

THE DIOCESE OF RAPID CITY

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019



Ketel Thorstenson, LLP

Certified Public Accountants/Business & Personal Consultants

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THE DIOCESE OF RAPID CITY

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INDEPENDENT AUDITOR'S REPORT

Bishop Peter Muhich and Finance Council
The Diocese of Rapid City
Rapid City, South Dakota

We have audited the accompanying financial statements of **THE DIOCESE OF RAPID CITY** (the Diocese), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **THE DIOCESE OF RAPID CITY** as of June 30, 2020 and 2019, and its changes in net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Ketel Thorstenson, LLP".

KETEL THORSTENSON, LLP
Certified Public Accountants

November 12, 2020

THE DIOCESE OF RAPID CITY

**STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2020 AND 2019**

ASSETS	2020	2019
Current Assets		
Cash and Cash Equivalents (Note 10)	\$ 1,249,089	\$ 349,932
Accounts Receivable	132,398	444,821
Promises to Give -- Annual Appeal, Less Allowance for Uncollectible Amounts of \$70,253 and \$79,469 at June 30, 2020 and 2019, Respectively (Note 2)	170,566	202,917
Promises to Give -- Other Appeal, Current Portion, Less Allowance for Uncollectible Amounts (Note 2)	33,501	32,559
Promises to Give -- Living the Mission Appeal, Current Portion, Less Allowance for Uncollectible Amounts (Note 2)	1,740,825	1,921,564
Promise to Give -- Western SD Catholic Foundation	381,361	623,329
Prepaid Expenses	77,194	77,554
Total Current Assets	3,784,934	3,652,676
Property and Equipment (Note 3)		
Furniture, Equipment and Vehicles	1,084,954	994,527
Terra Sancta Retreat Center and Improvements	9,810,353	9,776,115
Diocesan Buildings and Improvements (Note 4)	6,886,329	433,396
	17,781,636	11,204,038
Less Accumulated Depreciation	2,462,128	2,319,672
	15,319,508	8,884,366
Land for Future Expansion, at Cost	523,328	523,328
Land	151,765	151,765
Construction in Progress	-	4,259,512
	15,994,601	13,818,971
Other Assets		
Promises to Give -- Other Appeal, Net of Allowance, Discount and Current Portion (Note 2)	16,499	28,441
Promises to Give -- Living the Mission Appeal, Net of Allowance, Discount and Current Portion (Note 2)	4,644,683	5,825,464
Other Assets	2,348	2,332
Investment -- Securities (Notes 4 and 10)	5,236,494	6,113,218
Accrued Interest Receivable	14,139	19,236
Investment -- Cash Surrender Value of Life Insurance	80,024	86,473
Investment -- SM Properties, LLC	512,570	562,841
	10,506,757	12,638,005
TOTAL ASSETS	\$ 30,286,292	\$ 30,109,652

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS	2020	2019
Current Liabilities		
Current Maturities of Long-Term Debt (Note 4)	\$ 115,691	\$ 112,453
Line of Credit (Note 4)	252,000	-
Accounts Payable and Accrued Liabilities	146,906	300,076
Grants and Contributions Held for Others (Note 5)	27,688	41,336
Amounts Held for Others -- Other Appeals	6,510	5,335
Amounts Held for Others -- Miscellaneous	216,063	209,937
Amounts Held for Others -- Living the Mission (Note 2)	2,526,348	2,018,286
Refundable Advance (Note 13)	392,605	-
Total Current Liabilities	3,683,811	2,687,423
Long-term Liabilities		
Long-Term Debt, Less Current Maturities (Note 4)	3,045,828	3,155,100
Line of Credit (Note 4)	1,119,521	1,115,723
Guarantee Liability (Note 4)	-	7,759
	4,165,349	4,278,582
 Commitments (Notes 3, 4 and 11)		
 Net Assets		
<i>With Donor Restrictions:</i> (Notes 8 and 9)		
Restricted in Perpetuity	2,480,750	2,426,520
Purpose/Time Restrictions	1,995,004	2,217,725
Total Net Assets with Donor Restrictions	4,475,754	4,644,245
<i>Without Donor Restrictions:</i>		
Designated (Note 7)	7,000,033	7,092,442
Undesignated	10,961,345	11,406,960
Total Net Assets without Donor Restrictions	17,961,378	18,499,402
Total Net Assets	22,437,132	23,143,647
 TOTAL LIABILITIES AND NET ASSETS	 \$ 30,286,292	 \$ 30,109,652

