



ARCHDIOCESE FOR THE MILITARY SERVICES, USA

Financial Statements

For the Year Ended June 30, 2020

(With Summarized Financial Information for the Year Ended June 30, 2019)



**and
Report Thereon**



ARCHDIOCESE FOR THE MILITARY SERVICES, USA

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Archdiocese for the Military Services, USA (AMS), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses and cash flows for the year 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 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 auditors' 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 2020 financial statements referred to above present fairly, in all material respects, the financial position of the Archdiocese for the Military Services, USA as of June 30, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter***Report on Summarized Comparative Information***

We have previously audited AMS's 2019 financial statements, and our report dated July 30, 2020, expressed an unmodified audit opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Marcum LLP

Washington, DC
September 15, 2021

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

STATEMENT OF FINANCIAL POSITION

June 30, 2020

(With Summarized Financial Information as of June 30, 2019)

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash and cash equivalents	\$ 2,881,816	\$ 679,488
Investments	31,017,806	27,340,287
Accounts and other receivable	93,913	147,275
Prepaid expenses	102,906	207,841
Pledges receivable, net	565,220	975,002
Beneficial interest in trusts	2,382,248	2,359,067
Property and equipment, net	<u>9,542,526</u>	<u>9,094,638</u>
TOTAL ASSETS	<u><u>\$ 46,586,435</u></u>	<u><u>\$ 40,803,598</u></u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 765,425	\$ 978,474
Deferred revenue	1,178	23,500
Post-retirement benefit obligation	2,264,870	2,128,174
Funds held for others	<u>64,271</u>	<u>73,024</u>
TOTAL LIABILITIES	<u>3,095,744</u>	<u>3,203,172</u>
Net Assets		
Without donor restrictions		
Undesignated	29,722,192	23,186,125
Board-designated	<u>2,877,000</u>	<u>2,813,903</u>
Total Without Donor Restrictions	32,599,192	26,000,028
With donor restrictions		
Purpose restrictions	6,320,703	7,065,532
Perpetual in nature	<u>4,570,796</u>	<u>4,534,866</u>
Total With Donor Restrictions	10,891,499	11,600,398
TOTAL NET ASSETS	<u>43,490,691</u>	<u>37,600,426</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 46,586,435</u></u>	<u><u>\$ 40,803,598</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 June 30, 2020

(With Summarized Financial Information for the Year Ended June 30, 2019)

	2020			2019
	Without Donor Restrictions	With Donor Restrictions	Total	Total
REVENUE AND SUPPORT				
Contributions	\$ 13,198,099	\$ 394,364	\$ 13,592,463	\$ 7,349,808
Sacrament revenue	63,686	-	63,686	82,353
Marriage tribunal	7,425	-	7,425	12,746
Investment income, net	462,899	-	462,899	908,127
Gain from change in value of trusts	-	23,181	23,181	45,428
Other income	195,684	-	195,684	110,062
Net assets released from restrictions: Satisfaction of program restrictions	1,126,444	(1,126,444)	-	-
TOTAL REVENUE AND SUPPORT	15,054,237	(708,899)	14,345,338	8,508,524
EXPENSES				
Program Services:				
Evangelization and pastoral	3,379,552	-	3,379,552	3,268,788
Vocations and co-sponsorship	944,756	-	944,756	1,143,242
Sacramental records	568,829	-	568,829	451,002
Marriage tribunal	309,643	-	309,643	292,355
Chaplain's affairs	334,273	-	334,273	252,743
Veterans' affairs	118,919	-	118,919	83,478
Total Program Services	5,655,972	-	5,655,972	5,491,608
Supporting Services:				
Administrative services	1,142,865	-	1,142,865	1,201,191
Fundraising	1,656,236	-	1,656,236	1,160,540
TOTAL EXPENSES	8,455,073	-	8,455,073	7,853,339
CHANGE IN NET ASSETS	6,599,164	(708,899)	5,890,265	655,185
NET ASSETS, BEGINNING OF YEAR	26,000,028	11,600,398	37,600,426	36,945,241
NET ASSETS, END OF YEAR	\$ 32,599,192	\$ 10,891,499	\$ 43,490,691	\$ 37,600,426

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

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2020

(With Summarized Financial Information for the Year Ended June 30, 2019)

