

Business Leadership Organized for Catholic Schools

Financial Report
June 30, 2019

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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 (BLOCS), which comprise the statements of financial position as of June 30, 2019 and 2018, 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, 2019 and 2018, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, BLOCS adopted new accounting guidance Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* and applied this retrospectively to 2018. Our opinion is not modified with respect to this matter.

RSM US LLP

Blue Bell, Pennsylvania
February 6, 2020

Business Leadership Organized for Catholic Schools

Statements of Financial Position

June 30, 2019 and 2018

| | 2019 | 2018 |
|---|----------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalent | \$ 32,768,686 | \$ 27,107,566 |
| Certificate of deposit | 2,043,096 | - |
| Restricted cash equivalent and investment | 6,066,709 | - |
| Contributions receivable | 300,000 | 25,000 |
| Other current assets | 7,069 | 2,704 |
| Total current assets | 41,185,560 | 27,135,270 |
| Investments | 28,353,411 | 27,283,690 |
| Furniture, equipment and leasehold improvements, net of accumulated depreciation of \$102,120 and \$81,762, respectively | 5,594 | 24,281 |
| Investments under agreement with Urban Endowment schools | 4,197,848 | 4,339,344 |
| Total assets | \$ 73,742,413 | \$ 58,782,585 |
| Liabilities and Net Assets | | |
| Current liabilities: | | |
| Accounts payable and accrued expense | \$ 172,264 | \$ 18,823 |
| Due to Independence Mission Schools | 6,066,709 | - |
| Accrued grants payable | 726,991 | 643,578 |
| Total current liabilities | 6,965,964 | 662,401 |
| Liability under agreement with Urban Endowment schools | 4,197,848 | 4,339,344 |
| Total liabilities | 11,163,812 | 5,001,745 |
| Commitment and contingencies (Note 7) | | |
| Net assets: | | |
| Without donor restrictions | 4,849,108 | 2,235,785 |
| With donor restrictions | 57,729,493 | 51,545,055 |
| Total net assets | 62,578,601 | 53,780,840 |
| Total liabilities and net assets | \$ 73,742,413 | \$ 58,782,585 |

See notes to financial statements.

Business Leadership Organized for Catholic Schools

**Statement of Activities
Year Ended June 30, 2019**

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|-------------------------------|----------------------------|----------------------|
| Public support and revenue: | | | |
| Contributions | \$ 4,168,502 | \$ 41,390,460 | \$ 45,558,962 |
| Fundraising events | 362,641 | 29,350 | 391,991 |
| Net investment return | 713,837 | 1,360,050 | 2,073,887 |
| Miscellaneous income | 8,241 | - | 8,241 |
| Net assets released from restrictions | 36,595,422 | (36,595,422) | - |
| Total public support and revenue | 41,848,643 | 6,184,438 | 48,033,081 |
| Expenses: | | | |
| Program services: | | | |
| Program expense | 37,871,631 | - | 37,871,631 |
| Total program services | 37,871,631 | - | 37,871,631 |
| Supporting services: | | | |
| Management and general | 503,573 | - | 503,573 |
| Fundraising | 799,623 | - | 799,623 |
| Cost of direct benefit to donors | 60,493 | - | 60,493 |
| Total supporting services | 1,363,689 | - | 1,363,689 |
| Total expenses | 39,235,320 | - | 39,235,320 |
| Change in net assets | 2,613,323 | 6,184,438 | 8,797,761 |
| Net assets, beginning | 2,235,785 | 51,545,055 | 53,780,840 |
| Net assets, ending | \$ 4,849,108 | \$ 57,729,493 | \$ 62,578,601 |

See notes to financial statements.

