



ARCHDIOCESE FOR THE MILITARY SERVICES, USA

Financial Statements

For the Year Ended June 30, 2018

(With Summarized Financial Information for the Year Ended June 30, 2017)



**and
Report Thereon**





Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the Archdiocese for the Military Services, USA (AMS), which comprise the statement of financial position as of June 30, 2018, 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 June 30, 2018, 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

Other Matter*Report on Summarized Comparative Information*

We have previously audited AMS's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 21, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, 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
December 13, 2018

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

STATEMENT OF FINANCIAL POSITION

June 30, 2018

(With Summarized Financial Information as of June 30, 2017)

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents	\$ 1,379,604	\$ 6,508,794
Investments	26,204,008	17,558,062
Accounts and other receivable	147,451	764,764
Prepaid expenses	107,595	139,047
Pledges receivable, net	291,087	433,933
Beneficial interest in trusts	2,313,639	2,332,861
Property and equipment, net	<u>9,355,715</u>	<u>9,834,216</u>
TOTAL ASSETS	<u>\$ 39,799,099</u>	<u>\$ 37,571,677</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 926,852	\$ 831,657
Deferred revenue	22,346	33,730
Post-retirement benefit obligation	1,877,502	1,888,481
Funds held for others	<u>27,158</u>	<u>47,508</u>
TOTAL LIABILITIES	<u>2,853,858</u>	<u>2,801,376</u>
Net Assets		
Unrestricted		
Undesignated	23,508,627	21,824,184
Board-designated	<u>2,710,019</u>	<u>2,483,841</u>
Total Unrestricted	26,218,646	24,308,025
Temporarily restricted	6,931,500	7,278,553
Permanently restricted	<u>3,795,095</u>	<u>3,183,723</u>
TOTAL NET ASSETS	<u>36,945,241</u>	<u>34,770,301</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 39,799,099</u>	<u>\$ 37,571,677</u>

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

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2018

(With Summarized Financial Information for the Year Ended June 30, 2017)

	2018			2017	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
REVENUE AND SUPPORT					
Contributions	\$ 6,177,940	\$ 788,337	\$ 637,359	\$ 7,603,636	\$ 13,587,824
Sacrament revenue	82,092	-	-	82,092	91,210
Marriage tribunal	8,830	-	-	8,830	14,610
Investment income	1,675,663	-	-	1,675,663	746,383
Gain (loss) from change in value of trusts	-	6,765	(25,987)	(19,222)	253,556
Other income	85,760	-	-	85,760	42,817
Net assets released from restrictions:					
Satisfaction of program restrictions	1,042,155	(1,042,155)	-	-	-
Satisfaction of time restrictions	100,000	(100,000)	-	-	-
TOTAL REVENUE AND SUPPORT	9,172,440	(347,053)	611,372	9,436,759	14,736,400
EXPENSES					
Program Services:					
Evangelization and pastoral	3,277,922	-	-	3,277,922	2,840,746
Vocations and co-sponsorship	1,000,924	-	-	1,000,924	917,719
Sacramental records	398,498	-	-	398,498	371,467
Marriage tribunal	273,340	-	-	273,340	259,568
Chaplain's affairs	133,250	-	-	133,250	135,316
Veterans' affairs	70,576	-	-	70,576	57,166
Total Program Services	5,154,510	-	-	5,154,510	4,581,982
Supporting Services:					
Administrative services	1,035,152	-	-	1,035,152	878,402
Fundraising	1,072,157	-	-	1,072,157	1,320,083
TOTAL EXPENSES	7,261,819	-	-	7,261,819	6,780,467
CHANGE IN NET ASSETS	1,910,621	(347,053)	611,372	2,174,940	7,955,933
NET ASSETS, BEGINNING OF YEAR	24,308,025	7,278,553	3,183,723	34,770,301	26,814,368
NET ASSETS, END OF YEAR	\$ 26,218,646	\$ 6,931,500	\$ 3,795,095	\$ 36,945,241	\$ 34,770,301

