

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

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REPORT ON AUDIT OF  
FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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# O'CONNELL & COMPANY LLC

CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITOR'S REPORT

February 28, 2019

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, 2018 and 2017, 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, 2018 and 2017, 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, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 5,897,582	\$ 7,412,056
Investments	15,235	-
Accounts receivable	93,461	470,504
Prepaid expenses and other assets	279,276	102,149
Funds held by others	3,365,875	3,387,667
Grants receivable	480,175	1,274,999
Pledges receivable	64,496	114,449
Beneficial interest in assets of others	2,751,055	2,579,644
Fixed assets	<u>6,354,090</u>	<u>5,681,929</u>
<b>TOTAL ASSETS</b>	<u><u>\$19,301,245</u></u>	<u><u>\$21,023,397</u></u>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 1,763,842	\$ 1,755,505
Deferred revenue	-	36,480
Notes payable	<u>2,342,121</u>	<u>2,411,061</u>
<b>Total Liabilities</b>	4,105,963	4,203,046
 <b>Net Assets</b>		
Unrestricted	10,707,658	11,221,796
Temporarily restricted	<u>4,487,624</u>	<u>5,598,555</u>
<b>Total Net Assets</b>	<u>15,195,282</u>	<u>16,820,351</u>
 <b>TOTAL LIABILITIES AND NET ASSETS</b>	 <u><u>\$19,301,245</u></u>	 <u><u>\$21,023,397</u></u>

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, 2018 AND 2017

	2018			2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUE						
Family paid tuition	\$ 13,696,438	\$ -	\$ 13,696,438	\$ 14,185,485	\$ -	\$ 14,185,485
Less: Financial aid	<u>(3,234,547)</u>	-	<u>(3,234,547)</u>	<u>(3,637,869)</u>	-	<u>(3,637,869)</u>
Net family paid tuition	10,461,891	-	10,461,891	10,547,616	-	10,547,616
Scholarship income	4,606,367	3,461,706	8,068,073	5,105,074	3,710,247	8,815,321
Grants and contributions	6,234,223	459,202	6,693,425	5,999,463	3,623,684	9,623,147
In-Kind contribution - textbooks	842,380	-	842,380	599,991	-	599,991
School fundraising, net of expenses	27,820	-	27,820	165,766	-	165,766
Interest and investment income	221,564	-	221,564	121,252	-	121,252
Auxiliary and other school income	1,291,188	-	1,291,188	1,357,411	-	1,357,411
Satisfaction of program restriction	<u>5,031,839</u>	<u>(5,031,839)</u>	-	<u>6,579,181</u>	<u>(6,579,181)</u>	-
TOTAL REVENUE	<u>28,717,272</u>	<u>(1,110,931)</u>	<u>27,606,341</u>	<u>30,475,754</u>	<u>754,750</u>	<u>31,230,504</u>
EXPENSES						
Personnel Costs						
Salaries	18,156,440	-	18,156,440	16,564,880	-	16,564,880
Benefits and employer taxes	<u>3,477,153</u>	-	<u>3,477,153</u>	<u>3,000,913</u>	-	<u>3,000,913</u>
Total Personnel Costs	21,633,593	-	21,633,593	19,565,793	-	19,565,793
Professional fees	799,658	-	799,658	1,002,349	-	1,002,349
Development and marketing expenses	210,991	-	210,991	311,346	-	311,346
Insurance	588,977	-	588,977	519,506	-	519,506
Interest expense	64,969	-	64,969	61,887	-	61,887
General administrative expenses	916,097	-	916,097	820,703	-	820,703
Instructional expenses	1,804,885	-	1,804,885	1,992,466	-	1,992,466
Depreciation and amortization	527,771	-	527,771	337,514	-	337,514
Occupancy	1,833,305	-	1,833,305	1,683,972	-	1,683,972
Auxiliary and other expenses	<u>851,164</u>	-	<u>851,164</u>	<u>757,814</u>	-	<u>757,814</u>
TOTAL EXPENSES	<u>29,231,410</u>	-	<u>29,231,410</u>	<u>27,053,350</u>	-	<u>27,053,350</u>
(DECREASE) INCREASE IN NET ASSETS	(514,138)	(1,110,931)	(1,625,069)	3,422,404	754,750	4,177,154
NET ASSETS - Beginning 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>
NET ASSETS - End of Year	<u>\$ 10,707,658</u>	<u>\$ 4,487,624</u>	<u>\$ 15,195,282</u>	<u>\$ 11,221,796</u>	<u>\$ 5,598,555</u>	<u>\$ 16,820,351</u>

