



CATHOLIC YOUTH ORGANIZATION
Consolidated Financial Statements and Schedule
June 30, 2012 and 2011
(With Independent Auditors' Report Thereon)



KPMG LLP
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Independent Auditors' Report

Corporate Members and the Board of Directors
Catholic Youth Organization:

We have audited the accompanying consolidated statements of financial position of Catholic Youth Organization and affiliate (CYO) as of June 30, 2012 and 2011, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of CYO's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CYO's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Catholic Youth Organization and affiliate as of June 30, 2012 and 2011, and the results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included in Schedule 1 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

December 4, 2012

CATHOLIC YOUTH ORGANIZATION

Consolidated Statements of Financial Position

June 30, 2012 and 2011

Assets	2012	2011
Cash	\$ 4,987	243,957
Investments (note 4)	135,238	133,502
Pledges receivable (note 3)	244,100	244,117
Prepaid expenses (note 7)	67,500	235,756
Other receivables, net of allowance for doubtful accounts of \$73,136 and \$55,579 at June 30, 2012 and 2011, respectively	38,014	23,569
Net due from affiliate (note 1(d))	64,259	—
Property and equipment:		
Land	569,244	569,244
Building	3,330,080	3,330,080
Furniture and equipment	232,387	230,316
Automobile	15,038	15,038
Total property and equipment	4,146,749	4,144,678
Less accumulated depreciation	(1,895,815)	(1,788,561)
Net property and equipment	2,250,934	2,356,117
Total assets	\$ 2,805,032	3,237,018
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 49,256	38,809
Deferred revenue (note 7)	—	211,568
Total liabilities	49,256	250,377
Net assets:		
Unrestricted net assets:		
Invested in property and equipment	2,250,934	2,356,117
Undesignated	74,721	202,123
	2,325,655	2,558,240
Temporarily restricted net assets (note 6)	430,121	428,401
Total net assets	2,755,776	2,986,641
Total liabilities and net assets	\$ 2,805,032	3,237,018

See accompanying notes to consolidated financial statements.

CATHOLIC YOUTH ORGANIZATION

Consolidated Statements of Activities

Years ended June 30, 2012 and 2011

	2012			2011		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Changes in net assets:						
Revenue:						
Contribution from Central Pastoral Administration of the Archdiocese of Washington (note 3)	\$ —	244,100	244,100	—	244,100	244,100
Contributions and bequests	47,602	—	47,602	48,029	17	48,046
Program fees	1,136,207	—	1,136,207	866,913	—	866,913
Investment income (note 4)	280	1,736	2,016	707	5,307	6,014
Rental income	8,210	—	8,210	16,590	—	16,590
Net assets released from restrictions	244,117	(244,117)	—	280,237	(280,237)	—
Total revenue	<u>1,436,416</u>	<u>1,719</u>	<u>1,438,135</u>	<u>1,212,476</u>	<u>(30,813)</u>	<u>1,181,663</u>
Expenses:						
Program services (note 2):						
Youth ministries (note 7)	474,601	—	474,601	170,025	—	170,025
Athletic programs	563,776	—	563,776	511,777	—	511,777
Mattaponi Retreat Center	420,659	—	420,659	422,332	—	422,332
Total program services	<u>1,459,036</u>	<u>—</u>	<u>1,459,036</u>	<u>1,104,134</u>	<u>—</u>	<u>1,104,134</u>
Supporting services:						
Administrative services	148,344	—	148,344	118,594	—	118,594
Development	61,620	—	61,620	50,435	—	50,435
Total supporting services	<u>209,964</u>	<u>—</u>	<u>209,964</u>	<u>169,029</u>	<u>—</u>	<u>169,029</u>
Total expenses	<u>1,669,000</u>	<u>—</u>	<u>1,669,000</u>	<u>1,273,163</u>	<u>—</u>	<u>1,273,163</u>
Change in net assets	(232,584)	1,719	(230,865)	(60,687)	(30,813)	(91,500)
Net assets, beginning of year	2,558,240	428,401	2,986,641	2,618,927	459,214	3,078,141
Net assets, end of year	<u>\$ 2,325,656</u>	<u>430,120</u>	<u>2,755,776</u>	<u>2,558,240</u>	<u>428,401</u>	<u>2,986,641</u>

See accompanying notes to consolidated financial statements.

