CATHOLIC YOUTH ORGANIZATION

Consolidated Financial Statements and Schedule

June 30, 2015 and 2014

(With Independent Auditors’ Report Thereon)

KPMG LLP
1676 International Drive
McLean, VA 22102

Independent Auditors' Report

The Corporate Members and the Board of Directors
Catholic Youth Organization:

We have audited the accompanying consolidated financial statements of Catholic Youth Organization and affiliate, which comprise the consolidated statements of financial position as of June 30, 2015 and 2014, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated 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 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Catholic Youth Organization and affiliate as of June 30, 2015 and 2014, and the changes in their net assets and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Other Matters

The financial results of the Mattaponi Retreat Center have been shown as discontinued operations as of June 30, 2015 and 2014.

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 audit 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

November 25, 2015

CATHOLIC YOUTH ORGANIZATION

Consolidated Statements of Financial Position

June 30, 2015 and 2014

Assets		**2015**	**2014**
Cash	$	1,940	1,989
Investments (note 4)		96,878	136,972
Pledge receivable (note 3)		244,100	244,100
Prepaid expenses (note 7)		8,413	4,284
Other receivables, net of allowance for doubtful accounts of $129,469 and $129,683 at June 30, 2015 and 2014, respectively		76,541	60,990
Property held for sale, net (note 8)		1,999,658	1,999,658
Fixed assets:			
Furniture and equipment		49,678	41,528
Automobile		15,038	15,038
Total fixed assets		64,716	56,566
Less accumulated depreciation		(51,586)	(45,948)
Net fixed assets		13,130	10,618
Total assets	$	2,440,660	2,458,611
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	32,308	37,229
Net due to affiliated corporations (note 3)		158,571	128,342
Deferred income		13,750	—
Total liabilities		204,629	165,571
Net assets:			
Unrestricted net assets:			
Invested in property and equipment		2,012,789	2,010,276
Undesignated net deficit		(168,518)	(149,090)
Total unrestricted net assets		1,844,271	1,861,186
Temporarily restricted net assets (note 6)		391,760	431,854
Total net assets		2,236,031	2,293,040
	$	2,440,660	2,458,611

See accompanying notes to consolidated financial statements.

CATHOLIC YOUTH ORGANIZATION

Consolidated Statements of Activities

Years ended June 30, 2015 and 2014

	2015			2014		
	Unrestricted	**Temporarily restricted**	**Total**	**Unrestricted**	**Temporarily restricted**	**Total**
Revenue:						
Contribution from Central Pastoral Administration of the Archdiocese of Washington (note 3)	$ —	244,100	244,100	—	244,100	244,100
Contributions and bequests	15,092	—	15,092	20,288	—	20,288
Special program income	662,423	—	662,423	719,448	—	719,448
Investment (loss) income (note 4)	—	(94)	(94)	—	454	454
Net assets released from restriction	284,100	(284,100)	—	244,241	(244,241)	—
Total revenue	961,615	(40,094)	921,521	983,977	313	984,290
Expenses:						
Program services (note 2):						
Youth ministries	193,532	—	193,532	201,751	—	201,751
Athletic programs	603,311	—	603,311	552,070	—	552,070
Total program services	796,843	—	796,843	753,821	—	753,821
Supporting services:						
Administrative services	98,706	—	98,706	106,599	—	106,599
Development	19,242		19,242	20,033	—	20,033
Total supporting services	117,948	—	117,948	126,632	—	126,632
Total expenses	914,791	—	914,791	880,453	—	880,453
Increase (decrease) in net assets from continuing operations	46,824	(40,094)	6,730	103,524	313	103,837
Loss from discontinued operations of Mattaponi Retreat Center (note 8)	63,739	—	63,739	123,721	—	123,721
Changes in net assets from operations	(16,915)	(40,094)	(57,009)	(20,197)	313	(19,884)
Net assets, beginning of year	1,861,186	431,854	2,293,040	1,881,383	431,541	2,312,924
Net assets, end of year	$ 1,844,271	391,760	2,236,031	1,861,186	431,854	2,293,040

See accompanying notes to consolidated financial statements.

