



ARCHDIOCESE FOR THE MILITARY SERVICES, USA

Financial Statements

For the Year Ended August 31, 2012

(With Summarized Financial Information for the Year Ended August 31, 2011)



**and
Report Thereon**





Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statement of financial position of the Archdiocese for the Military Services, USA (the Archdiocese) as of August 31, 2012, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Archdiocese's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Archdiocese's 2011 financial statements and, in our report dated March 28, 2012, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Archdiocese's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Archdiocese as of August 31, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Raffa, P.C.

Raffa, P.C.

Washington, DC
January 14, 2013

ARCHDIOCESE FOR THE MILITARY SERVICES, USA
STATEMENT OF FINANCIAL POSITION
August 31, 2012
(With Summarized Financial Information as of August 31, 2011)

	2012	2011
ASSETS		
Cash and cash equivalents	\$ 7,992,314	\$ 7,739,237
Investments	693,099	641,695
Accounts and other receivables	122,242	116,878
Pledges receivable, net	1,158,100	1,414,298
Beneficial interest in trusts	2,085,455	2,015,506
Prepaid expenses and other assets	42,590	18,314
Net property and equipment	10,145,084	10,439,274
TOTAL ASSETS	\$ 22,238,884	\$ 22,385,202
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 230,827	\$ 211,677
Deferred revenue	8,000	56,000
Post-retirement obligations	1,615,813	1,516,840
Funds held for others	135,853	130,796
Note payable	1,924,572	2,768,772
TOTAL LIABILITIES	3,915,065	4,684,085
Net Assets		
Unrestricted		
Undesignated	6,512,210	7,097,842
Board designated	2,442,055	2,043,118
Total Unrestricted Net Assets	8,954,265	9,140,960
Temporarily restricted	7,310,799	6,574,785
Permanently restricted	2,058,755	1,985,372
TOTAL NET ASSETS	18,323,819	17,701,117
TOTAL LIABILITIES AND NET ASSETS	\$ 22,238,884	\$ 22,385,202

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

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

STATEMENT OF ACTIVITIES
For the Year Ended August 31, 2012
(With Summarized Financial Information for the Year Ended August 31, 2011)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2012 Total</u>	<u>2011 Total</u>
REVENUE AND SUPPORT					
Contributions	\$ 4,226,406	\$ 1,209,559	\$ -	\$ 5,435,965	\$ 6,856,732
Gain from change in value of trusts	-	398	73,383	73,781	102,036
Sacrament revenue	110,006	-	-	110,006	118,321
Marriage tribunal	41,430	-	-	41,430	38,880
Investment income	90,272	-	-	90,272	158,733
Other income	151,876	-	-	151,876	80,760
Net assets released from restrictions:					
Satisfaction of program restrictions	407,193	(407,193)	-	-	-
Satisfaction of time restrictions	66,750	(66,750)	-	-	-
TOTAL REVENUE AND SUPPORT	<u>5,093,933</u>	<u>736,014</u>	<u>73,383</u>	<u>5,903,330</u>	<u>7,355,462</u>
EXPENSES					
Program Services:					
Evangelization and pastoral	2,661,145	-	-	2,661,145	2,707,611
Vocations and cosponsorship	386,348	-	-	386,348	336,827
Sacramental records	277,218	-	-	277,218	284,709
Marriage tribunal	184,483	-	-	184,483	162,249
Chaplain's affairs	113,721	-	-	113,721	123,102
Veterans' affairs	62,286	-	-	62,286	60,571
Total Program Services	3,685,201	-	-	3,685,201	3,675,069
Supporting Services:					
Administrative services	563,446	-	-	563,446	977,551
Fundraising	1,031,981	-	-	1,031,981	1,220,578
TOTAL EXPENSES	<u>5,280,628</u>	<u>-</u>	<u>-</u>	<u>5,280,628</u>	<u>5,873,198</u>
CHANGE IN NET ASSETS	(186,695)	736,014	73,383	622,702	1,482,264
NET ASSETS, BEGINNING OF YEAR	<u>9,140,960</u>	<u>6,574,785</u>	<u>1,985,372</u>	<u>17,701,117</u>	<u>16,218,853</u>
NET ASSETS, END OF YEAR	<u>\$ 8,954,265</u>	<u>\$ 7,310,799</u>	<u>\$ 2,058,755</u>	<u>\$ 18,323,819</u>	<u>\$ 17,701,117</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 August 31, 2012

