

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

REPORT ON AUDIT OF
FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

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O'CONNELL & COMPANY LLC

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

March 27, 2018

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, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, 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, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



PHILADELPHIA INDEPENDENT MISSION SCHOOLS
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STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2017 AND 2016

	2017	2016
ASSETS		
Cash and cash equivalents	\$ 7,412,056	\$ 8,301,144
Investments	-	47,109
Accounts receivable	470,504	331,466
Prepaid expenses and other assets	146,860	48,302
Funds held by others	3,387,667	2,274,154
Grants receivable	1,274,999	891,487
Pledges receivable	114,449	261,210
Beneficial interest in assets of others	2,579,644	-
Fixed assets	5,681,929	3,023,931
TOTAL ASSETS	\$21,068,108	\$15,178,803
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 1,755,505	\$ 1,596,769
Deferred revenue	36,480	11,337
Notes payable	2,455,772	927,500
Total Liabilities	4,247,757	2,535,606
 Net Assets		
Unrestricted	11,221,796	7,799,392
Temporarily restricted	5,598,555	4,843,805
Total Net Assets	16,820,351	12,643,197
 TOTAL LIABILITIES AND NET ASSETS	 \$21,068,108	 \$15,178,803

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

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

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUE						
Family paid tuition	\$14,185,485	\$ -	\$14,185,485	\$12,193,966	\$ -	\$12,193,966
Less: Financial aid	<u>(3,637,869)</u>	-	<u>(3,637,869)</u>	<u>(1,576,102)</u>	-	<u>(1,576,102)</u>
Net family paid tuition	10,547,616	-	10,547,616	10,617,864	-	10,617,864
Scholarship income	5,105,074	3,710,247	8,815,321	4,899,967	2,330,679	7,230,646
Grants and contributions	6,106,461	3,623,684	9,730,145	7,162,128	2,313,126	9,475,254
In-Kind contribution - textbooks	599,991	-	599,991	599,096	-	599,096
School fundraising, net of expenses	165,766	-	165,766	224,774	-	224,774
Interest and investment income	14,254	-	14,254	11,090	-	11,090
Other school income	1,357,411	-	1,357,411	1,254,571	-	1,254,571
Satisfaction of program restriction	<u>6,579,181</u>	<u>(6,579,181)</u>	-	<u>5,798,813</u>	<u>(5,798,813)</u>	-
TOTAL REVENUE	<u>30,475,754</u>	<u>754,750</u>	<u>31,230,504</u>	<u>30,568,303</u>	<u>(1,155,008)</u>	<u>29,413,295</u>
EXPENSES						
Personnel Costs						
Salaries	16,564,880	-	16,564,880	15,755,847	-	15,755,847
Benefits and employer taxes	<u>3,000,913</u>	-	<u>3,000,913</u>	<u>2,892,132</u>	-	<u>2,892,132</u>
Total Personnel Costs	19,565,793	-	19,565,793	18,647,979	-	18,647,979
Professional fees	1,002,349	-	1,002,349	753,883	-	753,883
Development and marketing expenses	311,346	-	311,346	422,333	-	422,333
Insurance	519,506	-	519,506	487,936	-	487,936
Interest expense	61,887	-	61,887	26,031	-	26,031
General administrative expenses	820,703	-	820,703	765,364	-	765,364
Instructional expenses	1,992,466	-	1,992,466	2,041,422	-	2,041,422
Depreciation and amortization	337,514	-	337,514	128,574	-	128,574
Occupancy	1,683,972	-	1,683,972	1,347,010	-	1,347,010
Auxiliary and other expenses	757,814	-	757,814	573,450	-	573,450
Transfer to Children's Scholarship Fund	-	-	-	800,000	-	800,000
TOTAL EXPENSES	<u>27,053,350</u>	-	<u>27,053,350</u>	<u>25,993,982</u>	-	<u>25,993,982</u>
INCREASE (DECREASE) IN NET ASSETS BEFORE TRANSFERS	3,422,404	754,750	4,177,154	4,574,321	(1,155,008)	3,419,313
TRANSFER OF NET ASSETS	-	-	-	<u>906,295</u>	-	<u>906,295</u>
INCREASE (DECREASE) IN NET ASSETS	3,422,404	754,750	4,177,154	5,480,616	(1,155,008)	4,325,608
NET ASSETS - Beginning of Year	7,799,392	4,843,805	12,643,197	2,318,776	5,998,813	8,317,589
NET ASSETS - End of Year	<u>\$11,221,796</u>	<u>\$ 5,598,555</u>	<u>\$16,820,351</u>	<u>\$ 7,799,392</u>	<u>\$ 4,843,805</u>	<u>\$12,643,197</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, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 4,177,154	\$4,325,608
Adjustments to reconcile operating income to net cash provided by operating activities:		
Transfer of fixed assets	-	(226,586)
Depreciation and amortization	337,514	128,574
Gain on investments	-	(220)
Increase in beneficial interest	(106,988)	-
Changes in operating assets and liabilities		
(Increase) Decrease		
Accounts receivable	(139,038)	(27,452)
Pledges receivable	146,761	37,443
Grants receivable	(383,512)	(891,487)
Funds held by others	(1,113,513)	2,604,171
Prepaid expenses and other assets	(98,558)	(46,390)
Increase (Decrease)		
Accounts payable and accrued expenses	158,736	(567,725)
Deferred revenue	25,143	11,337
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>3,003,699</u>	<u>5,347,273</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	-	(29,465)
Proceeds from sale of investments	47,109	-
Contribution to beneficial interest in assets of others	(2,500,000)	-
Proceeds from distribution - beneficial interest in assets of others	27,344	-
Purchase of fixed assets	<u>(2,995,512)</u>	<u>(1,120,743)</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(5,421,059)</u>	<u>(1,150,208)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long term debt	2,485,000	-
Repayment of notes payable	<u>(956,728)</u>	<u>(38,750)</u>
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>1,528,272</u>	<u>(38,750)</u>
 (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(889,088)	4,158,315
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>8,301,144</u>	<u>4,142,829</u>
CASH AND CASH EQUIVALENTS - End of Year	<u>\$ 7,412,056</u>	<u>\$8,301,144</u>
 SUPPLEMENTAL INFORMATION		
Interest Paid	<u>\$ 61,887</u>	<u>\$ 25,753</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, 2017 AND 2016