	Program Services							Supporting Services			
	Evangelization and Pastoral	Vocations and Co-sponsorship	Sacramental Records	Marriage Tribunal	Chaplains' Affairs	Veterans' Affairs	Total Program Services	Administrative Services	Fundraising	2020 Total	2019 Total
Salaries and wages	\$ 1,042,337	\$ 60,128	\$ 362,582	\$ 152,644	\$ 65,282	\$ 46,515	\$ 1,729,488	\$ 785,703	\$ 485,070	\$ 3,000,261	\$ 2,753,096
Employee benefits and payroll taxes	435,546	8,169	76,171	61,636	81,332	10,098	672,952	183,753	98,973	955,678	938,853
Tuition and fees for seminarians	-	801,090	-	-	-	-	801,090	-	-	801,090	960,176
Occupancy	443,516	15,654	65,781	42,314	35,841	18,920	622,026	38,728	54,630	715,384	547,537
Depreciation and amortization	342,399	4,521	18,995	12,219	10,349	5,463	393,946	11,184	15,776	420,906	500,164
Professional fundraising	-	-	-	-	-	-	-	-	466,003	466,003	411,263
Office expenses	56,385	6,668	21,178	10,850	10,886	6,025	111,992	24,536	109,073	245,601	249,286
Technology costs	384,070	-	8,473	930	-	-	393,473	28,425	14,483	436,381	375,051
Publications and other outreach costs	354,587	-	-	-	-	-	354,587	-	-	354,587	373,329
Travel	34,074	15,924	-	13	92,742	17,490	160,243	1,988	16,893	179,124	223,398
Conferences and meetings	97,976	4,915	-	1,139	7,611	4,889	116,530	7,229	2,335	126,094	132,107
Professional fees	44,384	2,555	15,446	6,503	2,786	1,980	73,654	54,107	6,300	134,061	111,059
Legal settlement	100,000	-	-	-	-	-	100,000	-	-	100,000	-
Bad debt expense	-	-	-	-	-	-	-	-	-	-	72,700
Advertising and promotion	1,953	-	-	-	-	-	1,953	142	379,093	381,188	67,470
In-Kind support	-	24,000	-	-	27,000	7,500	58,500	-	-	58,500	54,000
Dues and subscriptions	20,705	1,132	203	38	444	39	22,561	7,070	4,513	34,144	51,546
Gifts and donations	20,050	-	-	-	-	-	20,050	-	-	20,050	15,050
Reviews costs for marriage cases	-	-	-	21,357	-	-	21,357	-	-	21,357	14,807
Training	1,570	-	-	-	-	-	1,570	-	3,094	4,664	2,447
TOTAL EXPENSES	\$ 3,379,552	\$ 944,756	\$ 568,829	\$ 309,643	\$ 334,273	\$ 118,919	\$ 5,655,972	\$ 1,142,865	\$ 1,656,236	\$ 8,455,073	\$ 7,853,339

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 June 30, 2020

(With Summarized Financial Information for the Year Ended June 30, 2019)

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 5,890,265	\$ 655,185
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	420,906	500,164
Change in value of trusts	(23,181)	(45,428)
Net realized and unrealized gains	45,364	(663,151)
Change in allowance for pledges receivable	(48,500)	72,700
Changes in assets and liabilities:		
Accounts and other receivable	53,362	176
Pledges receivable	458,282	(756,615)
Prepaid expenses	104,935	(100,246)
Accounts payable and accrued expenses	(213,049)	51,622
Deferred revenue	(22,322)	1,154
Post-retirement benefit obligation	136,696	250,672
Funds held for others	<u>(8,753)</u>	<u>45,866</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>6,794,005</u>	<u>12,099</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	8,619,303	3,192,510
Purchases of investments	(12,342,186)	(3,665,638)
Purchases of property and equipment	<u>(868,794)</u>	<u>(239,087)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(4,591,677)</u>	<u>(712,215)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,202,328	(700,116)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>679,488</u>	<u>1,379,604</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 2,881,816</u></u>	<u><u>\$ 679,488</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 June 30, 2020

1. Organization and Summary of Significant Accounting Policies

Organization

The Archdiocese for the Military Services, USA (AMS), a Maryland corporation, was organized by the Catholic Church in America to be operated exclusively for spiritual and charitable purposes. AMS 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. AMS 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. AMS's major source of income is donations.

