



ARCHDIOCESE FOR THE MILITARY SERVICES, USA

Financial Statements

For the Year Ended June 30, 2021

(With Summarized Financial Information for the Year Ended June 30, 2020)



**and
Report Thereon**



ARCHDIOCESE FOR THE MILITARY SERVICES, USA

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For the Year Ended June 30, 2021

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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, 2021, 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 2021 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, 2021, 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 2020 financial statements, and our report dated September 15, 2021, 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, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in black ink that reads "Marcum LLP". The signature is written in a cursive, flowing style.

Washington, DC
November 18, 2022

ARCHDIOCESE FOR THE MILITARY SERVICES, USA
STATEMENT OF FINANCIAL POSITION
June 30, 2021
(With Summarized Financial Information as of June 30, 2020)

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and cash equivalents	\$ 2,999,879	\$ 2,881,816
Investments	38,758,330	31,017,806
Accounts and other receivable	91,021	93,913
Prepaid expenses	122,967	102,906
Pledges receivable, net	901,947	565,220
Beneficial interest in trusts	2,539,168	2,382,248
Property and equipment, net	<u>9,434,694</u>	<u>9,542,526</u>
TOTAL ASSETS	<u><u>\$ 54,848,006</u></u>	<u><u>\$ 46,586,435</u></u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 670,611	\$ 765,425
Deferred revenue	33,700	1,178
Post-retirement benefit obligation	2,522,501	2,264,870
Funds held for others	<u>24,368</u>	<u>64,271</u>
TOTAL LIABILITIES	<u>3,251,180</u>	<u>3,095,744</u>
Net Assets		
Without donor restrictions		
Undesignated	36,421,397	29,722,192
Board-designated	<u>3,607,942</u>	<u>2,877,000</u>
Total Without Donor Restrictions	<u>40,029,339</u>	<u>32,599,192</u>
With donor restrictions		
Purpose restrictions	6,502,313	6,320,703
Perpetual in nature	<u>5,065,174</u>	<u>4,570,796</u>
Total With Donor Restrictions	<u>11,567,487</u>	<u>10,891,499</u>
TOTAL NET ASSETS	<u>51,596,826</u>	<u>43,490,691</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 54,848,006</u></u>	<u><u>\$ 46,586,435</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, 2021

(With Summarized Financial Information for the Year Ended June 30, 2020)

	<u>2021</u>			<u>2020</u>
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>Total</u>
REVENUE AND SUPPORT				
Contributions	\$ 7,587,222	\$ 1,231,814	\$ 8,819,036	\$ 13,592,463
Investment income, net	6,291,913	-	6,291,913	462,899
Sacrament revenue	71,095	-	71,095	63,686
Gain from change in value of trusts	-	156,920	156,920	23,181
Other income	85,922	-	85,922	195,684
Marriage tribunal	4,803	-	4,803	7,425
Net assets released from restrictions:				
Satisfaction of program restrictions	712,746	(712,746)	-	-
TOTAL REVENUE AND SUPPORT	<u>14,753,701</u>	<u>675,988</u>	<u>15,429,689</u>	<u>14,345,338</u>
EXPENSES				
Program Services:				
Evangelization and pastoral	3,151,434	-	3,151,434	3,379,552
Vocations and co-sponsorship	539,819	-	539,819	944,756
Sacramental records	531,631	-	531,631	568,829
Marriage tribunal	224,068	-	224,068	309,643
Chaplain's affairs	323,454	-	323,454	334,273
Veterans' affairs	132,276	-	132,276	118,919
Total Program Services	4,902,682	-	4,902,682	5,655,972
Supporting Services:				
Administrative services	1,238,822	-	1,238,822	1,142,865
Fundraising	1,182,050	-	1,182,050	1,656,236
TOTAL EXPENSES	<u>7,323,554</u>	<u>-</u>	<u>7,323,554</u>	<u>8,455,073</u>
CHANGE IN NET ASSETS	7,430,147	675,988	8,106,135	5,890,265
NET ASSETS, BEGINNING OF YEAR	<u>32,599,192</u>	<u>10,891,499</u>	<u>43,490,691</u>	<u>37,600,426</u>
NET ASSETS, END OF YEAR	<u>\$ 40,029,339</u>	<u>\$ 11,567,487</u>	<u>\$ 51,596,826</u>	<u>\$ 43,490,691</u>

