

Financial Statements and Report of
Independent Certified Public Accountants

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

June 30, 2015 and 2014

Contents

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



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

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, 2015 and 2014, 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, 2015 and 2014, 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 30, 2015

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

STATEMENTS OF FINANCIAL POSITION

June 30,

	2015	2014
Assets		
Cash and cash equivalents, including amounts held by affiliate	\$ 1,054,803	\$ 999,795
Parental tuition receivable (less allowance for doubtful accounts of \$6,065 in 2015 and \$3,936 in 2014)	36,793	25,004
Due from related organizations (Note H)	-	50,000
Other receivables	-	29,348
Prepaid expenses and other assets	35,630	56,759
Investments (Note C)	3,452,285	3,588,757
Property and equipment, net (Note D)	55,453	62,133
Total assets	\$ 4,634,964	\$ 4,811,796
Liabilities		
Accounts payable	\$ 17,245	\$ 28,920
Accrued salaries and wages	317,299	266,231
Deferred revenue	106,437	129,514
Due to related organizations (Note H)	26,490	25,490
Total liabilities	467,471	450,155
Net assets		
Unrestricted	252,272	407,364
Unrestricted - designated funds	2,082,323	2,241,440
Temporarily restricted (Note F)	1,557,788	1,429,418
Permanently restricted (Note F)	275,110	283,419
Total net assets	4,167,493	4,361,641
Total liabilities and net assets	\$ 4,634,964	\$ 4,811,796

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, 2015

	Unrestricted	Unrestricted - designated funds	Temporarily restricted	Permanently restricted	Total
Revenue, gains and other support					
Tuition and fees	\$ 1,252,911	\$ -	\$ -	\$ -	\$ 1,252,911
Less: tuition assistance	<u>284,288</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>284,288</u>
Net tuition	<u>968,623</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>968,623</u>
Other operating revenues					
Catholic Charities Appeal	964,405	-	-	-	964,405
Contributions and donations	303,345	-	469,028	-	772,373
Fundraising	121,168	-	-	-	121,168
Contributed services (Note I)	60,316	-	-	-	60,316
Miscellaneous income	48,843	-	-	-	48,843
Interest and investment income	<u>19,576</u>	<u>28,639</u>	<u>17,502</u>	<u>-</u>	<u>65,717</u>
Total other operating revenues	<u>1,517,653</u>	<u>28,639</u>	<u>486,530</u>	<u>-</u>	<u>2,032,822</u>
Change in value of split interest	-	-	(572)	-	(572)
Net realized gains (losses) on investments	-	362,953	27,977	-	390,930
Net unrealized losses on investments	<u>-</u>	<u>(350,616)</u>	<u>(22,022)</u>	<u>(8,309)</u>	<u>(380,947)</u>
Total investment gains (losses)	<u>-</u>	<u>12,337</u>	<u>5,383</u>	<u>(8,309)</u>	<u>9,411</u>
Net assets released from restrictions					
Satisfaction of purpose restrictions	<u>563,636</u>	<u>(200,093)</u>	<u>(363,543)</u>	<u>-</u>	<u>-</u>
Total revenues	<u>3,049,912</u>	<u>(159,117)</u>	<u>128,370</u>	<u>(8,309)</u>	<u>3,010,856</u>
Operating expenses					
Administrative expenses	418,110	-	-	-	418,110
Instruction expense	1,903,309	-	-	-	1,903,309
Operation and maintenance of plant	223,004	-	-	-	223,004
Employee benefits	<u>660,581</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>660,581</u>
Total operating expenses	<u>3,205,004</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,205,004</u>
Change in net assets	(155,092)	(159,117)	128,370	(8,309)	(194,148)
Net assets					
Beginning of year,	<u>407,364</u>	<u>2,241,440</u>	<u>1,429,418</u>	<u>283,419</u>	<u>4,361,641</u>
End of year	<u>\$ 252,272</u>	<u>\$ 2,082,323</u>	<u>\$ 1,557,788</u>	<u>\$ 275,110</u>	<u>\$ 4,167,493</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, 2014

