



ARCHDIOCESE FOR THE MILITARY SERVICES, USA

Financial Statements

For the Year Ended August 31, 2010

(With Summarized Financial Information for the Year Ended August 31, 2009)



**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, 2010, 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 Archdiocese's 2009 financial statements and, in our report dated February 1, 2010, 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and 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, 2010, 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.

Raffa, P.C.

RAFFA, P.C.

Washington, DC
December 28, 2010

ARCHDIOCESE FOR THE MILITARY SERVICES, USA
STATEMENT OF FINANCIAL POSITION
August 31, 2010
(With Summarized Financial Information as of August 31, 2009)

	<u>2010</u>	<u>2009</u>
ASSETS		
Cash and cash equivalents	\$ 6,172,238	\$ 1,834,395
Investments	555,306	4,062,823
Accounts and other receivables	81,797	86,156
Pledges receivable, net	1,010,751	1,444,376
Beneficial interest in trusts	1,917,153	-
Prepaid expenses and other assets	27,116	12,357
Net property and equipment	<u>10,704,678</u>	<u>10,842,623</u>
TOTAL ASSETS	<u><u>\$ 20,469,039</u></u>	<u><u>\$ 18,282,730</u></u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 231,171	\$ 218,588
Deferred revenue	-	15,000
Postretirement obligations	1,119,400	1,098,428
Funds held for others	7,220	51,215
Note payable	<u>2,892,395</u>	<u>3,009,185</u>
TOTAL LIABILITIES	<u>4,250,186</u>	<u>4,392,416</u>
Net Assets		
Unrestricted		
Undesignated	8,377,152	8,196,095
Board designated	<u>1,402,202</u>	<u>1,381,856</u>
Total Unrestricted Net Assets	9,779,354	9,577,951
Temporarily restricted	4,550,153	4,263,198
Permanently restricted	<u>1,889,346</u>	<u>49,165</u>
TOTAL NET ASSETS	<u>16,218,853</u>	<u>13,890,314</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 20,469,039</u></u>	<u><u>\$ 18,282,730</u></u>

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

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

STATEMENT OF ACTIVITIES

For the Year Ended August 31, 2010

(With Summarized Financial Information for the Year Ended August 31, 2009)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2010 Total	2009 Total
OPERATING REVENUE AND SUPPORT					
Contributions	\$ 3,716,245	\$ 929,065	\$ 1,840,181	\$ 6,485,491	\$ 3,918,087
Sacrament revenue	121,559	-	-	121,559	146,622
Marriage tribunal	40,735	-	-	40,735	50,935
Investment income	89,073	-	-	89,073	1,292
Other income	96,110	-	-	96,110	83,776
Net assets released from restrictions:					
Satisfaction of program restrictions	347,110	(347,110)	-	-	-
Satisfaction of time restrictions	295,000	(295,000)	-	-	-
TOTAL OPERATING REVENUE AND SUPPORT	4,705,832	286,955	1,840,181	6,832,968	4,200,712
OPERATING EXPENSES					
Program Services:					
Evangelization and pastoral	2,071,536	-	-	2,071,536	1,772,657
Sacramental records	254,084	-	-	254,084	247,764
Vocations and cosponsorship	279,424	-	-	279,424	243,623
Chaplain's affairs	27,183	-	-	27,183	131,317
Marriage tribunal	171,439	-	-	171,439	154,675
Veterans' affairs	66,002	-	-	66,002	67,229
Total Program Services	2,869,668	-	-	2,869,668	2,617,265
Supporting Services:					
Administrative services	632,861	-	-	632,861	566,657
Fundraising	1,001,900	-	-	1,001,900	976,348
TOTAL OPERATING EXPENSES	4,504,429	-	-	4,504,429	4,160,270
Change in Net Assets from Operations	201,403	286,955	1,840,181	2,328,539	40,442
OTHER ACTIVITIES					
Gain on disposal of asset	-	-	-	-	3,721
CHANGE IN NET ASSETS	201,403	286,955	1,840,181	2,328,539	44,163
NET ASSETS, BEGINNING OF YEAR	9,577,951	4,263,198	49,165	13,890,314	13,846,151
NET ASSETS, END OF YEAR	\$ 9,779,354	\$ 4,550,153	\$ 1,889,346	\$ 16,218,853	\$ 13,890,314