CATHOLIC YOUTH ORGANIZATION

Consolidated Statements of Cash Flows

Years ended June 30, 2015 and 2014

		2015	2014
Cash flows from operating activities:			
Change in net assets from operations	$	(57,009)	(19,884)
Adjustments to reconcile change in net assets from oprations to net cash provided by operating activities of continuing operations:			
Loss on discontinued operations		63,739	123,721
Depreciation		5,638	5,158
Net loss on investments		94	210
Provision for doubtful accounts		11,989	781
Decrease (increase) in assets:			
Prepaid expenses		(4,129)	(3,604)
Other receivables		(27,540)	(3,933)
Increase (decrease) in liabilities:			
Accounts payable and accrued expenses		(4,921)	(6,931)
Due to affiliated corporations		30,229	5,387
Deferred income		13,750	(1,000)
Net cash flows provided by operating activities – continuing operations		31,840	99,905
Net cash flows used in operating activities – discontinued operations		(63,739)	(99,999)
Net cash flows used in operating activities		(31,899)	(94)
Cash flows from investing activities:			
Purchase of property and equipment		(8,150)	(2,241)
Proceeds from sale of investments		40,000	80
Purchases of investments		—	(743)
Net cash flows provided by (used in) investing activities		31,850	(2,904)
Net decrease in cash		(49)	(2,998)
Cash, beginning of year		1,989	4,987
Cash, end of year	$	1,940	1,989
Supplemental disclosure of other cash flow information:			
Property moved from fixed assets to property held for sale	$	—	1,999,658

See accompanying notes to consolidated financial statements.

(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. The Retreat Center closed October 1, 2013 as further discussed in note 8.

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. Moneys are received directly from participants, parishes, and youth groups to defray the costs of each program and activity.

The geographic territory encompassed by CYO comprises 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, 2016.

(b) Net Assets

Net assets and revenue, 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, 2015 and 2014, CYO had no permanently restricted net assets.

Revenue is reported as increase 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.

(Continued)

(c) Basis of Presentation

The accompanying consolidated 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. 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 consolidated statements 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 believes that the valuation methods and assumptions used in determining their estimated fair values are reasonable. 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 initially recorded at fair value at the date of donation.

(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 automobiles and equipment are stated at cost, if purchased. Property received as a gift is recorded at fair value on the date of transfer.

Depreciation is computed using the straight-line method over the estimated useful lives of 5 years for automobiles 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 restricted by donor stipulation. All pledges receivable at June 30, 2015 and 2014 are expected to be collected in less than one year.

(Continued)

(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 consolidated 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 consolidated 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.

(n) Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation.

(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 and Catholic Scouting.

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

Mattaponi Retreat Center – Offered day and overnight retreats for youth and young adults at its Manor House and cabin facility. The Mattaponi Retreat Center closed October 1, 2013. Operations of the Mattaponi

(Continued)

Retreat Center are recorded as a loss from discontinued operations in the statements of activities as of June 30, 2015 and 2014.

(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, 2015 and 2014. The contribution is expected to be collected and used for the next fiscal year's operations. At June 30, 2015 and 2014, the amount pledged for the subsequent year's support of $244,100 for each year is included in pledges receivable.

(b) Reimbursement of Insurance Costs

CYO paid $34,706 and $37,148 in 2015 and 2014, 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 provides accounting services and rents office space to CYO. The accounting services and rent amounted to $60,000 and $57,000 for the years ended June 30, 2015 and 2014, respectively.

(d) Net Due to/from Affiliated Corporations

The Central Pastoral Administration pays certain expenses on behalf of CYO. At June 30, 2015 and 2014, approximately $158,571 and $128,342 was payable to the Central Pastoral Administration as reimbursement of CYO expenses and was included in the net due to affiliated corporation on the consolidated statements of financial position.