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.

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.

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	

PHILADELPHIA INDEPENDENT MISSION SCHOOLS
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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

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.

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.

PHILADELPHIA INDEPENDENT MISSION SCHOOLS
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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

1 Summary of Significant Accounting Policies (Continued)

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.

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.

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.

PHILADELPHIA INDEPENDENT MISSION SCHOOLS
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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

1 Summary of Significant Accounting Policies (Continued)

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).

Income Taxes -- IMS has not recognized any liability for uncertain tax positions. IMS is no longer subject to federal and state tax examinations for the years prior to 2014.

2 Recent Accounting Pronouncement

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Presentation of Financial Statements of Not-for-Profit Entities (Topic 958), intended to improve financial reporting for not-for-profit entities.

The ASU will reduce the current three classes of net assets into two: with and without donor restrictions. The change in each of the classes of net assets must be reported on the Statement of Activities and Change in Net Assets. The ASU also requires various enhanced disclosures around topics such as board designations, liquidity, functional classification of expenses, investment expenses, and donor restrictions. The ASU is effective for years beginning after December 15, 2017. Early adoption is permitted. The ASU should be applied on a retrospective basis in the year the ASU is first applied. While the ASU will change the presentation of IMS's financial statements, it is not expected to alter IMS's reported financial position.

3 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.

