
The Roman Catholic Diocese of Las Cruces Pastoral Center

*Financial Statements
and
Independent Auditor's Report
June 30, 2020*

REDW^{LLC}
CPAs | Advisors

The Roman Catholic Diocese of Las Cruces Pastoral Center

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1
Financial Statements	
Statement of Financial Position	3
Statement of Activities and Changes in Net Assets	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7

Independent Auditor's Report

To the Finance Council
The Roman Catholic Diocese of Las Cruces Pastoral Center

We have audited the accompanying financial statements of The Roman Catholic Diocese of Las Cruces Pastoral Center (a nonprofit organization), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year 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 audit. We conducted our audit 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 qualified audit opinion.

Basis for Qualified Opinion

The Roman Catholic Diocese of Las Cruces Pastoral Center's financial statements do not include all the required disclosures related to the defined benefit plan (Note J). In our opinion, the additional disclosures are required to conform to accounting principles generally accepted in the United States of America.

Qualified Opinion

In our opinion, except for the omission of the information discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of The Roman Catholic Diocese of Las Cruces Pastoral Center as of June 30, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

REDW LLC

Albuquerque, New Mexico
October 7, 2020

Financial Statements

The Roman Catholic Diocese of Las Cruces Pastoral Center
Statement of Financial Position
June 30, 2020

Current Assets	
Cash and cash equivalents	\$ 3,738,711
Investments held in trust	5,687,843
Accounts receivable, net	642,371
Pledges receivable, net	212,420
Assets held for sale	386,045
Other current assets	43,680
Notes receivable held in trust, current portion	<u>245,562</u>
Total current assets	<u>10,956,632</u>
Property and equipment, net	<u>1,790,623</u>
Other Assets	
Investment in captives	406,944
Notes receivable held in trust, net of current portion	<u>1,577,558</u>
Total other assets	<u>1,984,502</u>
Total assets	<u><u>\$ 14,731,757</u></u>
Current Liabilities	
Accounts payable and accrued expenses	\$ 119,815
United in Ministry rebates payable	173,686
Funds held in trust	219,275
Self-insurance reserve and accrued claims	352,685
Current portion of long-term debt	<u>146,109</u>
Total current liabilities	<u>1,011,570</u>
Long-Term Liabilities	
Parish deposits held in trust	9,786,919
Long-term debt, less current portion	185,061
Accrued priests' pension liability	<u>699,139</u>
Total long-term liabilities	<u>10,671,119</u>
Total liabilities	<u>11,682,689</u>
Net Assets	
Net assets without donor restrictions	2,817,325
Net assets with donor restrictions	<u>231,743</u>
Total net assets	<u>3,049,068</u>
Total liabilities and net assets	<u><u>\$ 14,731,757</u></u>

See accompanying notes and independent auditor's report.

The Roman Catholic Diocese of Las Cruces Pastoral Center
Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Parish assessments	\$ 1,174,347	\$ -	\$ 1,174,347
Insurance premium revenues	1,312,866	-	1,312,866
United in Ministry pledges	1,496,542	-	1,496,542
Contributions and bequests	23,166	75,886	99,052
Investment income	353,445	-	353,445
Grants	-	318,415	318,415
Administrative service fees	179,292	-	179,292
Recovery of bad debt	56,372	-	56,372
Other	37,623	-	37,623
Net assets released from restrictions	<u>365,151</u>	<u>(365,151)</u>	<u>-</u>
Total revenue and support	<u>4,998,804</u>	<u>29,150</u>	<u>5,027,954</u>
Expenses			
Program services			
Pastoral support services	653,939	-	653,939
Evangelization and community outreach	911,556	-	911,556
Parish administrative support	<u>208,675</u>	<u>-</u>	<u>208,675</u>
Total program services expense	<u>1,774,170</u>	<u>-</u>	<u>1,774,170</u>
Support Services			
General and administrative	2,338,053	-	2,338,053
Fundraising	<u>196,426</u>	<u>-</u>	<u>196,426</u>
Total support services expense	<u>2,534,479</u>	<u>-</u>	<u>2,534,479</u>
Total expenses	<u>4,308,649</u>	<u>-</u>	<u>4,308,649</u>
Increase in net assets before change in pension liability	690,155	29,150	719,305
Post-retirement changes other than net periodic post-retirement benefit cost	<u>(349,116)</u>	<u>-</u>	<u>(349,116)</u>
Increase in net assets	341,039	29,150	370,189
Net assets at June 30, 2019, as restated	<u>2,476,286</u>	<u>202,593</u>	<u>2,678,879</u>
Net assets at June 30, 2020	<u>\$ 2,817,325</u>	<u>\$ 231,743</u>	<u>\$ 3,049,068</u>

See accompanying notes and independent auditor's report.

