



# **ARCHDIOCESE FOR THE MILITARY SERVICES, USA**

## **Financial Statements**

*For the Ten Months Ended June 30, 2015*



**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 (AMS), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities and cash flows for the ten months 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 June 30, 2015, and the changes in its net assets and its cash flows for the ten months then ended in accordance with accounting principles generally accepted in the United States of America.

*Raffa, P.C.*

**Raffa, P.C.**

Washington, DC  
February 11, 2016

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

STATEMENT OF FINANCIAL POSITION

June 30, 2015

ASSETS

|                                |                  |
|--------------------------------|------------------|
| Cash and cash equivalents      | \$ 3,208,985     |
| Investments                    | 13,114,583       |
| Accounts and other receivables | 122,466          |
| Pledges receivable, net        | 614,847          |
| Beneficial interest in trusts  | 2,134,105        |
| Prepaid expenses               | 37,850           |
| Property and equipment, net    | <u>9,403,810</u> |

TOTAL ASSETS \$ 28,636,646

LIABILITIES AND NET ASSETS

Liabilities

|                                       |                |
|---------------------------------------|----------------|
| Accounts payable and accrued expenses | \$ 452,502     |
| Deferred revenue                      | 42,550         |
| Postretirement benefit obligations    | 1,723,845      |
| Funds held for others                 | <u>109,139</u> |

TOTAL LIABILITIES 2,328,036

Net Assets

|                  |                  |
|------------------|------------------|
| Unrestricted     |                  |
| Undesignated     | 14,207,697       |
| Board-designated | <u>2,143,608</u> |

Total Unrestricted Net Assets 16,351,305

|                        |                  |
|------------------------|------------------|
| Temporarily restricted | 7,433,763        |
| Permanently restricted | <u>2,523,542</u> |

TOTAL NET ASSETS 26,308,610

TOTAL LIABILITIES AND NET ASSETS \$ 28,636,646

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

**ARCHDIOCESE FOR THE MILITARY SERVICES, USA**

**STATEMENT OF ACTIVITIES  
For the Ten Months Ended June 30, 2015**

|  | <u>Unrestricted</u>  | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>         |
|--|----------------------|-----------------------------------|-----------------------------------|----------------------|
| <b>REVENUE AND SUPPORT</b>             |                      |                                   |                                   |                      |
| Contributions                          | \$ 6,057,398         | \$ 443,665                        | \$ 316,060                        | \$ 6,817,123         |
| Loss from change in value of trusts    | -                    | (1,573)                           | (63,882)                          | (65,455)             |
| Sacrament revenue                      | 81,731               | -                                 | -                                 | 81,731               |
| Marriage tribunal                      | 38,845               | -                                 | -                                 | 38,845               |
| Investment income                      | 90,680               | -                                 | -                                 | 90,680               |
| Other income                           | 87,891               | -                                 | -                                 | 87,891               |
| Net assets released from restrictions: |                      |                                   |                                   |                      |
| Satisfaction of program restrictions   | <u>526,267</u>       | <u>(526,267)</u>                  | <u>-</u>                          | <u>-</u>             |
| <b>TOTAL REVENUE<br/>AND SUPPORT</b>   | <u>6,882,812</u>     | <u>(84,175)</u>                   | <u>252,178</u>                    | <u>7,050,815</u>     |
| <b>EXPENSES</b>                        |                      |                                   |                                   |                      |
| Program Services:                      |                      |                                   |                                   |                      |
| Evangelization and pastoral            | 1,976,588            | -                                 | -                                 | 1,976,588            |
| Vocations and cosponsorship            | 449,446              | -                                 | -                                 | 449,446              |
| Sacramental records                    | 258,362              | -                                 | -                                 | 258,362              |
| Marriage tribunal                      | 229,214              | -                                 | -                                 | 229,214              |
| Chaplain's affairs                     | 136,716              | -                                 | -                                 | 136,716              |
| Veterans' affairs                      | <u>47,234</u>        | <u>-</u>                          | <u>-</u>                          | <u>47,234</u>        |
| Total Program Services                 | <u>3,097,560</u>     | <u>-</u>                          | <u>-</u>                          | <u>3,097,560</u>     |
| Supporting Services:                   |                      |                                   |                                   |                      |
| Administrative services                | 569,682              | -                                 | -                                 | 569,682              |
| Fundraising                            | <u>989,436</u>       | <u>-</u>                          | <u>-</u>                          | <u>989,436</u>       |
| <b>TOTAL EXPENSES</b>                  | <u>4,656,678</u>     | <u>-</u>                          | <u>-</u>                          | <u>4,656,678</u>     |
| <b>CHANGE IN NET ASSETS</b>            | 2,226,134            | (84,175)                          | 252,178                           | 2,394,137            |
| <b>NET ASSETS, BEGINNING OF PERIOD</b> | <u>14,125,171</u>    | <u>7,517,938</u>                  | <u>2,271,364</u>                  | <u>23,914,473</u>    |
| <b>NET ASSETS, END OF PERIOD</b>       | <u>\$ 16,351,305</u> | <u>\$ 7,433,763</u>               | <u>\$ 2,523,542</u>               | <u>\$ 26,308,610</u> |

