



ARCHDIOCESE FOR THE MILITARY SERVICES, USA

Financial Statements

For The Year Ended August 31, 2008

(With Summarized Financial Information for the Year Ended August 31, 2007)



**and
Report Thereon**





INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Archdiocese for the Military Services, USA

CONSULTING
ACCOUNTING
TECHNOLOGY

*Certified Public
Accountants*

We have audited the accompanying statement of financial position of the Archdiocese for the Military Services, USA (the Archdiocese) as of August 31, 2008, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Archdiocese's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Association's 2007 financial statements and, in our report dated March 4, 2008, we expressed an unqualified opinion on those financial statements.

We conducted our audit 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Archdiocese's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Archdiocese as of August 31, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 16 to the financial statements, the Archdiocese restated its net assets as of August 31, 2007 to properly reclass temporarily restricted net assets to unrestricted net assets.

Raffa, P.C.

RAFFA, P.C.

Washington, DC
July 14, 2009

THE ARCHDIOCESE FOR THE MILITARY SERVICES, USA

STATEMENT OF FINANCIAL POSITION

August 31, 2008

(With Summarized Financial Information As of August 31, 2007)

	<u>2008</u>	<u>2007</u>
ASSETS		
Cash and cash equivalents	\$ 2,216,746	\$ 1,983,841
Investments	2,730,626	1,276,645
Accounts and other receivables	214,202	449,076
Pledges receivable	2,029,098	2,691,489
Prepaid expenses and other assets	111,498	89,678
Net property and equipment	<u>11,105,449</u>	<u>11,415,481</u>
TOTAL ASSETS	<u>\$ 18,407,619</u>	<u>\$ 17,906,210</u>
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 178,907	\$ 458,079
Deferred revenue	19,950	29,100
Post retirement obligations	1,168,232	585,169
Funds held for others	74,861	95,254
Note payable	<u>3,119,518</u>	<u>3,223,753</u>
Total Liabilities	<u>4,561,468</u>	<u>4,391,355</u>
Net Assets		
Unrestricted		
Undesignated	8,069,564	7,867,463
Board designated	<u>1,364,550</u>	<u>1,367,220</u>
Total unrestricted	9,434,114	9,234,683
Temporarily restricted	4,362,872	4,231,007
Permanently restricted	<u>49,165</u>	<u>49,165</u>
Total Net Assets	<u>13,846,151</u>	<u>13,514,855</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 18,407,619</u>	<u>\$ 17,906,210</u>

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

THE ARCHDIOCESE FOR THE MILITARY SERVICES, USA

STATEMENT OF ACTIVITIES
For the Year Ended August 31, 2008
(With Summarized Financial Information For the Year Ended August 31, 2007)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2008 Total	2007 Total
OPERATING REVENUE AND SUPPORT					
Contributions	\$ 4,387,233	\$ 697,454	\$ -	5,084,687	\$ 5,636,973
Sacrament revenue	136,224	-	-	136,224	138,484
Marriage Tribunal	53,284	-	-	53,284	59,660
Investment income	(23,461)	-	-	(23,461)	216,022
Other income	26,903	-	-	26,903	29,408
Net assets released from restrictions:					
Satisfaction of program restrictions	565,589	(565,589)	-	-	-
TOTAL OPERATING REVENUE AND SUPPORT	5,145,772	131,865	-	5,277,637	6,080,547
OPERATING EXPENSES					
Program Services:					
Evangelization and pastoral	2,796,581	-	-	2,796,581	1,650,193
Sacramental records	308,017	-	-	308,017	454,136
Chaplain's affairs	230,317	-	-	230,317	354,352
Marriage tribunal	217,164	-	-	217,164	213,214
Veteran's affairs	88,633	-	-	88,633	99,896
Advancement	97,501	-	-	97,501	-
Vocations/ Priest education	69,200	-	-	69,200	49,457
Total Program Services	3,807,413	-	-	3,807,413	2,821,248
Supporting Services:					
Administrative services	375,920	-	-	375,920	281,715
Fundraising	763,008	-	-	763,008	949,566
TOTAL OPERATING EXPENSES	4,946,341	-	-	4,946,341	4,052,529
Change in Net Assets From Operations	199,431	131,865	-	331,296	2,028,018
OTHER ACTIVITIES					
Loss on disposal of asset	-	-	-	-	313,450
CHANGE IN NET ASSETS	199,431	131,865	-	331,296	1,714,568
NET ASSETS, BEGINNING OF YEAR (AS RESTATED)	9,234,683	4,231,007	49,165	13,514,855	11,800,287
NET ASSETS, END OF YEAR	\$ 9,434,114	\$ 4,362,872	\$ 49,165	\$ 13,846,151	\$ 13,514,855