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

PHILADELPHIA INDEPENDENT MISSION SCHOOLS  
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STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$(1,625,069)	\$ 4,177,154
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation and amortization	527,771	337,514
Increase in beneficial interest	(203,274)	(106,988)
Changes in operating assets and liabilities		
Decrease (Increase)		
Accounts receivable	377,043	(139,038)
Pledges receivable	49,953	146,761
Grants receivable	794,824	(383,512)
Funds held by others	21,792	(1,113,513)
Prepaid expenses and other assets	(177,127)	(53,847)
Increase (Decrease)		
Accounts payable and accrued expenses	8,335	158,736
Deferred revenue	(36,480)	25,143
<b>NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES</b>	<u>(262,232)</u>	<u>3,048,410</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(15,235)	-
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	31,863	27,344
Purchase of fixed assets	<u>(1,197,397)</u>	<u>(2,995,512)</u>
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<u>(1,180,769)</u>	<u>(5,421,059)</u>
 <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from long term debt	-	2,485,000
Financing costs	-	(44,711)
Repayment of notes payable	<u>(71,473)</u>	<u>(956,728)</u>
<b>NET CASH (USED) PROVIDED BY FINANCING ACTIVITIES</b>	<u>(71,473)</u>	<u>1,483,561</u>
 <b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	<u>(1,514,474)</u>	<u>(889,088)</u>
<b>CASH AND CASH EQUIVALENTS - Beginning of Year</b>	<u>7,412,056</u>	<u>8,301,144</u>
<b>CASH AND CASH EQUIVALENTS - End of Year</b>	<u>\$ 5,897,582</u>	<u>\$ 7,412,056</u>
 <b>SUPPLEMENTAL INFORMATION</b>		
Interest Paid	<u>\$ 64,969</u>	<u>\$ 61,887</u>
Interest capitalized	<u>\$ -</u>	<u>\$ -</u>

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

PHILADELPHIA INDEPENDENT MISSION SCHOOLS  
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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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, 2018 AND 2017

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.



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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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.

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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 2015.

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.

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

4 Related Party and Intercompany Transactions

IMS Grant

IMS, in its sole discretion, may provide financial support to fund the unrestricted activities of Mission Schools. IMS has transferred or pledged grants to the following Mission Schools in the following amounts as of and for the years ended June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
St. Malachy School, LLC	\$ 1,790,000	-
The DePaul Catholic School, LLC	464,400	-
St. Thomas Aquinas School, LLC	381,000	27,582
St. Veronica School, LLC	369,000	-
St. Gabriel School , LLC	306,000	92,378
St. Frances Cabrini School, LLC	245,000	23,396
Total	<u>\$ 3,555,400</u>	<u>\$ 143,356</u>

Intercompany Receivables/Payables

IMS and the Mission Schools have accumulated the following intercompany (payables)/receivables as of June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
IMS - Central Office	\$ (1,155,339)	\$ 758,694
St. Barnabas School, LLC	86,091	128,361
The DePaul Catholic School, LLC	128,089	(117,563)
Holy Cross School, LLC	(29,019)	97,801
Our Mother of Sorrows & St. Ignatius School, LLC	51,430	171,860
St. Cyril of Alexandria School, LLC	70,160	67,262
St. Frances Cabrini School, LLC	66,481	(8,313)
St. Gabriel School, LLC	66,867	(16,735)
St. Helena-Incarnation Catholic School, LLC	114,258	(9,704)
St. Malachy School, LLC	45,374	(1,546,597)
St. Martin de Porres School, LLC	110,610	41,036
St. Martin of Tours School, LLC	48,783	236,106
St. Raymond of Penafort School, LLC	89,874	123,935
St. Rose of Lima School, LLC	53,308	130,183
St. Thomas Aquinas School, LLC	188,002	(47,111)
St. Veronica School, LLC	65,031	(9,215)
Net Intercompany (Payables) / Receivables	<u>\$ -</u>	<u>\$ -</u>

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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 each of the years ended June 30, 2018 and 2017, IMS charged \$-0- and \$1,040,000, 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 \$9,219,185 and \$6,966,081 as of June 30, 2018 and 2017, respectively, and are included in *Unrestricted Net Assets* on the *Statements of Financial Positions*.

