



**The Philadelphia Theological Seminary of Saint Charles Borromeo
Narrative Accompanying the Audited Financial Statements
for the Fiscal Year Ended June 30, 2017**

In May 2016 the Board of Trustees of Saint Charles Borromeo Seminary decided to pursue a new strategic direction. The Board voted to pursue an affiliation with a Catholic college/university in the Archdiocese of Philadelphia with the goal of creating a financially sustainable model for seminary operations as well as enriching the partner institution by leveraging the seminary's successful tradition. Ideally, if this affiliation is achieved, Saint Charles Seminary and its partner institution will both work proactively to promote a more diverse college/seminary community, enhancing the human development of all students.

During the fiscal year ended June 30, 2017, the seminary conducted a feasibility study with the eleven Philadelphia area Catholic colleges/universities with the intent to find the best opportunity for the seminary to continue its mission. Due to the decision to affiliate with another college/university additional resources were required to fund this initiative. The seminary also incurred costs, including legal costs as noted in Note P of the financial statements, related to the potential sale of the current seminary property. The costs associated with the settlement of legal proceedings have also been recorded in the audited financial statements. In the fiscal year ended June 30, 2017 the expenses recorded for all of the matters noted above totaled approximately \$2.2 million.

Prior to the decision to relocate, the Seminary had developed plans to consolidate operations on the upper portion of the campus. Since those plans will not be pursued the Seminary assessed the carrying value of certain capitalized costs incurred in anticipation of the possible consolidation. That is, the decision to completely vacate the current property caused a loss on impairment of the assets capitalized related to the original plan to consolidate and renovate the upper campus. Those costs totaled approximately \$1.5 million which Saint Charles wrote off in the fiscal year ended June 30, 2017.

The overall total change in net assets from operating activities for the year ended June 30, 2017 was a negative \$2.6 million. Excluding the \$3.7 million noted above the seminary's total net asset change would have been a positive \$1.1 million which compares favorably to the 2016 results.

Financial Statements and Report of
Independent Certified Public Accountants

**The Philadelphia Theological Seminary
of St. Charles Borromeo**

June 30, 2017 and 2016

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Report of Independent Certified Public Accountants

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

Report on the financial statements

We have audited the accompanying financial statements of The Philadelphia Theological Seminary of St. Charles Borromeo, which comprise the statements of financial position as of June 30, 2017 and 2016, 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, 2017 and 2016, 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

December 4, 2017

The Philadelphia Theological Seminary of St. Charles Borromeo

STATEMENTS OF FINANCIAL POSITION

June 30,

| | <u>2017</u> | <u>2016</u> |
|---|--------------------------|--------------------------|
| Assets | | |
| Cash and cash equivalents | \$ 6,661,488 | \$ 5,147,280 |
| Accounts receivable, students | 34,517 | 90,574 |
| Contributions receivable | 79,508 | - |
| Accounts receivable, Archdiocese of Philadelphia, net | - | 46,158 |
| Prepaid expenses | 90,736 | 97,929 |
| Investments | 16,696,025 | 16,458,781 |
| Restricted cash | 522,846 | 482,180 |
| Property and equipment, net | 6,446,149 | 8,884,274 |
| Beneficial interest in perpetual trusts | 1,649,325 | 1,526,122 |
| Beneficial interest in charitable trusts | 125,281 | 120,262 |
| Beneficial interest in Foundation | <u>360,869</u> | <u>332,565</u> |
| Total assets | <u>\$ 32,666,744</u> | <u>\$ 33,186,125</u> |
| Liabilities | | |
| Accounts payable and accrued expenses | \$ 2,745,018 | \$ 802,080 |
| Deferred revenue | 186,828 | 98,833 |
| Capital leases payable | 133,978 | 102,643 |
| Charitable gift annuities payable | 111,956 | 122,212 |
| Deferred interest | 100,922 | 101,000 |
| Note payable | 1,698,736 | 2,013,321 |
| Conditional asset retirement obligation | <u>8,980,606</u> | <u>8,635,198</u> |
| Total liabilities | <u>13,958,044</u> | <u>11,875,287</u> |
| Net assets (deficit) | | |
| Unrestricted | (578,282) | 3,350,408 |
| Temporarily restricted | 2,181,913 | 2,009,736 |
| Permanently restricted | <u>17,105,069</u> | <u>15,950,694</u> |
| Total net assets | <u>18,708,700</u> | <u>21,310,838</u> |
| Total liabilities and net assets | <u>\$ 32,666,744</u> | <u>\$ 33,186,125</u> |

