

PHILADELPHIA INDEPENDENT MISSION SCHOOLS
D/B/A INDEPENDENCE MISSION SCHOOLS

REPORT ON AUDIT OF
FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

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INDEPENDENT AUDITOR'S REPORT

December 22, 2016

The Board of Directors
Philadelphia Independent Mission Schools
d/b/a Independence Mission Schools
King of Prussia, Pennsylvania

We have audited the accompanying financial statements of Philadelphia Independent Mission Schools d/b/a Independence Mission Schools (IMS) which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, respectively, and the related notes to 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 positions of IMS as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



PHILADELPHIA INDEPENDENT MISSION SCHOOLS
D/B/A INDEPENDENCE MISSION SCHOOLS

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2016 AND 2015

	2016	2015
ASSETS		
Cash and cash equivalents	\$ 8,301,144	\$ 4,142,829
Investments	47,109	17,424
Accounts receivable	331,466	304,014
Pledges receivable	261,210	298,653
Grants receivable	891,487	-
Funds held by others	2,274,154	4,878,325
Prepaid expenses and other assets	48,302	1,912
Fixed assets	<u>3,023,931</u>	<u>1,805,176</u>
TOTAL ASSETS	<u><u>\$15,178,803</u></u>	<u><u>\$11,448,333</u></u>
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 1,596,769	\$ 2,164,494
Notes payable	927,500	966,250
Deferred revenue	<u>11,337</u>	<u>-</u>
Total Liabilities	2,535,606	3,130,744
 Net Assets		
Unrestricted	7,799,392	2,318,776
Temporarily restricted	<u>4,843,805</u>	<u>5,998,813</u>
Total Net Assets	<u>12,643,197</u>	<u>8,317,589</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u><u>\$15,178,803</u></u>	 <u><u>\$11,448,333</u></u>

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

PHILADELPHIA INDEPENDENT MISSION SCHOOLS
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STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUE						
Family paid tuition	\$12,193,966	\$ -	\$12,193,966	\$10,027,380	\$ -	\$10,027,380
Less: Financial aid	<u>(1,576,102)</u>	-	<u>(1,576,102)</u>	<u>(672,333)</u>	-	<u>(672,333)</u>
Net family paid tuition	10,617,864	-	10,617,864	9,355,047	-	9,355,047
Scholarship income	4,899,967	2,330,679	7,230,646	4,858,556	4,878,325	9,736,881
Grants and contributions	7,162,128	2,313,126	9,475,254	3,099,299	1,050,041	4,149,340
In-Kind contribution - textbooks	599,096	-	599,096	514,119	-	514,119
School fundraising, net of expenses	224,774	-	224,774	166,961	-	166,961
Interest and investment income	11,090	-	11,090	7,588	-	7,588
Other school income	1,254,571	-	1,254,571	1,281,110	-	1,281,110
Satisfaction of program restriction	<u>5,798,813</u>	<u>(5,798,813)</u>	<u>-</u>	<u>2,914,119</u>	<u>(2,914,119)</u>	<u>-</u>
TOTAL REVENUE	<u>30,568,303</u>	<u>(1,155,008)</u>	<u>29,413,295</u>	<u>22,196,799</u>	<u>3,014,247</u>	<u>25,211,046</u>
EXPENSES						
Personnel Costs						
Salaries	15,755,847	-	15,755,847	12,973,641	-	12,973,641
Benefits and employer taxes	<u>2,892,132</u>	-	<u>2,892,132</u>	<u>2,940,853</u>	-	<u>2,940,853</u>
Total Personnel Costs	18,647,979	-	18,647,979	15,914,494	-	15,914,494
Professional fees	753,883	-	753,883	610,986	-	610,986
Development and marketing expenses	422,333	-	422,333	337,519	-	337,519
Insurance	487,936	-	487,936	345,362	-	345,362
General administrative expenses	791,395	-	791,395	614,724	-	614,724
Instructional expenses	2,041,422	-	2,041,422	1,745,035	-	1,745,035
Depreciation and amortization	128,574	-	128,574	55,803	-	55,803
Occupancy	1,347,010	-	1,347,010	1,358,467	-	1,358,467
Auxiliary and other expenses	573,450	-	573,450	579,200	-	579,200
Transfer to Children's Scholarship Fund	<u>800,000</u>	-	<u>800,000</u>	-	-	-
TOTAL EXPENSES	<u>25,993,982</u>	-	<u>25,993,982</u>	<u>21,561,590</u>	-	<u>21,561,590</u>
INCREASE (DECREASE) IN NET ASSETS BEFORE TRANSFERS	4,574,321	(1,155,008)	3,419,313	635,209	3,014,247	3,649,456
TRANSFER OF NET ASSETS	<u>906,295</u>	-	<u>906,295</u>	-	-	-
INCREASE (DECREASE) IN NET ASSETS	5,480,616	(1,155,008)	4,325,608	635,209	3,014,247	3,649,456
NET ASSETS - Beginning of Year	<u>2,318,776</u>	<u>5,998,813</u>	<u>8,317,589</u>	<u>1,683,567</u>	<u>2,984,566</u>	<u>4,668,133</u>
NET ASSETS - End of Year	<u>\$ 7,799,392</u>	<u>\$ 4,843,805</u>	<u>\$12,643,197</u>	<u>\$ 2,318,776</u>	<u>\$ 5,998,813</u>	<u>\$ 8,317,589</u>