The Capodanno Guild (the Guild) was established by AMS in 2013 as a not-for-profit corporation under the laws of the District of Columbia. The primary function of the Guild is to raise funds to support the cause for the beatification and canonization of Father Vincent Capodanno. The Guild is not consolidated with AMS, as the financial transactions and balances of the Guild are immaterial to the statements of financial position and activities of AMS.

Basis of Accounting

AMS 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

AMS considers all demand deposits and money market funds not held as investments to be cash and cash equivalents. Money market funds held in certain investment portfolios are not considered cash equivalents as they are actively traded (note 5). Cash balances include funds held for others.

Investments

Investments are composed of mutual funds, common stocks, money market funds and shares in a private debt fund and pooled investment fund, 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. AMS invests in funds in accordance with the *Archdiocesan Investment Policy Guidelines*.

The change in unrealized appreciation or depreciation of investments is included in investment income in the accompanying statement of activities. Realized gains and losses on sales of investments are computed on an average cost method, and are recorded on the trade date of the transaction and included in investment income in the accompanying statement of activities.

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS For the Year Ended June 30, 2020

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

Fair Value of Financial Instruments

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurement*, defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States of America (GAAP), and requires disclosures about fair value measurements for assets and liabilities measured at fair value on a recurring basis. 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 market participant assumptions are developed based on market data obtained from independent sources, or 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 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 used in determining the fair value measurement.

As of June 30, 2020, AMS's investments and beneficial interest in trusts, as described in Notes 2, 4 and 5 of these financial statements, were measured at fair value on a recurring basis.

AMS follows the provisions of FASB Accounting Standards, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, in valuing AMS's investment in the private debt fund and pooled investment fund. The guidance permits the fair value of investments within its scope to be estimated using net asset value (NAV) or its equivalent as a practical expedient. NAV or its equivalent is the value per share or value of ownership interest in the fund, as provided by the fund, whose financial statements are prepared in a manner consistent with the measurement principles of an investment company or that has the attributes of an investment company. In accordance with this standard, the investment funds measured at NAV are excluded from the fair value hierarchy.

Property and Equipment and Related Depreciation and Amortization

Expenditures for property, equipment and eligible software development costs in excess of \$1,000 are capitalized at cost. Costs incurred in the development of software are expensed during the preliminary and post-implementation operation stages, including data conversion, training and maintenance costs. Costs incurred during the development stage are capitalized.

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS For the Year Ended June 30, 2020

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

Property and Equipment and Related Depreciation and Amortization (continued)

Expenditures for major repairs and improvements are capitalized; expenditures for minor repairs and maintenance costs are expensed as incurred. Upon the retirement or disposal of assets, the cost and accumulated depreciation or amortization are eliminated from the respective accounts and the resulting gain or loss, if any, is included in revenue or expenses in the accompanying statement of activities. Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings and renovations	39 years
Office furnishings and equipment	5 to 10 years
Rectory and chapel furnishing	5 to 10 years
Transportation equipment	5 to 10 years
Software	3 years

Impairment of Long-Lived Assets

In accordance with FASB ASC Topic 360, *Property, Plant and Equipment*, AMS reviews its property for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the fair value is less than the carrying amount of the asset, an impairment loss is recognized for the difference. No impairment loss has been recognized for the year ended June 30, 2020.

Revenue Recognition

Unconditional contributions are reported as revenue and support in the year in which payments are received and/or unconditional promises are made. Unconditional contributions are considered without donor restrictions 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 revenue and support with donor restrictions. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is met), net assets are reclassified from net assets with donor restriction to net assets without donor restriction and reported in the accompanying statement of activities as net assets released from restrictions.

Unconditional contributions that have been committed to AMS but have not been received as of year-end are reflected as pledges receivable in the accompanying statement of financial position. 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. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met.

AMS 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.

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS For the Year Ended June 30, 2020

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

Revenue Recognition (continued)

AMS recognizes bequests as contributions in the fiscal year in which the promise to give becomes unconditional, which is the year in which the probate court declares the will valid and the proceeds are measurable in amount.

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.

Sacrament revenue and marriage tribunal revenue is recognized at the point in time the services are provided.

Other income relates to convocation, retreat and travel fees and are recognized in the period the convocation, retreat and travel take place.