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, 2021

(With Summarized Financial Information for the Year Ended June 30, 2020)

	Program Services							Supporting Services			
	Evangelization and Pastoral	Vocations and Co-sponsorship	Sacramental Records	Chaplains' Affairs	Marriage Tribunal	Veterans' Affairs	Total Program Services	Administrative Services	Fundraising	2021 Total	2020 Total
Salaries and wages	\$ 1,075,511	\$ 53,745	\$ 323,113	\$ 53,363	\$ 101,450	\$ 51,074	\$ 1,658,256	\$ 892,249	\$ 485,367	\$ 3,035,872	\$ 3,000,261
Employee benefits and payroll taxes	558,161	13,649	82,709	73,449	35,777	23,146	786,891	189,201	97,344	1,073,436	955,678
Occupancy	313,817	13,934	58,553	31,904	37,664	16,841	472,713	34,472	48,628	555,813	715,384
Technology costs	480,079	-	4,237	-	930	-	485,246	33,829	5,490	524,565	436,381
Tuition and fees for seminarians	-	413,512	-	-	-	-	413,512	-	-	413,512	801,090
Professional fundraising	-	-	-	-	-	-	-	-	372,057	372,057	466,003
Depreciation and amortization	273,310	3,608	15,163	8,262	9,753	4,361	314,457	8,928	12,592	335,977	420,906
Office expenses	53,809	4,184	20,868	8,524	11,116	2,846	101,347	66,202	142,370	309,919	245,601
Publications and other outreach costs	227,051	-	-	-	-	-	227,051	-	-	227,051	354,587
Travel	19,173	2,598	-	103,017	369	15,770	140,927	1,659	455	143,041	179,124
Professional fees	89,151	4,459	26,784	4,435	8,403	4,238	137,470	417	-	137,887	134,061
In-Kind support	-	24,000	-	39,000	-	14,000	77,000	-	-	77,000	58,500
Dues and subscriptions	23,189	1,118	204	365	375	-	25,251	9,625	1,874	36,750	34,144
Conferences and meetings	18,139	5,012	-	1,135	1,265	-	25,551	2,240	1,847	29,638	126,094
Gifts and donations	17,103	-	-	-	-	-	17,103	-	-	17,103	20,050
Reviews costs for marriage cases	-	-	-	-	16,966	-	16,966	-	-	16,966	21,357
Advertising and promotion	2,137	-	-	-	-	-	2,137	-	13,305	15,442	381,188
Training	804	-	-	-	-	-	804	-	721	1,525	4,664
Legal settlement	-	-	-	-	-	-	-	-	-	-	100,000
TOTAL EXPENSES	\$ 3,151,434	\$ 539,819	\$ 531,631	\$ 323,454	\$ 224,068	\$ 132,276	\$ 4,902,682	\$ 1,238,822	\$ 1,182,050	\$ 7,323,554	\$ 8,455,073

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, 2021

(With Summarized Financial Information for the Year Ended June 30, 2020)

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 8,106,135	\$ 5,890,265
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	335,977	420,906
Change in value of trusts	(156,920)	(23,181)
Net realized and unrealized (gains) losses	(5,912,294)	45,364
Change in allowance for pledges receivable	(37,300)	(48,500)
Changes in assets and liabilities:		
Accounts and other receivable	2,892	53,362
Pledges receivable	(299,427)	458,282
Prepaid expenses	(20,061)	104,935
Accounts payable and accrued expenses	(94,814)	(213,049)
Deferred revenue	32,522	(22,322)
Post-retirement benefit obligation	257,631	136,696
Funds held for others	<u>(39,903)</u>	<u>(8,753)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>2,174,438</u>	<u>6,794,005</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	7,189,983	8,619,303
Purchases of investments	(9,018,213)	(12,342,186)
Purchases of property and equipment	<u>(228,145)</u>	<u>(868,794)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(2,056,375)</u>	<u>(4,591,677)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	118,063	2,202,328
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2,881,816</u>	<u>679,488</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 2,999,879</u></u>	<u><u>\$ 2,881,816</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, 2021

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 cash and highly liquid financial instruments with original maturities of three months or less to be cash and cash equivalents.

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, 2021

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, 2021, 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, 2021

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, 2021.

