



ARCHDIOCESE FOR THE MILITARY SERVICES, USA

Financial Statements

For the Year Ended August 31, 2013

(With Summarized Financial Information for the Year Ended August 31, 2012)



**and
Report Thereon**





Certified Public Accountants

INDEPENDENT AUDITOR'S 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 (the Archdiocese), which comprise the statement of financial position as of August 31, 2013, and the related statements of activities 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.

Auditor's 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 auditor's 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 financial statements referred to above present fairly, in all material respects, the financial position of the Archdiocese for the Military Services, USA as of August 31, 2013, 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.

Continued

Report on Summarized Comparative Information

We have previously audited the Archdiocese's 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 14, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Raffa, P.C.

Raffa, P.C.

Washington, DC
January 17, 2014

ARCHDIOCESE FOR THE MILITARY SERVICES, USA
STATEMENT OF FINANCIAL POSITION
August 31, 2013
(With Summarized Financial Information as of August 31, 2012)

	2013	2012
ASSETS		
Cash and cash equivalents	\$ 7,251,489	\$ 7,992,314
Investments	806,353	693,099
Accounts and other receivables	113,065	122,242
Pledges receivable, net	961,153	1,158,100
Beneficial interest in trusts	2,057,618	2,085,455
Prepaid expenses and other assets	66,483	42,590
Net property and equipment	9,879,050	10,145,084
TOTAL ASSETS	\$ 21,135,211	\$ 22,238,884
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 403,981	\$ 230,827
Deferred revenue	54,961	8,000
Post-retirement benefit obligations	1,969,538	1,615,813
Funds held for others	118,359	135,853
Note payable	528,435	1,924,572
TOTAL LIABILITIES	3,075,274	3,915,065
Net Assets		
Unrestricted		
Undesignated	6,901,363	6,512,210
Board designated	1,615,971	2,442,055
Total Unrestricted Net Assets	8,517,334	8,954,265
Temporarily restricted	7,513,853	7,310,799
Permanently restricted	2,028,750	2,058,755
TOTAL NET ASSETS	18,059,937	18,323,819
TOTAL LIABILITIES AND NET ASSETS	\$ 21,135,211	\$ 22,238,884

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, 2013
(With Summarized Financial Information for the Year Ended August 31, 2012)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2013 Total	2012 Total
REVENUE AND SUPPORT					
Contributions	\$ 4,472,296	\$ 743,177	\$ -	\$ 5,215,473	\$ 5,435,965
Gain (loss) from change in value of trusts	-	6,134	(30,005)	(23,871)	73,781
Sacrament revenue	99,946	-	-	99,946	110,006
Marriage tribunal	43,237	-	-	43,237	41,430
Investment income	160,864	-	-	160,864	90,272
Other income	103,390	-	-	103,390	151,876
Net assets released from restrictions:					
Satisfaction of program restrictions	546,257	(546,257)	-	-	-
TOTAL REVENUE AND SUPPORT	5,425,990	203,054	(30,005)	5,599,039	5,903,330
EXPENSES					
Program Services:					
Evangelization and pastoral	3,209,135	-	-	3,209,135	2,661,145
Vocations and cosponsorship	439,297	-	-	439,297	386,348
Sacramental records	272,254	-	-	272,254	277,218
Marriage tribunal	173,326	-	-	173,326	184,483
Chaplain's affairs	123,582	-	-	123,582	113,721
Veterans' affairs	60,404	-	-	60,404	62,286
Total Program Services	4,277,998	-	-	4,277,998	3,685,201
Supporting Services:					
Administrative services	577,088	-	-	577,088	563,446
Fundraising	1,007,835	-	-	1,007,835	1,031,981
TOTAL EXPENSES	5,862,921	-	-	5,862,921	5,280,628
CHANGE IN NET ASSETS	(436,931)	203,054	(30,005)	(263,882)	622,702
NET ASSETS, BEGINNING OF YEAR	8,954,265	7,310,799	2,058,755	18,323,819	17,701,117
NET ASSETS, END OF YEAR	\$ 8,517,334	\$ 7,513,853	\$ 2,028,750	\$ 18,059,937	\$ 18,323,819

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, 2013

(With Summarized Financial Information for the Year Ended August 31, 2012)