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

THE ARCHDIOCESE FOR THE MILITARY SERVICES, USA

STATEMENT OF CASH FLOWS

For the Year Ended August 31, 2008

(With Summarized Financial Information for the Year Ended August 31, 2007)

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 331,296	\$ 1,714,568
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	318,198	215,424
Net realized and unrealized loss	102,537	(96,418)
Loss on disposal of assets	36,611	313,450
Changes in assets and liabilities:		
Pledges receivable	662,391	343,512
Accounts and other receivables	234,874	(288,945)
Prepaid expenses and other assets	(21,820)	(1,863)
Accounts payable and accrued expenses	(279,172)	(792,691)
Deferred revenue	(9,150)	11,670
Post retirement obligations	583,063	(65,992)
Funds held for others	<u>(20,393)</u>	<u>(8,612)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,938,435</u>	<u>1,344,103</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	942,283	2,117,471
Purchases of investments	(2,498,801)	(1,653,570)
Purchases of property and equipment	<u>(44,777)</u>	<u>(3,515,246)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(1,601,295)</u>	<u>(3,051,345)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payment on note payable	<u>(104,235)</u>	<u>(106,314)</u>
NET CASH USED IN FINANCING ACTIVITIES	<u>(104,235)</u>	<u>(106,314)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	232,905	(1,707,242)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,983,841</u>	<u>3,691,083</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,216,746</u>	<u>\$ 1,983,841</u>

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

ARCHDIOCESE FOR THE MILITARY SERVICES

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2008

1. Organization and Summary of Significant Accounting Policies

Organization

The Archdiocese for the Military Services, United States of America (the Archdiocese) (a Maryland corporation) was organized by the Catholic Church in America to be operated exclusively for spiritual and charitable purposes. The Archdiocese provides spiritual and pastoral care to over one million Catholic men and women within the U.S. Military and Veterans' Affairs communities through its network of Catholic Chaplains. The Archdiocese also maintains detailed sacramental records for millions of former and current Catholic military personnel, publicizes/advertises for priests to serve as Catholic Chaplains in the military, supports candidates in the Theological Seminaries, and provides communications and pastoral care to those Catholic Chaplains already on duty. The Archdiocese's major source of income is from donations.

Basis of Accounting

The Archdiocese prepares its financial statements on the accrual basis of accounting. Consequently, revenue is recognized when earned and expenses when the obligation is incurred.

Cash and Cash Equivalents

The Archdiocese considers all demand deposits, money market funds and certificates of deposit purchased with original maturity dates of ninety days or less to be cash equivalents. Cash balances include funds held for others. Money market funds held in certain investment portfolios are not considered cash equivalents as such funds are not available for the general operating purpose of the Archdiocese.

Investments

Investments are comprised of money market funds, common stocks and mutual funds in the accompanying financial statements at fair value using quoted market values. The Archdiocese invests in funds in accordance with the Archdiocesan Investment Guideline.

Property and Equipment and Related Depreciation

Expenditures for property and equipment in excess of \$500 are capitalized at cost and depreciated with no salvage value, using the straight-line method over the following estimated useful lives:

Buildings	40 years
Office furnishings and equipment	6 to 10 years
Rectory and chapel furnishing	6 to 10 years
Transportation equipment	6 to 10 years

Continued

ARCHDIOCESE FOR THE MILITARY SERVICES

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2008

1. Organization and Summary of Significant Accounting Policies (continued)

Property and Equipment and Related Depreciation (continued)

Expenditures for major repairs and improvements are capitalized; expenditures for minor repairs and maintenance costs are expensed when incurred.

Revenue Recognition

Contributions, gifts and grants including unconditional promises to give are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted support. Conditional promises to give are not included as support until such time as the conditions are substantially met. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statement of activities as net assets released from restrictions.

Donated marketable securities and other non-cash donations are recorded as contributions at their estimated fair value at the date of donation.