5 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.

Pledges are expected to be collected as follows:

Year Ended		
June 30, 2019	\$	54,401
June 30, 2020		7,000
June 30, 2021		<u>3,500</u>
Total pledges receivable		64,901
Less: present value discount		<u>(405)</u>
	\$	<u><u>64,496</u></u>

6 Grants Receivable

IMS has grants receivable from the Philadelphia School Partnership (PSP) totaling \$443,175 as of June 30, 2018. 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.

Management expects grants to be collected as follows:

Year Ended	<u>PSP Grant</u>	<u>Archdiocesan Educational Fund</u>	<u>Other</u>	<u>Total</u>
June 30, 2019	<u>\$ 443,175</u>	<u>\$ 12,000</u>	<u>\$ 25,000</u>	<u>\$ 480,175</u>

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FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

7 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 \$3,365,875 and \$3,387,667 as of June 30, 2018 and 2017, respectively.

8 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 \$153,623 and \$545,816 as of June 30, 2018 and 2017, respectively. A provision of \$60,162 and \$75,312 had been made for uncollectible tuition and fees for the years ended June 30, 2018 and 2017, respectively. As of June 30, 2018 and 2017, accounts receivable, net, totaled \$93,461 and \$470,504, respectively.

The activity in the provision for uncollectible accounts receivable for the years ended June 30, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Balance July 1	\$ 75,312	\$ 35,273
Write-offs against provision	(60,600)	(27,370)
Current period provision	45,450	67,409
Balance June 30	<u>\$ 60,162</u>	<u>\$ 75,312</u>

9 Fixed Assets

Fixed assets consist of the following:

	<u>2018</u>	<u>2017</u>
Buildings and improvements	\$ 4,961,428	\$ 4,305,964
Leasehold improvements	1,065,170	889,477
Furniture and equipment	1,237,637	871,394
Land	224,051	224,051
Software	77,373	77,373
Artwork	1,306	1,306
	<u>7,566,965</u>	<u>6,369,565</u>
Less: accumulated depreciation	<u>(1,212,875)</u>	<u>(687,636)</u>
	<u>\$ 6,354,090</u>	<u>\$ 5,681,929</u>

Depreciation expense was \$525,238 and \$337,514 for the years ended June 30, 2018 and 2017, respectively.

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

10 Notes Payable

St. Malachy School, LLC Tax Free Mortgage

In December 2016, IMS and St. Malachy School, LLC, collectively, 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 a 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, 2018. The balance of the mortgage as of June 30, 2018 and 2017 was \$2,384,299 and \$2,455,772, respectively.

The Mortgage carries a financial covenant that requires the borrower to maintain a 1.20 : 1.00 Debt Service Coverage Ratio, tested annually at June 30th. IMS did not meet this covenant for the year ended June 30, 2018, however, they obtained a commitment from Wilmington Savings Fund Society, FSB that a waiver would be issued and the debt would not be called. IMS met this covenant for the year ended June 30, 2017.

Generally accepted accounting principles requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the debt liability's carrying amount. Unamortized debt issuance costs totaled \$42,178 and \$44,711 as of June 30, 2108 and 2017, respectively.