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

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 | <u>(491,148)</u> | <u>-</u> | <u>-</u> | <u>(491,148)</u> |
| 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 | <u>684,489</u> | <u>(96,822)</u> | <u>(587,667)</u> | <u>-</u> |
| Total revenues, gains (losses) and other | <u>11,612,748</u> | <u>172,177</u> | <u>1,154,375</u> | <u>12,939,300</u> |
| 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 | <u>719,489</u> | <u>-</u> | <u>-</u> | <u>719,489</u> |
| Total expenses | <u>14,011,556</u> | <u>-</u> | <u>-</u> | <u>14,011,556</u> |
| 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 | <u>(1,529,882)</u> | <u>-</u> | <u>-</u> | <u>(1,529,882)</u> |
| Change in net assets from operating activities | (3,928,690) | 172,177 | 1,154,375 | (2,602,138) |
| Net assets (deficit) | | | | |
| Beginning of year | <u>3,350,408</u> | <u>2,009,736</u> | <u>15,950,694</u> | <u>21,310,838</u> |
| End of year | <u>\$ (578,282)</u> | <u>\$ 2,181,913</u> | <u>\$ 17,105,069</u> | <u>\$ 18,708,700</u> |

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

STATEMENT OF ACTIVITIES

Year ended June 30, 2016

| | Unrestricted | Temporarily restricted | Permanently restricted | Total |
|--|---------------------|---------------------------|---------------------------|----------------------|
| Revenues | | | | |
| Tuition and fees | \$ 3,213,220 | \$ - | \$ - | \$ 3,213,220 |
| Less: student aid | <u>(326,135)</u> | <u>-</u> | <u>-</u> | <u>(326,135)</u> |
| Net tuition and fees | 2,887,085 | - | - | 2,887,085 |
| Contributions | 4,678,006 | 85,575 | 57,359 | 4,820,940 |
| Contributed services | 733,260 | - | - | 733,260 |
| Investment income | 11,568 | 26,264 | 254,096 | 291,928 |
| Other income | 808,682 | - | - | 808,682 |
| Sale of artwork and rare books | 806,267 | - | - | 806,267 |
| Auxiliary enterprises | | | | |
| Cafeteria | 1,088,100 | - | - | 1,088,100 |
| Dormitory | 564,724 | - | - | 564,724 |
| Net depreciation in fair value of investments | (2,922) | (15,191) | (283,107) | (301,220) |
| Realized losses on investments | (8,252) | (2,479) | (36,556) | (47,287) |
| Change in charitable gift annuities | 195,524 | - | - | 195,524 |
| Net assets released from restrictions | <u>426,192</u> | <u>117,807</u> | <u>(543,999)</u> | <u>-</u> |
| Total revenues, gains (losses) and other support | <u>12,188,234</u> | <u>211,976</u> | <u>(552,207)</u> | <u>11,848,003</u> |
| Expenses | | | | |
| Program services | | | | |
| Instruction | 1,349,334 | - | - | 1,349,334 |
| Academic support | 1,839,661 | - | - | 1,839,661 |
| Student services | 596,901 | - | - | 596,901 |
| Management and general | | | | |
| Operations and maintenance | 3,796,866 | - | - | 3,796,866 |
| Institutional support | 3,839,934 | - | - | 3,839,934 |
| Auxiliary enterprises | <u>673,990</u> | <u>-</u> | <u>-</u> | <u>673,990</u> |
| Total expenses | <u>12,096,686</u> | <u>-</u> | <u>-</u> | <u>12,096,686</u> |
| Change in net assets | 91,548 | 211,976 | (552,207) | (248,683) |
| Net assets | | | | |
| Beginning of year | <u>3,258,860</u> | <u>1,797,760</u> | <u>16,502,901</u> | <u>21,559,521</u> |
| End of year | <u>\$ 3,350,408</u> | <u>\$ 2,009,736</u> | <u>\$ 15,950,694</u> | <u>\$ 21,310,838</u> |

