



ARCHDIOCESE FOR THE MILITARY SERVICES, USA

Financial Statements

For the Year Ended August 31, 2014

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



**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, 2014, 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, 2014, 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 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 17, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2013, 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 29, 2015

ARCHDIOCESE FOR THE MILITARY SERVICES, USA
STATEMENT OF FINANCIAL POSITION
August 31, 2014
(With Summarized Financial Information as of August 31, 2013)

	2014	2013
ASSETS		
Cash and cash equivalents	\$ 4,470,020	\$ 7,251,489
Investments	9,107,718	806,353
Accounts and other receivables	134,022	113,065
Pledges receivable, net	805,549	961,153
Beneficial interest in trusts	2,199,560	2,057,618
Prepaid expenses	66,941	66,483
Net property and equipment	9,659,968	9,879,050
TOTAL ASSETS	\$ 26,443,778	\$ 21,135,211
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 190,011	\$ 403,981
Deferred revenue	29,835	54,961
Post-retirement benefit obligations	2,260,764	1,969,538
Funds held for others	48,695	118,359
Note payable	-	528,435
TOTAL LIABILITIES	2,529,305	3,075,274
Net Assets		
Unrestricted		
Undesignated	12,019,686	6,901,363
Board designated	2,105,485	1,615,971
Total Unrestricted Net Assets	14,125,171	8,517,334
Temporarily restricted	7,517,938	7,513,853
Permanently restricted	2,271,364	2,028,750
TOTAL NET ASSETS	23,914,473	18,059,937
TOTAL LIABILITIES AND NET ASSETS	\$ 26,443,778	\$ 21,135,211

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, 2014

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2014 Total</u>	<u>2013 Total</u>
REVENUE AND SUPPORT					
Contributions	\$ 10,644,793	\$ 555,055	\$ 116,392	\$ 11,316,240	\$ 5,215,473
Gain (loss) from change in value of trusts	-	19,987	126,222	146,209	(23,871)
Sacrament revenue	101,059	-	-	101,059	99,946
Marriage tribunal	61,795	-	-	61,795	43,237
Investment income	378,146	-	-	378,146	160,864
Other income	140,781	-	-	140,781	103,390
Net assets released from restrictions:					
Satisfaction of program restrictions	<u>570,956</u>	<u>(570,956)</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL REVENUE AND SUPPORT	<u>11,897,530</u>	<u>4,086</u>	<u>242,614</u>	<u>12,144,230</u>	<u>5,599,039</u>
EXPENSES					
Program Services:					
Evangelization and pastoral	3,210,742	-	-	3,210,742	3,209,135
Vocations and cosponsorship	472,146	-	-	472,146	439,297
Sacramental records	305,302	-	-	305,302	272,254
Marriage tribunal	217,031	-	-	217,031	173,326
Chaplain's affairs	134,254	-	-	134,254	123,582
Veterans' affairs	<u>53,884</u>	<u>-</u>	<u>-</u>	<u>53,884</u>	<u>60,404</u>
Total Program Services	4,393,359	-	-	4,393,359	4,277,998
Supporting Services:					
Administrative services	595,937	-	-	595,937	577,088
Fundraising	<u>1,300,398</u>	<u>-</u>	<u>-</u>	<u>1,300,398</u>	<u>1,007,835</u>
TOTAL EXPENSES	<u>6,289,694</u>	<u>-</u>	<u>-</u>	<u>6,289,694</u>	<u>5,862,921</u>
CHANGE IN NET ASSETS	5,607,836	4,086	242,614	5,854,536	(263,882)
NET ASSETS, BEGINNING OF YEAR	<u>8,517,335</u>	<u>7,513,852</u>	<u>2,028,750</u>	<u>18,059,937</u>	<u>18,323,819</u>
NET ASSETS, END OF YEAR	<u>\$ 14,125,171</u>	<u>\$ 7,517,938</u>	<u>\$ 2,271,364</u>	<u>\$ 23,914,473</u>	<u>\$ 18,059,937</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, 2014

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

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 5,854,536	\$ (263,882)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	281,250	303,463
Change in value of trusts	(141,942)	27,837
Net realized and unrealized gains	(287,208)	(94,095)
Change in allowance for potentially uncollectible pledges	(30,000)	25,074
Changes in assets and liabilities:		
Accounts and other receivables	(20,957)	9,177
Pledges receivable	185,604	171,873
Prepaid expenses	(458)	(23,893)
Accounts payable and accrued expenses	(213,970)	173,154
Deferred revenue	(25,126)	46,961
Post-retirement benefit obligations	291,226	353,725
Funds held for others	(69,664)	(17,494)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>5,823,291</u>	<u>711,900</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	1,608,965	1,016,836
Purchases of investments	(9,623,122)	(1,035,995)
Purchases of property and equipment	(62,168)	(37,429)
NET CASH USED IN INVESTING ACTIVITIES	<u>(8,076,325)</u>	<u>(56,588)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on note payable	(528,435)	(1,396,137)
NET CASH USED IN FINANCING ACTIVITIES	<u>(528,435)</u>	<u>(1,396,137)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,781,469)	(740,825)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>7,251,489</u>	<u>7,992,314</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 4,470,020</u>	<u>\$ 7,251,489</u>
SUPPLEMENTAL DATA		
Cash paid for interest	<u>\$ 11,225</u>	<u>\$ 89,150</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, 2014