CATHOLIC YOUTH ORGANIZATION

Consolidated Statements of Cash Flows

Years ended June 30, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Change in net assets	\$ (230,865)	(91,500)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	107,254	105,247
Net (gain)/loss on investments	467	(2,826)
Provision for doubtful accounts	17,557	12,711
Decrease (increase) in assets:		
Pledges receivable	17	36,120
Prepaid expenses	168,256	(155,433)
Net due from affiliate	(64,259)	—
Other receivables	(32,002)	(4,921)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	10,447	1,045
Deferred revenue	(211,568)	170,533
Net cash flows provided by operating activities	(234,696)	70,976
Cash flows from investing activities:		
Purchases of property and equipment	(2,071)	(48,800)
Proceeds from sales of investments	22,000	20,000
Purchases of investments	(24,203)	(22,482)
Net cash used in investing activities	(4,274)	(51,282)
Net increase in cash	(238,970)	19,694
Cash, beginning of year	243,957	224,263
Cash, end of year	\$ 4,987	243,957

See accompanying notes to consolidated financial statements.

CATHOLIC YOUTH ORGANIZATION

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

(1) Summary of Significant Accounting Policies

(a) Organization

The consolidated financial statements include the accounts of Catholic Youth Organization and its affiliate, Mattaponi Pavilion Fund, Inc. (MPF), collectively referred to as CYO. MPF is controlled by CYO. All significant intercompany transactions have been eliminated. CYO and MPF are separate corporations affiliated with the Archdiocese of Washington (the Archdiocese).

MPF was established in 1999 to raise funds for the construction of a pavilion at the Mattaponi Retreat Center, which is owned by CYO.

CYO is responsible for youth work in the Archdiocese, including youth retreats, scouting, youth outreach, athletic programs, junior and senior high school youth groups, and leadership training in youth ministry. Monies are received directly from participants, parishes, and youth groups to defray the costs of each program and activity, as well as from men and women who contribute through the Champions of Youth Campaign.

The geographic territory encompassed by CYO is comprised of the District of Columbia and the Maryland counties of Montgomery, Prince George's, Charles, Calvert, and St. Mary's.

CYO is dependent on the Central Pastoral Administration of the Archdiocese of Washington (Central Pastoral Administration), a related entity, for future support of its operations. The Archdiocese has pledged to continue this support through at least December 31, 2013.

(b) Net Assets

Net assets and revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions; accordingly, the net assets of CYO and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may be met either by actions of CYO and/or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by CYO. At June 30, 2012 and 2011, CYO had no permanently restricted net assets.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

CATHOLIC YOUTH ORGANIZATION

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

(c) ***Basis of Presentation***

The accompanying financial statements include the financial position, changes in net assets and cash flows of CYO on the accrual basis of accounting.

(d) ***Cash***

CYO's cash is held in a pooled bank account by the Central Pastoral Administration of the Archdiocese of Washington. Expenses of CYO are paid from this pooled account and the net cash inflows/outflows for the period are recorded as due to/from affiliate in the statement of financial position. Money market funds held by an investment manager are classified as investments.

(e) ***Investments***

Investments are carried at fair value, which is determined using quoted market prices or, with respect to investments without quoted market prices, at estimated fair values provided by external investments managers. The CYO management reviews and evaluates the fair values provided by the external investments managers and agrees with the valuation methods and assumptions used in determining their estimated fair value. Due to inherent uncertainties of these investments, these values may differ from the fair values that would have been reported had a ready market for such investments existed. If received as a donation, the investment is stated at fair value at the date of donation. Investments related to permanently restricted gifts are classified as investments restricted for long term purposes.

(f) ***Receivables***

CYO estimates uncollectible accounts based on the aging of outstanding receivables and management's estimate of their net realizable values.

(g) ***Property and Equipment***

Certain land, buildings, and equipment are stated at cost, if purchased. Property received as a gift is recorded at fair value on the date of transfer. Property valued at less than \$350 is expensed in the year of acquisition.

Depreciation is computed using the straight-line method over the estimated useful lives of 40 years for buildings and 5-10 years for furniture and equipment.

In accordance with canon law, all real property is titled to the Archbishop of Washington.

(h) ***Revenue Recognition***

Program fees relate to retreat and other fees charged to participants of CYO's programs. Fees received in advance are deferred and recognized as unrestricted revenue at the time services are provided.

Contributions and grants received, which include unconditional promises to give (pledges), are recognized as unrestricted revenue in the period received at their net present value unless their use is

CATHOLIC YOUTH ORGANIZATION

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

restricted by donor stipulation. All pledges receivable at June 30, 2012 and 2011 are expected to be collected in less than one year.