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

PHILADELPHIA INDEPENDENT MISSION SCHOOLS
D/B/A INDEPENDENCE MISSION SCHOOLS

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 4,325,608	\$3,649,456
Adjustments to reconcile operating income to net cash provided by operating activities:		
Transfer of fixed assets	(226,586)	-
Depreciation and amortization	128,574	55,803
(Gain) loss on investments	(220)	311
Changes in operating assets and liabilities		
(Increase) Decrease		
Accounts receivable	(27,452)	(197,020)
Pledges receivable	37,443	(182,615)
Grants receivable	(891,487)	1,110,000
Funds held by others	2,604,171	(3,193,759)
Prepaid expenses and other assets	(46,390)	14,037
Increase (Decrease)		
Accounts payable and accrued expenses	(567,725)	374,989
Deferred revenue	11,337	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>5,347,273</u>	<u>1,631,202</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(29,465)	(17,735)
Purchase of fixed assets	(1,120,743)	(179,161)
NET CASH USED BY INVESTING ACTIVITIES	<u>(1,150,208)</u>	<u>(196,896)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of notes payable	(38,750)	(88,500)
NET CASH USED BY FINANCING ACTIVITIES	<u>(38,750)</u>	<u>(88,500)</u>
 INCREASE IN CASH AND CASH EQUIVALENTS	4,158,315	1,345,806
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>4,142,829</u>	<u>2,797,023</u>
CASH AND CASH EQUIVALENTS - End of Year	<u>\$ 8,301,144</u>	<u>\$4,142,829</u>
 SUPPLEMENTAL INFORMATION		
Interest Paid	<u>\$ 25,753</u>	<u>\$ 29,452</u>
Interest capitalized	<u>.</u>	<u>\$ -</u>

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

PHILADELPHIA INDEPENDENT MISSION SCHOOLS
D/B/A INDEPENDENCE MISSION SCHOOLS

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

Philadelphia Independent Mission Schools, d/b/a Independence Mission Schools ("IMS") was founded on February 21, 2012 as a Pennsylvania nonprofit corporation and is exempt from federal taxation under Section 501(c)(3) of the Internal Revenue Code. IMS was formed to manage the operations of a network of Catholic grade schools in the Archdiocese of Philadelphia, PA ("the Archdiocese") whose primary enrollments are children of low-income, inner-city and underserved families of all faiths.

On June 3, 2013, IMS, the Archdiocese, and the pastors of various parishes in the Archdiocese entered into a Master Affiliation Agreement ("Agreement"), effective July 1, 2013. The Agreement calls for the thirteen parish schools identified in the Agreement to join the IMS network as mission schools and to transition these parish schools into independent school operating companies formed as single member, member managed Pennsylvania limited liability companies ("Mission Schools"). IMS is the sole member of each of the Mission Schools. The Mission Schools offer academic and religious programs consistent with the faith and morals (Catholic Doctrine) as interpreted by the Archdiocese.

On July 1, 2014 IMS admitted St. Barnabas School, LLC and on July 1, 2015, IMS admitted St. Martin de Porres School, LLC as the fourteenth and fifteenth mission schools under similar agreements and conditions.

The parties have agreed that the transitions are all on a "cash free/debt free" basis, with IMS and the Mission Schools assuming no liability for any liabilities, fixed or contingent, known or unknown, arising or relating to the operation of the parish schools prior to July 1, 2013. The Mission Schools are required to enter into lease agreements with the parishes, which include fifteen year terms, with renewal options, and annual rent of \$1. The payment of utilities and all repairs and maintenance costs of the parish school buildings in which the Mission Schools operate will be the obligation of the Mission Schools. Material building improvements are discussed with the parishes and the costs of renovation or replacements may be shared.

IMS and the Mission Schools obtain property insurance and excess liability insurance through the Archdiocese in such amounts and at such levels as determined by the Archdiocese in consultation with IMS.

There were no activities at St. Martin de Porres School, LLC during the fiscal year ended June 30, 2015. St. Martin de Porres School, LLC received a transfer of assets on July 1, 2015 from the Friends of Saint Martin de Porres School, which operated Saint Martin de Porres School, located adjacent to St. Martin de Porres Parish in Philadelphia, PA through June 30, 2015.

The primary sources of revenue for IMS and the Mission Schools are family paid tuition and fees, scholarship income, and grants and donations from foundations, charities and the general public.

