

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

FINANCIAL STATEMENTS

***FOR THE YEAR ENDED JUNE 30, 2023
(WITH SUMMARIZED FINANCIAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2022)***

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

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Independent Auditors' Report

The Board of Directors
Archdiocese for the Military Services, USA
Washington, DC

Opinion

We have audited the financial statements of the Archdiocese for the Military Services, USA (AMS), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of AMS as of June 30, 2023, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of AMS and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about AMS' ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee

that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Matter

Report on Summarized Comparative Information

The financial statements of the Archdiocese for the Military Services, USA as of and for the year ended June 30, 2022 were audited by Marcum LLP, whose report dated January 19, 2024, expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

CBIZ CPAs P.C.

Washington, DC
March 5, 2025

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2023

(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2022)

	2023	2022
Assets		
Cash and cash equivalents	\$ 7,470,108	\$ 3,015,019
Investments	32,553,412	36,487,773
Accounts and other receivable	265,965	91,074
Prepaid expenses	142,377	121,024
Pledges receivable, net	419,646	567,799
Beneficial interest in trusts	2,294,933	2,284,846
Property and equipment, net	<u>9,550,794</u>	<u>9,193,461</u>
Total Assets	<u>\$ 52,697,235</u>	<u>\$ 51,760,996</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 1,742,745	\$ 1,690,779
Deferred revenue	38,350	2,500
Post-retirement benefit obligation	2,194,680	2,701,837
Funds held for others	<u>66,181</u>	<u>45,593</u>
Total Liabilities	<u>4,041,956</u>	<u>4,440,709</u>
Net Assets		
Without donor restrictions		
Undesignated	40,269,844	32,379,952
Board-designated	<u>--</u>	<u>3,086,878</u>
Total Without Donor Restrictions	<u>40,269,844</u>	<u>35,466,830</u>
With donor restrictions		
Purpose restrictions	5,917,723	6,234,929
Perpetual in nature	<u>2,467,712</u>	<u>5,618,528</u>
Total With Donor Restrictions	<u>8,385,435</u>	<u>11,853,457</u>
Total Net Assets	<u>48,655,279</u>	<u>47,320,287</u>
Total Liabilities and Net Assets	<u>\$ 52,697,235</u>	<u>\$ 51,760,996</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, 2023

(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2022)

	2023			2022
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Revenue and Support				
Contributions	\$ 13,630,037	\$ 1,034,263	\$ 14,664,300	\$ 8,099,531
In-kind contributions	76,164	--	76,164	69,582
Investment income (loss), net	2,346,947	--	2,346,947	(3,319,816)
Sacrament revenue	85,990	--	85,990	74,393
Gain (loss) from change in value of trusts	--	10,087	10,087	(254,322)
Other income	39,071	--	39,071	102,033
Marriage tribunal	8,270	--	8,270	30,275
Net assets released from restrictions:				
Funds transferred to				
Saint John XXIII Foundation	3,322,100	(3,322,100)	--	--
Satisfaction of program restrictions	1,190,272	(1,190,272)	--	--
Total Revenue and Support	<u>20,698,851</u>	<u>(3,468,022)</u>	<u>17,230,829</u>	<u>4,801,676</u>
Expenses				
Program Services				
Evangelization and pastoral	10,373,282	--	10,373,282	4,139,432
Vocations and co-sponsorship	1,055,088	--	1,055,088	989,797
Sacramental records	519,305	--	519,305	529,435
Marriage tribunal	303,048	--	303,048	280,331
Chaplain's affairs	371,255	--	371,255	380,720
Veterans' affairs	134,466	--	134,466	127,849
Total Program Services	<u>12,756,444</u>	<u>--</u>	<u>12,756,444</u>	<u>6,447,564</u>
Supporting Services				
Administrative services	1,362,650	--	1,362,650	1,465,456
Fundraising	1,776,743	--	1,776,743	1,165,195
Total Expenses	<u>15,895,837</u>	<u>--</u>	<u>15,895,837</u>	<u>9,078,215</u>
Change in Net Assets	<u>4,803,014</u>	<u>(3,468,022)</u>	<u>1,334,992</u>	<u>(4,276,539)</u>
Net Assets, Beginning of Year	<u>35,466,830</u>	<u>11,853,457</u>	<u>47,320,287</u>	<u>51,596,826</u>
Net Assets, End of Year	<u>\$ 40,269,844</u>	<u>\$ 8,385,435</u>	<u>\$ 48,655,279</u>	<u>\$ 47,320,287</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, 2023
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2022)**

