

**THE ROMAN CATHOLIC DIOCESE OF LAS CRUCES
PASTORAL CENTER**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

JUNE 30, 2016 AND 2015

**THE ROMAN CATHOLIC DIOCESE OF LAS CRUCES
PASTORAL CENTER**

FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

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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 statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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.

Basis for Qualified Opinion

Management has elected to omit substantially all of the required disclosures regarding its Defined Benefit Plan due to time and cost restraints. Due to this omission, the disclosure regarding the Defined Benefit Plan is not in accordance with accounting principles generally accepted in the United States of America.

Qualified Opinion

In our opinion, except for the omission of the information described 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, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Gilson Ruddock Patterson LLC

El Paso, Texas
February 14, 2017

THE ROMAN CATHOLIC DIOCESE OF LAS CRUCES PASTORAL CENTER

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2016 AND 2015

ASSETS	<u>2016</u>	<u>2015</u>
Current Assets		
Cash and cash equivalents	\$ 6,477,707	\$ 7,718,340
PIP investments	2,046,638	-
Pledges receivable, net	328,992	417,727
Accounts receivable, net	393,842	292,071
Other assets	151,738	123,170
Real estate held for sale	<u>211,868</u>	<u>263,868</u>
Total current assets	<u>9,610,785</u>	<u>8,815,176</u>
Property and Equipment, net	<u>2,196,386</u>	<u>2,272,829</u>
Other Assets		
PIP notes receivable, net	<u>1,121,041</u>	236,644
Total other assets	<u>1,121,041</u>	236,644
Total assets	<u>\$ 12,928,212</u>	<u>\$ 11,324,649</u>

See accompanying notes and independent auditor's report.

THE ROMAN CATHOLIC DIOCESE OF LAS CRUCES PASTORAL CENTER

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2016 AND 2015

LIABILITIES AND NET ASSETS	<u>2016</u>	<u>2015</u>
Current Liabilities		
Accounts payable	\$ 211,675	\$ 160,090
Accrued payroll and payroll taxes	90,045	118,543
UIM rebate payable	489,790	438,254
Deferred income	46,976	-
Grants payable	-	40,000
Due to related party	-	133,909
Funds held for others	194,158	145,590
Self insurance reserve	92,638	157,002
Current portion of long-term debt	38,465	43,098
Total current liabilities	<u>1,163,747</u>	<u>1,236,486</u>
Long Term Liabilities		
PIP deposits payable	9,242,333	8,758,781
Long-term debt, less current portion	9,617	21,650
Accrued priests' pension liability	1,082,007	1,142,132
Total long term liabilities	<u>10,333,957</u>	<u>9,922,563</u>
Total liabilities	<u>11,497,704</u>	<u>11,159,049</u>
Net Assets		
Unrestricted	1,212,979	(79,182)
Temporarily restricted	217,529	244,782
Total net assets	<u>1,430,508</u>	<u>165,600</u>
Total liabilities and net assets	<u>\$ 12,928,212</u>	<u>\$ 11,324,649</u>

See accompanying notes and independent auditor's report.

THE ROMAN CATHOLIC DIOCESE OF LAS CRUCES PASTORAL CENTER

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2016

	Unrestricted	Temporarily Restricted	Total
Revenue and Support			
Pledged gifts	\$ 1,402,294	\$ -	\$ 1,402,294
Contributions	193,799	-	193,799
Grant revenues	114,524	88,573	203,097
Parish tax assessment revenues	1,372,889	-	1,372,889
Insurance premium revenues	815,399	-	815,399
Other income	59,061	-	59,061
Materials, books & subscription sales	2,954	-	2,954
Fees	51,315	-	51,315
Bad debt recovery	790,455	-	790,455
Impairment of real estate	(52,000)	-	(52,000)
Net investment income	378,602	-	378,602
Net assets released from restrictions	115,826	(115,826)	-
	<hr/>		
Total revenue and support	5,245,118	(27,253)	5,217,865
	<hr/>		
Expenses			
Program services			
Pastoral	254,812	-	254,812
Religious development	765,261	-	765,261
Education	496,967	-	496,967
Community services	108,560	-	108,560
Mission development	212,440	-	212,440
Insurance	97,312	-	97,312
	<hr/>		
Total program services expenses	1,935,352	-	1,935,352
	<hr/>		
Support Services			
General and administrative	1,155,193	-	1,155,193
Stewardship development	318,173	-	318,173
Interest expense	210,903	-	210,903
Bad debt	306,647	-	306,647
Property taxes	4,447	-	4,447
Depreciation	82,367	-	82,367
	<hr/>		
Total support services expenses	2,077,730	-	2,077,730
	<hr/>		
Total Expenses	4,013,082	-	4,013,082
	<hr/>		
Increase in net assets before change in pension liability	1,232,036	(27,253)	1,204,783
Pension related changes other than net periodic cost	60,125	-	60,125
	<hr/>		
Increase in net assets	1,292,161	(27,253)	1,264,908
Net Assets - Beginning of year	(79,182)	244,782	165,600
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Net Assets - End of year	\$ 1,212,979	\$ 217,529	\$ 1,430,508
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See accompanying notes and independent auditor's report.

THE ROMAN CATHOLIC DIOCESE OF LAS CRUCES PASTORAL CENTER

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2015

	Unrestricted	Temporarily Restricted	Total
Revenue and Support			
Pledged gifts	\$ 1,423,355	\$ -	\$ 1,423,355
Contributions	266,750	-	266,750
Grant revenues	64,406	176,361	240,767
Parish tax assessment revenues	1,277,191	-	1,277,191
Insurance premium revenues	578,529	-	578,529
Other income	79,696	-	79,696
Materials, books & subscription sales	3,401	-	3,401
Fees	185,520	-	185,520
Net investment income	211,928	-	211,928
Gain on sale of assets	6,500	-	6,500
Net assets released from restrictions	109,722	(109,722)	-
	<hr/>		
Total revenue and support	4,206,998	66,639	4,273,637
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Expenses			
Program services			
Pastoral	396,605	-	396,605
Religious development	761,754	-	761,754
Education	503,356	-	503,356
Community services	71,330	-	71,330
Mission development	6,000	-	6,000
Insurance	75,623	-	75,623
	<hr/>		
Total program services expenses	1,814,668	-	1,814,668
	<hr/>		
Support Services			
General and administrative	1,152,927	-	1,152,927
Stewardship development	273,336	-	273,336
Interest expense	133,222	-	133,222
Bad debt	221,371	-	221,371
Property taxes	8,062	-	8,062
Depreciation	76,666	-	76,666
	<hr/>		
Total support services expenses	1,865,584	-	1,865,584
	<hr/>		
Total Expenses	3,680,252	-	3,680,252
	<hr/>		
Increase in net assets before change in pension liability	526,746	66,639	593,385
Pension related changes other than net periodic cost	401,711	-	401,711
	<hr/>		
Increase in net assets	928,457	66,639	995,096
Net Assets - Beginning of year	(1,007,639)	178,143	(829,496)
	<hr/>		
Net Assets - End of year	\$ (79,182)	\$ 244,782	\$ 165,600
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See accompanying notes and independent auditor's report.