PHILADELPHIA INDEPENDENT MISSION SCHOOLS
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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

IMS is the sole member of the following Mission Schools:

Holy Cross School, LLC	St. Martin de Porres School, LLC
Our Mother of Sorrows & St. Ignatius School, LLC	St. Martin of Tours School, LLC
St. Barnabas, LLC	St. Raymond of Penafort School, LLC
St. Cyril of Alexandria School, LLC	St. Rose of Lima School, LLC
St. Frances Cabrini School, LLC	St. Thomas Aquinas School, LLC
St. Gabriel School, LLC	St. Veronica School, LLC
St. Helena-Incarnation Catholic School, LLC	The DePaul Catholic School, LLC
St. Malachy School, LLC	

1 Summary of Significant Accounting Policies

Basis of Accounting -- The financial statements of IMS have been prepared on the accrual basis of accounting.

Cash and Cash Equivalents -- Cash and cash equivalents include cash on hand and in banks.

Accounts Receivable -- Accounts receivable consist primarily of tuition and scholarship receivables and are presented at face value, net of the allowance for doubtful accounts. The allowance for doubtful accounts is established through provisions charged against tuition income and is maintained at a level believed adequate by management to absorb estimated bad debts based on current economic conditions. Tuition charges for students who withdraw from a Mission School during the year, that management deems uncollectible, are charged against tuition income as incurred.

Fixed Assets -- Fixed Assets are recorded at cost. IMS's policy is to capitalize major improvements to buildings and grounds and equipment with a unit cost of \$1,000 or more. Depreciation is calculated by the straight-line method over the estimated useful lives of the depreciable assets. Estimated useful lives are as follows:

Buildings and improvements	40 years
Furniture and equipment	3 - 7 years
Leasehold improvements	15 years

Investments -- Investments are reported at fair value.

Advertising -- IMS follows the policy of charging the costs of advertising to expense as incurred.

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

1 Summary of Significant Accounting Policies (Continued)

Permanently Restricted -- Permanently restricted funds represent gifts and bequests which have been accepted with the donor stipulation that the principal be maintained intact in perpetuity or for a specified period, with only the income to be utilized.

Temporarily Restricted -- IMS reports gifts as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. IMS reports restricted contributions as unrestricted support if the restrictions are satisfied in the same reporting period in which the contributions are received.

IMS reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, IMS reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Revenue -- Revenue is recorded on the accrual basis of accounting. IMS derives its revenue primarily from student tuition and fees, scholarship income, contributions, and grants.

Contributions -- IMS records contributions of cash and other assets when an unconditional promise to give such assets is received from a donor. Contributions are reported at the fair value of the assets received and are classified as either permanently restricted, temporarily restricted or unrestricted, depending on whether the donor has imposed a restriction on the use of such assets.

Income Taxes -- IMS adopted the accounting standard related to the recognition and measurement of uncertain tax positions. The adoption of this standard had no financial statement effect for IMS.

Estimates -- The preparation of financial statements in conformity with generally accepted accounting principles 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 reporting period. Actual results could differ from those estimates.

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

1 Summary of Significant Accounting Policies (Continued)

Fair Value Measurements -- Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This guidance establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 - Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the same term as the financial instrument. Alternative investments' fair value are based on their net asset value per unit as reported by their managers.

Level 3 - Inputs to the valuation methodology are unobservable.

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

Assets and liabilities that are measured at fair value are based on one or more of the three valuation techniques that follow:

Market approach - Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

Cost approach - Amount that would be required to replace the service capacity of an asset (i.e., replacement cost).

Income approach - Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques and option-pricing models).

2 Concentration of Risk

IMS maintains its cash and cash equivalents in bank deposit accounts, which, at times, may exceed federally insured limits. IMS has not experienced any losses in such accounts. Management believes IMS is not exposed to any significant credit risk related to cash and cash equivalents.

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

3 Related Party and Intercompany Transactions

IMS Grant

IMS, in its sole discretion, may provide financial support to fund the net deficits of unrestricted activities of Mission Schools. IMS has pledged grants to the following Mission Schools in the following amounts as of June 30, 2016 and 2015.

	<u>2016</u>	<u>2015</u>
St. Gabriel School , LLC	\$ 107,718	\$ 214,727
St. Veronica School, LLC	4,955	-
St. Thomas Aquinas School, LLC	-	54,438
Total	<u>\$ 112,673</u>	<u>\$ 269,165</u>

Intercompany Receivables/Payables

IMS and the Mission Schools have accumulated the following intercompany (payables)/receivables as of June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
IMS - Central Office	\$ (272,744)	\$ (507,403)
The DePaul Catholic School, LLC	(56,387)	12,423
Holy Cross School, LLC	59,464	79,163
Our Mother of Sorrows & St. Ignatius School, LLC	117,128	69,600
St. Barnabas School, LLC	108,427	68,968
St. Cyril of Alexandria School, LLC	24,495	113,584
St. Frances Cabrini School, LLC	62,221	(5,134)
St. Gabriel School, LLC	33,138	98,273
St. Helena-Incarnation Catholic School, LLC	142,741	120,703
St. Malachy School, LLC	(472,286)	(416,016)
St. Martin de Porres School, LLC	6,384	-
St. Martin of Tours School, LLC	192,103	209,500
St. Raymond of Penafort School, LLC	16,640	36,433
St. Rose of Lima School, LLC	112,166	108,750
St. Thomas Aquinas School, LLC	(71,274)	41,345
St. Veronica School, LLC	(2,216)	(30,189)
Net Intercompany (Payables) / Receivables	<u>\$ -</u>	<u>\$ -</u>

IMS provided academic support and administrative consulting to the Friends of Saint Martin de Porres at no cost during the year ended June 30, 2015. The Central Office owed \$62,757 to the Friends of Saint Martin de Porres as of June 30, 2015.

