Business Leadership Organized for Catholic Schools

Financial Report
June 30, 2017

Contents

RSM US LLP

Independent Auditor's Report

To the Board of Directors
Business Leadership Organized for Catholic Schools

Report on the Financial Statements
We have audited the accompanying financial statements of Business Leadership Organized for Catholic Schools, which comprise the statements of financial position as of June 30, 2017 and 2016, the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Business Leadership Organized for Catholic Schools 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.

RSM US LLP

Blue Bell, Pennsylvania
May 15, 2018

Business Leadership Organized for Catholic Schools

Statements of Financial Position
June 30, 2017 and 2016

	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	**$ 21,348,613**	$ 13,061,666
Short-term investments	**-**	2,205,113
Contributions receivable	**15,500**	9,566
Current portion of mortgage receivable	**-**	160,540
Other current assets	**28,490**	78,449
Total current assets	**21,392,603**	15,515,334
Investments	**21,141,171**	17,536,437
Mortgage receivable, less current portion	**-**	1,915,819
Restricted cash	**-**	200,000
Furniture, equipment and leasehold improvements, net of accumulated depreciation of $53,922 and $29,080, respectively	**52,121**	60,491
Investments under agreement with Urban Endowment schools	**3,973,701**	814,546
Total assets	**$ 46,559,596**	$ 36,042,627
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expense	**$ 78,583**	$ 542,287
Accrued grants payable - endowment	**646,816**	598,965
Total current liabilities	**725,399**	1,141,252
Amount due to limited partnership	**-**	200,000
Liability under agreement with Urban Endowment schools	**3,973,701**	814,546
Total liabilities	**4,699,100**	2,155,798
Commitment and contingencies (Note 9)		
Net assets:		
Unrestricted	**1,901,001**	1,906,515
Temporarily restricted	**26,993,081**	19,188,934
Permanently restricted	**12,966,414**	12,791,380
Total net assets	**41,860,496**	33,886,829
Total liabilities and net assets	**$ 46,559,596**	$ 36,042,627

See notes to financial statements.

Business Leadership Organized for Catholic Schools

Statement of Activities
Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public support and revenue:				
Contributions	$ 1,962,235	$ 18,309,800	$ 159,034	$ 20,431,069
Fundraising events	720,307	-	-	720,307
Investment income	31,511	2,560,516	-	2,592,027
Mortgage interest income	-	204,800	-	204,800
Net assets released from restrictions	13,270,969	(13,270,969)	-	-
Total public support and revenue	15,985,022	7,804,147	159,034	23,948,203
Expenses:				
Program services:				
Program expense	14,575,857	-	-	14,575,857
Total program services	14,575,857	-	-	14,575,857
Supporting services:				
Management and general	393,338	-	-	393,338
Fundraising	958,975	-	-	958,975
Cost of direct benefit to donors	62,366	-	-	62,366
Total supporting services	1,414,679	-	-	1,414,679
Total expenses	15,990,536	-	-	15,990,536
Change in net assets before non-operating activities	(5,514)	7,804,147	159,034	7,957,667
Non-operating activities:				
Bad debt recovery on endowment pledges	-	-	16,000	16,000
Change in net assets	(5,514)	7,804,147	175,034	7,973,667
Net assets, beginning	1,906,515	19,188,934	12,791,380	33,886,829
Net assets, ending	$ 1,901,001	$ 26,993,081	$ 12,966,414	$ 41,860,496

See notes to financial statements.

Business Leadership Organized for Catholic Schools

Statement of Activities
Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public support and revenue:				
Contributions	$ 1,797,363	$ 11,151,982	$ 14,334	$ 12,963,679
Fundraising events	480,634	-	-	480,634
Investment income (loss)	30,898	(355,785)	-	(324,887)
Mortgage interest income	-	183,370	-	183,370
Net assets released from restrictions	15,100,695	(15,100,695)	-	-
Total public support and revenue	17,409,590	(4,121,128)	14,334	13,302,796
Expenses:				
Program services:				
Program expense	15,811,202	-	-	15,811,202
Total program services	15,811,202	-	-	15,811,202
Supporting services:				
Management and general	382,104	-	-	382,104
Fundraising	554,539	-	-	554,539
Cost of direct benefit to donors	54,213	-	-	54,213
Total supporting services	990,856	-	-	990,856
Total expenses	16,802,058	-	-	16,802,058
Change in net assets	607,532	(4,121,128)	14,334	(3,499,262)
Net assets, beginning	1,298,983	23,310,062	12,777,046	37,386,091
Net assets, ending	$ 1,906,515	$ 19,188,934	$ 12,791,380	$ 33,886,829

See notes to financial statements.