Business Leadership Organized for Catholic Schools

Statement of Activities Year Ended June 30, 2018

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|-------------------------------|----------------------------|-------------------|
| Public support and revenue: | | | |
| Contributions | \$ 2,104,102 | \$ 36,023,533 | \$ 38,127,635 |
| Fundraising events | 361,000 | - | 361,000 |
| Net investment return | 225,280 | 2,092,559 | 2,317,839 |
| Net assets released from restrictions | 26,535,532 | (26,535,532) | - |
| Total public support and revenue | 29,225,914 | 11,580,560 | 40,806,474 |
| Expenses: | | | |
| Program services: | | | |
| Program expense | 27,777,242 | - | 27,777,242 |
| Total program services | 27,777,242 | - | 27,777,242 |
| Supporting services: | | | |
| Management and general | 424,686 | - | 424,686 |
| Fundraising | 643,539 | - | 643,539 |
| Cost of direct benefit to donors | 45,663 | - | 45,663 |
| Total supporting services | 1,113,888 | - | 1,113,888 |
| Total expenses | 28,891,130 | - | 28,891,130 |
| Change in net assets before other gains/losses | 334,784 | 11,580,560 | 11,915,344 |
| Other gains/losses: | | | |
| Bad debt recovery on endowment pledges | - | 5,000 | 5,000 |
| Change in net assets | 334,784 | 11,585,560 | 11,920,344 |
| Net assets, beginning | 1,901,001 | 39,959,495 | 41,860,496 |
| Net assets, ending | \$ 2,235,785 | \$ 51,545,055 | \$ 53,780,840 |

See notes to financial statements.

Business Leadership Organized for Catholic Schools

**Statement of Functional Expenses
Year Ended June 30, 2019**

| | Program Services | Supporting Services | | | Total Expenses |
|--|----------------------|------------------------------|-------------------|--|----------------------|
| | Program Expenses | Management and General | Fundraising | Cost of Direct Benefit to Donors | |
| Scholarships | \$ 36,668,432 | \$ - | \$ - | \$ - | \$ 36,668,432 |
| Grants to schools – Urban Endowment | 726,991 | - | - | - | 726,991 |
| Salaries, payroll taxes and employee benefits | 435,718 | 278,313 | 449,552 | - | 1,163,583 |
| Events | - | - | 94,385 | 60,493 | 154,878 |
| Professional fees | 20,484 | 118,215 | 7,753 | - | 146,452 |
| Public relations and marketing | - | - | 193,377 | - | 193,377 |
| Other operating expenses | 1,910 | 59,785 | 36,460 | - | 98,155 |
| Rent and utility | 11,310 | 11,309 | 11,310 | - | 33,929 |
| Insurance | - | 29,165 | - | - | 29,165 |
| Depreciation | 6,786 | 6,786 | 6,786 | - | 20,358 |
| | \$ 37,871,631 | \$ 503,573 | \$ 799,623 | \$ 60,493 | \$ 39,235,320 |

See notes to financial statements.

Business Leadership Organized for Catholic Schools

Statement of Functional Expenses

Year Ended June 30, 2018

| | Program | Supporting Services | | | Total |
|--|---------------------|---------------------|-------------------|------------------|---------------------|
| | Services | Management | Fundraising | Cost of | |
| | Program | and | | Direct Benefit | Expenses |
| | Expenses | General | Fundraising | to Donors | Expenses |
| Scholarships | \$26,691,955 | \$ - | \$ - | \$ - | \$26,691,955 |
| Grants to schools – Urban Endowment | 643,578 | - | - | - | 643,578 |
| Salaries, payroll taxes and employee benefits | 396,567 | 256,458 | 430,950 | - | 1,083,975 |
| Events | - | - | 29,132 | 45,663 | 74,795 |
| Professional fees | 19,540 | 41,193 | 8,192 | - | 68,925 |
| Public relations and marketing | - | - | 132,786 | - | 132,786 |
| Other operating expenses | 5,414 | 87,199 | 18,479 | - | 111,092 |
| Rent and utility | 10,908 | 10,907 | 10,908 | - | 32,723 |
| Insurance | - | 19,649 | - | - | 19,649 |
| Annual appeal | - | - | 3,812 | - | 3,812 |
| Depreciation | 9,280 | 9,280 | 9,280 | - | 27,840 |
| | <u>\$27,777,242</u> | <u>\$ 424,686</u> | <u>\$ 643,539</u> | <u>\$ 45,663</u> | <u>\$28,891,130</u> |

See notes to financial statements.