(4) Investments

Investments are summarized at fair value as follows at June 30, 2015 and 2014:

		2015	2014
Money market fund	$	96,878	108,965
Corporate bonds		—	28,007
	$	96,878	136,972

Investment income (loss) consists of the following for the years ended June 30, 2015 and 2014:

		2015	2014
Interest and dividends	$	(87)	664
Realized losses		(7)	—
Unrealized losses		—	(210)
	$	(94)	454

Fair Value Measurements

Fair value refers to the price that would be received upon selling an asset or the price paid to transfer a liability (an exit price) in the principal or most advantageous market for an asset or liability in an orderly transaction between market participants at the reporting date.

Fair Value Measurements, under Financial Accounting Standards Board Accounting Standards Codification (ASC) Topic 820 (ASC 820), prioritizes within the measurement of fair value, the use of market-based information over entity specific information and establishes a three-level hierarchy for fair value measurements based on the nature of inputs used in the valuation of an asset or liability as of the measurement date. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). However, the determination of what constitutes "observable" requires significant judgment.

CYO's portfolio investments are classified within the fair value hierarchy based on the lowest level of input that is significant to the fair value measurement. The three levels of the fair value hierarchy and its applicability to the portfolio investments are described below:

Level 1 Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that CYO has the ability to access at the measurement date;

Level 2 Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active;

Level 3 Inputs that are unobservable.

Observable data is that market data, which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by multiple, independent sources that are actively involved in the relevant market. The categorization of an investment within the hierarchy is based upon the pricing transparency of that investment and does not necessarily correspond to the perceived risk of that investment.

Inputs broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Assumptions used due to lack of observable inputs may significantly impact the resulting fair value, and therefore, the results of operations.

CYO's securities with fixed maturities (corporate bonds), other than U.S. Treasury securities, 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 are included in the corporate bonds amount disclosed in Level 2 of the hierarchy.

Institutional money market funds 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 are included in the amount disclosed in Level 2.

CYO does not currently hold any Level 1 or Level 3 financial instruments.

The following is a summary of the fair value measurements of CYO's assets within the fair value hierarchy as of June 30, 2015 and 2014:

		Level 2
2015 Investments:		
Money market funds	$	96,878
2014 Investments:		
Money market funds	$	108,965
Corporate bonds		28,007
	$	136,972

The fair value of other financial instruments, principally cash, pledges receivable, and accounts payable approximates their carrying value at June 30, 2015 and 2014 because of the short-term maturity of these items.

(5) Retirement Plan

CYO participates in the Retirement Plan (the Retirement Plan) of the Archdiocese of Washington, a defined-benefit plan, which was frozen effective December 31, 2012. No further benefits will be accrued. To be eligible for participation in the Retirement Plan, an employee must have completed 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 and unfunded liabilities, related solely to CYO is not readily determinable. In accordance with ASC 715-30-55-63, *Defined Benefit Plans – Pension*, CYO accounts for its participation in the Retirement Plan as a multiemployer plan.

Effective January 1, 2013, CYO also participates in a new 403(b) plan, the Archdiocese of Washington Retirement Savings Plan (the Plan). The Plan is a defined-contribution plan covering all employees immediately upon date of hire who regularly work 20 hours or more per week. Participants are eligible to make contributions as salary deductions from 1% to 100% of pay up to a maximum of $17,500 per year for employees under 50 years of age and up to $23,000 for those 50 and older. For the first 4% of salary an employee contributes to the Plan, CYO provides a 50% match. CYO also provides an annual contribution between 1% and 4% based on years of service, regardless of employee participation in the Plan. Employer contributions vest at a rate of 20% per year for five years.