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

**ARCHDIOCESE FOR THE MILITARY SERVICES, USA**

**STATEMENT OF CASH FLOWS**  
**For the Ten Months Ended June 30, 2015**

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|   |              |
|---|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES  |              |
| Change in net assets  | \$ 2,394,137 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: |              |
| Depreciation  | 274,940      |
| Change in value of trusts   | 65,455       |
| Net realized and unrealized loss  | 5,698        |
| Change in allowance for pledges receivable  | (10,000)     |
| Changes in assets and liabilities:  |              |
| Accounts and other receivables  | 11,556       |
| Pledges receivable  | 200,702      |
| Prepaid expenses  | 29,091       |
| Accounts payable and accrued expenses   | 262,491      |
| Deferred revenue  | 12,715       |
| Postretirement benefit obligations  | (536,919)    |
| Funds held for others   | 60,444       |
|   | <hr/>        |
| NET CASH PROVIDED BY OPERATING ACTIVITIES   | 2,770,310    |
|   | <hr/>        |
| CASH FLOWS FROM INVESTING ACTIVITIES  |              |
| Proceeds from sales of investments  | 6,010,021    |
| Purchases of investments  | (10,022,584) |
| Purchases of property and equipment   | (18,782)     |
|   | <hr/>        |
| NET CASH USED IN INVESTING ACTIVITIES   | (4,031,345)  |
|   | <hr/>        |
| NET DECREASE IN CASH AND CASH EQUIVALENTS   | (1,261,035)  |
|   | <hr/>        |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD  | 4,470,020    |
|   | <hr/>        |
| CASH AND CASH EQUIVALENTS, END OF PERIOD  | \$ 3,208,985 |
|   | <hr/> <hr/>  |

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

# ARCHDIOCESE FOR THE MILITARY SERVICES, USA

## NOTES TO FINANCIAL STATEMENTS For the Ten Months Ended June 30, 2015

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### 1. Organization and Summary of Significant Accounting Policies

#### **Organization**

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

The Capodanno Guild (the Guild) was established by AMS in 2013 as a not-for-profit corporation under the laws of the District of Columbia. The primary function of the Guild is to raise funds to support the cause for the beatification and canonization of Father Vincent Capodanno. The Guild is not consolidated with AMS as the financial transactions of the Guild are immaterial to the statements of financial position and activities of AMS as of and for the ten months ended June 30, 2015. Amounts due from the Guild as of June 30, 2015, are included in accounts and other receivables in the accompanying statement of financial position.

After August 31, 2014, AMS elected to change its fiscal year-end from August 31 to June 30. As a result, the financial statements presented are for the ten months ended June 30, 2015.

#### **Basis of Accounting**

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

#### **Cash and Cash Equivalents**

AMS considers all 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 AMS.