Business Leadership Organized for Catholic Schools

Statements of Cash Flows
Years Ended June 30, 2019 and 2018

| | 2019 | 2018 |
|---|----------------------|----------------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ 8,797,761 | \$ 11,920,344 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation expense | 20,358 | 27,840 |
| Net realized and unrealized gains on investments | (249,833) | (1,616,763) |
| Contributions restricted for endowment | (25,082) | (1,000,000) |
| Bad debt recovery on endowment pledges | - | (5,000) |
| Changes in operating assets and liabilities: | | |
| (Increase) decrease in assets: | | |
| Contributions receivables | (275,000) | (9,500) |
| Other current assets | (4,365) | 25,786 |
| Investments under agreement with Urban Endowment schools | 141,496 | (365,643) |
| Increase (decrease) in liabilities: | | |
| Accounts payable | 153,441 | (59,760) |
| Due to Independence Mission Schools | 6,066,709 | - |
| Accrued grants payable | 83,413 | (3,238) |
| Liability under agreement with Urban Endowment schools | (141,496) | 365,643 |
| Net cash provided by operating activities | 14,567,402 | 9,279,709 |
| Cash flows from investing activities: | | |
| Purchase of equipment | (1,671) | - |
| Purchase of certificate of deposit | (2,043,096) | - |
| Purchase of investments | (1,631,068) | (4,979,289) |
| Proceeds from the sale of investments | 811,180 | 453,533 |
| Increase in restricted cash equivalent and investment | (6,066,709) | - |
| Net cash used in investing activities | (8,931,364) | (4,525,756) |
| Cash flows from financing activities: | | |
| Cash receipts of endowment contributions | 25,082 | 1,005,000 |
| Net cash provided by financing activities | 25,082 | 1,005,000 |
| Net increase in cash and cash equivalent | 5,661,120 | 5,758,953 |
| Cash and cash equivalent, beginning | 27,107,566 | 21,348,613 |
| Cash and cash equivalent, ending | \$ 32,768,686 | \$ 27,107,566 |

See notes to financial statements.

Business Leadership Organized for Catholic Schools

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 (U.S. GAAP).

Basis of presentation: Under U.S. GAAP, a not-for-profit is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Contributions receivable, which represent unconditional promises to give, are recognized as revenue in the period awarded and as assets, decreases of liabilities or decreases of expenses depending on the form of the benefits received. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected over periods in excess of one year are recorded at the net present value of the estimated cash flows beyond one year using a risk-free rate of return appropriate for the expected term of the promise to give.

Conditional promises to give, which depend on the occurrence of a specified future and uncertain event to bind the promisor, are recorded when the conditions on which they depend are substantially met.

Use of estimates: The preparation of financial statements in conformity with U.S. 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.

Cash and cash equivalent: BLOCS considers all highly liquid instruments purchased with an original maturity date of three months or less to be cash equivalent. Cash and cash equivalent for purposes of the statement of cash flows excludes restricted cash and cash equivalent.

Restricted cash equivalent and investment: Restricted cash equivalent and investment represents funds held on behalf of Independence Mission Schools for pass-through contributions. The corresponding liability is presented as due to Independence Mission Schools.

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. Net investment return is reported in the statement of activities and consists of interest and dividend income, realized and unrealized gains and losses, less investment advisory fees. Investment income on donor-restricted endowment funds are recorded to net assets with donor restrictions.

Business Leadership Organized for Catholic Schools

Notes to Financial Statements

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

BLOCS provides 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 5).

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 program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The expense that are allocated include salaries, payroll taxes and employee benefits, rent and utilities, and depreciation, which are allocated on the basis of estimates of time and effort.

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.

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, 2019 and 2018.

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 2016.

Reclassifications: Certain amounts in the financial statements for the year ended June 30, 2018 have been reclassified to conform to the presentation for the year ended June 30, 2019. The reclassification has no effect on change in net assets or net assets balance.

Business Leadership Organized for Catholic Schools

Notes to Financial Statements

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

Recently issued accounting pronouncement adopted: In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a not-for-profit classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. Among other changes, the ASU requires disclosure of liquidity and availability of financial resources, replaces the three current classes of net assets with two new classes, “net assets with donor restrictions” and “net assets without donor restrictions,” and expands disclosures about the nature and amount of any donor restrictions. BLOCS adopted this ASU during the year ended June 30, 2019, and applied it retrospectively to the 2018 financial statements.

Recently issued accounting pronouncement not yet adopted: 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. ASU 2016-02 is effective for BLOCS’ annual reporting periods beginning after December 15, 2020, with early adoption permitted. The impact of adopting this ASU on BLOCS’ financial statements for subsequent periods has not yet been determined.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*, which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. ASU 2016-18 is effective for BLOCS’ annual reporting periods beginning after December 15, 2018, with early adoption permitted. The impact of adopting this ASU on BLOCS’ financial statements for subsequent periods has not yet been determined.

