



ARCHDIOCESE FOR THE MILITARY SERVICES, USA

Financial Statements

For the Year Ended June 30, 2019

(With Summarized Financial Information for the Year Ended June 30, 2018)



**and
Report Thereon**



ARCHDIOCESE FOR THE MILITARY SERVICES, USA

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For the Year Ended June 30, 2019

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INDEPENDENT AUDITORS' 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, 2019, and the related statements of activities, functional expenses 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.

Auditors' 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 auditors' 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.

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Opinion

In our opinion, the 2019 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, 2019, 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.

Other Matter*Report on Summarized Comparative Information*

The 2018 financial statements of AMS were audited by Raffa, P.C., whose practice was combined with Marcum LLP, and whose report dated December 13, 2018, expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

The image shows a handwritten signature in black ink that reads "Marcum LLP". The signature is written in a cursive, flowing style.

Washington, DC
July 30, 2020

ARCHDIOCESE FOR THE MILITARY SERVICES, USA
STATEMENT OF FINANCIAL POSITION
June 30, 2019
(With Summarized Financial Information as of June 30, 2018)

	2019	2018
ASSETS		
Cash and cash equivalents	\$ 679,488	\$ 1,379,604
Investments	27,340,287	26,204,008
Accounts and other receivable	147,275	147,451
Prepaid expenses	207,841	107,595
Pledges receivable, net	975,002	291,087
Beneficial interest in trusts	2,359,067	2,313,639
Property and equipment, net	9,094,638	9,355,715
TOTAL ASSETS	\$ 40,803,598	\$ 39,799,099
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 978,474	\$ 926,852
Deferred revenue	23,500	22,346
Post-retirement benefit obligation	2,128,174	1,877,502
Funds held for others	73,024	27,158
TOTAL LIABILITIES	3,203,172	2,853,858
Net Assets		
Without donor restrictions		
Undesignated	23,186,125	23,508,627
Board-designated	2,813,903	2,710,019
Total Without Donor Restrictions	26,000,028	26,218,646
With donor restrictions		
Purpose restrictions	7,065,532	6,931,500
Perpetual in nature	4,534,866	3,795,095
Total With Donor Restrictions	11,600,398	10,726,595
TOTAL NET ASSETS	37,600,426	36,945,241
TOTAL LIABILITIES AND NET ASSETS	\$ 40,803,598	\$ 39,799,099

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, 2019

(With Summarized Financial Information for the Year Ended June 30, 2018)

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	Total
REVENUE AND SUPPORT				
Contributions	\$ 5,359,670	\$ 1,990,138	\$ 7,349,808	\$ 7,603,636
Sacrament revenue	82,353	-	82,353	82,092
Marriage tribunal	12,746	-	12,746	8,830
Investment income, net	908,127	-	908,127	1,597,404
Gain (loss) from change in value of trusts	-	45,428	45,428	(19,222)
Other income	110,062	-	110,062	85,760
Net assets released from restrictions:				
Satisfaction of program restrictions	1,161,763	(1,161,763)	-	-
TOTAL REVENUE AND SUPPORT	7,634,721	873,803	8,508,524	9,358,500
EXPENSES				
Program Services:				
Evangelization and pastoral	3,268,788	-	3,268,788	2,928,085
Vocations and co-sponsorship	1,143,242	-	1,143,242	1,007,485
Sacramental records	451,002	-	451,002	425,886
Marriage tribunal	292,355	-	292,355	290,460
Chaplain's affairs	252,743	-	252,743	276,285
Veterans' affairs	83,478	-	83,478	77,093
Total Program Services	5,491,608	-	5,491,608	5,005,294
Supporting Services:				
Administrative services	1,201,191	-	1,201,191	1,087,813
Fundraising	1,160,540	-	1,160,540	1,090,453
TOTAL EXPENSES	7,853,339	-	7,853,339	7,183,560
CHANGE IN NET ASSETS	(218,618)	873,803	655,185	2,174,940
NET ASSETS, BEGINNING OF YEAR	26,218,646	10,726,595	36,945,241	34,770,301
NET ASSETS, END OF YEAR	\$ 26,000,028	\$ 11,600,398	\$ 37,600,426	\$ 36,945,241