THE ROMAN CATHOLIC DIOCESE OF LAS CRUCES PASTORAL CENTER

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Net change	\$ 1,264,908	\$ 995,096
Adjustments to reconcile net decrease to net cash provided by operating activities:		
Depreciation and amortization	82,367	76,666
Impairment of real estate	52,000	-
Recovery of bad debt	(790,455)	-
Bad debt expense	85,640	86,067
Net (gains) losses	(44,292)	48,619
(Increase) decrease in assets:		
Accounts receivable	(101,283)	(118,493)
Pledges receivable	2,607	(20,932)
Other assets	(28,568)	(45,853)
Increase (decrease) in liabilities:		
Accounts payable	51,585	(43,660)
Accrued payroll and payroll taxes	(28,498)	34,286
Deferred revenue	46,976	(127,288)
UIM rebate payable	51,536	(101,255)
Grants payable	(40,000)	-
Accrued pension liability	(60,125)	(401,711)
Insurance reserve	(64,364)	(81,931)
Funds held for others	48,568	(65,019)
Net cash provided by operating activities	<u>528,602</u>	<u>234,592</u>
Cash flows from investing activities:		
Purchase of fixed assets	(5,924)	(41,155)
Purchase of investments	(2,002,346)	(261,381)
Proceeds from sale of investments	-	2,672,065
Net cash provided (used) by investing activities	<u>(2,008,270)</u>	<u>2,369,529</u>

See accompanying notes and independent auditor's report.

THE ROMAN CATHOLIC DIOCESE OF LAS CRUCES PASTORAL CENTER

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Cash flows from financing activities		
Increase in PIP deposits	3,065,910	1,730,289
Payments from PIP loans outstanding	784,896	116,565
Withdrawals from PIP deposits	(2,582,358)	(940,241)
New PIP notes receivable issued	(878,838)	(183,974)
Proceeds from loans	-	17,156
Repayment of notes payable	(16,666)	(17,271)
Due to related parties	(133,909)	133,909
	<hr/>	<hr/>
Net cash provided (used) by financing activities	239,035	856,433
	<hr/>	<hr/>
Net increase in cash and cash equivalents	(1,240,633)	3,460,554
Cash and cash equivalents, beginning of year	7,718,340	4,257,786
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Cash and cash equivalents, end of year	<u>\$ 6,477,707</u>	<u>\$ 7,718,340</u>
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Supplemental Information		
Cash paid for interest	<u>\$ 210,903</u>	<u>\$ 133,222</u>

See accompanying notes and independent auditor's report.

THE ROMAN CATHOLIC DIOCESE OF LAS CRUCES PASTORAL CENTER

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities - The Roman Catholic Diocese of Las Cruces Pastoral Center (the Pastoral Center) provides services to the parishes, schools, and organizations affiliated with the Roman Catholic Church within its boundaries and under the authority of the Bishop of the Roman Catholic Diocese of Las Cruces. Services provided include administrative services with regard to education, charitable projects, parish administration, and religious personnel activities.

The financial statements are presented for the Roman Catholic Diocese of Las Cruces Pastoral Center. These statements do not include a complete presentation of the financial position of the entire Roman Catholic Diocese of Las Cruces or change in its net assets or its cash flows. If such statements were presented, they would be combined and include information from all related organizations under the umbrella of the Roman Catholic Diocese of Las Cruces. Those organizations would include all parishes, parochial schools, charitable organizations, the Roman Catholic Diocese of Las Cruces Foundation, the Priest Retirement and Disability Plan of the Roman Catholic Diocese of Las Cruces, and other related organizations within the geographical boundaries of the Roman Catholic Diocese of Las Cruces.

The organizations are controlled by the Bishop of the Roman Catholic Diocese of Las Cruces. The Bishop controls how the organizations carry out their activities and the Roman Catholic Diocese of Las Cruces provides technical and fundraising assistance. In return, some organizations are assessed quotas. The Pastoral Center has an economic dependency on the collective affiliated organizations.

The Roman Catholic Diocese of Las Cruces falls within the ultimate authority of the Pope.

The Diocese has the following programs:

Pastoral- the Pastoral Center provides funding for services through the following Pastoral Center offices: Hospital Ministry, Family Life, Prison Ministry, Parish Accounting Finance Review, Facilities-Real Estate, Pastoral Planning, Evangelization & Formation, and the Chancellors office.

Religious development- The Pastoral center supports religious development which includes Tribunal, Vocations, Seminarian Formation and education, the Deacon Council and further funds our Priest support staff, religious retirement and special assigned priests.

Education- the Pastoral Center provides funding and services for religious education through Adolescent Catechesis-Youth Ministry programs, Elementary Education, the Lending Library, Youth Leadership Training camps, the Youth Conference, Catholic Schools, Lay ministry formation and the Diocesan Eucharistic Congress.

(Continued)

THE ROMAN CATHOLIC DIOCESE OF LAS CRUCES PASTORAL CENTER

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Community Services- provides funding for Catholic social ministry through programs such as Family Unity programs and through the Catholic Charities of the Diocese of Las Cruces.

Mission Development- the Pastoral Center provides support to our missions through grant services and insurance coverage for our poor missions.

Insurance- the Pastoral Center provides and administers an Insurance program to provide uniform property and blanket liability coverage under one comprehensive plan for all parishes and agencies which are a part of The Roman Catholic Diocese of Las Cruces. The Diocese of Las Cruces also provides a full time Risk Manager to outline and enforce safety policies in an effort to reduce/prevent losses. The Insurance office also provides and maintains Medical/RX, Dental, and Core (Life, LTD, AD&D) benefits for all eligible employees of the Diocese.

Basis of Accounting - The accompanying financial statements of the Pastoral Center have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). The Financial Accounting Standards Board (FASB) establishes GAAP, which are contained in the Accounting Standards Codification (ASC).

Basis of Presentation - ASC 958, Not-for-Profit Entities requires entities to report information regarding their financial position and activities according to three classes of net assets based on the restrictions imposed by the donor of the funds. These three classes of net assets are:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets - Net assets that are subject to donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Pastoral Center pursuant to those stipulations.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Pastoral Center.