In June 2018, the FASB issued ASU 2018-08, *Nonprofit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. This ASU also clarifies the guidance used by entities other than nonprofits to identify and account for contributions made. This ASU has different effective dates for resource recipients and resource providers. Where the Organization is a resource recipient, the ASU is applicable to contributions received for BLOCS’ annual reporting periods beginning after December 15, 2018. Where the Organization is a resource provider, the ASU is effective for BLOCS’ annual reporting periods beginning after December 15, 2019. Early adoption is permitted. The impact of adopting this ASU on BLOCS’ financial statements for subsequent periods has not yet been determined.

In July 2018, the FASB issued ASU 2018-10, *Codification Improvements to Topic 842, Leases*. This ASU clarifies and corrects unintended application of narrow aspects of the lease accounting guidance. For entities that early-adopted Topic 842, the amendments are effective upon issuance of ASU 2018-10, and the transition requirements are the same as those in Topic 842. For entities that have not adopted Topic 842, the effective date and transition requirements for ASU 2018-10 are the same as the effective date and transition requirements in Topic 842 (for BLOCS’ annual reporting periods beginning after December 15, 2020). The impact of adopting this ASU on BLOCS’ financial statements for subsequent periods has not yet been determined.

Business Leadership Organized for Catholic Schools

Notes to Financial Statements

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

In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*. This ASU (a) allows entities to initially apply ASC 842 at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption; and (b) provides a practical expedient under which lessors may elect, by class of underlying assets, to not separate nonlease components from the associated lease component. For entities that have not adopted Topic 842 before the issuance of ASU 2018-11, the effective date and transition requirements for the amendments related to separating components of a contract are the same as those in ASU 2016-02. For entities that have adopted Topic 842 before the issuance of ASU 2018-11, the practical expedient for separating components may be elected either in the first reporting period following the issuance of ASU 2018-11 or at the original effective date of Topic 842 for that entity. The impact of adopting this ASU on BLOCS' financial statements for subsequent periods has not yet been determined.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*. This ASU removes, modifies and adds certain disclosure requirements of ASC Topic 820. The ASU is effective for BLOCS' annual reporting periods beginning after December 15, 2019. The impact of adopting this ASU on BLOCS' financial statements for subsequent periods has not yet been determined.

Note 2. Liquidity and Availability of Financial Resources

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of June 30, 2019, comprise the following:

| | |
|---|---------------------|
| Financial assets at year end: | |
| Cash and cash equivalent | \$ 32,768,686 |
| Certificate of deposit | 2,043,096 |
| Restricted cash equivalent and investment | 6,066,709 |
| Contribution receivable | 300,000 |
| Investments | 28,353,411 |
| Investments under agreements with Urban Endowment schools | 4,197,848 |
| Total financial assets | <u>73,729,750</u> |
| Less amounts not available to be used in one year: | |
| Net assets with donor restrictions (Note 9) | (57,729,493) |
| Due to Independence Mission Schools | (6,066,709) |
| Liability under agreement with Urban Endowment schools | (4,197,848) |
| Financial assets not available to be used in one year | <u>(67,994,050)</u> |
| Financial assets available to be used within one year | <u>\$ 5,735,700</u> |

BLOCS has a liquidity policy to maintain financial assets available to meet at least 100% of annual general expenditures. To achieve this, BLOCS forecasts its future cash flows and monitors its liquidity quarterly. BLOCS considers general expenditures to include administrative and general expenses, fundraising expenses and grant commitments expected to be paid in the subsequent year. Annual operations are defined as activities occurring during, and included in the budget for, a fiscal year. BLOCS manages its cash available to meet general expenditures by operating within a prudent range of financial soundness and stability and maintaining a sufficient level of asset liquidity.

Business Leadership Organized for Catholic Schools

Notes to Financial Statements

Note 3. Contributions Receivable

Contributions receivable at June 30, 2019 and 2018, are \$300,000 and \$25,000, respectively, and balances are due within one year.