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

3 Related Party and Intercompany Transactions (Continued)

As described in Note 10, certain Board Members of IMS have provided financial guarantees for the debts of the Mission Schools.

IMS, in its sole discretion, may charge management fees to the Mission Schools. During the year ended June 30, 2016 and 2015, IMS charged \$1,040,000 and \$0 in management fees to the Mission Schools.

It is IMS' policy not to use unrestricted net assets of any individual Mission School to fund the deficits from any other individual Mission School. Unrestricted net assets of individual schools totaled \$4,244,987 and \$1,286,922 as of June 30, 2016 and 2015, respectively, and are included in *Unrestricted Net Assets* on the *Statements of Financial Positions*.

4 Investments

The following table sets forth by level, within the fair value hierarchy, IMS's investments as of June 30, 2016:

	Investments at Fair Value as of June 30, 2016			
	Level 1	Level 2	Level 3	Total
Cash	\$ 377	\$ -	\$ -	\$ 377
Equities	31,860	-	-	31,860
Equity mutual funds	14,872	-	-	14,872
Total assets at fair value	\$ 47,109	\$ -	\$ -	\$ 47,109

The following table sets forth by level, within the fair value hierarchy, IMS's investments as of June 30, 2015:

	Investments at Fair Value as of June 30, 2015			
	Level 1	Level 2	Level 3	Total
Cash	\$ 376	\$ -	\$ -	\$ 376
Equities	17,048	-	-	17,048
Equity mutual funds	-	-	-	-
Total assets at fair value	\$ 17,424	\$ -	\$ -	\$ 17,424

Investment income consists of the following:

	2016	2015
Interest and dividends	\$ 10,870	\$ 7,899
Gain (loss) on investments	220	(311)
	\$ 11,090	\$ 7,588

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

5 Pledges Receivable

IMS had received pledges from various individuals and organizations to support operations. Pledges receivable are reported at their net present value utilizing a discount rate of 3%. Management expects pledges to be collected as follows:

Year Ended	
June 30, 2017	\$ 182,675
June 30, 2018	41,908
June 30, 2019	32,000
June 30, 2020	5,000
June 30, 2021	<u>3,500</u>
Total pledges receivable	265,083
Less: present value discount	<u>(3,873)</u>
	<u>\$ 261,210</u>

6 Grants Receivable

IMS has a grants receivable from the Philadelphia School Partnership totaling \$900,000 as of June 30, 2016. The grant funds are to be used to support operations at St. Thomas Aquinas School, LLC and at the Central Office. IMS also has various grants to support infrastructure improvements at the Mission Schools. Grants receivable are reported at their net present value utilizing a discount rate of 3%. Management expects grants to be collected as follows:

Year Ended	<u>PSP Grant</u>	<u>Mission Schools</u>	<u>Total</u>
June 30, 2017	\$ 500,000	\$ 7,379	\$ 507,379
June 30, 2018	250,000	-	250,000
June 30, 2019	<u>150,000</u>	<u>-</u>	<u>150,000</u>
Total grants receivable	900,000	7,379	907,379
Less: present value discount	<u>(15,892)</u>	<u>-</u>	<u>(15,892)</u>
	<u>\$ 884,108</u>	<u>\$ 7,379</u>	<u>\$ 891,487</u>

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

7 Funds Held by Others

IMS is the designated beneficiary of Pennsylvania EITC and OSTC scholarship donations received by two designated scholarship organizations, Children's Scholarship Fund of Philadelphia (CSFP) and Business Leadership Organized for Catholic Schools (BLOCS).

IMS designated scholarship donations as of June 30, 2016 and 2015 were as set forth below:

	<u>2016</u>	<u>2015</u>
Children's Scholarship Fund of Philadelphia	\$ -	\$ 45,000
Business Leadership Organized for Catholic Schools	<u>2,274,154</u>	<u>4,833,325</u>
	<u>\$ 2,274,154</u>	<u>\$ 4,878,325</u>

8 Accounts Receivable

The Mission Schools collect tuition and fees for academic and auxiliary programs. Accounts receivable represents current tuition and fee revenue receivable, scholarships receivables, and other miscellaneous receivables. Total accounts receivable were \$366,739 and \$372,065 as of June 30, 2016 and 2015, respectively. A provision of \$35,273 and \$68,051 had been made for uncollectible tuition and fees for the years ended June 30, 2016 and 2015, respectively. As of June 30, 2016 and 2015, accounts receivable, net, totaled \$331,466 and \$304,014, respectively.

