<u>-</u>	<u>50</u>
	<u>\$ 2,931</u>	<u>\$ 22,834</u>

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

	<u>2013</u>	<u>2012</u>
Diocesan High Schools	\$ 29,613	\$ 1,097
Office for Financial Services	72,901	29,345
Nutritional Development Services	<u>876</u>	<u>537</u>
	<u>\$ 103,390</u>	<u>\$ 30,979</u>

OCE charges for financial and management services provided to SPED. Expenses charged in 2013 and 2012 in relation to these services were \$150,000 and \$159,000, respectively.

SPED receives subsidies from the Catholic Charities Appeal Fund, which is a fund administered by the Archdiocese of Philadelphia. Subsidies were \$1,162,363 and \$1,325,000 for the years ended June 30, 2013 and 2012, respectively.

Cash and cash equivalents include \$453,326 and \$546,769 at June 30, 2013 and 2012, respectively, held in trust funds maintained by the Office for Financial Services of the Archdiocese of Philadelphia. There are no conditions restricting the withdrawal of these funds.

OCE, as part of SPED, offered a program called the Learning Disability Program. This program was a regional learning support program at the elementary level for students with diagnosed learning disabilities. OCE's Learning Disability Program was closed in June of 2012. During the year ended June 30, 2012, SPED provided a subsidy of \$50,084 to the Learning Disability Program.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE I - CONTRIBUTED SERVICES

Contributed services consist of the following as of June 30:

	<u>2013</u>	<u>2012</u>
Salaries - lay equivalent value of religious services	\$ 156,739	\$ 158,082
Expended for religious services		
Salaries, related employee benefits and faculty house expenses	<u>(113,460)</u>	<u>(108,680)</u>
	<u>\$ 43,279</u>	<u>\$ 49,402</u>

NOTE J - 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.
- 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.

(Continued)

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

June 30, 2013 and 2012

NOTE J - FAIR VALUE MEASUREMENTS - Continued

The fair value of certain alternative investments is estimated using the NAV per share. These investments are classified as either Level 2, if SPED'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 NAV per share or its equivalent as of June 30, are as follows:

	<u>Fair value</u>		<u>Unfunded</u>	<u>Redemption</u>	<u>Redemption</u>
	<u>2013</u>	<u>2012</u>	<u>commitments</u>	<u>frequency</u>	<u>notice</u>
					<u>period</u>
Archdiocese of Philadelphia					
NPAP ^(a)	\$ 2,894,874	\$ 2,818,371	\$ -	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 takes 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.

The following table presents the fair values of the investments held by SPED by level within the fair value hierarchy, as of June 30, 2013 and 2012:

	<u>Quoted prices</u>	<u>Significant</u>	<u>Significant</u>	<u>Total fair</u>
	<u>in active</u>	<u>other</u>	<u>unobservable</u>	<u>value</u>
	<u>markets</u>	<u>observable</u>	<u>inputs</u>	
	<u>(Level 1)</u>	<u>inputs</u>	<u>(Level 3)</u>	
<u>2013</u>		<u>(Level 2)</u>		
Assets				
Archdiocese of Philadelphia NPAP	\$ -	\$ 2,894,874	\$ -	\$ 2,894,874
Total of assets at June 30, 2013	\$ -	\$ 2,894,874	\$ -	\$ 2,894,874
<u>2012</u>				
Assets				
Archdiocese of Philadelphia NPAP	\$ -	\$ 2,818,371	\$ -	\$ 2,818,371
Total of assets at June 30, 2012	\$ -	\$ 2,818,371	\$ -	\$ 2,818,371

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

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 year ended June 30:

	<u>2013</u>	<u>2012</u>
School operations and maintenance	\$ 2,760,954	\$ 2,768,784
Support services	<u>197,957</u>	<u>194,843</u>
	<u>\$ 2,958,911</u>	<u>\$ 2,963,627</u>

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,

2014 \$ 5,664

Rental expenses for the years ended June 30, 2013 and 2012 were \$11,270 and \$13,220, respectively.

NOTE M - SUBSEQUENT EVENTS

SPED evaluated its June 30, 2013 financial statements for subsequent events through November 22, 2013, the date the financial statements were available to be issued. SPED is not aware of any subsequent event which would require recognition or disclosure in the financial statements, except as disclosed below:

On November 5, 2013, the Archdiocese of Philadelphia announced that it would freeze the Plan effective June 30, 2014. All current employees will retain benefits they have earned and will continue to accrue benefits through the effective date of the freeze. After the date of the freeze, accrued pension benefits under the Plan will not increase for current employees with additional service or increases in pay after the freeze date. The Archdiocese of Philadelphia intends to establish a defined contribution plan on July 1, 2014 for all eligible employees.