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

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2018

(With Summarized Financial Information for the Year Ended June 30, 2017)

Increase (Decrease) in Cash and Cash Equivalents

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,174,940	\$ 7,955,933
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	487,908	376,671
Change in value of trusts	19,222	(253,556)
Net realized and unrealized gains	(1,279,923)	(542,366)
Change in allowance for pledges receivable	2,200	(6,900)
Changes in assets and liabilities:		
Accounts and other receivable	617,313	(667,360)
Pledges receivable	140,646	327,646
Prepaid expenses	31,452	(115,815)
Accounts payable and accrued expenses	95,195	367,029
Deferred revenue	(11,384)	17,684
Post-retirement benefit obligation	(10,979)	(20,230)
Funds held for others	(20,350)	19,635
	<u>2,246,240</u>	<u>7,458,371</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	40,373,246	3,644,459
Purchases of investments	(47,739,269)	(7,402,074)
Purchases of property and equipment	(9,407)	(892,412)
	<u>(7,375,430)</u>	<u>(4,650,027)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(5,129,190)	2,808,344
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>6,508,794</u>	<u>3,700,450</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 1,379,604</u></u>	<u><u>\$ 6,508,794</u></u>

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

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2018

1. Organization and Summary of Significant Accounting Policies

Organization

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

The Capodanno Guild (the Guild) was established by AMS in 2013 as a not-for-profit corporation under the laws of the District of Columbia. The primary function of the Guild is to raise funds to support the cause for the beatification and canonization of Father Vincent Capodanno. The Guild is not consolidated with AMS, as the financial transactions and balances of the Guild are immaterial to the statements of financial position and activities of AMS as of and for the year ended June 30, 2018.

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 except those that are held as investments. 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 composed of mutual funds, common stocks, money market funds and shares in a private debt fund and pooled investment fund, and are recorded in the accompanying financial statements at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability through an orderly transaction between market participants at the measurement date. AMS invests in funds in accordance with the *Archdiocesan Investment Policy Guidelines*.

The change in unrealized appreciation or depreciation of investments is included in investment income in the accompanying statement of activities. Realized gains and losses on sales of investments are computed on an average cost method, and are recorded on the trade date of the transaction and included in investment income in the accompanying statement of activities.

Continued

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

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

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

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

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

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

As of June 30, 2018, 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 provisions of FASB Accounting Standards Update (ASU) No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, in valuing AMS's investment in the private debt fund and pooled investment fund. The guidance permits the fair value of investments within its scope to be estimated using net asset value (NAV) or its equivalent as a practical expedient. NAV or its equivalent is the value per share or value of ownership interest in the fund, as provided by the fund, whose financial statements are prepared in a manner consistent with the measurement principles of an investment company or that has the attributes of an investment company. In accordance with this standard, the investment funds measured at NAV are excluded from the fair value hierarchy.

Property and Equipment and Related Depreciation and Amortization

Expenditures for property, equipment and eligible software development costs in excess of \$1,000 are capitalized at cost. Costs incurred in the development of software are expensed during the preliminary and post-implementation operation stages, including data conversion, training and maintenance costs. Costs incurred during the development stage are capitalized.

Continued

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2018

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

Property and Equipment and Related Depreciation and Amortization (continued)

Expenditures for major repairs and improvements are capitalized; expenditures for minor repairs and maintenance costs are expensed as incurred. Upon the retirement or disposal of assets, the cost and accumulated depreciation or amortization are eliminated from the respective accounts and the resulting gain or loss, if any, is included in revenue or expenses in the accompanying statement of activities. Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings and renovations	39 years
Office furnishings and equipment	5 to 10 years
Rectory and chapel furnishing	5 to 10 years
Transportation equipment	5 to 10 years
Software	3 years

Impairment of Long-Lived Assets

In accordance with FASB ASC Topic 360, *Property, Plant and Equipment*, AMS reviews its property for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the fair value is less than the carrying amount of the asset, an impairment loss is recognized for the difference. No impairment loss has been recognized for the year ended June 30, 2018.