	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	2023 Total	2022 Total
Contributions	\$ 7,303,249	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 7,303,249	\$ --	\$ --	\$ 7,303,249	\$ --
Salaries, wages and benefits	1,115,202	127,035	379,905	118,540	187,447	52,519	1,980,648	1,153,835	730,279	3,864,762	3,970,812
Tuition and fees for seminarians	--	833,532	--	--	--	--	833,532	--	--	833,532	807,044
Occupancy	421,103	16,274	68,206	37,012	45,794	19,537	607,926	40,427	56,691	705,044	633,340
Technology costs	452,137	--	14,363	--	930	--	467,430	45,141	6,985	519,556	450,883
Depreciation and amortization	369,672	4,881	20,509	11,174	13,192	5,899	425,327	12,075	17,032	454,434	342,484
Professional fundraising	--	--	--	--	--	--	--	--	417,720	417,720	381,829
Advertising and promotion	37,568	59	59	--	177	--	37,863	59	308,513	346,435	113,170
Publications and other outreach costs	329,216	--	--	--	--	--	329,216	--	--	329,216	327,190
Office expenses	64,586	8,374	23,178	12,581	12,131	2,317	123,167	17,873	164,694	305,734	275,918
Travel	85,288	25,607	--	145,458	2,084	28,247	286,684	1,519	10,690	298,893	217,611
Professional fees	57,510	4,237	13,085	2,359	6,325	1,472	84,988	65,667	47,035	197,690	561,359
Conferences and meetings	79,695	33,200	--	5,072	1,293	475	119,735	21,672	13,441	154,848	170,650
In-kind support	13,164	--	--	39,000	--	24,000	76,164	--	--	76,164	69,582
Dues and subscriptions	28,601	1,889	--	59	900	--	31,449	4,313	3,368	39,130	38,527
Reviews costs for marriage cases	--	--	--	--	32,775	--	32,775	--	--	32,775	21,025
Gifts and donations	16,125	--	--	--	--	--	16,125	--	--	16,125	18,950
Training	166	--	--	--	--	--	166	69	295	530	2,841
Legal settlement	--	--	--	--	--	--	--	--	--	--	675,000
						-					
Total Expenses	<u>\$ 10,373,282</u>	<u>\$ 1,055,088</u>	<u>\$ 519,305</u>	<u>\$ 371,255</u>	<u>\$ 303,048</u>	<u>\$ 134,466</u>	<u>\$ 12,756,444</u>	<u>\$ 1,362,650</u>	<u>\$ 1,776,743</u>	<u>\$ 15,895,837</u>	<u>\$ 9,078,215</u>

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, 2023

(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2022)

	2023	2022
Cash Flows From Operating Activities		
Change in net assets	\$ 1,334,992	\$ (4,276,539)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	454,434	342,484
Change in value of trusts	(10,087)	254,322
Net realized and unrealized (gains) losses	(1,956,070)	3,840,023
Contributions restricted for long-term purpose	(150,116)	(831,981)
Bad debt recovery	28,300	24,600
Changes in assets and liabilities:		
Accounts and other receivable	(174,891)	(53)
Pledges receivable	119,853	309,548
Prepaid expenses	(21,353)	1,943
Accounts payable and accrued expenses	51,966	1,020,168
Deferred revenue	35,850	(31,200)
Post-retirement benefit obligation	(507,157)	179,336
Funds held for others	20,588	21,225
Net Cash (Used in) Provided by Operating Activities	<u>(773,691)</u>	<u>853,876</u>
Cash Flows From Investing Activities		
Proceeds from sales of investments	12,238,541	2,786,264
Purchases of investments	(6,348,110)	(4,355,730)
Purchases of property and equipment	(811,767)	(101,251)
Net Cash Provided by (Used in) Investing Activities	<u>5,078,664</u>	<u>(1,670,717)</u>
Cash Flows From Financing Activities		
Contributions restricted for long-term purpose	150,116	831,981
Net Cash Provided by Financing Activities	<u>150,116</u>	<u>831,981</u>
Net Increase in Cash and Cash Equivalents	4,455,089	15,140
Cash and Cash Equivalents, Beginning of Year	<u>3,015,019</u>	<u>2,999,879</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 7,470,108</u></u>	<u><u>\$ 3,015,019</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, 2023

NOTE 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*.