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 4. Investments

BLOCS values its investments at fair value. The cost and fair value of the investments are as follows at June 30, 2019 and 2018:

| | 2019 | | |
|--------------|----------------------|----------------------|------------------------|
| | Cost Basis | Fair Value | Unrealized Gain (Loss) |
| Mutual funds | \$ 30,658,579 | \$ 32,414,435 | \$ 1,755,856 |
| Common stock | 136,824 | 136,824 | - |
| Total | <u>\$ 30,795,403</u> | <u>\$ 32,551,259</u> | <u>\$ 1,755,856</u> |

| | 2018 | | |
|--------------|----------------------|----------------------|------------------------|
| | Cost Basis | Fair Value | Unrealized Gain (Loss) |
| Mutual funds | <u>\$ 30,037,794</u> | <u>\$ 31,623,034</u> | <u>\$ 1,585,240</u> |

Investments at fair value at June 30, 2019 and 2018, consist of the following:

| | 2019 | 2018 |
|---|----------------------|----------------------|
| Investments | \$ 28,353,411 | \$ 27,283,690 |
| Investments under agreement with Urban Endowment schools (Note 10) | 4,197,848 | 4,339,344 |
| | <u>\$ 32,551,259</u> | <u>\$ 31,623,034</u> |

Note 5. 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.

Business Leadership Organized for Catholic Schools

Notes to Financial Statements

Note 5. Fair Value Measurements (Continued)

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.

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 methodology used for instruments measured at fair value at June 30, 2019 and 2018.

Mutual funds: 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).

The tables below present the balance of assets measured at fair value at June 30, 2019 and 2018, on a recurring basis.

| | 2019 | | | Fair Value |
|--------------------------------|--|--|--|---------------|
| | Quoted Prices in Active Markets (Level 1) | Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | |
| Investments: | | | | |
| Mutual funds: | | | | |
| Short-term bond | \$ 1,914,584 | \$ - | \$ - | \$ 1,914,584 |
| Intermediate-term bond | 1,303,601 | - | - | 1,303,601 |
| Intermediate-core bond | 3,909,051 | - | - | 3,909,051 |
| International bond | 2,584,822 | - | - | 2,584,822 |
| Domestic stock large growth | 3,558,504 | - | - | 3,558,504 |
| Domestic stock large blend | 7,114,523 | - | - | 7,114,523 |
| Domestic stock large value | 3,390,614 | - | - | 3,390,614 |
| Foreign stock large growth | 2,229,898 | - | - | 2,229,898 |
| Foreign stock large blend | 2,124,467 | - | - | 2,124,467 |
| Foreign stock large value | 4,284,371 | - | - | 4,284,371 |
| Exchange traded stock: | | | | |
| Domestic stock | 136,824 | - | - | 136,824 |
| Total investments | 32,551,259 | - | - | 32,551,259 |
| Money market funds | 9,103,947 | - | - | 9,103,947 |
| Short-term corporate bond fund | 3,000,000 | - | - | 3,000,000 |
| Total | \$ 44,655,206 | \$ - | \$ - | \$ 44,655,206 |

Business Leadership Organized for Catholic Schools

Notes to Financial Statements

Note 5. Fair Value Measurements (Continued)

At June 30, 2019, \$3,066,709 of money market fund and \$3,000,000 of short-term corporate bond fund are included in restricted cash equivalent and investment in the statement of financial position. The remaining balance of \$6,037,238 of money market fund is included in cash and cash equivalent in the statement of financial position.

| | 2018 | | | |
|-----------------------------|--|--|--|----------------------|
| | Quoted Prices in Active Markets (Level 1) | Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Fair Value |
| Mutual funds: | | | | |
| Short-term bond | \$ 1,850,782 | \$ - | \$ - | \$ 1,850,782 |
| Intermediate-term bond | 4,919,620 | - | - | 4,919,620 |
| International bond | 2,529,510 | - | - | 2,529,510 |
| Domestic stock large growth | 3,454,499 | - | - | 3,454,499 |
| Domestic stock large blend | 6,906,900 | - | - | 6,906,900 |
| Domestic stock large value | 3,329,900 | - | - | 3,329,900 |
| Foreign stock large growth | 2,238,842 | - | - | 2,238,842 |
| Foreign stock large blend | 2,132,861 | - | - | 2,132,861 |
| Foreign stock large value | 4,260,120 | - | - | 4,260,120 |
| Total | <u>\$ 31,623,034</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 31,623,034</u> |

At June 30, 2019 and 2018, 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 6. Employee Retirement Plan

BLOCS sponsors a 401(k) plan which provides for a 4% match of the employee compensation. BLOCS contributed \$41,198 and \$33,439 to the plan for the years ended June 30, 2019 and 2018, respectively.