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

STATEMENTS OF CASH FLOWS

Year ended June 30,

| | <u>2017</u> | <u>2016</u> |
|--|---------------------|---------------------|
| Cash flows from operating activities | | |
| Change in net assets | \$ (2,602,138) | \$ (248,683) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Depreciation and accretion of capital asset retirement obligation | 1,549,093 | 1,600,401 |
| Net (appreciation) depreciation in fair value of investments | (1,387,609) | 301,220 |
| Net (appreciation) depreciation in beneficial interest in trusts | (156,526) | 131,200 |
| Realized (gains) losses on investments | (79,154) | 47,287 |
| Loss on impairment of fixed assets | 1,529,882 | - |
| Gain on sale of artwork and rare books | (53,440) | (806,267) |
| Changes in operating assets and liabilities | | |
| Restricted cash | (40,666) | (38,543) |
| Accounts receivable, students | 56,057 | (88,024) |
| Contributions receivable | (79,508) | 292,388 |
| Prepaid expenses | 7,193 | (17,187) |
| Related party receivables/payables | 46,158 | 227,564 |
| Annuities payable | (10,256) | (195,524) |
| Accounts payable and accrued expenses | 1,942,938 | 23,576 |
| Deferred interest | (78) | 1,943 |
| Deferred revenues | 87,995 | (439) |
| Net cash provided by operating activities | <u>809,941</u> | <u>1,230,912</u> |
| Cash flows from investing activities | | |
| Purchase of land, building and equipment | (220,134) | (493,328) |
| Purchases and sales of investments, net | 1,229,519 | 282,410 |
| Sale of artwork and rare books | <u>53,440</u> | <u>806,267</u> |
| Net cash provided by investing activities | <u>1,062,825</u> | <u>595,349</u> |
| Cash flows from financing activities | | |
| Payments on notes payable | (314,585) | (188,772) |
| Capital lease payments | <u>(43,973)</u> | <u>(23,695)</u> |
| Net cash used in financing activities | <u>(358,558)</u> | <u>(212,467)</u> |
| Net increase in cash and cash equivalents | 1,514,208 | 1,613,794 |
| Cash and cash equivalents | | |
| Beginning of year | <u>5,147,280</u> | <u>3,533,486</u> |
| End of year | <u>\$ 6,661,488</u> | <u>\$ 5,147,280</u> |

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

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)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

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, 2017 and 2016, 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, 2017 and 2016, management believes an allowance for doubtful accounts is not needed.

4. Deferred Revenue

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

5. Investments

Investments are 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)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

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 \$1,649,325 and \$1,526,122 at June 30, 2017 and 2016, 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 \$125,281 and \$120,262 at June 30, 2017 and 2016, 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 \$89,645 and \$82,546 and Program Fund of \$271,224 and \$250,019 at June 30, 2017 and 2016, 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)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

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 \$96,116 and \$95,822 are included in investments at June 30, 2017 and 2016, 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, 2017 and 2016 is \$111,956 and \$122,212, 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, 2017 and 2016, the conditional asset retirement liability is \$8,980,606 and \$8,635,198, respectively. Included in the balance at June 30, 2017 and 2016 is \$345,408 and \$332,123, respectively, for the accretion of interest. There were no new liabilities related to conditional asset retirement obligations recognized as of June 30, 2017 and 2016.

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)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

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 \$75,121 receivable for the Seminary Appeal pledges was recorded as of June 30, 2017. There were no contributions receivable at June 30, 2016.

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)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

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, 2017, the Seminary's tax years ended June 30, 2014 through June 30, 2016 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)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

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 SEP's responsibility.