#### **Investments**

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

# ARCHDIOCESE FOR THE MILITARY SERVICES, USA

## NOTES TO FINANCIAL STATEMENTS For the Ten Months Ended June 30, 2015

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### 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 and Disclosures*, defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles in the United States of America (GAAP) and requires disclosures about fair value measurements for assets and liabilities measured at fair value on a recurring basis. The ASC emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, the ASC established a fair value hierarchy based upon the transparency of the inputs to the valuation of an asset or liability. These inputs may be observable, whereby market participant assumptions are developed based on market data obtained from independent sources, or unobservable, whereby assumptions about market participant assumptions are developed by the reporting entity based on the best information available in the circumstances.

The three levels of the fair value hierarchy are described as follows:

*Level 1* – Inputs based on quoted prices (unadjusted) in active markets for identical assets or liabilities accessible at the measurement date.

*Level 2* – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly, such as quoted prices for similar assets or liabilities in active markets.

*Level 3* – Unobservable inputs for the asset or liability, including the reporting entity's own assumptions in determining the fair value measurement.

As of June 30, 2015, AMS's investments and beneficial interest in trusts, as described in Notes 2, 4 and 5 of these financial statements, were measured at fair value on a recurring basis.

AMS follows the fair value measurement provisions of FASB Accounting Standards Update (ASU) No. 2009-12, *Fair Value Measurements and Disclosures (Topic 820): Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, in valuing AMS's investment in a limited liability company (LLC) investment fund. The guidance permits the fair value of investments within its scope to be estimated using net asset value (NAV) or its equivalent as a practical expedient. NAV or its equivalent is the value per share or value of ownership interest in partner's capital, as provided by the fund, whose financial statements are prepared in a manner consistent with the measurement principles of an investment company or that has the attributes of an investment company.

**ARCHDIOCESE FOR THE MILITARY SERVICES, USA**

**NOTES TO FINANCIAL STATEMENTS  
For the Ten Months Ended June 30, 2015**

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

**Recently Issued Accounting Standards**

In May 2015, the FASB issued ASU No. 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)*. This guidance removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the NAV per share practical expedient. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the NAV per share practical expedient. ASU 2015-07 is required to be adopted for annual reporting periods beginning after December 15, 2016, and early application is permitted. Management is currently evaluating the impact of ASU 2015-07 on AMS's disclosures.

**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.

**Impairment of Long-Lived Assets**

In accordance with FASB ASC Topic 360, *Property, Plant and Equipment*, AMS reviews its property for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the fair value is less than the carrying amount of the asset, an impairment loss is recognized for the difference. No impairment loss has been recognized as of June 30, 2015.

**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



# ARCHDIOCESE FOR THE MILITARY SERVICES, USA

## NOTES TO FINANCIAL STATEMENTS For the Ten Months Ended June 30, 2015

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

#### **Revenue Recognition (continued)**

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

AMS recognizes bequests as contributions in the 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 AMS consist of the following:

- Unrestricted net assets represent funds that are available for support of AMS's operations.
  - *Undesignated* – Net assets that are available for general operating purposes of AMS.
  - *Board-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.
- 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 ten months ended June 30, 2015, approximately \$45,000 of contributed services is included in contributions in the accompanying statement of activities.

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS  
For the Ten Months Ended June 30, 2015

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

**Functional Allocation of Expenses**

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statement of 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 GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. Investments

Investments consisted of the following as of June 30, 2015:

|                        |                      |
|------------------------|----------------------|
| U.S. Treasury notes    | \$ 6,486,010         |
| Common stocks          | 3,157,262            |
| Money market funds     | 3,059,206            |
| Investment in LLC fund | <u>264,688</u>       |
| Subtotal               | 12,967,166           |
| Pending transaction:   |                      |
| Deposits in transit    | <u>147,417</u>       |
| Total Investments      | <u>\$ 13,114,583</u> |

