

Oblate Missionary Society, Inc.

Financial Statements

June 30, 2015 and 2014

OBLATE MISSIONARY SOCIETY, INC.

INDEX TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

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Craig, Fitzsimmons & Michaels, LLP

Certified Public Accountants, Management and IT Consultants

20 Manor Road • Smithtown, New York 11787

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Audit Committee of the  
Oblate Missionary Society, Inc.  
391 Michigan Avenue, NE  
Washington, DC 20017

We have audited the accompanying financial statements of Oblate Missionary Society, Inc., which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of unrestricted and restricted activities and changes in net assets, functional expenses 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 accounting principles generally accepted in the United States of America; 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.

### **Auditor's 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 auditor's 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 Oblate Missionary Society, Inc. as of June 30, 2015 and 2014, and its changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Craig, Fitzsimmons & Michaels, LLP*

Smithtown, NY  
November 20, 2015

Oblate Missionary Society, Inc.

Financial Statements

June 30, 2015 and 2014

OBLATE MISSIONARY SOCIETY, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30,

	<u>2015</u>	<u>2014</u>
<u>ASSETS</u>		
Cash	\$ 1,605,892	\$ 3,120,208
Postage on deposit and prepaid expenses	1,229,720	553,341
Legacies and other receivables	1,439,525	1,116,376
Mailing supplies, net of reserve	562,760	630,502
Inventory of religious articles, net of reserve	947,561	703,862
Trust funds receivable	3,037,564	3,307,250
Property and equipment, net of accumulated depreciation	<u>1,927,519</u>	<u>1,770,914</u>
Total assets	<u>\$10,750,541</u>	<u>\$ 11,202,453</u>
 <u>LIABILITIES AND NET ASSETS</u>		
<u>Liabilities</u>		
Accounts payable	\$ 1,148,640	\$ 677,624
Accrued wages, taxes and benefits	657,594	627,394
Capital lease payable	397,764	-
Due to affiliated entities	<u>542,786</u>	<u>1,968,468</u>
Total liabilities	<u>\$ 2,746,784</u>	<u>\$ 3,273,486</u>
 <u>Net Assets</u>		
Unrestricted net assets	\$ 4,966,193	\$ 4,575,419
Temporarily restricted net assets	2,762,762	3,090,626
Permanently restricted net assets	<u>274,802</u>	<u>262,922</u>
Total net assets	<u>\$ 8,003,757</u>	<u>\$ 7,928,967</u>
Total liabilities and net assets	<u>\$10,750,541</u>	<u>\$ 11,202,453</u>

The accompanying notes are an integral part of these financial statements.

OBLATE MISSIONARY SOCIETY, INC.

STATEMENTS OF UNRESTRICTED ACTIVITIES

AND CHANGES IN UNRESTRICTED NET ASSETS

FOR THE YEARS ENDED JUNE 30,

<u>Unrestricted Activity</u>	<u>2015</u>	<u>2014</u>
Support from the Public:		
Fund raising contributions	\$ 23,773,255	\$25,242,948
Donor development contributions	2,376,206	1,990,449
Split interest gifts	1,337,821	286,718
Trust grants	22,102	19,073
Legacies and bequests	<u>2,923,759</u>	<u>6,578,315</u>
Total support from the public	<u>\$ 30,433,143</u>	<u>\$34,117,503</u>
Revenue:		
Grotto Spiritual Center	\$ 1,069,059	\$ 1,020,420
Name rental royalties	309,777	258,147
Contributed rent	1,220,960	1,220,960
Computer database support	-	255,882
Other revenues	<u>104,455</u>	<u>62,002</u>
Total revenue	<u>\$ 2,704,251</u>	<u>\$ 2,817,411</u>
Assets released from restrictions:	<u>\$ 50,000</u>	<u>\$ 50,000</u>
Total support and revenue	<u>\$ 33,187,394</u>	<u>\$36,984,914</u>
Expenses:		
Program Services:		
Support of Oblate Ministries	\$ 7,264,352	\$11,755,454
Grotto Spiritual Center	983,415	972,069
Evangelization	<u>16,284,097</u>	<u>16,315,657</u>
Total program services	<u>\$ 24,531,864</u>	<u>\$29,043,180</u>
Supporting Services:		
Fund raising	\$ 5,750,124	\$ 4,223,140
Donor development	1,425,037	2,043,545
Management and general	<u>1,102,215</u>	<u>1,292,850</u>
Total supporting services	<u>\$ 8,277,376</u>	<u>\$ 7,559,535</u>
Total program and supporting services	<u>\$ 32,809,240</u>	<u>\$36,602,715</u>
Other changes in unrestricted net assets:		
Inventory reserve recovery	<u>\$ 12,620</u>	<u>\$ 57,380</u>
Change in unrestricted net assets for year	\$ 390,774	\$ 439,579
Unrestricted net assets at beginning of year	<u>4,575,419</u>	<u>4,135,840</u>
Unrestricted net assets at end of year	<u>\$ 4,966,193</u>	<u>\$ 4,575,419</u>

The accompanying notes are an integral part of these financial statements.