The activity in the provision for uncollectible accounts receivable for the years ended June 30, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Balance July 1	\$ 68,051	\$ 80,521
Write-offs against provision	(68,051)	(80,521)
Current period adjustment	<u>35,273</u>	<u>68,051</u>
Balance June 30	<u>\$ 35,273</u>	<u>\$ 68,051</u>

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

9 Fixed Assets

Fixed assets consist of the following:

	2016	2015
Buildings and improvements	\$ 2,012,855	\$ 1,301,564
Furniture and equipment	392,410	65,031
Land	199,891	199,891
Leasehold improvements	693,544	259,471
Software	74,047	70,394
Artwork	1,306	-
	3,374,053	1,896,351
Less: accumulated depreciation	(350,122)	(91,175)
	\$ 3,023,931	\$ 1,805,176

Depreciation expense was \$128,574 and \$55,803 for the years ended June 30, 2016 and 2015, respectively.

10 Notes Payable

	2016	2015
<u><i>St. Raymond of Penafort School, LLC</i></u>		
In August 2013, St. Raymond of Penafort School, LLC entered into a \$110,000 loan agreement with Penn Liberty Bank to finance the construction of a new roof. The loan agreement bears interest at a 4% rate. The agreement calls for 35 consecutive monthly payments of interest only on the unpaid principal balance, beginning October 1, 2013, two principal payments of \$27,500 on September 1, 2014 and September 1, 2015, and one principal and interest payment of \$55,189 on September 1, 2016. The balance of the loan as of June 30, 2016 and 2015 was	\$ 55,000	\$ 82,500
<u><i>Holy Cross School, LLC</i></u>		
In October 2013, Holy Cross School, LLC entered into a \$45,000 loan agreement with Penn Liberty Bank. The agreement bears interest at a 4% rate. The agreement calls for 35 consecutive monthly payments of interest only on the unpaid principal balance, beginning December 1, 2013, two principal payments of \$11,250 on November 1, 2014 and November 1, 2015, and one principal and interest payment of \$22,578 on November 1, 2016. The balance of the loan as of June 30, 2016 and 2015 was	22,500	33,750
Carried Forward	77,500	116,250

PHILADELPHIA INDEPENDENT MISSION SCHOOLS
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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

10 Notes Payable (Continued)

Brought Forward \$ 77,500 \$ 116,250

St. Malachy School, LLC

In June 2014, St. Malachy School, LLC entered into a \$900,000 loan agreement with Penn Liberty Bank to finance the purchase of the Harrison School building from the School District of Philadelphia to serve as the new building for St. Malachy School, LLC. The loan agreement is for one year at a variable interest rate calculated based on 0.75% of the Wall Street Prime Rate published by the Wall Street Journal (2.50% as of June 30, 2015). The loan maturity date was extended to July 1, 2016. During the year ended June 30, 2015, St. Malachy School, LLC made a pre-payment of \$50,000. IMS expects to retire this debt with the proceeds of a tax-free debt financing for the project during the year ended June 30, 2017. The balance of the loan as of June 30, 2016 and 2015 was

	850,000	850,000
	\$ 927,500	\$ 966,250

Expected principal payments for the year ended June 30, 2017 are as follows:

	St. Raymond	Holy Cross	St. Malachy	Total
2017	\$ 55,000	\$ 22,500	\$ 850,000	\$ 927,500

IMS Board Members have provided full financial guarantees for St. Malachy School, LLC's debts. BLOCS has provided full financial guarantees for the Holy Cross School, LLC and St. Raymond School, LLC debts.

11 Functional Expense

The costs of providing program services and supporting services of IMS has been summarized on a functional basis in the following schedule:

	2016	2015
Program expenses	\$ 21,928,948	\$ 18,217,159
Management and general expenses	2,728,357	2,384,967
Development expenses	1,336,677	959,464
	\$ 25,993,982	\$ 21,561,590

PHILADELPHIA INDEPENDENT MISSION SCHOOLS
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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

12 Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes as of June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Scholarships and Financial Aid	\$ 2,367,079	\$ 4,078,325
Building purchases and improvements	1,213,301	985,488
Operations	1,097,435	-
Strategic Planning Grant	75,000	-
E-Rate Funding	47,859	-
Academic Programs	24,875	10,000
Equipment Purchases	10,000	-
Enrollment Grant	8,256	-
Children Scholarship Fund Grant	-	800,000
Development Capacity	-	125,000
	<u>\$ 4,843,805</u>	<u>\$ 5,998,813</u>

13 Temporarily Restricted Net Assets Released from Restriction

Temporarily restricted net assets were released by incurring expenses satisfying the restricted purpose or by occurrences of other events specified by donors.