Business Leadership Organized for Catholic Schools

Statement of Functional Expenses
Year Ended June 30, 2017

	Program Services	Supporting Services			
	Program Expenses	Management and General	Fundraising	Cost of Direct Benefit to Donors	Total Expenses
Scholarships	$13,523,987	$ -	$ -	$ -	$13,523,987
Grants to schools - Urban Endowment	646,816	-	-	-	646,816
Salaries, payroll taxes and employee benefits	361,738	223,604	407,058	-	992,400
Events	-	-	471,519	62,366	533,885
Professional fees	17,801	74,844	9,480	-	102,125
Public relations and marketing	-	-	43,050	-	43,050
Other operating expenses	10,037	61,958	11,894	-	83,889
Rent and utility	7,197	7,197	7,197	-	21,591
Insurance	-	17,455	-	-	17,455
Annual appeal	-	-	496	-	496
Depreciation	8,281	8,280	8,281	-	24,842
	$ 14,575,857	$ 393,338	$ 958,975	$ 62,366	$ 15,990,536

See notes to financial statements.

Business Leadership Organized for Catholic Schools

Statement of Functional Expenses
Year Ended June 30, 2016

	Program Services	Supporting Services			
	Program Expenses	Management and General	Fundraising	Cost of Direct Benefit to Donors	Total Expenses
Scholarships	$14,583,264	$ -	$ -	$ -	$14,583,264
Grants to schools - Urban Endowment	598,965	-	-	-	598,965
Grant to school - other	280,000	-	-	-	280,000
Salaries, payroll taxes and employee benefits	321,386	174,385	387,862	-	883,633
Other program expenses	-	47,481	-	-	47,481
Events	-	-	92,604	54,213	146,817
Professional fees	3,270	66,077	1,620	-	70,967
Public relations and marketing	-	-	37,290	-	37,290
Other operating expenses	8,233	57,451	16,605	-	82,289
Rent and utility	11,654	11,656	11,654	-	34,964
Insurance	-	20,623	-	-	20,623
Annual appeal	-	-	2,474	-	2,474
Depreciation	4,430	4,431	4,430	-	13,291
	$ 15,811,202	$ 382,104	$ 554,539	$ 54,213	$ 16,802,058

See notes to financial statements.

Business Leadership Organized for Catholic Schools

Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	**$ 7,957,667**	$ (3,499,262)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation expense	**24,842**	13,291
Net realized and unrealized (gains) losses on investments	**(2,312,571)**	876,682
Contributions restricted for endowment	**(159,034)**	(14,334)
Bad debt recovery on endowment pledges	**(16,000)**	-
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Contributions receivables	**12,000**	20,250
Other current assets	**49,959**	(58,254)
Increase (decrease) in liabilities:		
Accounts payable	**(463,704)**	433,859
Accrued grants payable - endowment	**47,851**	(34,520)
Net cash provided by (used in) operating activities	**5,141,010**	(2,262,288)
Cash flows from investing activities:		
Purchase of equipment and leasehold improvements	**(16,472)**	(500)
Cash receipts on mortgage receivable	**2,076,359**	147,503
Proceeds from the sale of investments	**31,063,002**	6,175,396
Purchase of investments	**(30,150,052)**	(2,277,840)
Net cash provided by investing activities	**2,972,837**	4,044,559
Cash flows from financing activities:		
Cash receipts of endowment contributions	**173,100**	82,334
Net cash provided by financing activities	**173,100**	82,334
Net increase in cash and cash equivalents	**8,286,947**	1,864,605
Cash and cash equivalents, beginning	**13,061,666**	11,197,061
Cash and cash equivalents, ending	**$ 21,348,613**	$ 13,061,666

See notes to financial statements.