The Roman Catholic Diocese of Las Cruces Pastoral Center
Statement of Functional Expenses
For the Year Ended June 30, 2020

	Program Services				Support Services		
	Pastoral Support Services	Evangelization and Outreach	Parish Administrative Support	Total	General and Administrative	Fundraising	Total
Expenses							
Salaries and benefits	\$ 232,843	\$ 364,630	\$ 110,371	\$ 707,844	\$ 306,535	\$ 100,624	\$ 407,159
Clergy support	172,299	260,561	1,508	434,368	1,122	3,664	4,786
Professional development	2,931	18,477	1,304	22,712	3,269	4,520	7,789
Property maintenance	37,829	6,082	15,259	59,170	68,547	1,223	69,770
Travel and entertainment	30,685	44,852	418	75,955	2,427	8,173	10,600
Office supplies	3,532	3,379	607	7,518	44,109	4,788	48,897
Parish support	25,987	66,722	13,319	106,028	12,319	300	12,619
Professional fees	98,083	52,986	49,610	200,679	182,524	22,683	205,207
Events and programs	18,995	93,821	923	113,739	(192)	4,953	4,761
Insurance premiums and claims	-	-	-	-	1,356,899	-	1,356,899
Bad debt and interest	-	-	-	-	252,146	-	252,146
Depreciation	-	-	-	-	89,441	-	89,441
Other	30,755	46	15,356	46,157	18,907	45,498	64,405
Total expenses	<u>\$ 653,939</u>	<u>\$ 911,556</u>	<u>\$ 208,675</u>	<u>\$ 1,774,170</u>	<u>\$ 2,338,053</u>	<u>\$ 196,426</u>	<u>\$ 2,534,479</u>

See accompanying notes and independent auditor's report.

The Roman Catholic Diocese of Las Cruces Pastoral Center
Statement of Cash Flows
For the Year Ended June 30, 2020

Cash flows from operating activities

Change in net assets	\$ 370,189
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	89,441
Change in pension liability	349,116
Bad debt expense	66,037
Interest from parish deposits held in trust	170,900
Deposits in captive insurance	(53,447)
Unrealized gains	(74,271)
Loss on sale of property	1,581
(Increase) decrease in assets and increase (decrease) in liabilities	
Accounts receivable	(194,516)
Pledges receivable	(3,901)
Other assets	(910)
Accounts payable and accrued expenses	(29,905)
United in ministry rebates payable	(138,137)
Funds held in trust	190,916
Net cash provided by operating activities	743,093

Cash flows from investing activities

Fixed asset purchases	(12,330)
Payments received on notes receivable held in trust	229,873
Additional notes receivable held in trust issued	(123,058)
Investment purchases	(45,054)
Net cash provided by investing activities	49,431

Cash flows from financing activities

Increase in parish deposits held in trust	598,500
Withdrawals from parish deposits held in trust	(599,612)
Proceeds from notes payable	255,772
Repayment of notes payable	(16,260)
Net cash provided by financing activities	238,400
Net increase in cash and cash equivalents	1,030,924
Cash and cash equivalents at beginning of the year	2,707,787
Cash and cash equivalents at end of year	\$ 3,738,711

Supplemental cash flow information and noncash investing/financing activities

Interest paid	\$ 186,109
Transfer of property and equipment to assets held for sale	\$ 342,617
Property and equipment noncash disposal and acquisition	\$ 15,500

See accompanying notes and independent auditor's report.

The Roman Catholic Diocese of Las Cruces Pastoral Center

Notes To Financial Statements

June 30, 2020

NOTE A – SUMMARY OF ACCOUNTING POLICIES

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

1. *Financial Reporting Entity*

The Roman Catholic Diocese of Las Cruces (the “Pastoral Center”) is a not-for-profit corporation established under the laws of the State of New Mexico and operates as a religious organization. The Pastoral Center is in Southern New Mexico and provides services to parishes, schools and other Catholic organizations located within its geographic boundary and under the authority of the Bishop of Las Cruces. Services provided include administrative services regarding education, charitable projects, parish administration and religious personnel activities.

