



CATHOLIC YOUTH ORGANIZATION AND AFFILIATE

Consolidated Financial Statements and Schedule

June 30, 2016 and 2015

(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, 2016 and 2015, 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, 2016 and 2015, 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, 2016 and 2015.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included in the schedule 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 29, 2016

CATHOLIC YOUTH ORGANIZATION AND AFFILIATE

Consolidated Statements of Financial Position

June 30, 2016 and 2015

Assets	2016	2015
Cash	\$ 1,940	1,940
Investments (note 4)	96,748	96,878
Pledge receivable (note 3)	244,100	244,100
Prepaid expenses (note 7)	19,173	8,413
Other receivables, net of allowance for doubtful accounts of \$135,250 and \$129,469 at June 30, 2016 and 2015, respectively	76,800	76,541
Net due from affiliated corporations (note 3)	492	—
Property held for sale, net (note 8)	1,999,658	1,999,658
Fixed assets:		
Furniture and equipment	63,690	49,678
Automobile	15,038	15,038
Total fixed assets	78,728	64,716
Less accumulated depreciation	(56,980)	(51,586)
Net fixed assets	21,748	13,130
Total assets	\$ 2,460,659	2,440,660
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 41,667	32,308
Net due to affiliated corporations (note 3)	—	158,571
Deferred income	14,275	13,750
Total liabilities	55,942	204,629
Net assets:		
Unrestricted net assets:		
Invested in property and equipment	2,021,406	2,012,789
Undesignated net deficit	(8,319)	(168,518)
Total unrestricted net assets	2,013,087	1,844,271
Temporarily restricted net assets (note 6)	391,630	391,760
Total net assets	2,404,717	2,236,031
	\$ 2,460,659	2,440,660

See accompanying notes to consolidated financial statements.

CATHOLIC YOUTH ORGANIZATION AND AFFILIATE

Consolidated Statements of Activities

Years ended June 30, 2016 and 2015

	2016			2015		
	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	6,467	—	6,467	15,092	—	15,092
Special program income	672,310	—	672,310	662,423	—	662,423
Investment (loss) (note 4)	—	(130)	(130)	—	(94)	(94)
Net assets released from restriction	244,100	(244,100)	—	284,100	(284,100)	—
Total revenue	922,877	(130)	922,747	961,615	(40,094)	921,521
Expenses:						
Program services (notes 2 and 3):						
Youth ministries	158,432	—	158,432	193,532	—	193,532
Athletic programs	528,216	—	528,216	603,311	—	603,311
Total program services	686,648	—	686,648	796,843	—	796,843
Supporting services (note 3):						
Administrative services	113,006	—	113,006	98,706	—	98,706
Development	11,635	—	11,635	19,242	—	19,242
Total supporting services	124,641	—	124,641	117,948	—	117,948
Total expenses	811,289	—	811,289	914,791	—	914,791
Change in net assets from continuing operations	111,588	(130)	111,458	46,824	(40,094)	6,730
Gain (loss) from discontinued operations of Mattaponi Retreat Center (note 8)	57,228	—	57,228	(63,739)	—	(63,739)
Change in net assets	168,816	(130)	168,686	(16,915)	(40,094)	(57,009)
Net assets, beginning of year	1,844,271	391,760	2,236,031	1,861,186	431,854	2,293,040
Net assets, end of year	\$ 2,013,087	391,630	2,404,717	1,844,271	391,760	2,236,031

See accompanying notes to consolidated financial statements.

CATHOLIC YOUTH ORGANIZATION AND AFFILIATE

Consolidated Statements of Cash Flows

Years ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$ 168,686	(57,009)
Adjustments to reconcile increase (decrease) in net assets to net cash flows (used in) provided by operating activities from continuing operations:		
(Gain) loss on discontinued operations	(57,228)	63,739
Depreciation	5,394	5,638
Net loss on investments	130	94
Provision for doubtful accounts	10,881	11,989
Decrease (increase) in assets:		
Prepaid expenses	(10,760)	(4,129)
Other receivables	(11,140)	(27,540)
Due from affiliated corporations	(492)	—
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	9,359	(4,921)
Due to affiliated corporations	(158,571)	30,229
Deferred income	525	13,750
	<u>(43,216)</u>	<u>31,840</u>
Net cash flows (used in) provided by operating activities from continuing operations		
Net cash flows provided by (used in) operating activities from discontinued operations	<u>57,228</u>	<u>(63,739)</u>
Net cash flows provided by (used in) operating activities	<u>14,012</u>	<u>(31,899)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(14,012)	(8,150)
Proceeds from sale of investments	—	40,000
Net cash flows (used in) provided by investing activities	<u>(14,012)</u>	<u>31,850</u>
Net decrease in cash	—	(49)
Cash, beginning of year	<u>1,940</u>	<u>1,989</u>
Cash, end of year	<u>\$ 1,940</u>	<u>1,940</u>

See accompanying notes to consolidated financial statements.

CATHOLIC YOUTH ORGANIZATION AND AFFILIATE

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

(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 Mattaponi 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, 2017.

(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, 2016 and 2015, 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.

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Notes to Consolidated Financial Statements

June 30, 2016 and 2015

(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.

(h) ***Revenue Recognition***

Program fees relate to amounts 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, 2016 and 2015 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

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Notes to Consolidated Financial Statements

June 30, 2016 and 2015

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 revenue 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 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 –The Mattaponi Retreat Center closed October 1, 2013. Operations of the Mattaponi Retreat Center are recorded as a gain or loss from discontinued operations in the statements of activities for the years ended June 30, 2016 and 2015.

