KPMG

# MISSION ASSISTANCE CORPORATION

Financial Statements

August 31, 2014 and 2013

(With Independent Auditors' Report Thereon)

**KPMG LLP**
345 Park Avenue
New York, NY 10154-0102

# Independent Auditors' Report

The Board of Directors
Mission Assistance Corporation:

We have audited the accompanying financial statements of Mission Assistance Corporation, which comprise the statements of financial position as of August 31, 2014 and 2013, and the related statements of activities and cash flows for the years 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 U.S. generally accepted accounting principles; 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 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 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.

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mission Assistance Corporation as of August 31, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

December 22, 2014

**MISSION ASSISTANCE CORPORATION**

Statements of Financial Position

August 31, 2014 and 2013

| **Assets** | | **2014** | **2013** |
|---|---|---|---|
| Cash and cash equivalents | $ | 1,089,727 | 1,847,852 |
| Investments (note 3) | | 16,750,216 | 13,494,881 |
| Interest receivable from parishes (note 4) | | 7,398 | 3,663 |
| Loans receivable from parishes, net of provision for doubtful accounts of $230,000 in 2014 and $149,138 in 2013, respectively, (notes 4 and 6) | | 1,384,917 | 1,133,718 |
| Total assets | $ | 19,232,258 | 16,480,114 |
| **Liabilities and Net Assets** | | | |
| Liabilities: | | | |
| Grants payable (note 6) | $ | 4,743 | 450 |
| Other liabilities | | 3,910 | 17,100 |
| Total liabilities | | 8,653 | 17,550 |
| Commitments and contingencies (note 6) | | | |
| Net assets – unrestricted | | 19,223,605 | 16,462,564 |
| Total liabilities and net assets | $ | 19,232,258 | 16,480,114 |

See accompanying notes to financial statements.

**MISSION ASSISTANCE CORPORATION**

Statements of Activities

Years ended August 31, 2014 and 2013

| | | 2014 | 2013 |
|---|---|---|---|
| Revenues: | | | |
| Mission fee (note 3) | $ | 895,551 | 549,528 |
| Investment return, net (note 3) | | 2,359,962 | 1,340,278 |
| Interest income on loans receivable | | 22,279 | 13,394 |
| Imputed interest (note 4) | | 17,811 | 36,899 |
| Accreted income on acquired loans and receivables (note 4) | | 159,525 | 48,477 |
| Contributed services | | 35,166 | 34,613 |
| Total revenues | | 3,490,294 | 2,023,189 |
| Expenses: | | | |
| Direct grants to parishes (notes 5 and 6) | | 584,237 | 1,468,751 |
| Interest grant (note 4) | | 17,811 | 36,899 |
| Bad debt expense (note 4) | | 80,862 | 149,138 |
| Professional fees, including contributed services | | 46,343 | 53,593 |
| Total expenses | | 729,253 | 1,708,381 |
| Change in net assets | | 2,761,041 | 314,808 |
| Net assets at beginning of year | | 16,462,564 | 16,147,756 |
| Net assets at end of year | $ | 19,223,605 | 16,462,564 |

See accompanying notes to financial statements.

**MISSION ASSISTANCE CORPORATION**

Statements of Cash Flows

Years ended August 31, 2014 and 2013

| | | 2014 | 2013 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Change in net assets | $ | 2,761,041 | 314,808 |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | | |
| Bad debt expense | | 80,862 | 149,138 |
| Net appreciation in fair value of investments | | (2,253,010) | (1,094,990) |
| Accreted income on acquired loans and receivables | | (159,525) | (48,477) |
| Change in operating assets and liabilities: | | | |
| Change in interest receivable from parishes | | (3,735) | 981 |
| Change in grants payable | | 4,293 | (4,782) |
| Change in other liabilities | | (13,190) | 93 |
| Net cash provided by (used in) operating activities | | 416,736 | (683,229) |
| Cash flows from investing activities: | | | |
| Purchases of investments | | (1,961,698) | (3,471,956) |
| Proceeds from sales of investments | | 959,373 | 5,122,101 |
| Originated loans to parishes | | (885,724) | (345,330) |
| Parish loan payments | | 713,188 | 560,842 |
| Net cash (used in) provided by investing activities | | (1,174,861) | 1,865,657 |
| Net (decrease) increase in cash and cash equivalents | | (758,125) | 1,182,428 |
| Cash and cash equivalents at beginning of year | | 1,847,852 | 665,424 |
| Cash and cash equivalents at end of year | $ | 1,089,727 | 1,847,852 |

See accompanying notes to financial statements.