(i) Contributed Services

A substantial number of unpaid volunteers have made significant contributions of time to various programs and fundraising activities. The value of this contributed time is not reflected in these statements since the services provided do not meet the requirements for financial reporting.

(j) Income Taxes

CYO is recognized as exempt from federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code. Management annually reviews its tax positions and has determined that there are no material uncertain tax positions that require recognition in the financial statements.

(k) Accrual for Compensated Absences

CYO accrues a liability for vacation earned, but not taken by salaried and hourly employees. This liability is included in the balance of accounts payable and accrued expenses.

(l) Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities; accordingly, certain costs have been allocated among the programs and supporting services benefited.

(m) Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires CYO to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(2) Description of Program Services

CYO fulfills its mission by operating the following programs:

Youth Ministries – assists parishes in adolescent ministry through consultation and training of adults. Youth ministry also includes African American, Hispanic Youth and Young Adult, and national and international activities such as World Youth Day.

Athletic Programs – offers basketball, baseball, softball, soccer, track, and cheerleading. Most programs are available to children grades 3-8.

Mattaponi Retreat Center – offers day and overnight retreats for youth and young adults at its Manor House and cabin facility.

CATHOLIC YOUTH ORGANIZATION

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

(3) Related-Party Transactions

(a) *Contribution from Archdiocese of Washington*

CYO recognized a contribution of \$244,100 as temporarily restricted revenue from the Central Pastoral Administration for the years ended June 30, 2012 and 2011. The contribution is expected to be collected and used for the next fiscal year's operations. At June 30, 2012 and 2011, the amount pledged for the subsequent year's support of \$244,100 for each year and is included in pledges receivable.

(b) *Reimbursement of Insurance*

CYO paid \$60,515 and \$49,368 in 2012 and 2011, respectively, for participation in the Archdiocesan insurance programs, which are self-insured up to certain limits, for property casualty, workers' compensation, and health claims.

(c) *Rent and Accounting Services*

The Central Pastoral Administration of the Archdiocese of Washington provides accounting services and rents office space to CYO. The accounting services and rent amounted to \$57,000 and \$52,500 for each of the years ended June 30, 2012 and 2011 respectively.

(4) Investments

Investments are summarized at fair value as follows at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Money market fund	\$ 76,416	51,973
Corporate bonds	58,822	81,529
	<u>\$ 135,238</u>	<u>133,502</u>

Net investment income consists of the following for the years ended June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Interest and dividends	\$ 2,483	3,188
Realized gains, net	(6)	(7)
Unrealized gains, net	(461)	2,833
	<u>\$ 2,016</u>	<u>6,014</u>

CATHOLIC YOUTH ORGANIZATION

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following three-level hierarchy classifies the inputs used to determine fair value:

Level 1 – Unadjusted quoted market prices for identical assets or liabilities in active markets.

Level 2 – Other observable inputs, either directly or indirectly, including:

- Quoted prices for similar assets/liabilities in active markets;
- Quoted prices for identical or similar assets in nonactive markets;
- Inputs other than quoted prices that are observable for the asset/liability; and
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3 – Unobservable inputs that cannot be corroborated by observable market data.

CYO uses quoted values and other data provided by a nationally recognized independent pricing service (pricing service) as inputs into its process for determining fair value of its investments. The pricing service obtains market quotations and actual transaction prices for securities that have quoted prices in active markets. For securities that do not trade on a daily basis, the pricing service prepares estimates of fair value measurements for these securities based upon its proprietary pricing applications which include available relevant market information, benchmark curves, benchmarking of like securities, sector groupings and matrix pricing.

CYO's securities with fixed maturities generally do not trade on a daily basis. The fair value estimates of such fixed maturity investments are based on observable market information rather than market quotes. Accordingly, the estimates of fair value for such fixed maturity investments as provided by the pricing service are disclosed in Level 2 of the hierarchy. CYO does not currently hold any Level 1 financial instruments.

Institutional money market funds and certificates of deposit investments do not usually have daily purchases and redemptions, and the fair value estimates 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 the amount disclosed in Level 2.

CYO does not currently hold any Level 3 financial instruments.

CATHOLIC YOUTH ORGANIZATION

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

The following is a summary of the fair value measurements of CYO's assets within the fair value hierarchy as of June 30, 2012 and 2011, respectively:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
2012 Investments:			
Money market funds	\$ —	76,416	76,416
Corporate bonds	—	58,822	58,822
	<u>\$ —</u>	<u>135,238</u>	<u>135,238</u>
2011 Investments:			
Money market funds	\$ —	51,973	51,973
Corporate bonds	—	81,529	81,529
	<u>\$ —</u>	<u>133,502</u>	<u>133,502</u>

The fair value of other financial instruments, principally cash and cash equivalents, accounts receivable and accounts payable approximates their carrying value at June 30, 2012 and 2011 because of the short-term maturity of these items.