PHILADELPHIA INDEPENDENT MISSION SCHOOLS
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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

4 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, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
St. Gabriel School , LLC	\$ 92,378	\$ 107,718
St. Thomas Aquinas School, LLC	27,582	-
St. Frances Cabrini School, LLC	23,396	-
St. Veronica School, LLC	-	4,955
Total	<u>\$ 143,356</u>	<u>\$ 112,673</u>

Intercompany Receivables/Payables

IMS and the Mission Schools have accumulated the following intercompany (payables)/receivables as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
IMS - Central Office	\$ 758,694	\$ (272,744)
The DePaul Catholic School, LLC	(117,563)	(56,387)
Holy Cross School, LLC	97,801	59,464
Our Mother of Sorrows & St. Ignatius School, LLC	171,860	117,128
St. Barnabas School, LLC	128,361	108,427
St. Cyril of Alexandria School, LLC	67,262	24,495
St. Frances Cabrini School, LLC	(8,313)	62,221
St. Gabriel School, LLC	(16,735)	33,138
St. Helena-Incarnation Catholic School, LLC	(9,704)	142,741
St. Malachy School, LLC	(1,546,597)	(472,286)
St. Martin de Porres School, LLC	41,036	6,384
St. Martin of Tours School, LLC	236,106	192,103
St. Raymond of Penafort School, LLC	123,935	16,640
St. Rose of Lima School, LLC	130,183	112,166
St. Thomas Aquinas School, LLC	(47,111)	(71,274)
St. Veronica School, LLC	(9,215)	(2,216)
Net Intercompany (Payables) / Receivables	<u>\$ -</u>	<u>\$ -</u>

PHILADELPHIA INDEPENDENT MISSION SCHOOLS
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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

4 Related Party and Intercompany Transactions (Continued)

As described in Note 11, 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, 2017 and 2016, IMS charged \$1,040,000, respectively 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 \$6,966,081 and \$4,244,987 as of June 30, 2017 and 2016, respectively, and are included in *Unrestricted Net Assets* on the *Statements of Financial Positions*.

5 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

Investment income consists of the following:

	2017	2016
Interest and dividends	\$ -	\$ 10,870
Gain on investments	-	220
	\$ -	\$ 11,090

6 Pledges Receivable

IMS 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 considers all pledges to be collectible.

PHILADELPHIA INDEPENDENT MISSION SCHOOLS
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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

6 Pledges Receivable (Continued)

Pledges are expected to be collected as follows:

Year Ended		
June 30, 2018	\$	97,609
June 30, 2019		7,250
June 30, 2020		7,000
June 30, 2021		<u>3,500</u>
Total pledges receivable		115,359
Less: present value discount		<u>(910)</u>
	\$	<u>114,449</u>

7 Grants Receivable

IMS has grants receivable from the Philadelphia School Partnership (PSP) totaling \$1,072,500 as of June 30, 2017. The grant funds are to be used to support operations at St. Thomas Aquinas School, LLC, St. Malachy 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>Archdiocesan Educational Fund</u>	<u>Mission Schools</u>	<u>Total</u>
June 30, 2018	\$ 849,325	\$ 172,000	\$ 37,000	\$ 1,058,325
June 30, 2019	<u>223,175</u>	<u>-</u>	<u>-</u>	<u>223,175</u>
Total grants receivable	1,072,500	172,000	37,000	1,281,500
Less: present value discount	<u>(6,501)</u>	<u>-</u>	<u>-</u>	<u>(6,501)</u>
	<u>\$1,065,999</u>	<u>\$ 172,000</u>	<u>\$ 37,000</u>	<u>\$ 1,274,999</u>

8 Funds Held by Others

IMS is the designated beneficiary of Pennsylvania EITC and OSTC scholarship donations received by registered scholarship organizations. IMS designated scholarship donations held by Business Leadership Organized for Catholic Schools totaled \$3,387,667 and \$2,274,154 as of June 30, 2017 and 2016, respectively.

PHILADELPHIA INDEPENDENT MISSION SCHOOLS
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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

9 Accounts Receivable

The Mission Schools collect tuition and fees for academic and auxiliary programs. Accounts receivable represent current tuition and fee revenue receivable, scholarships receivables, and other miscellaneous receivables. Total accounts receivable were \$545,816 and \$366,739 as of June 30, 2017 and 2016, respectively. A provision of \$75,312 and \$35,273 had been made for uncollectible tuition and fees for the years ended June 30, 2017 and 2016, respectively. As of June 30, 2017 and 2016, accounts receivable, net, totaled \$470,504 and \$331,466, respectively.