Note 1. Nature of Activities and Summary of Significant Accounting Policies

Business Leadership Organized for Catholic Schools (BLOCS or the Organization) operates exclusively to enlist financial support for the continuance and long-term betterment of the Catholic elementary, secondary, and special education schools of the Archdiocese of Philadelphia along with assisting other schools associated with the Educational Improvement Tax Credit (EITC) contributions and Opportunity Scholarship Tax Credit (OSTC) contributions. BLOCS receives support in the form of donor contributions, EITC and OSTC contributions, and endowment contributions. BLOCS was incorporated in 2001, and until July 1, 2009, was accounted for under the Archdiocese of Philadelphia's financial statements as well as Internal Revenue Service Form 990. Beginning July 1, 2009, BLOCS maintained separate books and records, had separate financial statements prepared and obtained a separate tax-exempt status ruling from that of the Archdiocese of Philadelphia.

A summary of the Organization's significant accounting policies is as follows:

Basis of accounting: The financial statements of BLOCS have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP).

Use of estimates: The preparation of financial statements in conformity with GAAP 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, including functional allocations during the reported period. Actual results could differ from those estimates.

Basis of presentation: BLOCS follows the authoritative guidance for external financial reporting by not-for-profit organizations promulgated by the Financial Accounting Standards Board (FASB) which requires that unconditional promises to give (contributions) be recorded as receivables and revenue and requires BLOCS to distinguish between contributions received for each net asset classification in accordance with donor imposed restrictions. The authoritative guidance also establishes standards for external financial reporting by not-for-profit organizations and requires that resources be classified for accounting and reporting purposes into three net asset classifications according to externally (donor) imposed restrictions.

A description of the net asset classifications follows:

Unrestricted net assets include assets that are available for the support of operations and whose use is not externally restricted by donors.

Temporarily restricted net assets include gifts and accumulated earnings for which donor imposed restrictions, primarily passage of time or occurrence of a specific event, have not been met.

Permanently restricted net assets include gifts, trusts, and pledges which require, by donor restriction, that the corpus be invested in perpetuity and only the income be made available for operations in accordance with donor restrictions.

Note 1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

Contributions: All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Pledges which are to be paid in future periods and contributions restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support, which increase those net asset classifications. When a donor restriction expires, that is, when a time restriction ends or stipulated purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets.

Unconditional promises to give that are expected to be received within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their expected future cash flows, which approximates fair value. The discount rate has been computed using a risk-adjusted rate that approximates the rate of return expected to be earned over the period which the contributions will be received by BLOCS. Amortization of the discount is included in contribution revenue. Conditional promises to give and conditional contributions are not included in contribution revenue until the conditions are substantially met.

Cash and cash equivalents: For the purposes of the statement of cash flows, cash and cash equivalents include cash, interest-bearing deposits, money fund, money market and negotiable certificates of deposit with original maturities of three months or less.

Investment valuation and income recognition: Investments in equity and debt securities are reported at fair value. Fair value is primarily determined based on quoted market prices or other market inputs. Interest, dividends, realized and unrealized gains and losses are reported in investment income or (loss) under public support and revenue in the statement of activities. Investment returns on donor-restricted endowment funds are recorded to temporarily restricted net assets. Management fees on investments are recorded as investment fee expense.

BLOCS provides additional information about the fair value of its investments under FASB's Accounting Standards Codification (ASC) Topic 820, Fair Value Measurement, for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. ASC Topic 820 defines fair value 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. ASC Topic 820 also establishes a framework for measuring fair value and expands disclosures about fair value measurements (Note 6).

Furniture, equipment and leasehold improvements: Furniture, equipment and leasehold improvements are recorded at cost for purchased items, or if donated, at the estimated fair value at the date of donation. Items are depreciated on a straight-line basis over the estimated useful lives of the respective assets, three (3) to five (5) years.

Functional allocation of expenses: The costs of providing BLOCS' program and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Costs of direct benefits to donors: BLOCS conducts a special event in which a portion of the gross proceeds paid by the participant represents payment for the direct costs of the benefits received by the participant at the event. The direct costs of the special event, which ultimately benefits the donor rather than BLOCS, is recorded as costs of direct benefits to donor's expense.

