KPMG

THE SOCIETY FOR THE PROPAGATION OF THE FAITH, DIOCESE OF ROCKVILLE CENTRE AND MISSION OFFICE

Combined Financial Statements

December 31, 2013 and 2012

(With Independent Auditors’ Report Thereon)

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

Independent Auditors' Report

The Most Reverend William F. Murphy, S.T.D., L.H.D., Bishop
Roman Catholic Diocese of Rockville Centre:

The Board of Directors
The Society for the Propagation of the Faith, Diocese of Rockville Centre:

We have audited the accompanying combined financial statements of The Society for the Propagation of the Faith, Diocese of Rockville Centre and Mission Office, which comprise the combined statements of financial position as of December 31, 2013 and 2012, and the related combined statements of activities and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined financial statements referred to above present fairly in all material respects, the financial position of The Society for the Propagation of the Faith, Diocese of Rockville Centre and Mission Office as of December 31, 2013 and 2012, 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.

KPMG LLP

April 17, 2014

THE SOCIETY FOR THE PROPAGATION OF THE FAITH,
DIOCESE OF ROCKVILLE CENTRE AND MISSION OFFICE

Combined Statements of Financial Position

December 31, 2013 and 2012

Assets		**2013**	**2012**
Cash and cash equivalents	$	1,023,068	1,093,876
Investments (note 3)		1,205,632	833,980
Other assets		124,731	122,122
Total assets	$	2,353,431	2,049,978
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	9,797	5,481
Due to related entity (note 4)		6,063	19,548
Funds held for others (note 5)		1,661,230	1,348,608
Total liabilities		1,677,090	1,373,637
Net assets – unrestricted		676,341	676,341
Total liabilities and net assets	$	2,353,431	2,049,978

See accompanying notes to combined financial statements.

THE SOCIETY FOR THE PROPAGATION OF THE FAITH,
DIOCESE OF ROCKVILLE CENTRE AND MISSION OFFICE

Combined Statements of Activities

Years ended December 31, 2013 and 2012

		2013	2012
Revenues:			
Total contributions raised	$	1,285,600	1,519,830
Less:			
Amounts raised on behalf of others (note 5)		(571,231)	(850,860)
Amounts raised for National Office (note 5)		(714,369)	(668,970)
Investment income		2,128	1,539
Administrative fees		193,913	246,575
Total revenues		196,041	248,114
Expenses:			
Management and general		166,138	218,986
Fund-raising		29,903	29,128
Total expenses		196,041	248,114
Change in net assets		—	—
Net assets at beginning of year		676,341	676,341
Net assets at end of year	$	676,341	676,341

See accompanying notes to combined financial statements.

THE SOCIETY FOR THE PROPAGATION OF THE FAITH,
DIOCESE OF ROCKVILLE CENTRE AND MISSION OFFICE

Combined Statements of Cash Flows

Years ended December 31, 2013 and 2012

		2013	2012
Cash flows from operating activities:			
Change in net assets	$	—	—
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:			
Changes in operating assets and liabilities:			
Other assets		(2,609)	4,812
Accounts payable and accrued expenses		4,316	(2,835)
Due to related entity		(13,485)	7,527
Funds held for others		312,622	(33,803)
Net cash provided by (used in) operating activities		300,844	(24,299)
Cash flows from investing activities:			
Purchases of investments		(693,499)	(828,502)
Proceeds from sale of investments		321,847	1,224,318
Net cash (used in) provided by investing activities		(371,652)	395,816
Net (decrease) increase in cash and cash equivalents		(70,808)	371,517
Cash and cash equivalents at beginning of year		1,093,876	722,359
Cash and cash equivalents at end of year	$	1,023,068	1,093,876

See accompanying notes to combined financial statements.