The activity in the provision for uncollectible accounts receivable for the years ended June 30, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Balance July 1	\$ 35,273	\$ 68,051
Write-offs against provision	(27,370)	(68,051)
Current period provision	<u>67,409</u>	<u>35,273</u>
Balance June 30	<u>\$ 75,312</u>	<u>\$ 35,273</u>

10 Fixed Assets

Fixed assets consist of the following:

	<u>2017</u>	<u>2016</u>
Buildings and improvements	\$ 4,305,964	\$ 2,012,855
Leasehold improvements	889,477	693,544
Furniture and equipment	871,394	392,410
Land	224,051	199,891
Software	77,373	74,047
Artwork	<u>1,306</u>	<u>1,306</u>
	6,369,565	3,374,053
Less: accumulated depreciation	<u>(687,636)</u>	<u>(350,122)</u>
	<u>\$ 5,681,929</u>	<u>\$ 3,023,931</u>

Depreciation expense was \$337,514 and \$128,574 for the years ended June 30, 2017 and 2016, respectively.

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

11 Notes Payable

St. Malachy School, LLC Tax Free Mortgage

In December 2016, St. Malachy School, LLC borrowed \$2,485,000 through a tax free mortgage ("the mortgage") issued by the Upper Darby Industrial Development Authority to refinance existing debt and finance renovations for the new St. Malachy School, LLC building. The mortgage was immediately assigned to Wilmington Savings Fund Society, FSB. The mortgage agreement bears interest at fixed rate of 2.65% for a ten year period ending December 31, 2026. The annual interest rate will reset on January 1, 2027 and January 1, 2032 equal to 68% of the sum of the then current yield on a U.S. Treasury obligation having a maturity of five (5) years plus 2.50%, but shall never be less than 2.65% per annum.

Commencing February 1, 2017, St. Malachy School, LLC began repayment. The mortgage calls for consecutive equal monthly payments of principal and interest based on a twenty-five (25) year repayment term and the current interest rate. As of June 30, 2017, monthly payments totaled \$11,383. The mortgage matures on December 28, 2036. On the maturity date, the entire unpaid principal balance and accrued unpaid interest and other sums outstanding shall be due. The unpaid principal balance as of December 28, 2036 is estimated to be \$642,868 based on the current interest rate as of June 30, 2017. The balance of the mortgage as of June 30, 2017 was \$2,455,722.

The Mortgage carries a financial covenant that requires IMS to maintain a 1.20 : 1.00 Debt Service Coverage Ratio, tested annually at June 30, 2017. IMS Debt Service Coverage ratio as of June 30, 2017 was 13.48 : 1.00

Principal payments for the next five years and thereafter are as follows:

	<u>St. Malachy</u>
2018	\$ 71,495
2019	73,439
2020	75,437
2021	77,489
2022	79,597
Thereafter	<u>2,078,315</u>
	<u>\$ 2,455,772</u>

PHILADELPHIA INDEPENDENT MISSION SCHOOLS
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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

11 Notes Payable (Continued)

Retired Debt

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 was for one year at a variable interest rate calculated based on 75% of the Wall Street Prime Rate published by the Wall Street Journal (2.75% as of June 30, 2016.) During the year ended June 30, 2015, St. Malachy School, LLC made a pre-payment of \$50,000 and the loan maturity date was extended to July 1, 2016. During the year ended June 30, 2017, IMS modified the loan agreement, fixing the rate at 3.25% and extending the maturity date to June 6, 2019. IMS retired this debt with the proceeds from the tax free mortgage obtained from the Upper Darby Industrial Development Authority. The balance of the loan as of June 30, 2017 and 2016 was

	2017	2016
\$	-	\$ 850,000

St. Raymond of Penafort School, LLC

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, 2017 and 2016 was

	-	55,000
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Holy Cross School, LLC