Classification of Net Assets

AMS's net assets are reported as follows:

- Net assets without donor restrictions represent the portion of expendable funds that are available for any purpose in performing the primary objectives of AMS at the discretion of AMS's management and the Board of Directors (the Board). From time to time, the Board designates a portion of these net assets for specific purposes, which makes them unavailable for use at management's discretion. The Board has designated \$2,877,000 of net assets without donor restrictions to be used for post-retirement benefits for its retired bishops.
- Net assets with donor restrictions represent funds that are specifically restricted by donors for use in various programs and/or for a specific period of time. These donor restrictions can be temporary in nature in that they will be met by actions of AMS or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated that the funds be maintained in perpetuity. As of June 30, 2020, a portion of AMS's net assets with donor restrictions is considered an endowment fund and is required to be maintained in perpetuity and 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 expenses in the accompanying statement of activities at their estimated fair value, as provided by the donor at the date of receipt. These services are used to support veterans' affairs and evangelization and pastoral programs. For the year ended June 30, 2020, approximately \$59,000 of contributed services is included in contributions in the accompanying statement of activities.

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS For the Year Ended June 30, 2020

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

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 functional expenses. Expenses directly attributed to specific functional areas of AMS are reported as expenses of those functional areas. Salaries are allocated to programs and supporting services based on employees' timesheets. Fringe benefits and payroll taxes and shared overhead costs (such as depreciation and amortization, professional fees, occupancy, dues and subscriptions and office expenses) that benefit multiple functional areas have been allocated among the various functional areas based on estimated time and effort expended on those functional areas.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates

New Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which requires an entity to recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. AMS adopted ASU 2014-09 and related amendments on July 1, 2019, using the modified retrospective method and elected to apply the standard only to contracts that were not completed as of that date. The adoption of the standard did not impact the results of operations or change in net assets.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. This ASU provides additional guidance to be used to determine whether a contribution is conditional and when a transaction should be accounted for as a contribution versus an exchange. AMS adopted ASU 2018-08 as of July 1, 2019, and has applied the amendments of this standard on a modified prospective basis and elected to apply the standard only to agreements that were entered into after the effective date. This standard did not result in a material change to the financial statements or the timing of revenue recognition for AMS's contributions.

2. Investments

Investments consisted of the following as of June 30, 2020:

Mutual funds	\$ 19,771,918
Private debt fund	4,084,707
Common stocks	2,076,400
Money market funds	4,766,754
Private pooled investment fund	<u>318,027</u>
Total Investments	<u>\$ 31,017,806</u>

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS For the Year Ended June 30, 2020

2. Investments (continued)

A summary of investment income, net is as follows for the year ended June 30, 2020:

Interest and dividends	\$ 592,924
Realized gains	402,610
Unrealized losses	(447,974)
Distributions from beneficial interest in trusts	48,157
Investment fees	<u>(132,818)</u>
Total Investment Income, Net	<u>\$ 462,899</u>

3. Pledges Receivable

As of June 30, 2020, AMS's pledges receivable were due as follows:

Less than one year	\$ 589,302
One to five years	<u>30,000</u>
Total Pledges Receivable	619,302
Less: Allowance for Doubtful Accounts	(41,000)
Less: Discount to Present Value (3%)	<u>(13,082)</u>
Pledges Receivable, Net	<u>\$ 565,220</u>

4. Beneficial Interest in Trusts

Beneficial Interest in Charitable Lead Unitrust

In May 2009, AMS received notice from a trust administrator that AMS 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 AMS 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 contribution revenue with donor restrictions (temporary) in May 2009. 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. The discount rate used as of June 30, 2020 was 1.46%. As of June 30, 2020, the fair value of the beneficial interest in the charitable lead unitrust was \$74,722. During the year ended June 30, 2020, AMS received \$4,453 as distributions from the unitrust.

Beneficial Interest in Perpetual Trust Held by Third Party

In December 2009, AMS 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 AMS has an irrevocable right to receive 80% of the income earned from the trust's assets in perpetuity.