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2023

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INVESTMENTS (CONTINUED)

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.

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, 2023, 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.

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2023

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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.

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, 2023.

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2023

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2023

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. As of July 1, 2022, the Board has designated \$3,086,878 of net assets without donor restrictions and the entire designated amount had been transferred to a newly formed entity during 2023. As a result, there were no designated net assets at June 30, 2023.
- 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, 2023, 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, 2023, approximately \$76,164 of contributed services is included in contributions in the accompanying statement of activities.

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.

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2023

NOTE 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.

NOTE 2 - INVESTMENTS

Investments consisted of the following as of June 30, 2023:

Mutual funds	\$ 23,642,208
Private debt fund	4,672,824
Common stocks	2,755,588
Money market funds	1,085,202
Private pooled investment fund	<u>397,590</u>
Total Investments	<u>\$ 32,553,412</u>

A summary of investment income, net is as follows for the year ended June 30, 2023:

Interest and dividends	\$ 503,764
Realized and unrealized gains on investments	1,956,070
Distributions from beneficial interest in trusts	47,550
Investment fees	<u>(160,437)</u>
Total Investment Income, Net	<u>\$ 2,346,947</u>

NOTE 3 - PLEDGES RECEIVABLE

As of June 30, 2023, AMS's pledges receivable for the amount of \$419,646 were due within one year and deemed fully collectible.

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2023

NOTE 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, 2023 was 4.73%. As of June 30, 2023, the fair value of the beneficial interest in the charitable lead unitrust was \$99,776. During the year ended June 30, 2023, AMS received \$4,852 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, 2023, the fair value of the beneficial interest in the perpetual trust was \$2,195,157. During the year ended June 30, 2023, AMS received \$47,550 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, 2023

NOTE 5 - FAIR VALUE MEASUREMENT

The following table summarizes AMS's assets measured at fair value on a recurring basis as of June 30, 2023:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Investments:				
Mutual funds:				
Domestic equity	\$ 12,405,974	\$ 12,405,974	\$ --	\$ --
Fixed income	11,236,234	11,236,234	--	--
Common stocks:				
Financial	239,240	239,240	--	--
Information technology	1,039,668	1,039,668	--	--
Industrials	656,741	656,741	--	--
Material	80,614	80,614	--	--
Healthcare	357,280	357,280	--	--
Telecommunications	320,010	320,010	--	--
Consumer discretionary	62,035	62,035	--	--
Money market funds	<u>1,085,202</u>	<u>1,085,202</u>	<u>--</u>	<u>--</u>
Total Investments in the Fair Value Hierarchy	27,482,998	27,482,998	--	--
Beneficial interest in perpetual trust	2,195,157	--	--	2,195,157
Beneficial interest in charitable lead unitrust	<u>99,776</u>	<u>--</u>	<u>--</u>	<u>99,776</u>
Total Assets in the Fair Value Hierarchy	29,777,931	<u>\$ 27,482,998</u>	<u>\$ --</u>	<u>\$ 2,294,933</u>
Private debt fund ^(a)	4,672,824			
Pooled investment fund ^(a)	<u>397,590</u>			
Total Investments and Beneficial Interest in Trusts	<u>\$ 34,848,345</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, 2023

NOTE 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. 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, 2023:

	Beneficial Interest in Trusts
Balance, beginning of year	\$ 2,284,846
Change in value of beneficial interest in trusts	<u>10,087</u>
Balance, End of Year	<u>\$ 2,294,933</u>

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2023

NOTE 5 - FAIR VALUE MEASUREMENT (CONTINUED)

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, 2023, and unfunded commitments as of June 30, 2023:

	Number of Funds	Fair Value	Unfunded Commitments	Redemption Frequency, If Currently Eligible	Redemption Notice Period
Private debt fund ^(a)	1	\$ 4,672,824	\$ --	Quarterly	90 days
Pooled investment fund ^(b)	1	<u>397,590</u>	<u>--</u>	Quarterly	75 days
Total		<u>\$ 5,070,414</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.