A summary of investment income was as follows for the ten months ended June 30, 2015:

|  |                  |
|--|------------------|
| Interest and dividends                           | \$ 50,961        |
| Realized gains                                   | 104,459          |
| Unrealized loss                                  | (110,157)        |
| Distributions from beneficial interest in trusts | <u>45,417</u>    |
| Total Investment Income                          | <u>\$ 90,680</u> |

**ARCHDIOCESE FOR THE MILITARY SERVICES, USA**

**NOTES TO FINANCIAL STATEMENTS  
For the Ten Months Ended June 30, 2015**

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3. Pledges Receivable

As of June 30, 2015, AMS's pledges receivable are due as follows:

|                                       |                   |
|---------------------------------------|-------------------|
| Less than one year                    | \$ 620,895        |
| One to five years                     | <u>21,950</u>     |
| Total Pledges Receivable              | 642,845           |
| Less: Allowance for Doubtful Accounts | (25,000)          |
| Less: Discount to Present Value (3%)  | <u>(2,998)</u>    |
| Pledges Receivable, Net               | <u>\$ 614,847</u> |

4. Beneficial Interest in Trusts

**Beneficial Interest in Charitable Lead Unitrust**

In May 2009, AMS received notice from a trust administrator that AMS was named as one of the recipients of a beneficial interest in a charitable lead unitrust (the unitrust) from a donor. The unitrust agreement provides that AMS receives 20% of the 3% annual distribution of the unitrust's fair value over 50 years for general use. After 50 years, 100% of the unitrust amount will be distributed to another unrelated organization. The present value of the estimated future cash flows was recognized as an asset and 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 June 30, 2015, the fair value of the beneficial interest in the charitable lead unitrust was \$92,179. During the ten months ended June 30, 2015, AMS received \$3,289 as distributions from the unitrust.

**Beneficial Interest in Perpetual Trust Held by Third Party**

In December 2009, AMS was informed that it was named as the sole beneficiary of the income from a perpetual trust held by a third party (the trust). The trust provides that AMS has an irrevocable right to receive 80% of the income earned from the trust's assets in perpetuity. The remaining 20% is reinvested into the principal of the trust. The assets of the trust are held by a third-party trustee and represent resources not in the possession or control of AMS. The income distributed to AMS is for general use. During the year ended August 31, 2010, AMS 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 AMS. 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 June 30, 2015, the fair value of the beneficial interest in the perpetual trust was \$2,041,926. During the ten months ended June 30, 2015, AMS received \$45,417 as distributions from the perpetual trust which were recorded as investment income in the accompanying statement of activities.

Continued

**ARCHDIOCESE FOR THE MILITARY SERVICES, USA**

**NOTES TO FINANCIAL STATEMENTS  
For the Ten Months Ended June 30, 2015**

5. Fair Value Measurements

The following table summarizes AMS's assets measured at fair value on a recurring basis as of June 30, 2015:

|  | <u>Total<br/>Fair Value</u> | <u>Quoted Prices<br/>in Active<br/>Markets for<br/>Identical<br/>Assets<br/>(Level 1)</u> | <u>Significant<br/>Other<br/>Observable<br/>Inputs<br/>(Level 2)</u> | <u>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</u> |
|--|-----------------------------|---|--|--|
| Assets:  |                             |   |  |  |
| Investments:                                       |                             |   |  |  |
| Common stocks:                                     |                             |   |  |  |
| Information technology                             | \$ 689,220                  | \$ 689,220  | \$ -   | \$ -   |
| Industrials  | 632,165                     | 632,165   | -  | -  |
| Financials   | 434,360                     | 434,360   | -  | -  |
| Healthcare   | 367,330                     | 367,330   | -  | -  |
| Consumer staples                                   | 363,440                     | 363,440   | -  | -  |
| Consumer discretionary                             | 322,278                     | 322,278   | -  | -  |
| Materials  | 112,827                     | 112,827   | -  | -  |
| Utilities  | 89,187                      | 89,187  | -  | -  |
| Telecommunications                                 | 83,991                      | 83,991  | -  | -  |
| Energy   | <u>62,464</u>               | <u>62,464</u>   | <u>-</u>   | <u>-</u>   |
| Total Common<br>Stocks                             | 3,157,262                   | 3,157,262   | -  | -  |
| U.S. Treasury notes                                | 6,486,010                   | -   | 6,486,010  | -  |
| Money market funds                                 | 3,059,206                   | 3,059,206   | -  | -  |
| Investment in LLC fund                             | <u>264,688</u>              | <u>-</u>  | <u>-</u>   | <u>264,688</u>   |
| Subtotal   | 12,967,166                  | 6,216,468   | 6,486,010  | 264,688  |
| Pending transaction:                               |                             |   |  |  |
| Deposits in transit                                | <u>147,417</u>              | <u>147,417</u>  | <u>-</u>   | <u>-</u>   |
| Total Investments                                  | 13,114,583                  | 6,363,885   | 6,486,010  | 264,688  |
| Beneficial interest in<br>perpetual trust          | 2,041,926                   | -   | -  | 2,041,926  |
| Beneficial interest in<br>charitable lead unitrust | <u>92,179</u>               | <u>-</u>  | <u>-</u>   | <u>92,179</u>  |
| Total Assets                                       | <u>\$ 15,248,688</u>        | <u>\$ 6,363,885</u>   | <u>\$ 6,486,010</u>  | <u>\$ 2,398,793</u>  |

Continued

**ARCHDIOCESE FOR THE MILITARY SERVICES, USA**

**NOTES TO FINANCIAL STATEMENTS  
For the Ten Months Ended June 30, 2015**

5. Fair Value Measurements (continued)

AMS 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.

*U.S. Treasury notes* – 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.

*Money market funds* – Valued using the NAV of shares held, as reported in an active market in which the fund is traded.

*Investment in LLC fund* – This is an investment in a company formed to benefit Catholic organizations by investing their funds in diversified securities and investment vehicles. This investment is subject to certain restrictions and generally has no established trading market, and is therefore classified as Level 3. Fair value is determined based on the fund's NAV, as provided by the fund's management.

*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 AMS. Since AMS has an irrevocable right to receive the income earned from the trust's assets, the fair value of the beneficial interest is estimated to approximate the fair value of the trust's assets. See Note 4 for the significant assumptions used to estimate fair value of the charitable lead unitrust.

A roll forward of the fair value measurement using unobservable inputs (Level 3) is as follows for the ten months ended June 30, 2015:

|   | <u>Beneficial<br/>Interest<br/>in Trusts</u> | <u>Investment<br/>in LLC<br/>Fund</u> | <u>Total</u>        |
|---|--|---------------------------------------|---------------------|
| Balance, beginning of period                      | \$ 2,199,560                                 | \$ -                                  | \$ 2,199,560        |
| Additions   | -  | 261,329                               | 261,329             |
| Change in value of investment in partnership fund | (65,455)                                     | -                                     | (65,455)            |
| Change in value of investment in partnership fund | -  | <u>3,359</u>                          | <u>3,359</u>        |
| Balance, end of period                            | <u>\$ 2,134,105</u>                          | <u>\$ 264,688</u>                     | <u>\$ 2,398,793</u> |

The amount of net loss for the ten months ended June 30, 2015, included in change in net assets that is attributable to the change in unrealized gains or losses relating to Level 3 assets still held at June 30, 2015, is as follows:

|                                |                    |
|--------------------------------|--------------------|
| Beneficial interest in trusts  | \$ (65,455)        |
| Investment in partnership fund | <u>3,359</u>       |
| Total                          | <u>\$ (62,096)</u> |