Net Assets

Net assets of the Archdiocese consist of the following:

- Unrestricted net assets represent funds that are available for support of the Archdiocese's operations.
 - *Undesignated* – Net assets that are available for the general operating purposes of the Archdiocese.
 - *Designated* – Net assets that have been designated by the Board of Directors to be used for specific purposes, including (1) the post retirement benefits and (2) the education of priest candidates in theological seminaries who after graduation and ordination plan to serve as Catholic Chaplains in any of the service branches of the military.
- Temporarily restricted net assets represent funds which are specifically restricted by donors for use in various programs or future periods.
- Permanently restricted net assets represent endowment funds requiring the gift be held in perpetuity and only the investment earnings on such amounts be used for specific restricted purposes according to the endowment agreement.

Continued

ARCHDIOCESE FOR THE MILITARY SERVICES

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2008

1. Organization and Summary of Significant Accounting Policies (continued)

Donated Services

In-kind contributions consist of contributed services and are recognized as revenue and expense in the accompanying statement of activities at their estimated fair value as provided by the donor, at the date of receipt. These services were used to support veteran's affairs and evangelization and pastoral.

Definition of Operations

Operating revenue and expenses generally reflect those revenues and expenses which management can influence and exclude unusual transactions unrelated to the Archdiocese's ordinary activities.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statement of activities. Expenses which are not directly charged to a program or supporting service are allocated among the programs and supporting services based upon management's estimates of the portion of the costs applicable to each function.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. Investments

Investments as of August 31, 2008 consisted of the following:

Certificates of deposit	\$ 1,560,083
Money market funds	730,424
Common stocks	<u>440,119</u>
Total	<u>\$ 2,730,626</u>

Continued

ARCHDIOCESE FOR THE MILITARY SERVICES

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2008

2. Investments (continued)

A summary of investment income for the year ended August 31, 2008 is as follows:

Interest and dividends	\$ 79,076
Net realized and unrealized gains	<u>(102,537)</u>
Total	<u>\$ (23,461)</u>

3. Other Receivables

Included in other receivables as of August 31, 2008 is \$6,043 of unrestricted accumulated earnings on the Knights of Columbus Charities Inc, endowment fund. The earnings on this endowment fund are earmarked for the benefit of the Archdiocese. The amount is due upon demand, but at the option of the Archdiocese may be left to accumulate.

4. Pledges Receivable

As of August 31, 2008, the Archdiocese's pledges receivable are due as follows:

Less than one year	\$ 1,395,111
One to five years	682,859
Over five years	<u>25,416</u>
Total pledges receivable	2,103,386
Less: Discount to present value (3%)	<u>(74,288)</u>
Net pledges receivable	<u>\$ 2,029,098</u>

All amounts are deemed fully collectible.

Continued

ARCHDIOCESE FOR THE MILITARY SERVICES

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2008

5. Property and Equipment

Property and equipment consisted of the following at August 31, 2008:

Land	\$ 1,803,314
Buildings and renovations	9,412,842
Office furnishings and equipment	436,797
Rectory and chapel furnishing	90,338
Transportation equipment	<u>26,665</u>
Total property and equipment	11,769,956
Less accumulated depreciation	<u>(664,507)</u>
Net property and equipment	<u>\$ 11,105,449</u>

6. Post Retirement Benefits

The Archdiocese follows the guidelines of the United States Conference of Catholic Bishops (USCCB) in providing benefits for its bishops upon their retirement. Because such bishops are generally retired military chaplains with full military pensions, healthcare, and other benefits, the USCCB guidelines have been modified and reduced.

The liability for future benefit payments based on the estimated remaining lives of the bishops, as well as the Plan's funded status at August 31, 2008, is calculated under SFAS No. 106, *Employers' Accounting for Post-Retirement Benefits Other than Pensions*, and recorded as follows:

Post-retirement benefit obligation:

Designated plan assets at fair market	\$ 269,618
Projected post-retirement benefit obligation	<u>1,168,232</u>
Excess of projected benefit obligation over plan assets	<u>\$ (898,614)</u>

The assumed discount rate in determining the post-retirement benefit obligation was 4.54%.

Continued

ARCHDIOCESE FOR THE MILITARY SERVICES

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2008

7. Funds Held for Others

A summary of the changes in funds held for others is as follows for the year ended August 31, 2008:

Funds held for others, September 1, 2007	\$ 95,254
Funds received during the year	74,861
Funds disbursed during the year	<u>(95,254)</u>
Funds held for others, August 31, 2008	<u>\$ 74,861</u>

8. Note Payable

The Archdiocese borrowed \$3,400,000 from the Knights of Columbus National Office to finance part of the renovation costs of the building purchased in March 2005. This loan is secured by a mortgage on the property. It is payable in monthly installments of principal and interest of \$23,774 for a period of 20 years with a fixed interest rate of 5.7%.