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

| | <u>2017</u> |
|-----------------------------------|----------------------|
| Cash and cash equivalents | \$ 55,298 |
| Catholic Values Equity Fund | 8,450,661 |
| Catholic Values Fixed Income Fund | <u>8,190,066</u> |
| Total ownership | <u>\$ 16,696,025</u> |

At June 30, 2016, the Seminary held the following categories of investments:

| | <u>2016</u> |
|-----------------------------------|----------------------|
| Cash and cash equivalents | \$ 167,220 |
| Catholic Values Equity Fund | 8,488,713 |
| Catholic Values Fixed Income Fund | <u>7,802,848</u> |
| Total ownership | <u>\$ 16,458,781</u> |

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.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

NOTE D - FAIR VALUE MEASUREMENTS - Continued

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

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

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

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

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

The fair value of certain alternative investments is estimated using the 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, 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 | <u>-</u> | <u>-</u> | <u>360,869</u> | <u>360,869</u> |
| Total assets at June 30, 2017 | <u>\$ 16,696,025</u> | <u>\$ -</u> | <u>\$ 2,135,475</u> | <u>\$ 18,831,500</u> |

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

NOTE D - FAIR VALUE MEASUREMENTS - Continued

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 | <u>(12,196)</u> | <u>-</u> | <u>(11,324)</u> |
| Balance at June 30, 2017 | <u>\$ 1,649,325</u> | <u>\$ 125,281</u> | <u>\$ 360,869</u> |

During 2017, 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, 2016:

| | 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 | \$ 16,458,781 | \$ - | \$ - | \$ 16,458,781 |
| Beneficial interest in perpetual trusts | - | - | 1,526,122 | 1,526,122 |
| Beneficial interest in charitable trusts | - | - | 120,262 | 120,262 |
| Beneficial interest in Foundation | <u>-</u> | <u>-</u> | <u>332,565</u> | <u>332,565</u> |
| Total assets at June 30, 2016 | <u>\$ 16,458,781</u> | <u>\$ -</u> | <u>\$ 1,978,949</u> | <u>\$ 18,437,730</u> |

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

NOTE D - FAIR VALUE MEASUREMENTS - Continued

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, 2016:

| | Beneficial interest in perpetual trusts | Beneficial interest in charitable trusts | Beneficial interest in Foundation |
|------------------------------------|--|---|---|
| Balance at June 30, 2015 | \$ 1,652,344 | \$ 123,979 | \$ 333,826 |
| Change in fair value of assets | (114,204) | (3,703) | 5,154 |
| Distributions from perpetual trust | <u>(12,018)</u> | <u>(14)</u> | <u>(6,415)</u> |
| Balance at June 30, 2016 | <u>\$ 1,526,122</u> | <u>\$ 120,262</u> | <u>\$ 332,565</u> |

During 2016, 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, 2017 and 2016:

| | <u>2017</u> | <u>2016</u> |
|-----------------------------|---------------------|---------------------|
| College and Theologate | \$ 2,708,338 | \$ 2,642,708 |
| Graduate School of Theology | <u>304,823</u> | <u>244,377</u> |
| Net tuition and fees | <u>\$ 3,013,161</u> | <u>\$ 2,887,085</u> |

Total student revenues for financial reporting purposes have been classified as follows for the years ended June 30, 2017 and 2016:

| | <u>2017</u> | <u>2016</u> |
|----------------------|---------------------|---------------------|
| Net tuition and fees | \$ 3,013,161 | \$ 2,887,085 |
| Dormitory | 583,847 | 564,724 |
| Cafeteria | <u>1,214,753</u> | <u>1,088,100</u> |
| | <u>\$ 4,811,761</u> | <u>\$ 4,539,909</u> |