During the years ended June 30, 2015 and 2014, CYO's portion of retirement costs was $16,866 and $17,941, respectively. Beginning January 1, 2013, the retirement cost and plan expenses for the 403(b) plan are fully funded and the remainder of collections from the various locations is used to fund the frozen defined-benefit plan deficiency.

(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:

		2015	2014
Future time periods	$	244,100	244,100
Mattaponi and other programs		147,660	187,754
	$	391,760	431,854

(7) World Youth Day

In July 2016, a group of youth and staff from the Office of Youth Ministry is scheduled to attend World Youth Day in Krakow, Poland. As of June 30, 2015 and 2014, CYO had prepaid expenses of $8,413 and $4,284, respectively, representing expenses paid in advance for the event.

(8) Discontinued Operations

CYO has operated a youth retreat center, the Mattaponi Retreat Center (Mattaponi), since 1987. It has operated at a loss for many years. On October 1, 2013, CYO closed Mattaponi and listed the property for sale. CYO received an offer to purchase Mattaponi in the prior year ended June 30, 2014 and entered into a final signed contract in June 2015. It appears likely that the sale will be completed before June 30, 2016. The lower of carrying value or fair market value, less costs to sell the property is $1,999,658, and is recorded as property held for sale in the consolidated statements of financial position at June 30, 2015 and 2014.

The operations and cash flows have been fully eliminated since Mattaponi closed. Revenue and expenses have been removed from the changes in net assets from operations and are shown as a single line on the face of the consolidated statements of activities as loss from discontinued operations of Mattaponi Retreat Center. The operating results of the discontinued operations are as follows for the years ended June 30:

		2015	2014
Revenue	$	15,623	37,607
Expenses		79,362	161,328
	$	(63,739)	(123,721)

(9) Subsequent Events

In preparing these consolidated financial statements, CYO has evaluated events and transactions for potential recognition or disclosure through November 25, 2015, the date that the consolidated 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.

Schedule 1

CATHOLIC YOUTH ORGANIZATION

Consolidating Schedule of Functional Expenses

Year ended June 30, 2015
(with comparative totals for 2014)

	Program services			Supporting services			Total	
	Youth ministries	**Athletic programs**	**Total program services**	**Administrative**	**Development**	**Total supporting services**	**2015**	**2014**
Salaries and wages – lay persons	$ 42,802	104,479	147,281	79,225	—	79,225	226,506	232,536
Benefits – lay persons	13,963	23,822	37,785	19,168	—	19,168	56,953	59,215
Total compensation and benefits	56,765	128,301	185,066	98,393	—	98,393	283,459	291,751
Supplies	1,368	4,216	5,584	1,236	197	1,433	7,017	8,850
Telephone, postage, and printing	91	504	595	13,093	—	13,093	13,688	15,263
Conferences, meetings, and travel	19,890	1,151	21,041	8,877	—	8,877	29,918	67,657
Professional fees	1,759	236,121	237,880	22,885	—	22,885	260,765	246,298
Food and beverages	900	89	989	920	492	1,412	2,401	4,192
Contributions and grants-in-aid	43,818	—	43,818	—	—	—	43,818	2,980
Subsidies	5,000	—	5,000	—	—	—	5,000	7,500
Depreciation	—	—	—	5,638	—	5,638	5,638	5,158
Rental equipment	—	183,351	183,351	—	—	—	183,351	168,137
Trophies and awards	—	11,052	11,052	—	1,287	1,287	12,339	9,845
Rent	—	—	—	40,000	—	40,000	40,000	37,000
Administrative/accounting services	—	—	—	20,000	—	20,000	20,000	20,000
Bad debt expense	—	11,989	11,989	—	—	—	11,989	782
Other	993	—	993	656	—	656	1,649	1,183
Allocation of program administration costs	62,948	26,537	89,485	(112,992)	17,266	(95,726)	(6,241)	(6,143)
Total expenses	$ 193,532	603,311	796,843	98,706	19,242	117,948	914,791	880,453

See accompanying independent auditors’ report.