Use of Estimates - The preparation of financial statements in conformity with 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 year. Actual results could differ from those estimates.

Cash and Cash Equivalents - For purposes of the statement of cash flows, the Pastoral Center considers cash, demand and time deposits and all highly liquid investments with original maturity dates of less than three months to be cash equivalents.

(Continued)

THE ROMAN CATHOLIC DIOCESE OF LAS CRUCES PASTORAL CENTER

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts, UIM and Capital Campaign Pledges Receivable

The majority of the Pastoral Center's accounts and pledges receivable are due from parishes, schools, other organizations, and private parties with the Roman Catholic Diocese of Las Cruces region and inter-diocesan entities. Credit is extended based on evaluation of financial condition and financial need and collateral is generally not required. Accounts and loans receivable are due within 30 days or according to separately stated terms and are recorded, net of an allowance for doubtful accounts. The Pastoral Center determines the allowance by considering a number of factors, including the length of time accounts and loans receivable are past due, the Pastoral Center's previous loss history, the debtors' current ability to pay its obligation, and the condition of the general economy.

United in Ministry (UIM) pledges are for calendar year campaigns, normally pledges are not carried forward from one pledge year to the next pledge year. Capital Campaign pledges may be received for as long as a five-year period.

It is stated policy of the Pastoral Center that obligations for Parish assessment and insurance premiums will not be written off for non-payment. These receivables are considered past due when payments are behind 90 days or longer. To be in accordance with U.S. GAAP, the Pastoral Center has recorded an allowance for doubtful collections related to the assessments and premiums. These allowances are based on discussion with the organization owing the funds, review of financial information from the organization and other considerations. Capital Campaign pledges are evaluated annually to determine the collectability of the pledges.

The Parish assessment is self assessed by the parishes on current year's income. The tax is due the monthly following the assessment.

The insurance premium is computed based primarily on replacement cost, total prior year wages and number of vehicles. It is billed annually, and organizations are allowed to make payments.

Collection Items - The Pastoral Center received several pieces of artwork from an estate. The estimated fair market value of the artwork is not material to the overall financial statements of the Pastoral Center, therefore the artwork is included in the property, plant and equipment category at the estimated fair market value upon receipt.

(Continued)

THE ROMAN CATHOLIC DIOCESE OF LAS CRUCES PASTORAL CENTER

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 of greater than \$1,000. Contributions restricted for the acquisition of property and equipment are reclassified to unrestricted net assets when the assets are placed into service. From time to time the Pastoral Center purchases property and equipment for related organizations. These expenditures are reported as expenses in the statement of activities. The Pastoral Center will also occasionally donate surplus equipment to related organizations. Any remaining net book value of these donated assets is reported as an expense in the statement of activities.

Depreciation expense is computed using the straight line method over estimated useful lives for financial statement purposes. Asset lives for financial statement reporting of depreciation are 5 to 40 years.

Long-Lived Assets - Long-lived assets held and used by the Pastoral Center are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In the event that facts and circumstances indicate that the cost of any long-lived assets may be impaired, an evaluation of recover-ability would be performed.

Management believes no impairment in the net carrying values of the long-lived assets has occurred for the period presented.

Revenue Recognition - The Pastoral Center displays revenue in the following natural classifications:

- Pledged gifts and contributions
- Grant income
- Parish tax assessments
- Insurance premiums
- Fees for services
- Earnings on investments (dividends, interest, realized and unrealized gains or losses)

Pledges are recognized as revenue when the donor makes a promise to give to the Pastoral Center that is, in substance, unconditional. Pledges that are restricted by the donor are reported as increases to unrestricted net assets if the restrictions expire in the fiscal year in which the pledge is recognized. All other donor-restricted pledges are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

(Continued)

THE ROMAN CATHOLIC DIOCESE OF LAS CRUCES PASTORAL CENTER

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pledges that are conditional are not reported in the financial statements until it is certain that the condition either has been met or will be met.

Contributed Support - The Pastoral Center recognizes all contributed support received as revenue in the period received. Contributed support is reported as unrestricted or as restricted depending on the existence of donor stipulations that limit the use of the support. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activity as net assets released from restrictions.

Long-lived assets acquired with gifts of cash restricted for those acquisitions are reported as unrestricted or as temporarily restricted depending on whether there is an explicit, donor-imposed time requirement as to how long the assets must be maintained. Long-lived assets are reported as permanently restricted only if the Pastoral Center must maintain the assets in perpetuity or if the donor explicitly restricted the proceeds from any future disposition of the assets to re-investment in long-lived assets.

The Pastoral Center receives a substantial amount of services donated by its members in carrying out its functions. No amounts have been reflected in the financial statements for those services since they do not meet the criteria for recognition under ASC 958.

Functional Allocation of Expenditures - The costs of providing 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 benefitted.

Advertising Costs - The Pastoral Center expenses advertising costs as incurred. Advertising costs for the years ending June 30, 2016 and 2015 were \$2,196 and \$4,662, respectively.

Accrued Compensated Absences - Accrued annual leave is a component of accrued compensated absences. As of June 30, 2016, there was no limit on the amount of annual leave that could be carried over to the next fiscal year. In December 2016 the policy was changed. No more than 240 hours of annual leave may be accrued by a Pastoral Center employee for a fiscal year.

Income Taxes - In a determination letter dated March 25, 1946 and updated annually since that time, the Internal Revenue Service has ruled that all organizations listed in *The Official Catholic Directory* are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Pastoral Center is subject to tax under §511(a) to the extent it has unrelated business taxable income. The Pastoral Center did not have any applicable unrelated business taxable income for the years ended June 30, 2016 and 2015.

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THE ROMAN CATHOLIC DIOCESE OF LAS CRUCES PASTORAL CENTER

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASC 740 requires the Pastoral Center's management to evaluate tax positions taken by the Pastoral Center and recognize a tax liability if the Pastoral Center has taken an uncertain tax position that more than likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by the Pastoral Center, and has concluded that as of June 30, 2016 and 2015, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements.

Insurance Program - The Pastoral Center, parishes in the Diocese and other related entities have property and liability coverage under an insurance program. The Pastoral Center bills the parishes and other organizations their share of insurance premiums and fees; these amounts are included in unrestricted net assets.

The Pastoral Center carries health insurance through an outside company that is available for eligible employees of the Pastoral Center and other related organizations.

Fair Value of Financial Instruments - GAAP requires disclosure of an estimate of fair value of certain financial instruments. The Pastoral Center's significant financial instruments are cash, accounts receivables, and other short-term assets and liabilities. For these financial instruments, carrying values approximate fair value.