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

NOTE F - PROPERTY AND EQUIPMENT

The following summarizes property and equipment at June 30, 2017 and 2016:

| | <u>2017</u> | <u>2016</u> |
|-------------------------------------|---------------------|---------------------|
| Land and land improvements | \$ 23,521 | \$ 23,521 |
| Buildings and building improvements | 48,892,844 | 48,705,659 |
| Equipment | 8,080,166 | 7,976,636 |
| Construction in progress | <u>15,139</u> | <u>1,540,294</u> |
| | 57,011,670 | 58,246,110 |
| Accumulated depreciation | <u>(50,565,521)</u> | <u>(49,361,836)</u> |
| Property and equipment, net | <u>\$ 6,446,149</u> | <u>\$ 8,884,274</u> |

Depreciation expense (including accretion of the capital asset retirement obligation) of \$1,549,093 and \$1,600,401 has been recorded in the statements of cash flows for the years ended June 30, 2017 and 2016, respectively.

The Seminary has no outstanding commitments on construction contracts as of June 30, 2017 and 2016.

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 the 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.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

NOTE G - NOTE PAYABLE, ARCHDIOCESE OF PHILADELPHIA DEPOSIT AND LOAN PROGRAM TRUST

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, 2017 and 2016, the outstanding balance was \$1,698,736 and \$2,013,321, 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. The Seminary's long-term debt obligations for each of the next five years and beyond are as follows:

| | |
|-------------|---------------------|
| 2018 | \$ 251,668 |
| 2019 | 251,668 |
| 2020 | 251,668 |
| 2021 | 251,668 |
| 2022 | 251,668 |
| Beyond 2022 | <u>440,396</u> |
| Total | <u>\$ 1,698,736</u> |

NOTE H - CAPITAL LEASES

The following is a schedule by years of minimum future rentals on noncancelable capital leases as of June 30, 2017:

| | |
|---|-------------------|
| 2018 | \$ 50,739 |
| 2019 | 52,220 |
| 2020 | 34,302 |
| 2021 | <u>8,800</u> |
| Total minimum payments required | 146,061 |
| Less: amount representing interest | <u>(12,083)</u> |
| Present value of minimum lease payments | <u>\$ 133,978</u> |

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

NOTE I - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at June 30, 2017 and 2016:

| | <u>2017</u> | <u>2016</u> |
|---|---------------------|---------------------|
| Student scholarships and student grants | \$ 1,521,111 | \$ 1,341,226 |
| Other related temporarily restricted projects | 174,652 | 215,683 |
| Beneficial interest in charitable trusts | 125,281 | 120,262 |
| Beneficial interest in Foundation | <u>360,869</u> | <u>332,565</u> |
| | <u>\$ 2,181,913</u> | <u>\$ 2,009,736</u> |

Permanently restricted net assets at June 30, 2017 and 2016 are restricted for:

| | <u>2017</u> | <u>2016</u> |
|---|----------------------|----------------------|
| Endowment funds to be held in perpetuity, primarily to support student scholarships | \$ 15,455,744 | \$ 14,424,572 |
| Beneficial interests in third-party trusts | <u>1,649,325</u> | <u>1,526,122</u> |
| | <u>\$ 17,105,069</u> | <u>\$ 15,950,694</u> |

NOTE J - FUNCTIONAL EXPENSES

The following table summarizes program and supporting expenses for the years ended June 30, 2017 and 2016:

| | <u>2017</u> | <u>2016</u> |
|---------------------|----------------------|----------------------|
| Program expenses | \$ 3,925,989 | \$ 3,785,896 |
| Supporting expenses | <u>10,085,567</u> | <u>8,310,790</u> |
| | <u>\$ 14,011,556</u> | <u>\$ 12,096,686</u> |

Program expenses consist of instruction, academic support and student services. Supporting expenses consist of supporting compensation, operations and maintenance, fixed charges and miscellaneous costs.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

NOTE K - RELATED PARTIES

The Seminary has agreements with several entities of the Archdiocese of Philadelphia for use of the Seminary's facilities. These arrangements are with Philadelphia Historical Records and Archives Center, Vocations Office and Permanent Diaconate. The Seminary recorded revenue of \$98,260 and \$120,175 in fiscal years 2017 and 2016, 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 \$731,511 and \$663,959 in fiscal years 2017 and 2016, 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, 2017 and 2016, the combined reimbursement totaled \$129,087 and \$116,890, respectively. As of June 30, 2017 and 2016, the potential Priest Student Loan balance outstanding totaled \$699,950 and \$613,738, respectively. The Seminary's accounts payable and accrued expenses include one-half of the Priest Student Loan balance at June 30, 2017 and 2016.