(5) Pension Plan

CYO participates in the Retirement Plan (the Plan) of the Archdiocese of Washington, which is a defined benefit plan. To be eligible for participation in the defined benefit plan, an employee must complete one year of service, be 21 years of age, and regularly work 20 or more hours per week. Information as to vested and nonvested benefits as well as plan assets relating solely to CYO is not readily determinable. In accordance with ASC 715-30-55-63, CYO accounts for its participation in the Plan as a multiemployer plan. During the years ended June 30, 2012 and 2011, CYO's portion of retirement costs was \$30,788 and \$25,021, respectively.

Effective December 31, 2012, the Plan will be frozen and no further benefits will be accrued. All retirement benefits earned prior to the effective date of the change will be maintained and a new Defined Contribution Plan will be introduced effective January 1, 2013.

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Notes to Consolidated Financial Statements

June 30, 2012 and 2011

(6) Temporarily Restricted Net Assets

The following summarizes the nature of temporarily restricted net assets at June 30 and the purpose for which such net assets may be used:

	<u>2012</u>	<u>2011</u>
Future time periods	\$ 244,100	244,116
Mattaponi and other programs	186,021	184,285
	<u>\$ 430,121</u>	<u>428,401</u>

(7) World Youth Day

In August 2013, a group of youth and staff from the Office of Youth Ministry will attend World Youth Day in Rio de Janeiro, Brazil. As of June 30, 2012, CYO had approximately \$68,000 in prepaid expenses representing expenses paid in advance for the event.

(8) Subsequent Events

In preparing these financial statements, CYO has evaluated events and transactions for potential recognition or disclosure through December 4, 2012, the date that the financial statements were available to be issued. There were no events or transactions that were discovered during the evaluation that required accrual or further disclosure.

CATHOLIC YOUTH ORGANIZATION
 Consolidating Schedule of Functional Expenses
 Year ended June 30, 2012
 (with comparative totals for 2011)

	Program services				Supporting services			Total	
	Youth ministries	Athletic programs	Mattaponi Retreat Center	Total program services	Administrative	Development	Total supporting services	2012	2011
Salaries and wages – lay persons	\$ 78,676	91,526	119,271	289,473	140,053	—	140,053	429,526	356,236
Benefits – lay persons	19,106	23,039	20,031	62,176	33,708	—	33,708	95,884	72,302
Total compensation and benefits	97,782	114,565	139,302	351,649	173,761	—	173,761	525,410	428,538
Supplies	1,709	5,654	10,588	17,951	2,078	720	2,798	20,749	19,954
Telephone, postage, and printing	451	6,351	12,423	19,225	13,540	4,485	18,025	37,250	29,715
Conferences, meetings, and travel	283,837	—	2,106	285,943	13,587	59	13,646	299,589	17,634
Professional fees	1,800	237,441	810	240,051	14,531	—	14,531	254,582	246,938
Food and beverages	1,573	175	29,113	30,861	4,184	33,178	37,362	68,223	60,919
Contributions and grants-in-aid	1,161	—	1,100	2,261	300	—	300	2,561	4,700
Utilities and maintenance	—	—	101,308	101,308	—	—	—	101,308	113,911
Subsidies	—	—	—	—	7,500	—	7,500	7,500	7,500
Depreciation	—	—	107,254	107,254	—	—	—	107,254	105,247
Items for resale	—	—	—	—	—	394	394	394	930
Rental equipment	—	147,010	2,493	149,503	—	—	—	149,503	156,318
Trophies and awards	—	15,831	—	15,831	—	1,116	1,116	16,947	10,136
Rent	—	—	—	—	36,996	—	36,996	36,996	32,500
Administrative/accounting services	—	—	—	—	20,004	—	20,004	20,004	20,004
Bad debt expense	—	17,556	—	17,556	—	—	—	17,556	12,711
Other	624	252	101	977	1,349	848	2,197	3,174	5,508
Allocation of program administration costs	85,664	18,941	14,061	118,666	(139,486)	20,820	(118,666)	—	—
Total expenses	\$ 474,601	563,776	420,659	1,459,036	148,344	61,620	209,964	1,669,000	1,273,163

See accompanying independent auditors' report.