The financial statements are presented for The Roman Catholic Diocese of Las Cruces, Inc. which operates as the Pastoral Center. These statements do not include a complete presentation for all Catholic entities located within the boundaries of the Pastoral Center. Catholic organizations located with the geographic boundary of the Pastoral Center operate under the canonical authority of the Bishop of Las Cruces but are separate not-for-profit corporations under the laws of the State of New Mexico. Daily operations of these entities are controlled and supervised by local pastors and administrators.

The Pastoral Center has the following programs:

a. Pastoral Support

The Pastoral Center offers funding and employs personnel with the primary objective of providing resources and spiritual support to Roman Catholics within the Pastoral Center as well as to those non-Catholics in need of such services.

b. Evangelization & Community Outreach

The Pastoral Center offers funding and employs personnel with the primary objective of providing programming and resources related to evangelization, spiritual discernment and social justice activities throughout the Pastoral Center.

c. Parish Administrative Support Services

The Pastoral Center offers funding and employs personnel with the primary objective of aiding Catholic parishes and schools within the Pastoral Center with various administrative functions related to the management of temporal goods and church employees. The Pastoral Center also acts as self-insurance for the parishes within the diocese. Claims paid by the Pastoral Center on behalf of the parishes are charged back to the individual parish and are included in accounts receivable, net, on the statement of financial position.

The Roman Catholic Diocese of Las Cruces Pastoral Center

Notes To Financial Statements

June 30, 2020

2. *Basis of Accounting*

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). In 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2016-01 (ASU 2016-01) – *Financial Instruments (Subtopic 825-10)*, which targeted improvements to GAAP regarding financial instruments. ASU 2016-01 eliminates the requirement to classify investments in equity securities with readily determinable fair values into trading or available-for-sale categories and requires those equity securities to be measured at fair value with changes in fair value recognized in net income rather than in OCI. The Pastoral Center adopted ASU 2016-01 effective July 1, 2019. As the Pastoral Center is a not-for-profit entity, this ASU has no impact on recognition methods for the Pastoral Center in the period of implementation.

3. *Basis of Financial Statement Presentation*

The Pastoral Center is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net Assets without Donor Restrictions – These net assets generally result from revenues generated by receiving contributions that have no donor restrictions, providing services, program and event registration fees and receiving interest from operating investments, less expenses incurred in providing program-related services, raising contributions, and performing administrative functions.

Net Assets with Donor Restrictions – These net assets result from gifts of cash and other assets that are received with donor stipulations that limit the use of the donated assets, either temporarily until the donor restriction expires, that is until the stipulated time restriction ends or the purpose of the restriction is accomplished, or permanently, in which the donor has stipulated the funds be maintained in perpetuity.

When a donor restriction is satisfied or expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities and changes in net assets as net assets released from donor restrictions.

4. *Cash and Cash Equivalents*

Cash and cash equivalents consist of short-term highly liquid investments, which are readily convertible into cash within ninety (90) days of purchase, including money market funds and certificates of deposit not held within an investment portfolio. The carrying value of cash and cash equivalents approximates fair value when the terms and lengths of the agreements are considered.

The Roman Catholic Diocese of Las Cruces Pastoral Center

Notes To Financial Statements

June 30, 2020

5. *Concentrations of Credit Risk*

The Pastoral Center maintains cash in deposit accounts in federally insured banks. At times, the balance in the accounts may be in excess of the \$250,000 limit insured by the Federal Deposit Insurance Corporation. As of June 30, 2020, the Pastoral Center has not experienced any losses in such accounts and believe that it is not exposed to significant credit risk on its cash and cash equivalents. Uninsured cash balance at June 30, 2020, totaled \$2,931,345.

6. *Use of Estimates*

The preparation of financial statements in conformity with GAAP 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 year. Actual results could differ from those estimates. Significant estimates include the future obligations for long-term priest care, the estimate for claims payable, the allowance for doubtful accounts, and the fair value of the investment in captives.

7. *Accounts Receivable*

Allowances are determined by considering several factors, including the length of time accounts are past due, previous loss history, debtors' current ability to pay its obligation and an aging analysis performed annually by management. The carrying value of accounts receivable approximates fair value when the terms and lengths of the agreements are considered.

8. *Parish Deposits and Notes Receivable Held in Trust*

The Pastoral Center holds cash deposits in trust for parishes located within the Diocese of Las Cruces. Deposits held in trust are invested on the parish's behalf through various short and mid-term investments. The Pastoral Center also makes loans to parishes within the Diocese of Las Cruces for various construction projects on behalf of parishes with deposits held by the Pastoral Center. The carrying value of parish deposits and notes receivable held in trust approximates fair value when the terms and lengths of the agreements are considered.