THE DIOCESE OF RAPID CITY

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2020**

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenues			
Annual Appeal	\$ 1,423,087	\$ -	\$ 1,423,087
Living the Mission Appeal (Note 2)	700,975	-	700,975
Western SD Catholic Foundation Grant	-	381,361	381,361
Contract Services	209,550	-	209,550
Investment Return, Net	10,575	164,557	175,132
Gifts and Bequests	114,933	58,460	173,393
Programs	169,025	3,355	172,380
Terra Sancta Retreat Center Fees	155,074	-	155,074
Adopt A Seminarian Appeal	-	119,344	119,344
Other Grants	-	77,500	77,500
Catholic Extension Society Grants	-	74,176	74,176
Committee on Home Missions Grants	-	50,000	50,000
Parish Assessments	40,808	-	40,808
Mission Coop Program Contributions	24,282	-	24,282
Black and Indian Mission Office Grants	-	24,000	24,000
We Walk By Faith Appeal	-	17,955	17,955
Loss on the Sale of Property	(4,785)	-	(4,785)
SM Properties LLC Investment Loss	(271)	-	(271)
Net Assets Released from Restriction	1,139,199	(1,139,199)	-
Total Support and Revenues	3,982,452	(168,491)	3,813,961
Expenses			
Program Services	3,416,131	-	3,416,131
Management and General	757,055	-	757,055
Fundraising	355,049	-	355,049
Total Expenses	4,528,235	-	4,528,235
Change In Net Assets Before Other Income	(545,783)	(168,491)	(714,274)
Other Income			
Contribution Revenue - Change in Fair Value of Debt Guarantee for Unrelated Party (Note 4)	7,759	-	7,759
Total Other Income	7,759	-	7,759
Change in Net Assets	(538,024)	(168,491)	(706,515)
Net Assets - Beginning of Year	18,499,402	4,644,245	23,143,647
Net Assets -- End of Year	\$ 17,961,378	\$ 4,475,754	\$ 22,437,132

The accompanying notes are an integral part of this statement.

THE DIOCESE OF RAPID CITY

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2019**

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenues			
Annual Appeal	\$ 1,592,642	\$ -	\$ 1,592,642
Living the Mission Appeal (Note 2)	9,704,615	-	9,704,615
Western SD Catholic Foundation Grant	-	659,903	659,903
Contract Services	197,315	-	197,315
Investment Return, Net	122,847	284,075	406,922
Gifts and Bequests	89,559	21,356	110,915
Programs	310,761	4,160	314,921
Terra Sancta Retreat Center Fees	196,795	-	196,795
Adopt A Seminarian Appeal	-	163,020	163,020
Other Grants	-	51,725	51,725
Catholic Extension Society Grants	-	72,691	72,691
Committee on Home Missions Grants	-	60,500	60,500
Parish Assessments	42,700	-	42,700
Mission Coop Program Contributions	13,689	-	13,689
Black and Indian Mission Office Grants	-	24,000	24,000
We Walk By Faith Appeal	-	4,285	4,285
Gain on the Sale of Property	19,837	-	19,837
SM Properties LLC Investment Loss	(386)	-	(386)
Net Assets Released from Restriction	1,685,979	(1,685,979)	-
Total Support and Revenues	13,976,353	(340,264)	13,636,089
Expenses			
Program Services	5,626,629	-	5,626,629
Management and General	851,055	-	851,055
Fundraising	1,875,865	-	1,875,865
Total Expenses	8,353,549	-	8,353,549
Change In Net Assets Before Other Income	5,622,804	(340,264)	5,282,540
Other Income			
Contribution Revenue - Change in Fair Value of Debt Guarantee for Unrelated Party (Note 4)	8,240	-	8,240
Total Other Income	8,240	-	8,240
Change in Net Assets	5,631,044	(340,264)	5,290,780
Net Assets - Beginning of Year	12,868,358	4,984,509	17,852,867
Net Assets -- End of Year	\$ 18,499,402	\$ 4,644,245	\$ 23,143,647

The accompanying notes are an integral part of this statement.