(With Summarized Financial Information for the Year Ended August 31, 2011)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 622,702	\$ 1,482,264
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	304,695	306,850
Donated stock	(61,256)	(105,687)
Change in value of trusts	(69,949)	(98,353)
Net realized and unrealized gains	(28,504)	(72,734)
Allowance for potentially uncollectible pledges	463,335	485,114
Changes in assets and liabilities:		
Accounts and other receivables	(5,364)	(35,081)
Pledges receivable	(207,137)	(888,661)
Prepaid expenses and other assets	(24,276)	8,802
Accounts payable and accrued expenses	19,150	41,991
Deferred revenue	(48,000)	56,000
Post-retirement obligations	98,973	397,440
Funds held for others	5,057	62,091
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,069,426	1,640,036
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	543,731	663,373
Purchases of investments	(505,375)	(571,341)
Purchases of property and equipment	(10,505)	(41,446)
NET CASH PROVIDED BY INVESTING ACTIVITIES	27,851	50,586
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on note payable	(844,200)	(123,623)
NET CASH USED IN FINANCING ACTIVITIES	(844,200)	(123,623)
NET INCREASE IN CASH AND CASH EQUIVALENTS	253,077	1,566,999
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	7,739,237	6,172,238
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 7,992,314	\$ 7,739,237
SUPPLEMENTAL DATA		
Cash paid for interest	\$ 141,087	\$ 161,663
Noncash investing activities:		
Donated stock	\$ 61,256	\$ 105,687

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

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS For the Year Ended August 31, 2012

1. Organization and Summary of Significant Accounting Policies

Organization

The Archdiocese for the Military Services, USA (the Archdiocese), a Maryland corporation, was organized by the Catholic Church in America to be operated exclusively for spiritual and charitable purposes. The Archdiocese provides spiritual and pastoral care to more than 1.5 million Catholic men and women within the U.S. Military and Veterans' Affairs communities through its network of Catholic chaplains. The Archdiocese also maintains detailed sacramental records for millions of former and current Catholic military personnel, publicizes and advertises for priests to serve as Catholic chaplains in the military, supports candidates in theological seminaries, and provides communications and pastoral care to those Catholic chaplains already on duty. The Archdiocese's major source of income is from donations.

Basis of Accounting

The Archdiocese prepares its financial statements on the accrual basis of accounting. Consequently, revenue is recognized when earned and expenses are recognized when the obligation is incurred.

Cash and Cash Equivalents

The Archdiocese considers all demand deposits and money market funds to be cash equivalents. Cash balances include funds held for others. Money market funds held in certain investment portfolios are not considered cash equivalents, as such funds are not available for the general operating purpose of the Archdiocese.

Investments

Investments are comprised of money market funds and common stocks and are recorded in the accompanying financial statements at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability through an orderly transaction between market participants at the measurement date. The Archdiocese invests in funds in accordance with the *Archdiocesan Investment Guideline*.

Fair Value of Financial Instruments

FASB ASC Topic 820, *Fair Value Measurements*, defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles 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, and unobservable, whereby assumptions about market participant assumptions are developed by the reporting entity based on the best information available in the circumstances.

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

**NOTES TO FINANCIAL STATEMENTS
For the Year Ended August 31, 2012**

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

Fair Value of Financial Instruments (continued)

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 in determining the fair value measurement.

As of August 31, 2012, the Archdiocese's investments and beneficial interest in trusts, as described in Note 5 of these financial statements, were measured at fair value on a recurring basis.

Property and Equipment and Related Depreciation

Expenditures for property and equipment in excess of \$500 are capitalized at cost and depreciated with no salvage value using the straight-line method over the following estimated useful lives:

Buildings and renovations	40 years
Office furnishings and equipment	6 to 10 years
Rectory and chapel furnishing	6 to 10 years
Transportation equipment	6 to 10 years

Expenditures for major repairs and improvements are capitalized; expenditures for minor repairs and maintenance costs are expensed when incurred.

Revenue Recognition

Contributions, including unconditional promises to give, are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted support. Conditional promises to give are not included as support until such time as the conditions are substantially met. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statement of activities as net assets released from restrictions. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discount on these accounts is computed using interest rates applicable to the period over which the promises are to be received. The Archdiocese maintains an estimated allowance for doubtful

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS For the Year Ended August 31, 2012

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

Revenue Recognition (continued)

accounts based on a percentage of the total outstanding pledges receivable at year-end. Pledges receivable are charged off against the allowance when, in the judgment of management, it is unlikely they will be collected.