Loans are made after recommendation from an independent committee. All loans must be approved by both the independent committee and the Bishop of Las Cruces. All loans have promissory notes associated with them and are made at fixed interest rates over a defined term. Interest received from loans is credited to parish deposits held in trust.

The Roman Catholic Diocese of Las Cruces Pastoral Center

Notes To Financial Statements

June 30, 2020

9. *Investments Held in Trust*

The Pastoral Center makes investments in marketable securities on behalf of parishes who have made deposits with the Pastoral Center. The Pastoral Center carries investments in marketable equity securities with readily determined fair values and all investments in debt securities at their fair values in the statement of financial position. Certificates of deposit are carried at amortized cost which approximates fair value. Realized and unrealized gains and losses are included in the accompanying statement of activities and changes in net assets.

Investments in general are exposed to various risks, such as interest rate, credit and overall volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the statement of activities and changes in net assets.

10. *Property and Equipment*

Property, plant and equipment are stated at cost, if purchased, or at the estimated fair value on the date of acquisition, if donated. The Pastoral Center capitalizes items with a cost or estimated fair value greater than \$5,000.

11. *Depreciation*

Depreciation expense is computed using the straight-line method over estimated useful lives. Asset lives for financial statement reporting purposes are between 3 and 40 years based on asset-type and expected useful life.

12. *Contributed Services*

The Pastoral Center receives a substantial amount of services donated by its members in carrying out the Church ministry. No amount has been reflected in the financial statements for those services since they do not meet the criteria for revenue recognition under accounting standards for contributions received and contributions made.

13. *Functional Allocation of Expenses*

The cost of providing the various programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The allocation methodology is based on actual expenses incurred by each program. Indirect costs are allocated based on time spent estimated by management.

The Roman Catholic Diocese of Las Cruces Pastoral Center

Notes To Financial Statements

June 30, 2020

14. *Income Taxes*

The Pastoral Center is a not-for-profit corporation under Section 501(c)(3) of the Internal Revenue Code and, as such, is exempt from income taxes, and is not deemed a private foundation under the internal revenue code.

The Pastoral Center has recognized in the financial statements the effects of all tax positions and continually evaluates expiring statutes of limitations, audits, changes in tax law, and new authoritative rulings. The Pastoral Center is not aware of any circumstances or events that make it necessary to recognize a liability or disclose in the financial statements any effects of tax positions taken.

15. *Subsequent Events*

Subsequent events through October 7, 2020, the date which the financial statements were available to be issued, were evaluated for recognition or disclosure in the accompanying financial statements, and include Note Q on the COVID-19 Pandemic.

NOTE B – PARISH DEPOSITS AND NOTES RECEIVABLE HELD IN TRUST

The Pastoral Center holds cash and notes receivable in trust for various parishes located within the Pastoral Center to assist these entities with management of the assets. These assets are managed by an internal committee made up of independent members. The committee sets interest rates paid to parishes who have cash deposited in trust with the Pastoral Center as well as sets interest rates on loans for notes receivable issued in trust by the Pastoral Center for the benefit of the parishes.

Proceeds from loans issued by the committee must be used exclusively for building projects within the Pastoral Center.

At June 30, 2020, the interest rate paid on parish deposits held in trust ranged from 1.0% - 2.5% and the interest rate charged on notes receivable issued ranged from 3.0% - 6.0%. For the year ended June 30, 2020, deposit accounts incurred a total of \$169,927 in interest and loan accounts earned a total of \$75,364 in interest.

The Pastoral Center holds a loan from the parish assets held in trust, the proceeds of which were used for building improvements as well as new parish construction. The balance of the loan at June 30, 2020, was \$758,397 and was eliminated as an interfund transaction.

The Roman Catholic Diocese of Las Cruces Pastoral Center

Notes To Financial Statements

June 30, 2020

NOTE C – ACCOUNTS AND PLEDGES RECEIVABLE

Accounts receivable at June 30, 2020, consists of:

	Receivable	Allowance for Doubtful Accounts	Net Receivable
Parish Assessments	\$ 542,158	\$ 373,151	\$ 169,007
Property & Liability Premiums	1,304,678	1,087,600	217,078
Medical Insurance Premiums	463,575	392,896	70,679
Due from Foundation	161,821	-	161,821
Other	23,786	-	23,786
	<u>\$ 2,496,018</u>	<u>\$ 1,853,647</u>	<u>\$ 642,371</u>
United in Ministry Pledges	\$ 290,904	\$ 78,484	\$ 212,420

NOTE D – INVESTMENT AND FAIR VALUE MEASUREMENTS

The Pastoral Center follows the fair value measurement guidance for financial assets and financial liabilities. The guidance defines fair value, establishes a framework for measuring fair value and expands disclosure about fair value measurements.