## (1) Organization

Mission Assistance Corporation (MAC) is a not-for-profit corporation organized under the laws of the State of New York. MAC was incorporated on November 17, 2003 and funded on September 1, 2005 by an initial transfer of $5,378,164 and subsequent transfers totaling $7,000,000 of investments from the mission fund of the Diocesan Deposit and Loan Account of the Administrative Offices of the Roman Catholic Diocese of Rockville Centre (the Diocese), a related party, for the purpose of administering loans to parishes in need. Such loans may be for, but not limited to, short-term bridge financing, construction, and repairs. In addition, MAC provides financial grants to parishes that, without such grants, would be unable to fulfill the mission of the church.

## (2) Summary of Significant Accounting Policies

### *(a) Basis of Presentation*

The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles using the accrual basis of accounting. Accordingly, MAC's financial statements distinguish between unrestricted, temporarily restricted, and permanently restricted net assets, based upon the existence or absence of donor-imposed restrictions, as follows:

*Unrestricted net assets* – include amounts that have not been donor restricted and are available for use in carrying out the general operations of MAC.

*Temporarily restricted net assets* – include amounts that have been limited by donor-imposed stipulations that either expire with the passage of time or can be fulfilled and removed by the actions of MAC pursuant to those stipulations.

*Permanently restricted net assets* – include amounts whereby donors have stipulated that the principal contributed be maintained in perpetuity.

MAC did not have any temporarily or permanently restricted net assets as of and for the years ended August 31, 2014 and 2013.

### *(b) Cash Equivalents*

Cash equivalents are comprised of highly liquid instruments with original maturities of three months or less, except for those instruments held for long-term investment purposes.

### *(c) Fair Value Measurements*

Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that a reporting entity has the ability to access at the measurement date.

- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement. The classification of an asset or liability in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of the asset or liability.

***(d) Investments***

Investments in Unitas funds are reported at net asset value. Since the net asset value reported by each fund is used as a practical expedient to estimate the fair value of MAC's interest therein, its classification in Level 2 or 3 is based on MAC's ability to redeem its interest at or near fiscal year-end. If the interest can be redeemed in the near term, the investment is classified as Level 2.

***(e) Contributed Services***

Support arising from contributed services of Diocesan personnel has been recognized in the accompanying financial statements.

***(f) Use of Estimates***

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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.

***(g) Risks and Uncertainties***

MAC invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

***(h) Income Taxes***

MAC is classified as a 501(c)(3) organization and is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code and a similar provision of the New York State income tax laws.

MAC accounts for uncertainties in income taxes recognized in its financial statements using a threshold of more likely than not of being sustained. Income generated from activities unrelated to MAC's exempt purpose is subject to tax. MAC did not have any material unrelated business income tax liability at August 31, 2014 and 2013.

*(i) Reclassifications*

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

**(3) Investments and Mission Fee**

MAC's investments are held in pooled investment funds of Unitas, a separately incorporated, nonregulated investment fund organized to provide investment options to Roman Catholic organizations in the Diocese. Unitas offers investment options to participants including a money market fund, fixed income, and equity offerings. The investments in Unitas funds are carried at estimated fair value based principally upon the quoted market prices of the underlying assets of each fund. A "mission fee" is deducted from the investment performance of all participants for the purpose of funding the mission component, provided the fund had a return over a stated amount. The mission fee is payable to MAC and is recognized by MAC as it is earned. The mission fee is only charged if, net of investment and administrative fees, the return exceeds 12.5 basis points (bps) per month on the Unitas Money Market Fund and the Capital Preservation Fund or 37.5 bps per quarter on the Unitas Long-Term Funds (150 bps annualized). Each month/quarter is independent of prior or future months'/quarters' performance when determining if the mission fee has met the assessment criteria. The mission fee to participants in the Unitas Money Market Fund and the Capital Preservation Fund is 0.0042% monthly (0.0500% annualized) while the mission fee to participants in the Unitas Long-Term Funds is 0.1250% quarterly (0.5000% annualized).