THE DIOCESE OF RAPID CITY

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020**

	PROGRAM SERVICES			
	Evangelization and Outreach	Seminarian and Clergy	Other	Total Program
Salaries and Wages	\$ 912,046	\$ 105,367	\$ 110,183	\$ 1,127,596
Grants and Assistance - Parishes and RCCSS (Note 2)	-	-	508,062	508,062
Grants and Assistance	66,344	25,849	253,396	345,589
Employee Benefits (Note 6)	145,209	75,634	39,221	260,064
Depreciation	209,325	2,718	11,591	223,634
Training and Development	3,685	197,989	-	201,674
Conferences, Conventions and Meetings	95,081	30,954	38,940	164,975
Occupancy	106,126	-	8,371	114,497
Office Expenses	80,385	20,723	12,060	113,168
Payroll Taxes	67,502	6,402	6,768	80,672
Retreat Center Food and Supplies	116,170	-	-	116,170
Contract Services	-	-	-	-
Information Technology	27,593	11,144	3,995	42,732
Professional Services	23,819	36	738	24,593
Travel	584	6,592	10,639	17,815
Insurance	27,782	-	3,295	31,077
Other	16,571	-	6,714	23,285
Accounting Fees	2,186	2,186	1,093	5,465
Legal Fees	-	-	4,501	4,501
Advertising and Promotion	10,306	-	256	10,562
Interest	-	-	-	-
Total Expenses	\$ 1,910,714	\$ 485,594	\$ 1,019,823	\$ 3,416,131

The accompanying notes are an integral part of this statement.

SUPPORTING SERVICES

Management and General	Fundraising	Total
\$ 424,297	\$ 133,520	\$ 1,685,413
-	-	508,062
-	-	345,589
103,885	18,350	382,299
32,454	21,597	277,685
-	-	201,674
2,211	491	167,677
40,762	1,674	156,933
19,266	6,097	138,531
28,746	10,093	119,511
-	-	116,170
-	97,814	97,814
35,685	3,897	82,314
251	46,554	71,398
17,513	5,736	41,064
9,023	572	40,672
14,338	1,911	39,534
15,304	1,093	21,862
12,603	900	18,004
717	1,091	12,370
-	3,659	3,659
\$ 757,055	\$ 355,049	\$ 4,528,235

THE DIOCESE OF RAPID CITY

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019**

	PROGRAM SERVICES			
	Evangelization and Outreach	Seminarian and Clergy	Other	Total Program
Salaries and Wages	\$ 845,804	\$ 82,353	\$ 119,302	\$ 1,047,459
Grants and Assistance - Parishes (Note 2)	-	-	2,018,286	2,018,286
Grants and Assistance (Note 11)	72,236	513,326	285,558	871,120
Employee Benefits (Note 6)	138,395	61,111	43,913	243,419
Depreciation	199,448	-	11,287	210,735
Training and Development	7,897	281,098	-	288,995
Conferences, Conventions and Meetings	149,224	65,922	84,731	299,877
Occupancy	126,470	3,720	7,897	138,087
Office Expenses	88,138	14,320	8,611	111,069
Payroll Taxes	63,941	6,965	7,096	78,002
Retreat Center Food and Supplies	165,136	-	-	165,136
Contract Services	-	-	-	-
Information Technology	20,656	3,585	4,516	28,757
Professional Services	12,320	16	16	12,352
Travel	5,596	9,268	13,778	28,642
Insurance	25,572	1,066	2,158	28,796
Other	27,475	2,734	5,093	35,302
Accounting Fees	867	867	867	2,601
Legal Fees	-	-	7,063	7,063
Advertising and Promotion	10,527	-	404	10,931
Total Expenses	\$ 1,959,702	\$ 1,046,351	\$ 2,620,576	\$ 5,626,629

The accompanying notes are an integral part of this statement.

SUPPORTING SERVICES

Management and General	Fundraising	Total
\$ 476,549	\$ 155,005	\$ 1,679,013
-	-	2,018,286
31,068	1,981	904,169
132,403	20,868	396,690
31,602	7,973	250,310
-	-	288,995
2,441	1,516	303,834
22,111	1,579	161,777
14,170	7,185	132,424
31,067	11,162	120,231
-	-	165,136
-	61,392	61,392
39,492	3,661	71,910
452	1,580,779	1,593,583
22,511	16,279	67,432
6,042	432	35,270
8,186	588	44,076
12,144	2,602	17,347
19,776	1,413	28,252
1,041	1,450	13,422
\$ 851,055	\$ 1,875,865	\$ 8,353,549