Fair value is defined to be the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A three-level hierarchy has been established for fair value measurements based upon the inputs to the valuation of an asset or liability as follows:

Level 1 – Valuation is based on quoted prices for identical assets and liability in active markets.

Level 2 – Valuation is derived from inputs, other than quoted prices included in Level 1, which are observable for the asset or liability either directly or indirectly. Investments classified as Level 2 are generally valued by benchmarking model-derived prices to quoted market prices and trade data for identical or comparable securities. The significant inputs used in this approach include interest rates, prepayment timing, yield spreads, credit losses and credit ratings of the securities.

Level 3 – Valuation is derived from unobservable inputs that are not corroborated by market data.

The Roman Catholic Diocese of Las Cruces Pastoral Center

Notes To Financial Statements

June 30, 2020

Following is a description of the valuation methodologies used for assets measured at fair value:

Common stock – Valued at the closing price reported in the active market on which the securities are traded.

Mutual funds – Valued at the daily closing price as reported by the fund. Shares held by the Diocese are registered with the Securities Exchange Commission and are required to publish their daily net asset value and transact at that price.

Corporate bonds – Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

Government securities – Valued using pricing models maximizing the use of observable inputs for similar securities.

Certificates of deposit – Valued using matrix pricing techniques maintained by various pricing vendors.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while management 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.

Fair value of the Pastoral Center’s investments measured on a recurring basis by class of asset and by level was as follows at June 30, 2020:

	Fair Value	Level 1	Level 2	Level 3
Mutual funds	\$ 1,937,219	\$ 1,937,219	\$ -	\$ -
Certificates of deposit	1,736,251	-	1,736,251	-
U.S. governmental securities	446,504	-	446,504	-
Corporate bonds	344,974	-	344,974	-
Common stock	1,222,895	1,222,895	-	-
Total investments	<u>\$ 5,687,843</u>	<u>\$ 3,160,114</u>	<u>\$ 2,527,729</u>	<u>\$ -</u>

The Roman Catholic Diocese of Las Cruces Pastoral Center

Notes To Financial Statements

June 30, 2020

The following is a summary of maturities of debt securities available-for-sale as of June 30, 2020:

	<u>Fair Value</u>
Amounts maturing in	
One year or less	\$ 201,796
After one year through five years	244,708
	<u>\$ 446,504</u>

NOTE E – PROPERTY AND EQUIPMENT

A summary of property and equipment, at cost, at June 30, 2020, follows:

Buildings and improvements	\$ 1,831,167
Vehicles and equipment	124,133
Furniture and fixtures	255,378
Water rights	15,070
Total property and equipment	<u>2,225,748</u>
Less accumulated depreciation	(1,005,660)
Land	570,535
Total property and equipment, net	<u>\$ 1,790,623</u>

Depreciation expense for the year ended June 30, 2020, was \$89,441.

During FY2020, the Pastoral Center decided to sale certain assets that were previously used in operations as these assets were no longer being used in operations. These assets are included in assets held for sale on the accompanying statement of financial position as of June 30, 2020.

NOTE F – CAPTIVES AND SELF INSURANCE RESERVE

Captives

The Pastoral Center is a member in the Bishop’s Plan Insurance Company (“BPIC”), a captive insurance company incorporated under the laws of the Non-Profit Corporation Act of the State of Vermont and is taxed as a non-profit by the IRS under Section 501(c)(3). BPIC provides reinsurance on an occurrence basis for general liability, property, automobile liability, workers’ compensation, crime, errors and omissions, fidelity and other ancillary coverages

The Roman Catholic Diocese of Las Cruces Pastoral Center

Notes To Financial Statements

June 30, 2020

included in the member's policy. Policies are issued by and premiums are paid directly to BPIC which assumes 1-40% of the quota-share per loss or claim, depending on the line of coverage. For the year ended June 30, 2020, the Pastoral Center paid \$169,236 in premiums to BPIC. In the event of adverse loss development in the BPIC's layer of risk, the Pastoral Center, as a member, can incur an additional loss assessment.