*Summary of Debt*

	<u>2018</u>	<u>2017</u>
Tax Exempt Mortgage	\$ 2,384,299	\$ 2,455,772
Unamortized debt issuance costs	<u>(42,178)</u>	<u>(44,711)</u>
	<u>\$ 2,342,121</u>	<u>\$ 2,411,061</u>

PHILADELPHIA INDEPENDENT MISSION SCHOOLS  
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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

10 Notes Payable (Continued)

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

	<u>St. Malachy</u>
2019	73,439
2020	75,437
2021	77,489
2022	79,597
2023	81,762
Thereafter	<u>1,996,575</u>
	<u>\$ 2,384,299</u>

11 Temporarily Restricted Net Assets

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

	<u>2018</u>	<u>2017</u>
Scholarships and Financial Aid	\$ 3,639,664	\$ 3,776,906
PSP Operating Grants	568,088	1,545,242
Academic Programs	213,000	27,500
Strategic Planning Grant	35,941	55,501
School Technology	14,271	118,031
School Activities	12,000	75,375
Enrollment Grant	<u>4,660</u>	<u>-</u>
	<u>\$ 4,487,624</u>	<u>\$ 5,598,555</u>

12 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>2018</u>	<u>2017</u>
Program Restriction		
Scholarships and Financial Aid	\$ 3,598,949	\$ 2,300,420
Operations	977,155	795,193
School Technology	375,335	399,975
Academic Programs	59,500	24,875
Strategic Planning Grant	19,560	19,498
Enrollment Grant	1,340	8,256
Building purchases and improvements	-	2,983,105
E-Rate Funding	<u>-</u>	<u>47,859</u>
Total	<u>\$ 5,031,839</u>	<u>\$ 6,579,181</u>

PHILADELPHIA INDEPENDENT MISSION SCHOOLS  
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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

13 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 years ended June 30, 2018 and 2017, the following Mission Schools received funding from BLOCS Urban Endowment Initiative, which was recorded as *Gifts and Contributions* :

	<u>2018</u>	<u>2017</u>
St. Martin de Porres School, LLC	\$ 316,602	\$ 310,720
St. Cyril of Alexandria School, LLC	28,874	27,216
Our Mother of Sorrows/ St. Ignatius of Loyola School, LLC	30,750	29,374
St. Malachy School, LLC	10,204	7,733
	<u>\$ 386,430</u>	<u>\$ 375,043</u>

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. In accordance with accounting principals generally accepted in the United States of America, St. Malachy School, LLC has reported the contribution as a *Beneficial interest in the assets of another* on the *Statements of Financial Position*. *The increase or decrease in the value of the Beneficial interest in the assets of another is included with investment income on the State of Activities*. 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.



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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

13 BLOCS Urban Endowment Initiative (Continued)

The activity recorded in Beneficial interest in the assets of another for the years ended June 30, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 2,579,644	\$ -
Contribution	-	2,500,000
Increase in value	203,274	106,988
Distribution	<u>(31,863)</u>	<u>(27,344)</u>
Balance June 30	<u>\$ 2,751,055</u>	<u>\$ 2,579,644</u>

14 Retirement Savings Plan

On January 1, 2014, IMS adopted a 403(b) DC Plan (the "Plan") for its employees. The Plan is a defined contribution plan covering substantially all employees of Independence Mission Schools. IMS matches 200% of the first 2.5% of each eligible employee's compensation. The School recognized pension expense of \$427,753 and \$372,610 for the years ended June 30, 2018 and 2017.

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>2018</u>	<u>2017</u>
Program expenses	\$ 23,336,785	\$ 21,993,750
Management and general expenses	1,375,954	1,453,623
Development expenses	<u>4,518,671</u>	<u>3,605,977</u>
	<u>\$ 29,231,410</u>	<u>\$ 27,053,350</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 39% and 31% of revenue for the years ended June 30, 2018 and 2017, respectively.

PHILADELPHIA INDEPENDENT MISSION SCHOOLS  
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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

17 Commitments

*Agreements with Children's Scholarship Fund of Philadelphia*

During the year ended June 30, 2018, and in previous years, 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 up to \$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 approximately \$700,000 of funding during the year ended June 30, 2019. 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 Subsequent Event

IMS has evaluated all subsequent events through February 28, 2019, the date the financial statements were available to be issued.