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, 2021

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 is 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 \$3,607,942 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, 2021, 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, 2021, approximately \$77,000 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, 2021

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

2. Investments

Investments consisted of the following as of June 30, 2021:

Mutual funds	\$ 29,699,995
Private debt fund	4,263,440
Common stocks	2,986,745
Money market funds	1,391,284
Private pooled investment fund	<u>416,866</u>
Total Investments	<u><u>\$ 38,758,330</u></u>

A summary of investment income, net is as follows for the year ended June 30, 2021:

Interest and dividends	\$ 506,307
Realized gains	752,642
Unrealized gains	5,159,652
Distributions from beneficial interest in trusts	21,294
Investment fees	<u>(147,982)</u>
Total Investment Income, Net	<u><u>\$ 6,291,913</u></u>

3. Pledges Receivable

As of June 30, 2021, AMS's pledges receivable were due as follows:

Less than one year	\$ 890,223
One to five years	<u>17,000</u>
Total Pledges Receivable	907,223
Less: Allowance for Doubtful Accounts	(3,700)

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2021

3. Pledges Receivable (continued)

(continued)

Less: Discount to Present Value (3%)	\$ (1,576)
Pledges Receivable, Net	<u>\$ 901,947</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, 2021 was 2.06%. As of June 30, 2021, the fair value of the beneficial interest in the charitable lead unitrust was \$86,552. During the year ended June 30, 2021, AMS received \$4,587 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. 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, 2021, the fair value of the beneficial interest in the perpetual trust was \$2,452,616. During the year ended June 30, 2021, AMS received \$21,294 as distributions from the perpetual trust, which were recorded as investment income in the accompanying statement of activities.

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2021

5. Fair Value Measurement

The following table summarizes AMS's assets measured at fair value on a recurring basis as of June 30, 2021:

	<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	\$ 17,155,904	\$ 17,155,904	\$ -	\$ -
Fixed income	12,544,091	12,544,091	-	-
Common stocks:				
Financial	153,094	153,094	-	-
Information technology	782,799	782,799	-	-
Industrials	715,924	715,924	-	-
Consumer staples	103,170	103,170	-	-
Healthcare	573,902	573,902	-	-
Telecommunications	538,202	538,202	-	-
Consumer discretionary	119,654	119,654	-	-
Money market funds	<u>1,391,284</u>	<u>1,391,284</u>	<u>-</u>	<u>-</u>
Total Investments in the Fair Value Hierarchy	34,078,024	32,686,740	-	-
Beneficial interest in perpetual trust	86,552	-	-	86,552
Beneficial interest in charitable lead unitrust	<u>2,452,616</u>	<u>-</u>	<u>-</u>	<u>2,452,616</u>
Total Assets in the Fair Value Hierarchy	36,617,192	<u>\$ 32,686,740</u>	<u>\$ -</u>	<u>\$ 2,539,168</u>
Private debt fund ^(a)	4,263,440			
Pooled investment fund ^(a)	<u>416,866</u>			
Total Investments and Beneficial Interest in Trusts	<u>\$ 41,297,498</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.

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS For the Year Ended June 30, 2021

5. Fair Value Measurement (continued)

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.

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, 2021:

	Beneficial Interest in Trusts
Balance, beginning of year	\$ 2,382,248
Change in value of beneficial interest in trusts	<u>156,920</u>
Balance, End of Year	<u><u>\$ 2,539,168</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, 2021, and unfunded commitments as of June 30, 2021:

	Number of Funds	Fair Value	Unfunded Commitments	Redemption Frequency, If Currently Eligible	Redemption Notice Period
Private debt fund ^(a)	1	\$ 4,263,440	\$ -	Quarterly	90 days
Pooled investment fund ^(b)	1	<u>416,866</u>	<u>-</u>	Quarterly	75 days
Total		<u><u>\$ 4,680,306</u></u>	<u><u>\$ -</u></u>		

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NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2021

5. Fair Value Measurement (continued)

- (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.

6. Property and Equipment

Property and equipment consisted of the following at June 30, 2021:

Land	\$ 1,803,314
Buildings and renovations	10,714,769
Office furnishings and equipment	1,139,817
Software	676,052
Work in progress	133,086
Rectory and chapel furnishing	90,338
Transportation equipment	26,665
Collectibles	<u>11,500</u>
Total Property and Equipment	14,595,541
Less: Accumulated Depreciation and Amortization	<u>(5,160,847)</u>
Property and Equipment, Net	<u>\$ 9,434,694</u>

Depreciation and amortization expense totaled \$335,977 for the year ended June 30, 2021.