Minimum future principal payments are as follows:

For the Year Ending	
<u>August 31,</u>	
2009	\$ 100,897
2010	116,237
2011	123,039
2012	130,238
2013	137,858
Thereafter	<u>2,511,249</u>
Total	<u>\$ 3,119,518</u>

Continued

ARCHDIOCESE FOR THE MILITARY SERVICES

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2008

9. Commitments

Equipment Leases

The Archdiocese leases equipment under various non-cancellable operating leases. Future payments are due as follows:

For the Year Ending <u>August 31,</u>	
2009	\$ 17,520
2010	11,108
2011	<u>5,712</u>
Total	<u>\$ 34,340</u>

10. Risks and Contingencies

Financial instruments which potentially subject the Archdiocese to concentrations of credit risk consist principally of cash and cash equivalents. The Archdiocese maintains its cash and cash equivalents in various bank accounts which, at times, may exceed federally insured limits. As of August 31, 2008, the amount in excess of the Federal Deposit Insurance Corporation insured limit was approximately \$2,924,000. The Archdiocese has not experienced any losses in such accounts.

11. Contingent Liabilities

The Archdiocese is a party to litigation in two states in which separate plaintiffs have made allegations against priest chaplains. The alleged incidents all took place before the Archdiocese was created in 1985 and the priests were and are incardinated in other dioceses. No estimate of liability, if any, has been reflected in the accompanying financial statements. Because the claims predate 1985, the cost of defending these claims or the costs of any possible judgments are not covered by the Archdiocesan insurance policies. Management believes that the ultimate result of the matter will not have a significant adverse impact on the Archdiocese's financial position.

ARCHDIOCESE FOR THE MILITARY SERVICES

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2008

12. Net Assets

Unrestricted - Board Designated

The balances of the Board designated reserves as of August 31, 2008 are as follows:

Education of future candidates for the military priesthood and/or publicizing/advertising for military chaplains	\$ 890,902
Post-retirement benefits for its retired bishops	<u>473,648</u>
Total unrestricted – board designated net assets	<u>\$ 1,364,550</u>

Temporarily Restricted Net Assets

As of August 31, 2008 net assets are restricted for use in the following programs:

Capital campaign	\$ 2,920,669
Educational costs of priest candidates	317,086
Pastoral/CSC/Youth ministry/Vocations	262,017
Marriage tribunal services	182,317
Vocation/Discernment	124,000
Peer to Peer	123,186
Priest co-sponsorship	120,579
Millennium project	96,953
Bishop Nolan scholarship fund	57,495
Other temporarily restricted	57,300
Evangelization	31,250
Pentagon relief program	26,024
Conference of St. Mary	25,000
Antipoverty programs	13,116
Publicizing/advertising for military chaplains	<u>5,880</u>
Total temporarily restricted net assets	<u>\$ 4,362,872</u>

Permanently Restricted Net Assets

Permanently restricted net assets require the principal to be held in perpetuity. The earnings on such funds are restricted for the following purposes.

Education of priest candidates	\$ 30,000
Capital campaign	<u>19,165</u>
Total permanently restricted net assets	<u>\$ 49,165</u>

Continued

ARCHDIOCESE FOR THE MILITARY SERVICES

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2008

13. Pension Plan

The Archdiocese participates in a multiple employer non-contributory pension plan administered by the Archdiocese of Washington. This plan covers all qualified lay staff employees after one year of service. Pension expense under the plan is funded by and funded to the Archdiocese of Washington at 6% of all eligible employees payroll. Total pension expense for this plan for the year ended August 31, 2008 was \$52,991.

14. Summarized Financial Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Archdiocese's audited financial statements for the year ended August 31, 2007, from which the summarized information was prepared.

15. Income Taxes

The Archdiocese is a nonprofit corporation and is exempt from federal taxes on income other than net unrelated business income under Section 501(c)(3) of the Internal Revenue Code. No provision for federal or state income taxes is required for the year ended August 31, 2008 as the Archdiocese had no taxable net unrelated business income.

16. Prior Period Adjustment

During the year ended August 31, 2008, management determine that certain designated net assets were recorded as temporarily restricted net assets during the year ended August 31, 2007. As a result, unrestricted net assets were understated and temporarily restricted net assets were overstated. Accordingly, an entry was made to reclass to the proper net asset classification.