Note 7. Commitments and Contingencies

Concentrations: BLOCS owns various investments in 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.

Approximately 66% and 56% of BLOCS' public support and revenue were from BLOCS Scholarship LLCs for the years ended June 30, 2019 and 2018, respectively (Note 8).

Operating leases: BLOCS leases its office space under a non-cancelable operating lease through August 2020.

BLOCS has a four-year non-cancelable lease for office equipment, expiring in August 2020.

Business Leadership Organized for Catholic Schools

Notes to Financial Statements

Note 7. Commitments and Contingencies (Continued)

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

Years ending June 30:

| | | |
|------|----|---------------|
| 2020 | \$ | 29,628 |
| 2021 | | 4,748 |
| | \$ | <u>34,376</u> |

The Bridge the Gap Scholarship Program (the Program): On April 4, 2019, BLOCS and Faith in the Future Foundation (FIFF) entered into a gift agreement. Under the agreement, BLOCS made a commitment to FIFF for a maximum of \$3,200,000 to fund the Program, to be paid in annual installments of \$800,000 per year for four years beginning with the 2019-2020 academic year. BLOCS may reduce or eliminate any portion or all of the funding as it determines prudent in its sole discretion.

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 8. Related Party Transactions

For the years ended June 30, 2019 and 2018, respectively, BLOCS recorded \$1,971,884 and \$1,855,714 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.

For the years ended June 30, 2019 and 2018, respectively, BLOCS recorded \$4,030,879 and \$3,816,828 in scholarship awards and school grants to the Independence Mission Schools (IMS), which has two representatives that serve on the governing board of that organization and BLOCS.

During the year ended June 30, 2019, BLOCS received a \$9,000,000 pass-through contribution for IMS and made disbursements totaling \$3,000,000 to IMS. The remaining balance of the pass-through contribution of \$6,000,000 plus interest earnings of \$66,709 is presented as amount due to IMS in the statement of financial position as of June 30, 2019.

BLOCS has formed various special purpose entities, BLOCS Scholarship LLC #1-17, #19-27, #29, #32, #34-37, #39-40, #43, #45, #51, #58 and #61 (thirty-nine 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. The Scholarship LLCs made contributions totaling \$31,861,777 and \$22,966,247 to BLOCS during the years ended June 30, 2019 and 2018, respectively.

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.

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Notes to Financial Statements

Note 9. Net Assets With Donor Restrictions

Net assets with donor restrictions as of June 30, 2019 and 2018, are available for the following purposes:

| | 2019 | 2018 |
|--|----------------------|----------------------|
| Subject to expenditure for specified purpose: | | |
| EITC/OSTC Funds | \$ 29,539,316 | \$ 23,406,406 |
| Emergency Scholarships | 10,663,419 | 10,763,732 |
| Student Appeal/Other | 110,700 | 82,236 |
| | <u>40,313,435</u> | <u>34,252,374</u> |
| Endowments: | | |
| Endowments – available for appropriation | 3,419,562 | 3,321,267 |
| Endowments – original donor-restricted gift amount | 13,996,496 | 13,971,414 |
| | <u>17,416,058</u> | <u>17,292,681</u> |
| | <u>\$ 57,729,493</u> | <u>\$ 51,545,055</u> |

Net assets released from donors' restrictions during the years ended June 30, 2019 and 2018, are summarized as follows:

| | 2019 | 2018 |
|------------------------|----------------------|----------------------|
| EITC/OSTC Funds | \$ 35,097,051 | \$ 25,565,437 |
| Emergency Scholarships | 743,914 | 276,136 |
| Student Appeal/Other | 15,886 | - |
| Endowment | 738,571 | 693,959 |
| | <u>\$ 36,595,422</u> | <u>\$ 26,535,532</u> |

Note 10. 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, 2019 or 2018.

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

Business Leadership Organized for Catholic Schools

Notes to Financial Statements

Note 10. Endowment (Continued)

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

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 average fair market value as of April 30 of the previous three fiscal years to be paid annually to the participant schools based on the proportion of each school's endowment to the total endowment under Urban Endowment.