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, 2021, is calculated and recorded as follows:

Designated assets at fair value	\$ 3,607,942
Less: Projected post-retirement benefit obligation	<u>(2,522,501)</u>
Excess of Assets Over Benefit Obligation	<u>\$ 1,085,441</u>

The assumed discount rate used in determining the postretirement benefit obligation was 2.06%. The designated assets are included in investments in the accompanying statement of financial position.

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NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2021

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, 2021:

Funds held for others, beginning of year	\$ 64,271
Funds received during year	10,118
Funds disbursed during year	<u>(50,021)</u>
Funds Held for Others, End of Year	<u>\$ 24,368</u>

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, 2021, AMS's net assets without donor restrictions were as follows:

Undesignated	\$ 36,421,397
Board-designated	<u>3,607,942</u>
Total Net Assets Without Donor Restrictions	<u>\$ 40,029,339</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, 2021, net assets with donor restrictions were restricted for the following purposes:

Subject to expenditure for specified purpose:	
Vocations program	\$ 4,033,659
Capital campaign	1,720,083
Pastoral, Catholics Seeking Christ, peer to peer and youth ministry	378,443
Marriage tribunal services	141,168
Millennium project	96,953
Beneficial interest in unitrust	86,552
Other programs	<u>45,455</u>
Total Subject to Expenditure for Specified Purpose	<u>6,502,313</u>
Subject to donor restriction in perpetuity:	
Endowment	<u>5,065,174</u>
Total Subject to Restriction in Perpetuity	<u>5,065,174</u>
Total Net Assets With Donor Restrictions	<u>\$ 11,567,487</u>

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

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NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2021

9. Net Assets (continued)

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.

For the year ended June 30, 2021, 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	\$ -	\$ 4,570,797	\$ 4,570,797
Contributions received	-	349,286	349,287
Investment return:			
Investment income, net of fees	21,294	-	21,294
Net appreciation (realized and unrealized)	-	145,091	45,091
Total Net Investment Return	21,294	494,377	515,671
Appropriations for expenditure	(21,294)	-	(21,294)
Endowment Net Assets, End of Year	\$ -	\$ 5,065,174	\$ 5,065,174

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, 2021, net assets subject to donor restriction in perpetuity consisted of or were restricted for the following:

Beneficial interest in perpetual trust	\$ 2,452,616
Co-sponsorship	2,563,394
Education of priest candidates	30,000
Capital campaign	19,164
Total Permanently Restricted Net Assets	<u>\$ 5,065,174</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.

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NOTES TO FINANCIAL STATEMENTS For the Year Ended June 30, 2021

10. Risks, Uncertainties and Contingencies

Risks and Uncertainties

AMS invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Market Risks include global events which could impact the value of investments securities, such as pandemic or international conflicts. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term could materially affect the fair value of the investments reported in the accompanying statement of financial position.

Legal Contingencies

AMS is subject to various legal proceedings and claims. 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, 2021, were as follows:

Cash and cash equivalents	\$ 2,999,879
Investments	38,758,330
Accounts and other receivable	91,021
Pledges receivable	<u>901,947</u>
Total Financial Assets Available Within One Year	42,751,177
Less:	
Amounts unavailable for general expenditures within one year due to donors' restriction	(11,567,487)
Amounts unavailable to management without Board approval:	
Board-designated for post-retirement benefits of retired bishops	<u>(3,607,942)</u>
Financial Assets Available to Meet General Expenditures Within One Year	<u>\$27,575,748</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

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NOTES TO FINANCIAL STATEMENTS For the Year Ended June 30, 2021

11. Availability and Liquidity (continued)

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.

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 \$214,883 for the year ended June 30, 2021.

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, 2021, 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, 2021, 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, 2021, 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, 2021, AMS had no accruals for interest and/or penalties.

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NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2021

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, 2020, from which the summarized information was derived.

15. Subsequent Events

AMS has evaluated subsequent events and transactions through November 18, 2022, the date the financial statements were available to be issued. There were no subsequent events that require recognition or disclosure in these financial statements.