THE DIOCESE OF RAPID CITY

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

	2020	2019
Cash Flows from Operating Activities		
Change in Net Assets	\$ (706,515)	\$ 5,290,780
<i>Adjustments to Reconcile Change in Net Assets to</i>		
<i>Net Cash Provided by (Used in) Operating Activities:</i>		
Depreciation	277,685	250,310
Non-Cash Losses in SM Properties, LLC	271	386
Non-Cash Change in Fair Value of Guarantee Liability	(7,759)	(8,240)
Loss (Gain) on Sale of Property and Equipment	4,785	(19,837)
Net Realized and Unrealized Gain on Investments	(80,822)	(311,242)
Donated Investments	(70,955)	(162,090)
Provisions for Uncollectible Promises to Give	74,741	309,211
Net Change of Present Value Discount	(109,447)	358,950
Contributions Restricted for Long-Term Purposes	(673,750)	(10,331,699)
<i>Working Capital Changes Increasing (Decreasing)</i>		
<i>Cash and Cash Equivalents:</i>		
Accounts Receivable	312,423	(247,815)
Promises to Give -- Annual Appeal	32,351	(7,329)
Promises to Give -- Other and Living the Mission Appeals	11,000	58,620
Promises to Give -- Western SD Catholic Foundation	241,968	51,671
Prepaid Expenses	360	(11,085)
Accrued Interest Receivable	5,097	3,912
Accounts Payable and Accrued Liabilities	(153,170)	4,950
Grants and Contributions Held for Others	(13,648)	10,691
Amounts Held for Others -- Other Appeals	1,175	5,150
Amounts Held for Others -- Living the Mission	508,062	2,018,286
Amounts Held for Others -- Miscellaneous	6,126	(4,918)
Refundable Advance	392,605	-
Net Cash Flows Provided by (Used in) Operating Activities	52,583	(2,741,338)
Cash Flows from Investing Activities		
Purchases of Property and Equipment	(1,033,637)	(25,018)
Change in Other Assets	(16)	222
Proceeds from Sale of Property and Equipment	4,800	24,000
Cash Surrender Value of Life Insurance	6,449	(633)
Proceeds from Sale of Investments	2,594,913	3,610,244
Distribution from SM Properties, LLC	50,000	-
Purchases of Investments	(1,566,412)	(2,656,469)
Net Cash Flows Provided by Investing Activities	56,097	952,346

THE DIOCESE OF RAPID CITY

**STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

Cash Flows from Financing Activities		
Repayments of Long Term Debt	(106,034)	(55,877)
Repayments on Line of Credit	(1,173,465)	-
Collections of Contributions Restricted for Long-Term Purposes	2,069,976	1,916,510
Net Cash Flows Provided by Financing Activities	790,477	1,860,633
Increase in Cash and Cash Equivalents		
	899,157	71,641
Cash and Cash Equivalents -- Beginning of Year	349,932	278,291
Cash and Cash Equivalents -- End of Year	\$ 1,249,089	\$ 349,932
Supplemental Disclosure of Cash Flow Information		
Cash Payments for Interest, Net Capitalized Interest of \$165,645 and \$36,625 at June 30, 2020 and 2019, Respectively	\$ 3,659	\$ -
Supplemental Schedule of Noncash Investing and Financing Transactions		
Borrowings on Line of Credit for Building Renovations	\$ 1,429,263	\$ 1,115,723
Borrowings of Long-Term Debt for Purchase of Building	-	3,200,000
Property Acquired with Accounts Payable	-	40,996

The accompanying notes are an integral part of these statements.

THE DIOCESE OF RAPID CITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

(1) Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The Diocese of Rapid City (the Diocese) is a not-for-profit organization that provides Roman Catholic administration and programs to the western South Dakota area. Revenues are derived primarily from contributions and grants. Major programs sponsored by the Diocese include Evangelization and Outreach, Seminarian and Clergy and Other, which includes tribunal, safe environment and grants to various Catholic organizations and parishes. The Diocese's viability is dependent on the number of individuals participating in the Catholic programs offered within the Diocese, and the Diocese's ability to collect on its contracts. Evangelization and Outreach expenses directly relate to hosting and preparing evangelization programs for the family life ministry, lay ministries, adult faith formation, youth ministry and communications, as well as outreach programs associated with the native ministries and parish stewardship. Seminarian and Clergy expenses directly relate to the initial training and recruiting of seminarians and deacons, as well as the ongoing Diocesan support of priests and deacons of the Diocese.