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS **For the Year Ended June 30, 2020**

4. Beneficial Interest in Trusts (continued)

Beneficial Interest in Perpetual Trust Held by Third Party (continued)

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 AMS. The income distributed to AMS is for general use. In December 2009, AMS recorded an asset for its beneficial interest in the perpetual trust and recognized contribution revenue with donor restrictions (permanent), measured at fair value, based on the fair value of the assets in the trust at the time the trust assets were reported to AMS. The fair value is reviewed annually to reflect the current fair value of the trust assets, and a corresponding restricted gain or loss is recognized. The asset is included in beneficial interest in trusts in the accompanying statement of financial position. As of June 30, 2020, the fair value of the beneficial interest in the perpetual trust was \$2,307,526. During the year ended June 30, 2020, AMS received \$48,157 as distributions from the perpetual trust, which were recorded as investment income in the accompanying statement of activities.

5. Fair Value Measurement

The following table summarizes AMS's assets measured at fair value on a recurring basis as of June 30, 2020:

	<u>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:				
Mutual funds:				
Domestic equity	\$ 12,280,531	\$ 12,280,531	\$ -	\$ -
Fixed income	7,491,387	7,491,387	-	-
Common stocks:				
Financial	146,670	146,670	-	-
Information technology	724,382	724,382	-	-
Industrials	237,281	237,281	-	-
Consumer staples	125,301	125,301	-	-
Healthcare	368,580	368,580	-	-
Telecommunications	353,210	353,210	-	-
Energy	28,185	28,185	-	-
Consumer discretionary	92,791	92,791	-	-
Money market funds	<u>4,766,754</u>	<u>4,766,754</u>	<u>-</u>	<u>-</u>
Total Investments in the Fair Value Hierarchy	26,615,072	26,615,072	-	-

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

5. Fair Value Measurement (continued)

	<u>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 (continued):				
Beneficial interest in perpetual trust	\$ 74,722	\$ -	\$ -	\$ 74,722
Beneficial interest in charitable lead unitrust	<u>2,307,526</u>	<u>-</u>	<u>-</u>	<u>2,307,526</u>
Total Assets in the Fair Value Hierarchy	28,997,320	<u>\$26,615,072</u>	<u>\$ -</u>	<u>\$ 2,382,248</u>
Private debt fund ^(a)	4,084,707			
Pooled investment fund ^(a)	<u>318,027</u>			
Total Investments and Beneficial Interest in Trusts	<u>\$33,400,054</u>			

(a) These investments are measured at NAV or their equivalent as a practical expedient and have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the accompanying statement of financial position.

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

Mutual funds – Mutual funds are valued at readily available quoted market prices from an active market.

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

Money market funds – Money market funds are valued using the NAV of shares held, as reported in an active market in which the fund is traded.

Beneficial interest in perpetual trust and charitable lead unitrust – The beneficial interest in the perpetual trust held by a third party is classified as Level 3, as the assets are not under the control of AMS. Since AMS 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 the fair value of the charitable lead unitrust.

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NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

5. Fair Value Measurement (continued)

Private debt fund and pooled investment fund – These funds are valued using significant unobservable inputs, are subject to certain restrictions and generally have no established trading market. Fair value is determined based on NAV or its equivalent as described above. The private debt fund invests in debt securities of middle market companies with stable cash flows, conservative capital structures and private equity ownership.

A roll forward of the fair value measurement using unobservable inputs (Level 3) is as follows for the year ended June 30, 2020:

	<u>Beneficial Interest in Trusts</u>
Balance, beginning of year	\$ 2,359,067
Change in value of beneficial interest in trusts	<u>23,181</u>
Balance, End of Year	<u><u>\$ 2,382,248</u></u>

The table below details AMS's ability to redeem investment funds valued at NAV or its equivalent, as a practical expedient, as of June 30, 2020, and unfunded commitments as of June 30, 2020:

	<u>Number of Funds</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency, If Currently Eligible</u>	<u>Redemption Notice Period</u>
Private debt fund ^(a)	1	\$ 4,084,707	\$ -	Quarterly	90 days
Pooled investment fund ^(b)	1	<u>318,027</u>	<u>-</u>	Quarterly	75 days
Total		<u><u>\$ 4,402,734</u></u>	<u><u>\$ -</u></u>		

^(a) These are investments in a private debt fund operated by Knights of Columbus Asset Advisors LLC as a limited partnership. The principal objective of the fund is to invest in debt securities of middle market companies with stable cash flows, conservative capital structures and private equity ownership.

^(b) These are investments in a pooled investment fund for mission dioceses and associated organizations. The principal investment objective of this fund is to provide diversified investments with good returns at lower costs through economies of scale.