OBLATE MISSIONARY SOCIETY, INC.

STATEMENTS OF RESTRICTED ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEARS ENDED JUNE 30,

<b><u>Temporarily Restricted Activity</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>
Support from the Public:		
Trust grants	\$ -	\$ -
Revenue:		
Unrealized gain (loss) in temporarily restricted assets	(277,864)	148,040
Other changes in temporarily restricted net assets:		
Assets released from restrictions	<u>(50,000)</u>	<u>(50,000)</u>
Change in temporarily restricted net assets for year	\$ (327,864)	\$ 98,040
Temporarily restricted net assets at beginning of year	<u>3,090,626</u>	<u>2,992,586</u>
Temporarily restricted net assets at end of year	<u>\$2,762,762</u>	<u>\$3,090,626</u>
<b><u>Permanently Restricted Activity</u></b>		
Revenue:		
Unrealized gain in permanently restricted assets	<u>\$ 11,880</u>	<u>\$ 9,054</u>
Change in permanently restricted net assets for year	\$ 11,880	\$ 9,054
Permanently restricted net assets at beginning of year	<u>262,922</u>	<u>253,868</u>
Permanently restricted net assets at end of year	<u>\$ 274,802</u>	<u>\$ 262,922</u>
<b><u>Change in net assets for year:</u></b>		
Unrestricted net assets	\$ 390,774	\$ 439,579
Temporarily restricted net assets	(327,864)	98,040
Permanently restricted net assets	<u>11,880</u>	<u>9,054</u>
Total change in net assets	<u>\$ 74,790</u>	<u>\$ 546,673</u>

The accompanying notes are an integral part of these financial statements.



OBLATE MISSIONARY SOCIETY, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2015

	-----Program Services-----			-----Supporting Services-----			
	Support of Oblate Ministries	Grotto Spiritual Center	Evangelization	Fund Raising	Donor Development	Management and General	Total
Grants in support of Oblates Ministries	\$ 7,264,352	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,264,352
Salaries, stipends and benefits	-	348,026	4,916,074	1,850,466	656,269	480,411	8,251,246
Postage and freight	-	34,534	3,451,333	1,686,610	275,812	100,258	5,548,547
Printing and production	-	-	3,278,339	1,172,557	193,242	64,704	4,708,842
Religious articles, worship aids and cards	-	375,692	1,695,080	72,653	16,696	-	2,160,121
Name rentals and exchanges	-	-	494,358	135,853	111,457	-	741,668
Space ads	-	-	349,509	149,680	26,277	15,766	541,232
Consultants and creative fees	-	-	122,353	73,609	3,653	2,005	201,620
Telemarketing	-	-	-	146,019	-	-	146,019
Automobile and travel	-	-	147,995	61,962	12,966	17,546	240,469
Telephone	-	5,973	64,002	25,708	4,900	11,754	112,337
Maintenance, utilities and insurance	-	122,627	384,285	86,042	30,050	60,097	683,101
Supplies	-	4,108	93,493	35,491	6,865	7,695	147,652
Professional fees	-	9,158	128,366	51,010	13,030	11,024	212,588
Memberships, dues and subscriptions	-	-	59,243	14,659	5,712	15,919	95,533
Contributed rent expense	-	72,899	865,549	120,134	52,075	110,303	1,220,960
Equipment leases and rentals	-	-	46,935	15,185	3,451	3,451	69,022
Equipment repairs and maintenance	-	-	-	-	-	32,771	32,771
Bank and service fees	-	-	-	-	-	156,030	156,030
Website/E-mail expenses	-	802	602	301	201	100	2,006
Mass stipends and charitable donations	-	-	26,015	-	-	-	26,015
Depreciation	-	9,596	160,566	52,185	12,381	12,381	247,109
	<u>\$ 7,264,352</u>	<u>\$ 983,415</u>	<u>\$ 16,284,097</u>	<u>\$ 5,750,124</u>	<u>\$ 1,425,037</u>	<u>\$ 1,102,215</u>	<u>\$ 32,809,240</u>
Total expenses	<u>\$ 7,264,352</u>	<u>\$ 983,415</u>	<u>\$ 16,284,097</u>	<u>\$ 5,750,124</u>	<u>\$ 1,425,037</u>	<u>\$ 1,102,215</u>	<u>\$ 32,809,240</u>

The accompanying notes are an integral part of these financial statements.