Individual parishes or any other affiliated organizations under the jurisdiction of the Bishop located within the Diocese are separate legal entities. The Diocese has no control or economic interest in the individual parishes or other affiliated organizations; therefore, the finances of these parishes are not included in the accompanying financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts and disclosures reported in the financial statements. Actual results could differ from those estimates. Significant estimates included in the accompanying financial statements are the allowance for uncollectible promises to give and present value of promises to give. It is at least reasonably possible that these estimates could change significantly in the near term.

Financial Statement Presentation

The financial statements of the Diocese are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The accounts of the Diocese are reported in the following net asset categories:

Net Assets with Donor Restrictions – Net assets of the Diocese that are subject to donor-imposed restrictions (donors include other types of contributors, including makers of certain grants). Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Net Assets without Donor Restrictions – Net assets of the Diocese that are not subject to donor-imposed restrictions and are available for general operations. In addition, the Finance Council may designate net assets without donor restriction for specific purposes.

Cash and Cash Equivalents

For financial statement purposes, the Diocese considers all highly liquid investments available for current use with an original maturity of three months or less to be cash equivalents. The Diocese's cash and cash equivalent accounts may, at times, exceed federally insured limits. The Diocese has not experienced any losses on such accounts and feels the risk of exposure to loss is minimal.

THE DIOCESE OF RAPID CITY

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020 AND 2019**

(1) Nature of Operations and Summary of Significant Accounting Policies (Continued)

Accounts Receivable

Accounts receivable consist of amounts due from parishes and other organizations within the Diocese. Accounts receivable are billed out monthly and are due within thirty days of the invoice date. No interest is charged on past due amounts. All amounts at June 30, 2020, are current, and the Diocese considers them to be fully collectible. Accordingly, no allowance for doubtful accounts is recorded. If amounts become uncollectible, they will be charged to operations when that determination is made.

Property and Equipment

Property and equipment purchased in excess of \$250 is capitalized at cost. Donated property and equipment is stated at fair market value at the date of the donation. Depreciation is computed using the straight-line method over the following estimated useful lives:

Furniture, Equipment and Vehicles	5-10 Years
Buildings and Improvements	40-50 Years

The Diocese and St. Elizabeth Seton Central Catholic Corporation (the School), an unrelated entity, each own a portion of the Terra Sancta building, and have signed an agreement that dictates how common costs (i.e. utilities, maintenance, and costs directly related to common areas) are allocated to each entity.

Investment -- Securities

The Diocese records its investments at fair market value with changes in fair market value accounted for in the Statement of Activities and Changes in Net Assets. Donated investments are recorded at the estimated fair market value on the date of the donation. Net investment return consists of realized and unrealized gains and losses, interest and dividend income, and external investment expenses. Amounts are classified according to donor stipulation. Realized gains and losses are determined on a specific identity basis.

Investments are managed by professional investment managers whose performance is monitored by management and the Diocese's investment committee of the Board of Directors. Although the fair value of investments is subject to fluctuation on a year-to-year basis, management and the investment committee believe the investment policies and guidelines are prudent for the long-term welfare of the Diocese.

Investment -- SM Properties, LLC

The Diocese accounts for its 50 percent interest in SM Properties, LLC (the LLC) under the equity method. The LLC holds and maintains vacant land adjacent to the Terra Sancta Retreat Center. Activity in the current year represents the Diocese's share of income or loss for the year ended June 30, 2020 and 2019. The Diocese also received a distribution for **\$50,000** for the year ended June 30, 2020.

Long-Lived Assets

Impairment losses are recorded when indicators of impairment are present and the carrying amount of a long-lived asset exceeds its fair market value. In addition, management reviews useful lives of long-lived assets annually. No assets were deemed impaired in 2020 or 2019 based on management's analysis.

Amounts Held for Others

Amounts held for others represent voluntary transfers of assets to the Diocese by certain individuals and dioceses. As the Diocese is not the specified beneficiary, these agency transactions are not accounted for in the Statement of Activities and Changes in Net Assets. Although the beneficiaries may intend to maintain the funds for an extended period of time, the funds can be withdrawn at any time. The Diocese invests these funds and allocates a ratable amount of return to the Amounts Held for Others on a quarterly basis.

