MISSION ASSISTANCE CORPORATION

Financial Statements

August 31, 2012 and 2011

(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 statements of financial position of Mission Assistance Corporation (MAC) as of August 31, 2012 and 2011, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of MAC's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MAC's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mission Assistance Corporation as of August 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

December 13, 2012

MISSION ASSISTANCE CORPORATION

Statements of Financial Position

August 31, 2012 and 2011

Assets		**2012**	**2011**
Cash and cash equivalents	$	665,424	1,057,477
Investments (note 3)		14,050,036	12,474,013
Interest receivable from parishes (note 4)		4,644	11,721
Loans receivable from parishes (note 4)		1,449,891	2,242,491
Total assets	$	16,169,995	15,785,702
Liabilities and Net Assets			
Liabilities:			
Grants payable (notes 6 and 7)	$	5,232	607,035
Other liabilities		17,007	570
Total liabilities		22,239	607,605
Commitments and contingencies (notes 4, 6 and 7)			
Net assets – unrestricted		16,147,756	15,178,097
Total liabilities and net assets	$	16,169,995	15,785,702

See accompanying notes to financial statements.

MISSION ASSISTANCE CORPORATION

Statements of Activities

Years ended August 31, 2012 and 2011

		2012	2011
Revenues:			
Mission fees (note 3)	$	322,469	494,250
Investment return		1,253,602	785,314
Interest income on loans receivable		25,221	47,483
Imputed interest (note 4)		43,630	58,446
Accreted income on acquired loans and receivables (note 4)		43,493	467,081
Contributed services		33,912	33,272
Total revenues		1,722,327	1,885,846
Expenses:			
Forgiveness of parish loans (note 4)		—	18,725
Direct grants to parishes (notes 4 and 5)		639,146	891,725
Interest grant (note 4)		43,630	58,446
Professional fees, including contributed services		69,892	52,486
Total expenses		752,668	1,021,382
Change in net assets		969,659	864,464
Net assets at beginning of year		15,178,097	14,313,633
Net assets at end of year	$	16,147,756	15,178,097

See accompanying notes to financial statements.

MISSION ASSISTANCE CORPORATION

Statements of Cash Flows

Years ended August 31, 2012 and 2011

		2012	2011
Cash flows from operating activities:			
Change in net assets	$	969,659	864,464
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:			
Forgiveness of parish loans		—	18,725
Net appreciation in fair value of investments		(1,253,554)	(784,995)
Accreted income on acquired loans and receivables		(43,493)	(467,081)
Change in interest receivable from parishes		7,077	(2,478)
Change in grants payable		(601,803)	591,527
Change in other liabilities		16,437	(408)
Net cash (used in) provided by operating activities		(905,677)	219,754
Cash flows from investing activities:			
Purchases of investments		(1,744,722)	(2,510,587)
Proceeds from sales of investments		1,422,253	1,466,336
Originated loans to parishes		(227,770)	(802,000)
Parish loan payments		1,063,863	1,617,899
Net cash provided by (used in) investing activities		513,624	(228,352)
Net decrease in cash and cash equivalents		(392,053)	(8,598)
Cash and cash equivalents at beginning of year		1,057,477	1,066,075
Cash and cash equivalents at end of year	$	665,424	1,057,477

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 periodically provides financial grants to parishes that, without such grants, would be unable to fulfill the mission of the Church.

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.

(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, 2012 and 2011.

(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 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 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 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, 2012 and 2011.

(i) Recently Adopted Accounting Standards

In July 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-20, *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, which significantly increases disclosures about credit quality of financing receivables and the allowance for credit losses and requires disclosures to be made at a greater level of disaggregation. MAC adopted ASU No. 2010-20 in fiscal 2012, which resulted in increased disclosures related to loans receivable from parishes. (See note 4.)

(j) Reclassifications

Certain reclassifications have been made to the 2011 financial statements in order to conform to the 2012 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 37.5bps per quarter on the Unitas Long-Term Funds (150bps 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, 2012 and 2011, investments were comprised of the following:

		2012	2011
Unitas Money Market Fund (a)	$	696,340	1,105,584
Unitas Capital Preservation Fund (b)		502,441	300,107
Unitas Balanced Fund (c)		12,800,048	10,527,480
Unitas Equity-Weighted Fund (d)		39,519	531,120
Unitas Total Fixed Income Fund (e)		10,019	9,722
Unitas Income-Weighted Fund (f)		1,669	—
Total investments	$	14,050,036	12,474,013

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 Unitas Total Fixed Income Fund and approximately 50% of its assets in equity securities.

d) The Unitas Equity-Weighted Fund invests approximately 40% of its assets in the Unitas Total Fixed Income Fund and approximately 60% of its assets in 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 Unitas Total Fixed Income Fund and approximately 40% of its assets in 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 (quarterly prior to January 1, 2012) with one day’s notice. Investments in the other Unitas funds are redeemable quarterly with one day’s notice.