At August 31, 2014 and 2013, investments were comprised of the following:

| | | 2014 | 2013 |
|---|---|---|---|
| Unitas Money Market Fund (a) | $ | 756,593 | — |
| Unitas Capital Preservation Fund (b) | | — | 500,209 |
| Unitas Balanced Fund (c) | | 15,902,506 | 12,994,672 |
| Unitas Equity-Weighted Fund (d) | | 76,287 | — |
| Unitas Total Fixed Income Fund (e) | | 11,962 | — |
| Unitas Income-Weighted Fund (f) | | 2,868 | — |
| Total investments | $ | 16,750,216 | 13,494,881 |

a) The Unitas Money Market Fund invests in short-term debt securities and money market instruments.

b) The Unitas Capital Preservation Fund invests in a combination of money market securities and short-term investment-grade fixed income securities.

c) The Unitas Balanced Fund invests approximately 50% of its assets in the fixed income pool and approximately 50% of its assets in the pool of equity securities.

d) The Unitas Equity-Weighted Fund invests approximately 40% of its assets in the fixed income pool and approximately 60% of its assets in the pool of equity securities.

e) The Unitas Total Fixed Income Fund invests the majority of its assets in fixed income securities, mutual funds, and other investment pools that invest in fixed income securities.

f) The Unitas Income-Weighted Fund invests approximately 60% of its assets in the fixed income pool and approximately 40% of its assets in the pool of equity securities.

The investments in Unitas funds are classified as Level 2 within the fair value hierarchy. Investments in the Unitas Money Market Fund are redeemable daily with one day's notice. Investments in the Unitas Capital Preservation Fund are redeemable monthly with one day's notice and the investments in the Unitas Balanced Fund are redeemable quarterly with one day's notice. Investments in the other Unitas funds are redeemable quarterly with one day's notice. On May 28, 2014, the Unitas Capital Preservation Fund was terminated and participant assets have been transferred to the Unitas Money Market Fund as of August 31, 2014.

Investment return, net comprises the following for the years ended August 31, 2014 and 2013:

| | | 2014 | 2013 |
|---|---|---|---|
| Net appreciation in fair value of investments | $ | 2,253,010 | 1,094,990 |
| Interest and dividends | | 309,999 | 375,298 |
| Investment fees | | (203,047) | (130,010) |
| Investment return, net | $ | 2,359,962 | 1,340,278 |

## (4) Receivables from Parishes

### *(a) Loans Receivable from Parishes*

Principal payments on loans may be scheduled monthly, quarterly, annually, or at maturity only; such terms are negotiated on a loan-by-loan basis between MAC and the individual parish. Loans to parishes have maturity dates through 2017. Parishes retain the right to prepay their loans at any time without penalty. MAC retains the right to renegotiate a loan at any time prior to maturity.

MAC determines whether an allowance for uncollectible loans should be provided. Such estimates are based upon management's assessment of each parish loan, current economic conditions, subsequent cash receipts, and historical information. Loans may be written off against the allowance when all reasonable efforts to collect have been exhausted.

As of August 31, 2014 and 2013, one loan is considered impaired, and an allowance has been established for the entire outstanding balance on the loan.

Loan activity for the years ended August 31, 2014 and 2013 is summarized as follows:

| | | 2014 | 2013 |
|---|---|---|---|
| Gross loans receivable, beginning of year | $ | 1,501,864 | 1,717,376 |
| Loans made | | 885,724 | 345,330 |
| Repayments received | | (713,188) | (560,842) |
| Gross loans receivable, end of year | | 1,674,400 | 1,501,864 |
| Allowance for doubtful accounts, beginning of year | | (149,138) | — |
| Bad debt expense | | (80,862) | (149,138) |
| Allowance for doubtful accounts, end of year | | (230,000) | (149,138) |
| Deferred income on loans receivable, beginning of year | | (219,008) | (267,485) |
| Accreted income | | 159,525 | 48,477 |
| Deferred income on loans receivable, end of year | | (59,483) | (219,008) |
| Loans receivable, net, end of year | $ | 1,384,917 | 1,133,718 |

***(b) Interest Receivable from Parishes***

Loans to parishes generally bear interest equal to 85% of the prime rate (standard rate), calculated on a quarterly basis. At the discretion of MAC's board of directors, loans may be made at reduced interest rates or be interest free. The difference between interest computed at the standard rate and reduced or 0% rates is reflected as imputed interest revenue and interest grant expense in the accompanying financial statements.