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

Net Assets

Net assets of the Archdiocese consist of the following:

- Unrestricted net assets represent funds that are available for support of the Archdiocese's operations.
 - *Undesignated* – Net assets that are available for the general operating purposes of the Archdiocese.
 - *Designated* – Net assets that have been designated by the Board of Directors to be used for specific purposes, including; (1) postretirement benefits and (2) the education of priest candidates in theological seminaries who, after graduation and ordination, plan to serve as Catholic chaplains in any of the service branches of the military.
- Temporarily restricted net assets represent funds that are specifically restricted by donors for use in various programs or future periods.
- Permanently restricted net assets represent endowment funds requiring that the gift be held in perpetuity and that only the investment earnings on such amounts can be used for the purposes specified in the endowment agreement.

Donated Services

In-kind contributions consist of contributed services and are recognized as revenue and expense in the accompanying statement of activities at their estimated fair value, as provided by the donor at the date of receipt. These services were used to support veterans' affairs and evangelization and pastoral program services. For the year ended August 31, 2012, \$49,500 of contributed services is included in contributions in the accompanying statement of activities.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statement of activities. Expenses that are not directly charged to a program or supporting service are allocated among the programs and supporting services based upon management's estimates of the portion of the costs applicable to each function.

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS
For the Year Ended August 31, 2012

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

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. Investments

Investments consisted of the following as of August 31, 2012:

Common stocks	\$ 472,868
Money market funds	<u>220,231</u>
Total	<u>\$ 693,099</u>

A summary of investment income was as follows for the year ended August 31, 2012:

Interest and dividends	\$ 28,285
Unrealized gains	34,732
Realized losses	(6,228)
Distributions from beneficial interest in trusts	<u>33,483</u>
Total	<u>\$ 90,272</u>

3. Pledges Receivable

As of August 31, 2012, the Archdiocese's pledges receivable are due as follows:

Less than one year	\$ 302,227
One to five years	946,208
More than five years	<u>89,608</u>
Total Pledges Receivable	1,338,043
Less: Allowance for Doubtful Accounts	(74,200)
Less: Discount to Present Value (3%)	<u>(105,743)</u>
Net Pledges Receivable	<u>\$ 1,158,100</u>

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS For the Year Ended August 31, 2012

4. Beneficial Interest in Trusts

Beneficial Interest in Charitable Lead Unitrust

In May 2009, the Archdiocese received notice from a trust administrator that the Archdiocese was named as one of the recipients of a beneficial interest in a charitable lead unitrust (the unitrust) from a donor. The unitrust agreement provides that the Archdiocese receives 20% of the 3% annual distribution of the unitrust's fair value over 50 years for general use. After 50 years, 100% of the unitrust amount will be distributed to another unrelated organization. The present value of the estimated future cash flows was recognized as an asset and temporarily restricted contribution revenue during the fiscal year ended August 31, 2010. The asset is included in beneficial interest in trusts in the accompanying statement of financial position. The fair value of this asset is revalued annually by calculating the present value of estimated future cash flows, based on a discount rate of 2.85%, which reflects the target investment return of the trust administrator. As of August 31, 2012, the fair value of the beneficial interest in the charitable lead unitrust was \$75,865. During the year ended August 31, 2012, the Archdiocese received \$3,833 as distributions which were recorded as investment income in the statement of activities.

Beneficial Interest in Perpetual Trust Held by Third Party

In December 2009, the Archdiocese was informed that it was named as the sole beneficiary of the income from a perpetual trust held by a third party (the trust). The trust provides that the Archdiocese has an irrevocable right to receive 80% of the income earned from the trust's assets in perpetuity. The remaining 20% is reinvested into the principal of the trust. The assets of the trust are held by a third-party trustee and represent resources not in the possession or control of the Archdiocese. The income distributed to the Archdiocese is for general use. During the year ended August 31, 2010, the Archdiocese recorded an asset for its beneficial interest in the perpetual trust and recognized permanently restricted contribution revenue, measured at fair value, based on the fair value of the assets in the trust at the time the trust assets were reported to the Archdiocese. The fair value is reviewed annually to reflect the current fair value of the trust assets and a corresponding permanently restricted gain or loss is recognized. The asset is included in beneficial interest in trusts in the accompanying statement of financial position. As of August 31, 2012, the fair value of the beneficial interest in the perpetual trust was \$2,009,590. During the year ended August 31, 2012, the Archdiocese received \$30,910 as distributions from the perpetual trust which were recorded as investment income in the statement of activities.