(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 2020. 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 for. 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, 2012 and 2011, no loans are considered impaired, and no allowance has been established.

Loan activity for the years ended August 31, 2012 and 2011 is summarized as follows:

		2012	2011
Gross loans receivable, beginning of year	$	2,553,469	3,878,053
Loans made		227,770	802,000
Repayments received		(1,063,863)	(1,617,899)
Matching loan grants given		—	(483,725)
Loans forgiven		—	(24,960)
Gross loans receivable, end of year		1,717,376	2,553,469
Deferred income on loans receivable, beginning of year		(310,978)	(1,268,019)
Accreted income		43,493	467,081
Matching loan grants given		—	465,000
Loans forgiven		—	24,960
Deferred income on loans receivable, end of year		(267,485)	(310,978)
Loans receivable, net, end of year	$	1,449,891	2,242,491

(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, 2012 and 2011 was $267,485 and $310,978, respectively.

(d) Commitments

MAC may provide a parish 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 $350,000 and $1,227,000, of which $79,444 and $475,172, was drawn down as of August 31, 2012 and 2011, respectively, and is included in loans receivable from parishes.

During 2011, MAC pledged financial assistance up to $368,000 to one parish for the purpose of constructing an outreach facility. In 2012, a portion of that assistance was provided to the parish in the form of a loan in the amount of $55,332, which was repaid as of August 31, 2012. Another portion of that assistance was offered in the form of a conditional grant in the amount of $262,239. During 2012, $215,668 of that grant was disbursed and was recorded as a direct grant to parishes. The remaining balance of $97,000 will be granted only if certain conditions are met by the parish.

During 2012, MAC offered a conditional grant of $250,000 to a parish for the purpose of assisting with costs associated with a school closing. As of August 31, 2012, MAC provided the parish with $230,482, which was recorded as a direct grant to parishes. The remaining grant balance of $19,518 will be disbursed if and when certain conditions are met by the parish.

(e) 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 MAC's cost of acquiring the receivable. Under these circumstances, MAC recognizes an expense equal to the excess of MAC's cost over the total principal payments to be received from the parish.

(5) Direct Grants to Parishes

MAC may also make debt repayments on behalf of a parish without the assumption of a new loan. Such repayments are recorded as direct grants to parishes.

(6) Grants Payable

During 2009, MAC awarded a conditional grant to a parish in the amount of $750,000 for the purpose of constructing an outreach facility. Of this amount a total of $200,000 was recorded and disbursed in fiscal years 2009 and 2010 to cover initial construction costs. During 2011, the conditions were fully satisfied and the remaining obligation of $550,000 was accrued and is included in grants payable at August 31, 2011. During 2012, the remaining $550,000 was disbursed to the parish.

During 2011, MAC agreed to make a matching grant to a parish in an amount equal to 50% of the cash received by the parish in connection with its capital campaign, up to a maximum amount of $200,000. As of August 31, 2012 and 2011, the parish had collected $271,289 and $103,954, respectively, in connection with its campaign. As of August 31, 2012, MAC has paid $130,413 to the parish in partial fulfillment of this obligation and the balance due is included in grants payable.

(7) Subsequent Events

During September 2012, MAC agreed to make a 2:1 matching grant to a parish up to a maximum amount of $1.5 million to be applied towards the outstanding Diocesan debt of the parish. The matching grant will be available in non-cumulative increments of up to $400,000 for the parish's 2013, 2014, and 2015 fiscal years and up to $300,000 in the 2016 fiscal year.

During September 2012, MAC awarded an unconditional grant to a parish in the amount of $250,000 for the purpose of cash flow needs and to assist with efforts to return the parish to financial health.

During September 2012, MAC awarded a conditional grant to a parish in the amount of up to $350,000 to assist with certain costs associated with closing the school and efforts to obtain financing for the indebtedness relating to the new church. In addition, MAC awarded a direct grant in the amount of up to $180,000 to assist the same parish in meeting its unsecured loan obligation while efforts continue to secure more favorable payment terms with another financial institution. The grant will be applied directly to the unsecured loan in the amount of $45,000 per month for a period of up to four months beginning October 2012 through January 2013 or until new financing is obtained for the indebtedness of the new church, whichever occurs first.

In connection with the preparation of the financial statements, MAC evaluated events subsequent to August 31, 2012 through December 13, 2012, which was the date the financial statements were available to be issued, and concluded that no additional disclosures were required.