The Pastoral Center is a shareholder in The National Catholic Risk Retention Group ("TNCRRG"), a Vermont company that operates as a risk retention group under the federal Liability and Risk Retention Act of 1986. TNCRRG provides primary coverage on a claims-made or occurrence basis for general liability, personal injury, automobile, and other coverages. TNCRRG offers primary coverage of up to \$750,000 for each loss, in excess self-insured retention of \$250,000. For the year ended June 30, 2020, the Pastoral Center paid \$284,598 in premiums to TNCRRG. In the event of adverse loss development in the TNCRRG's layer of risk, the Pastoral Center can incur an additional loss assessment.

Contracts pursuant to which it is not reasonably possible that the reinsurer may realize a significant loss from the insurance risk generally do not meet the requirements for reinsurance accounting and are accounted for as deposits. For the year ended June 30, 2020, the company had reinsurance contracts that do not transfer risk, and therefore are being reported in accordance with ASC 340-30. At June 30, 2020, the Pastoral Center had \$350,076 related to BPIC and \$56,868 related to TNCRRG related to these contracts, which are included in Investments in Captives in the accompanying Statement of Financial Position.

Self-Insurance Reserve

The Pastoral Center establishes insurance claim liabilities for property, liability, workers' compensation and automobile claims based on estimates of the ultimate costs of claims (net of reinsurance payments) that have been reported but not settled and for claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. The amount paid to ultimately settle these claims may be more or less than the amounts currently accrued. The reserve was \$52,685 as of June 30, 2020.

NOTE G – LETTER OF CREDIT

At June 30, 2020, the Pastoral Center had a letter of credit with Citizens Bank of Las Cruces in the amount of \$415,000 with a maturity date of August 4, 2020, which was renewed subsequent to year-end through August 2021. The letter of credit can be drawn by the New Mexico Workers Compensation Administration to pay historical workers compensation claims against the Pastoral Center in the event of financial insolvency of the Pastoral Center.

The Roman Catholic Diocese of Las Cruces Pastoral Center

Notes To Financial Statements

June 30, 2020

NOTE H – NOTES PAYABLE

Long-term debt consists of the following as of June 30, 2020:

Note payable for a vehicle loan, payable in 60 monthly installments of \$169 at an interest rate of 1.9% with final installment due June 2022, secured by vehicle.	\$ 6,084
Note payable for a vehicle loan, payable in 60 monthly installments of \$389 at an interest rate of 0% with final installment due June 2023, secured by vehicle.	14,008
Note payable for a vehicle loan, payable in 72 monthly installments of \$345 at an interest rate of 0% with final installment due December 2023, secured by vehicle.	14,479
Note payable for a vehicle loan, payable in 60 monthly installments of \$357 at an interest rate of 0% with final installment due December 2023, secured by vehicle.	14,995
Note payable to an individual for real estate repairs, there are no stated repayment terms and the loan is unsecured.	25,832
Note payable for the Paycheck Protection Program, payable in 17 payments of amounts to be determined as of the payment adjustment date at an interest rate of 1%, final payment due April 2022, if unforgiven (Note I).	<u>255,772</u>
Total notes payable	331,170
Less: current portion	<u>(146,109)</u>
Long-term portion, notes payable	<u>\$ 185,061</u>

Future maturities of notes payable are as follows at June 30, 2020:

Year Ending June 30	
2021	\$ 146,109
2022	165,547
2023	15,303
2024	<u>4,211</u>
Total	<u>\$ 331,170</u>

The Roman Catholic Diocese of Las Cruces Pastoral Center

Notes To Financial Statements

June 30, 2020

NOTE I – PAYCHECK PROTECTION PROGRAM

On April 16, 2020, the Pastoral Center received loan proceeds in the amount of \$255,772 under the Payment Protection Program (“PPP”). The PPP, established as part of the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”), provides for loans to qualifying businesses for amounts up to 2.5 times the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable after the twenty-four-week period as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of the loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the twenty-four-week period.

The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for the first six months. The Pastoral Center utilized the proceeds for purposes consistent with the PPP agreement. While management currently believes that the use of the loan proceeds will meet the conditions for forgiveness of the loan, actions could cause the Pastoral Center to be ineligible for forgiveness of the loan, in whole or in part.

NOTE J – DEFINED BENEFIT PLAN – PRIEST RETIREMENT PLAN

The Pastoral Center serves as the plan sponsor for a post-retirement defined benefit plan that provides retirement benefits to retired clergy who satisfy certain age and service requirements at the time of retirement. The plan operates under a separate legal entity, The Priests’ Retirement Plan of The Roman Catholic Diocese of Las Cruces, Inc. (the “Priest Retirement Plan”), a not-for-profit corporation under the laws of the State of New Mexico. The Priest Retirement Plan assets are segregated from other assets of the Diocese and the Priest Retirement Plan is managed by an independent board of directors composed of clergy from within the diocese who are eligible for participation in the plan.