Note 1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

Scholarships: BLOCS awards scholarships to students under EITC and OSTC programs in accordance with program guidelines and donors' restrictions. BLOCS also awards emergency scholarships based on the available funds and students' needs. Scholarship expense is recorded when approved by the Board of Directors and communicated to grantees. Payments of scholarship awards are typically made to the schools at the same time or shortly thereafter.

Grants to schools: BLOCS awards grants to schools under the Urban Endowment Initiatives (UEI) program. Expense and payable are recognized when distributions are approved by the Board of Directors based on the applicable percentage of endowment investment balance in accordance with terms and conditions of UEI agreements with each school.

Income taxes: BLOCS is a not-for-profit organization that is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, BLOCS qualifies for charitable contribution deductions and has been classified as an organization that is not a private foundation. Income which is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes. BLOCS had no net unrelated business income for the years ended June 30, 2017 and 2016.

Management evaluated BLOCS' tax positions and concluded that BLOCS had taken no uncertain tax positions that require adjustment to the financial statements. BLOCS files income tax returns in the U.S. federal jurisdiction. Generally, BLOCS is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2014.

Recently issued accounting pronouncement not yet adopted: In January 2016, the FASB issued Accounting Standards Update (ASU) 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU 2016-01 includes a number of amendments that address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The amendments in this update are effective for BLOCS for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. BLOCS has not yet determined the effect on the financial statements of adopting the amendments included in ASU 2016-01.

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842) which supersedes FASB ASC Topic 840, Leases (Topic 840) and provides principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than twelve months regardless of classification. Leases with a term of twelve months or less will be accounted for similar to existing guidance for operating leases. The ASU is effective for annual reporting periods beginning after December 15, 2019, with early adoption permitted. The impact of adopting this ASU on BLOCS' financial statements for subsequent periods has not yet been determined.

Note 1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958)*, which amends the requirements for financial statements and footnotes. Key elements of this amendment include a reduction in the number of net asset categories from three to two, conforming requirements on releases of capital restrictions, several new requirements related to expense presentation and disclosure (including investment expenses), and new required disclosures communicating information useful in assessing liquidity. ASU 2016-14 is effective for annual financial statements issued for fiscal years beginning after December 15, 2017 and for interim periods within fiscal years beginning after December 15, 2018. The impact of adopting this ASU on BLOCS' financial statements for subsequent periods has not yet been determined.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 provides guidance on how certain cash receipts and cash payments should be presented and classified in the statement of cash flows with the objective of reducing existing diversity in practice with respect to these items. ASU 2016-15 is effective for annual periods, and interim periods within those years, beginning after December 15, 2017. Early adoption is permitted. ASU 2016-15 requires a retrospective transition method. However, if it is impracticable to apply the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. The impact of adopting this ASU on BLOCS' financial statements for subsequent periods has not yet been determined.

Note 2. Contributions Receivable

Contributions receivable consist primarily of pledges made to the BLOCS Urban Endowment Initiative (Endowment Fund). The Endowment Fund supports various Catholic Schools in the Archdiocese of Philadelphia. Contributions receivable at June 30, 2017 and 2016, consist of amounts expected to be collected as follows:

	2017	2016
Due in less than one year	$ 89,500	$ 89,000
Due in one to five years	50,000	62,500
Total contributions receivable	139,500	151,500
Allowance for doubtful accounts	(124,000)	(140,000)
Unamortized discount	-	(1,934)
Net contributions receivable	$ 15,500	$ 9,566

All contributions receivable are reviewed by management and evaluated for collectability when the promise is made. Contributions receivable are written off when they are determined to be uncollectible based upon management's assessment.

Note 3. Mortgage Receivable

On May 5, 2010, BLOCS loaned $2,800,000 to a Limited Partnership (the Limited Partnership) subject to the terms and conditions of the Loan and Security Agreement for the purpose of financing the development, construction and leasing of a property located in Philadelphia, Pennsylvania. The loan was funded with amounts from the Endowment Fund in the amount of $1,200,000, a loan payable of $1,400,000, and a $200,000 amount due to the Limited Partnership (Note 8). The loan receivable was secured by the mortgaged property and guaranteed by two board members up to loan principal of $1,800,000, plus accrued and unpaid interest in accordance with terms and conditions set forth under the Guaranty and Suretyship Agreement. The interest rate on the mortgage receivable was 8.50% and the mortgage receivable was being amortized over 15 years.