(1) Organization

The Society for the Propagation of the Faith, Diocese of Rockville Centre and Mission Office (the Propagation of the Faith and Mission Office) were organized to develop an awareness of the work of missionaries and a better understanding of the social, economic, cultural, and religious conditions of the people with whom they work; encourage support of the missions and missionaries through prayer and donations; and develop personal contact with the missionaries. The Society for the Propagation of the Faith, Diocese of Rockville Centre is a member of the National Office for the Society for the Propagation of the Faith (the National Office).

The Mission Office is part of the Roman Catholic Diocese of Rockville Centre (the Diocese), which is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code as an organization described in Section 501(a), and a similar provision of the New York State income tax laws. The Society for the Propagation of Faith, Diocese of Rockville Centre is also exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code as an organization described in Section 501(a), and a similar provision of the New York State income tax laws.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying combined financial statements have been prepared in accordance with U.S. generally accepted accounting principles using the accrual basis of accounting. Accordingly, the Propagation of the Faith and Mission Office's combined 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 – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that will be met either by actions of the Propagation of the Faith and Mission Office and/or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that the principal be maintained permanently by the Propagation of the Faith and Mission Office.

The Propagation of the Faith and Mission Office did not have any temporarily restricted or permanently restricted net assets as of December 31, 2013 and 2012.

The Propagation of the Faith and Mission Office's revenues are reported as increases in unrestricted net assets unless their use is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other 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 net assets released from restrictions.

(Continued)

Contributions of assets other than cash are recorded at their estimated fair value.

(b) Fair Value

Fair value is defined as the exchange price that would be received for 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 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.

(c) Cash and Cash Equivalents

Cash and 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.

(d) Investments

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

Investments in money market funds are recorded at cost, which approximates fair value.

(e) Use of Estimates

The preparation of combined 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 combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(f) Risks and Uncertainties

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

(g) Income Taxes

The Propagation of the Faith and Mission Office account for uncertainties in income taxes recognized in the combined financial statements using a threshold of more likely than not of being sustained. Income generated from activities unrelated to the Propagation of the Faith and Mission Office's exempt purpose is subject to tax. The Propagation of the Faith and Mission Office did not have any material unrelated business income tax liabilities at December 31, 2013 or 2012.

(3) Investments

A portion of the Propagation of the Faith and Mission Office's investments is held in a pooled investment fund held by Unitas Investment Fund, Inc. (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. Investments in Unitas funds are carried at estimated fair value based principally upon the quoted market prices of the underlying assets of the 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 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 Capital Preservation Fund is 0.0042% monthly (0.05% annualized) while the mission fee to participants in the Unitas Long-Term Funds is 0.1250% quarterly (0.5000% annualized).

The balance of the Propagation of the Faith and Mission Office's investments consists of a money market fund.

The following tables present the fair value hierarchy for the Propagation of the Faith and Mission Office's investments as of December 31, 2013 and 2012:

	2013			
	Fair value	**Level 1**	**Level 2**	**Level 3**
Money market fund	$ 446,193	446,193	—	—
Unitas Money Market Fund	759,439	—	759,439	—
Total investments	$ 1,205,632	446,193	759,439	—

		2012			
		Fair value	**Level 1**	**Level 2**	**Level 3**
Money market fund	$	75,712	75,712	—	—
Unitas Money Market Fund		758,268	—	758,268	—
Total investments	$	833,980	75,712	758,268	—

The Unitas Money Market Fund invests in short-term debt securities and money market instruments and is redeemable daily with one day's notice.

(4) Due to Related Entity

Due to related entity consists of amounts due to the Administrative Offices of the Diocese of Rockville Centre (the Administrative Offices) for services and staff provided by the Administrative Offices to the Propagation of the Faith and Mission Office.

(5) Amounts Raised and Funds Held for Others

Funds held for others include amounts raised for the National Office and custodial funds.

Amounts raised for the National Office (including funds raised for Holy Childhood and St. Peter Association) are calculated based on a formula stipulated in the annual report that the Propagation of the Faith and Mission Office is required to submit each year to the National Office.

Custodial funds are amounts received from special collections and appeals designated to specific agencies. These funds are entrusted to the Propagation of the Faith and Mission Office only for the purpose of receiving, holding, and disbursing them according to the purpose of the collection of the appeal.