Parish Investment Plan - The Pastoral Center operates the Parish Investment Plan (PIP) which provides parishes, schools and other related organizations within the Diocese with a source of funding for capital improvements and major renovations along with interest-bearing deposit accounts. Each parish, school and related organization is encouraged to deposit accounts in excess of those required for its operations into the PIP. Because the deposits do not belong to the Pastoral Center, the deposits are reported as PIP deposits payable. The Pastoral Center invests excess funds with the assistance of investment advisors. Interest rates charged on loans and interest rates paid on PIP deposits are determined on a quarterly basis by the Roman Catholic Diocese of Las Cruces Finance Council based on various information including rates from financial institutions in the Pastoral Center area. Loans are approved by the Finance Council, considering the ability of the organization to repay the loan and the cash flow requirements of the PIP and other factors.

It is the Pastoral Center's stated policy that no PIP loans are written off. Loans are considered past due if no payment has been received in 90 days or longer. Interest continues to accrue on past due loans unless there is an agreement between the borrower and the Pastoral Center that changes the initial loan terms.

Although no loans are written off, to be in accordance with U.S. GAAP, the Pastoral Center has recorded an allowance for doubtful loans which is based on discussions with the borrower, review of the financial status of the borrower, and other considerations.

(Continued)

THE ROMAN CATHOLIC DIOCESE OF LAS CRUCES PASTORAL CENTER

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentrations - A significant portion of the Pastoral Center's revenue is dependent upon the general economic conditions present in the Roman Catholic Diocese of Las Cruces' region. Parish tax assessments are based on the current year's donations to the parish. Contributions and pledges are generally from individuals, businesses and other organizations within the region. If economic conditions were to significantly deteriorate in the Diocese's region, this might result in a decrease in giving, while the demands upon the Pastoral Center's support and services would likely increase.

Reclassification - Certain reclassifications were made to the 2015 financial statement presentation in order to conform to the 2016 financial statement presentation. The reclassifications had no effect on the previously recorded change in net assets in total.

2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consists of the following at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Demand deposits (checking)	\$ 2,072,422	\$ 1,690,130
Money Market Funds	359,581	24,611
Restricted cash and money market funds, PIP	2,915,531	5,286,923
Restricted cash and money market funds, Insurance Fund	<u>1,130,173</u>	<u>716,676</u>
Balance, June 30, 2016 and 2015:	<u>\$ 6,477,707</u>	<u>\$ 7,718,340</u>

3. PARISH INVESTMENT PLAN

The Parish Investment Plan Committee sets interest rates for savings accounts and interest rates for loans on a quarterly basis, using various information including interest rates available at financial institutions in the Diocese region. At June 30, 2016 and 2015, the interest rate paid on savings accounts ranged from 0.5% to 2.25% and the interest rate charge for loans ranged from 3% to 7.0%.

For the years ended June 30, 2016 and 2015 deposit accounts earned a total of \$163,639 and \$80,233, respectively, in interest and loan accounts incurred a total of \$152,773 and \$158,137, respectively, in interest.

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THE ROMAN CATHOLIC DIOCESE OF LAS CRUCES PASTORAL CENTER

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

3. PARISH INVESTMENT PLAN (Continued)

Investments held for the Parish Investment Plan consist of the following at June 30, 2016:

	2016	
	Market Value	Cost Basis
Corporate fixed income	\$ 385,149	\$ 371,349
Mutual funds	430,337	438,562
Equity securities (stocks)	1,231,152	1,189,077
Total investments	<u>\$ 2,046,638</u>	<u>\$ 1,998,988</u>

There were no investments in 2015.

Of approximately 13 non-Pastoral Center loans totaling \$ 1,939,154 (before allowance for doubtful accounts), approximately \$818,000 of PIP loan balances were considered uncollectible as of June 30, 2016. In 2016, three PIP loans, that had been previously allowed for, were set up on payment plans and payments are now being made. As a result, the allowance was reduced.

Interest continues to accrue on these loans unless the borrower has reached an agreement with the Pastoral Center to modify the original loan agreement. It is the stated policy of the Pastoral Center that no PIP loan will be written off; the Pastoral Center has established an allowance for doubtful accounts based on discussions with the borrower, evaluation of the borrower's financial condition, and other considerations. Management of the Pastoral Center has determined that some loans may not be collected in full; the allowance for uncollectible loans are \$818,113 at June 30, 2016 and \$1,661,325 at June 30, 2015, respectively.

The Pastoral Center borrowed funds for operating purposes in previous years from the Parish Investment Plan funds. In 2016, the Pastoral Center borrowed \$196,000 from the PIP funds and donated the proceeds to a parish. The balance of these loans was \$1,120,529 and \$1,088,955, respectively, as of June 30, 2016 and 2015. The Pastoral Center is in the process of repaying these loans.

(Continued)

THE ROMAN CATHOLIC DIOCESE OF LAS CRUCES PASTORAL CENTER

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

4. INVESTMENT RETURN

The net investment return for the years ended June 30, was:

	<u>2016</u>	<u>2015</u>
Interest income	\$ 275,598	\$ 253,131
Dividend income	75,095	11,003
Net gain (loss)	44,292	(48,619)
Investment fees	<u>(16,383)</u>	<u>(3,587)</u>
Net investment income	<u>\$ 378,602</u>	<u>\$ 211,928</u>

5. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Parish tax assessment	\$ 507,208	\$ 436,832
Allowance for doubtful accounts	<u>(419,938)</u>	<u>(396,590)</u>
Net parish tax assessment	<u>87,270</u>	40,242
Tribunal fees	18,623	12,690
Allowance for doubtful accounts	<u>(17,660)</u>	<u>(10,000)</u>
Net tribunal fees receivable	<u>963</u>	2,690
Medical insurance premiums	226,555	178,684
Allowance for doubtful accounts	<u>(98,526)</u>	<u>(77,549)</u>
Net medical insurance receivable	<u>128,029</u>	101,135
Property insurance	1,268,809	1,214,981
Allowance for doubtful accounts	<u>(1,126,186)</u>	<u>(1,157,159)</u>
Net insurance receivable	<u>142,623</u>	57,822
Other receivables	149,243	225,968
Allowance for doubtful accounts	<u>(114,286)</u>	<u>(135,786)</u>
Net other receivables	<u>34,957</u>	90,182
Total net accounts receivable	<u>\$ 393,842</u>	<u>\$ 292,071</u>

All receivables are considered to be collectible within one year.