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

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2019

(With Summarized Financial Information for the Year Ended June 30, 2018)

	Program Services						Supporting Services		2019 Total	2018 Total	
	Evangelization and Pastoral	Vocations and Co-sponsorship	Sacramental Records	Marriage Tribunal	Chaplains' Affairs	Veterans' Affairs	Total Program Services	Administrative Services			Fundraising
Salaries and wages	\$ 968,820	\$ 69,414	\$ 297,953	\$ 155,978	\$ 85,073	\$ 9,127	\$ 1,586,365	\$ 778,069	\$ 388,662	\$ 2,753,096	\$ 2,623,813.0
Employee benefits and payroll taxes	518,582	16,581	50,310	59,279	15,350	1,051	661,153	183,928	93,772	938,853	641,946
Tuition and fees for seminarians	-	960,176	-	-	-	-	960,176	-	-	960,176	827,164
Occupancy	400,084	8,490	35,678	22,949	19,441	10,261	496,903	21,004	29,630	547,537	576,428
Depreciation and amortization	406,874	5,372	22,572	14,520	12,298	6,492	468,128	13,290	18,746	500,164	487,898
Professional fundraising	-	-	-	-	-	-	-	-	411,263	411,263	391,525
Office expenses	54,973	8,058	24,850	15,006	16,071	5,135	124,093	21,452	103,741	249,286	237,968
Technology costs	310,666	-	8,473	930	-	-	320,069	47,806	7,176	375,051	408,554
Publications and other outreach costs	373,329	-	-	-	-	-	373,329	-	-	373,329	354,386
Travel	51,983	26,622	-	140	84,556	35,926	199,227	895	23,276	223,398	223,810
Conferences and meetings	96,782	19,717	-	2,839	1,260	113	120,711	10,367	1,029	132,107	121,876
Professional fees	35,651	2,553	10,962	5,744	3,131	334	58,375	42,934	9,750	111,059	69,201
Bad debt expense	-	-	-	-	-	-	-	72,700	-	72,700	2,700
Advertising and promotion	250	-	-	-	-	-	250	919	66,301	67,470	74,632
In-Kind support	-	24,000	-	-	15,000	15,000	54,000	-	-	54,000	54,000
Dues and subscriptions	34,677	2,259	204	163	563	39	37,905	7,827	5,814	51,546	31,489
Gifts and donations	15,050	-	-	-	-	-	15,050	-	-	15,050	32,552
Reviews costs for marriage cases	-	-	-	14,807	-	-	14,807	-	-	14,807	17,513
Training	1,067	-	-	-	-	-	1,067	-	1,380	2,447	6,105
TOTAL EXPENSES	\$ 3,268,788	\$ 1,143,242	\$ 451,002	\$ 292,355	\$ 252,743	\$ 83,478	\$ 5,491,608	\$ 1,201,191	\$ 1,160,540	\$ 7,853,339	\$ 7,183,560

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, 2019

(With Summarized Financial Information for the Year Ended June 30, 2018)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 655,185	\$ 2,174,940
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	500,164	487,908
Change in value of trusts	(45,428)	19,222
Net realized and unrealized gains	(663,151)	(1,279,923)
Change in allowance for pledges receivable	72,700	2,200
Changes in assets and liabilities:		
Accounts and other receivable	176	617,313
Pledges receivable	(756,615)	140,646
Prepaid expenses	(100,246)	31,452
Accounts payable and accrued expenses	51,622	95,195
Deferred revenue	1,154	(11,384)
Post-retirement benefit obligation	250,672	(10,979)
Funds held for others	45,866	(20,350)
	<u>12,099</u>	<u>2,246,240</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	3,192,510	40,373,246
Purchases of investments	(3,665,638)	(47,739,269)
Purchases of property and equipment	(239,087)	(9,407)
	<u>(712,215)</u>	<u>(7,375,430)</u>
NET CASH USED IN INVESTING ACTIVITIES		
NET DECREASE IN CASH AND CASH EQUIVALENTS	(700,116)	(5,129,190)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,379,604</u>	<u>6,508,794</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 679,488</u>	<u>\$ 1,379,604</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, 2019

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.