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, 2017 and 2016 was

	-	22,500
\$	-	\$ 927,500

PHILADELPHIA INDEPENDENT MISSION SCHOOLS
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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

11 Notes Payable (Continued)

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

12 Temporarily Restricted Net Assets

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

	<u>2017</u>	<u>2016</u>
Scholarships and Financial Aid	\$ 3,776,906	\$ 2,367,079
PSP Operating Grants	1,545,242	1,097,435
School Technology	118,031	10,000
School Activities	75,375	-
Strategic Planning Grant	55,501	75,000
Academic Programs	27,500	24,875
Building purchases and improvements	-	1,213,301
E-Rate Funding	-	47,859
Enrollment Grant	-	8,256
	<u>\$ 5,598,555</u>	<u>\$ 4,843,805</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>2017</u>	<u>2016</u>
Program Restriction		
Building purchases and improvements	\$ 2,983,105	\$ 785,488
Scholarships and Financial Aid	2,300,420	4,078,325
Operations	795,193	-
School Technology	399,975	-
E-Rate Funding	47,859	-
Academic Programs	24,875	10,000
Strategic Planning Grant	19,498	-
Enrollment Grant	8,256	-
Children's Scholarship Fund Grant	-	800,000
Development Capacity Grant	-	125,000
Total	<u>\$ 6,579,181</u>	<u>\$ 5,798,813</u>

PHILADELPHIA INDEPENDENT MISSION SCHOOLS
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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

14 BLOCS Urban Endowment Initiative

Beneficiary Accounts

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.

During the year ended June 30, 2017 and 2016, the following Mission Schools received funding from BLOCS Urban Endowment Initiative, which was recorded as *Gifts and Contributions* :

	2017	2016
St. Martin de Porres School, LLC	\$ 310,720	\$ 332,552
St. Cyril of Alexandria School, LLC	27,216	30,717
Our Mother of Sorrows/ St. Ignatius of Loyola School, LLC	29,374	16,326
St. Malachy School, LLC	7,733	8,531
	\$ 375,043	\$ 388,126

Resource Provider - Beneficial Interest in the Assets of Another

During the year ended June 30, 2017, St. Malachy School, LLC contributed \$2,500,000 to establish a new endowment at BLOCS for its own benefit. The terms of the agreement call for St. Malachy School, LLC to grant ownership and variance power over the contributed funds to BLOCS. However, in accordance with generally accepted accounting principals, guidance regarding resource providers specifying itself the beneficiary, St. Malachy School, LLC has reported the contribution as a *Beneficial interest in the assets of another* on the *Statements of Financial Position*. St. Malachy School, LLC will receive annual distributions from the endowment in accordance with the terms of the agreement, with standard distribution being 5% of the average fair market value.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

14 BLOCS Urban Endowment Initiative (Continued)

The activity recorded in Beneficial interest in the assets of another for the year ended June 30, 2017 is as follows:

	<u>2017</u>
Beginning balance	\$ -
Contribution	2,500,000
Increase in value	106,988
Distribution	<u>(27,344)</u>
Balance June 30	<u>\$ 2,579,644</u>

15 Functional Expense

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

	<u>2017</u>	<u>2016</u>
Program expenses	\$ 21,993,750	\$ 21,928,948
Management and general expenses	1,453,623	2,728,357
Development expenses	<u>3,605,977</u>	<u>1,336,677</u>
	<u>\$ 27,053,350</u>	<u>\$ 25,993,982</u>

16 Concentrations

IMS receives significant contributions from Children's Scholarship Fund, BLOCS, Board Members, the Maguire Foundation, and the Philadelphia School Partnership. Contributions and scholarship income funded from these sources accounted for approximately 31% and 25% of revenue for the years ended June 30, 2017 and 2016, respectively.