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (263,882)	\$ 622,702
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	303,463	304,695
Change in value of trusts	27,837	(69,949)
Net realized and unrealized gains	(94,095)	(28,504)
Allowance for potentially uncollectible pledges	25,074	463,335
Changes in assets and liabilities:		
Accounts and other receivables	9,177	(5,364)
Pledges receivable	171,873	(207,137)
Prepaid expenses and other assets	(23,893)	(24,276)
Accounts payable and accrued expenses	173,154	19,150
Deferred revenue	46,961	(48,000)
Post-retirement benefit obligations	353,725	98,973
Funds held for others	<u>(17,494)</u>	<u>5,057</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>711,900</u>	<u>1,130,682</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	1,016,836	482,475
Purchases of investments	(1,035,995)	(505,375)
Purchases of property and equipment	<u>(37,429)</u>	<u>(10,505)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(56,588)</u>	<u>(33,405)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on note payable	<u>(1,396,137)</u>	<u>(844,200)</u>
NET CASH USED IN FINANCING ACTIVITIES	<u>(1,396,137)</u>	<u>(844,200)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(740,825)	253,077
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>7,992,314</u>	<u>7,739,237</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 7,251,489</u>	<u>\$ 7,992,314</u>
SUPPLEMENTAL DATA		
Cash paid for interest	<u>\$ 89,150</u>	<u>\$ 141,087</u>

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

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS For the Year Ended August 31, 2013

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.

The Capodanno Guild (the Guild) was established by the Archdiocese 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 the Archdiocese, as the financial transactions of the Guild are immaterial to the statements of financial position and activities of the Archdiocese as of and for the year ended August 31, 2013. Funds held on behalf of the Guild, as of August 31, 2013, are included in funds held for others in the accompanying statement of financial position. See Note 8.

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 and 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

Financial Accounting Standards Board (FASB) Accounting Standards Codification (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

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS
For the Year Ended August 31, 2013

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

Fair Value of Financial Instruments (continued)

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.

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, 2013, the Archdiocese's investments and beneficial interest in trusts, as described in Notes 2 and 4 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 \$1,000 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.

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS For the Year Ended August 31, 2013

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

Impairment of Long-Lived Assets

In accordance with FASB ASC Topic *Property, Plant and Equipment*, the Archdiocese 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 as of August 31, 2013.

Revenue Recognition

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

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

Net Assets

Net assets of the Archdiocese consist of the following:

- Unrestricted net assets represent funds that are available for support of the Archdiocese's operations.
 - *Undesignated* – Net assets that are available for general operating purposes of the Archdiocese.
 - *Designated* – Net assets that have been designated by the Board of Directors to be used for postretirement benefits for its retired bishops.
- Temporarily restricted net assets represent funds that are specifically restricted by donors for use in various programs or future periods.

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS For the Year Ended August 31, 2013

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

Net Assets (continued)

- Permanently restricted net assets represent endowment funds requiring that the gift be held in perpetuity and that only the investment earnings on such amounts can be used for the purposes specified in the endowment agreement.

Donated Services

In-kind contributions consist of contributed services and are recognized as revenue and expenses 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, 2013, approximately \$35,000 of contributed services is included in contributions in the accompanying statement of activities.

Functional Allocation of Expenses

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

Change in Accounting Principle

The Archdiocese early-adopted the FASB Accounting Standards Update 2012-05, *Statement of Cash Flows: Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows*, which requires the recognition of donated securities that have no donor-imposed restriction and that are nearly immediately converted into cash, as cash from operating activities. During the year ended August 31, 2013, the Archdiocese received \$69,167 of donated securities that were nearly immediately converted into cash and recognized as cash from operating activities in the accompanying statement of cash flow. The statement of cash flows for the year ended August 31, 2012, which previously reported \$61,256 of donated securities as investing activities, has been adjusted to report this amount in operating activities.

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.

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS
For the Year Ended August 31, 2013

2. Investments

Investments consisted of the following as of August 31, 2013:

Common stocks	\$ 776,316
Money market funds	<u>30,037</u>
Total	<u>\$ 806,353</u>

A summary of investment income was as follows for the year ended August 31, 2013:

Interest and dividends	\$ 23,464
Unrealized gains	42,091
Realized gains	52,004
Distributions from beneficial interest in trust	<u>43,305</u>
Total	<u>\$ 160,864</u>

3. Pledges Receivable

As of August 31, 2013, the Archdiocese's pledges receivable are due as follows:

Less than one year	\$ 583,477
One to five years	<u>480,700</u>
Total Pledges Receivable	1,064,177
Less: Allowance for Doubtful Accounts	(65,000)
Less: Discount to Present Value (3%)	<u>(38,024)</u>
Net Pledges Receivable	<u>\$ 961,153</u>

4. Beneficial Interest in Trusts

Beneficial Interest in Charitable Lead Unitrust

In May 2009, the Archdiocese received notice from a trust administrator that the Archdiocese was named as one of the recipients of a beneficial interest in a charitable lead unitrust (the unitrust) from a donor. The unitrust agreement provides that the Archdiocese receives 20% of the 3% annual distribution of the unitrust's fair value over 50 years for general use. After 50 years, 100% of the unitrust amount will be distributed to another unrelated organization. The present value of the estimated future cash flows was recognized as an asset and temporarily restricted contribution revenue during the fiscal year ended August 31, 2010. The asset is included in beneficial interest in trusts in the accompanying statement of financial position. The fair value of this asset is revalued annually by calculating the present value of estimated future cash flows, based on a discount rate of 3.69%, which reflects the target investment

Continued

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

**NOTES TO FINANCIAL STATEMENTS
For the Year Ended August 31, 2013**

4. Beneficial Interest in Trusts (continued)

Beneficial Interest in Charitable Lead Unitrust (continued)

return of the trust administrator. As of August 31, 2013, the fair value of the beneficial interest in the charitable lead unitrust was \$78,033. During the year ended August 31, 2013, the Archdiocese received \$3,966 as distributions from the unitrust.

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, 2013, the fair value of the beneficial interest in the perpetual trust was \$1,979,585. During the year ended August 31, 2013, the Archdiocese received \$43,305 as distributions from the perpetual trust which were recorded as investment income in the accompanying statement of activities.

5. Fair Value Measurements

The following table summarizes the Archdiocese's assets measured at fair value on a recurring basis as of August 31, 2013:

	<u>Total</u>	<u>Quoted Prices</u>	<u>Significant</u>	<u>Significant</u>
	<u>Fair Value</u>	<u>in Active</u>	<u>Other</u>	<u>Unobservable</u>
		<u>Markets for</u>	<u>Observable</u>	<u>Inputs</u>
		<u>Identical</u>	<u>Inputs</u>	<u>Inputs</u>
		<u>Assets</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
		<u>(Level 1)</u>		
Assets:				
Investments:				
Common stocks:				
Industrial goods	\$ 248,507	\$ 248,507	\$ -	\$ -
Financials	140,252	140,252	-	-
Technology	97,633	97,633	-	-
Utilities	78,060	78,060	-	-
Healthcare	69,351	69,351	-	-

Continued

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

**NOTES TO FINANCIAL STATEMENTS
For the Year Ended August 31, 2013**

5. Fair Value Measurements (continued)

<i>(Continued)</i>	<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:				
Energy	\$ 50,735	\$ 50,735	\$ -	\$ -
Consumer goods	47,278	47,278	-	-
Basic materials	<u>44,500</u>	<u>44,500</u>	<u>-</u>	<u>-</u>
Total Common Stocks	776,316	776,316	-	-
Money market funds	<u>30,037</u>	<u>30,037</u>	<u>-</u>	<u>-</u>
Total Investments	806,353	806,353	-	-
Beneficial interest in perpetual trust	1,979,585	-	-	1,979,585
Beneficial interest in charitable lead unitrust	<u>78,033</u>	<u>-</u>	<u>-</u>	<u>78,033</u>
Total	<u>\$ 2,863,971</u>	<u>\$ 806,353</u>	<u>\$ -</u>	<u>\$ 2,057,618</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 in 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, 2013

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, 2013:

Fair value, August 31, 2012	\$ 2,085,455
Change in value of beneficial interest in perpetual trust	(30,005)
Change in value of beneficial interest in charitable lead unitrust	6,134
Distribution from charitable lead unitrust	<u>(3,966)</u>
Fair value, August 31, 2013	<u>\$ 2,057,618</u>

6. Property and Equipment

Property and equipment consisted of the following at August 31, 2013:

Land	\$ 1,803,314
Buildings and renovations	9,599,977
Office furnishings and equipment	572,781
Rectory and chapel furnishing	90,338
Transportation equipment	<u>26,665</u>
Total Property and Equipment	12,093,075
Less: Accumulated Depreciation	<u>(2,214,025)</u>
Net Property and Equipment	<u>\$ 9,879,050</u>

Depreciation expense totaled \$303,463 for the year ended August 31, 2013.

