Financial Statements and Report of
Independent Certified Public Accountants

The Philadelphia Theological Seminary of St. Charles Borromeo

June 30, 2018 and 2017

Contents

Grant Thornton LLP
Two Commerce Square
2001 Market St., Suite 700
Philadelphia, PA 19103

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

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, 2018 and 2017, 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, 2018 and 2017, 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

November 5, 2018

STATEMENTS OF FINANCIAL POSITION

June 30,

	2018	2017
Assets		
Cash and cash equivalents	$ 7,191,934	$ 6,661,488
Accounts receivable, students	16,621	34,517
Contributions receivable	93,440	79,508
Prepaid expenses	70,280	90,736
Investments	18,930,070	16,696,025
Restricted cash	1,063,334	522,846
Property and equipment, net	5,416,747	6,446,149
Beneficial interest in perpetual trusts	1,701,867	1,649,325
Beneficial interest in charitable trusts	133,866	125,281
Beneficial interest in Foundation	373,404	360,869
Total assets	$ 34,991,563	$ 32,666,744
Liabilities		
Accounts payable and accrued expenses	$ 2,423,242	$ 2,745,018
Deferred revenue	240,237	186,828
Capital leases payable	94,441	133,978
Charitable gift annuities payable	96,776	111,956
Deferred interest	-	100,922
Note payable	1,455,646	1,698,736
Conditional asset retirement obligation	9,339,831	8,980,606
Total liabilities	13,650,173	13,958,044
Net assets (deficit)		
Unrestricted	(551,770)	(578,282)
Temporarily restricted	4,038,454	2,181,913
Permanently restricted	17,854,706	17,105,069
Total net assets	21,341,390	18,708,700
Total liabilities and net assets	$ 34,991,563	$ 32,666,744

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, 2018

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues				
Tuition and fees	$ 3,660,625	$ -	$ -	$ 3,660,625
Less: student aid	(473,914)	-	-	(473,914)
Net tuition and fees	3,186,711	-	-	3,186,711
Contributions	4,946,124	1,860,242	-	6,806,366
Contributed services	621,042	-	-	621,042
Investment income	5,014	28,598	297,472	331,084
Other income	783,756	10,124	-	793,880
Sale of artwork and rare books	32,325	-	-	32,325
Auxiliary enterprises				
Cafeteria	1,280,566	-	-	1,280,566
Dormitory	622,874	-	-	622,874
Net appreciation in fair value of investments	3,423	75,598	676,512	755,533
Realized gains on investments	57	7,938	367,628	375,623
Change in charitable gift annuities	(2,090)	-	-	(2,090)
Net assets released from restrictions	717,934	(125,959)	(591,975)	-
Total revenues, gains (losses) and other	12,197,736	1,856,541	749,637	14,803,914
Expenses				
Program services				
Instruction	1,245,694	-	-	1,245,694
Academic support	1,806,994	-	-	1,806,994
Student services	607,528	-	-	607,528
Management and general				
Operations and maintenance	3,662,355	-	-	3,662,355
Institutional support	4,102,937	-	-	4,102,937
Auxiliary enterprises	745,716	-	-	745,716
Total expenses	12,171,224	-	-	12,171,224
Change in net assets from operating activities	26,512	1,856,541	749,637	2,632,690
Net assets (deficit)				
Beginning of year	(578,282)	2,181,913	17,105,069	18,708,700
End of year	$ (551,770)	$ 4,038,454	$ 17,854,706	$ 21,341,390