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

**NOTES TO FINANCIAL STATEMENTS
For the Year Ended August 31, 2012**

5. Fair Value Measurements

The following table summarizes the Archdiocese's assets measured at fair value on a recurring basis as of August 31, 2012:

	<u>Total Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Assets:				
Investments:				
Common stocks:				
Basic materials	\$ 100,865	\$ 100,865	\$ -	\$ -
Technology	96,373	96,373	-	-
Utilities	72,973	72,973	-	-
Healthcare	57,939	57,939	-	-
Industrial goods	57,289	57,289	-	-
Consumer goods	52,783	52,783	-	-
Financial	<u>34,646</u>	<u>34,646</u>	<u>-</u>	<u>-</u>
Total Common Stocks	472,868	472,868	-	-
Money market funds	<u>220,231</u>	<u>220,231</u>	<u>-</u>	<u>-</u>
Total Investments	693,099	693,099	-	-
Beneficial interest in perpetual trust	2,009,590	-	-	2,009,590
Beneficial interest in charitable lead unitrust	<u>75,865</u>	<u>-</u>	<u>-</u>	<u>75,865</u>
Total	<u>\$ 2,778,554</u>	<u>\$ 693,099</u>	<u>\$ -</u>	<u>\$ 2,085,455</u>

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

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

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

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

Continued

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS
For the Year Ended August 31, 2012

5. Fair Value Measurements (continued)

A roll forward of the fair value measurements using unobservable inputs (Level 3) was as follows as of August 31, 2012:

Fair value, August 31, 2011	\$ 2,028,106
Change in value of beneficial interest in perpetual trust	73,383
Change in value of beneficial interest in charitable lead unitrust	399
Distribution from charitable lead unitrust	(3,833)
Sales of investments	(20)
Realized losses on investments	<u>(12,580)</u>
Fair value, August 31, 2012	<u>\$ 2,085,455</u>

6. Property and Equipment

Property and equipment consisted of the following at August 31, 2012:

Land	\$ 1,803,314
Buildings and renovations	9,584,567
Office furnishings and equipment	550,761
Rectory and chapel furnishing	90,338
Transportation equipment	<u>26,665</u>
Total Property and Equipment	12,055,645
Less: Accumulated Depreciation	<u>(1,910,561)</u>
Net Property and Equipment	<u>\$ 10,145,084</u>

Depreciation expense totaled \$304,695 for the year ended August 31, 2012.

7. Post-retirement Benefits

The Archdiocese follows the guidelines of the United States Conference of Catholic Bishops (USCCB) in providing benefits for its bishops upon their retirement. Because such bishops are generally retired military chaplains with full military pensions, healthcare and other benefits, the USCCB guidelines have been modified and reduced.

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS
For the Year Ended August 31, 2012

7. Post-retirement Benefits (continued)

The liability for future benefit payments based on the estimated remaining lives of the bishops, as well as the plan's funded status at August 31, 2012, are calculated under FASB ASC Topic 715, *Compensation – Retirement Benefits*, and recorded as follows:

Postretirement benefit obligation:

Designated plan assets at fair market value	\$ 1,551,153
Projected postretirement benefit obligation	<u>(1,615,813)</u>
Excess of Projected Benefit Obligation over Plan Assets	<u>\$ 64,660</u>

The assumed discount rate used in determining the postretirement benefit obligation was 2.75%. The plan assets are included in cash and cash equivalents in the accompanying statement of financial position.

8. Funds Held for Others

Funds held for others represent funds received for other nonprofit organizations. A summary of the changes in funds held for others is as follows for the year ended August 31, 2012:

Funds held for others, September 1, 2011	\$ 130,796
Funds received during the year	78,142
Funds disbursed during the year	<u>(73,085)</u>
Funds held for others, August 31, 2012	<u>\$ 135,853</u>

9. Note Payable

The Archdiocese borrowed \$3,400,000 from the Knights of Columbus National Office to finance part of the renovation costs of a building purchased in March 2005. This loan is secured by a mortgage on the property. The loan is payable in monthly installments of principal and interest of \$23,774 for a period of 20 years with a fixed interest rate of 5.7%. During the year ended August 31, 2012, the Archdiocese made an accelerated payment of \$700,000 towards the loan principal.