In June 2017, the mortgage receivable was paid in full. The outstanding balance of mortgage receivable was $0 and $2,076,359 at June 30, 2017 and 2016, respectively.

Note 4. Restricted Cash

The restricted cash, at June 30, 2016, consisted of amount held for tenant improvements and leasing commissions in accordance with the Loan and Security Agreement (Note 3). The corresponding liability was recorded as amount due to the limited partnership in the statement of financial position (Note 8). In June 2017, cash was released as a result of the payoff of the mortgage receivable.

Note 5. Investments

BLOCS values its investments at fair value. The cost and fair value of the investments are as follows at June 30, 2017 and 2016:

	2017		
	Cost Basis	Fair Value	Unrealized Gain (Loss)
Mutual funds	$ 25,114,872	$ 25,114,872	$ -
Investments, end of year	$ 25,114,872	$ 25,114,872	-

	2016		
	Cost Basis	Fair Value	Unrealized Gain (Loss)
Exchange traded securities	$ 5,038,389	$ 5,804,034	$ 765,645
Negotiable certificates of deposit	2,205,000	2,205,113	113
Mutual funds	12,538,579	12,546,949	8,370
Investments, end of year	$ 19,781,968	$ 20,556,096	774,128
Less: cumulative unrealized gain as of July 1, 2015			1,542,760
Unrealized loss for year ended June 30, 2016			$ (768,632)

Note 5. Investments (Continued)

Investments at fair value at June 30, 2017 and 2016 consist of the following:

	2017	2016
Short-term investments	$ -	$ 2,205,113
Investments	21,141,171	17,536,437
Investments under agreement with Urban Endowment school (Note 13)	3,973,701	814,546
	$ 25,114,872	$ 20,556,096

Investment income (loss) for the years ended June 30, 2017 and 2016 is comprised of the following:

	2017	2016
Interest and dividends, net of expense	$ 428,085	$ 537,244
Net unrealized gains (losses) on investments	-	(768,632)
Net realized gains (losses) on investments	2,312,571	(108,050)
	2,740,656	(339,438)
Less: pass-through for Urban Endowment school	(148,629)	14,551
Total investment income (loss)	$ 2,592,027	$ (324,887)

BLOCS incurred investment fees totaling $71,375 and $68,740 for the years ended June 30, 2017 and 2016, respectively.

Note 6. Fair Value Measurements

BLOCS measures its investments at fair value on a recurring basis in accordance with GAAP. Fair value is defined as the price that would be received to sell an asset or the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The framework that the authoritative guidance establishes for measuring fair value includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs used in determining valuations into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement.

The levels of the fair value hierarchy are as follows:

Level 1: Fair value is based on unadjusted quoted prices in active markets that are accessible to BLOCS for identical assets. These generally provide the most reliable evidence and are used to measure fair value whenever available.

Level 2: Fair value is based on significant inputs, other than Level 1 inputs, that are observable either directly or indirectly for substantially the full term of the asset through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets, quoted market prices in markets that are not active for identical or similar assets, and other observable inputs.

Note 6. Fair Value Measurements (Continued)

Level 3: Fair value would be based on significant unobservable inputs. Examples of valuation methodologies that would result in Level 3 classification include option pricing models, discounted cash flows, and other similar techniques.

The following is a description of the valuation methodologies used for instruments measured at fair value at June 30, 2017 and 2016.

Money fund, mutual funds and exchange traded securities: The fair value of securities is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers (Level 1).

Negotiable certificates of deposit: The fair value of these instruments is valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities. Therefore, these assets are classified as Level 2.

The tables below present the balance of assets measured at fair value at June 30, 2017 and 2016 on a recurring basis.