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, 2017

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues				
Tuition and fees	$ 3,504,309	$ -	$ -	$ 3,504,309
Less: student aid	(491,148)	-	-	(491,148)
Net tuition and fees	3,013,161	-	-	3,013,161
Contributions	4,498,418	85,258	-	4,583,676
Contributed services	680,244	-	-	680,244
Investment income	17,410	37,644	285,874	340,928
Other income	851,397	-	-	851,397
Sale of artwork and rare books	53,440	-	-	53,440
Auxiliary enterprises				
Cafeteria	1,214,753	-	-	1,214,753
Dormitory	583,847	-	-	583,847
Net appreciation in fair value of investments	22,568	128,916	1,291,303	1,442,787
Realized (losses) gains on investments	(17,235)	17,181	164,865	164,811
Change in charitable gift annuities	10,256	-	-	10,256
Net assets released from restrictions	684,489	(96,822)	(587,667)	-
Total revenues, gains (losses) and other	11,612,748	172,177	1,154,375	12,939,300
Expenses				
Program services				
Instruction	1,360,528	-	-	1,360,528
Academic support	2,010,368	-	-	2,010,368
Student services	555,093	-	-	555,093
Management and general				
Operations and maintenance	3,648,962	-	-	3,648,962
Institutional support	5,717,116	-	-	5,717,116
Auxiliary enterprises	719,489	-	-	719,489
Total expenses	14,011,556	-	-	14,011,556
Change in net assets before impairment of fixed assets	(2,398,808)	172,177	1,154,375	(1,072,256)
Loss on impairment of fixed assets	(1,529,882)	-	-	(1,529,882)
Change in net assets from operating activities	(3,928,690)	172,177	1,154,375	(2,602,138)
Net assets (deficit)				
Beginning of year	3,350,408	2,009,736	15,950,694	21,310,838
End of year	$ (578,282)	$ 2,181,913	$ 17,105,069	$ 18,708,700

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

STATEMENTS OF CASH FLOWS

Year ended June 30,

	2018	2017
Cash flows from operating activities		
Change in net assets	$ 2,632,690	$ (2,602,138)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and accretion of capital asset retirement obligation	1,497,142	1,549,093
Net appreciation in fair value of investments	(1,022,228)	(1,387,609)
Net depreciation (appreciation) in beneficial interest in trusts	266,695	(156,526)
Realized gains on investments	(375,623)	(79,154)
Loss on impairment of fixed assets	-	1,529,882
Gain on sale of artwork and rare books	(32,325)	(53,440)
Changes in operating assets and liabilities		
Restricted cash	(540,488)	(40,666)
Accounts receivable, students	17,896	56,057
Contributions receivable	(13,932)	(79,508)
Prepaid expenses	20,456	7,193
Related party receivables/payables	-	46,158
Annuities payable	(15,180)	(10,256)
Accounts payable and accrued expenses	(321,775)	1,942,938
Deferred interest	(100,922)	(78)
Deferred revenues	53,409	87,995
Net cash provided by operating activities	2,065,815	809,941
Cash flows from investing activities		
Purchase of land, building and equipment	(108,516)	(220,134)
Purchases and sales of investments, net	(1,176,551)	1,229,519
Sale of artwork and rare books	32,325	53,440
Net cash (used in) provided by investing activities	(1,252,742)	1,062,825
Cash flows from financing activities		
Payments on notes payable	(243,090)	(314,585)
Capital lease payments	(39,537)	(43,973)
Net cash used in financing activities	(282,627)	(358,558)
Net increase in cash and cash equivalents	530,446	1,514,208
Cash and cash equivalents		
Beginning of year	6,661,488	5,147,280
End of year	$ 7,191,934	$ 6,661,488

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, 2018 and 2017, cash equivalents consisted principally of money market funds. The carrying amount approximates fair value.

The Seminary has restricted cash which is restricted for various temporarily restricted purposes including the Priest Alumni Fund, Seminarian Tuition Assistance and the Spanish and Hispanic Fund, as well as cash with legal restriction for letters of credit or other financing arrangements.

3. Allowance for Doubtful Accounts

The allowance for doubtful accounts for student and other receivables is 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, 2018, management has an allowance for doubtful accounts of $20,000 and $-0- as of June 30, 2017.

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 held in 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. Investments are reported at fair value.