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

AMS recognizes bequests as contributions in the fiscal year in which the promise to give becomes unconditional, which is the year in which the probate court declares the will valid and the proceeds are measurable in amount.

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

Continued

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS For the Year Ended June 30, 2018

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

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 post-retirement 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 be used for the purposes specified in the endowment agreement.

Donated Services

In-kind contributions consist of contributed services and are recognized as revenue and expenses in the accompanying statement of activities at their estimated fair value, as provided by the donor at the date of receipt. These services are used to support veterans' affairs and evangelization and pastoral programs. For the year ended June 30, 2018, approximately \$54,000 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 GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

2. Investments

Investments consisted of the following as of June 30, 2018:

Mutual funds	\$ 19,479,533
Private debt fund	3,768,646
Common stocks	1,792,791
Money market funds	853,482
Private pooled investment fund	<u>309,556</u>
Total Investments	<u>\$ 26,204,008</u>

A summary of investment income is as follows for the year ended June 30, 2018:

Interest and dividends	\$ 353,034
Realized gains	356,731
Unrealized gains	923,192
Distributions from beneficial interest in trusts	<u>42,706</u>
Total Investment Income	<u>\$ 1,675,663</u>

3. Pledges Receivable

As of June 30, 2018, AMS's pledges receivable were due as follows:

Less than one year	\$ 147,127
One to five years	<u>169,601</u>
Total Pledges Receivable	316,728
Less: Allowance for Doubtful Accounts	(16,800)
Less: Discount to Present Value (3%)	<u>(8,841)</u>
Pledges Receivable, Net	<u>\$ 291,087</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 in May 2009. The asset is included in beneficial interest in trusts in the accompanying statement of financial position. The fair value of this asset is revalued annually by calculating the present value of estimated future cash flows. The discount rate used as of June 30, 2018, was 3.19%. As of June 30, 2018, the fair value of the beneficial interest in the charitable lead unitrust was \$95,697. During the year ended June 30, 2018, AMS received \$4,355 as distributions from the unitrust.

Continued

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

4. Beneficial Interest in Trusts (continued)

Beneficial Interest in Perpetual Trust Held by Third Party

In December 2009, AMS was informed that it was named as the sole beneficiary of the income from a perpetual trust held by a third party (the trust). The trust provides that AMS has an irrevocable right to receive 80% of the income earned from the trust's assets in perpetuity. The remaining 20% is reinvested into the principal of the trust. The assets of the trust are held by a third-party trustee and represent resources not in the possession or control of AMS. The income distributed to AMS is for general use. In December 2009, AMS recorded an asset for its beneficial interest in the perpetual trust and recognized 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, 2018, the fair value of the beneficial interest in the perpetual trust was \$2,217,942. During the year ended June 30, 2018, AMS received \$42,706 as distributions from the perpetual trust, which were recorded as investment income in the accompanying statement of activities.

5. Fair Value Measurement

The following table summarizes AMS's assets measured at fair value on a recurring basis as of June 30, 2018:

	<u>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:				
Mutual funds:				
Domestic equity	\$ 11,128,770	\$ 11,128,770	\$ -	\$ -
Fixed income	8,350,763	8,350,763	-	-
Common stocks:				
Financial	432,332	432,332	-	-
Information technology	408,807	408,807	-	-
Industrials	270,875	270,875	-	-
Consumer staples	246,585	246,585	-	-
Healthcare	202,905	202,905	-	-
Materials	100,575	100,575	-	-
Telecommunications	98,475	98,475	-	-
Consumer discretionary	32,237	32,237	-	-
Money market funds	<u>853,482</u>	<u>853,482</u>	<u>-</u>	<u>-</u>
Total Investments in the Fair Value Hierarchy	22,125,806	22,125,806	-	-

Continued

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

5. Fair Value Measurement (continued)

<i>(continued)</i>	<u>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: (continued)				
Beneficial interest in perpetual trust	\$ 2,217,942	\$ -	\$ -	\$ 2,217,942
Beneficial interest in charitable lead unitrust	<u>95,697</u>	<u>-</u>	<u>-</u>	<u>95,697</u>
Total Assets in the Fair Value Hierarchy	24,439,445	<u>\$22,125,806</u>	<u>\$ -</u>	<u>\$ 2,313,639</u>
Private debt fund ^(a)	3,768,646			
Pooled investment fund ^(a)	<u>309,556</u>			
Total Investments and Beneficial Interest in Trusts	<u>\$28,517,647</u>			

(a) These investments are measured at NAV or their equivalent as a practical expedient and have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the accompanying statement of financial position.