THE DIOCESE OF RAPID CITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2020 AND 2019

(1) Nature of Operations and Summary of Significant Accounting Policies (Continued)

Support and Revenue Recognition

Contributions and Promises to Give

Contributions of cash and other assets are recorded as support in the period received at their fair values and are distinguished between those that increase net assets with and without donor restriction. Unconditional promises to give are recognized upon donor notification as revenues in the period pledged. Amounts due after one year are recorded at their present value, using an applicable discount rate. Conditional promises to give – that is, those with a measurable performance or other barrier and right of return – are not recognized until the conditions on which they depend have been met. An allowance for uncollectible promises to give is estimated based on previous collection history and potential collection problems.

Grants

The Diocese receives grants from various sources. Each grant is analyzed to determine whether it is deemed an exchange transaction (where both the grantee and grantor receive commensurate benefits) or a contribution. All grants received during the years ended June 30, 2020 and 2019 are considered contributions.

Contract Services

The Diocese provides contract accounting services to parishes located within the Diocese. Services are provided under a contract that can be terminated with 30-day notice. The services provided under the contract may include reconciliations, processing, and financial statement preparation, all of which are integrated as accounting services. Revenue is recognized monthly over the term of the contract (output method).

Programs

Various programs are conducted throughout the year. Registration fees vary by program and are collected in advance. All programs are short-term in nature, and revenue is recognized at the time the program takes place.

Terra Sancta Retreat Center Fees

Retreat center fees are charged for specific events held at Terra Sancta and may include meeting room rental, sleeping room rental, and food service. Income is recognized at the time the event takes place and is net of sales tax collected.

Contributed Services

Contributions of services that create or enhance non-financial assets or those that require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation are recorded at their fair value in the period received. No significant amounts meeting this criteria were received in the years ended June 30, 2020 and 2019. The Diocese receives a significant amount of donated services from unpaid volunteers. A dollar valuation of these services is not reflected in the financial statements since it does not meet the criteria for recognition.

Expense Allocation

The costs of providing programs and other activities have been summarized on a functional basis in the Statement of Activities and Changes in Net Assets. The Statement of Functional Expenses presents the natural classification detail of expenses by function. Certain expenses can be directly allocated to program or supporting functions. Other categories of expenses are attributable to more than one program or supporting function and require allocation in a reasonable basis that is consistently applied. Specifically, wages are allocated based on estimates of time spent on each function, and occupancy expenses are allocated based on estimated square footage.

THE DIOCESE OF RAPID CITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2020 AND 2019

(1) Nature of Operations and Summary of Significant Accounting Policies (Continued)

Federal Income Tax

The Diocese qualifies as an exempt organization under a group ruling issued by the Internal Revenue Service. Accordingly, the Diocese is considered a Section 501(c)(3) organization and is not required to file the annual information Form 990, as it is considered to be a church-affiliated organization. In addition, it is not considered to be a “private foundation” within the meaning of Section 509(a) of the Internal Revenue Code. At June 30, 2020, the Diocese believes no significant uncertain tax positions or liabilities exist. No federal income tax is paid unless net income is derived from activities that are unrelated to its exempt activities. No such activities are conducted.

Reclassifications

Certain reclassifications have been made to the 2019 financial statements to conform to the 2020 presentation, with no effect on previously reported net assets for the year ended June 30, 2019.

Adopted Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), which outlines five steps to achieve proper revenue recognition: identify the contract with the customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue when (or as) the entity satisfies the performance obligation. The Diocese early adopted the new guidance during the year ended June 30, 2020 using the modified retrospective method, which applied to contracts not completed as of July 1, 2019 (the date of initial application). Adoption of this standard resulted in no changes to revenue recognition for the Diocese as revenue recognition methods were materially consistent with the new guidance. Accounting policy changes are described above.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which will assist entities in determining whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions. This determination is based on whether or not the resource provider is receiving commensurate value in return for resources transferred and clarifies that executing the mission or providing societal benefit does not equate to commensurate value. The standard also assists entities in determining whether a contribution is conditional on the basis of whether a barrier must be overcome and either a right of return of assets transferred or a right of release of the promisor from its obligation to transfer assets exists. The Diocese adopted this standard during the year ended June 30, 2020 on a modified prospective basis for all agreements not completed as of June 30, 2019. No material impact to the financial statements occurred as a result of adoption, and no adjustment to beginning net assets was made.

