

Financial Statements and Report of  
Independent Certified Public Accountants

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

June 30, 2017 and 2016

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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, 2017 and 2016, 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, 2017 and 2016, 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

December 5, 2017

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

**STATEMENTS OF FINANCIAL POSITION**

June 30,

	2017	2016
<b>Assets</b>		
Cash and cash equivalents, including amounts held by affiliate	\$ 950,427	\$ 986,679
Parental tuition receivable, (less allowance for doubtful accounts of \$20,825 in 2017 and \$40,579 in 2016)	107,108	48,704
Other receivables	19,339	71,203
Prepaid expenses and other assets	52,487	35,959
Investments (Note C)	3,473,024	3,256,182
Property and equipment, net (Note D)	67,083	75,994
Total assets	\$ 4,669,468	\$ 4,474,721
<b>Liabilities</b>		
Accounts payable	\$ 18,706	\$ 33,284
Accrued salaries and wages	303,476	317,565
Deferred revenue	98,071	72,030
Due to related organizations (Note H)	-	200,000
Total liabilities	420,253	622,879
<b>Net assets</b>		
Unrestricted	459,880	243,437
Unrestricted - designated funds	1,946,256	1,869,650
Temporarily restricted (Note F)	1,590,646	1,471,104
Permanently restricted (Note F)	252,433	267,651
Total net assets	4,249,215	3,851,842
Total liabilities and net assets	\$ 4,669,468	\$ 4,474,721

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, 2017

	Unrestricted	Unrestricted - designated funds	Temporarily restricted	Permanently restricted	Total
Revenue, gains and other support					
Tuition and fees	\$ 1,446,913	\$ -	\$ -	\$ -	\$ 1,446,913
Less: tuition assistance	<u>394,409</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>394,409</u>
Net tuition	<u>1,052,504</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,052,504</u>
Other operating revenues					
Subsidy from Catholic Charities Appeal	1,357,682	-	-	-	1,357,682
Contributions and donations	262,233	-	438,838	-	701,071
Fundraising	107,890	-	-	-	107,890
Contributed services (Note I)	49,178	-	-	-	49,178
Miscellaneous income	48,144	-	-	-	48,144
Interest and investment income	<u>5,971</u>	<u>31,837</u>	<u>22,402</u>	<u>-</u>	<u>60,210</u>
Total other operating revenues	<u>1,831,098</u>	<u>31,837</u>	<u>461,240</u>	<u>-</u>	<u>2,324,175</u>
Change in value of split interest	-	-	-	5,560	5,560
Net realized gains on investments	-	4,113	3,171	-	7,284
Net unrealized gains on investments	<u>13,023</u>	<u>190,675</u>	<u>136,005</u>	<u>-</u>	<u>339,703</u>
Total investment gains	<u>13,023</u>	<u>194,788</u>	<u>139,176</u>	<u>5,560</u>	<u>352,547</u>
Net assets released from restrictions					
Release of unrestricted - designated funds	150,019	(150,019)	-	-	-
Satisfaction of purpose restrictions	<u>480,874</u>	<u>-</u>	<u>(480,874)</u>	<u>-</u>	<u>-</u>
Total revenues	<u>3,527,518</u>	<u>76,606</u>	<u>119,542</u>	<u>5,560</u>	<u>3,729,226</u>
Operating expenses					
Administrative expenses	471,635	-	-	-	471,635
Instruction expense	1,955,888	-	-	-	1,955,888
Operation and maintenance of plant	226,302	-	-	-	226,302
Employee benefits	<u>686,863</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>686,863</u>
Total operating expenses	<u>3,340,688</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,340,688</u>
Non-operating					
Transfer from Faith in the Future	8,835	-	-	-	8,835
Reclassification of net assets	<u>20,778</u>	<u>-</u>	<u>-</u>	<u>(20,778)</u>	<u>-</u>
Total non-operating	<u>29,613</u>	<u>-</u>	<u>-</u>	<u>(20,778)</u>	<u>8,835</u>
Change in net assets	216,443	76,606	119,542	(15,218)	397,373
Net assets					
Beginning of year	<u>243,437</u>	<u>1,869,650</u>	<u>1,471,104</u>	<u>267,651</u>	<u>3,851,842</u>
End of year	<u>\$ 459,880</u>	<u>\$ 1,946,256</u>	<u>\$ 1,590,646</u>	<u>\$ 252,433</u>	<u>\$ 4,249,215</u>