	2017			
	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
Mutual funds:				
Short-term bond	$ 1,506,892	$ -	$ -	$ 1,506,892
Intermediate-term bond	4,018,380	-	-	4,018,380
International bond	2,009,190	-	-	2,009,190
Domestic stock large growth	2,637,061	-	-	2,637,061
Domestic stock large blend	5,274,123	-	-	5,274,123
Domestic stock large value	2,637,062	-	-	2,637,062
Foreign stock large growth	1,758,041	-	-	1,758,041
Foreign stock large blend	1,758,041	-	-	1,758,041
Foreign stock large value	3,516,082	-	-	3,516,082
Total	$ 25,114,872	$ -	$ -	$ 25,114,872

Note 6. Fair Value Measurements (Continued)

	2016			
	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
Money fund (cash equivalent)	$ 4,384,394	$ -	$ -	$ 4,384,394
Exchange traded funds:				
Home construction	1,110,977	-	-	1,110,977
Power Shares	573,869	-	-	573,869
Oil & Gas	900,604	-	-	900,604
S & P 500	3,218,583	-	-	3,218,583
Negotiable certificates of deposit:				
Short-term	-	2,205,113	-	2,205,113
Mutual funds:				
Small cap growth	557,966	-	-	557,966
Small value	634,691	-	-	634,691
Mid cap growth	856,077	-	-	856,077
International fund	1,073,203	-	-	1,073,203
Large cap growth	732,144	-	-	732,144
Large value	751,582	-	-	751,582
Short-term bond	1,434,475	-	-	1,434,475
Intermediate-term bond	3,443,136	-	-	3,443,136
Foreign small/mid growth	1,220,053	-	-	1,220,053
Foreign large blend	823,699	-	-	823,699
Diversified Pacific/Asia	1,019,924	-	-	1,019,924
Total	$ 22,735,377	$ 2,205,113	$ -	$ 24,940,490

At June 30, 2017 and 2016, BLOCS did not have any financial instruments that are recorded at fair value on a non-recurring basis. In addition, there was no change in valuation techniques used to measure fair value of the assets.

Note 7. Employee Retirement Plan

On January 1, 2016, BLOCS terminated sponsorship of their SIMPLE IRA defined contribution retirement plan and established a 401(k) plan which provides for a 4% match of the employee compensation. BLOCS contributed $25,814 and $22,712 to the plan for the years ended June 30, 2017 and 2016, respectively.

Note 8. Due to the Limited Partnership

Due to the Limited Partnership, at June 30, 2016, consisted of an amount held back from the amount loaned to the Limited Partnership and placed into escrow to fund tenant improvements and leasing commissions in accordance with the Loan and Security Agreement (Notes 3 and 4). This amount was paid off in connection with the payoff of the mortgage receivable in June 2017.

Note 9. Commitments and Contingencies

Concentrations: BLOCS' cash and cash equivalents are comprised of amounts in accounts at various financial institutions. While the amounts at times exceed the amount guaranteed by the Federal Deposit and Insurance Company (FDIC) and, therefore, bear some risk, BLOCS has not experienced, nor does it anticipate, any loss of funds.

BLOCS owns various investments, including exchange traded securities and mutual funds. These investments are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in future financial statements.

BLOCS' contributions receivable are unsecured and are at risk to the extent such amounts become uncollectible. Management carefully monitors its donor relationships in order to minimize credit risk and maintains a reserve for potential collection losses.

Approximately 31% and 13% of BLOCS' public support and revenue were from BLOCS Scholarship LLCs for the years ended June 30, 2017 and 2016, respectively (Note 10).

Operating leases: BLOCS leases its office space under a non-cancelable operating lease, which was scheduled to expire in August 2018. In May 2018, the term of the lease was extended through August 2020.

BLOCS has a four-year non-cancelable lease for office equipment, expiring in November 2019.

Future minimum lease rental payments under these lease agreements are as follows:

Years ending June 30:	
2018	$ 29,190
2019	30,999
2020	29,628
2021	4,748
	$ 94,565

Litigation: In the normal course of business, BLOCS becomes involved in litigation matters. BLOCS' management does not expect the resolution of any outstanding matters to have a significant impact on BLOCS' financial position.

Note 10. Related Party Transactions

For the years ended June 30, 2017 and 2016, respectively, BLOCS recorded $463,364 and $309,846 in contributions from companies that have representatives who are members of BLOCS governing board. This amount also includes personal contributions received from those Board members. At June 30, 2017 and 2016, BLOCS had $10,000 of pledges receivable from representatives who are members of BLOCS governing board.