	<u>2016</u>	<u>2015</u>
Program Restriction		
Scholarships and Financial Aid	\$ 4,078,325	\$ 1,684,566
Children's Scholarship Fund Grant	800,000	-
Building purchases and improvements	785,488	-
Development Capacity Grant	125,000	225,000
Academic Programs	10,000	-
Operations	-	750,000
Chief Academic Officer	-	125,000
Phaedrus Grant	-	75,000
Building purchase and improvements	-	54,553
Total	<u>\$ 5,798,813</u>	<u>\$ 2,914,119</u>

PHILADELPHIA INDEPENDENT MISSION SCHOOLS
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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

14 Agreements with Children's Scholarship Fund of Philadelphia and BLOCS

During the year ended June 30, 2016, IMS entered into an agreement with CSFP to jointly provide \$2,500,000 to fund approximately 400 four year scholarships at the Mission Schools during the fiscal years 2016 through 2019. Pursuant to the agreement, IMS agreed to provide a \$1,000,000 grant to CSFP during the fiscal year 2016. CSFP provides the remaining \$1,500,000. Additionally, IMS was required to provide \$75,000 to CSFP for administrative fees. CSFP will administer the application and award processes. IMS will determine the per school allocation for the scholarships annually.

During the year ended June 30, 2016, IMS entered into an agreement with CSFP to jointly provide \$800,000 to fund approximately 400 four year scholarships at the Mission Schools during the fiscal years 2017 through 2020. Pursuant to the agreement, IMS agreed to provide a \$400,000 grant to CSFP by November 15, 2016. In subsequent years, IMS will provide the renewal payments based on the number of returning students and tuition rates. CSFP will match IMS funding dollar for dollar. Additionally, IMS is required to provide \$75,000 to CSFP for administrative fees. CSFP will administer the application and award processes. IMS will determine the per school allocation for the scholarships annually.

It is the intention of IMS' management to enter into similar agreements with CSFP annually.

15 BLOCS Urban Endowment Initiative

Four Mission Schools, St. Martin de Porres School, LLC, St. Cyril of Alexandria School, LLC, Our Mother of Sorrows/St. Ignatius of Loyola School, LLC, and St. Malachy School, LLC, are designated beneficiaries in the BLOCS Urban Endowment Initiative. The BLOCS Urban Endowment Initiative is a program designed by BLOCS to allow donors to make endowment contributions to benefit specific schools; these contributed funds are managed by BLOCS. The endowment agreements between BLOCS and these schools requires BLOCS to disburse 5% of the endowment fund balance annually. The disbursements are made in two equal payments during the year.

In accordance with generally accepted accounting principals, the Mission Schools have not recorded these endowments as assets because BLOCS maintains variance powers over the endowment funds. If, at any time, any of the terms governing the Fund should become impractical to carry out, BLOCS may, in their sole and absolute discretion, re-direct the funds.

PHILADELPHIA INDEPENDENT MISSION SCHOOLS
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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

15 BLOCS Urban Endowment Initiative (Continued)

During the year ended June 30, 2016 and 2015, the following Mission Schools received funding from BLOCS Urban Endowment Initiative, which was recorded as *Gifts and Contributions* :

	<u>2016</u>	<u>2015</u>
St. Martin de Porres School, LLC	\$ 332,552	\$ -
St. Cyril of Alexandria School, LLC	30,717	30,266
Our Mother of Sorrows/ St. Ignatius of Loyola School, LLC	16,326	10,992
St. Malachy School, LLC	<u>8,531</u>	<u>8,205</u>
	<u>\$ 388,126</u>	<u>\$ 49,463</u>

16 Concentrations

IMS receives significant contributions from Children's Scholarship Fund, BLOCS, Board Members, and the Philadelphia School Partnership. Contributions and scholarship income funded from these sources accounted for approximately 25% and 38% of revenue for the years ended June 30, 2016 and 2015, respectively.

17 Commitments

St. Malachy School, LLC, purchased land and buildings for a new school building during the year ended June 30, 2014. St. Malachy School, LLC has begun renovating the building. The total cost of the project, including the cost of the land and buildings, is expected to be \$5,500,000. St. Malachy School, LLC has spent \$2,128,343 as of June 30, 2016. Renovations have continued after the building was placed in service on September 14, 2016, and are expected to be completed during the year ended June 30, 2018.

18 Reclassification

Certain prior year amounts have been reclassified to conform with the current year's presentation.

19 Subsequent Event

IMS has evaluated all subsequent events through December 22, 2016, the date the financial statements were available to be issued.

INDEPENDENT AUDITOR'S REPORT ON ADDITIONAL INFORMATION

December 22, 2016

The Board of Directors
Philadelphia Independent Mission Schools
d/b/a Independence Mission Schools
Philadelphia, Pennsylvania

We have audited the financial statements of Philadelphia Independent Mission Schools d/b/a Independence Mission Schools (IMS) as of and for the years ended June 30, 2016 and 2015, and have issued our report thereon dated December 22, 2016, which contained an unqualified opinion on those financial statements. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules on pages 19 through 22 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