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, 2019

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, 2019, 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, *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,

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2019

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

Property and Equipment and Related Depreciation and Amortization (continued)

training and maintenance costs. Costs incurred during the development stage are capitalized. 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, 2019.

Revenue Recognition

AMS reports gifts of cash and other assets as having donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a stipulated time restriction ends or purpose of a restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Conditional promises to give are not included as support until such time as the conditions are substantially met. 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.

Continued

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS For the Year Ended June 30, 2019

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

Revenue Recognition (continued)

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.

Classification of Net Assets

AMS's net assets are reported as follows:

- Net assets without donor restrictions represent the portion of expendable funds that are available for any purpose in performing the primary objectives of AMS at the discretion of AMS's management and the Board of Directors (the Board). From time to time, the Board designates a portion of these net assets for specific purposes, which makes them unavailable for use at management's discretion. The Board has designated \$2,813,903 of net assets without donor restrictions to be used for post-retirement benefits for its retired bishops.
- Net assets with donor restrictions represent funds that are specifically restricted by donors for use in various programs and/or for a specific period of time. These donor restrictions can be temporary in nature in that they will be met by actions of AMS or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated that the funds be maintained in perpetuity. As of June 30, 2019, a portion of AMS's net assets with donor restrictions is considered an endowment fund and is required to be maintained in perpetuity and 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 are used to support veterans' affairs and evangelization and pastoral programs. For the year ended June 30, 2019, 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 functional expenses. Expenses directly attributed to specific functional areas of AMS are reported as expenses of those functional areas. Salaries are allocated to programs and supporting services based on employees' timesheets. Fringe benefits and payroll taxes and shared overhead costs (such as depreciation and amortization, professional fees, occupancy, dues and subscriptions and office expenses) that benefit multiple functional areas have been allocated among the various functional areas based on estimated time and effort expended on those functional areas.

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2019

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

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

New Accounting Pronouncement

On August 18, 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return for nonprofit organizations. AMS has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to the summarized comparative information presented for the year ended June 30, 2018.

2. Investments

Investments consisted of the following as of June 30, 2019:

Mutual funds	\$ 20,795,105
Private debt fund	3,933,645
Common stocks	1,843,933
Money market funds	449,493
Private pooled investment fund	<u>318,111</u>
Total Investments	<u>\$ 27,340,287</u>

A summary of investment income, net is as follows for the year ended June 30, 2019:

Interest and dividends	\$ 327,685
Realized gains	635,073
Unrealized gains	28,078
Distributions from beneficial interest in trusts	46,995
Investment fees	<u>(129,704)</u>
Total Investment Income, Net	<u>\$ 908,127</u>

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

3. Pledges Receivable

As of June 30, 2019, AMS's pledges receivable were due as follows:

Less than one year	\$ 564,983
One to five years	<u>550,000</u>
Total Pledges Receivable	1,114,983
Less: Allowance for Doubtful Accounts	(89,500)
Less: Discount to Present Value (3%)	<u>(50,481)</u>
Pledges Receivable, Net	<u>\$ 975,002</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, 2019, was 2.12%. As of June 30, 2019, the fair value of the beneficial interest in the charitable lead unitrust was \$74,272. During the year ended June 30, 2019, AMS received \$4,408 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. 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, 2019, the fair value of the beneficial interest in the perpetual trust was \$2,284,795. During the year ended June 30, 2019, AMS received \$46,995 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 Year Ended June 30, 2019

5. Fair Value Measurement

The following table summarizes AMS's assets measured at fair value on a recurring basis as of June 30, 2019:

	<u>Fair Value</u>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Investments:				
Mutual funds:				
Domestic equity	\$ 11,787,296	\$ 11,787,296	\$ -	\$ -
Fixed income	9,007,809	9,007,809	-	-
Common stocks:				
Financial	357,118	357,118	-	-
Information technology	349,036	349,036	-	-
Industrials	345,553	345,553	-	-
Consumer staples	114,070	114,070	-	-
Healthcare	292,234	292,234	-	-
Materials	65,400	65,400	-	-
Telecommunications	198,098	198,098	-	-
Energy	75,520	75,520	-	-
Consumer discretionary	46,904	46,904	-	-
Money market funds	<u>449,493</u>	<u>449,493</u>	-	-
Total Investments in the Fair Value Hierarchy	23,088,531	23,088,531	-	-
Beneficial interest in perpetual trust	2,284,795	-	-	2,284,795
Beneficial interest in charitable lead unitrust	<u>74,272</u>	-	-	<u>74,272</u>
Total Assets in the Fair Value Hierarchy	25,447,598	<u>\$ 23,088,531</u>	<u>\$ -</u>	<u>\$ 2,359,067</u>
Private debt fund ^(a)	3,933,645			
Pooled investment fund ^(a)	<u>318,111</u>			
Total Investments and Beneficial Interest in Trusts	<u>\$ 29,699,354</u>			