The National Office and certain custodial funds are charged an annual administrative fee in an amount equal to expenses incurred by the Propagation of the Faith and Mission Office, net of investment income.

For the years ended December 31, 2013 and 2012, unremitted funds raised for the National Office and custodial funds included in funds held for others on the combined statements of financial position consisted of the following:

		2013	**2012**
Amounts raised for the National Office	$	554,472	462,694
Custodial funds		1,106,758	885,914
	$	1,661,230	1,348,608

(6) Pension Plan

The Propagation of the Faith and Mission Office are participants in a pension plan that has been characterized for financial accounting purposes as a multiemployer pension plan (the Diocesan Plan), a noncontributory defined benefit plan established by the Diocese. The risks of participating in a multiemployer plan are different from single-employer plans in the following aspects:

- Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- If a participating entity stops contributing to the multiemployer plan, the unfunded obligations of the plan may be borne by the remaining participating entities.
- If an entity petitions to stop participating in the multiemployer plan, the entity may be required to pay the plan a withdrawal liability based on the funded status of the plan.

These aspects of multiemployer plan participation are consistent with the manner of administration of the Diocesan Plan. These aspects are not required by law but are part of the Diocesan Plan's administrative practices. Neither the financial accounting treatment of the Diocesan Plan, nor its administrative practices, nor this footnote shall be deemed a representation that the Diocesan Plan is subject to any laws that require the multiemployer plan attributes that are set forth above.

The Diocesan Plan is designed to provide retirement benefits for eligible lay employees of participating Diocesan entities. An employee becomes eligible for participation in the Diocesan Plan upon completion of one year of continuous eligibility service and becomes fully vested upon completion of five years of vesting service. Employees who terminate employment with five or more years of vesting service are entitled to annual pension benefits equal to specified percentages of compensation as defined in the Diocesan Plan.

The Propagation of the Faith and Mission Office's retirement plan expense is equal to the required annual contributions to the Diocesan Plan, which is calculated based on actuarially determined methods. Amounts charged to pension costs for the years ended December 31, 2013 and 2012 totaled $7,556 and $6,658, respectively, and are included in the accompanying combined statements of activities. Required annual contributions represent less than five percent of total net contributions to the Plan.

The following table discloses the funded status of the Diocese of Rockville Centre Plan, Number 001 (EIN 27-1715985) as of January 1, 2013 and 2012 (the date of the latest actuarial valuations), inclusive of the fair value of plan assets as of December 31, 2012 and 2011, respectively:

Valuation Date		Actuarial present value of accumulated plan benefits	Fair value of plan assets	Total net contributions	Funded status
January 1, 2013	$	1,027,475,375	997,916,414	77,695,620	Greater than 80%
January 1, 2012	$	958,278,840	858,745,114	72,212,600	Greater than 80%

The Diocese reserves the right to discontinue contributions at any time and terminate the Diocesan Plan. In the event of termination and discontinuance, the assets of the Diocesan Plan remaining after paying all administrative expenses of the Diocesan Plan will be allocated in accordance with the terms of the Diocesan Plan for the purpose of paying benefits provided under the Diocesan Plan.

On January 1, 2015, the Diocesan Plan will freeze retirement benefit accruals to all Non-Hospital Plan participants with less than 30 years of service. Eligible vesting service will continue to accrue beyond the freeze date for all Diocesan Plan participants hired on or before March 1, 2014. Non-Hospital employees hired after March 1, 2014 will not be eligible to participate in the Diocesan Plan.

The accumulated benefit obligation and plan assets of the Diocesan Plan are not reflected in the accompanying combined statements of financial position of the Propagation of the Faith and Mission Office.

(7) Subsequent Events

In connection with the preparation of the combined financial statements, the Propagation of the Faith and Mission Office evaluated events subsequent to December 31, 2013 through April 17, 2014, which was the date the combined financial statements were available to be issued, and concluded that no additional disclosures were required.