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 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, 2014. Amounts due from the Guild as of August 31, 2014, are included in accounts and other receivables in the accompanying statement of financial position.

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 common stocks, money market funds, US Treasury bills and US Treasury notes 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*.

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS
For the Year Ended August 31, 2014

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

Fair Value of Financial Instruments

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, *Fair Value 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, 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 in determining the fair value measurement.

As of August 31, 2014, 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.

Continued

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS For the Year Ended August 31, 2014

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

Impairment of Long-Lived Assets

In accordance with the 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, 2014.

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.

The Archdiocese recognizes bequests as contributions in the year in which the promise to give becomes unconditional, which is at the time 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.

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.

Continued

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

**NOTES TO FINANCIAL STATEMENTS
For the Year Ended August 31, 2014**

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

Net Assets (continued)

- 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 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, 2014, approximately \$30,000 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.

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, 2014:

Common stocks	\$ 3,036,220
Money market funds	2,194,612
US Treasury Bills	2,124,794
US Treasury Notes	<u>1,752,092</u>
Total	<u>\$ 9,107,718</u>

Continued

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS
For the Year Ended August 31, 2014

2. Investments (continued)

A summary of investment income was as follows for the year ended August 31, 2014:

Interest and dividends	\$ 52,509
Unrealized gains	186,867
Realized gains	100,341
Distributions from beneficial interest in trust	<u>38,429</u>
Total	<u>\$ 378,146</u>

3. Pledges Receivable

As of August 31, 2014, the Archdiocese's pledges receivable are due as follows:

Less than one year	\$ 606,393
One to five years	<u>250,869</u>
Total Pledges Receivable	857,262
Less: Allowance for Doubtful Accounts	(35,000)
Less: Discount to Present Value (3%)	<u>(16,713)</u>
Net Pledges Receivable	<u>\$ 805,549</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 return of the trust administrator. As of August 31, 2014, the fair value of the beneficial interest in the charitable lead unitrust was \$93,752. During the year ended August 31, 2014, the Archdiocese received \$4,267 as distributions from the unitrust.

Continued

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

**NOTES TO FINANCIAL STATEMENTS
For the Year Ended August 31, 2014**

4. Beneficial Interest in Trusts (continued)

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, 2014, the fair value of the beneficial interest in the perpetual trust was \$2,105,808. During the year ended August 31, 2014, the Archdiocese received \$38,429 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, 2014:

	<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>(Level 3)</u>
		<u>Assets</u>	<u>(Level 2)</u>	
		<u>(Level 1)</u>		
Assets:				
Investments:				
Common stocks:				
Industrial goods	\$ 423,347	\$ 423,347	\$ -	\$ -
Energy	366,128	366,128	-	-
Basic materials	365,754	365,754	-	-
Healthcare	364,292	364,292	-	-
Technology	346,955	346,955	-	-
Financials	307,417	307,417	-	-
Utilities	234,013	234,013	-	-
Manufacturing	226,729	226,729	-	-
Consumer goods	197,688	197,688	-	-

Continued

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

**NOTES TO FINANCIAL STATEMENTS
For the Year Ended August 31, 2014**

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:				
Retail	\$ 123,281	\$ 123,281	\$ -	\$ -
Construction	61,491	61,491	-	-
Services	<u>19,125</u>	<u>19,125</u>	<u>-</u>	<u>-</u>
Total Common Stocks	<u>3,036,220</u>	<u>3,036,220</u>	<u>-</u>	<u>-</u>
Money market funds	2,194,612	2,194,612	-	-
US Treasury notes	2,124,794		2,124,794	-
US Treasury bills	<u>1,752,092</u>	<u>-</u>	<u>1,752,092</u>	<u>-</u>
Total Investments	<u>9,107,718</u>	<u>5,230,832</u>	<u>3,876,886</u>	<u>-</u>
Beneficial interest in perpetual trust	2,105,808	-	-	2,105,808
Beneficial interest in charitable lead unitrust	<u>93,752</u>	<u>-</u>	<u>-</u>	<u>93,752</u>
Total	<u>\$ 11,307,278</u>	<u>\$ 5,230,832</u>	<u>\$ 3,876,886</u>	<u>\$ 2,199,560</u>

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

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

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.