OBLATE MISSIONARY SOCIETY, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2014

	-----Program Services-----			-----Supporting Services-----			
	Support of Oblate Ministries	Grotto Spiritual Center	Evangelization	Fund Raising	Donor Development	Management and General	Total
Grants in support of Oblates Ministries	\$11,755,454	\$ -	\$ -	\$ -	\$ -	\$ -	\$11,755,454
Salaries, stipends and benefits	-	346,705	5,096,421	1,662,057	523,613	647,238	8,276,034
Postage and freight	-	35,236	3,430,599	1,174,797	601,476	119,833	5,361,941
Printing and production	-	-	2,533,443	693,392	363,929	79,068	3,669,832
Religious articles, worship aids and cards	-	348,144	2,240,572	14,251	83,547	-	2,686,514
Name rentals and exchanges	-	-	470,122	-	287,621	-	757,743
Space ads	-	-	335,648	115,079	9,590	19,180	479,497
Consultants and creative fees	-	-	264,368	151,557	50,881	3,029	469,835
Telemarketing	-	-	-	-	-	-	-
Automobile and travel	-	-	145,395	51,087	7,607	21,323	225,412
Telephone	-	6,005	63,608	22,924	3,355	13,370	109,262
Maintenance, utilities and insurance	-	131,604	413,636	92,514	32,312	64,624	734,690
Supplies	-	4,427	81,528	27,098	3,600	9,402	126,055
Professional fees	-	9,718	144,690	49,659	10,138	16,894	231,099
Memberships, dues and subscriptions	-	-	59,769	15,395	4,450	11,764	91,378
Contributed rent expense	-	72,899	865,549	120,134	52,075	110,303	1,220,960
Equipment leases and rentals	-	-	49,191	10,636	2,659	3,988	66,474
Equipment repairs and maintenance	-	-	-	-	-	31,321	31,321
Bank and service fees	-	-	-	-	-	132,374	132,374
Website/E-mail expenses	-	1,350	1,008	511	337	169	3,375
Mass stipends and charitable donations	-	-	21,081	-	-	-	21,081
Depreciation	-	15,981	99,029	22,049	6,355	8,970	152,384
	<u>-\$11,755,454</u>	<u>-\$972,069</u>	<u>-\$16,315,657</u>	<u>-\$4,223,140</u>	<u>-\$2,043,545</u>	<u>-\$1,292,850</u>	<u>-\$36,602,715</u>
Total expenses	<u>\$11,755,454</u>	<u>\$972,069</u>	<u>\$16,315,657</u>	<u>\$4,223,140</u>	<u>\$2,043,545</u>	<u>\$1,292,850</u>	<u>\$36,602,715</u>

The accompanying notes are an integral part of these financial statements.

OBLATE MISSIONARY SOCIETY, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30.

	<u>2015</u>	<u>2014</u>
<u>Cash flows from operating activities:</u>		
Total change in net assets for year	\$ 74,790	\$ 546,673
Adjustments to reconcile change in net assets to Net cash provided (used) by operating activities:		
Depreciation	247,109	152,384
(Gain) on traded assets	(22,500)	(600)
(Gain) loss in trust funds receivable	265,983	(157,093)
Non-cash changes in legacies and other receivables	3,704	7,129
(Increase) decrease in operating assets:		
Legacies and other receivables	(323,150)	439,346
Postage on deposit and prepaid expenses	(676,378)	90,601
Inventory of religious articles	(231,079)	49,826
Non-cash inventory reserve recovery	(12,620)	(57,380)
Mailing supplies	67,742	(32,763)
Increase (decrease) in operating liabilities:		
Accounts payable	471,012	(106,468)
Accrued wages, taxes and benefits	30,200	63,527
Due to affiliated entities	(1,425,682)	521,807
Net cash provided (used) by operating activities	<u>\$(1,530,869)</u>	<u>\$ 1,516,989</u>
<u>Cash flows from investing activities:</u>		
Computer database in development	\$ (122,665)	\$ (255,882)
Sale of assets	22,500	600
Purchase of property and equipment	<u>(281,050)</u>	<u>(439,659)</u>
Net cash provided (used) by investing activities	<u>\$ (381,215)</u>	<u>\$ (694,941)</u>
<u>Cash flows from financing activities:</u>		
Capital lease	\$ 453,072	\$ -
Repayment of capital lease	<u>(55,304)</u>	<u>-</u>
Net cash provided by financing activities	<u>\$ 397,768</u>	<u>\$ -</u>
Net increase (decrease) in cash	\$(1,514,316)	\$ 822,048
Cash at beginning of year	<u>3,120,208</u>	<u>2,298,160</u>
Cash at end of year	<u>\$ 1,605,892</u>	<u>\$ 3,120,208</u>
<u>Supplemental Cash Flows Disclosures</u>		
Non cash activities:		
Contributed rent	<u>\$ 1,220,960</u>	<u>\$ 1,220,960</u>
Interest paid	<u>\$ 9,053</u>	<u>\$ -</u>
Taxes paid	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