Continued

**ARCHDIOCESE FOR THE MILITARY SERVICES, USA**

**NOTES TO FINANCIAL STATEMENTS  
For the Ten Months Ended June 30, 2015**

5. Fair Value Measurements (continued)

AMS uses NAV or its equivalent to determine the fair value of certain investments under FASB ASU 2009-12. The table below details AMS's ability to redeem investment funds valued at NAV or its equivalent, if currently eligible, and unfunded commitments as of June 30, 2015:

|                               | <u>Number<br/>of<br/>Funds</u> | <u>Fair Value</u> | <u>Unfunded<br/>Commitments</u> | <u>Redemption<br/>Frequency,<br/>If Currently<br/>Eligible</u> | <u>Redemption<br/>Notice<br/>Period</u> |
|-------------------------------|--------------------------------|-------------------|---------------------------------|--|---|
| Investment in LLC<br>fund (a) | 1                              | \$ 264,688        | \$ -                            | Quarterly  | 75 days                                 |
| Total                         |                                | <u>\$ 264,688</u> | <u>\$ -</u>                     |  |   |

(a) Investment in LLC fund whose objective is to preserve the capital and purchasing power of its members, anticipating a real return of 5% over the rate of inflation over the long term through a diversified asset allocation strategy.

6. Property and Equipment

Property and equipment consisted of the following at June 30, 2015:

|                                  |                     |
|----------------------------------|---------------------|
| Land                             | \$ 1,803,314        |
| Buildings and renovations        | 9,628,072           |
| Office furnishings and equipment | 625,636             |
| Rectory and chapel furnishing    | 90,338              |
| Transportation equipment         | <u>26,665</u>       |
| Total Property and Equipment     | 12,174,025          |
| Less: Accumulated Depreciation   | <u>(2,770,215)</u>  |
| Property and Equipment, Net      | <u>\$ 9,403,810</u> |

Depreciation expense totaled \$274,940 for the ten months ended June 30, 2015.

7. Postretirement Benefits

AMS 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 Ten Months Ended June 30, 2015**

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7. Postretirement Benefits (continued)

The liability for future benefit payments based on the estimated remaining lives of the bishops, as well as the funded status at June 30, 2015, are calculated and recorded as follows:

|   |                    |
|---|--------------------|
| Designated assets at fair market value            | \$ 2,143,608       |
| Less: Projected postretirement benefit obligation | <u>(1,723,845)</u> |
| Excess of Assets Over Benefit Obligation          | <u>\$ 419,763</u>  |

The assumed discount rate used in determining the postretirement benefit obligation was 3%. 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 ten months ended June 30, 2015:

|  |                   |
|--|-------------------|
| Funds held for others, beginning of the period | \$ 48,695         |
| Funds received during the period               | 119,664           |
| Funds disbursed during the period              | <u>(59,220)</u>   |
| Funds Held for Others, End of the Period       | <u>\$ 109,139</u> |

9. Commitments and Risk

AMS 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, 2015, AMS had approximately \$3,216,000 in demand deposits, which exceeded the maximum limit insured by the FDIC by approximately \$2,713,000. AMS monitors the creditworthiness of these institutions and has not experienced any credit losses on its cash and cash equivalents.

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10. Net Assets

**Temporarily Restricted Net Assets**

As of June 30, 2015, net assets were restricted for use in the following programs:

|  |                     |
|--|---------------------|
| Vocations program                              | \$ 4,117,539        |
| Capital campaign                               | 2,603,609           |
| Pastoral, CSC, peer to peer and youth ministry | 208,393             |
| Marriage tribunal services                     | 188,718             |
| Millennium project                             | 96,953              |
| Beneficial interest in unitrust                | 92,179              |
| Other temporarily restricted net assets        | <u>126,372</u>      |
| Total Temporarily Restricted Net Assets        | <u>\$ 7,433,763</u> |

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

**Permanently Restricted Net Assets**

AMS'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 AMS has an irrevocable right to receive 80% of the income earned from the trust's assets in perpetuity. The remaining 20% is reinvested into the principal of the trust. The income distributed annually from the trust to AMS is for general use. The beneficial interest in this trust was donated to AMS 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 AMS.

