Financial Statements and Report of
Independent Certified Public Accountants

The Philadelphia Theological Seminary of St. Charles Borromeo

June 30, 2014 and 2013

Contents

Grant Thornton

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Report of Independent Certified Public Accountants

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

Report on the financial statements

We have audited the accompanying financial statements of The Philadelphia Theological Seminary of St. Charles Borromeo, which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Philadelphia Theological Seminary of St. Charles Borromeo as of June 30, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Philadelphia, Pennsylvania

October 24, 2014

The Philadelphia Theological Seminary of St. Charles Borromeo

STATEMENTS OF FINANCIAL POSITION

June 30,

	2014	2013
Assets		
Cash and cash equivalents	$ 1,844,669	$ 1,917,434
Accounts receivable, students	7,639	7,191
Accounts receivable, other	39,180	16,806
Accounts receivable, Archdiocese of Philadelphia, net	245,043	-
Prepaid expenses	65,544	39,490
Investments	17,540,333	16,259,663
Restricted cash - letter of credit	235,162	-
Property and equipment, net	8,767,987	9,183,111
Beneficial interest in perpetual trusts	1,815,475	1,629,400
Total assets	$ 30,561,032	$ 29,053,095
Liabilities		
Accounts payable and accrued expenses	$ 944,667	$ 1,251,171
Deferred revenue	95,165	173,148
Capital leases payable	75,207	127,039
Accounts payable, Archdiocese of Philadelphia, net	-	52,848
Charitable gift annuities payable	409,862	434,739
Deferred interest	94,882	87,788
Note payable, Archdiocese of Philadelphia	2,453,761	2,576,678
Conditional asset retirement obligation	7,983,726	7,676,660
Total liabilities	12,057,270	12,380,071
Net assets		
Unrestricted	177,459	403,674
Temporarily restricted	1,690,336	1,499,214
Permanently restricted	16,635,967	14,770,136
Total net assets	18,503,762	16,673,024
Total liabilities and net assets	$ 30,561,032	$ 29,053,095

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

The Philadelphia Theological Seminary of St. Charles Borromeo

STATEMENT OF ACTIVITIES

Year ended June 30, 2014

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains and other support				
Tuition and fees	$ 3,040,883	$ -	$ -	$ 3,040,883
Less: student aid	386,743	-	-	386,743
Net tuition and fees	2,654,140	-	-	2,654,140
Contributions	4,112,761	150,715	41,019	4,304,495
Contributed services	605,988	-	-	605,988
Investment income	20,137	33,382	316,434	369,953
Other income	636,652	-	-	636,652
Auxiliary enterprises				
Cafeteria	1,079,940	-	-	1,079,940
Dormitory	587,839	-	-	587,839
Net (depreciation) appreciation in fair value of investments	(50,513)	107,016	1,110,313	1,166,816
Realized gains	111,944	86,861	1,045,644	1,244,449
Change in charitable gift annuities	29,734	-	-	29,734
Net assets released from restrictions	834,431	(186,852)	(647,579)	-
Total revenues, gains and other support	10,623,053	191,122	1,865,831	12,680,006
Expenses				
Program services				
Instruction	1,282,367	-	-	1,282,367
Academic support	1,740,881	-	-	1,740,881
Student services	451,135	-	-	451,135
Management and general				
Operations and maintenance	3,857,674	-	-	3,857,674
Institutional support	2,872,676	-	-	2,872,676
Auxiliary enterprises	644,535	-	-	644,535
Total expenses	10,849,268	-	-	10,849,268
Change in net assets	(226,215)	191,122	1,865,831	1,830,738
Net assets				
Beginning of year	403,674	1,499,214	14,770,136	16,673,024
End of year	$ 177,459	$ 1,690,336	$ 16,635,967	$ 18,503,762