OBLATE MISSIONARY SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

1. Summary of Significant Accounting Policies

a. Principles of Consolidation

The Oblate Missionary Society, Inc. is a Delaware not-for-profit Corporation. The Oblate Missionary Society, Inc. (the Organization) was established in July 2008 and is an integral part of the United States Province of the Missionary Oblates of Mary Immaculate, an order of Catholic priests and brothers. The financial statements presented include the combined financial position and activities of the following entities: the Missionary Association of Mary Immaculate (MAMI), the Missionary Oblate Partnership (MOP), and Oblate Missions (OM). All material inter-association transactions have been eliminated in consolidation.

b. Mission

The Organization is a ministry of the United States Province of the Missionary Oblates of Mary Immaculate (the affiliate), an order of Catholic priests and brothers. The Organization was established to support the operations and missions of the United States Province of the Missionary Oblates of Mary Immaculate. The Organization gives witness to Jesus Christ through a genuine commitment for the evangelization of the poor and abandoned. The Organization pledges to raise the awareness of all God's people to the Gospel mandate to grow in personal holiness and to exercise service in the world.

The Organization accomplishes this ministry through the promotion of religious devotion to Jesus Christ and his Mother, religious education and faith formation (Evangelization). The Organization also furthers its mission through the sponsorship of the Lourdes Grotto of the Southwest and Tepeyac Shrine and the Grotto gift shop, collectively the Grotto Spiritual Center. The educational and devotional activities of the Organization are facilitated through the use of, and participation in, liturgies, novenas, prayer, and the distribution of religious articles. These activities are promoted through direct mail contacts, electronic and telephone communications, personal visitations, sponsorship of pilgrimages to holy places and participation in various sacramental activities.

The Organization provides God's people with the opportunity to support the religious, social, educational and charitable works of the Missionary Oblates and their co-workers throughout the world (Support of Oblate Ministries). This is accomplished by conducting fund raising and ministerial activities which offer personal invitations to recognize that all people are our brothers and sisters, and entitled to the human dignity announced in the Gospel. These activities also provide an opportunity for existing and potential benefactors to share in the spiritual benefits and well being, which flow from their financial and spiritual support.

OBLATE MISSIONARY SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

1. Summary of Significant Accounting Policies – continued

c. Basis of Presentation

The accompanying financial statements have been prepared in accordance with the recommendations of the Financial Accounting Standards Board (FASB). In accordance with generally accepted accounting standards of the United States of America, the financial statements report amounts separately by class of net assets. Net assets are classified as follows:

Unrestricted amounts are those currently available at the discretion of the Affiliate for use in its operations and ministries.

Temporarily Restricted amounts result from inflows whose use by the Affiliate is limited by donor-imposed stipulations that either expire with the passage of time or can be fulfilled and removed by actions of the Affiliate.

Permanently Restricted amounts result from inflows whose use is limited by donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of the Affiliate.

Contributions and in kind donations, valued at estimated market value as determined by management at the time of receipt, are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of donor restrictions. When a restriction expires through the accomplishment of purpose or the passage of time, restricted assets are reclassified to unrestricted and reported in the statement of activities as net assets released from restrictions. Restrictions received and met in the same reporting period are recorded as unrestricted activities.

Restricted contributions transferred to the Affiliate during the reporting period are recorded in the unrestricted class in these financial statements. Restricted contributions, which have not been transferred during the reporting period, are recorded as increases within the temporarily or permanently restricted class depending upon the specific terms of the gifts received.

The Organization reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

OBLATE MISSIONARY SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

1. Summary of Significant Accounting Policies – continued

c. Basis of Presentation – continued

For the years ended June 30, 2015 and 2014, there were no gifts of land, buildings and equipment received by the Organization other than purchases made by the Affiliate on behalf of the Organization. There were no restrictions as to the use for any of the purchases.

d. Cash

Cash consists of cash and cash equivalents in demand deposit accounts, cash on hand and short term investments with an original maturity of twelve months or less.

e. Direct Mail Fund Raising and Donor Development

The Organization derives a significant portion of its public support from direct mail solicitations. Direct mail fund raising involves two distinct activities, fund raising and donor development. These activities are reported separately in the financial statements.

The fund raising function includes the costs of soliciting gifts from current donors listed on the internal database of the Organization. The donor development function includes similar costs, but these relate to contacting individuals who might be interested in the Organization's programs and ministries, but have not previously participated, or are no longer actively participating in the programs of the Organization.