For the years ended June 30, 2017 and 2016, respectively, BLOCS recorded $2,741,184 and $4,448,368 in scholarship awards and school grants to the Independence Mission Schools, which has two representatives that serve on the governing board of that organization and BLOCS.

Note 10. Related Party Transactions (Continued)

BLOCS has formed various special purpose entities, BLOCS Scholarship #1 LLC, #2, #4-10, #12-15, (thirteen entities collectively, the Scholarship LLCs) for the purpose of affording members the opportunity to make contributions to EITC and OSTC programs. After members make capital contributions to the Scholarship LLCs, the Scholarship LLCs will make contributions to BLOCS within 60 days following the approval letter from the Commonwealth of Pennsylvania for an amount equal to the members' capital contributions. Capital contributions of $7,382,837 and $1,663,167 were made by members of the Scholarship LLCs during the years ended June 30, 2017 and 2016, respectively, and correspondingly, the same amount was contributed by the Scholarship LLCs to BLOCS during the years ended June 30, 2017 and 2016.

BLOCS serves as the manager of the Scholarship LLCs, as defined in the operating agreements, to carry out the purpose of these entities. BLOCS does not have any membership interest in the LLCs, and as such, BLOCS does not consolidate the LLCs in its financial statements.

Note 11. Temporarily Restricted Net Assets

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

	2017	2016
EITC/OSTC funds	$ 16,416,130	$ 10,622,847
Emergency scholarships	7,868,690	7,027,338
Student Appeal/Other	62,235	54,404
Emergency Scholarship Endowment Fund	278,486	165,614
Urban Endowment Initiatives	2,367,540	1,318,731
	$ 26,993,081	$ 19,188,934

Net assets released from donors' restrictions during the years ended June 30, 2017 and 2016 are summarized as follows:

	2017	2016
EITC/OSTC Funds	$ 12,503,517	$ 14,461,979
Emergency scholarships	93,304	25,705
Student Appeal/Other	5,169	12,046
Emergency Scholarship Endowment Fund	22,163	2,000
Urban Endowment Initiatives	646,816	598,965
	$ 13,270,969	$ 15,100,695

Note 12. Permanently Restricted Net Assets

Permanently restricted net assets result from contributions whose use by BLOCS is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of BLOCS. Permanently restricted net assets consist of two endowment funds (Note 13) whose donors have stipulated, as a condition of the gift that the principal is to be maintained and invested for perpetuity as prescribed by the donor. Permanently restricted net assets were $12,966,414 and $12,791,380 as of June 30, 2017 and 2016, respectively.

Note 13. Endowment

BLOCS' endowment consists of funds established as part of the BLOCS Urban Endowment Initiative and the Emergency Scholarship Fund. Contributions to the endowment are subject to donor restrictions that stipulate the original principal be held and invested by BLOCS indefinitely and that distributions be made to the schools in accordance with the endowment spending policy, as noted below, and to be paid annually during the following year. There are no board-designated endowments at June 30, 2017 and 2016.

Interpretation of relevant law: The Commonwealth of Pennsylvania has not adopted Uniform Prudent Management of Institutional Funds Act (UPMIFA). State law allows nonprofit organizations to make an election to adopt a total return investment policy as provided by Act 141 (1988) of Pennsylvania legislature, 15 Pa. C.S.A Section 5548 (total return election). BLOCS did not make a total return election.

BLOCS considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. The investment policies of BLOCS

Funds with deficiencies: From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the historic dollar value. Deficiencies of this nature are reported by a change to unrestricted net assets and a corresponding increase to temporarily restricted net assets. These deficiencies resulted from unfavorable market fluctuations and distributions in accordance with the spending policy. Over time these may reverse due to the appreciation of the underlying investments. There were no such deficiencies as of June 30, 2017 and 2016.

Return objectives and risk parameters: BLOCS has adopted investment and spending policies for endowment assets that attempt to subject the fund to low investment risk and provide current income. BLOCS' objective is to provide income for Catholic Schools in the Archdiocese of Philadelphia, preserve endowment assets without subjecting them to substantial risk, and provide additional growth through new gifts.