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NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

6. Property and Equipment

Property and equipment consisted of the following at June 30, 2020:

Land	\$ 1,803,314
Buildings and renovations	10,714,769
Office furnishings and equipment	1,044,758
Software	676,052
Rectory and chapel furnishing	90,338
Transportation equipment	26,665
Collectibles	<u>11,500</u>
Total Property and Equipment	14,367,396
Less: Accumulated Depreciation and Amortization	<u>(4,824,870)</u>
Property and Equipment, Net	<u>\$ 9,542,526</u>

Depreciation and amortization expense totaled \$420,906 for the year ended June 30, 2020.

7. Post-retirement Benefits

AMS follows the guidelines of the United States Conference of Catholic Bishops (the 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 to reflect reduced post-retirement benefits for the bishops.

The liability for future benefit payments based on the estimated remaining lives of the bishops, as well as the funded status at June 30, 2020, is calculated and recorded as follows:

Designated assets at fair value	\$ 2,877,000
Less: Projected post-retirement benefit obligation	<u>(2,264,870)</u>
Excess of Assets Over Benefit Obligation	<u>\$ 612,130</u>

The assumed discount rate used in determining the postretirement benefit obligation was 1.41%. The designated assets are included in investments 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 June 30, 2020:

Funds held for others, beginning of year	\$ 73,024
Funds received during year	12,213
Funds disbursed during year	<u>(20,966)</u>
Funds Held for Others, End of Year	<u>\$ 64,271</u>

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NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

9. Net Assets

Net Assets Without Donor Restrictions

AMS's net assets without donor restrictions are composed of undesignated amounts and board-designated amounts. As of June 30, 2020, AMS's net assets without donor restrictions were as follows:

Undesignated	\$ 29,722,192
Board-designated	<u>2,877,000</u>
Total Net Assets Without Donor Restrictions	<u><u>\$ 32,599,192</u></u>

The board-designated net assets were instituted to provide funding for the post-retirement benefits of retired bishops.

Net Assets With Donor Restrictions

As of June 30, 2020, net assets with donor restrictions were restricted for the following purposes:

Subject to expenditure for specified purpose:	
Vocations program	\$ 3,622,764
Capital campaign	1,904,475
Pastoral, Catholics Seeking Christ, peer to peer and youth ministry	373,700
Marriage tribunal services	188,668
Millennium project	96,953
Beneficial interest in unitrust	74,722
Other programs	<u>59,421</u>
Total Subject to Expenditure for Specified Purpose	<u>6,320,703</u>
Subject to donor restriction in perpetuity:	
Endowment	<u>4,570,796</u>
Total Subject to Restriction in Perpetuity	<u>4,570,796</u>
Total Net Assets With Donor Restrictions	<u><u>\$ 10,891,499</u></u>

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

Net Assets Subject to Donor Restriction in Perpetuity

AMS's net assets subject to donor restriction in perpetuity 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 AMS 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 AMS is for general use. The beneficial interest in this trust was donated to AMS in December 2009, 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 AMS.

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NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

9. Net Assets (continued)

Net Assets Subject to Donor Restriction in Perpetuity (continued)

For the year ended June 30, 2020, changes in this beneficial interest, along with other permanently restricted endowments held by AMS, were as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 4,534,866	\$ 4,534,866
Contributions received	-	13,200	13,200
Investment return:			
Investment income, net of fees	48,157	-	48,157
Net appreciation (realized and unrealized)	-	22,730	22,730
Total Net Investment Return	48,157	22,730	70,887
Appropriations for expenditure	(48,157)	-	(48,157)
Endowment Net Assets, End of Year	\$ -	\$ 4,570,796	\$ 4,570,796

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

As of June 30, 2020, net assets subject to donor restriction in perpetuity consisted of or were restricted for the following:

Beneficial interest in perpetual trust	\$ 2,307,526
Co-sponsorship	2,214,105
Education of priest candidates	30,000
Capital campaign	<u>19,165</u>
Total Permanently Restricted Net Assets	<u>\$ 4,570,796</u>

Earnings on the beneficial interest in the perpetual trust are classified as without donor restrictions in accordance with GAAP. Earnings on the other endowment funds are restricted for co-sponsorships, education of priest candidates and the capital campaign and are spent in the fiscal year in which they are earned.