For the ten months ended June 30, 2015, changes in this beneficial interest, along with several other permanently restricted endowments held by AMS, were as follows:

|   | <u>Unrestricted</u>         | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>        |
|---|-----------------------------|-----------------------------------|-----------------------------------|---------------------|
| Endowment net assets,<br>beginning of period  | \$ -                        | \$ -                              | \$ 2,271,364                      | \$ 2,271,364        |
| Contributions received                        | -                           | -                                 | 316,060                           | 316,060             |
| Investment return:                            |                             |                                   |                                   |                     |
| Investment income,<br>net of fees             | 34,913                      | -                                 | -                                 | 34,913              |
| Net depreciation (realized<br>and unrealized) | <u>                    </u> | <u>                    </u>       | <u>(63,882)</u>                   | <u>(63,882)</u>     |
| Total Investment<br>Return                    | 34,913                      | -                                 | 2,523,542                         | 2,558,455           |
| Appropriations for expenditure                | <u>(34,913)</u>             | <u>                    </u>       | <u>                    </u>       | <u>(34,913)</u>     |
| Endowment Net Assets,<br>End of Period        | <u>\$ -</u>                 | <u>\$ -</u>                       | <u>\$ 2,523,542</u>               | <u>\$ 2,523,542</u> |

Continued



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**NOTES TO FINANCIAL STATEMENTS  
For the Ten Months Ended June 30, 2015**

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10. Net Assets (continued)

**Permanently Restricted Net Assets (continued)**

As of June 30, 2015, the earnings on permanently restricted net assets were for the following purposes:

|   |                     |
|---|---------------------|
| Beneficial interest in perpetual trust – unrestricted | \$ 2,041,926        |
| Cosponsorship   | 432,451             |
| Education of priest candidates                        | 30,000              |
| Capital campaign                                      | <u>19,165</u>       |
| Total Permanently Restricted Net Assets               | <u>\$ 2,523,542</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.

11. Retirement Plans

AMS participates in a multiple-employer noncontributory pension plan administered by AMS 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 AMS of Washington at 7.5% of all eligible employees' payroll.

In October 2012, AMS of Washington resolved to freeze the pension plan for all new hires and future benefit accruals effective December 31, 2012. Beginning January 1, 2013, AMS of Washington sponsors a defined contribution retirement plan which is available to all lay employees who work 20 or more hours per week and who are not nonresident aliens. AMS is a participant in the defined contribution retirement plan. Under the terms of the plan, eligible employees may elect to contribute up to the federal tax limitation and the contributions are vested immediately. AMS matches employee contributions up to 50% of the first 4% of eligible pay. Employer contributions are vested in 20% increments after one year of service and fully vested after five years of service. Pension expense under the plans totaled \$98,075 for the ten months ended June 30, 2015.

12. Income Taxes

Under Section 501(c)(3) of the Internal Revenue Code, AMS is exempt from the payment of taxes on income other than net unrelated business income. For the ten months ended June 30, 2015, no provision for income taxes was made, as AMS had no net unrelated business income.

AMS follows the authoritative guidance relating to accounting for uncertainty in income taxes included in ASC Topic 740, *Income Taxes*. These provisions provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition and derecognition of tax

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**NOTES TO FINANCIAL STATEMENTS  
For the Ten Months Ended June 30, 2015**

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12. Income Taxes (continued)

positions taken or expected to be taken in a tax return. AMS performed an evaluation of uncertain tax positions for the ten months ended June 30, 2015, and determined that there were no matters that would require recognition in the financial statements or that may have any effect on its tax-exempt status. As of June 30, 2015, the statute of limitations for tax years 2012 through 2014 remains open with the U.S. federal jurisdiction or the various states and local jurisdictions in which AMS files tax returns. It is AMS's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expense. As of June 30, 2015, AMS had no accruals for interest and/or penalties.

13. Subsequent Events

AMS has evaluated subsequent events and transactions through February 11, 2016, the date the financial statements were available to be issued. There were no subsequent events that require recognition or disclosure in these financial statements.