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

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

Mutual funds – Mutual funds are valued at readily available quoted market prices from an active market.

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

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

Continued

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

5. Fair Value Measurement (continued)

Private debt fund and pooled investment fund – These funds are valued using significant unobservable inputs, are subject to certain restrictions and generally have no established trading market. Fair value is determined based on NAV or its equivalent as described above. The private debt fund invests in debt securities of middle market companies with stable cash flows, conservative capital structures and private equity ownership.

A roll forward of the fair value measurement using unobservable inputs (Level 3) is as follows for the year ended June 30, 2018:

	<u>Beneficial Interest in Trusts</u>
Balance, beginning of year	\$ 2,332,861
Change in value of beneficial interest in trusts	<u>(19,222)</u>
Balance, End of Year	<u>\$ 2,313,639</u>

The table below details AMS's ability to redeem investment funds valued at NAV or its equivalent, as a practical expedient, as of June 30, 2018, and unfunded commitments as of June 30, 2018:

	<u>Number of Funds</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency, If Currently Eligible</u>	<u>Redemption Notice Period</u>
Private debt fund ^(a)	1	\$ 3,768,646	\$ -	Quarterly	90 days
Pooled investment fund ^(b)	1	<u>309,556</u>	<u>-</u>	Quarterly	75 days
Total		<u>\$ 4,078,202</u>	<u>\$ -</u>		

(a) These are investments in a private debt fund operated by Knights of Columbus Asset Advisors LLC as a limited partnership. The principal objective of the fund is to invest in debt securities of middle market companies with stable cash flows, conservative capital structures and private equity ownership.

(b) These are investments in a pooled investment fund for mission dioceses and associated organizations. The principal investment objective of this fund is to provide diversified investments with good returns at lower costs through economies of scale.

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

6. Property and Equipment

Property and equipment consisted of the following at June 30, 2018:

Land	\$ 1,803,314
Buildings and renovations	10,023,932
Office furnishings and equipment	627,714
Software	676,052
Rectory and chapel furnishing	90,338
Transportation equipment	26,665
Collectibles	<u>11,500</u>
Total Property and Equipment	13,259,515
Less: Accumulated Depreciation and Amortization	<u>(3,903,800)</u>
Property and Equipment, Net	<u>\$ 9,355,715</u>

Depreciation and amortization expense totaled \$487,908 for the year ended June 30, 2018.

7. Post-retirement Benefits

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

The liability for future benefit payments based on the estimated remaining lives of the bishops, as well as the funded status at June 30, 2018, is calculated and recorded as follows:

Designated assets at fair market value	\$ 2,710,018
Less: Projected post-retirement benefit obligation	<u>(1,877,502)</u>
Excess of Assets Over Benefit Obligation	<u>\$ 832,516</u>

The assumed discount rate used in determining the postretirement benefit obligation was 3%. The designated assets are included in investments 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 June 30, 2018:

Funds held for others, beginning of year	\$ 47,508
Funds received during year	19,602
Funds disbursed during year	<u>(39,952)</u>
Funds Held for Others, End of Year	<u>\$ 27,158</u>

Continued

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

**NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2018**

9. Net Assets

Temporarily Restricted Net Assets

As of June 30, 2018, net assets consisted of or were restricted for use in the following programs:

Vocations program	\$ 3,859,013
Capital campaign	2,196,840
Pastoral, Catholics Seeking Christ, peer to peer and youth ministry	345,257
Marriage tribunal services	188,668
Millennium project	96,953
Beneficial interest in unitrust	95,697
Other programs	<u>149,072</u>
Total Temporarily Restricted Net Assets	<u>\$ 6,931,500</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 in December 2009, with an initial value of \$1,803,696. The assets of the trust are held by a third-party trustee and represent resources not in the possession or control of AMS.