Fair value for investments held outside of the SEI Investment Portfolio 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 Perpetual 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 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 $1,701,867 and $1,649,325 at June 30, 2018 and 2017, 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. Beneficial Interest in Charitable Trusts

The Seminary is a beneficiary of a share in the charitable trusts established by Francis J. McElory and Margaret Chinnici. The charitable trusts are available to be used for unrestricted operations upon certain time restrictive purposes. The Seminary's beneficial interests in the charitable trusts are recorded at the fair value of the assets underlying the trusts of $133,866 and $125,281 at June 30, 2018 and 2017, respectively.

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

8. Beneficial Interest in Foundation

The Seminary contributed certain funds to an outside foundation and named itself as the sole beneficiary of The Cardinal Foley Chair Endowment Fund ("Endowment Fund") and The Cardinal Foley Chair Program Fund ("Program Fund") held by an outside Foundation. The Endowment Fund requires the income to be used by the Seminary for the exclusive purposes of maintaining The John Cardinal Foley Chair for Homiletics and Social Communications. The Program Fund requires the income to be used by the Seminary for the exclusive purposes of maintaining The John Cardinal Foley Chair for Homiletics and Social Communications and renovations. The renovation funds shall be distributed as required to design and furnish all necessary equipment for the new Homiletics room but may not exceed $100,000. The Seminary's beneficial interest in the Foundation is recorded at the fair market value of the assets underlying the Endowment Fund of $94,200 and $89,645 and Program Fund of $279,204 and $271,224 at June 30, 2018 and 2017, respectively. The Endowment Fund and the Program Fund are recorded as temporarily restricted net assets in accordance with the restrictions of the original donors.

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

(Continued)

NOTE B - SIGNIFICANT ACCOUNTING POLICIES - Continued

9. 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.

10. 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 $95,970 and $96,116 are included in investments at June 30, 2018 and 2017, 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, which range between 3.08% and 6.17%. The liability at June 30, 2018 and 2017 is $96,776 and $111,956, respectively.

11. 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, 2018 and 2017, the conditional asset retirement liability is $9,339,831 and $8,980,606, respectively. Included in the balance at June 30, 2018 and 2017 is $359,224 and $345,408, respectively, for the accretion of interest. There were no new liabilities related to conditional asset retirement obligations recognized as of June 30, 2018 and 2017.

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.

12. Tuition and Fees

The Seminary maintains a policy of offering qualified applicants admission without regard to financial circumstances. This policy provides for financial aid to those admitted in the form of federal grants and loans during the academic year. Tuition and fees have been reduced by these financial aid programs.

(Continued)

NOTE B - SIGNIFICANT ACCOUNTING POLICIES - Continued

13. Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. An allowance for uncollectible contributions receivable is provided based upon management's judgment, including such factors as prior collection history, type of contribution, and nature of the fund-raising activity. A $71,004 receivable for the Seminary Appeal pledges was recorded as of June 30, 2018. A $75,121 receivable for the Seminary Appeal pledges was recorded as of June 30, 2017.

14. Contributed Services

The salaries of priests and members of religious groups assigned to the Seminary are nominal in relation to the services rendered. The difference between the fair value of these services, as determined from the *Fact Book on Theological Education (2009)*, published by the Association of Theological Schools, and the actual compensation paid and other benefits provided by the Seminary, are recorded as contributed services and the related functional expenses in the statements of activities.

15. Estimates by Management

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. The most significant management estimates and assumptions relate to the determination of valuation of investments without a readily determinable market value; useful lives of fixed assets; conditional asset retirement obligations; actuarial estimates for the charitable gift annuities payable; and the reported fair values of certain of the Seminary's assets and liabilities. Actual results could differ from those estimates.

16. Concentrations of Credit Risk

The Seminary's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents and investments. These funds are held in various high-quality financial institutions managed by Seminary personnel and outside advisors. The Seminary maintains its cash and cash equivalents in financial institutions that typically significantly exceed federally insured limits. The Seminary believes that the concentrations of credit risk are reasonable for its cash and cash equivalents and investments.

(Continued)

NOTE B - SIGNIFICANT ACCOUNTING POLICIES - Continued

17. Auxiliary Enterprises

Auxiliary enterprises consist of activities distinct from the primary purpose of education. These activities include food services and housing with revenues and expenditures determined as follows:

Tuition, Dormitory and Cafeteria Revenues - Monies received from students have been apportioned to tuition, room and board based upon the Seminary's quoted fees in the student catalogue.