The total fund raising expense, which includes both fund raising and donor development, for the years ended June 30, 2015 and 2014 was \$7,175,162 and \$6,266,685, respectively.

f. Impairment of Long-Lived Assets

The Organization reviews long-lived assets for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable. The Organization performs undiscounted cash flow analyses to determine if impairment exists. If the Organization determines impairment exists, any related impairment loss is calculated based upon fair value. Impairment losses on assets to be disposed of, if any, are based upon the estimated proceeds to be received, less the costs of disposal. There were no impairments losses on long-lived assets for the years ended June 30, 2015 and 2014, respectively.

OBLATE MISSIONARY SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

1. Summary of Significant Accounting Policies – continued

g. Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (US GAAP). Under this method, revenues are recognized when earned and expenses are recognized when incurred.

h. Receivables and Allowance for Doubtful Accounts

It is the Organization's policy to record as a receivable amounts due under legacies, which have cleared probate. Also included in receivables are billings for services provided to, or amounts paid on behalf of related entities. The Organization accounts for uncollectible receivables using the reserve method. No reserve was deemed necessary at June 30, 2015 and 2014.

i. Property and Equipment

It is the policy of the Organization to capitalize all major purchases of property and equipment valued at \$5,000 or more. All property and equipment valued in these financial statements are owned by the Affiliate and held for the exclusive use of the Organization in its administration and ministries. Historical basis of capitalized property and equipment is determined by cost if purchased or fair value at date of donation, if contributed.

In accordance with this policy an allocation is made to current operations by depreciating property and equipment based upon the estimated useful life of the asset, which range from 3 to 20 years, using the straight-line method.

j. Inventory – Religious Articles

Inventory consists of religious articles promoted and distributed in relation to evangelization as well as those items for public resale at the Grotto Spiritual Center, which are distributed in support of spiritual ministries. Inventory is valued at the lower of cost or estimated net realizable value on a first in, first out basis.

k. Fair Value Measurement

Recent professional pronouncements established a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

OBLATE MISSIONARY SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

1. Summary of Significant Accounting Policies – continued

k. Fair Value Measurement - continued

Level 1 – There are active markets that have quoted prices for the investments.

Level 2 – There are quoted prices for similar assets or liabilities in active markets and inactive markets, inputs other than quoted prices that are observable for the assets or liabilities, or there are specified contractual terms for valuation basis for the assets or liabilities.

Level 3 – The valuation methodology is unobservable and significant to the fair value measurement calculation.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The Organization holds beneficial interests in temporary and irrevocable trusts which are administered by 3<sup>rd</sup> parties. These assets are classified on the Statement of Financial Position under the caption "Trust Funds Receivable." These receivables are considered to be Level 3 valuations. The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2015.

*Beneficial interest in temporary and irrevocable trusts – temporarily and permanently restricted net assets:* Valued at the fair value of the underlying trust investments, determined by the closing price reported in the active or observable market in which the individual marketable securities that are held within the trust are traded, as reported to the Organization by the 3<sup>rd</sup> party trustees.

*Beneficial interest in irrevocable trusts – permanently restricted net assets:* Valued based upon the present value of future distributions to be received using current cash flows and an assumed rate of return on the underlying assets of 7%.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Note 10 details the Organization's temporarily and permanently restricted assets that are considered to be Level 3 valuations according to the framework outlined above.



OBLATE MISSIONARY SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

1. Summary of Significant Accounting Policies – continued

l. Mailing Supplies

Mailing supplies consist primarily of material to be used for future mailings. These include paper stock, envelopes, shipping materials and printing supplies.

m. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenues and expenses. Actual results could differ from those estimates and assumptions.

The Organization records royalty receivables based on the present value of estimated future cash flows. This valuation is determined based on the collection history from the royalty or an expert's valuation of estimated income to be received. No asset is recorded where there is an uncertainty as to the future collections of the royalty.

n. Support from the Public

Certain amounts recorded as support from the public relate to the ministerial activities of the Organization. Management believes it is not cost effective to design and implement systems to quantify the associated costs of these activities.

o. Functional Allocation of Expenses and Significant Programs

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Principal programs are composed of:

Support of Oblate Ministries - The Organization provides spiritual and financial support for the Oblates' missionary humanitarian and evangelization efforts with the poor, the education of Oblate seminarians, and the general needs of the Oblates.

Grotto Spiritual Center - Our Lady of Lourdes Grotto of the Southwest and Tepeyac Shrine is the spiritual center of Oblate Missions. Ministerial services, which take place at the Grotto Spiritual Center, include the celebration of masses, novena services, healing services, the distribution of religious articles and other religious activities inviting participants to join in prayer and religious activities.