PHILADELPHIA INDEPENDENT MISSION SCHOOLS
D/B/A INDEPENDENCE MISSION SCHOOLS

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

JUNE 30, 2016

	<u>IMS Central Office</u>	<u>Mission Schools</u>	<u>Eliminations</u>	<u>Combined Total</u>
ASSETS				
Cash and cash equivalents	\$ 3,928,973	\$ 4,372,171	\$ -	\$ 8,301,144
Investments	32,237	14,872	-	47,109
Accounts receivable	5,480	325,986	-	331,466
Pledges receivable, net	3,000	258,210	-	261,210
Grants receivable	291,347	600,140	-	891,487
Funds held by others	1,690,590	583,564	-	2,274,154
Prepaid expenses and other assets	6,036	42,266	-	48,302
Intercompany receivable	6,012,775	874,907	(6,887,682)	-
Fixed assets	<u>12,412</u>	<u>3,011,519</u>	<u>-</u>	<u>3,023,931</u>
TOTAL ASSETS	<u>11,982,850</u>	<u>10,083,635</u>	<u>\$ (6,887,682)</u>	<u>\$ 15,178,803</u>
 LIABILITIES & NET ASSETS				
Liabilities				
Accounts payable and accrued expenses	\$ 29,810	\$ 1,566,959	\$ -	\$ 1,596,769
Notes payable	-	927,500	-	927,500
Deferred revenue	6,293	5,044	-	11,337
Intercompany payables	<u>6,285,519</u>	<u>602,163</u>	<u>(6,887,682)</u>	<u>-</u>
Total Liabilities	<u>6,321,622</u>	<u>3,101,666</u>	<u>(6,887,682)</u>	<u>2,535,606</u>
 Net Assets				
Unrestricted	3,554,405	4,244,987	-	7,799,392
Temporarily restricted	<u>2,106,823</u>	<u>2,736,982</u>	<u>-</u>	<u>4,843,805</u>
Total Net Assets	<u>5,661,228</u>	<u>6,981,969</u>	<u>-</u>	<u>12,643,197</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 11,982,850</u>	 <u>\$ 10,083,635</u>	 <u>\$ (6,887,682)</u>	 <u>\$ 15,178,803</u>

See independent auditor's report on additional information.

PHILADELPHIA INDEPENDENT MISSION SCHOOLS
D/B/A INDEPENDENCE MISSION SCHOOLS

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

JUNE 30, 2015

	<u>IMS</u> <u>Central Office</u>	<u>Mission</u> <u>Schools</u>	<u>Eliminations</u>	<u>Combined</u> <u>Total</u>
ASSETS				
Cash and cash equivalents	\$ 1,738,505	\$ 2,404,324	\$ -	\$ 4,142,829
Investments	17,424	-	-	17,424
Accounts receivable	-	304,014	-	304,014
Pledges receivable, net	68,980	229,673	-	298,653
Funds held by others	4,522,491	355,834	-	4,878,325
Prepaid expenses and other assets	-	1,912	-	1,912
Intercompany receivable	451,339	958,742	(1,410,081)	-
Fixed assets	<u>35,731</u>	<u>1,769,445</u>	<u>-</u>	<u>1,805,176</u>
TOTAL ASSETS	<u><u>\$ 6,834,470</u></u>	<u><u>\$ 6,023,944</u></u>	<u><u>\$ (1,410,081)</u></u>	<u><u>\$ 11,448,333</u></u>
 LIABILITIES & NET ASSETS				
Liabilities				
Accounts payable and accrued expenses	\$ 196,383	\$ 1,968,111	\$ -	\$ 2,164,494
Notes payable	-	966,250	-	966,250
Intercompany payables	<u>958,742</u>	<u>451,339</u>	<u>(1,410,081)</u>	<u>-</u>
Total Liabilities	<u>1,155,125</u>	<u>3,385,700</u>	<u>(1,410,081)</u>	<u>3,130,744</u>
 Net Assets				
Unrestricted	1,031,854	1,286,922	-	2,318,776
Temporarily restricted	<u>4,647,491</u>	<u>1,351,322</u>	<u>-</u>	<u>5,998,813</u>
Total Net Assets	<u>5,679,345</u>	<u>2,638,244</u>	<u>-</u>	<u>8,317,589</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u><u>\$ 6,834,470</u></u>	 <u><u>\$ 6,023,944</u></u>	 <u><u>\$ (1,410,081)</u></u>	 <u><u>\$ 11,448,333</u></u>

See independent auditor's report on additional information.