(Continued)

THE ROMAN CATHOLIC DIOCESE OF LAS CRUCES PASTORAL CENTER

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

6. PLEDGES RECEIVABLE

Pledges receivable consisted of the following at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
United in Ministry (UIM)	\$ 550,120	\$ 552,727
Less allowance	<u>(221,128)</u>	<u>(135,000)</u>
Net pledges receivable	<u>\$ 328,992</u>	<u>\$ 417,727</u>

All pledges are due within one year.

7. REAL ESTATE HELD FOR SALE FORMERLY NOTE RECEIVABLE

During the year ended June 30, 2005, the Pastoral Center loaned funds to a developer. The intention of this loan was to invest excess PIP funds to earn interest on the funds. During this year, in lieu of a cash contribution, the Pastoral Center used a portion of this loan receivable to fund part of their annual contribution to the Priest Retirement and Disability Plan of the Roman Catholic Diocese of Las Cruces.

On January 7, 2014, the District Court entered into a Stipulated Judgement declaring the Diocese as the sole owner of real estate that was the collateral for the loan. The Diocese's interest in this property arose out of a loan made to the former attorney of the Diocese. The loan was secured by the property. The property has been informally appraised at \$500,000 in value, but will probably sell for less than that due to the economy and the property's somewhat remote location. The Diocese has placed the property up for sale and hopes to sell it within 18 months. The Diocese will receive 62.5% of the net sale proceeds with the remainder going to the other parties in the lawsuit. The real estate is recorded on the Diocese books in the amount of \$263,868. Subsequent to year end, the Diocese entered into a contract to sell the land. As a result, it was determined that the value of the real estate was \$211,868 and a \$52,000 impairment was recorded at June 30, 2016.

The delinquent property taxes in the amount of \$27,558 were paid by an individual. A note payable was set up to repay the individual. The balance of the note payable at June 30, 2016 and 2015 was \$5,359 and \$14,545, respectively.

The property is currently being leased for \$2,400 on a month to month lease. Rental income for 2016 was \$26,400.

(Continued)

THE ROMAN CATHOLIC DIOCESE OF LAS CRUCES PASTORAL CENTER

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

8. PROPERTY AND EQUIPMENT

The following schedule summarizes the original cost and accumulated depreciation of property and equipment at June 30:

	<u>2016</u>	<u>2015</u>
Assets		
Buildings	\$ 2,247,009	\$ 2,247,009
Land	613,963	613,963
Machinery and equipment	395,379	389,456
Vehicles	94,296	151,293
Water rights	15,070	15,070
Total assets	<u>3,365,717</u>	<u>3,416,791</u>
Less: accumulated depreciation	<u>(1,169,331)</u>	<u>(1,143,962)</u>
Net capital assets	<u>\$ 2,196,386</u>	<u>\$ 2,272,829</u>

For the years ended June 30, 2016 and 2015, depreciation expense was \$82,367 and \$76,666, respectively.

9. SELF INSURANCE RESERVE

The Pastoral Center establishes insurance claim liabilities for property, theft, liability, workers compensation and automobile claims based on estimates of the ultimate cost of claims (including future claim adjustment expenses) 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 reserves were \$92,638 and \$157,002 as of June 30, 2016 and 2015, respectively.

(Continued)

THE ROMAN CATHOLIC DIOCESE OF LAS CRUCES PASTORAL CENTER

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

10. NOTES PAYABLE

Long-term debt consists of the following at June 30, 2016 and 2015:

	2016	2015
Note payable for vehicle loan, payable in 60 monthly installments of \$381 at a current interest rate of 6.5%, due March 5, 2017, secured by vehicle.	\$ 3,256	\$ 7,539
Note payable to an individual, payable in monthly installments of \$766, loan is interest free and unsecured.	5,359	14,545
Note payable to an individual, there are no stated repayment terms and loan is unsecured.	26,514	26,514
Note payable for vehicle loan, payable in 60 monthly installments of \$163 at a current interest rate of 4.24%, due February 27, 2020, secured by vehicle.	6,624	8,259
Note payable for vehicle loan, payable in 60 monthly installments of \$156 at a current interest rate of 4.24%, due February 27, 2020, secured by vehicle.	6,329	7,891
Total long-term debt	48,082	64,748
Less: current portion	(38,465)	(43,098)
Long-term portion, notes payable	\$ 9,617	\$ 21,650

Future maturities of notes payable are as follows at June 30, 2015:

Year Ending June 30,		
2017	\$	38,465
2018		3,480
2019		3,630
2020		2,507
		48,082
	\$	48,082

(Continued)

THE ROMAN CATHOLIC DIOCESE OF LAS CRUCES PASTORAL CENTER

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

11. DEFINED CONTRIBUTION RETIREMENT PLAN

The Pastoral Center sponsors a defined contribution 403(b) to eligible employees. Plan participation and contributions are discretionary; participating employees can defer a percentage of their wages within allowable amounts. All deferred amounts are 100% vested. The Pastoral Center has the option of providing matching and discretionary contributions to participants.

The Pastoral Center currently matches up to \$1,000 of each participants deferred amounts. The Pastoral Center contributed \$17,601 and \$15,277 for the year ended June 30, 2016 and 2015, respectively.

12. DEFINED BENEFIT PLAN - PRIEST RETIREMENT AND DISABILITY PLAN

This disclosure omits substantially all of the requirements by FASB ASC 715-20-50-5 and 958-715-50-1. As a result, this note disclosure for the defined benefit plan is not in accordance with accounting principles generally accepted in the United States of America.

The Pastoral Center offers a defined, non-contributory benefit plan to all secular priests, except those belonging to a religious order within the Pastoral Center's jurisdiction (the Plan). Priests are eligible for retirement benefits if they are engaged in regular full-time duties in the Pastoral Center, commenced service prior to attaining age 59, have had a minimum of 120 months service in the Pastoral Center prior to reaching age 70. Plan participants with ten years service who become totally and permanently disabled prior to normal retirement age are also eligible for benefits.