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30, 2023:

Land	\$ 1,803,314
Buildings and renovations	11,424,914
Office furnishings and equipment	1,159,441
Software	951,403
Residents furnishing	90,338
Transportation equipment	67,648
Collectibles	<u>11,500</u>
Total Property and Equipment	15,508,558
Less: Accumulated Depreciation and Amortization	<u>(5,957,764)</u>
Property and Equipment, Net	<u>\$ 9,550,794</u>

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2023

NOTE 6 - PROPERTY AND EQUIPMENT (CONTINUED)

Depreciation and amortization expense totaled \$454,434 for the year ended June 30, 2023.

On August 2, 2022, AMS purchased a condominium located at 3736 12th Street NE Unit 201, Washington, DC for total cost of \$710,144. The acquisition cost has been allocated to buildings and renovations and recorded in the property and equipment in the accompanying statement of financial position. The corresponding cash outflow is recorded in the statement of cash flows under investing activities. The condominium is being depreciated over its estimated life of 39 years using straight-line method of depreciation.

NOTE 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, which generally include stipends and housing costs.

The liability for future benefit payments based on the estimated remaining lives of the bishops were \$2,194,680. The assumed discount rate used in determining the postretirement benefit obligation was 3.4%. The Board has designated a portion of net assets to fund the Bishops' benefit accounts.

NOTE 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, 2023:

Funds held for others, beginning of year	\$ 45,593
Funds received during year	32,588
Funds disbursed during year	<u>(12,000)</u>
Funds Held for Others, End of Year	<u>\$ 66,181</u>

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2023

NOTE 9 - NET ASSETS WITH DONOR RESTRICTIONS

AMS's net assets without donor restrictions are composed of undesignated amounts and board-designated amounts. During the year ended June 30, 2023, AMS' Board of Directors transferred \$3,352,160 designated fund to a newly formed entity, Saint John XXIII Foundation. Undesignated net asset without donor restrictions were \$40,280,932 as of June 30, 2023.

NET ASSETS WITH DONOR RESTRICTIONS

As of June 30, 2023, net assets with donor restrictions were restricted for the following purposes:

Subject to expenditure for specified purpose:	
Vocations program	\$ 3,661,622
Capital campaign	1,352,475
Pastoral, Catholics Seeking Christ, peer to peer and youth ministry	457,932
Marriage tribunal services	46,167
Millennium project	96,952
Beneficial interest in unitrust	99,776
Rosarybooklet	153,218
Other programs	<u>49,581</u>
Total Subject to Expenditure for Specified Purpose	<u>5,917,723</u>
Subject to donor restriction in perpetuity:	
Endowment	<u>2,467,712</u>
Total Subject to Restriction in Perpetuity	<u>2,467,712</u>
Total Net Assets With Donor Restrictions	<u>\$ 8,385,435</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 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), and other funds established for various seminarian purposes. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

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

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2023

NOTE 9 - NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)

Net Assets Subject to Donor Restriction in Perpetuity (continued)

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, 2023, changes in permanently restricted endowments held by AMS, were as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ --	\$ 5,618,528	\$ 5,618,528
Contributions received	--	150,116	150,116
Investment return:			
Investment income, net of fees	47,550	--	47,550
Net appreciation (realized and unrealized)	--	21,168	21,168
Total Net Investment Return	47,550	21,168	68,718
Appropriations for expenditure	(47,550)	--	(47,550)
Transfers to Saint John XXIII Foundation	--	(3,322,100)	(3,322,100)
Endowment Net Assets, End of Year	\$ --	\$ 2,467,712	\$ 2,467,712

The net depreciation 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, 2023, net assets subject to donor restriction in perpetuity consisted of or were restricted for the following:

Beneficial interest in perpetual trust	\$ 2,195,157
Seminarian programs	272,555
Total Permanently Restricted Net Assets	\$ 2,467,712

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2023

NOTE 9 - NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)

Net Assets Subject to Donor Restriction in Perpetuity (continued)

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

During 2023, AMS transferred a total of \$3,322,100 to the Saint John XXIII Foundation. from scholarship and seminarian endowment funds, which are included in the accompanying statement of activities. Going forward these funds will be assets of and managed by the Foundation.