PHILADELPHIA INDEPENDENT MISSION SCHOOLS
D/B/A INDEPENDENCE MISSION SCHOOLS

CONSOLIDATING STATEMENT OF ACTIVITIES - UNRESTRICTED

YEAR ENDED JUNE 30, 2016

	IMS Central Office	Mission Schools	Eliminations	Combined Total
Family paid tuition	\$ -	\$ 12,193,966	\$ -	\$ 12,193,966
Less: Financial aid	-	(1,576,102)	-	(1,576,102)
Net family paid tuition	-	10,617,864	-	10,617,864
Scholarship income	-	8,620,422	(3,720,455)	4,899,967
Grants and contributions	4,116,817	3,045,311	-	7,162,128
In-Kind Contribution - textbooks	-	599,096	-	599,096
School fundraising, net of expenses	-	224,774	-	224,774
Interest and investment income	2,725	8,365	-	11,090
Other school income	118	1,254,453	-	1,254,571
School management fees	1,040,000	-	(1,040,000)	-
Satisfaction of program restriction	4,647,490	1,151,323	-	5,798,813
TOTAL REVENUE	<u>9,807,150</u>	<u>25,521,608</u>	<u>(4,760,455)</u>	<u>30,568,303</u>
EXPENSES				
Personnel Costs				
Salaries	1,464,373	14,291,474	-	15,755,847
Benefits and employer taxes	199,922	2,692,210	-	2,892,132
Total Personnel Costs	<u>1,664,295</u>	<u>16,983,684</u>	<u>-</u>	<u>18,647,979</u>
Professional fees	294,269	459,614	-	753,883
Development and marketing expenses	184,480	237,853	-	422,333
Insurance	31,735	456,201	-	487,936
General administrative expenses	108,446	682,949	-	791,395
Instructional expenses	231,019	1,810,403	-	2,041,422
Depreciation and amortization	25,894	102,680	-	128,574
Occupancy	57,828	1,289,182	-	1,347,010
Scholarship grants	3,720,455	-	(3,720,455)	-
Auxiliary and other expenses	53,505	519,945	-	573,450
School management fees	-	1,040,000	(1,040,000)	-
Transfer to Children's Scholarship Fund	800,000	-	-	800,000
TOTAL EXPENSES	<u>7,171,926</u>	<u>23,582,511</u>	<u>(4,760,455)</u>	<u>25,993,982</u>
OPERATING INCOME	2,635,224	1,939,097	-	4,574,321
TRANSFER OF NET ASSETS	-	906,295	-	906,295
IMS GRANT TO SCHOOLS	(112,673)	112,673	-	-
INCREASE/DECREASE IN NET ASSETS	2,522,551	2,958,065	-	5,480,616
NET ASSETS - Beginning of Year	<u>1,031,854</u>	<u>1,286,922</u>	<u>-</u>	<u>2,318,776</u>
NET ASSETS - End of Year	<u>\$ 3,554,405</u>	<u>\$ 4,244,987</u>	<u>\$ -</u>	<u>\$ 7,799,392</u>

See independent auditor's report on additional information.

PHILADELPHIA INDEPENDENT MISSION SCHOOLS
D/B/A INDEPENDENCE MISSION SCHOOLS

CONSOLIDATING STATEMENT OF ACTIVITIES - UNRESTRICTED

YEAR ENDED JUNE 30, 2015

	IMS Central Office	Mission Schools	Eliminations	Combined Total
Family paid tuition	\$ -	\$ 10,027,380	\$ -	\$ 10,027,380
Less: Financial aid	-	(672,333)	-	(672,333)
Net family paid tuition	-	9,355,047	-	9,355,047
Scholarship income	-	6,138,217	(1,279,661)	4,858,556
Grants and contributions	802,143	2,297,156	-	3,099,299
In-Kind Contribution - textbooks	-	514,119	-	514,119
School fundraising, net of expenses	-	166,961	-	166,961
Interest and investment income	2,430	5,158	-	7,588
Other school income	-	1,281,110	-	1,281,110
Satisfaction of program restriction	<u>2,379,661</u>	<u>534,458</u>	-	<u>2,914,119</u>
TOTAL REVENUE	<u>3,184,234</u>	<u>20,292,226</u>	<u>(1,279,661)</u>	<u>22,196,799</u>
EXPENSES				
Personnel Costs				
Salaries	1,073,446	11,900,195	-	12,973,641
Benefits and employer taxes	<u>179,468</u>	<u>2,761,385</u>	-	<u>2,940,853</u>
Total Personnel Costs	1,252,914	14,661,580	-	15,914,494
Professional fees	173,868	437,118	-	610,986
Development and marketing expenses	166,800	170,719	-	337,519
Insurance	11,403	333,959	-	345,362
General administrative expenses	78,857	535,867	-	614,724
Instructional expenses	143,544	1,601,491	-	1,745,035
Depreciation and amortization	23,389	32,414	-	55,803
Occupancy	74,349	1,284,118	-	1,358,467
Scholarship grants	1,279,661	-	(1,279,661)	-
Auxiliary and other expenses	75,913	503,287	-	579,200
School management fees	-	-	-	-
Transfer to CSF	-	-	-	-
TOTAL EXPENSES	<u>3,280,698</u>	<u>19,560,553</u>	<u>(1,279,661)</u>	<u>21,561,590</u>
OPERATING INCOME	(96,464)	731,673	-	635,209
IMS GRANT TO SCHOOLS	<u>(269,165)</u>	<u>269,165</u>	-	-
(DECREASE)/ INCREASE IN NET ASSET	(365,629)	1,000,838	-	635,209
NET ASSETS - Beginning of Year	<u>1,397,483</u>	<u>286,084</u>	-	<u>1,683,567</u>
NET ASSETS - End of Year	<u>\$ 1,031,854</u>	<u>\$ 1,286,922</u>	<u>\$ -</u>	<u>\$ 2,318,776</u>

See independent auditor's report on additional information.