***(c) Gain on Acquired Loans and Receivables***

Occasionally, parishes are unable to fulfill their financial obligations to the various Diocesan entities. MAC may purchase these loans or receivables from these entities at what the entities have calculated to be the net realizable value and negotiate a repayment plan with the parish. In some instances, the total principal payments to be received by MAC under the negotiated payment plan exceed MAC's cost of purchasing the receivable. In these cases, the amount that MAC receives in excess of the purchase price of the loan is recognized as revenue in the statements of activities in proportion to the loan principal payments received. The difference between the carrying value of the loans and the total of payments anticipated under the renegotiated payment plans at August 31, 2014 and 2013 was $59,483 and $219,008, respectively, and is reported as deferred income within loans receivable.

***(d) Forgiveness of Parish Loans***

MAC may negotiate a repayment plan with a parish where the total principal payments to be received by MAC are less than the loan origination amount. Under these circumstances, MAC recognizes an expense equal to the excess of the loan origination amount over the total principal payments to be received from the parish. There was no forgiveness of parish loans recorded in fiscal 2014 or 2013.



(Continued)

## (5) Direct Grants to Parishes

MAC may award conditional or unconditional financial grants to parishes in need. Funds are disbursed when conditions have been fulfilled and are not required to be repaid. MAC may also award grants for the purpose of making debt repayments on behalf of a parish without the assumption of a new loan. Such payments are recorded as direct grants to parishes. There were no unconditional direct grants to parishes during fiscal 2014. During fiscal 2013, MAC awarded unconditional direct grants to parishes of $780,000.

## (6) Commitments

MAC may provide parishes with a revolving line of credit in addition to, or in lieu of, an outright loan. Amounts available to be drawn down under these lines of credit total $1,991,000 and $602,550, of which $978,833 and $318,108, was drawn down as of August 31, 2014 and 2013, respectively, and is included in loans receivable from parishes.

During fiscal 2013, MAC offered a conditional grant totaling $1,500,000 to a parish, available in increments of up to $400,000 for each of the fiscal years 2013 through 2015 and up to $300,000 for fiscal year 2016, for the purpose of assisting with the repayment of receivables due to the Diocese and other Diocesan organizations. MAC provided the parish with $400,000 in both fiscal years 2014 and 2013, respectively, which was recorded as a direct grant to parishes in each corresponding year. The remaining grant balance of $700,000 will be disbursed if and when certain conditions are met by the parish.

During fiscal 2013, MAC offered a conditional grant of $215,000 to a parish for the purpose of repaving the parking lots of the church, school, and convent. As of August 31, 2013, MAC provided the parish with $213,930, which was recorded as a direct grant to parishes. The remaining grant balance of $1,070 will be disbursed if and when certain conditions are met by the parish.

During fiscal 2014, MAC offered a conditional grant of $51,000 to a parish for the purpose of assisting with the repayment of receivables due to the Diocese and other Diocesan organizations. As of August 31, 2014, MAC provided the parish with $30,000, which was recorded as a direct grant to parishes. The remaining grant balance of $21,000 will be disbursed if and when certain conditions are met by the parish.

During fiscal 2014, MAC offered a conditional grant of $149,497 to a parish for the purpose of assisting with the repayment of receivables due to the Diocese and other Diocesan organizations. As of August 31, 2014, MAC provided the parish with $149,494, which was recorded as a direct grant to parishes. The grant was completed in fiscal 2014.

During fiscal 2014, MAC offered a conditional grant of $600,000 to a parish for the purpose of assisting with the capital campaign. As of August 31, 2014, MAC accrued $4,743, which was recorded as a grant payable and a direct grant to parishes. The remaining grant balance of $595,257 will be disbursed if and when certain conditions are met by the parish.

## (7) Subsequent Events

In connection with the preparation of the financial statements, MAC evaluated events subsequent to August 31, 2014 through December 22, 2014, which was the date the financial statements were available to be issued, and concluded that no additional disclosures were required.