The following amounts relate to the Pastoral Center's Priest Retirement and Disability Plan as of June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Benefit obligation at end of year	<u>\$ 3,128,351</u>	<u>\$ 2,774,081</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	1,631,949	1,168,710
Return on plan assets	(22,345)	35,235
Contributions	675,810	652,259
Benefits paid	<u>(239,070)</u>	<u>(224,255)</u>
Fair value of plan assets at end of year	<u>2,046,344</u>	1,631,949
Accrued pension liability, Priest Retirement and Disability Plan	<u>\$ 1,082,007</u>	<u>\$ 1,142,132</u>

(Continued)

THE ROMAN CATHOLIC DIOCESE OF LAS CRUCES PASTORAL CENTER

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

12. DEFINED BENEFIT PLAN - PRIEST RETIREMENT AND DISABILITY PLAN (Continued)

The following assumptions were used to determine the year-end benefit obligation at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Discount rate on the benefit obligation	4.00%	5.00%
Rate of expected return on plan assets	4.00%	5.00%
Rate of priests' compensation increase	0.00%	1.00%

The Plan measures fair value of the plan's assets using a three-level hierarchy based upon observable inputs. These plan assets are not included in the assets presented in the statement of financial positions. Generally Accepted Accounting Principles require the presentation of plan assets of sponsored defined benefit pension plans in the financial statements of the plan sponsor.

Fair value of the plan's assets on a recurring basis by class of asset and by level were as follows at June 30, 2016:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Mutual Funds	\$ 125,261	\$ 125,261	\$ -	\$ -
U.S. Government and sponsored securities	99,633	99,633	-	-
Corporate bonds	117,145	117,145	-	-
Equities	1,217,689	1,217,689	-	-
Cash value of life insurance policies	220,966	-	-	220,966
Total investments, June 30, 2016	<u>\$ 1,780,694</u>	<u>\$ 1,559,728</u>	<u>\$ -</u>	<u>\$ 220,966</u>

(Continued)

THE ROMAN CATHOLIC DIOCESE OF LAS CRUCES PASTORAL CENTER

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

12. DEFINED BENEFIT PLAN - PRIEST RETIREMENT AND DISABILITY PLAN (Continued)

Fair value of the plan's assets on a recurring basis by class of asset and by level were as follows at June 30, 2015:

	Fair Value	Level 1	Level 2	Level 3
Mutual Funds	\$ 47,553	\$ 47,553	\$ -	\$ -
U.S. Government and sponsored securities	97,576	97,576	-	-
Corporate bonds	81,083	81,083	-	-
Equities	682,706	682,706	-	-
Money market funds	312,453	312,453	-	-
Cash value of life insurance policies	200,494	-	-	200,494
Total investments, June 30, 2016	\$ 1,421,865	\$ 1,221,371	\$ -	\$ 200,494

The following is a reconciliation of the fair value measurements at Level 3:

<u>Changes in Level 3 Fair Value Measurements</u>	
Level 3 fair value measurement at June 30, 2014	\$ 180,702
Change in value	<u>19,792</u>
Balance at June 30, 2014	200,494
Change in value	<u>20,472</u>
Level 3 fair value measurement at June 30, 2015	<u><u>\$ 220,966</u></u>

The Plan's overall strategy is to invest in high-grade securities and other assets with a minimum risk of market value fluctuation.

The Pastoral Center contributed approximately \$228,000 in 2016 and \$214,000 in 2015 to the plan.

(Continued)

THE ROMAN CATHOLIC DIOCESE OF LAS CRUCES PASTORAL CENTER

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

13. TEMPORARILY RESTRICTED NET ASSETS AND NET ASSETS RELEASED FROM RESTRICTION

As of June 30, 2016 and 2015, the Pastoral Center's Temporarily Restricted Net Assets balance consisted of the following:

	<u>2016</u>	<u>2015</u>
Catholic Home Mission	\$ 82,500	\$ -
Donation for liturgy education	2,408	2,408
Grant for lending library education	18,041	26,577
Mariachi mass	3,974	5,299
Hospital grant	4,000	4,667
Bishop installation	12,277	12,277
Youth ministry	4,000	4,000
Turnball grant	4,608	4,608
Prison ministry grant	15,615	20,615
CHM grant	1,691	8,858
Mass stipends	-	25,926
Propagation of the Faith	3,645	3,645
Advertising for retired priests	1,875	1,875
Altar server retreat	1,058	13,558
Hispanic music conference	575	575
Bishops fund	1,557	1,557
Staff development	3,537	3,467
Lay ministry CHM	-	10,000
Mission textbook fund	6,003	2,500
Superintendent CSLD grant	-	749
Deacon formation	1,900	1,900
Agua Viva	-	10,000
Religious education collection and CHM Grant	-	11,456
New evangelization	-	5,000
Darr estate funds	48,265	63,265
	<hr/>	<hr/>
Temporarily Restricted Net Assets, June 30, 2016 and 2015	\$ 217,529	\$ 244,782

(Continued)

THE ROMAN CATHOLIC DIOCESE OF LAS CRUCES PASTORAL CENTER

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

13. TEMPORARILY RESTRICTED NET ASSETS AND NET ASSETS RELEASED FROM RESTRICTION (Continued)

Net assets released from donor restrictions during 2016 and 2015 by incurring expenses satisfying the restricted purpose as follows:

	<u>2016</u>	<u>2015</u>
Education	\$ 11,456	\$ 8,127
Lending library materials	8,536	8,092
Caregivers retreat	-	581
CHM grant	7,167	6,388
Lay Ministry	10,000	-
Mariachi Mass	1,325	-
Alter server retreat	12,500	-
Hispanic music conference	-	2,872
Stewardship	-	25,016
Hospital grant	667	-
Textbook fund	2,500	-
Prison and jail ministry	5,000	3,931
Superintendent CSLD grant	749	-
Agua Viva	10,000	-
New evangelization	5,000	-
Darr Estate funds	15,000	-
Deacon formation	-	6,384
Immaculate Conception	-	7,000
St. Albert	-	25,000
St. Francis Newman	-	10,000
Mass stipends	25,926	3,400
Bible study	-	2,931
	<u>\$ 115,826</u>	<u>\$ 109,722</u>
Total net assets released from restriction	<u>\$ 115,826</u>	<u>\$ 109,722</u>

14. DEFICIT NET ASSETS IN FUND 3

The Pastoral Center maintains its accounting on the fund basis. The deposit and loan fund which accounts for the PIP deposits and loans to parishes and other organizations has a deficit net asset position at June 30, 2016 and 2015 of \$ 904,591 and \$1,790,785, respectively.

The Pastoral Center borrowed funds from the PIP fund and is making monthly payments totaling \$19,000.