Dormitory Expenditures - The Seminary estimates that approximately 20% of direct physical plant operations expenditures were directly related to the dormitories.

Cafeteria Expenditures - Represents all food service related expenditures and 5.7% of physical plant operations expenditures.

18. Tax-Exempt Status

Under provisions of Internal Revenue Code Section 501(c)(3) and the applicable income tax regulations of Pennsylvania, the Seminary is exempt from taxes on income other than unrelated business income.

The Seminary recognizes or derecognizes a tax position based on a "more likely than not" threshold. This applies to positions taken or expected to be taken in a tax return. The Seminary does not believe its financial statements include any material uncertain tax positions.

As of June 30, 2018, the Seminary's tax years ended June 30, 2015 through June 30, 2017 for federal tax jurisdiction remain open to examination.

19. Reclassifications

Certain reclassifications have been made to prior year balances in order to conform to the current year presentation. These reclassifications had no impact on total assets, total liabilities, and net assets or change in net assets as previously reported.

NOTE C - INVESTMENTS

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.

(Continued)

NOTE C - INVESTMENTS - Continued

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 Finance and Budget Committee of the Philadelphia Theological Seminary of St. Charles Borromeo has primary responsibility for determining fixed income to equity mix. The asset mix of the mutual funds is SEI's responsibility.

At June 30, 2018 and 2017, the Seminary held the following categories of investments:

	2018	2017
Cash and cash equivalents	$ -	$ 55,298
Catholic Values Equity Fund	13,251,049	8,450,661
Catholic Values Fixed Income Fund	5,679,021	8,190,066
Total ownership	$ 18,930,070	$ 16,696,025

NOTE D - 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.

(Continued)

NOTE D - FAIR VALUE MEASUREMENTS - Continued

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 net asset value ("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.

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, 2018:

	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
Assets				
Investments in SEI funds	$ 18,930,070	$ -	$ -	$ 18,930,070
Beneficial interest in perpetual trusts	-	-	1,701,867	1,701,867
Beneficial interest in charitable trusts	-	-	133,866	133,866
Beneficial interest in Foundation	-	-	373,404	373,404
Total assets at June 30, 2018	$ 18,930,070	$ -	$ 2,209,137	$ 21,139,207

The table below sets forth a summary of changes in the fair value of the Seminary's Level 3 assets for the year ended June 30, 2018:

	Beneficial interest in perpetual trusts	Beneficial interest in charitable trusts	Beneficial interest in Foundation
Balance at June 30, 2017	$ 1,649,325	$ 125,281	$ 360,869
Change in fair value of assets	67,283	8,622	26,902
Distributions from perpetual trust	(14,741)	(37)	(14,367)
Balance at June 30, 2018	$ 1,701,867	$ 133,866	$ 373,404

(Continued)

NOTE D - FAIR VALUE MEASUREMENTS - Continued

During 2018, no investments were transferred from Level 3 to Level 2.

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, 2017:

	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
Assets				
Investments in SEI funds	$ 16,696,025	$ -	$ -	$ 16,696,025
Beneficial interest in perpetual trusts	-	-	1,649,325	1,649,325
Beneficial interest in charitable trusts	-	-	125,281	125,281
Beneficial interest in Foundation	-	-	360,869	360,869
Total assets at June 30, 2017	$ 16,696,025	$ -	$ 2,135,475	$ 18,831,500

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

	Beneficial interest in perpetual trusts	Beneficial interest in charitable trusts	Beneficial interest in Foundation
Balance at June 30, 2016	$ 1,526,122	$ 120,262	$ 332,565
Change in fair value of assets	135,399	5,019	39,628
Distributions from perpetual trust	(12,196)	-	(11,324)
Balance at June 30, 2017	$ 1,649,325	$ 125,281	$ 360,869

During 2017, 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, 2018 and 2017:

	2018	2017
College and Theologate	$ 2,917,222	$ 2,708,338
Graduate School of Theology	269,489	304,823
Net tuition and fees	$ 3,186,711	$ 3,013,161

Total student revenues for financial reporting purposes have been classified as follows for the years ended June 30, 2018 and 2017:

	2018	2017
Net tuition and fees	$ 3,186,711	$ 3,013,161
Dormitory	622,874	583,847
Cafeteria	1,280,566	1,214,753
	$ 5,090,151	$ 4,811,761

NOTE F - PROPERTY AND EQUIPMENT

The following summarizes property and equipment at June 30, 2018 and 2017:

	2018	2017
Land and land improvements	$ 23,521	$ 23,521
Buildings and building improvements	48,986,599	48,892,844
Equipment	8,110,067	8,080,166
Construction in progress	-	15,139
	57,120,187	57,011,670
Accumulated depreciation	(51,703,440)	(50,565,521)
Property and equipment, net	$ 5,416,747	$ 6,446,149

Depreciation expense (including accretion of the capital asset retirement obligation) of $1,497,142 and $1,549,093 has been recorded in the statements of cash flows for the years ended June 30, 2018 and 2017, respectively.

The Seminary has no outstanding commitments on construction contracts as of June 30, 2018 and 2017.

(Continued)

NOTE F - PROPERTY AND EQUIPMENT - Continued

During the year ended June 30, 2017, the Seminary announced its intention to perform a feasibility study with a Catholic university to examine a possible future relocation of the Priestly Formation program from its current Wynnewood campus to a Catholic university's campus. In connection with this decision, the Seminary assessed the recoverability of the carrying value of certain fixed asset costs associated with future development plans of the Wynnewood campus, which resulted in impairment losses of $1,529,882. These losses reflect the amounts by which the carrying values of these assets exceed their estimated fair values determined by their estimated future discounted cash flows.

NOTE G - NOTE PAYABLE

Effective October 6, 2005, the Seminary entered into a loan agreement with the Archdiocese of Philadelphia Deposit and Loan Program Trust 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, 2018 and 2017, the outstanding balance was $1,455,646 and $1,698,736, respectively. In March 2009, the loan agreement with the Archdiocese of Philadelphia Deposit and Loan Program Trust 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.

In May 2018, the outstanding principal of $1,509,985 was sold to the Priests' Retirement Benefits Funding Trust with a 5% interest rate and a maturity date of March 31, 2024 and payments to be made quarterly starting June 2018.

The Seminary's long-term debt obligations for each of the next five years and beyond are as follows:

2019	$ 224,235
2020	235,659
2021	247,664
2022	260,282
2023	273,542
Beyond 2023	214,264
Total	$ 1,455,646

NOTE H - CAPITAL LEASES

The following is a schedule by years of minimum future rentals on noncancelable capital leases as of June 30, 2018:

2019	$ 52,630
2020	36,270
2021	10,768
2022	820
Total minimum payments required	100,488
Less: amount representing interest	(6,047)
Present value of minimum lease payments	$ 94,441

NOTE I - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at June 30, 2018 and 2017:

	2018	2017
Student scholarships and student grants	$ 3,328,019	$ 1,521,111
Other related temporarily restricted projects	203,165	174,652
Beneficial interest in charitable trusts	133,866	125,281
Beneficial interest in Foundation	373,404	360,869
	$ 4,038,454	$ 2,181,913

Permanently restricted net assets at June 30, 2018 and 2017 are restricted for:

	2018	2017
Endowment funds to be held in perpetuity, primarily to support student scholarships	$ 16,152,839	$ 15,455,744
Beneficial interests in third-party trusts	1,701,867	1,649,325
	$ 17,854,706	$ 17,105,069

NOTE J - FUNCTIONAL EXPENSES

The following table summarizes program and supporting expenses for the years ended June 30, 2018 and 2017:

	2018	2017
Program expenses	$ 3,660,216	$ 3,925,989
Supporting expenses	8,511,008	10,085,567
	$ 12,171,224	$ 14,011,556

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 the Vocations Office and Permanent Diaconate. The Seminary recorded revenue of $82,164 and $98,260 in fiscal years 2018 and 2017, 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 $670,384 and $731,511 in fiscal years 2018 and 2017, 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.