	Unrestricted	Unrestricted - designated funds	Temporarily restricted	Permanently restricted	Total
Revenue, gains and other support					
Tuition and fees	\$ 1,164,310	\$ -	\$ -	\$ -	\$ 1,164,310
Less: tuition assistance	<u>301,253</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>301,253</u>
Net tuition	<u>863,057</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>863,057</u>
Other operating revenues					
Catholic Charities Appeal	1,380,998	-	-	-	1,380,998
Faith in the Future	81,000	-	-	-	81,000
Contributions and donations	346,601	-	360,806	257,523	964,930
Fundraising	137,931	-	-	-	137,931
Contributed services (Note I)	38,657	-	-	-	38,657
Miscellaneous income	60,819	-	-	-	60,819
Interest and investment income	<u>14,830</u>	<u>30,703</u>	<u>19,077</u>	<u>-</u>	<u>64,610</u>
Total other operating revenues	<u>2,060,836</u>	<u>30,703</u>	<u>379,883</u>	<u>257,523</u>	<u>2,728,945</u>
Change in value of split interest	-	-	(455)	-	(455)
Net realized gains on investments	-	136,100	92,530	-	228,630
Net unrealized gains on investments	<u>-</u>	<u>122,112</u>	<u>66,866</u>	<u>25,896</u>	<u>214,874</u>
Total investment gains	<u>-</u>	<u>258,212</u>	<u>158,941</u>	<u>25,896</u>	<u>443,049</u>
Net assets released from restrictions					
Satisfaction of purpose restrictions	<u>369,386</u>	<u>(1,862)</u>	<u>(367,524)</u>	<u>-</u>	<u>-</u>
Total revenues	<u>3,293,279</u>	<u>287,053</u>	<u>171,300</u>	<u>283,419</u>	<u>4,035,051</u>
Operating expenses					
Administrative expenses	333,718	-	-	-	333,718
Instruction expense	1,839,541	-	-	-	1,839,541
Operation and maintenance of plant	253,084	-	-	-	253,084
Employee benefits	<u>551,035</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>551,035</u>
Total operating expenses	<u>2,977,378</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,977,378</u>
Change in net assets	315,901	287,053	171,300	283,419	1,057,673
Net assets					
Beginning of year, as restated	<u>91,463</u>	<u>1,954,387</u>	<u>1,258,118</u>	<u>-</u>	<u>3,303,968</u>
End of year	<u>\$ 407,364</u>	<u>\$ 2,241,440</u>	<u>\$ 1,429,418</u>	<u>\$ 283,419</u>	<u>\$ 4,361,641</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 CASH FLOWS

Year ended June 30,

	2015	2014
Cash flows from operating activities		
Change in net assets	\$ (194,148)	\$ 1,057,673
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation expense	6,680	6,867
Provision for bad debts	2,129	23,671
Net realized gains on investments	(390,930)	(228,630)
Net unrealized losses (gains) on investments	380,947	(214,874)
Donations of interest in a trust held by third parties	-	(257,523)
Changes in operating assets and liabilities		
Increase/decrease in parental tuition receivable	13,918	(12,979)
Increase/decrease in due from related organizations	50,000	(47,069)
Increase/decrease in other receivables	29,348	(1,370)
Increase/decrease in prepaid expenses and other assets	21,129	(55,098)
Increase/decrease in accounts payable	(11,675)	22,898
Increase in accrued salaries and wages	51,068	5,922
Increase/decrease in due to related organizations	1,000	(77,900)
Increase/decrease in deferred revenue	(23,077)	(13,111)
	(63,611)	208,477
Net cash (used in) provided by operating activities		
Cash flows from investing activities		
Purchase of investments	(83,656)	(127,600)
Proceeds from sale of investments	202,275	134,744
	118,619	7,144
Net cash provided by investing activities		
Net increase in cash and cash equivalents, including amounts held by affiliate	55,008	215,621
Cash and cash equivalents, including amounts held by affiliate, beginning of year	999,795	784,174
Cash and cash equivalents, including amounts held by affiliate, end of year	\$ 1,054,803	\$ 999,795

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2015 and 2014

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 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, 2015 and 2014

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, 2015 and 2014

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

3. Uses of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) requires management to make significant estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

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

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

5. Allowances for Doubtful Accounts

The allowance for doubtful accounts is provided based upon management’s judgment, including such factors as prior collection history and the length of time a receivable is past due. SPED writes off receivables when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts.