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

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

STATEMENT OF CASH FLOWS

For the Year Ended August 31, 2010

(With Summarized Financial Information for the Year Ended August 31, 2009)

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,328,539	\$ 44,163
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	313,739	320,771
Donated stock	(103,160)	(1,729)
Contributions of beneficial interest in trusts	(1,917,153)	-
Net realized and unrealized (gains)/losses	(41,956)	90,224
Loss on disposal of assets	-	(3,721)
Allowance for potentially uncollectible pledges	143,767	2,232
Changes in assets and liabilities:		
Accounts and other receivables	4,359	96,796
Pledges receivable	289,858	613,741
Prepaid expenses and other assets	(14,759)	99,141
Accounts payable and accrued expenses	12,583	39,681
Deferred revenue	(15,000)	(4,950)
Postretirement obligations	20,972	(69,804)
Funds held for others	(43,995)	(23,646)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>977,794</u>	<u>1,202,899</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	4,467,721	2,249,317
Purchases of investments	(815,088)	(3,670,010)
Proceeds from disposal of fixed asset	-	12,721
Purchases of property and equipment	(175,794)	(66,945)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>3,476,839</u>	<u>(1,474,917)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on note payable	(116,790)	(110,333)
NET CASH USED IN FINANCING ACTIVITIES	<u>(116,790)</u>	<u>(110,333)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,337,843	(382,351)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,834,395</u>	<u>2,216,746</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 6,172,238</u>	<u>\$ 1,834,395</u>
SUPPLEMENTAL DATA		
Cash paid for interest	<u>\$ 168,497</u>	<u>\$ 174,953</u>
Noncash investing activities:		
Donated stock	<u>\$ 103,160</u>	<u>\$ 1,729</u>
Contributions of beneficial interest in trusts	<u>\$ 1,917,153</u>	<u>\$ -</u>

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

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2010

1. Organization and Summary of Significant Accounting Policies

Organization

The Archdiocese for the Military Services, USA (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 more than 1.5 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 and advertises for priests to serve as Catholic chaplains in the military, supports candidates in 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 are recognized when the obligation is incurred.

New Accounting Pronouncements and Changes in Accounting Policy

Effective September 1, 2009, the Archdiocese adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 105-10, *FASB Codification* (the Codification). The Codification is the single source of authoritative U.S. generally accepted accounting principles (GAAP). Accordingly, references to GAAP have been updated for the appropriate Codification reference.

Cash and Cash Equivalents

The Archdiocese considers all demand deposits, money market funds and certificates of deposit purchased with original maturity dates of 90 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, mutual funds, and common stocks and are recorded in the accompanying financial statements at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability through an orderly transaction between market participants at the measurement date. The Archdiocese invests in funds in accordance with the *Archdiocesan Investment Guideline*.

Continued

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2010

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

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

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. 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 in future years are recorded at the present value of their estimated future cash flows. The discount on these accounts is computed using interest rates applicable to the period over which the promises are to be received. The Archdiocese maintains an estimated allowance for doubtful accounts based on a percentage of the total outstanding pledges receivable at year-end. Pledges receivable are charged off against the allowance when, in the judgment of management, it is unlikely they will be collected.

Donated marketable securities and any noncash donations are recorded as contributions at their estimated fair value at the date of donation. Donated marketable securities are sold upon receipt.

Continued

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2010

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

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) postretirement 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 that are specifically restricted by donors for use in various programs or future periods.
- Permanently restricted net assets represent endowment funds requiring that the gift be held in perpetuity and that only the investment earnings on such amounts can be used for the purposes specified in the endowment agreement.

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 veterans' affairs and evangelization and pastoral program services. For the year ended August 31, 2010, \$42,000 of contributed services is included in contributions in the accompanying statement of activities.

Definition of Operations

Operating revenue and expenses generally reflect those revenues and expenses that 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 that 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.