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, 2013

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

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

The Philadelphia Theological Seminary of St. Charles Borromeo

STATEMENTS OF CASH FLOWS

Year ended June 30,

	2014	2013
Cash flows from operating activities		
Change in net assets	$ 1,830,738	$ 948,101
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	1,606,026	1,639,691
Net appreciation in fair value of investments	(1,166,816)	(1,147,740)
Net appreciation in beneficial interest in trusts	(186,075)	(117,223)
Realized gains	(1,244,449)	(551,684)
Changes in operating assets and liabilities		
Accounts receivable, students	(448)	1,499
Accounts receivable, other	(22,374)	728,825
Prepaid expenses	(26,054)	45,508
Related party receivables/payables	(297,891)	(23,268)
Annuities payable	(24,877)	(31,985)
Accounts payable and accrued expenses	(306,504)	496,825
Deferred interest	7,094	87,788
Deferred revenues	(77,983)	77,101
Net cash provided by operating activities	90,387	2,153,438
Cash flows from investing activities		
Purchase of land, building and equipment	(883,836)	(581,637)
Purchases and sales of investments, net	1,130,595	(1,036,113)
Decrease in funds held for others	-	(641,296)
(Increase) decrease in restricted cash	(235,162)	641,296
Net cash provided by (used in) investing activities	11,597	(1,617,750)
Cash flows from financing activities		
Payments on notes payable, Archdiocese of Philadelphia	(122,917)	(80,000)
Capital lease payments	(51,832)	(57,975)
Net cash used in financing activities	(174,749)	(137,975)
Net (decrease) increase in cash and cash equivalents	(72,765)	397,713
Cash and cash equivalents		
Beginning of year	1,917,434	1,519,721
End of year	$ 1,844,669	$ 1,917,434
Supplemental cash flow information		
Noncash financing/investing activity		
Equipment purchased with capital leases	$ -	$ 57,976

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

NOTE A - OPERATIONS OF THE SEMINARY

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

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

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

1. Basis of Presentation

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

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

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

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

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

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

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

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

(Continued)

NOTE B - SIGNIFICANT ACCOUNTING POLICIES - Continued

2. Cash and Cash Equivalents

The Seminary considers all unrestricted highly liquid investments with an original maturity of three months or less, and that are not held as components of its respective investment portfolio, to be cash equivalents. At June 30, 2014 and 2013, cash equivalents consisted principally of money market funds. The carrying amount approximates fair value.

3. 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, 2014 and 2013, management believes an allowance for doubtful accounts is not needed.

4. Deferred Revenue

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

5. Investments

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

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

Fair value for investments held outside of the NPAP is determined as more fully described in the fair value measurements footnote (see Note D). 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

6. Beneficial Interest in Trusts

The Seminary is the sole beneficiary of a perpetual charitable trust established by John Creahan and is a beneficiary of a share in the perpetual charitable trusts established by Jeremiah J. Harrigan, Anthony P. Falcone, Joseph L. Anderjko, Francis J. McElroy and the Moroney Family Trust. The supporting charitable trusts require the income to be used by the Seminary to assist in the educational cost of Seminary students. The Seminary's beneficial interest in the supporting charitable trusts is recorded at the fair value of the assets underlying the trusts of $1,815,475 and $1,629,400 at June 30, 2014 and 2013, respectively. Various financial institutions serve as trustees for the charitable trusts.

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

7. 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.

8. 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 $228,310 and $241,723 are included in the NPAP at June 30, 2014 and 2013, respectively. Periodic annuity payments are made to the donor until the donor's death. Upon receipt of the assets, a liability is recorded at the present value of the estimated future payments to be distributed over the donor's and/or other beneficiaries' expected life, based on the GAM-2000 Mortality Tables and discount rates set when the annuity agreement is established, and range between 3.08% and 6.17%. The liability at June 30, 2014 and 2013 is $409,862 and $434,740, respectively.

9. 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, 2014 and 2013, the conditional asset retirement liability is $7,983,726 and $7,676,660, respectively. Included in the balance at June 30, 2014 and 2013 is $307,066 and $295,256, respectively, for the accretion of interest. There were no new liabilities related to conditional asset retirement obligations recognized during the years ended June 30, 2014 and 2013.

(Continued)

NOTE B - SIGNIFICANT ACCOUNTING POLICIES - 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.

10. 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.

11. 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 were no contributions receivable at June 30, 2014 or 2013.

12. 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.

13. 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.

(Continued)

NOTE B - SIGNIFICANT ACCOUNTING POLICIES - Continued

14. 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.

15. 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.

16. 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.

As of June 30, 2014, the Seminary's tax years ended June 30, 2011 through June 30, 2013 for federal tax jurisdiction remain open to examination.

NOTE C - INVESTMENTS

The investments of the Seminary at June 30, 2014 and 2013 are summarized and classified as follows:

2014	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Investments				
Non-Pension Assets Portfolio	$ 803,076	$ 3,323,759	$ 13,413,498	$ 17,540,333
Beneficial interest in perpetual trusts	-	-	1,815,475	1,815,475
Total investments and beneficial interest in perpetual trusts	$ 803,076	$ 3,323,759	$ 15,228,973	$ 19,355,808
2013				
Investments				
Non-Pension Assets Portfolio	$ 1,741,815	$ 2,575,295	$ 11,942,553	$ 16,259,663
Beneficial interest in perpetual trusts	-	-	1,629,400	1,629,400
Total investments and beneficial interest in perpetual trusts	$ 1,741,815	$ 2,575,295	$ 13,571,953	$ 17,889,063

1. Non-Pension Assets Portfolio

For administrative and other needs, the Archdiocese of Philadelphia 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 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.