Interpretation of Relevant Law

The Board of Trustees of AMS has interpreted the enacted version of the District of Columbia Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, AMS classifies as net assets with donor restrictions the historical value of gifts donated to the permanent endowment and the related appreciation. Applicable accumulated amounts are appropriated for expenditure by AMS in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, AMS considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund.
- The purposes of the donor-restricted endowment fund.
- General economic conditions.
- The possible effects of inflation and deflation.
- The expected total return from income and the appreciation of investments.
- Other resources of AMS.
- The investment policies of AMS.

Return Objectives and Risk Parameters

The mission of AMS's long-term investment pool is to provide a common investment vehicle that will generate a stable and continuously growing income stream for AMS's endowment, and operating reserve funds, for which AMS is both the trustee and the beneficiary. The overall goal of the investment pool is to preserve the purchasing power of the future stream of endowment payout for those funds and activities supported by the endowments and, to the extent this is achieved, to cause the principal to grow in value over time. Other goals include:

- To maximize return within reasonable and prudent levels of risk.

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2023

NOTE 9 - NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)

Return Objectives and Risk Parameters (continued)

- To maximize the value of the endowment while maintaining liquidity needed to support spending in prolonged down markets.

Strategies Employed for Achieving Objectives

Extensive diversification is sought at all times. Experience has shown that financial markets and inflation rates are cyclical and, therefore, control of volatility will be achieved through diversification of asset classes and selection of managers of diverse investment styles. The Board of Trustees examines the correlation of historic returns among each asset class and manager. Investment managers are appointed following a systematic search for those with demonstrated quality in the style desired. Managers are given discretion to manage funds entrusted in accordance with the style for which they are employed, provided they comply with the restrictions and limitations that may be determined by the Institute from time to time.

From time to time, the fair value of assets associated with individual endowment funds may fall below the fair value of the original gift(s). Deficiencies of this nature are reported as part of net assets without donor restrictions. As of June 30, 2023, there were no such deficiencies.

NOTE 10 – CONTRIBUTIONS TO SAINT JOHN XXIII FOUNDATION

As disclosed in Note 9, AMS released \$3,352,160 from a board designated fund and transferred \$3,322,100 from the endowment fund and provided additional funding of \$628,989 to Saint John XXIII Foundation (the Foundation). As of June 30, 2023, total contributions AMS made to the Foundation were \$7,303,249 and included in the accompanying statement of functional expenses.

NOTE 11 - 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

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2023

NOTE 11 - RISKS, UNCERTAINTIES AND CONTINGENCIES (CONTINUED)

RISKS AND UNCERTAINTIES (CONTINUED)

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.

CONCENTRATION OF CREDIT RISK

AMS maintains its cash with commercial financial institutions, which aggregate balance, at times, which may exceed the Federal Deposit Insurance Corporation (FDIC) insurance limit of \$250,000 per depositor per institution. As of June 30, 2023, there were no amounts deposited in the financial institutions exceeding FDIC insurance limit.

NOTE 12 - 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, 2023, were as follows:

Cash and cash equivalents	\$ 7,470,108
Investments	32,553,412
Accounts and other receivable	265,965
Pledges receivable	419,646
Beneficial interest in trusts	<u>2,294,933</u>
Total Financial Assets	43,004,064
Less:	
Amounts unavailable for general expenditures due to donors' restriction	<u>(8,385,435)</u>
Financial Assets Available to Meet General Expenditures Within One Year	<u>\$ 34,618,629</u>

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2023

NOTE 12 - AVAILABILITY AND LIQUIDITY (CONTINUED)

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.

NOTE 13 - 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 \$209,407 for the year ended June 30, 2023.

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

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2023

NOTE 13 - RETIREMENT PLANS (CONTINUED)

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 \$232,237 for the year ended June 30, 2023.

NOTE 14 - 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, 2023, 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, 2023, 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, 2023, 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, 2023, AMS had no accruals for interest and/or penalties.

NOTE 15 - 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, 2022, from which the summarized information was derived.

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2023

NOTE 16 - SUBSEQUENT EVENTS

AMS has evaluated subsequent events and transactions through March 5, 2025, the date the financial statements were available to be issued. There were no subsequent events that require recognition or disclosure in these financial statements.