Continued

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2010

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

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 consisted of the following as of August 31, 2010:

Common stocks	\$ 454,672
Equity mutual fund	6,525
Money market funds	<u>94,109</u>
Total	<u>\$ 555,306</u>

A summary of investment income was as follows for the year ended August 31, 2010:

Interest and dividends	\$ 47,117
Net realized and unrealized gains	<u>41,956</u>
Total	<u>\$ 89,073</u>

3. Pledges Receivable

As of August 31, 2010, the Archdiocese's pledges receivable are due as follows:

Less than one year	\$ 891,749
One to five years	162,014
More than five years	<u>100,226</u>
Total Pledges Receivable	1,153,989
Less: Allowance for doubtful accounts	(104,140)
Less: Discount to present value (3%)	<u>(39,098)</u>
Net Pledges Receivable	<u>\$ 1,010,751</u>

Continued

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2010

4. Beneficial Interest in Trusts

Beneficial Interest in Charitable Lead Unitrust

In May 2009, the Archdiocese received notice from a trust administrator that the Archdiocese was named as one of the recipients of a beneficial interest in a charitable lead unitrust (the unitrust) from a donor. The unitrust agreement provides that the Archdiocese receives 20% of the 3% annual distribution of the unitrust's fair value over 50 years for general use. After 50 years, 100% of the unitrust amount will be distributed to another unrelated organization. The present value of the estimated future cash flows was recognized as an asset and temporarily restricted contribution revenue during the fiscal year ending August 31, 2010. The asset is included in beneficial interest in trusts in the accompanying statement of financial position. The fair value of this asset is revalued annually by calculating the present value of estimated future cash flows, based on a discount rate of 3.52%, which reflects the target investment return of the trust administrator. As of August 31, 2010, the fair value of the beneficial interest in the charitable lead unitrust was \$76,972. During the year ended August 31, 2010, the Archdiocese received \$3,394 as distributions and recorded a temporarily restricted contribution in the statement of activities.

Beneficial Interest in Perpetual Trust Held by Third Party

In December 2009, the Archdiocese was informed that it was named as the sole beneficiary of the income from a perpetual trust held by a third party (the trust). The trust provides that the Archdiocese has an irrevocable right to receive 80% of the income earned from the trust's assets in perpetuity. The remaining 20% is reinvested into the principal of the trust. The assets of the trust are held by a third-party trustee and represent resources not in the possession or control of the Archdiocese. The income distributed to the Archdiocese is for general use. During the year ending August 31, 2010, the Archdiocese recorded an asset for its beneficial interest in the perpetual trust and recognized permanently restricted contribution revenue, measured at fair value, based on the fair value of the assets in the trust at the time the trust assets were reported to the Archdiocese. The fair value will be reviewed annually to reflect the current fair value of the trust assets and a corresponding permanently restricted gain or loss will be recognized. The asset is included in beneficial interest in trusts in the accompanying statement of financial position. As of August 31, 2010, the fair value of the beneficial interest in the perpetual trust was \$1,840,181. During the year ended August 31, 2010, the Archdiocese received \$3,870 as distributions from the perpetual trust which was recorded as unrestricted contributions in the statement of activities.

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2010

5. Fair Value Measurements

ASC Topic *Fair Value Measurements and Disclosures* defines fair value and establishes a framework for measuring fair value in accordance with GAAP and enhances disclosures about fair value measurements. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The ASC emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, the ASC established a fair value hierarchy based upon the transparency of the inputs to the valuation of an asset or liability. These inputs may be observable, whereby the market participant assumptions are developed based on market data obtained from independent sources, and unobservable, whereby assumptions about market participant assumptions are developed by the reporting entity based on the best information available in the circumstances. The three levels of the fair value hierarchy under the ASC are described as follows:

Level 1 – Inputs based on quoted prices (unadjusted) in active markets for identical assets or liabilities accessible at the measurement date.

Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly, such as quoted prices for similar assets or liabilities in active markets.

Level 3 – Unobservable inputs for the asset or liability including the reporting entity's own assumptions in determining the fair value measurement.

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2010

5. Fair Value Measurements (continued)

The following table summarizes the Archdiocese's assets measured at fair value on a recurring basis as of August 31, 2010:

	Total Fair Value	Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Investments:				
Common stocks	\$ 454,672	\$ 443,575	\$ -	\$ 11,097
Equity mutual fund	6,525	6,525	-	-
Money market funds	<u>94,109</u>	<u>94,109</u>	<u>-</u>	<u>-</u>
Subtotal	555,306	544,209	-	11,097
Beneficial interest in perpetual trust	1,840,181	-	-	1,840,181
Beneficial interest in charitable lead unitrust	<u>76,972</u>	<u>-</u>	<u>-</u>	<u>76,972</u>
Total	<u>\$ 2,472,459</u>	<u>\$ 544,209</u>	<u>\$ -</u>	<u>\$ 1,928,250</u>