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

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

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

Year ended June 30, 2016

	Unrestricted	Unrestricted - designated funds	Temporarily restricted	Permanently restricted	Total
Revenue, gains and other support					
Tuition and fees	\$ 1,461,533	\$ -	\$ 250	\$ -	\$ 1,461,783
Less: tuition assistance	<u>313,340</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>313,340</u>
Net tuition	<u>1,148,193</u>	<u>-</u>	<u>250</u>	<u>-</u>	<u>1,148,443</u>
Other operating revenues					
Subsidy from Catholic Charities Appeal	1,113,581	-	-	-	1,113,581
Contributions and donations	354,633	-	358,072	-	712,705
Fundraising	109,541	-	-	-	109,541
Contributed services (Note I)	62,180	-	-	-	62,180
Miscellaneous income	52,774	-	-	-	52,774
Interest and investment income	<u>7,335</u>	<u>24,407</u>	<u>16,501</u>	<u>10,058</u>	<u>58,301</u>
Total other operating revenues	<u>1,700,044</u>	<u>24,407</u>	<u>374,573</u>	<u>10,058</u>	<u>2,109,082</u>
Change in value of split interest	-	-	360	-	360
Net realized losses on investments	-	(9,132)	(2,413)	(17,584)	(29,129)
Net unrealized losses on investments	<u>-</u>	<u>(27,948)</u>	<u>(21,630)</u>	<u>-</u>	<u>(49,578)</u>
Total investment losses	<u>-</u>	<u>(37,080)</u>	<u>(23,683)</u>	<u>(17,584)</u>	<u>(78,347)</u>
Net assets released from restrictions					
Release of unrestricted - designated funds	200,000	(200,000)	-	-	-
Satisfaction of purpose restrictions	<u>437,757</u>	<u>-</u>	<u>(437,824)</u>	<u>67</u>	<u>-</u>
Total revenues	<u>3,485,994</u>	<u>(212,673)</u>	<u>(86,684)</u>	<u>(7,459)</u>	<u>3,179,178</u>
Operating expenses					
Administrative expenses	515,060	-	-	-	515,060
Instruction expense	2,005,528	-	-	-	2,005,528
Operation and maintenance of plant	280,353	-	-	-	280,353
Employee benefits	<u>693,888</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>693,888</u>
Total operating expenses	<u>3,494,829</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,494,829</u>
Change in net assets	(8,835)	(212,673)	(86,684)	(7,459)	(315,651)
Net assets					
Beginning 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>
End of year	<u>\$ 243,437</u>	<u>\$ 1,869,650</u>	<u>\$ 1,471,104</u>	<u>\$ 267,651</u>	<u>\$ 3,851,842</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,

	2017	2016
Cash flows from operating activities		
Change in net assets	\$ 397,373	\$ (315,651)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation expense	8,911	8,379
Provision for bad debts	19,754	34,514
Net realized (gains) losses on investments	(7,284)	29,129
Net unrealized (gains) losses on investments	(339,703)	49,578
Change in value of beneficial interest in perpetual trusts	(5,560)	-
Changes in operating assets and liabilities		
Increase in parental tuition receivable	(78,158)	(46,425)
Increase/decrease in other accounts receivable	51,864	(71,203)
Increase in prepaid expenses and other assets	(16,528)	(329)
Increase/decrease in accounts payable	(14,578)	16,039
Increase/decrease in due to related organizations	(200,000)	173,510
Increase/decrease in accrued salaries and wages	(14,089)	266
Increase/decrease in deferred revenue	26,041	(34,407)
Net cash used in operating activities	(171,957)	(156,600)
Cash flows from investing activities		
Purchase of property and equipment	-	(28,921)
Purchase of investments	(8,601)	(52,019)
Proceeds from sale of investments	144,306	169,416
Net cash provided by investing activities	135,705	88,476
Net decrease in cash and cash equivalents, including amounts held by affiliate	(36,252)	(68,124)
Cash and cash equivalents, including amounts held by affiliate, beginning of year	986,679	1,054,803
Cash and cash equivalents, including amounts held by affiliate, end of year	\$ 950,427	\$ 986,679

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



## NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

### NOTE A - NATURE OF OPERATIONS

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

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

The Schools of Special Education consist of:

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

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

SPED is considered to be a component of the Archdiocese of Philadelphia and not a separate legal entity. Effective September 1, 2012, the Archdiocese of Philadelphia entered into an agreement with Faith in the Future Foundation (“FIF”). The agreement is for the period of five school years and shall automatically renew for successive three-year periods unless prior written notification is provided 90 days before the scheduled expiration date. This agreement was extended through 2022 in February of 2016. Pursuant to the aforementioned agreement, FIF assumes strategic and operational management of the 17 Catholic secondary schools and the four schools of special education and provides certain financial assistance to the schools. OCE has primary responsibility for, and FIF has oversight and approval responsibility over, school operations. The Secretary for Catholic Education/Chief Operating Officer of OCE reports directly to FIF’s Chief Executive Officer. Subsequent to year end, the Superintendent for Secondary Schools, the Chief Financial Officer and Deputy Secretary also report directly to the FIF’s Chief Executive Officer. All facilities continue to be owned by the Archdiocese of Philadelphia.