Funding for the Priest Retirement Plan is derived from contributions received directly from parishes within the diocese. The Pastoral Center does not contribute to the Priest Retirement Plan.

The Pastoral Center has recognized the unfunded status of its post-retirement defined benefit plan in the statement of financial position; however, due to cost and time restraints, the Pastoral Center has omitted substantially all the required disclosures related to defined benefit plans. The funded status is defined as the difference between plan assets at fair value and the benefit obligation as determined by an independent actuary.

The Roman Catholic Diocese of Las Cruces Pastoral Center

Notes To Financial Statements

June 30, 2020

The following amounts relate to the Pastoral Center's defined benefit plan as of June 30, 2020:

Benefit obligation at end of year	\$ <u>3,709,551</u>
Change in plan assets:	
Fair value of plan assets at beginning of year	\$ 2,941,190
Contributions from parishes	327,330
Benefits paid	(252,815)
Management and general expenses	(66,441)
Return on plan assets	<u>61,148</u>
Fair value of plan assets end of year	<u>\$ 3,010,412</u>
Accrued pension liability at June 30, 2020	\$ 699,139
Accrued pension liability at June 30, 2019	<u>350,023</u>
Accrued benefit cost for the year ended June 30, 2020	<u>\$ 349,116</u>

The following assumptions were used to determine the year-end benefit obligation:

Discount rate on benefit obligation	3.00%
Rate of expected return on plan assets	3.00%
Rate of priests' compensation increase	0.00%

The Priest Retirement Plan measures fair value of the plan's investments using a three-level hierarchy based upon observable inputs. These plan assets are not included in the assets presented in the accompanying statement of financial position.

Fair value of the plan's investments measured on a recurring basis by class of asset and by level were as follows at June 30, 2020:

	Fair Value	Level 1	Level 2	Level 3
Mutual funds	\$ 426,939	\$ 426,939	\$ -	\$ -
U.S. governmental and sponsored securities	170,169	170,169	-	-
Corporate bonds	168,896	168,896	-	-
Equities	1,930,964	1,930,964	-	-
Total investments	<u>\$ 2,696,968</u>	<u>\$ 2,696,968</u>	<u>\$ -</u>	<u>\$ -</u>

The Roman Catholic Diocese of Las Cruces Pastoral Center

Notes To Financial Statements

June 30, 2020

NOTE K – 403(B) RETIREMENT PLAN

The Pastoral Center sponsors a 403(b) retirement plan (the “Plan”) to provide retirement benefits to its employees. The Plan allows eligible employees to defer a portion of their annual compensation up to the annual limits permitted by the Internal Revenue Code. Under the terms of the Plan, there are no age or service requirements to participate in the Plan. The Pastoral Center matches 100% of an employee’s contributions that do not exceed \$1,000 annually. The Pastoral Center’s matching contributions to the Plan totaled \$6,819 for the year ended June 30, 2020, which are included in salaries and benefits in the accompanying statement of functional expenses.

NOTE L – NET ASSETS WITH DONOR RESTRICTIONS

As of June 30, 2020, the Pastoral Center’s net assets with donor restrictions balance consists of the following:

Hispanic Music Conference	\$	575
Mariachi Mass		3,215
Turnball Grant		4,608
Mission Textbook Fund		8,370
Bishop's Fund		8,396
Bishop Installation		9,557
Lending Library Grant		10,669
Seminarian Special Collection		19,759
San Juan Diego Institute		25,124
Prison Ministry		29,365
Darr Estate Funds		48,265
Project Oak Tree		63,840
Total net assets with donor restrictions	\$	<u>231,743</u>

The Roman Catholic Diocese of Las Cruces Pastoral Center

Notes To Financial Statements

June 30, 2020

NOTE M – NET ASSETS RELEASED FROM RESTRICTIONS

During the year ended June 30, 2020, net assets were released from donor restrictions by incurring expenses satisfying the purpose or time stipulated by donors as follows:

Mission Textbook Fund	\$	1,000
Liber Cristo Retreat		1,500
Advertising for Retired Priests		1,875
Seminarian Special Collection		1,955
Finance Activities - DFMC Conference		2,335
Stewardship and Development		3,287
San Juan Diego Institute		5,560
Raskob Grant for Seminarian Education		20,000
Bishop Installation		42,983
Catholic Extension Grants		53,522
Project Oak Tree		71,134
Catholic Home Missions		<u>160,000</u>
Total net assets released from restrictions	\$	<u>365,151</u>

NOTE N – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following table reflects the Pastoral Center's financial assets as of June 30, 2020. Financial assets are considered unavailable when illiquid or not convertible to cash within one year.