US Treasury notes and bills – Represent securities that are generally not traded on a daily basis. The fair value estimates of such investments are based on observable market information, rather than market quotes. Accordingly, the estimates of fair value for such investments, as provided by the pricing service, are included in Level 2.

Beneficial interest in perpetual trust and in 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 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, 2014**

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, 2014:

Fair value, August 31, 2013	\$ 2,057,618
Change in value of beneficial interest in perpetual trust	126,222
Change in value of beneficial interest in charitable lead unitrust	19,987
Distribution from charitable lead unitrust	<u>(4,267)</u>
Fair value, August 31, 2014	<u>\$ 2,199,560</u>

6. Property and Equipment

Property and equipment consisted of the following at August 31, 2014:

Land	\$ 1,803,314
Buildings and renovations	9,628,072
Office furnishings and equipment	606,854
Rectory and chapel furnishing	90,338
Transportation equipment	<u>26,665</u>
Total Property and Equipment	12,155,243
Less: Accumulated Depreciation	<u>(2,495,275)</u>
Net Property and Equipment	<u>\$ 9,659,968</u>

Depreciation expense totaled \$281,250 for the year ended August 31, 2014.

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, 2014, are calculated and recorded as follows:

Designated assets at fair market value	\$ 2,105,485
Projected post-retirement benefit obligation	<u>(2,260,764)</u>
Excess of Benefit Obligation over Assets	<u>\$ 155,279</u>

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

**NOTES TO FINANCIAL STATEMENTS
For the Year Ended August 31, 2014**

7. Post-retirement Benefits (continued)

The assumed discount rate used in determining the post-retirement benefit obligation was 3.125%. The designated assets are included in investments and 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, 2014:

Funds held for others, August 31, 2013	\$ 118,359
Funds received during the year	24,751
Funds disbursed during the year	<u>(94,415)</u>
Funds held for others, August 31, 2014	<u>\$ 48,695</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 was secured by a mortgage on the property. The loan was 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, 2014, the Archdiocese made accelerated payments of \$442,769 towards the loan principal, in addition to the monthly installments and fully repaid the loan balance as of January 2014.

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, 2014, the Archdiocese had approximately \$4,737,000 in demand deposits, which exceeded the maximum limit insured by the FDIC by approximately \$4,221,000. The Archdiocese monitors the creditworthiness of these institutions and has not experienced any credit losses on its cash and cash equivalents.

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

**NOTES TO FINANCIAL STATEMENTS
For the Year Ended August 31, 2014**

11. Net Assets

Temporarily Restricted Net Assets

As of August 31, 2014, net assets are restricted for use in the following programs:

Vocations program	\$ 4,161,660
Capital campaign	2,701,351
Pastoral, CSC, peer to peer and youth ministry	198,233
Marriage tribunal services	189,618
Millenium project	96,953
Beneficial interest in unitrust	93,752
Other temporarily restricted net assets	<u>76,371</u>
Total Temporarily Restricted Net Assets	<u>\$ 7,517,938</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, 2014, 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, 2013	\$ -	\$ -	\$ 2,028,750	\$ 2,028,750
Contributions received	-	-	116,392	116,392
Investment return:				
Investment income, net of fees	38,429	-	-	38,429
Net appreciation (realized and unrealized)	<u>-</u>	<u>-</u>	<u>126,222</u>	<u>126,222</u>
Total Investment Return	38,429	-	126,222	164,651

Continued

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**NOTES TO FINANCIAL STATEMENTS
For the Year Ended August 31, 2014**

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	\$ (38,429)	\$ -	\$ -	\$ (38,429)
Endowment Net Assets, August 31, 2014	\$ -	\$ -	\$ 2,271,364	\$ 2,271,364

The earnings on these funds are for the following purposes:

Beneficial interest in perpetual trust – unrestricted	\$ 2,105,808
Co-sponsorship	116,392
Education of priest candidates	30,000
Capital campaign	<u>19,164</u>
Total Permanently Restricted Net Assets	<u>\$ 2,271,364</u>

The net appreciation 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 \$91,780 for the year ended August 31, 2014.

Continued

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS
For the Year Ended August 31, 2014

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, 2013, 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, 2014, 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, 2014, the statute of limitations for tax years ended August 31 2011 through August 31, 2013 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, 2014, the Archdiocese had no accruals for interest and/or penalties.

15. Subsequent Events

The Archdiocese has evaluated subsequent events and transactions through January 29, 2015, the date the financial statements were available to be issued. There were no subsequent events that require recognition or disclosure in these financial statements.