Emerging Accounting Pronouncement

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* which supersedes FASB ASC Topic 840, *Leases (Topic 840)* and provides principles for the recognition, measurement, presentation, and disclosure of leases for both lessees and lessors. The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than twelve months regardless of classification. If the available accounting election is made, leases with a term of twelve months or less can be accounted for similar to existing guidance for operating leases. The standard is effective for fiscal years beginning after December 15, 2021, with early adoption permitted. The Diocese is currently evaluating the impact this standard will have on the financial statements.

THE DIOCESE OF RAPID CITY

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020 AND 2019**

(1) Nature of Operations and Summary of Significant Accounting Policies (Concluded)

Emerging Accounting Pronouncement (Continued)

In September 2020, the FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires that contributions of nonfinancial assets be reported in a separate line item within the Statement of Activities. Additional disclosures are also required, to include whether the contributions are monetized or utilized by the entity, the existence of any donor restrictions related to the assets, and how fair value was determined. The standard is effective for years beginning after June 15, 2021. The Organization will be evaluating the impact this standard will have on the financial statements.

Subsequent Events

Subsequent events have been evaluated through November 12, 2020, the date which the financial statements were available to be issued.

(2) Promises to Give

Annual Appeal

The Diocese conducts an annual campaign to support general Diocesan operations. Contributions from members of the Finance Council and employees of the Diocese totaling approximately **\$21,000** and \$25,000, were made during the years ended June 30, 2020 and 2019, respectively.

Other Appeal

During 2009, the Diocese commenced the “We Walk by Faith” fund-raising capital appeal to raise \$12,500,000 over a five-year time period. The fundraiser consists of capital appeals for both the Diocese and the School, along with campus ministries, and is being managed by the Diocese.

As of June 30, 2020, and 2019, the Diocese has received conditional promises to give of approximately **\$1,500,000**, which have not been recorded in these financial statements. These conditional promises to give are expected to be received as bequests upon the deaths of the contributors and will be recognized as revenue at the time such bequests are irrevocable.

At June 30, remaining unconditional promises to give were as follows:

	2020	2019
Due in less than one year	\$ 40,000	\$ 46,936
Due in one to five years	19,700	41,000
	59,700	87,936
Allowance for Uncollectible Amounts	(9,700)	(26,936)
Net Promises to Give	\$ 50,000	\$ 61,000

Living the Mission Appeal

During 2019, the Diocese commenced the “Living the Mission” fund-raising capital appeal to raise \$12,000,000 over a five-year time period. Funds raised are intended to be used to fund projects identified through the 2018 feasibility study; however, final use of the funds raised is at the discretion of the Bishop. Projects were approved during 2020 and include a new pastoral center, renovation of the Catholic high school kitchen and cafeteria, endowments for Catholic Schools and Native American Ministries and priest retirement. The appeal also promised parishes in the Diocese a contribution if the parish met its assigned appeal goal. The parish share of the appeal and funds approved for Catholic Schools (RCCSS) are included in Amounts Held for Others – Living the Mission in the accompanying Statements of Financial Position.

THE DIOCESE OF RAPID CITY

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020 AND 2019**

(2) Promises to Give (Continued)

At June 30, remaining unconditional promises to give were as follows:

	<u>2020</u>	<u>2019</u>
Due in less than one year	\$ 1,841,562	\$ 1,994,864
Due in one to five years	5,177,401	6,420,325
	<u>7,018,963</u>	8,415,189
Present Value Discount - 2.5%	(249,503)	(358,950)
Allowance for Uncollectible Amounts	(383,952)	(309,211)
Net Promises to Give	<u>\$ 6,385,508</u>	<u>\$ 7,747,028</u>

Balances of promises to give (before applying the discount rate) from members of the Finance Council and employees of the Diocese totaled **\$128,286** and \$201,000 on June 30, 2020 and 2019, respectively. Of the June 30, 2020 and 2019 promises to give **19** and 23 percent, respectively, is attributable to five contributors.

(3) Priest Retirement Home Lease

During 2002, the Diocese completed construction of a priest retirement home on land that is leased from a parish within the Diocese at a nominal annual rate. In addition, the Diocese is leasing the priest retirement home to Casa Maria, Inc., an unrelated not-for-profit organization, at a nominal annual rate. Casa Maria, Inc. is providing all management services for the priest retirement home, including maintenance of the building. Both leases have a 99-year term with the option to renew for an additional 99 years. As such, this property qualifies as a capital lease, and the asset is properly not recorded. The Diocese still maintains legal title to the priest retirement home and intends to continue exercising its rights under the lease agreement as legal owners.