Continued

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

5. Fair Value Measurement (continued)

- (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:

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

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

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.

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, 2019:

	<u>Beneficial Interest in Trusts</u>
Balance, beginning of year	\$ 2,313,639
Change in value of beneficial interest in trusts	<u>45,428</u>
Balance, End of Year	<u>\$ 2,359,067</u>

Continued

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

**NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2019**

5. Fair Value Measurement (continued)

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, 2019, and unfunded commitments as of June 30, 2019:

	Number of Funds	Fair Value	Unfunded Commitments	Redemption Frequency, If Currently Eligible	Redemption Notice Period
Private debt fund ^(a)	1	\$ 3,768,646	\$ -	Quarterly	90 days
Pooled investment fund ^(b)	1	<u>318,111</u>	<u>-</u>	Quarterly	75 days
Total		<u>\$ 4,251,756</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.

6. Property and Equipment

Property and equipment consisted of the following at June 30, 2019:

Land	\$ 1,803,314
Buildings and renovations	10,023,932
Office furnishings and equipment	866,801
Software	676,052
Rectory and chapel furnishing	90,338
Transportation equipment	26,665
Collectibles	<u>11,500</u>
Total Property and Equipment	13,498,602
Less: Accumulated Depreciation and Amortization	<u>(4,403,964)</u>
Property and Equipment, Net	<u>\$ 9,094,638</u>

Depreciation and amortization expense totaled \$500,164 for the year ended June 30, 2019.

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

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, 2019, is calculated and recorded as follows:

Designated assets at fair value	\$ 2,813,903
Less: Projected post-retirement benefit obligation	<u>(2,128,174)</u>
Excess of Assets Over Benefit Obligation	<u>\$ 685,729</u>

The assumed discount rate used in determining the postretirement benefit obligation was 2.43%. 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, 2019:

Funds held for others, beginning of year	\$ 27,158
Funds received during year	48,136
Funds disbursed during year	<u>(2,270)</u>
Funds Held for Others, End of Year	<u>\$ 73,024</u>

9. Net Assets

Net Assets Without Donor Restrictions

AMS's net assets without donor restrictions are composed of undesignated amounts and board-designated amounts. As of June 30, 2019, AMS's net assets without donor restrictions were as follows:

Undesignated	\$ 23,186,925
Board-designated	<u>2,813,903</u>
Total Net Assets Without Donor Restrictions	<u>\$ 26,000,028</u>

The board-designated net assets were instituted to provide funding for the post-retirement benefits of retired bishops.

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

**NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2019**

9. Net Assets (continued)

Net Assets With Donor Restrictions

As of June 30, 2019, net assets with donor restrictions were restricted for the following purposes:

Subject to expenditure for specified purpose:	
Vocations program	\$ 4,110,649
Capital campaign	2,049,362
Pastoral, Catholics Seeking Christ, peer to peer and youth ministry	391,757
Marriage tribunal services	188,668
Millennium project	96,953
Beneficial interest in unitrust	74,272
Other programs	<u>153,871</u>
Total Subject to Expenditure for Specified Purpose	<u>7,065,532</u>
Subject to donor restriction in perpetuity:	
Endowment	<u>4,534,866</u>
Total Subject to Restriction in Perpetuity	<u>4,534,866</u>
Total Net Assets with Donor Restrictions	<u>\$ 11,600,398</u>