OBLATE MISSIONARY SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

1. Summary of Significant Accounting Policies – continued

o. Functional Allocation of Expenses and Significant Programs - continued

Evangelization - The Organization is committed to raising the consciousness of all God's people by promulgating awareness of the Gospel's mandate to growth in holiness and coordinated service to humankind. The Organization provides for special religious needs and opportunities for spiritual growth and healing to our friends. The Organization also offers opportunities for enhancement of religious devotion to Jesus Christ and his mother Mary by means of liturgies, novenas, prayer petitions, and provision of religious articles, prayer tools and facilitation of various sacramental activities.

p. Outstanding Legacies

The Organization is the beneficiary under various wills and other gift agreements. The Organization's share of such amounts is not recorded until the Organization has an irrevocable right to the bequest and the proceeds are measurable.

q. Pledges Receivable, Net

Contributions, including unconditional pledges, are recognized as revenues in the period in which they are received. Conditional pledges are not recognized until they are substantially met. Contributions of assets other than cash are reported at their estimated fair value at the date of receipt.

Pledges receivable represent contributions promised to the Organization, which will be received over an extended period of time. The Organization records these receivables net of applicable discount. No allowance is deemed necessary.

For the years ended June 30, 2015 and 2014, pledges receivable are calculated as follows:

	<u>2015</u>	<u>2014</u>
Pledges Receivable:		
1-5 years	\$ -	\$ 50,000
Gross receivable	\$ -	\$ 50,000
Less: Discount to present value @ 7%	-	(3,704)
Pledges receivable, net	<u>\$ -</u>	<u>\$ 46,296</u>

The Organization considers these receivables to be level 3 valuations under the measurement methodologies outlined in Note 1(k).

OBLATE MISSIONARY SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

1. Summary of Significant Accounting Policies – continued

r. Tax Exempt Status

Oblate Missionary Society, Inc., is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) through its inclusion in the Group Ruling issued annually to the United States Conference of Catholic Bishops. It has been classified as an organization that is not a private foundation under Section 509(a) of the IRC. Contributions to the organization qualify for charitable contribution deductions as stated in Section 170 of the IRC.

All the activities of Oblate Missionary Society, Inc. are related to the tax exempt purpose. Management has taken the position that they are not required to file any federal or state income tax returns and have not accrued any tax expense or provision for income taxes on the financial statements.

U.S. generally accepted accounting principles require tax effects from an uncertain tax position to be recognized in the financial statements only if the position is more likely than not to be sustained in the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood the position may be challenged. If an uncertain tax position meets the more-likely-than-not threshold, the largest amount of the tax benefit that is greater than 50% likely to be recognized upon ultimate settlement with the taxing authority is recorded. Since the Organization is considered to be tax exempt from income taxes and all activities are considered to be related to its exempt purpose, management does not believe that any material uncertain tax positions exist.

s. Reclassifications

Certain amounts in the financial statements have been reclassified for comparative purposes to conform to the presentation of the financial statements in the current year.

2. Risks and Uncertainties

- a. Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash balances in excess of \$250,000 (FDIC insured), held in financial institutions. At June 30, 2015, cash balances exceeded FDIC insurance limits by \$328,000.

OBLATE MISSIONARY SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

2. Risks and Uncertainties - continued

- b. The Organization receives the majority of its public support in the form of donations from numerous individuals, foundations, corporations and other entities. The vast majority of these donations are received through the United States Postal Service. If delivery through the United States Postal Service were impaired it could have a material negative impact on the Organization's operations.
- c. The Organization is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; injuries to employees, errors and omissions; natural disasters, etc. These risks are covered by commercial insurance purchased from independent third parties.

3. Related Party Transactions

The net amount due to the affiliated entities consists of the following at June 30,

	<u>2015</u>	<u>2014</u>
<u>Due to affiliated entities</u>		
Oblate Annuity Trust - Annuity Contracts	\$ 15,475	\$ 12,000
Due to Province	355,545	1,813,680
National Shrine of Our Lady of the Snows	554	450
Cash held in trust - annuity	<u>171,212</u>	<u>142,338</u>
Total	<u>\$ 542,786</u>	<u>\$ 1,968,468</u>

Legacies and other receivables of \$1,439,525 and \$1,116,375 for 2015 and 2014, respectively, included the following amounts due from affiliated entities:

	<u>2015</u>	<u>2014</u>
National Shrine of Our Lady of the Snows	25,135	72,157
Province	3,368	8,397
Other affiliated entities	<u>4,766</u>	<u>2,784</u>
Total	<u>\$ 33,269</u>	<u>\$ 83,338</u>

4. Pension Plan

Non-religious personnel participate in the Oblate Service Corporation Retirement Savings Plan. The Plan contains employee elective salary deferral options with employer matching, up to 3%, and discretionary contribution provisions. The total pension expense for the years ended June 30, 2015 and 2014 was approximately \$157,000 and \$150,400, respectively.