6. Investments

On April 30, 2015, Trustee Accounts previously held in the Non-Pension Assets Portfolio (the “NPAP”) were liquidated and re-invested with two publicly traded SEI Catholic Values public mutual funds. The Catholic Values Equity Fund and the Catholic Values Fixed Income Fund (“Catholic Values Funds”) provide Catholic institutions with high quality products that align with their core values, without sacrificing diversification or return potential. Specifically, the funds align with the investment directives set forth by the United States Conference of Catholic Bishops (“USCCB”). The Archdiocese of Philadelphia appointed SEI Private Trust Company to act as custodian (the “Custodian”) of the Trustee Accounts. The investment in the Trustee Accounts and other investments are reported at fair value.

Realized gains and losses are reported to the participant monthly. Gains and losses created at the participant level due to sales are recorded in the specific participant accounts. Unrealized gains and losses are included in the statements of activities and changes in net assets as net appreciation or depreciation in the fair value of investments.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2015 and 2014

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

7. Property and Equipment

Property and equipment purchased are stated at cost, while donated assets are stated at fair market value on the date of donation. Depreciation has been provided by the straight-line method over the estimated useful lives of the related assets as follows:

Land improvements	20 years
Building improvements	20 years
Furniture and fixtures	5 years
Vehicles	10 years

NOTE C - INVESTMENTS

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

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

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

Liquidity Sub-Account (or "fund") - Investments are liquid in nature and invests in short duration U.S. government bonds.

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

At June 30, 2015, SPED's investments are summarized as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
<u>2015</u>				
SEI mutual funds	\$ 1,952,366	\$ 1,224,809	\$ -	\$ 3,177,175
Trusts held by third parties	-	-	275,110	275,110
	\$ 1,952,366	\$ 1,224,809	\$ 275,110	\$ 3,452,285

(Continued)

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2015 and 2014

NOTE C - INVESTMENTS - Continued

Prior to April 30, 2015, the investment in the Trustee Accounts consists of investments in the NPAP and other investment accounts. 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 or for expected short-term needs.

The Trustee Account is unitized on a periodic basis to allow for the investment, at unit value, by entities in the NPAP. SPED's investment in the Trustee Accounts is stated at unit value.

The Investment Committee has primary responsibility for determining the asset investment allocations to be used. Management is responsible for ensuring that asset investment allocations among the funds are maintained as determined by the Investment Committee.

At June 30, 2014, SPED's investments are summarized as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
<u>2014</u>				
Archdiocese of Philadelphia NPAP	\$ 2,063,322	\$ 1,242,016	\$ -	\$ 3,305,338
Trusts held by third parties	<u>-</u>	<u>-</u>	<u>283,419</u>	<u>283,419</u>
	<u>\$ 2,063,322</u>	<u>\$ 1,242,016</u>	<u>\$ 283,419</u>	<u>\$ 3,588,757</u>

At June 30, 2015, SPED held the following categories of investments:

Catholic Values Equity Fund	\$ 1,859,701
Catholic Values Fixed Income Fund	<u>1,317,474</u>
Total ownership	<u>\$ 3,177,175</u>

(Continued)

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2015 and 2014

NOTE C - INVESTMENTS - Continued

At June 30, 2014, SPED held the following categories of investments:

Equity sub-account		\$ 2,063,321
Fixed income sub-account		<u>1,242,017</u>
 Total ownership		 <u>\$ 3,305,338</u>

SPED is the beneficiary of individual trusts held in perpetuity by third parties. At June 30, 2015 and 2014, the allocable fair value of these trusts was \$273,980 and \$283,419, respectively, and is recorded within investments in the accompanying statements of financial position. During fiscal year 2015, SPED recognized permanently restricted depreciation of \$9,439 related to these trusts. During fiscal year 2014, SPED recognized permanently restricted appreciation of \$25,896 related to these trusts.