## INDEPENDENT AUDITOR'S REPORT ON ADDITIONAL INFORMATION

February 28, 2019

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, 2018 and 2017, and have issued our report thereon dated February 28, 2019, 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  
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CONSOLIDATING STATEMENT OF FINANCIAL POSITION

JUNE 30, 2018

	IMS Central Office	Mission Schools	Eliminations	Combined Total
<b>ASSETS</b>				
Cash and cash equivalents	\$ 2,770,376	\$ 3,127,206	\$ -	\$ 5,897,582
Investments	363	14,872	-	15,235
Accounts receivable	-	93,461	-	93,461
Prepaid expenses and other assets	17,005	262,271	-	279,276
Funds held by others	2,620,708	745,167	-	3,365,875
Grants receivable	245,000	235,175	-	480,175
Pledges receivable	1,500	62,996	-	64,496
Beneficial interest in assets of others	-	2,751,055	-	2,751,055
Intercompany receivable	-	1,184,358	(1,184,358)	-
Fixed assets	<u>25,520</u>	<u>6,328,570</u>	<u>-</u>	<u>6,354,090</u>
<b>TOTAL ASSETS</b>	<u>\$ 5,680,472</u>	<u>\$ 14,805,131</u>	<u>\$ (1,184,358)</u>	<u>\$ 19,301,245</u>
 <b>LIABILITIES &amp; NET ASSETS</b>				
<b>Liabilities</b>				
Accounts payable and accrued expenses	\$ 131,135	\$ 1,632,707	\$ -	\$ 1,763,842
Intercompany payables	1,155,339	29,019	(1,184,358)	-
Notes payable	<u>-</u>	<u>2,342,121</u>	<u>-</u>	<u>2,342,121</u>
<b>Total Liabilities</b>	<u>1,286,474</u>	<u>4,003,847</u>	<u>(1,184,358)</u>	<u>4,105,963</u>
 <b>Net Assets</b>				
Unrestricted	1,488,473	9,219,185	-	10,707,658
Temporarily restricted	<u>2,905,525</u>	<u>1,582,099</u>	<u>-</u>	<u>4,487,624</u>
<b>Total Net Assets</b>	<u>4,393,998</u>	<u>10,801,284</u>	<u>-</u>	<u>15,195,282</u>
 <b>TOTAL LIABILITIES AND NET ASSETS</b>	 <u>\$ 5,680,472</u>	 <u>\$ 14,805,131</u>	 <u>\$ (1,184,358)</u>	 <u>\$ 19,301,245</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, 2017

	IMS Central Office	Mission Schools	Eliminations	Combined Total
<b>ASSETS</b>				
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	101,648	-	102,149
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>
<b>TOTAL ASSETS</b>	<u><u>7,398,828</u></u>	<u><u>15,379,807</u></u>	<u><u>\$ (1,755,238)</u></u>	<u><u>\$ 21,023,397</u></u>
<b>LIABILITIES &amp; NET ASSETS</b>				
<b>Liabilities</b>				
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>2,411,061</u>	<u>-</u>	<u>2,411,061</u>
<b>Total Liabilities</b>	<u><u>67,453</u></u>	<u><u>5,890,831</u></u>	<u><u>(1,755,238)</u></u>	<u><u>4,203,046</u></u>
<b>Net Assets</b>				
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>
<b>Total Net Assets</b>	<u><u>7,331,375</u></u>	<u><u>9,488,976</u></u>	<u><u>-</u></u>	<u><u>16,820,351</u></u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 7,398,828</u></u>	<u><u>\$ 15,379,807</u></u>	<u><u>\$ (1,755,238)</u></u>	<u><u>\$ 21,023,397</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, 2018