17 Commitments

St. Malachy School, LLC

St. Malachy School, LLC, purchased land and buildings for a new school building during the year ended June 30, 2014. Though the project is expected to continue through the year needed June 30, 2018, St. Malachy School, LLC completed the majority of renovations and placed the building in service in September, 2016. Project costs total \$4,467,307 on the project through June 30, 2017. The total cost of the project, including the cost of the land and buildings, is expected to be approximately \$5,500,000.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

17 Commitments (Continued)

Agreements with Children's Scholarship Fund of Philadelphia

During the years ended June 30, 2017 and 2016, IMS entered into agreements with Children's Scholarship Fund of Philadelphia (CSFP) to fund and administer scholarship programs designed to provide scholarships for up to 400 new students annually.

IMS agreed to provide \$400,000 in funding in the initial year of each agreement. In subsequent years, IMS will provide renewal funding based on the actual number of returning students and the agreed upon funding rates. If scholarship recipients disenroll after their first year of enrollment, IMS will provide a reduced level of funding. CSFP has estimated that IMS will need to provide \$710,000 of funding during the year ended June 30, 2018. Additionally, IMS is required to provide \$75,000 to CSFP for administrative fees. IMS will determine the per school allocation for the scholarships annually.

CSFP will match IMS funding dollar for dollar, annually. CSFP will administer the application and award processes.

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

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 March 27, 2018, the date the financial statements were available to be issued.

INDEPENDENT AUDITOR'S REPORT ON ADDITIONAL INFORMATION

March 27, 2018

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, 2017 and 2016, and have issued our report thereon dated March 27, 2018, 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 20 through 23 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, 2017

	IMS Central Office	Mission Schools	Eliminations	Combined Total
ASSETS				
Cash and cash equivalents	\$ 3,669,301	\$ 3,742,755	\$ -	\$ 7,412,056
Accounts receivable	-	470,504	-	470,504
Prepaid expenses and other assets	501	146,359	-	146,860
Funds held by others	2,859,183	528,484	-	3,387,667
Grants receivable	92,000	1,182,999	-	1,274,999
Pledges receivable	3,000	111,449	-	114,449
Beneficial interest in assets of others	-	2,579,644	-	2,579,644
Intercompany receivable	758,694	996,544	(1,755,238)	-
Fixed assets	<u>16,149</u>	<u>5,665,780</u>	<u>-</u>	<u>5,681,929</u>
TOTAL ASSETS	<u><u>7,398,828</u></u>	<u><u>15,424,518</u></u>	<u><u>\$ (1,755,238)</u></u>	<u><u>\$ 21,068,108</u></u>
 LIABILITIES & NET ASSETS				
Liabilities				
Accounts payable and accrued expenses	\$ 67,453	\$ 1,688,052	\$ -	\$ 1,755,505
Deferred revenue	-	36,480	-	36,480
Intercompany payables	-	1,755,238	(1,755,238)	-
Notes payable	<u>-</u>	<u>2,455,772</u>	<u>-</u>	<u>2,455,772</u>
Total Liabilities	<u>67,453</u>	<u>5,935,542</u>	<u>(1,755,238)</u>	<u>4,247,757</u>
 Net Assets				
Unrestricted	4,255,715	6,966,081	-	11,221,796
Temporarily restricted	<u>3,075,660</u>	<u>2,522,895</u>	<u>-</u>	<u>5,598,555</u>
Total Net Assets	<u>7,331,375</u>	<u>9,488,976</u>	<u>-</u>	<u>16,820,351</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u><u>\$ 7,398,828</u></u>	 <u><u>\$ 15,424,518</u></u>	 <u><u>\$ (1,755,238)</u></u>	 <u><u>\$ 21,068,108</u></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, 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
Prepaid expenses and other assets	6,036	42,266	-	48,302
Funds held by others	1,690,590	583,564	-	2,274,154
Grants receivable	291,347	600,140	-	891,487
Pledges receivable	3,000	258,210	-	261,210
Intercompany receivable	-	874,907	(874,907)	-
Fixed assets	<u>12,412</u>	<u>3,011,519</u>	<u>-</u>	<u>3,023,931</u>
TOTAL ASSETS	<u><u>5,970,075</u></u>	<u><u>10,083,635</u></u>	<u><u>\$ (874,907)</u></u>	<u><u>\$ 15,178,803</u></u>
 LIABILITIES & NET ASSETS				
Liabilities				
Accounts payable and accrued expenses	\$ 29,810	\$ 1,566,959	\$ -	\$ 1,596,769
Deferred revenue	6,293	5,044	-	11,337
Intercompany payables	272,744	602,163	(874,907)	-
Notes payable	<u>-</u>	<u>927,500</u>	<u>-</u>	<u>927,500</u>
Total Liabilities	<u><u>308,847</u></u>	<u><u>3,101,666</u></u>	<u><u>(874,907)</u></u>	<u><u>2,535,606</u></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><u>5,661,228</u></u>	<u><u>6,981,969</u></u>	<u><u>-</u></u>	<u><u>12,643,197</u></u>
 TOTAL LIABILITIES AND NET ASSETS	 <u><u>\$ 5,970,075</u></u>	 <u><u>\$ 10,083,635</u></u>	 <u><u>\$ (874,907)</u></u>	 <u><u>\$ 15,178,803</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, 2017