NOTE D - PROPERTY AND EQUIPMENT

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

	<u>2015</u>	<u>2014</u>
Land	\$ 29,850	\$ 29,850
Buildings and improvements	11,070	11,070
Furniture and fixtures	5,180	5,180
Vehicles	<u>32,401</u>	<u>32,401</u>
	78,501	78,501
Accumulated depreciation	<u>(23,048)</u>	<u>(16,368)</u>
 Property and equipment, net	 <u>\$ 55,453</u>	 <u>\$ 62,133</u>

Depreciation expense was \$6,680 and \$6,867 for the years ended June 30, 2015 and 2014, respectively.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2015 and 2014

NOTE E - EMPLOYEE BENEFIT PLANS

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

Through June 30, 2014, the eligible lay employees of SPED were covered under the Archdiocese of Philadelphia Lay Employees' Retirement Plan (the "Plan"), which is a defined benefit pension plan covering substantially all lay employees of the Archdiocese of Philadelphia, based on age and service requirements. The Plan is administered by the Trustees of the Plan. SPED made annual contributions to the Plan at an average rate of 4.0% and 5.0% of the salaries of eligible teachers and non-teachers for the years ended June 30, 2015 and 2014, respectively. The amount expensed by SPED for contributions to the Plan was \$73,366 and \$89,173 for the years ended June 30, 2015 and 2014, 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.

2. Archdiocese of Philadelphia 403(b) Retirement Plan

Effective July 1, 2014, the Archdiocese of Philadelphia established a 403(b) defined contribution plan. Under the 403(b) plan, and subject to statutory limits, all employees at least 18 years of age are immediately eligible to make voluntary deferred salary contributions into the 403(b) plan.

Employer contributions, which cover employees meeting the eligibility requirements below, are discretionary. The following are the eligibility requirements for the employer contribution:

Grandfathered Employees - Any employee who was accruing benefits as an active participant in the Lay Employees Retirement Plan ("LERP") as of its freeze date of June 30, 2014 is a grandfathered employee and will be eligible to receive employer contributions beginning with the first payroll on or after July 1, 2014. A grandfathered 10-month employee will be eligible to receive employer contributions beginning with the first payroll on or after September 1, 2014.

Non-Grandfathered Employees - Non-grandfathered employees are eligible to receive the employer contribution beginning with the first payroll coinciding with or immediately following the completion of 1,000 hours of service during the 18-month period beginning July 1, 2014 through December 31, 2015. The employee must also have attained at least 18 years of age to be eligible. For a non-grandfathered employee hired prior to July 1, 2014 who does not meet the eligibility requirements for an employer contribution in the time frame described above, the period for determining whether or not one meets the 1,000-hour service requirement will shift to the calendar year beginning January 1, 2016.

Vesting - Vesting in employer contributions to a 403(b) plan account will be immediate for any grandfathered employee who has completed 12 months of service as of June 30, 2014. Vesting in employer contributions for all other employees will take place after the completion of 12 months of service.

In fiscal 2015, SPED's contribution rate was 5.0% of base salary for eligible employees. The contributions into the 403(b) plan totaled \$91,707 for the year ended June 30, 2015.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2015 and 2014

NOTE F - PERMANENTLY AND TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2015</u>	<u>2014</u>
Tuition assistance	\$ 114,678	\$ 90,980
Specified school operations purposes	<u>1,443,110</u>	<u>1,338,438</u>
Total temporarily restricted net assets	<u>\$ 1,557,788</u>	<u>\$ 1,429,418</u>

During 2015 and 2014, net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose of \$363,543 and \$367,524, respectively.

Permanently restricted net assets at June 30, 2015 and 2014, related to funds held in perpetuity, consisted of the following:

	<u>2015</u>	<u>2014</u>
Trusts held by third parties	\$ <u>275,110</u>	\$ <u>283,419</u>
Total permanently restricted net assets	<u>\$ 275,110</u>	<u>\$ 283,419</u>

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, 2015, the SPED tax years ended June 30, 2011 through June 30, 2014 for federal tax jurisdiction remain open to examination.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2015 and 2014

NOTE H - RELATED PARTY TRANSACTIONS

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

	<u>2015</u>	<u>2014</u>
Diocesan High Schools	\$ <u> -</u>	\$ <u> 50,000</u>

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

	<u>2015</u>	<u>2014</u>
Nutritional Development Services	\$ -	\$ 304
Diocesan High Schools	<u> 26,490</u>	<u> 25,186</u>
	<u>\$ 26,490</u>	<u>\$ 25,490</u>

OCE charges for financial and management services provided to SPED. Expenses charged in both 2015 and 2014 in relation to these services were \$100,000.