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, 2018 and 2017, the combined reimbursement totaled $123,934 and $129,087, respectively. As of June 30, 2018 and 2017, the potential Priest Student Loan balance outstanding totaled $806,608 and $699,950, respectively. The Seminary's accounts payable and accrued expenses include one-half of the Priest Student Loan balance at June 30, 2018 and 2017.

NOTE L - PENSION PLANS

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

Through June 30, 2014, the eligible lay employees of the Seminary 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. The Seminary made annual contributions to the Plan at a rate of 4.0% of the salaries of eligible employees for each of the years ended June 30, 2018 and 2017. The amount expensed by the Seminary for contributions to the Plan was $102,240 and $104,412 for fiscal years ended June 30, 2018 and 2017, respectively. 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 contributions:

Grandfathered Employees - Any employee who was accruing benefits as an active participant in the Plan 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 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.

The contributions by the Seminary into the 403(b) plan totaled $91,693 and $89,135 for the years ended June 30, 2018 and 2017, respectively.

3. Archdiocese of Philadelphia Priests' Pension Plan

In addition, the priests of the Seminary are covered under the Archdiocese of Philadelphia 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 $79,800 and $174,900 for the years ended June 30, 2018 and 2017, 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, 2018 and 2017.

	2018	2017
Purpose restrictions accomplished		
Catholic Life 2000	$ 258,712	$ 265,123
Scholarship Fund	369,211	369,348
Estates and Trusts	36,565	22,416
Expenses related to other projects	53,446	27,602
	$ 717,934	$ 684,489

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.

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.

(Continued)

NOTE N - ENDOWMENTS - Continued

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, 2018 and 2017 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, 2018 or 2017.

The Seminary had the following endowment activities during the years ended June 30, 2018 and 2017, delineated by net asset class. All endowment activities were donor-restricted:

2018	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets at June 30, 2017	$ -	$ -	$ 15,455,743	$ 15,455,743
Investment return				
Net investment income	-	-	225,135	225,135
Net appreciation (realized and unrealized)	-	-	1,049,195	1,049,195
Total investment return	-	-	1,274,330	1,274,330
Appropriation of endowment assets for expenditure	-	-	(577,234)	(577,234)
Endowment net assets at June 30, 2018	$ -	$ -	$ 16,152,839	$ 16,152,839

(Continued)

NOTE N - ENDOWMENTS - Continued

2017	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets at June 30, 2016	$ -	$ -	$ 14,424,572	$ 14,424,572
Investment return				
Net investment income	-	-	261,728	261,728
Net appreciation (realized and unrealized)	-	-	1,344,913	1,344,913
Total investment return	-	-	1,606,641	1,606,641
Appropriation of endowment assets for expenditure	-	-	(575,470)	(575,470)
Endowment net assets at June 30, 2017	$ -	$ -	$ 15,455,743	$ 15,455,743

NOTE O - OTHER INCOME

Other income recognized by the Seminary is comprised of the following for the years ended June 30, 2018 and 2017:

	2018	2017
Fees for service	$ 9,230	$ 17,650
Third-party trust income	69,440	79,461
Institutional Assistance Grant	5,200	6,520
Federal grant income	-	66,164
Miscellaneous income	64,868	51,202
Rental of facilities	179,842	186,900
Permanent Diaconate income	210,000	208,000
Vocations Office income	255,300	235,500
	$ 793,880	$ 851,397

NOTE P - COMMITMENTS AND CONTINGENCIES

The Seminary is involved in legal proceedings arising out of and incidental to its operations. A liability associated with a settlement related to one legal proceeding has been recorded in accounts payable and accrued expenses. In management's opinion, the ultimate liability which may arise from other legal proceedings are not deemed probable and would not have a material adverse effect on the financial statements of the Seminary.

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 November 5, 2018, the date which the financial statements were available for distribution.