For the year ended June 30, 2018, changes in this beneficial interest, along with other permanently restricted endowments held by AMS, were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ -	\$ 3,183,723	\$ 3,183,723
Contributions received	-	-	637,359	637,359
Investment return:				
Investment income, net of fees	42,706	-	-	42,706
Net appreciation (realized and unrealized)	-	-	(25,987)	(25,987)
Total Net Investment Return	<u>42,706</u>	<u>-</u>	<u>(25,987)</u>	<u>16,719</u>
Appropriations for expenditure	<u>(42,706)</u>	<u>-</u>	<u>-</u>	<u>(42,706)</u>
Endowment Net Assets, End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,795,095</u>	<u>\$ 3,795,095</u>

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

9. Net Assets (continued)

Permanently Restricted Net Assets (continued)

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

As of June 30, 2018, permanently restricted net assets consisted of or were restricted for the following:

Beneficial interest in perpetual trust	\$ 2,217,942
Co-sponsorship	1,527,988
Education of priest candidates	30,000
Capital campaign	<u>19,165</u>
Total Permanently Restricted Net Assets	<u>\$ 3,795,095</u>

Earnings on the beneficial interest in the perpetual trust are unrestricted in accordance with GAAP. Earnings on the other endowment funds are restricted for co-sponsorships, education of priest candidates and the capital campaign and are spent in the fiscal year in which they are earned. In accordance with GAAP, such earnings are reported as temporarily restricted until appropriated for their designated uses by the Board of Directors.

10. Retirement Plans

AMS participates in a noncontributory pension plan administered by the Archdiocese of Washington. This plan covers all qualified lay staff employees after one year of service. Pension expense under the plan is funded by and paid to the Archdiocese of Washington at 8% of all eligible employees' payroll. In October 2012, the Archdiocese of Washington resolved to freeze the pension plan for all new hires and future benefit accruals effective December 31, 2012.

Beginning January 1, 2013, the Archdiocese of Washington sponsors a defined contribution retirement plan which is available to all lay employees who work 20 or more hours per week and who are not nonresident aliens. AMS is a participant in the defined contribution retirement plan. Under the terms of the plan, eligible employees may elect to contribute up to the federal tax limitation and the contributions are vested immediately. AMS matches employee contributions up to 50% of the first 4% of eligible pay. Employer contributions are vested in 20% increments after one year of service and fully vested after five years of service.

Pension expense under both of these plans totaled \$176,556 for the year ended June 30, 2018.

11. Income Taxes

Under Section 501(c)(3) of the Internal Revenue Code, AMS is exempt from the payment of taxes on income other than net unrelated business income. For the year ended June 30, 2018, no provision for income taxes was made, as AMS had no taxable net unrelated business income.

Continued

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

11. Income Taxes (continued)

AMS follows the authoritative guidance relating to accounting for uncertainty in income taxes included in FASB ASC Topic 740, *Income Taxes*. These provisions provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition and derecognition of tax positions taken or expected to be taken in a tax return. AMS performed an evaluation of uncertainty in income taxes for the year ended June 30, 2018, 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, 2018, the statute of limitations for fiscal years 2015 through 2017 remained 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 uncertainty in income taxes, if any, in income tax expense. As of June 30, 2018, AMS had no accruals for interest and/or penalties.

12. 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 GAAP. Accordingly, such information should be read in conjunction with AMS's audited financial statements for the year ended June 30, 2017, from which the summarized information was derived.

13. Subsequent Events

AMS has evaluated subsequent events and transactions through December 13, 2018, the date the financial statements were available to be issued. There were no subsequent events that require recognition or disclosure in these financial statements.