(Continued)

THE ROMAN CATHOLIC DIOCESE OF LAS CRUCES PASTORAL CENTER

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

15. AFFILIATED ORGANIZATIONS/RELATED PARTIES

Affiliated organizations that have not been combined with the Pastoral Center's financial statements include:

- The Roman Catholic Diocese of Las Cruces Foundation, Inc. (Foundation) - the Foundation provides financial support through endowments to the Pastoral Center, parishes and other related parties.
- The Priest Retirement and Disability Plan of the Roman Catholic Diocese of Las Cruces (Retirement Plan) - a defined benefit plan for the Parish priests. At June 30, 2015, the Pastoral Center owed the Retirement Plan \$133,909. There was nothing due at June 30, 2016.
- The San Patricio Retreat Center is operated by another unrelated organization but the property is owned by the Pastoral Center. In addition, the Pastoral Center has agreed to subsidize the operations of the Retreat Center. During the year ended June 30, 2016 and 2015, the Pastoral Center subsidized the Retreat for the amounts of \$46,243 and \$46,243, respectively. At June 30, 2016 and 2015, the Retreat Center owed the Pastoral Center \$17,688 and \$17,688, respectively for Retreat Center expenses paid by the Pastoral Center in excess of the agreed upon subsidy.
- Catholic Charities - established to provide support for those in need in the community. At June 30, 2015, Catholic Charities had a PIP loan balance outstanding due to the Pastoral Center in the amount of \$61,760. The loan was paid off in 2016.

In addition, other related organizations include the parishes and schools in the Roman Catholic Diocese of Las Cruces boundaries.

16. FAIR VALUE MEASUREMENTS

ASC 820, Fair Value Measurements and Disclosures, establishes 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 (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described below:

- Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Pastoral Center has the ability to access.

(Continued)

THE ROMAN CATHOLIC DIOCESE OF LAS CRUCES PASTORAL CENTER

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

16. FAIR VALUE MEASUREMENTS (Continued)

- Level 2 - Inputs to the valuation methodology include:
 - Quoted prices for similar assets or liabilities in active markets;
 - Quoted prices for identical or similar assets or liabilities in inactive markets;
 - Inputs other than quoted prices that are observable for the asset or liability;
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

- Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at June 30, 2016 and 2015.

- Cash and cash equivalents, accounts, pledges receivables and notes receivable - carrying value approximates fair value when the terms and lengths of the agreements are considered.
- Parish Investment Plan investments are included at fair value as determined by level 1 inputs.
- The Pastoral Center's investments are included at fair value as determined by level 1 inputs.
- Parish Investment Plan loans - carrying value approximates fair value when the terms and lengths of the agreements are considered.
- Accounts payable, notes and mortgages payable and Parish Investment Plan deposits - carrying value approximates fair value when the terms and lengths of the agreements are considered.

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 the Pastoral Center 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.

(Continued)

THE ROMAN CATHOLIC DIOCESE OF LAS CRUCES PASTORAL CENTER

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

17. OPERATING LEASES

Under non-cancelable operating lease agreements, the Pastoral Center leases equipment consisting of copiers and a postage machine. Total rent expenses under these lease agreements were \$25,317 and \$20,202 for the year ended June 30, 2016 and 2015, respectively, which includes excess copy charges.

Future minimum lease payments under these operating leases are:

<u>Year Ending June 30,</u>	
2017	\$ 17,499
2018	<u>934</u>
	<u>\$ 18,433</u>

Minimum lease payments in this schedule exclude rentals under renewal options, which, as of June 30, 2016 are reasonably assured of being exercised.

18. CONCENTRATION OF 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 federally insured limits. At June 30, 2016 and 2015, there were \$5,283,282, and \$4,922,279, respectively, in excess of federally insured limits.

19. CONTINGENCIES

The Pastoral Center has signed as a guarantor on a loan with a financial institution for the building of the Holy Cross Middle School. The outstanding balance of the loan was \$438,905 and \$471,017 at June 30, 2016 and 2015, respectively. Holy Cross Middle School has made all payments to date. The loan has a maturity date of September 30, 2016. However, the loan stipulates the borrower will pay the loan in full immediately upon lender's demand. The loan is secured by real estate. The original amount of the loan was \$596,298. Of that \$346,298 was immediately borrowed and remaining \$250,000 was available to draw. The school has pledged a residence to the Pastoral Center as collateral should the Pastoral Center have to take over payments. The residence was originally estimated to be worth approximately \$200,000.

(Continued)

THE ROMAN CATHOLIC DIOCESE OF LAS CRUCES PASTORAL CENTER

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

19. CONTINGENCIES (Continued)

The Pastoral Center has guaranteed a \$125,000 line of credit with a financial institution for the Las Cruces Catholic School, Inc. The outstanding balance at June 30, 2016 and 2015 was \$85,000 and \$75,000, respectively. Las Cruces Catholic School, Inc. has made all payments to date. The line of credit matures October 28, 2017 and has an interest rate of 6.5%.

During 2015, the Pastoral Center guaranteed a loan to a financial institution in the amount of \$120,722 for the St. John Paul II Parish. The outstanding balance of this loan at June 30, 2016 was \$110,535. St. John Paul II Parish has made all payments to date. The loan calls for 59 equal payments and one balloon payment of \$92,476. The loan is due on demand is secured by real estate.

During 2015, the Pastoral Center guaranteed an operating lease of office space for the St. John Paul II Parish. The leases is for 12 months beginning October 1, 2014. There is an option to extend the lease for an additional 12 months. The rent is \$2,604 a month for the initial term of the lease. The rent will be \$2,708 per month for the option period. The lease has been extended for an additional 12 months.

The Priest Retirement and Disability Plan of the Roman Catholic Diocese of Las Cruces (Retirement Plan) is a separate legal entity. The Pastoral Center may be required to increase annual contributions to the plan to address the underfunded issue. As of June 30, 2016 and 2015, the latest actuarial study detailing the Plan's funding status and financial statements reported a deficit of accumulated Plan benefits of \$1,082,007 and \$1,156,218, respectively.

During the normal course of operations, the Pastoral Center may be subject to litigation. Some potential claims may be covered by insurance. In the opinion of the Pastoral Center's outside legal counsel, there is no current litigation that would be material to the financial statements.

20. LINES OF CREDIT

At June 30, 2016, the Diocese had two lines of credit with Citizens Bank of Las Cruces. One line of credit was for \$415,000 and had a maturity date of August 4, 2016. The other line of credit was for \$100,000 and has a maturity date of May 19, 2018. The interest rate is WSJP 2% adjusted daily with a floor of 5.75% and a ceiling of 20.00%. There was no outstanding balance at June 30, 2016 and 2015 on the lines of credit. The lines are secured by 1st and 2nd deeds of trust on the property located at 1280 Medpark Drive, Las Cruces, New Mexico.

(Continued)

THE ROMAN CATHOLIC DIOCESE OF LAS CRUCES PASTORAL CENTER

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

21. SUBSEQUENT EVENTS

The Pastoral Center has evaluated subsequent events through February 14, 2017, the date which the financial statements were available to be issued.