Strategies employed for achieving objectives: To satisfy its long-term rate-of-return objectives, BLOCS relies on a strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). As a result, endowment assets are invested in exchange traded securities and mutual funds. BLOCS intends to build endowment assets through additional contributions.

Spending policy: BLOCS Urban Endowment Initiative has a policy of appropriating for distribution 5% of the fair market value as of April 30 of the previous fiscal year to be paid annually to the participant schools based on the proportion of each school's permanent endowment to the total permanent endowment.

Note 13. Endowment (Continued)

BLOCS Emergency Scholarship Fund program has a policy of appropriating for distribution 5% of the fair market value as of April 30 of the previous fiscal year to be paid based on available funds and scholarship need request applications received and approved by the Board of Directors.

The appropriation from the temporarily restricted portion of the endowment totaled $668,979 and $600,965 for the years ended June 30, 2017 and 2016, respectively, of which $646,816 and $598,965 was payable at June 30, 2017 and 2016, respectively, and was disbursed during the subsequent fiscal year.

BLOCS' policy requires the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds. As a result of this interpretation, BLOCS classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as either temporarily restricted or unrestricted net assets based on the existence of donor restrictions or by law.

Endowment net assets composition by type of fund as of June 30, 2017:

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment net assets	$ -	$ 2,646,026	$ 12,966,414	$ 15,612,440

Changes in the endowment net assets for the fiscal year ended June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2016	$ -	$ 1,484,345	$ 12,791,380	$ 14,275,725
Investment return:				
Dividend and interest income	-	467,949	-	467,949
Net gain (realized and unrealized)	-	1,157,911	-	1,157,911
Mortgage interest	-	204,800	-	204,800
Total investment return	-	1,830,660	-	1,830,660
Contributions	-	-	159,034	159,034
Bad debt recovery on endowment pledges	-	-	16,000	16,000
Appropriation of endowment assets for expenditure	-	(668,979)	-	(668,979)
Endowment net assets, June 30, 2017	$ -	$ 2,646,026	$ 12,966,414	$ 15,612,440

Note 13. Endowment (Continued)

Endowment net assets composition by type of fund as of June 30, 2016:

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment net assets	$ -	$ 1,484,345	$ 12,791,380	$ 14,275,725

Changes in the endowment net assets for the fiscal year ended June 30, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2015	$ -	$ 2,139,568	$ 12,777,046	$ 14,916,614
Investment return:				
Dividend and interest income	-	393,232	-	393,232
Net loss (realized and unrealized)	-	(630,860)	-	(630,860)
Mortgage interest	-	183,370	-	183,370
Total investment return	-	(54,258)	-	(54,258)
Contributions	-	-	14,334	14,334
Appropriation of endowment assets for expenditure	-	(600,965)	-	(600,965)
Endowment net assets, June 30, 2016	$ -	$ 1,484,345	$ 12,791,380	$ 14,275,725

BLOCS is holding and investing funds on behalf of one of the schools under Urban Endowment Initiative, which has the right to the corpus of the endowment fund originally contributed by donors and related investment earnings, net of distributions. In addition, BLOCS is holding and investing funds on behalf of the two schools who are direct recipients and beneficiaries of a portion of the endowment contributions. BLOCS has recorded $3,973,701 and $814,546 as investments under Agreement with Urban Endowment schools and liability under Agreement with Urban Endowment schools as of June 30, 2017 and 2016, respectively. The liability includes, $3,803,100 and $750,000 of contributions and $170,601 and $64,546 of cumulative allocated investment income, net of distributions, as of June 30, 2017 and 2016, respectively. The liability was reduced by the payment to the schools of $42,574 and $46,764, as well as net investment income / (loss) of $148,629 and $(14,551), for the years ended June 30, 2017 and 2016, respectively, which has been accounted for as pass-through transactions and, therefore, are not reflected in the accompanying statements of activities.

Note 14. Subsequent Events

BLOCS evaluated subsequent events (events occurring after June 30, 2017) through May 15, 2018, the date the financial statements were available to be issued.

On May 8, 2018, the term of the office lease was extended through August 31, 2020. See Note 9.