A roll forward of the fair value measurements using unobservable inputs (Level 3) was as follows as of August 31, 2010:

Fair Value, August 31, 2009	\$ 6,498
Contribution of beneficial interest in perpetual trust	1,803,696
Change in value of beneficial interest in perpetual trust	36,485
Contribution of beneficial interest in charitable lead unitrust	80,366
Distribution from charitable lead unitrust	(3,394)
Change in value of investments	<u>4,599</u>
Fair Value, August 31, 2010	<u>\$ 1,928,250</u>

Continued

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2010

5. Fair Value Measurements (continued)

The Archdiocese used the following methods and significant assumptions to estimate fair value for assets recorded at fair value:

Money market funds – Are valued using the net asset value (NAV) of shares held, as reported in an active market in which the fund is traded.

Common stocks and mutual funds – Are valued at the closing price reported in an active market in which the security is traded, except for stocks classified as Level 3, for which there is no market for the stock and restrictions on the sale of the stock. The Level 3 valuation is based on the stock book value per share, as reported on audited financial statements of the entity.

Beneficial interest in perpetual trust and charitable lead unitrust – The beneficial interest in perpetual trust held by third party is classified as Level 3 as the assets are not under the control of the Archdiocese. Since the Archdiocese has an irrevocable right to receive the income earned from the trust's assets, the fair value of the beneficial interest is estimated to approximate the fair value of the trust's assets. See Note 4 for the significant assumptions used to estimate fair value of the charitable lead unitrust.

6. Property and Equipment

Property and equipment consisted of the following at August 31, 2010:

Land	\$ 1,803,314
Buildings and renovations	9,560,232
Office furnishings and equipment	523,146
Rectory and chapel furnishing	90,338
Transportation equipment	<u>26,665</u>
Total Property and Equipment	12,003,695
Less: Accumulated depreciation	<u>(1,299,017)</u>
Net Property and Equipment	<u>\$ 10,704,678</u>

Depreciation expense was \$313,739 for the year ended August 31, 2010.

Continued

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2010

7. Postretirement 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, 2010, are calculated under FASB ASC Topic 715, *Compensation – Retirement Benefits*, and recorded as follows:

Postretirement benefit obligation:

Designated plan assets at fair market value	\$ 511,300
Projected postretirement benefit obligation	<u>(1,119,400)</u>
Excess of Projected Benefit Obligation over Plan Assets	<u>\$ (608,100)</u>

The assumed discount rate used in determining the postretirement benefit obligation was 3.875%. The plan assets are included in cash and cash equivalents in the accompanying statement of financial position.

8. Funds Held for Others

Funds held for others represent funds received for other nonprofit organizations. A summary of the changes in funds held for others is as follows for the year ended August 31, 2010:

Funds held for others, September 1, 2009	\$ 51,215
Funds received during the year	153,471
Funds disbursed during the year	<u>(197,466)</u>
Funds Held for Others, August 31, 2010	<u>\$ 7,220</u>

9. Note Payable

The Archdiocese borrowed \$3,400,000 from the Knights of Columbus National Office to finance part of the renovation costs of a building purchased in March 2005. This loan is secured by a mortgage on the property. The loan 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%.

Continued

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2010

9. Note Payable (continued)

Minimum future principal payments on the note payable are as follows:

For the Year Ending August 31,	
2011	\$ 123,039
2012	130,238
2013	137,858
2014	145,925
2015	154,464
Thereafter	<u>2,200,871</u>
Total	<u>\$ 2,892,395</u>

10. Commitments and Risk

The Archdiocese maintains its cash and cash equivalents with certain commercial financial institutions, which aggregate balance may, at times, exceed the Federal Deposit Insurance Corporation (FDIC) insured limit of \$250,000 per depositor per institution. As of August 31, 2010, the Archdiocese had \$1,407,524 of demand deposits, which exceeded the maximum limit insured by the FDIC by approximately \$907,000. The Archdiocese monitors the creditworthiness of these institutions and has not experienced any credit losses on its cash and cash equivalents.

Cash equivalents also include cash invested in U.S. government or agency securities that is swept into overnight repurchase accounts. Amounts included in cash and cash equivalents that were invested in the overnight repurchase accounts totaled \$4,801,098 at August 31, 2010. Historically, losses from federal government securities have not occurred.