Financial assets		
Cash and cash equivalents	\$	3,738,711
Accounts receivable		642,371
Pledges receivable		212,420
Investments held in trust		<u>5,687,843</u>
Financial assets at year-end		10,281,345
Less amounts unavailable for general expenditure within one year		
Funds held in trust		219,275
Investments held in trust		5,687,843
Cash equivalents held in trust		798,630
Purpose restrictions		231,743
United in Ministry rebates payable		<u>173,686</u>
Financial assets available for general expenditure within one year	\$	<u>3,170,168</u>

The Roman Catholic Diocese of Las Cruces Pastoral Center

Notes To Financial Statements

June 30, 2020

NOTE O – COMMITMENTS AND CONTINGENCIES

The Pastoral Center has signed as a guarantor on a loan with a financial institution for the building of Las Cruces Catholic Middle School. The outstanding balance of the loan was \$256,265 as of June 30, 2020. Las Cruces Catholic School has made all payments to date. The loan has a maturity date of October 30, 2024. The loan is secured by real estate. The school has pledged a residence to the Pastoral Center as collateral should the Pastoral Center have to take over payments of the loan. The residence was originally estimated to be worth approximately \$200,000.

The Pastoral Center has guaranteed a \$125,000 line of credit with a financial institution for Las Cruces Catholic School, Inc. There was no outstanding balance on the line of credit as of June 30, 2020. Las Cruces Catholic School has made all payments to date. The line of credit matures October 28, 2020.

The Pastoral Center makes retirement contributions to several religious orders who have priests active within the diocese. Payments range from \$2,500 to \$5,000 annually per priest as long as they remain active within the diocese. Currently, the Pastoral Center is providing support for 30 priests with total payments of approximately \$56,000 per year.

The Pastoral Center is involved in several legal proceedings alleging misconduct committed by former priests active within the diocese. Management of the Pastoral Center is working closely with legal counsel and insurance carriers regarding these matters. As some claims are in the early stage of litigation, legal counsel is unable to express an opinion as to the actual value of the claims. However, management and legal counsel estimate the range of net settlement costs to be between \$300,000 and \$500,000. The Pastoral Center has accrued the low end of the range since management is unable to determine a specific amount within the range. Management is working with insurance carriers to determine available coverage for the pending claims.

The Roman Catholic Diocese of Las Cruces Pastoral Center

Notes To Financial Statements

June 30, 2020

NOTE P – RESTATEMENT OF BEGINNING NET ASSETS

During the year ended June 30, 2020, management recorded a prior period adjustment to restate the beginning net assets of the Pastoral Center related to their “Investment in captives”, certain “Investments held in Trust” and certain “Accounts receivable”. in accordance with GAAP at June 30, 2019. The prior year’s net asset amount has been restated from amounts previously reported as follows:

Net assets, June 30, 2019, as previously reported	<u>\$ 2,123,185</u>
Adjustments	
Investment in captives	\$ 353,497
Investments held in trust	80,376
Accounts receivable	<u>121,821</u>
Net adjustments to net assets	<u>555,694</u>
Net assets, June 30, 2019, as restated	<u>\$ 2,678,879</u>

NOTE Q – COVID-19 PANDEMIC

At the time of this report’s release, citizens and the economies of the United States and other countries have been impacted by the coronavirus (COVID-19) pandemic. The evolution of the virus, the extent of its economic impact and the results of steps taken and yet to be taken by governments and financial institutions are unknown. Governments and businesses may face supply chain disruptions, labor shortages, revenue declines, an increase in bad debts, reduced cash flow, difficulties meeting loan covenants, goodwill and inventory impairment, credit difficulties, and other financial implications. Furthermore, the financial markets have experienced significant levels of volatility as a result of the pandemic. This volatility has caused declines in the value of investments held at year-end. While such declines may be temporary, investment values are subject to market fluctuations, and the timing of any such recovery is unknown at the present time. The significance and the duration of the pandemic’s financial impact are indeterminable. These financial statements do not consider the potential financial implications of the pandemic subsequent to June 30, 2020.