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.

The liability for future benefit payments based on the estimated remaining lives of the bishops, as well as the funded status at August 31, 2013, are calculated under FASB ASC Topic 715, *Compensation – Retirement Benefits*, and recorded as follows:

Post-retirement benefit obligation:

Designated assets at fair market value	\$ 1,615,972
Projected post-retirement benefit obligation	<u>(1,969,538)</u>
Excess of Benefit Obligation over Assets	<u>\$ 353,566</u>

Continued

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS
For the Year Ended August 31, 2013

7. Post-retirement Benefits (continued)

The assumed discount rate used in determining the post-retirement benefit obligation was 3.625%. The 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 the Guild and another nonprofit organization. A summary of the changes in funds held for others is as follows for the year ended August 31, 2013:

Funds held for others, August 31, 2012	\$ 135,853
Funds received during the year	85,816
Funds disbursed during the year	<u>(103,310)</u>
Funds held for others, August 31, 2013	<u>\$ 118,359</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, 2013, the Archdiocese made accelerated payments of \$1,200,000 towards the loan principal, in addition to the monthly installments.

Minimum future principal payments on the note payable are as follows as of August 31, 2013:

For the Year Ending	
<u>August 31,</u>	
2014	\$ 261,949
2015	<u>266,486</u>
Total	<u>\$ 528,435</u>

10. Commitments and Risk

The Archdiocese maintains its cash and cash equivalents with certain commercial financial institutions, which aggregate balance may, at times, exceed the Federal Deposit Insurance Corporation (FDIC) insured limit of \$250,000 per depositor per institution. As of August 31, 2013, the Archdiocese had approximately \$7,295,000 in demand deposits, which exceeded the maximum limit insured by the FDIC by approximately \$6,775,000. The Archdiocese monitors the creditworthiness of these institutions and has not experienced any credit losses on its cash and cash equivalents.

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ARCHDIOCESE FOR THE MILITARY SERVICES, USA

**NOTES TO FINANCIAL STATEMENTS
For the Year Ended August 31, 2013**

11. Net Assets

Temporarily Restricted Net Assets

As of August 31, 2013, net assets are restricted for use in the following programs:

Vocations program	\$ 4,072,982
Capital campaign	2,807,876
Pastoral, CSC, peer to peer and youth ministry	209,083
Marriage tribunal services	190,018
Millenium project	96,953
Beneficial interest in unitrust	78,033
Other temporarily restricted net assets	<u>58,908</u>
Total Temporarily Restricted Net Assets	<u>\$ 7,513,853</u>

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

Permanently Restricted Net Assets

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

For the year ended August 31, 2013, 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, August 31, 2012	\$ -	\$ -	\$ 2,058,755	\$ 2,058,755
Investment return:				
Investment income, net of fees	43,305	-	-	43,305
Net depreciation (realized and unrealized)	<u>-</u>	<u>-</u>	<u>(30,005)</u>	<u>(30,005)</u>
Total Investment Return	43,305	-	(30,005)	13,300

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**NOTES TO FINANCIAL STATEMENTS
For the Year Ended August 31, 2013**

11. Net Assets (continued)

Permanently Restricted Net Assets (continued)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Appropriations for expenditure	\$ <u>(43,305)</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>(43,305)</u>
Endowment Net Assets, August 31, 2013	\$ <u>-</u>	\$ <u>-</u>	\$ <u>2,028,750</u>	\$ <u>2,028,750</u>

The earnings on these funds are for the following purposes:

Beneficial interest in perpetual trust – unrestricted	\$ 1,979,585
Education of priest candidates	30,000
Capital campaign	<u>19,165</u>
Total Permanently Restricted Net Assets	<u>\$ 2,028,750</u>

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

12. Retirement Plans

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.

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 non-resident aliens. The Archdiocese 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. The Archdiocese 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 the plans totaled \$85,875 for the year ended August 31, 2013.

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NOTES TO FINANCIAL STATEMENTS For the Year Ended August 31, 2013

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, 2012, 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, 2013, 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, 2013, 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, 2013, the statute of limitations for tax years 2009 through 2011 remains open with 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, 2013, the Archdiocese had no accruals for interest and/or penalties.

15. Subsequent Events

The Archdiocese has evaluated subsequent events and transactions through January 17, 2014, the date the financial statements were available to be issued. There were no subsequent events that require recognition of, or disclosure in, these financial statements.