



ARCHDIOCESE FOR THE MILITARY SERVICES, USA

Financial Statements

For the Year Ended August 31, 2011

(With Summarized Financial Information for the Year Ended August 31, 2010)



**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, 2011, 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 2010 financial statements and, in our report dated December 28, 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, 2011, 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
March 28, 2012

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

STATEMENT OF FINANCIAL POSITION

August 31, 2011

(With Summarized Financial Information as of August 31, 2010)

	<u>2011</u>	<u>2010</u>
ASSETS		
Cash and cash equivalents	\$ 7,739,237	\$ 6,172,238
Investments	641,695	555,306
Accounts and other receivables	116,878	81,797
Pledges receivable, net	1,414,298	1,010,751
Beneficial interest in trusts	2,015,506	1,917,153
Prepaid expenses and other assets	18,314	27,116
Net property and equipment	<u>10,439,274</u>	<u>10,704,678</u>
TOTAL ASSETS	<u>\$ 22,385,202</u>	<u>\$ 20,469,039</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 211,677	\$ 169,686
Deferred revenue	56,000	-
Postretirement obligations	1,516,840	1,119,400
Funds held for others	130,796	68,705
Note payable	<u>2,768,772</u>	<u>2,892,395</u>
TOTAL LIABILITIES	<u>4,684,085</u>	<u>4,250,186</u>
Net Assets		
Unrestricted		
Undesignated	7,097,842	8,377,152
Board designated	<u>2,043,118</u>	<u>1,402,202</u>
Total Unrestricted Net Assets	9,140,960	9,779,354
Temporarily restricted	6,574,785	4,550,153
Permanently restricted	<u>1,985,372</u>	<u>1,889,346</u>
TOTAL NET ASSETS	<u>17,701,117</u>	<u>16,218,853</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 22,385,202</u>	<u>\$ 20,469,039</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, 2011

(With Summarized Financial Information for the Year Ended August 31, 2010)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2011 Total	2010 Total
REVENUE AND SUPPORT					
Contributions	\$ 4,342,081	\$ 2,514,651	\$ -	\$ 6,856,732	\$ 6,449,006
Gain from change in value of trusts	-	6,010	96,026	102,036	36,485
Sacrament revenue	118,321	-	-	118,321	121,559
Marriage tribunal	38,880	-	-	38,880	40,735
Investment income	158,733	-	-	158,733	89,073
Other income	80,760	-	-	80,760	96,110
Net assets released from restrictions:					
Satisfaction of program restrictions	135,402	(135,402)	-	-	-
Satisfaction of time restrictions	360,627	(360,627)	-	-	-
TOTAL REVENUE AND SUPPORT	5,234,804	2,024,632	96,026	7,355,462	6,832,968
EXPENSES					
Program Services:					
Evangelization and pastoral	2,707,611	-	-	2,707,611	2,071,536
Sacramental records	284,709	-	-	284,709	254,084
Vocations and cosponsorship	336,827	-	-	336,827	279,424
Chaplain's affairs	123,102	-	-	123,102	27,183
Marriage tribunal	162,249	-	-	162,249	171,439
Veterans' affairs	60,571	-	-	60,571	66,002
Total Program Services	3,675,069	-	-	3,675,069	2,869,668
Supporting Services:					
Administrative services	977,551	-	-	977,551	632,861
Fundraising	1,220,578	-	-	1,220,578	1,001,900
TOTAL EXPENSES	5,873,198	-	-	5,873,198	4,504,429
CHANGE IN NET ASSETS	(638,394)	2,024,632	96,026	1,482,264	2,328,539
NET ASSETS, BEGINNING OF YEAR	9,779,354	4,550,153	1,889,346	16,218,853	13,890,314
NET ASSETS, END OF YEAR	\$ 9,140,960	\$ 6,574,785	\$ 1,985,372	\$ 17,701,117	\$ 16,218,853

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, 2011

(With Summarized Financial Information for the Year Ended August 31, 2010)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,482,264	\$ 2,328,539
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	306,850	313,739
Donated stock	(105,687)	(103,160)
Contributions of beneficial interest in trusts	-	(1,880,668)
Change in value of trusts	(98,353)	(36,485)
Net realized and unrealized gains	(72,734)	(41,956)
Allowance for potentially uncollectible pledges	485,114	143,767
Changes in assets and liabilities:		
Accounts and other receivables	(35,081)	4,359
Pledges receivable	(888,661)	289,858
Prepaid expenses and other assets	8,802	(14,759)
Accounts payable and accrued expenses	41,991	12,583
Deferred revenue	56,000	(15,000)
Postretirement obligations	397,440	20,972
Funds held for others	62,091	(43,995)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,640,036</u>	<u>977,794</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	663,373	4,467,721
Purchases of investments	(571,341)	(815,088)
Purchases of property and equipment	<u>(41,446)</u>	<u>(175,794)</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>50,586</u>	<u>3,476,839</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on note payable	<u>(123,623)</u>	<u>(116,790)</u>
NET CASH USED IN FINANCING ACTIVITIES	<u>(123,623)</u>	<u>(116,790)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,566,999	4,337,843
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>6,172,238</u>	<u>1,834,395</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 7,739,237</u></u>	<u><u>\$ 6,172,238</u></u>
SUPPLEMENTAL DATA		
Cash paid for interest	<u><u>\$ 161,663</u></u>	<u><u>\$ 168,497</u></u>
Noncash investing activities:		
Donated stock	<u><u>\$ 105,687</u></u>	<u><u>\$ 103,160</u></u>
Contributions of beneficial interest in trusts	<u><u>\$ -</u></u>	<u><u>\$ 1,880,668</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, 2011

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.