	IMS Central Office	Mission Schools	Eliminations	Combined Total
Family paid tuition	\$ -	\$ 14,185,485	\$ -	\$ 14,185,485
Less: Financial aid	-	(3,637,869)	-	(3,637,869)
Net family paid tuition	-	10,547,616	-	10,547,616
Scholarship income	-	8,161,619	(3,056,545)	5,105,074
Grants and contributions	3,569,531	2,536,930	-	6,106,461
In-Kind Contribution - textbooks	-	599,991	-	599,991
School fundraising, net of expenses	-	165,766	-	165,766
Interest and investment income	2,067	12,187	-	14,254
Other school income	-	1,357,411	-	1,357,411
School management fees	1,040,000	-	(1,040,000)	-
Satisfaction of program restriction	1,956,452	4,622,729	-	6,579,181
TOTAL REVENUE	<u>6,568,050</u>	<u>28,004,249</u>	<u>(4,096,545)</u>	<u>30,475,754</u>
EXPENSES				
Personnel Costs				
Salaries	1,299,868	15,265,012	-	16,564,880
Benefits and employer taxes	355,553	2,645,360	-	3,000,913
Total Personnel Costs	1,655,421	17,910,372	-	19,565,793
Professional fees	516,467	485,882	-	1,002,349
Development and marketing expenses	44,032	267,314	-	311,346
Insurance	28,456	491,050	-	519,506
Interest	-	61,887	-	61,887
General administrative expenses	111,134	709,569	-	820,703
Instructional expenses	175,206	1,817,260	-	1,992,466
Depreciation and amortization	7,315	330,199	-	337,514
Occupancy	49,123	1,634,849	-	1,683,972
Scholarship grants	3,056,545	-	(3,056,545)	-
Auxiliary and other expenses	79,685	678,129	-	757,814
School management fees	-	1,040,000	(1,040,000)	-
TOTAL EXPENSES	<u>5,723,384</u>	<u>25,426,511</u>	<u>(4,096,545)</u>	<u>27,053,350</u>
OPERATING INCOME	844,666	2,577,738	-	3,422,404
IMS GRANT TO SCHOOLS	(143,356)	143,356	-	-
INCREASE IN NET ASSETS	701,310	2,721,094	-	3,422,404
NET ASSETS - Beginning of Year	3,554,405	4,244,987	-	7,799,392
NET ASSETS - End of Year	<u>\$ 4,255,715</u>	<u>\$ 6,966,081</u>	<u>\$ -</u>	<u>\$ 11,221,796</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	1,664,295	16,983,684	-	18,647,979
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
Interest	-	26,031	-	26,031
General administrative expenses	108,446	656,918	-	765,364
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 IN NET ASSETS	2,522,551	2,958,065	-	5,480,616
NET ASSETS - Beginning of Year	1,031,854	1,286,922	-	2,318,776
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.