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2017 and 2016

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Basis of Presentation

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

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

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

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

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

2. Revenue Recognition

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

Cash contributions and fundraising revenues are recorded as revenue when received. Unconditional promises to give are recorded at their fair value when SPED is notified of these gifts. Conditional promises to give are recognized when the conditions are substantially met. 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 statements of activities and changes in net assets as net assets released from restrictions.

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

(Continued)

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2017 and 2016

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

3. Uses of Estimates

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

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

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

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

5. Allowances for Doubtful Accounts

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

6. Investments

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

Unrealized gains and losses are included in the statements of activities and changes in net assets as net appreciation or depreciation in the fair value of investments.

(Continued)

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2017 and 2016

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.

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, 2017 and 2016, SPED held the following categories of investments:

	2017	2016
Catholic Values Equity Fund	\$ 1,867,943	\$ 1,745,399
Catholic Values Fixed Income Fund	1,352,648	1,263,910
Total investments	\$ 3,220,591	\$ 3,009,309

SPED is the beneficiary of individual trusts held in perpetuity by third parties. At June 30, 2017 and 2016, the allocable fair value of these trusts was \$252,433 and \$246,873, respectively, and is recorded within investments in the accompanying statements of financial position. During 2017 SPED recognized permanently restricted appreciation of \$5,560 and during 2016, SPED recognized permanently restricted depreciation of \$28,237, related to these trusts.

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2017 and 2016

NOTE D - PROPERTY AND EQUIPMENT

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

	2017	2016
Land improvements	\$ 29,850	\$ 29,850
Building improvements	11,070	11,070
Furniture and fixtures	5,180	5,180
Vehicles	61,321	61,321
	107,421	107,421
Accumulated depreciation	(40,338)	(31,427)
Property and equipment, net	\$ 67,083	\$ 75,994

Depreciation expense was \$8,911 and \$8,379 for the years ended June 30, 2017 and 2016, respectively.

NOTE E - EMPLOYEE BENEFIT PLANS

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

Through June 30, 2014, the eligible lay employees of SPED were covered under the Archdiocese of Philadelphia Lay Employees' Retirement Plan (the "Plan"), which is a defined benefit pension plan covering substantially all lay employees of the Archdiocese of Philadelphia, based on age and service requirements. On June 30, 2014, the Archdiocese froze the Plan. All active employees as of the freeze date retained benefits they had earned through June 30, 2014. After the date of the freeze, accrued pension benefits do not increase for additional service or increases in pay. The Plan is administered by the Trustees of the Plan. SPED made annual contributions to the Plan at an average rate of 5.9% and 4.0% of the salaries of eligible teachers and non-teachers for the years ended June 30, 2017 and 2016, respectively. The amount expensed by SPED for contributions to the Plan was \$67,861 and \$70,250 for the years ended June 30, 2017 and 2016, respectively. The expense of such contributions is included in employee benefits. Separate accounts for vested benefits and pension fund assets are not maintained for each institution.

At June 30, 2017, the assets available to fund the Plan benefits were 82.1% of the actuarially determined present value of the accumulated Plan benefits. The assets available to fund the Plan benefits were 70.7% of the preliminary estimate of the actuarially determined present value of the accumulated Plan benefits at June 30, 2016.

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.

(Continued)

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2017 and 2016

NOTE E - EMPLOYEE BENEFIT PLANS - Continued

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

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

*Non-Grandfathered Employees* - Non-grandfathered employees are eligible to receive the employer contributions generally upon completion of 1,000 hours of service in the relevant measurement period.

Vesting in employer contributions is immediate for grandfathered employees who have completed 12 months of service as of June 30, 2014. Vesting in employer contributions for all other employees will take place after the completion of 12 months of service.

In 2017 and 2016, SPED's contribution rate was 4.5% of base salary for eligible employees and there was a 0.5% charge for administration. The contributions into the 403(b) plan and the administrative charges totaled \$73,206 and \$78,411, and \$5,135 and \$8,713 for the years ended June 30, 2017 and 2016, respectively.

NOTE F - PERMANENTLY AND TEMPORARILY RESTRICTED NET ASSETS

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

	2017	2016
Tuition assistance	\$ 102,184	\$ 90,073
Specified school operations purposes	1,488,462	1,381,031
Total temporarily restricted net assets	\$ 1,590,646	\$ 1,471,104

During 2017 and 2016, net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose of \$480,874 and \$437,824, respectively.