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, 2017 and 2016. The amount expensed by the Seminary for contributions to the Plan was \$104,412 and \$75,945 for fiscal years ended June 30, 2017 and 2016, respectively. Separate accounts for vested benefits and pension fund assets are not maintained for each institution.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

NOTE L - PENSION PLANS - Continued

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 \$89,135 and \$84,075 for the years ended June 30, 2017 and 2016, 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 \$174,900 and \$175,500 for the years ended June 30, 2017 and 2016, respectively. Separate accounts for vested benefits and pension fund assets are not maintained for each institution.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

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, 2017 and 2016.

| | <u>2017</u> | <u>2016</u> |
|--|-------------------|-------------------|
| Purpose restrictions accomplished | | |
| Catholic Life 2000 | \$ 265,123 | \$ 259,022 |
| Scholarship Fund | 369,348 | 223,907 |
| J. Cardinal Krol Chair | - | 48,214 |
| Estates and Trusts | 22,416 | 69,637 |
| Other reclassifications to temporarily restricted net assets | - | (345,110) |
| Expenses related to other projects | <u>27,602</u> | <u>170,522</u> |
| | <u>\$ 684,489</u> | <u>\$ 426,192</u> |

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)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

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, 2017 and 2016 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, 2017 or 2016.

The Seminary had the following endowment activities during the years ended June 30, 2017 and 2016, delineated by net asset class. All endowment activities were donor-restricted:

| <u>2017</u> | <u>Unrestricted</u> | <u>Temporarily restricted</u> | <u>Permanently restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|----------------------|
| 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) | - | - | <u>1,344,913</u> | <u>1,344,913</u> |
| Total investment return | - | - | 1,606,641 | 1,606,641 |
| Appropriation of endowment assets for expenditure | <u>-</u> | <u>-</u> | <u>(575,470)</u> | <u>(575,470)</u> |
| Endowment net assets at June 30, 2017 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 15,455,743</u> | <u>\$ 15,455,743</u> |

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

NOTE N - ENDOWMENTS - Continued

| <u>2016</u> | <u>Unrestricted</u> | <u>Temporarily restricted</u> | <u>Permanently restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|----------------------|
| Endowment net assets at June 30, 2015 | \$ - | \$ - | \$ 14,850,557 | \$ 14,850,557 |
| Investment return | | | | |
| Net investment income | - | - | 224,409 | 224,409 |
| Net depreciation (realized and unrealized) | - | - | (175,772) | (175,772) |
| Total investment return | - | - | 48,637 | 48,637 |
| Other | - | - | 57,359 | 57,359 |
| Appropriation of endowment assets for expenditure | - | - | (531,981) | (531,981) |
| Endowment net assets at June 30, 2016 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 14,424,572</u> | <u>\$ 14,424,572</u> |

NOTE O - OTHER INCOME

Other income recognized by the Seminary is comprised of the following for the years ended June 30, 2017 and 2016:

| | <u>2017</u> | <u>2016</u> |
|--------------------------------|-------------------|-------------------|
| Fees for service | \$ 17,650 | \$ 14,320 |
| Third-party trust income | 79,461 | 78,295 |
| Institutional Assistance Grant | 6,520 | 4,208 |
| Federal grant income | 66,164 | 49,969 |
| Miscellaneous income | 51,202 | 127,324 |
| Rental of facilities | 186,900 | 187,670 |
| Permanent Diaconate income | 208,000 | 175,800 |
| Vocations Office income | <u>235,500</u> | <u>171,096</u> |
| | <u>\$ 851,397</u> | <u>\$ 808,682</u> |

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.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

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 December 4, 2017, the date which the financial statements were available for distribution.