Subsequent to year end, the line of credit in the amount of \$415,000 was renewed with a maturity date of August 4, 2017. The specific purpose of the line of credit is to provide a letter of credit in favor of the New Mexico Self Insurer's Guarantee Fund (Worker's Compensation).

Subsequent to year end, the line of credit in the amount of \$100,000 matured and is now in the process of being renewed.

Subsequent to year end, the Diocese settled an insurance claim and paid \$250,000

Subsequent to year end the Diocese entered into a contract to sell the real estate for \$365,000. The Diocese portion of the proceeds was \$212,000.

SUPPLEMENTARY INFORMATION

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INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

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

We have audited the financial statements of The Roman Catholic Diocese of Las Cruces Pastoral Center as of and for the years June 30, 2016 and 2015 and have issued our report thereon dated February 14, 2017, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion of the financial statements as a whole.

The Schedule of Financial Position by Fund and Schedule of Activities by Fund is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has not been subjected to the auditing procedures applied in the audit of the financial statements but was compiled from management's information without audit or review, therefore, we do not express an opinion on the supplementary information or provide any assurance on the data presented in those two schedules.

Gibson Ruddock Patterson LLC

El Paso, Texas
February 14, 2017

THE ROMAN CATHOLIC DIOCESE OF LAS CRUCES PASTORAL CENTER

SCHEDULE OF FINANCIAL POSITION BY FUND

JUNE 30, 2016

	ASSETS			
	Fund 1	Fund 3	Fund 4	Total
Current Assets				
Cash and cash equivalents	\$ 1,431,805	\$ 3,915,730	\$ 1,130,172	\$ 6,477,707
Accounts receivable, net	251,219	-	142,623	393,842
Investments	-	2,046,638	-	2,046,638
Other assets	128,571	-	23,167	151,738
Real estate held for sale	-	211,868	-	211,868
Pledges receivable, net	328,992	-	-	328,992
Total current assets	<u>2,140,587</u>	<u>6,174,236</u>	<u>1,295,962</u>	<u>9,610,785</u>
Property and Equipment, net	<u>2,196,386</u>	-	-	<u>2,196,386</u>
Other Assets				
PIP notes receivable, net	-	1,121,041	-	1,121,041
Due from (due to) other funds	<u>(1,073,470)</u>	<u>1,055,443</u>	<u>18,027</u>	<u>-</u>
Total other assets	<u>(1,073,470)</u>	<u>2,176,484</u>	<u>18,027</u>	<u>1,121,041</u>
Total assets	<u>\$ 3,263,503</u>	<u>\$ 8,350,720</u>	<u>\$ 1,313,989</u>	<u>\$ 12,928,212</u>

See independent auditor's report on supplementary information.

THE ROMAN CATHOLIC DIOCESE OF LAS CRUCES PASTORAL CENTER

SCHEDULE OF FINANCIAL POSITION BY FUND

JUNE 30, 2016

LIABILITIES AND NET ASSETS

	Fund 1	Fund 3	Fund 4	Total
Current Liabilities				
Accounts payable	\$ 199,488	\$ 7,619	\$ 4,568	\$ 211,675
Accrued payroll and payroll taxes	90,045	-	-	90,045
UIM rebate payable	489,790	-	-	489,790
Deferred income	46,976	-	-	46,976
Self insurance reserve	-	-	92,638	92,638
Funds held for others	194,158	-	-	194,158
Current portion of long-term debt	33,106	5,359	-	38,465
Total current liabilities	1,053,563	12,978	97,206	1,163,747
Long Term Liabilities				
PIP deposits payable	-	9,242,333	-	9,242,333
Long-term debt, less current portion	9,617	-	-	9,617
Accrued priests' pension liability	1,082,007	-	-	1,082,007
Total long term liabilities	1,091,624	9,242,333	-	10,333,957
Total liabilities	2,145,187	9,255,311	97,206	11,497,704
Net Assets				
Unrestricted	900,787	(904,591)	1,216,783	1,212,979
Temporarily restricted	217,529	-	-	217,529
Total net assets	1,118,316	(904,591)	1,216,783	1,430,508
Total liabilities and net assets	\$ 3,263,503	\$ 8,350,720	\$ 1,313,989	\$ 12,928,212

See independent auditor's report on supplementary information.

THE ROMAN CATHOLIC DIOCESE OF LAS CRUCES PASTORAL CENTER

STATEMENT OF ACTIVITIES BY FUND

JUNE 30, 2016

	Fund 1	Fund 3	Fund 4	Total
Revenue and Support				
Pledged gifts	\$ 1,402,294	\$ -	\$ -	\$ 1,402,294
Contributions	193,799	-	-	193,799
Grant revenues	203,097	-	-	203,097
Parish tax assessment revenues	1,372,889	-	-	1,372,889
Insurance premium revenues	276,150	-	539,249	815,399
Other income	32,600	26,461	-	59,061
Materials, books & subscription sales	2,954	-	-	2,954
Fees	51,315	-	-	51,315
Bad debt recovery	-	790,455	-	790,455
Impairment of real estate	-	(52,000)	-	(52,000)
Interest income	5,438	267,017	3,143	275,598
Dividend income	-	75,095	-	75,095
Net investment gains (losses)	-	27,909	-	27,909
Total revenue and support	3,540,536	1,134,937	542,392	5,217,865
Expenses				
Program services				
Pastoral	254,812	-	-	254,812
Religious development	765,261	-	-	765,261
Education	496,967	-	-	496,967
Community services	108,560	-	-	108,560
Mission development	212,440	-	-	212,440
Insurance	97,312	-	-	97,312
Total program services expenses	1,935,352	-	-	1,935,352
Support Services				
General and administrative	1,042,967	38,921	73,305	1,155,193
Stewardship development	318,173	-	-	318,173
Bad debt	241,331	22,183	43,133	306,647
Interest expense	47,264	163,639	-	210,903
Property taxes	4,447	-	-	4,447
Depreciation	82,367	-	-	82,367
Total support services expenses	1,736,549	224,743	116,438	2,077,730
Total expenses	3,671,901	224,743	116,438	4,013,082
Increase in net assets before changes in pension liability	(131,365)	910,194	425,954	1,204,783
Pension related changes other than net periodic cost	60,125	-	-	60,125
Change in net assets	(71,240)	910,194	425,954	1,264,908
Net Assets - Beginning of year	1,165,556	(1,790,785)	790,829	165,600
Transfers between funds	24,000	(24,000)	-	-
Net Assets - End of year	\$ 1,118,316	\$ (904,591)	\$ 1,216,783	\$ 1,430,508

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