(3) *Related-Party Transactions*

(a) *Contribution from Archdiocese of Washington*

CYO recognized a contribution receivable of \$244,100 as temporarily restricted revenue from the Central Pastoral Administration for the years ended June 30, 2016 and 2015. The contribution is

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June 30, 2016 and 2015

expected to be collected and used for the next fiscal year's operations. At June 30, 2016 and 2015, 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 \$28,521 and \$34,706 in 2016 and 2015, 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 for the years ended June 30, 2016 and 2015.

(d) Net Due to/from Affiliated Corporations

The Central Pastoral Administration pays certain expenses and processes cash receipts on behalf of CYO. At June 30, 2016, approximately \$492 was due from the Central Pastoral Administration and was included in the net due from affiliated corporations on the consolidated statements of financial position.

(4) Investments

Investments are summarized at fair value as follows at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Money market fund	\$ <u>96,748</u>	<u>96,878</u>

Investment loss consists of the following for the years ended June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Dividends	\$ 10	53
Realized losses	—	(7)
Investment management fees	<u>(140)</u>	<u>(140)</u>
	<u>\$ (130)</u>	<u>(94)</u>

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, Fair Value Measurement, (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

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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.

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, 2016 and 2015:

	<u>Level 2</u>
2016 Investments:	
Money market funds	\$ 96,748
2015 Investments:	
Money market funds	\$ 96,878

The fair value of other financial instruments, principally cash, pledges receivable, and accounts payable approximates their carrying value at June 30, 2016 and 2015 because of the short-term maturity of these items.

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Notes to Consolidated Financial Statements

June 30, 2016 and 2015

(5) Retirement Plan

CYO participates in the Retirement Plan of the Archdiocese of Washington (the Retirement Plan), a defined-benefit plan, which was frozen effective December 31, 2012. No further benefits will be accrued. To have been eligible for participation in the Retirement Plan, an employee must have completed one year of service, been at least 21 years of age, and regularly worked 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 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 \$18,000 per year for employees under 50 years of age and up to \$24,000 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. The multiemployer plan is approximately 70% funded, or yellow zone status, at June 30, 2016.

During the years ended June 30, 2016 and 2015, CYO's portion of retirement costs was \$16,043 and \$16,866, respectively. Beginning January 1, 2013, the retirement cost and plan expenses for the 403(b) plan were fully funded and the remainder of collections from the various locations is used to fund the frozen defined-benefit plan deficiency.

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Notes to Consolidated Financial Statements

June 30, 2016 and 2015

(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:

	2016	2015
Future time periods	\$ 244,100	244,100
Scouting and other programs	147,530	147,660
	\$ 391,630	391,760

(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, 2016 and 2015, CYO had prepaid expenses of \$19,173 and \$8,413, respectively, representing expenses paid in advance for the event.

(8) Discontinued Operations

CYO operated a youth retreat center, the Mattaponi Retreat Center (Mattaponi), since 1987. Mattaponi had operated at a loss for many years. On October 1, 2013, CYO closed Mattaponi's operations and listed the property for sale. CYO received an offer to purchase Mattaponi during the year ended June 30, 2015 and entered into a final signed contract in June 2015. Due to delays in obtaining appropriate licenses, the sale was not completed at June 30, 2016; however, it appears likely that the sale will be completed before June 30, 2017. The purchaser pays a monthly nonrefundable fee of \$9,000 to extend the inspection period and cover operating costs of maintaining the property. 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, 2016 and 2015.

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 gain or loss from discontinued operations of Mattaponi. The operating results of the discontinued operations are as follows for the years ended June 30:

	2016	2015
Revenue	\$ 108,750	15,623
Expenses	51,522	79,362
Gain (loss) from discontinued operations	\$ 57,228	(63,739)

(9) Subsequent Events

In preparing these consolidated financial statements, CYO has evaluated events and transactions for potential recognition or disclosure through November 29, 2016, 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.

CATHOLIC YOUTH ORGANIZATION AND AFFILIATE

Consolidating Schedule of Functional Expenses

Year ended June 30, 2016
(with comparative totals for 2015)

	Program services			Supporting services			Total	
	Youth ministries	Athletic programs	Total program services	Administrative	Development	Total supporting services	2016	2015
	Salaries and wages – lay persons	\$ 36,250	75,205	111,455	86,719	—	86,719	198,174
Benefits – lay persons	9,804	22,788	32,592	16,978	—	16,978	49,570	56,953
Total compensation and benefits	46,054	97,993	144,047	103,697	—	103,697	247,744	283,459
Supplies	2,401	4,650	7,051	643	98	741	7,792	7,017
Telephone, postage, and printing	799	114	913	10,771	667	11,438	12,351	13,688
Conferences, meetings, and travel	38,416	5,105	43,521	7,042	—	7,042	50,563	29,918
Professional fees	—	205,176	205,176	21,727	—	21,727	226,903	260,765
Food and beverages	1,304	—	1,304	757	1,618	2,375	3,679	2,401
Contributions and grants-in-aid	2,000	—	2,000	—	—	—	2,000	43,818
Subsidies	—	—	—	5,000	—	5,000	5,000	5,000
Depreciation	—	—	—	5,394	—	5,394	5,394	5,638
Rental equipment	—	170,711	170,711	—	—	—	170,711	183,351
Trophies and awards	—	12,720	12,720	—	740	740	13,460	12,339
Rent	—	—	—	26,155	—	26,155	26,155	40,000
Administrative/accounting services	—	—	—	33,845	—	33,845	33,845	20,000
Bad debt expense	—	10,881	10,881	—	—	—	10,881	11,989
Other	351	—	351	669	—	669	1,020	1,649
Allocation of program administration costs	67,107	20,866	87,973	(102,694)	8,512	(94,182)	(6,209)	(6,241)
Total expenses	\$ 158,432	528,216	686,648	113,006	11,635	124,641	811,289	914,791

See accompanying independent auditors' report.