10. Risks, Uncertainties and Contingencies

COVID-19

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic that continues to spread throughout the United States. AMS is monitoring the outbreak of COVID-19 and the related business and travel restrictions and changes to behavior intended to reduce its spread, in addition to the impact on its employees.

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NOTES TO FINANCIAL STATEMENTS For the Year Ended June 30, 2020

10. Risks, Uncertainties and Contingencies (continued)

AMS has been able to continue operations in a remote environment; however, at this point, the extent to which COVID-19 will impact AMS's financial condition or result of operations is uncertain and is continually being evaluated by management and the Board.

Legal Contingencies

AMS is subject to various legal proceedings and claims which arise in the ordinary course of business. The amount of liability that may finally exist, if any, cannot be reasonably estimated, and no provision for loss has been made in the accompanying financial statements. In the opinion of management, these actions will not result in a significant adverse effect on AMS's financial condition.

11. Availability and Liquidity

AMS regularly monitors liquidity required to meet its annual operating needs and other contractual commitments, while also striving to preserve the principal and return on the investment of its funds. AMS's financial assets available within one year of the statement of financial position date for general expenditures at June 30, 2020, were as follows:

Cash and cash equivalents	\$ 2,881,816
Investments	31,017,806
Accounts and other receivable	93,913
Pledges receivable	<u>589,302</u>
Total Financial Assets Available Within One Year	34,582,837
Less:	
Amounts unavailable for general expenditures within one year due to donors' restriction	(10,891,499)
Amounts unavailable to management without Board approval:	
Board-designated for post-retirement benefits of retired bishops	<u>(2,877,000)</u>
Financial Assets Available to Meet	
General Expenditures Within One Year	<u>\$20,814,338</u>

AMS has various sources of liquidity at its disposal, including cash and cash equivalents and investments, which are available for general expenditures, liabilities and other obligations as they come due. Management is focused on sustaining the financial liquidity of AMS throughout the year. This is done through monitoring and reviewing AMS's cash flow needs on a weekly basis. As a result, management is aware of the cyclical nature of AMS's cash flow related to AMS's various funding sources and is therefore able to ensure that there is cash available to meet current liquidity needs. As part of its liquidity plan, excess cash is invested in publicly traded investment vehicles, including mutual funds, equity securities and money market funds. AMS can liquidate most of its investments anytime, and therefore the investments are available to meet current cash flow needs.

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NOTES TO FINANCIAL STATEMENTS For the Year Ended June 30, 2020

12. Retirement Plans

AMS participates in a 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 8% of all eligible employees' payroll. In October 2012, the Archdiocese of Washington resolved to freeze the pension plan for all new hires and future benefit accruals effective December 31, 2012.

Beginning January 1, 2013, the Archdiocese of Washington sponsors a defined contribution retirement plan which is available to all lay employees who work 20 or more hours per week and who are not nonresident aliens. AMS is a participant in the defined contribution retirement plan. Under the terms of the plan, eligible employees may elect to contribute up to the federal tax limitation and the contributions are vested immediately. AMS matches employee contributions up to 50% of the first 4% of eligible pay. Employer contributions are vested in 20% increments after one year of service and fully vested after five years of service.

Pension expense under both of these plans totaled \$203,068 for the year ended June 30, 2020.

13. Income Taxes

Under Section 501(c)(3) of the Internal Revenue Code, AMS is exempt from the payment of taxes on income other than net unrelated business income. For the year ended June 30, 2020, no provision for income taxes was made, as AMS had no taxable net unrelated business income.

AMS follows the authoritative guidance relating to accounting for uncertainty in income taxes included in FASB ASC Topic 740, *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. AMS performed an evaluation of uncertainty in income taxes for the year ended June 30, 2020, 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 June 30, 2020, the statute of limitations remained open with the U.S. federal jurisdiction or the various states and local jurisdictions in which AMS files tax returns; however, there are currently no examinations pending or in progress. It is AMS's policy to recognize interest and/or penalties related to uncertainty in income taxes, if any, in income tax expense. As of June 30, 2020, AMS had no accruals for interest and/or penalties.

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NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

14. Summarized Financial Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class or functional area. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with AMS's audited financial statements for the year ended June 30, 2019, from which the summarized information was derived.

15. Subsequent Events

AMS has evaluated subsequent events and transactions through September 15, 2021, the date the financial statements were available to be issued. There were no subsequent events that require recognition or disclosure in these financial statements.