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

For the Year Ending	
<u>August 31,</u>	
2013	\$ 180,256
2014	190,804
2015	201,968
2016	213,786
2017	226,295
Thereafter	<u>911,463</u>
Total	<u>\$ 1,924,572</u>

Continued

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

**NOTES TO FINANCIAL STATEMENTS
For the Year Ended August 31, 2012**

10. Commitments and Risk

The Archdiocese maintains its cash and cash equivalents with certain commercial financial institutions, which aggregate balance may, at times, exceed the Federal Deposit Insurance Corporation (FDIC) insured limit of \$250,000 per depositor per institution. As of August 31, 2012, the Archdiocese had \$8,094,821 of demand deposits, which exceeded the maximum limit insured by the FDIC by approximately \$1,288,277. The Archdiocese monitors the creditworthiness of these institutions and has not experienced any credit losses on its cash and cash equivalents.

11. Net Assets

Unrestricted – Board Designated

The balances of the board-designated net assets are as follows as of August 31, 2012:

Post-retirement benefits for its retired bishops	\$ 1,551,153
Education of future candidates for the military priesthood and/or publicizing and advertising for military chaplains	<u>890,902</u>
Total Unrestricted – Board-Designated Net Assets	<u>\$ 2,442,055</u>

Temporarily Restricted Net Assets

As of August 31, 2012, net assets are restricted for use in the following programs:

Capital campaign	\$ 2,909,907
Priest cosponsorship	2,152,333
Educational costs of priests	1,272,686
Vocations/discernment	205,919
Marriage tribunal services	184,699
Pastoral, CSC, youth ministry and vocations	157,016
Millenium project	96,953
Peer to Peer	92,566
Beneficial interest from unitrust	75,865
Other temporarily restricted net assets	79,335
Bishop Nolan scholarship fund	57,495
Pentagon relief program	<u>26,025</u>
Total Temporarily Restricted Net Assets	<u>\$ 7,310,799</u>

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

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

**NOTES TO FINANCIAL STATEMENTS
For the Year Ended August 31, 2012**

11. Net Assets (continued)

Permanently Restricted Net Assets

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

For the year ended August 31, 2012, changes in this beneficial interest, along with several other permanently restricted endowments held by the Archdiocese, were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, September 1, 2011	\$ -	\$ -	\$ 1,985,372	\$ 1,985,372
Investment return:				
Investment income, net of fees	30,910	-	-	30,910
Net appreciation (realized and unrealized)	<u>-</u>	<u>-</u>	<u>73,383</u>	<u>73,383</u>
Total Investment Return	30,910		2,058,755	2,089,665
Appropriations for expenditure	<u>(30,910)</u>	<u>-</u>	<u>-</u>	<u>(30,910)</u>
Endowment Net Assets, August 31, 2012	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,058,755</u>	<u>\$ 2,058,755</u>
The earnings on these funds are for the following purposes:				
Beneficial interest in perpetual trust – unrestricted				\$ 2,009,590
Education of priest candidates				30,000
Capital campaign				<u>19,165</u>
Total Permanently Restricted Net Assets				<u>\$ 2,058,755</u>

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

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS For the Year Ended August 31, 2012

12. Pension Plan

The Archdiocese participates in a multiple employer noncontributory pension plan administered by the Archdiocese of Washington. This plan covers all qualified lay staff employees after one year of service. Pension expense under the plan is funded by and paid to the Archdiocese of Washington at 7.5% of all eligible employees' payroll. Pension expense for this plan totaled \$73,133 for the year ended August 31, 2012.

13. Summarized Financial Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Archdiocese's audited financial statements for the year ended August 31, 2011, from which the summarized information was derived.

14. Income Taxes

Under Section 501(c)(3) of the Internal Revenue Code, the Archdiocese is exempt from the payment of taxes on income other than net unrelated business income. For the year ended August 31, 2012, no provision for income taxes was made, as the Archdiocese had no net unrelated business income.

The Archdiocese follows the authoritative guidance relating to accounting for uncertainty in income taxes included in ASC Topic *Income Taxes*. These provisions provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition and derecognition of tax positions taken or expected to be taken in a tax return. The Archdiocese performed an evaluation of uncertain tax positions for the year ended August 31, 2012, and determined that there were no matters that would require recognition in the financial statements or that may have any effect on its tax-exempt status. As of August 31, 2012, the statute of limitations for tax years 2008 through 2010 remains open with the U.S. federal jurisdiction or the various states and local jurisdictions in which the Archdiocese files tax returns. It is the Archdiocese's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expense. As of August 31, 2012, the Archdiocese had no accruals for interest and/or penalties.

15. Subsequent Events

The pension plan discussed in Note 12 was frozen effective December 31, 2012. The Archdiocese has evaluated subsequent events and transactions through January 14, 2013, the date the financial statements were available to be issued. Except for the subsequent event disclosed above, there were no other subsequent events that require recognition of, or disclosure in, these financial statements.