Cash and Cash Equivalents

The Archdiocese considers all demand deposits and money market funds 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 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*.

Fair Value of Financial Instruments

In accordance with the accounting standards for fair value measurements for those assets and liabilities that are measured at fair value on a recurring basis, the Archdiocese has categorized its applicable assets and liabilities measured at fair value into a required fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2011

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

Fair Value of Financial Instruments (continued)

Applicable financial assets and liabilities are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Archdiocese has the ability to access.

Level 2 – Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 – Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

During the year ended August 31, 2011, the Archdiocese adopted ASU 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*, which requires additional disclosures about fair value measurements to further increase transparency.

As of and for the year ended August 31, 2011, the Archdiocese's investments and beneficial interest in trusts, as described in Note 5 of these financial statements, were measured at fair value on a recurring basis.

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 and renovations	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.

Continued

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2011

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

Revenue Recognition

Contributions, 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.

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.

Continued

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2011

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

Net Assets (continued)

- 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, 2011, \$72,000 of contributed services is included in contributions in the accompanying statement of 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.

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, 2011:

Common stocks	\$ 541,091
Money market funds	<u>100,604</u>
Total	<u>\$ 641,695</u>

Continued

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2011

2. Investments (continued)

A summary of investment income was as follows for the year ended August 31, 2011:

Interest and dividends	\$ 20,482
Net realized and unrealized gains	72,734
Distributions from beneficial interest in trusts	<u>65,517</u>
Total	<u>\$ 158,733</u>

3. Pledges Receivable

As of August 31, 2011, the Archdiocese's pledges receivable are due as follows:

Less than one year	\$ 896,066
One to five years	1,009,691
More than five years	<u>94,120</u>
Total Pledges Receivable	1,999,877
Less: Allowance for Doubtful Accounts	(496,681)
Less: Discount to Present Value (3%)	<u>(88,898)</u>
Net Pledges Receivable	<u>\$ 1,414,298</u>

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 ended 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 3.16%, which reflects the target investment return of the trust administrator. As of August 31, 2011, the fair value of the beneficial interest in the

Continued

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2011

4. Beneficial Interest in Trusts (continued)

Beneficial Interest in Charitable Lead Unitrust (continued)

charitable lead unitrust was \$79,299. During the year ended August 31, 2011, the Archdiocese received \$3,682 as distributions which were recorded as investment income 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 ended 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 is reviewed annually to reflect the current fair value of the trust assets and a corresponding permanently restricted gain or loss is recognized. The asset is included in beneficial interest in trusts in the accompanying statement of financial position. As of August 31, 2011, the fair value of the beneficial interest in the perpetual trust was \$1,936,207. During the year ended August 31, 2011, the Archdiocese received \$65,517 as distributions from the perpetual trust which were recorded as investment income in the statement of activities.

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2011

5. Fair Value Measurements

The following table summarizes the Archdiocese's assets measured at fair value on a recurring basis as of August 31, 2011:

	<u>Total Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Assets:				
Investments:				
Common stocks:				
Technology	\$ 102,040	\$ 102,040	\$ -	\$ -
Industrial goods	97,948	97,948	-	-
Basic materials	85,383	85,383	-	-
Healthcare	72,397	72,397	-	-
Consumer goods	67,508	67,508	-	-
Financial	56,350	56,350	-	-
Utilities	<u>46,865</u>	<u>46,865</u>	<u>-</u>	<u>-</u>
Total Common Stocks	528,491	528,491	-	-
Private equity	12,600	-	-	12,600
Money market funds	<u>100,604</u>	<u>100,604</u>	<u>-</u>	<u>-</u>
Subtotal	641,695	629,095	-	12,600
Beneficial interest in perpetual trust	1,936,207	-	-	1,936,207
Beneficial interest in charitable lead unitrust	<u>79,299</u>	<u>-</u>	<u>-</u>	<u>79,299</u>
Total	<u>\$ 2,657,201</u>	<u>\$ 629,095</u>	<u>\$ -</u>	<u>\$ 2,028,106</u>

Continued

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2011

5. Fair Value Measurements (continued)

A roll forward of the fair value measurements using unobservable inputs (Level 3) was as follows as of August 31, 2011:

Fair value, August 31, 2010	\$ 1,928,250
Change in value of beneficial interest in perpetual trust	96,026
Change in value of beneficial interest in charitable lead unitrust	6,009
Distribution from charitable lead unitrust	(3,682)
Change in value of investments	<u>1,503</u>
Fair value, August 31, 2011	<u>\$ 2,028,106</u>

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– Are valued at the closing price reported in an active market in which the security is traded.