11. Net Assets

Unrestricted – Board Designated

The balances of the board-designated reserves are as follows as of August 31, 2010:

Education of future candidates for the military priesthood and/or publicizing and advertising for military chaplains	\$ 890,902
Postretirement benefits for its retired bishops	<u>511,300</u>
Total Unrestricted – Board-Designated Net Assets	<u>\$ 1,402,202</u>

Continued

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2010

11. Net Assets (continued)

Temporarily Restricted Net Assets

As of August 31, 2010, net assets are restricted for use in the following programs:

Capital campaign	\$ 2,920,669
Priest cosponsorship	370,513
Educational costs of priest candidates	317,086
Marriage tribunal services	183,905
Pastoral, CSC, youth ministry and vocations	162,016
Vocation/discernment	124,000
Peer to Peer	123,186
Millennium project	96,953
Other temporarily restricted	78,834
Beneficial interest from unitrust	76,972
Bishop Nolan scholarship fund	57,495
Pentagon relief program	26,024
Evangelization	<u>12,500</u>
Total Temporarily Restricted Net Assets	<u>\$ 4,550,153</u>

The remaining capital campaign funds are to be used for various programs and purposes.

Permanently Restricted Net Assets

The Archdiocese's permanently restricted net assets consist predominantly of the beneficial interest in a perpetual trust held by a third party, which requires the principal to be held in perpetuity (see Note 4). The trust provides that the Archdiocese has an irrevocable right to receive 80% of the income earned from the trust's assets in perpetuity. The remaining 20% is reinvested into the principal of the trust. The income distributed annually from the trust to the Archdiocese is for general use. The beneficial interest in this trust was donated to the Archdiocese during the year ended August 31, 2010, with an initial value of \$1,803,696. The assets of the trust are held by a third party trustee and represent resources not in the possession or control of the Archdiocese.

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2010

11. Net Assets (continued)

Permanently Restricted Net Assets (continued)

For the year ended August 31, 2010, changes in this beneficial interest, along with several other permanently restricted endowments held by the Archdiocese, were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ -	\$ 49,165	\$ 49,165
Investment return:				
Investment income (loss), net of fees	3,870	-	-	3,870
Net appreciation (realized and unrealized)	<u>-</u>	<u>-</u>	<u>36,485</u>	<u>36,485</u>
Total Investment Return	3,870	-	36,485	40,355
Contributions	-	-	1,803,696	1,803,696
Appropriations for expenditure	<u>(3,870)</u>	<u>-</u>	<u>-</u>	<u>(3,870)</u>
Endowment Net Assets, End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,889,346</u>	<u>\$ 1,889,346</u>

The earnings on these funds are for the following purposes:

Beneficial interest in perpetual trust – unrestricted	\$ 1,840,181
Education of priest candidates	30,000
Capital campaign	<u>19,165</u>
Total Permanently Restricted Net Assets	<u>\$ 1,889,346</u>

12. Pension Plan

The Archdiocese participates in a multiple employer noncontributory 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 paid to the Archdiocese of Washington at 7.5% of all eligible employees' payroll. Total pension expense for this plan was \$56,966 for the year ended August 31, 2010.

Continued

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2010

13. 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, 2009, from which the summarized information was derived.

14. Income Taxes

Under Section 501(c)(3) of the Internal Revenue Code, the Archdiocese is exempt from the payment of taxes on income other than net unrelated business income. For the year ended August 31, 2010, no provision for income taxes was made, as the Archdiocese had no net unrelated business income.

Effective September 1, 2009, the Archdiocese adopted the authoritative guidance relating to accounting for uncertainty in income taxes included in ASC Topic 720 *Income Taxes*. These provisions provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition and derecognition of tax positions taken or expected to be taken in a tax return. The Archdiocese performed an evaluation of uncertain tax positions for the year ended August 31, 2010, and determined that there were no matters that would require recognition in the financial statements or that may have any effect on its tax-exempt status. As of August 31, 2010, the statute of limitations for tax years 2006 through 2008 remains open with the U.S. federal jurisdiction or the various states and local jurisdictions in which the Archdiocese files tax returns. It is the Archdiocese's policy to recognize interest and/or penalties related to income tax matters, if any, in income tax expense.

15. Subsequent Events

In preparing these financial statements, the Archdiocese has evaluated events and transactions for potential recognition or disclosure through December 28, 2010, the date the financial statements were available to be issued. There were no subsequent events that require recognition of, or disclosure in, these financial statements.