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

Net Assets Subject to Donor Restriction in Perpetuity

AMS's net assets subject to donor restriction in perpetuity 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, 2019, changes in this beneficial interest, along with other permanently restricted endowments held by AMS, were as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	<u>\$ -</u>	<u>\$ 3,795,095</u>	<u>\$ 3,795,095</u>
Contributions received	<u>-</u>	<u>672,918</u>	<u>672,918</u>
Investment return:			
Investment income, net of fees	46,995	-	46,995
Net appreciation (realized and unrealized)	<u>-</u>	<u>66,853</u>	<u>66,853</u>
Total Net Investment Return	<u>46,995</u>	<u>66,853</u>	<u>113,848</u>
Appropriations for expenditure	<u>(46,995)</u>	<u>-</u>	<u>(46,995)</u>
Endowment Net Assets, End of Year	<u>\$ -</u>	<u>\$ 4,534,866</u>	<u>\$ 4,534,866</u>

Continued

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

9. Net Assets (continued)

Net Assets Subject to Donor Restriction in Perpetuity (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, 2019, net assets subject to donor restriction in perpetuity consisted of or were restricted for the following:

Beneficial interest in perpetual trust	\$ 2,284,795
Co-sponsorship	2,200,906
Education of priest candidates	30,000
Capital campaign	<u>19,165</u>
Total Permanently Restricted Net Assets	<u>\$ 4,534,866</u>

Earnings on the beneficial interest in the perpetual trust are classified as without donor restrictions 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 with donor restrictions until appropriated for their designated uses by the Board of Directors.

10. Availability and Liquidity

AMS regularly monitors liquidity required to meet its annual operating needs and other contractual commitments, while also striving to preserve the principal and return on the investment of its funds. AMS's financial assets available within one year of the statement of financial position date for general expenditures at June 30, 2019, were as follows:

Cash and cash equivalents	\$ 679,488
Investments	27,340,287
Accounts and other receivable	147,275
Pledges receivable	<u>564,983</u>
Total Financial Assets Available Within One Year	28,732,033
Less:	
Amounts unavailable for general expenditures within one year due to donor's restriction	(11,050,398)
Amounts unavailable to management without Board approval:	
Board-designated for post-retirement benefits of retired bishops	<u>(2,813,903)</u>
Financial Assets Available to Meet General Expenditures Within One Year	<u>\$ 14,867,732</u>

AMS has various sources of liquidity at its disposal, including cash and cash equivalents and investments, which are available for general expenditures, liabilities and other obligations as they come due. Management is focused on sustaining the financial liquidity of AMS

ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2019

10. Availability and Liquidity (continued)

throughout the year. This is done through monitoring and reviewing AMS's cash flow needs on a weekly basis. As a result, management is aware of the cyclical nature of AMS's cash flow related to AMS's various funding sources and is therefore able to ensure that there is cash available to meet current liquidity needs. As part of its liquidity plan, excess cash is invested in publicly traded investment vehicles, including mutual funds, equity securities and money market funds. AMS can liquidate most of its investments anytime, and therefore the investments are available to meet current cash flow needs.

11. 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 \$188,286 for the year ended June 30, 2019.

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 year ended June 30, 2019, no provision for income taxes was made, as AMS had no taxable net unrelated business income.

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, 2019, 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, 2019, the statute of limitations remained open with the U.S. federal jurisdiction or the various

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ARCHDIOCESE FOR THE MILITARY SERVICES, USA

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2018

12. Income Taxes (continued)

states and local jurisdictions in which AMS files tax returns; however, there are currently no examinations pending or in progress. 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, 2019, AMS had no accruals for interest and/or penalties.

13. Summarized Financial Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class or functional area. 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, 2018, from which the summarized information was derived.

14. Reclassifications

Certain 2018 balances were reclassified to conform to the 2019 financial statements presentation.

15. Subsequent Events

AMS has evaluated subsequent events and transactions through July 30, 2020, the date the financial statements were available to be issued. Except as noted below, there were no subsequent events that require recognition or disclosure in these financial statements.

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since spread to other countries including the U.S. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closing of businesses across the country for non-essential services. While the disruption is currently expected to be temporary, there is considerable uncertainty about the duration of closing. To date, AMS has been able to continue or modify some of its operations in a remote environment; however, at this point the extent to which COVID-19 may impact AMS's financial condition or its results of operations is uncertain.