Private equity – There is no market for the stock and restrictions exist on the sale of the stock. The valuation is based on the stock book value per share, as reported on audited financial statements as of December 31, 2010 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.

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2011

6. Property and Equipment

Property and equipment consisted of the following at August 31, 2011:

Land	\$ 1,803,314
Buildings and renovations	9,584,567
Office furnishings and equipment	540,257
Rectory and chapel furnishing	90,338
Transportation equipment	<u>26,665</u>
Total Property and Equipment	12,045,141
Less: Accumulated Depreciation	<u>(1,605,867)</u>
Net Property and Equipment	<u>\$ 10,439,274</u>

Depreciation expense was \$306,850 for the year ended August 31, 2011.

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, 2011, are calculated under FASB ASC Topic 715, *Compensation – Retirement Benefits*, and recorded as follows:

Postretirement benefit obligation:

Designated plan assets at fair market value	\$ 1,152,216
Projected postretirement benefit obligation	<u>(1,516,840)</u>
Excess of Projected Benefit Obligation over Plan Assets	<u>\$ 364,624</u>

The assumed discount rate used in determining the postretirement benefit obligation was 3.75%. The plan assets are included in cash and cash equivalents in the accompanying statement of financial position.

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ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2011

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, 2011:

Funds held for others, September 1, 2010	\$ 68,705
Funds received during the year	72,602
Funds disbursed during the year	<u>(10,511)</u>
Funds held for others, August 31, 2011	<u>\$ 130,796</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%.

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

For the Year Ending	
<u>August 31,</u>	
2012	\$ 130,238
2013	137,858
2014	145,925
2015	154,464
2016	163,502
Thereafter	<u>2,036,785</u>
Total	<u>\$ 2,768,772</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, 2011, the Archdiocese had \$7,839,277 of demand deposits, which exceeded the maximum limit insured by the FDIC by approximately \$1,213,000. The Archdiocese monitors the creditworthiness of these institutions and has not experienced any credit losses on its cash and cash equivalents.

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ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2011

11. Net Assets

Unrestricted – Board Designated

The balances of the board-designated reserves are as follows as of August 31, 2011:

Postretirement benefits for its retired bishops	\$ 1,152,216
Education of future candidates for the military priesthood and/or publicizing and advertising for military chaplains	<u>890,902</u>
Total Unrestricted – Board-Designated Net Assets	<u>\$ 2,043,118</u>

Temporarily Restricted Net Assets

As of August 31, 2011, net assets are restricted for use in the following programs:

Capital campaign	\$ 2,920,669
Priest cosponsorship	1,481,437
Educational costs of priest candidates	1,272,686
Marriage tribunal services	182,805
Pastoral, CSC, youth ministry and vocations	162,016
Vocation/discernment	124,000
Millennium project	96,953
Peer to Peer	92,566
Beneficial interest from unitrust	79,299
Other temporarily restricted	78,835
Bishop Nolan scholarship fund	57,495
Pentagon relief program	<u>26,024</u>
Total Temporarily Restricted Net Assets	<u>\$ 6,574,785</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.

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ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2011

11. Net Assets (continued)

Permanently Restricted Net Assets (continued)

For the year ended August 31, 2011, 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	\$ -	\$ -	\$ 1,889,346	\$ 1,889,346
Investment return:				
Investment income, net of fees	65,517	-	-	65,517
Net appreciation (realized and unrealized)	<u>-</u>	<u>-</u>	<u>96,026</u>	<u>96,026</u>
Total Investment Return	65,517	-	1,985,372	2,059,091
Appropriations for expenditure	<u>(65,517)</u>	<u>-</u>	<u>-</u>	<u>(65,517)</u>
Endowment Net Assets, End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,985,372</u>	<u>\$ 1,985,372</u>
The earnings on these funds are for the following purposes:				
Beneficial interest in perpetual trust – unrestricted				\$ 1,936,207
Education of priest candidates				30,000
Capital campaign				<u>19,165</u>
Total Permanently Restricted Net Assets				<u>\$ 1,985,372</u>

The net appreciation of the perpetual trust reflects investment income and realized and unrealized gains on the Trust's assets, net of distributions.

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 \$78,562 for the year ended August 31, 2011.

Continued

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NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2011

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, 2010, 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, 2011, 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 *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, 2011, 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, 2011, the statute of limitations for tax years 2007 through 2009 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 uncertain tax positions, if any, in income tax expense. As of August 31, 2011, the Archdiocese had no accruals for interest and/or penalties.

15. Reclassification

Certain reclassifications to the prior year financial statements have been made to conform to current year presentation.

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NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2011

16. Subsequent Events

In preparing these financial statements, the Archdiocese has evaluated events and transactions for potential recognition or disclosure through March 28, 2012, 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.