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

The appropriation from the donor restricted portion of the endowment totaled \$738,571 and \$693,959 for the years ended June 30, 2019 and 2018, respectively, of which \$726,991 and \$643,578 was payable at June 30, 2019 and 2018, 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 net assets with donor restrictions: (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the 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 classified as either net assets with donor restrictions or net assets without donor restrictions based on the existence of donor restrictions or by law.

Endowment net assets composition by type of fund as of June 30, 2019:

| | 2019 | | |
|---------------------------------------|-------------------------------|----------------------------|---------------|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Donor-restricted endowment funds: | | | |
| Original donor-restricted gift amount | \$ - | \$ 13,996,496 | \$ 13,996,496 |
| Amount available for appropriation | - | 3,419,562 | 3,419,562 |
| Total funds | \$ - | \$ 17,416,058 | \$ 17,416,058 |

Business Leadership Organized for Catholic Schools

Notes to Financial Statements

Note 10. Endowment (Continued)

Changes in the endowment net assets for the fiscal year ended June 30, 2019:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--|-------------------------------|----------------------------|---------------|
| Endowment net assets, June 30, 2018 | \$ - | \$ 17,292,681 | \$ 17,292,681 |
| Net investment return | | 836,866 | 836,866 |
| Contributions | - | 25,082 | 25,082 |
| Appropriation of endowment assets for expenditure | - | (738,571) | (738,571) |
| Endowment net assets, June 30, 2019 | \$ - | \$ 17,416,058 | \$ 17,416,058 |

Endowment net assets composition by type of fund as of June 30, 2018:

| | 2018 | | |
|---------------------------------------|-------------------------------|----------------------------|---------------|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Donor-restricted endowment funds: | | | |
| Original donor-restricted gift amount | \$ - | \$ 13,971,414 | \$ 13,971,414 |
| Amount available for appropriation | - | 3,321,267 | 3,321,267 |
| Total funds | \$ - | \$ 17,292,681 | \$ 17,292,681 |

Changes in the endowment net assets for the fiscal year ended June 30, 2018:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--|-------------------------------|----------------------------|---------------|
| Endowment net assets, June 30, 2017 | \$ - | \$ 15,612,440 | \$ 15,612,440 |
| Net investment return | | 1,369,200 | 1,369,200 |
| Contributions | - | 1,000,000 | 1,000,000 |
| Bad debt recovery on endowment pledges | - | 5,000 | 5,000 |
| Appropriation of endowment assets for expenditure | - | (693,959) | (693,959) |
| Endowment net assets, June 30, 2018 | \$ - | \$ 17,292,681 | \$ 17,292,681 |

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Notes to Financial Statements

Note 10. Endowment (Continued)

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 three schools who are direct recipients and beneficiaries of a portion of the endowment contributions. BLOCS has recorded \$4,197,848 and \$4,339,344 as investments under Agreement with Urban Endowment schools and liability under Agreement with Urban Endowment schools as of June 30, 2019 and 2018, respectively. The liability includes, \$3,989,746 and \$3,869,746 of contributions and \$208,102 and \$469,598 of cumulative allocated investment income, net of distributions, as of June 30, 2019 and 2018, respectively. For the year ended June 30, 2019, the liability increased from net investment income of \$206,350 and contribution of \$120,000, and decreased from payments to the schools of \$467,846. For the year ended June 30, 2018, the liability increased from net investment income of \$344,368 and contributions of \$66,645, and decreased from payments to the school of \$45,370. These transactions have been accounted for as pass-through transactions and, therefore, are not reflected in the accompanying statements of activities.

Note 11. Concentration of Credit Risk

Financial instruments that potentially subject the Organization to concentration of credit risk consist principally of cash deposits. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At June 30, 2019 and 2018, the Organization had cash deposits of approximately \$28,147,000 and \$26,675,000 in excess of the FDIC insured limit, respectively. At June 30, 2019, cash deposits were maintained at five institutions, four of which have officers that are members of BLOCS Board of Directors. At June 30, 2018, cash deposits were maintained at four institutions, three of which have officers that are members of BLOCS Board of Directors.

Note 12. Subsequent Events

BLOCS evaluated subsequent events (events occurring after June 30, 2019) through February 6, 2020, the date the financial statements were available to be issued.