SPED receives funds from the Catholic Charities Appeal Fund, which is a fund administered by the Archdiocese of Philadelphia. Subsidies were \$964,405 and \$1,380,998 for the years ended June 30, 2015 and 2014, respectively.

Cash and cash equivalents include \$482,508 and \$800,115 at June 30, 2015 and 2014, 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.

NOTE I - CONTRIBUTED SERVICES

Contributed services consist of the following as of June 30:

	<u>2015</u>	<u>2014</u>
Salaries and benefits - lay equivalent value of religious services	\$ 191,346	\$ 156,972
Expended for religious services		
Salaries, related employee benefits and faculty house expenses	<u> (131,030)</u>	<u> (118,315)</u>
	<u>\$ 60,316</u>	<u>\$ 38,657</u>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2015 and 2014

NOTE J - FAIR VALUE MEASUREMENTS

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

- Level 1 Quoted prices in active markets for identical assets or liabilities.
- Level 2 Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities.
- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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

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

Fair value calculations may not be indicative of net realizable value or reflective of future fair values. Furthermore, although SPED believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

(Continued)

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2015 and 2014

NOTE J - FAIR VALUE MEASUREMENTS - Continued

Fair value measurements of investments in entities that calculate the net asset value (“NAV”) per share or its equivalent as of June 30, are as follows:

	<u>Fair value</u>		<u>Unfunded commitments</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
	<u>2015</u>	<u>2014</u>			
Archdiocese of Philadelphia NPAP ^(a)	\$ -	\$ 3,305,338	\$ -	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, 2015:

	<u>Quoted prices in active markets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>	<u>Total fair value</u>
<u>2015</u>				
Assets				
SEI mutual funds	\$ 3,177,175	\$ -	\$ -	\$ 3,177,175
Trusts held by third parties	<u>-</u>	<u>-</u>	<u>275,110</u>	<u>275,110</u>
Total of assets at June 30, 2015	<u>\$ 3,177,175</u>	<u>\$ -</u>	<u>\$ 275,110</u>	<u>\$ 3,452,285</u>

The table below sets forth a summary of changes in the fair value of SPED’s Level 3 assets for the year ended June 30, 2015:

Balance at June 30, 2014	\$ 283,419
Unrealized losses	<u>(8,309)</u>
Balance at June 30, 2015	<u>\$ 275,110</u>

(Continued)

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2015 and 2014

NOTE J - FAIR VALUE MEASUREMENTS - Continued

The following table presents the fair values of the investments held by SPED by level within the fair value hierarchy, as of June 30, 2014:

	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
<u>2014</u>				
Assets				
Investment in the Trustee Account	\$ -	\$ 3,305,338	\$ -	\$ 3,305,338
Trusts held by third parties	<u>-</u>	<u>-</u>	<u>283,419</u>	<u>283,419</u>
Total of assets at June 30, 2014	<u>\$ -</u>	<u>\$ 3,305,338</u>	<u>\$ 283,419</u>	<u>\$ 3,588,757</u>

The table below sets forth a summary of changes in the fair value of SPED's Level 3 assets for the year ended June 30, 2014:

Balance at June 30, 2013	\$ -
Contribution	257,523
Unrealized gains, net	<u>25,896</u>
Balance at June 30, 2014	<u>\$ 283,419</u>

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>2015</u>	<u>2014</u>
School operations and maintenance	\$ 3,019,037	\$ 2,847,343
Support services	<u>185,967</u>	<u>130,035</u>
	<u>\$ 3,205,004</u>	<u>\$ 2,977,378</u>

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2015 and 2014

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:

<u>Year ending June 30,</u>	
2016	\$ 8,372
2017	5,582
2018	<u>4,186</u>
Total minimum payments	<u>\$ 18,140</u>

Rental expenses for the years ended June 30, 2015 and 2014 were \$8,700 and \$8,455, respectively.

NOTE M - SUBSEQUENT EVENTS

SPED evaluated its June 30, 2015 financial statements for subsequent events through November 30, 2015, 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.