	<u>IMS Central Office</u>	<u>Mission Schools</u>	<u>Eliminations</u>	<u>Combined Total</u>
Family paid tuition	\$ -	\$ 13,696,438	\$ -	\$ 13,696,438
Less: Financial aid	<u>-</u>	<u>(3,234,547)</u>	<u>-</u>	<u>(3,234,547)</u>
Net family paid tuition	-	10,461,891	-	10,461,891
Scholarship income	-	7,465,550	(2,859,183)	4,606,367
Grants and contributions	3,638,641	2,595,582	-	6,234,223
In-Kind Contribution - textbooks	-	842,380	-	842,380
School fundraising, net of expenses	-	27,820	-	27,820
Interest and investment income	8,156	213,408	-	221,564
Auxiliary and other school income	-	1,291,188	-	1,291,188
Satisfaction of program restriction	<u>3,035,843</u>	<u>1,995,996</u>	<u>-</u>	<u>5,031,839</u>
TOTAL REVENUE	<u>6,682,640</u>	<u>24,893,815</u>	<u>(2,859,183)</u>	<u>28,717,272</u>
EXPENSES				
Personnel Costs				
Salaries	1,810,625	16,345,815	-	18,156,440
Benefits and employer taxes	<u>315,112</u>	<u>3,162,041</u>	<u>-</u>	<u>3,477,153</u>
Total Personnel Costs	2,125,737	19,507,856	-	21,633,593
Professional fees	318,339	481,319	-	799,658
Development and marketing expenses	55,381	155,610	-	210,991
Insurance	19,309	569,668	-	588,977
Interest	-	64,969	-	64,969
General administrative expenses	126,948	789,149	-	916,097
Instructional expenses	96,161	1,708,724	-	1,804,885
Depreciation and amortization	14,337	513,434	-	527,771
Occupancy	28,076	1,805,229	-	1,833,305
Scholarship grants	2,859,183	-	(2,859,183)	-
Auxiliary and other expenses	<u>251,011</u>	<u>600,153</u>	<u>-</u>	<u>851,164</u>
TOTAL EXPENSES	<u>5,894,482</u>	<u>26,196,111</u>	<u>(2,859,183)</u>	<u>29,231,410</u>
OPERATING INCOME	788,158	(1,302,296)	-	(514,138)
IMS GRANT TO SCHOOLS	<u>(3,555,400)</u>	<u>3,555,400</u>	<u>-</u>	<u>-</u>
(DECREASE) INCREASE IN NET ASSETS	(2,767,242)	2,253,104	-	(514,138)
NET ASSETS - Beginning of Year	<u>4,255,715</u>	<u>6,966,081</u>	<u>-</u>	<u>11,221,796</u>
NET ASSETS - End of Year	<u>\$ 1,488,473</u>	<u>\$ 9,219,185</u>	<u>\$ -</u>	<u>\$ 10,707,658</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

	<u>IMS Central Office</u>	<u>Mission Schools</u>	<u>Eliminations</u>	<u>Combined Total</u>
Family paid tuition	\$ -	\$ 14,185,485	\$ -	\$ 14,185,485
Less: Financial aid	<u>-</u>	<u>(3,637,869)</u>	<u>-</u>	<u>(3,637,869)</u>
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	2,429,932	-	5,999,463
In-Kind Contribution - textbooks	-	599,991	-	599,991
School fundraising, net of expenses	-	165,766	-	165,766
Interest and investment income	2,067	119,185	-	121,252
Auxiliary and other school income	-	1,357,411	-	1,357,411
School management fees	1,040,000	-	(1,040,000)	-
Satisfaction of program restriction	<u>1,956,452</u>	<u>4,622,729</u>	<u>-</u>	<u>6,579,181</u>
<b>TOTAL REVENUE</b>	<u>6,568,050</u>	<u>28,004,249</u>	<u>(4,096,545)</u>	<u>30,475,754</u>
<b>EXPENSES</b>				
<b>Personnel Costs</b>				
Salaries	1,299,868	15,265,012	-	16,564,880
Benefits and employer taxes	<u>355,553</u>	<u>2,645,360</u>	<u>-</u>	<u>3,000,913</u>
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)	-
<b>TOTAL EXPENSES</b>	<u>5,723,384</u>	<u>25,426,511</u>	<u>(4,096,545)</u>	<u>27,053,350</u>
<b>OPERATING INCOME</b>	844,666	2,577,738	-	3,422,404
<b>IMS GRANT TO SCHOOLS</b>	<u>(143,356)</u>	<u>143,356</u>	<u>-</u>	<u>-</u>
<b>INCREASE IN NET ASSETS</b>	701,310	2,721,094	-	3,422,404
<b>NET ASSETS - Beginning of Year</b>	<u>3,554,405</u>	<u>4,244,987</u>	<u>-</u>	<u>7,799,392</u>
<b>NET ASSETS - End of Year</b>	<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.