(Continued)

NOTE C - INVESTMENTS - Continued

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, 2014 and 2013, the allocable fair value of these trusts was $1,815,475 and $1,629,400, respectively. During fiscal years 2014 and 2013, the Seminary recognized unrestricted net income of $15,222 and $19,543, respectively.

NOTE D - FAIR VALUE MEASUREMENTS

Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 820, *Fair Value Measurements and Disclosures*, establishes a single authoritative definition of fair value, sets a framework for measuring fair value, and requires additional disclosures about fair value measurements. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described as follows:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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

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

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

(Continued)

NOTE D - FAIR VALUE MEASUREMENTS - Continued

Fair value measurements of investments in entities that calculate the NAV per share or its equivalent as of June 30, 2014 and 2013 are as follows:

	Fair value		Unfunded	Redemption	Redemption notice
	2014	2013	commitments	frequency	period
NPAP [a]	$ 17,540,333	$ 16,259,663	$ -	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.

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, 2014 and 2013:

2014	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
Assets				
Investments:				
NPAP	$ -	$ 17,540,333	$ -	$ 17,540,333
Beneficial interest in perpetual trusts	-	-	1,815,475	1,815,475
Total investments and beneficial interest in perpetual trusts	$ -	$ 17,540,333	$ 1,815,475	$ 19,355,808
2013				
Assets				
Investments:				
NPAP	$ -	$ 16,259,663	$ -	$ 16,259,663
Beneficial interest in perpetual trusts	-	-	1,629,400	1,629,400
Total investments and beneficial interest in perpetual trusts	$ -	$ 16,259,663	$ 1,629,400	$ 17,889,063

(Continued)

NOTE D - FAIR VALUE MEASUREMENTS - Continued

The following table presents assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30, 2014 and 2013:

	Beneficial interest in perpetual trusts	
	2014	2013
Beginning balance	$ 1,629,400	$ 1,512,177
Change in fair value of assets	261,160	189,194
Distributions from perpetual trust	(75,085)	(71,971)
	$ 1,815,475	$ 1,629,400

During 2014 and 2013, no investments were transferred from Level 3 to Level 2.

NOTE E - STUDENT REVENUES

Net revenues received from students consist of the following for the years ended June 30, 2014 and 2013:

	2014	2013
College and Theologate	$ 2,355,895	$ 2,546,422
Graduate School of Theology	298,245	395,459
Net tuition and fees	$ 2,654,140	$ 2,941,881

Total student revenues for financial reporting purposes have been classified as follows at June 30, 2014 and 2013:

	2014	2013
Net tuition and fees	$ 2,654,140	$ 2,941,881
Dormitory	587,839	565,696
Cafeteria	1,079,940	1,043,945
	$ 4,321,919	$ 4,551,522

NOTE F - PROPERTY AND EQUIPMENT

The following summarizes property and equipment at June 30, 2014 and 2013:

	2014	2013
Land and land improvements	$ 23,521	$ 23,521
Buildings and building improvements	47,172,422	47,022,106
Equipment	7,862,183	7,739,308
Construction in progress	581,557	-
	55,639,683	54,784,935
Accumulated depreciation	(46,871,696)	(45,601,824)
	$ 8,767,987	$ 9,183,111

Depreciation expense of $1,606,026 and $1,639,691 has been recorded in the statements of activities for the years ended June 30, 2014 and 2013, respectively.

NOTE G - 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, 2014 and 2013, the outstanding balance was $2,453,761 and $2,576,678, respectively. 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, with a variable interest rate ranging from 4% to 8%. 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 as follows:

2015	$ 251,668
2016	251,668
2017	251,668
2018	251,668
2019	251,668
Beyond 2019	1,195,421
Total	$ 2,453,761

NOTE H - CAPITAL LEASES

The following is a schedule by years of minimum future rentals on noncancelable capital leases as of June 30, 2014:

2015	$ 53,573
2016	23,695
2017	2,834
Total minimum payments required	80,102
Less: amount representing interest	(4,895)
Present value of minimum lease payments	$ 75,207

NOTE I - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted assets are available for the following purposes at June 30, 2014 and 2013:

	2014	2013
Student scholarships and student grants	$ 1,165,337	$ 1,002,779
Promoting Catholicism in the community	331,682	300,000
Other related temporarily restricted projects	193,317	196,435
	$ 1,690,336	$ 1,499,214

Permanently restricted net assets at June 30, 2014 and 2013 are restricted for:

	2014	2013
Endowment funds to be held in perpetuity, primarily to support student scholarships	$ 14,820,492	$ 13,140,736
Beneficial interests in third-party trusts	1,815,475	1,629,400
	$ 16,635,967	$ 14,770,136

NOTE J - FUNCTIONAL EXPENSES

The following table summarizes program and supporting expenses for the years ended June 30, 2014 and 2013:

	2014	2013
Program expenses	$ 3,474,383	$ 3,346,011
Supporting expenses	7,374,885	7,355,713
	$ 10,849,268	$ 10,701,724

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 K - 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 $118,977 and $61,314 in fiscal years 2014 and 2013, respectively, 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 $446,150 and $236,208 in fiscal years 2014 and 2013, respectively.

The Seminary reimburses the Office for Financial Services for salaries and expenses incurred on behalf of the Seminary employees.

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 years ended June 30, 2014 and 2013, the combined reimbursement totaled $105,292 and $115,052, respectively. As of June 30, 2014 and 2013, the potential Priest Student Loan balance outstanding totaled $580,570 and $471,290, respectively. The Seminary's accounts payable and accrued expenses include one-half of the Priest Student Loan balance at June 30, 2014 and 2013. The reimbursement amount was funded by the Estate of Catherine M. Kerner, deceased.

NOTE L - PENSION PLANS

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 7.5% and 5.0% of the salaries of the eligible employees for the years ended June 30, 2014 and 2013, respectively. The contributions of the Seminary were $116,045 and $93,764 for the years ended June 30, 2014 and 2013, respectively. Separate accounts for vested benefits and pension fund assets are not maintained for each institution.

(Continued)

NOTE L - PENSION PLANS - Continued

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 $108,511 and $91,071 for the years ended June 30, 2014 and 2013, respectively. Separate accounts for vested benefits and pension fund assets are not maintained for each institution.

NOTE M - 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 years ended June 30, 2014 and 2013.

	2014	2013
Purpose restrictions accomplished		
Catholic Life 2000	$ 265,172	$ 490,088
Scholarship Fund	231,700	32,207
J. Cardinal Krol Chair	51,726	54,252
Estates and Trusts	215,565	171,511
Expenses related to other projects	70,268	87,759
	$ 834,431	$ 835,817

NOTE N - 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.

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.

(Continued)

NOTE N - ENDOWMENTS - Continued

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 years ended June 30, 2014 and 2013 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, 2014 or 2013.

(Continued)

NOTE N - ENDOWMENTS - Continued

The Seminary had the following endowment activities during the years ended June 30, 2014 and 2013, delineated by net asset class. All endowment activities were donor-restricted:

2014	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at June 30, 2013	$ -	$ -	$ 13,140,736	$ 13,140,736
Investment return				
Net investment income	-	-	287,257	287,257
Net appreciation (realized and unrealized)	-	-	1,923,610	1,923,610
Total investment return	-	-	2,210,867	2,210,867
Contributions	-	-	41,019	41,019
Appropriation of endowment assets for expenditure	-	-	(558,683)	(558,683)
Endowment net assets at June 30, 2014	$ -	$ -	$ 14,833,939	$ 14,833,939
2013				
Endowment net assets at June 30, 2012	$ -	$ -	$ 12,194,138	$ 12,194,138
Investment return				
Net investment income	-	-	300,087	300,087
Net appreciation (realized and unrealized)	-	-	1,231,955	1,231,955
Total investment return	-	-	1,532,042	1,532,042
Contributions	-	-	3,620	3,620
Appropriation of endowment assets for expenditure	-	-	(589,064)	(589,064)
Endowment net assets at June 30, 2013	$ -	$ -	$ 13,140,736	$ 13,140,736

NOTE O - OTHER INCOME

Other income recognized by the Seminary is comprised of the following for the years ended June 30, 2014 and 2013:

	2014	2013
Fees for service	$ 1,665	$ 42,818
Third-party trust income	69,299	70,247
Institutional Assistance Grant	3,906	6,528
Federal grant income	38,461	56,953
Miscellaneous income	172,122	153,138
Rental of facilities	207,571	141,516
Permanent Diaconate income	143,628	-
	$ 636,652	$ 471,200

NOTE P - 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 Q - 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 October 24, 2014, the date which the financial statements were available for distribution.