OBLATE MISSIONARY SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

5. Split Interest Gifts

Charitable gift annuities and other split interest agreements are recorded at their net present value in the financial statements. Discounts are taken using the Applicable Federal Rate (AFR) at the time the gift is made. The net value is calculated as follows:

	<u>2015</u>	<u>2014</u>
Face value of new split interest agreements	\$ 2,501,576	\$ 495,500
Less: Discount to present value using AFR	<u>(1,163,755)</u>	<u>(208,782)</u>
Amount reported as support from public	<u>\$ 1,337,821</u>	<u>\$ 286,718</u>

These contributions are transferred to a Trust, which is considered an affiliated entity.

6. Operating Leases

The Organization leases various equipment under non-cancelable operating leases. The net rental expense under operating leases were \$82,253 and \$66,474 for the years ended June 30, 2015 and 2014, respectively.

Capital Lease

The Organization has entered into two capital leases for equipment in the amount of \$453,072. The term of these leases are for 60 months at an annual percentage rate of 3.22%. The approximate future minimum lease payments under the operating and capital lease agreements are as follows:

	<u>Operating</u>	<u>Capital</u>	<u>Total</u>
2016	\$ 33,900	\$ 98,446	\$ 132,346
2017	33,900	98,446	132,346
2018	33,900	98,446	132,346
2019	11,300	98,446	109,746
2020	<u>-</u>	<u>42,324</u>	<u>42,324</u>
Total	<u>\$ 113,000</u>	<u>\$ 436,108</u>	<u>\$ 549,108</u>

7. Contributed Rent

During the year, an affiliated entity provided the Organization with the use of buildings and warehouse facilities at no cost. The fair value of the contributed rent amounted to approximately \$1,220,960 and \$1,220,960 for the years ended June 30, 2015 and 2014, respectively.

The use of the rent-free facilities is provided on a year-to-year basis. No long-term commitment exists, but the agreement is automatically renewed for each successive fiscal year unless the Organization is notified by May 30<sup>th</sup> of the current fiscal year.

OBLATE MISSIONARY SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

8. Accounting for Costs of Activities that Include Fund Raising

The Organization conducted fund raising activities during the years ended June 30, 2015 and 2014 that also supported evangelization efforts. Typically, joint promotions provide the Organization's supporters with the opportunity to participate in certain intangible spiritual benefits, such as prayer and liturgies, provide religious education and offer opportunities for spiritual growth, healing and sacrificial giving.

Joint costs are allocated using the physical units' method. Direct and indirect costs of the joint activity have been allocated among Evangelization, Fund Raising and Donor Development. Package components allocated and amounts allocated are as follows:

	<u>Evangelization</u>	<u>Fund Raising</u>	<u>Donor Development</u>	<u>Management &amp; General</u>	<u>Amount Allocated 2015</u>
Postage & freight	\$ 3,451,333	\$ 1,686,610	\$ 275,812	\$ 100,258	\$ 5,514,013
Name rentals & exchanges	494,358	135,853	111,457	-	741,668
Consultants & creative fees	122,353	73,609	3,653	2,004	201,619
Printing & production	<u>3,278,339</u>	<u>1,172,556</u>	<u>193,242</u>	<u>73,757</u>	<u>4,717,894</u>
Totals	<u>\$ 7,346,383</u>	<u>\$ 3,068,628</u>	<u>\$ 584,164</u>	<u>\$ 176,019</u>	<u>\$ 11,175,194</u>

  

	<u>Evangelization</u>	<u>Fund Raising</u>	<u>Donor Development</u>	<u>Management &amp; General</u>	<u>Amount Allocated 2014</u>
Postage & freight	\$ 3,430,599	\$ 1,174,797	\$ 601,476	\$ 119,833	\$ 5,326,705
Name rentals & exchanges	470,122	-	287,621	-	757,743
Consultants & creative fees	264,368	151,557	50,881	3,029	469,835
Printing & production	<u>2,533,443</u>	<u>693,392</u>	<u>363,929</u>	<u>79,068</u>	<u>3,669,832</u>
Totals	<u>\$ 6,698,532</u>	<u>\$ 2,019,746</u>	<u>\$ 1,303,907</u>	<u>\$ 201,930</u>	<u>\$ 10,224,115</u>

9. Inventory – Religious Articles

Inventory – religious articles as shown on the Statement of Financial Position, consists of the following at June 30:

	<u>2015</u>	<u>2014</u>
Premium items	\$ 1,037,561	\$ 806,482
Less: net reserve	<u>(90,000)</u>	<u>(102,620)</u>
Net inventory	<u>\$ 947,561</u>	<u>\$ 703,862</u>

OBLATE MISSIONARY SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

10. Composition of Unrestricted and Restricted Net Assets

Unrestricted

The composition of unrestricted net assets is as follows for June 30,

	<u>2015</u>	<u>2014</u>
Undesignated	\$ 2,091,113	\$ 2,100,643
Invested in inventory of religious articles	947,561	703,862
Invested in property and equipment	<u>1,927,519</u>	<u>1,770,914</u>
Total unrestricted net assets	<u>\$ 4,966,193</u>	<u>\$ 4,575,419</u>

Temporarily Restricted

Temporarily restricted net assets are composed of trust interests receivable and other income contracts at year-end. These gifts are considered to be temporarily restricted because they are not currently available for use by the Organization or the Affiliate. There are two types of restrictions for these net assets; Time restriction (T) or Purpose restriction (P). The composition is as follows (trust assets – Level 3 fair value measurement):

	Restriction <u>Type</u>	<u>2015</u>	<u>2014</u>
Trust interest receivable	T	\$ 2,762,762	\$ 3,044,330
Pledges and other	T	<u>-</u>	<u>46,296</u>
Total temporarily restricted net assets		<u>\$ 2,762,762</u>	<u>\$ 3,090,626</u>

The changes in the value of these Level 3 assets of \$(281,568) and \$98,040 for the years ended June 30, 2015 and 2014, respectively, are detailed in the Statements of Restricted Activities and Changes in Net Assets under “Temporarily Restricted Activity.”

OBLATE MISSIONARY SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

10. Composition of Unrestricted and Restricted Net Assets - continued

Permanently Restricted

Permanently restricted net assets consist of perpetual trust interests. These gifts are considered to be permanently restricted because they are held under the custody of third party trustees and the principal is not available for use by the Organization or the Affiliate. The composition is as follows (trust assets – Level 3 fair value measurement):

	<u>2015</u>	<u>2014</u>
Perpetual trust interests	<u>\$ 274,802</u>	<u>\$ 262,922</u>

The changes in the value of these Level 3 assets of \$11,880 and \$9,054 for the years ended June 30, 2015 and 2014, respectively, are detailed in the Statements of Restricted Activities and Changes in Net Assets under "Permanently Restricted Activity."

11. Property and Equipment

Property and equipment as shown on the Statement of Financial Position consists of the following at June 30:

	<u>2015</u>	<u>2014</u>
Buildings and improvements	\$ 341,610	\$ 341,610
Equipment, machinery and furnishings	6,682,388	6,278,673
Vehicles	<u>78,197</u>	<u>78,197</u>
Totals	\$ 7,102,195	\$ 6,698,480
Less: Accumulated depreciation	<u>(5,174,676)</u>	<u>(4,927,566)</u>
Property and equipment, net	<u>\$ 1,927,519</u>	<u>\$ 1,770,914</u>

The progress billings for the computer database project have been capitalized and put into service in fiscal year 2014. For the year ended June 30, 2014 the costs capitalized was \$178,678.

During the year ended June 30, 2015 \$403,715 progress billings for the accounting software project were capitalized; these will not be depreciated until the project is complete.



OBLATE MISSIONARY SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

12. Royalties

Income from legacies and bequests includes oil and gas royalties for the years ended June 30, 2015 and 2014. The underlying asset that generates this income is reflected under the caption Trust funds receivable in the statement of financial position. Prior to 2015, these underlying assets were valued using the average monthly income for the preceding 42 months, discounted by 30%. During 2015, the Organization changed its valuation methodology as a result of current economic conditions in the oil industry and now uses the average monthly income valuation from 2014 and discounted that value by an additional 10%. For the year ended June 30, 2015 the asset value decreased by \$262,600 and for the year ended June 30, 2014 the asset value increased \$96,000.

13. Donated Services

The Organization benefits from personal services provided by religious personnel who volunteer their time to perform various functions that would normally have warranted payment of salaries. The value of these services is not included in these financial statements as they do not meet the generally accepted criteria of (a) providing services that create or enhance non-financial assets or (b) the services would have been purchased if not provided by contribution, require specialized skills, and are provided by individuals possessing those skills. While the value of these volunteer services has not been recognized, they are considered by management to be significant to the operation of the Organization.

14. Subsequent Events

Reporting under U.S. generally accepted accounting principles requires management to evaluate the impact of certain events that occur after the balance sheet date, but before the financial statements are issued or available to be issued.

The date through which management has evaluated the impact of subsequent events on these financial statements is November 20, 2015.