Permanently restricted net assets at June 30, 2017 and 2016, related to funds held in perpetuity, consisted of the following:

	2017	2016
Jeremiah J. Harrigan Trust	\$ 91,800	\$ 95,568
George Grover Trust	160,633	172,083
Total permanently restricted net assets	\$ 252,433	\$ 267,651

(Continued)

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2017 and 2016

NOTE F - PERMANENTLY AND TEMPORARILY RESTRICTED NET ASSETS - Continued

Trusts held by third parties included in permanently restricted funds include funds for the benefit of Archbishop Ryan Academy for Children with Hearing Impairment (“Archbishop Ryan Academy”) which had 10 students during the 2016-2017 school year. The provisions for both trusts established under wills stipulate that if the named institution ceases to exist that the income from the trusts would be divided among the remaining institutions named in the individual wills. These institutions do not include any of the other schools of special education.

In 2016, PNC Bank, the trustee for the Jeremiah J. Harrigan Trust, raised the question of whether Archbishop Ryan should benefit from this trust under will because it was not a residential facility. The will specifically named the school and provided funding to be used “for the welfare, support and maintenance of the inmates thereof.” PNC Bank took this issue to the courts for clarification, but this matter has not yet been resolved. Since Archbishop Ryan has always been a day school, management believes that this issue will be resolved in the school’s favor.

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, 2017, the SPED tax years ended June 30, 2013 through June 30, 2016 for federal tax jurisdiction remain open to examination.

NOTE H - RELATED PARTY TRANSACTIONS

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

	2017	2016
Diocesan High Schools	\$ _____ -	\$ <u>200,000</u>
	\$ _____ -	\$ <u>200,000</u>

OCE charges for financial and management services provided to SPED. Expenses charged in both 2017 and 2016 in relation to these services were \$215,000.

SPED receives funds from the Catholic Charities Appeal Fund, which is a fund administered by the Archdiocese of Philadelphia. Subsidies were \$1,357,682 and \$1,113,581 for the years ended June 30, 2017 and 2016, respectively.

Cash and cash equivalents include \$395,570 and \$539,526 at June 30, 2017 and 2016, respectively, on deposit with the Office for Financial Services of the Archdiocese of Philadelphia. There are no conditions restricting the withdrawal of these funds.

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2017 and 2016

NOTE I - CONTRIBUTED SERVICES

Contributed services consist of the following as of June 30:

	2017	2016
Salaries and benefits - lay equivalent value of religious services	\$ 191,605	\$ 200,252
Expended for religious services		
Salaries, related employee benefits and faculty house expenses	(142,427)	(138,072)
	\$ 49,178	\$ 62,180

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)



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**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2017 and 2016

NOTE J - FAIR VALUE MEASUREMENTS - Continued

The following tables present the fair values of the investments held by SPED by level within the fair value hierarchy, as of June 30, 2017 and 2016:

	Quoted prices in active markets <u>(Level 1)</u>	Significant other observable inputs <u>(Level 2)</u>	Significant unobservable inputs <u>(Level 3)</u>	Total fair value
<u>2017</u>				
Assets				
SEI mutual funds	\$ 3,220,591	\$ -	\$ -	\$ 3,220,591
Trusts held by third parties	<u>-</u>	<u>-</u>	<u>252,433</u>	<u>252,433</u>
Total of assets at June 30, 2017	<u>\$ 3,220,591</u>	<u>\$ -</u>	<u>\$ 252,433</u>	<u>\$ 3,473,024</u>
<u>2016</u>				
Assets				
SEI mutual funds	\$ 3,009,309	\$ -	\$ -	\$ 3,009,309
Trusts held by third parties	<u>-</u>	<u>-</u>	<u>246,873</u>	<u>246,873</u>
Total of assets at June 30, 2016	<u>\$ 3,009,309</u>	<u>\$ -</u>	<u>\$ 246,873</u>	<u>\$ 3,256,182</u>

The table below sets forth a summary of changes in the fair value of SPED's Level 3 assets for the years ended June 30, 2017 and 2016:

Balance at June 30, 2015	\$ 275,110
Change in fair value of assets	(24,452)
Distributions from trusts held by third parties	<u>(3,785)</u>
Balance at June 30, 2016	246,873
Change in fair value of assets	14,228
Distributions from trusts held by third parties	<u>(8,668)</u>
Balance at June 30, 2017	<u>\$ 252,433</u>

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**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2017 and 2016

NOTE K - FUNCTIONAL EXPENSES

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

	<u>2017</u>	<u>2016</u>
School operations and maintenance	\$ 3,097,055	\$ 3,250,316
Support services	<u>243,633</u>	<u>244,513</u>
	<u>\$ 3,340,688</u>	<u>\$ 3,494,829</u>

NOTE L - LEASE COMMITMENTS

Rental expenses for both of the years ended June 30, 2017 and 2016 were \$8,372.

NOTE M - SUBSEQUENT EVENTS

SPED evaluated its June 30, 2017 financial statements for subsequent events through December 5, 2017, 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 noted in Note A.