(4) Debt Agreements

During the year ended June 30, 2019, the Diocese entered into a revolving line of credit agreement to fund construction of a pastoral center. Borrowings are based on the value and type of securities in the investment portfolio, which secures the debt. The credit line bears interest at a rate determined by RBC Wealth Management, subject to a borrowing base calculation (1.37 percent at June 30, 2020). Borrowings total **\$1,119,521** and \$1,115,723 at June 30, 2020 and 2019, respectively. The line of credit has no repayment schedule and is therefore included in long term liabilities.

The Diocese also has a \$890,000 line of credit which expires on April 30, 2021. The credit line bears interest at 4.00 percent and is secured by the pastoral center. Borrowings totaled **\$252,000** on the line of credit at June 30, 2020.

Other long-term debt consists of the following at June 30:

	<u>2020</u>	<u>2019</u>
Note payable to a credit union due in monthly installments of \$17,787, including interest at 4.50 percent, with a balloon payment due in March 2029, secured by real estate purchased. (Note 2)	\$ 3,120,369	\$ 3,185,263
Non-interest bearing Energy Efficiency Conservation Block Grant Loan from the Governor's Office of Economic Development State Energy Plan, due in ten annual installments of \$41,140 on July 1, unsecured.	41,150	82,290
	<u>3,161,519</u>	3,267,553
Less Current Maturities	115,691	112,453
	<u>\$ 3,045,828</u>	<u>\$ 3,155,100</u>

THE DIOCESE OF RAPID CITY

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020 AND 2019**

(4) Debt Agreements (Continued)

The Diocese guaranteed the US Bank debt of the School and was obligated to perform under this guarantee if the School failed to pay principal and interest payments to the lender when due. The School refinanced this debt through another financial institution in 2020, and, therefore the guarantee agreement was terminated.

Maturities of long-term debt are as follows for the years ending June 30:

2021	115,691
2022	77,966
2023	81,548
2024	84,941
2025	89,196
Thereafter	2,712,177
	\$ 3,161,519

(5) Grants and Contributions Held for Others

Certain grants are received for the benefit of the Diocese, which are recorded as contributions. Other grants and contributions are received by the Diocese for the benefit of others, which are recorded as amounts held for others. Grants and contributions held for others on the Statements of Financial Position represent amounts due to specified unaffiliated beneficiaries. A summary of grant funds passed through the Diocese and therefore not included on the Statements of Activities and Changes in Net Assets is as follows for the years ended June 30:

	2020	2019
Catholic Extension Society	\$ 45,000	\$ 100,000
Black and Indian Mission Office	82,000	86,000

(6) Pension Plan

The Diocese has a 403(b) pension plan covering full and part-time employees working 30 hours or more per week. Matching contributions by the Diocese are discretionary. Employer contributions totaling **\$48,006** and \$46,752 were made for the **32** and 34 eligible employees during the years ended June 30, 2020 and 2019, respectively.

(7) Designated Net Assets

Net assets without donor restrictions represent resources over which the Finance Council has advisory control. Included in net assets without donor restrictions at June 30 are designations for the following:

	2020	2019
Living the Mission - General	\$ 4,480,238	\$ 5,925,194
Living the Mission - Pastoral Center	1,228,941	-
Facility Fund	489,807	487,304
Administrative Fund	299,593	528,484
Living the Mission - Priest's Retirement	175,563	-
Living the Mission - Native Ministry	175,563	-
Bishop's Retirement Fund	76,744	70,416
Future Debt Payments	37,871	8,916
Terra Sancta Guild - Operations	28,391	26,632
Bishop's Mission Fund	7,322	45,496
	\$ 7,000,033	\$ 7,092,442

THE DIOCESE OF RAPID CITY

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020 AND 2019**

(8) Restrictions on Net Assets

Net assets restricted in perpetuity at June 30 represent contributions and bequests which have been accepted with the donor stipulation that the principal be maintained intact in perpetuity (Note 9) with only the income to be utilized for the purposes listed below.

	<u>2020</u>	<u>2019</u>
Seminary Burse Fund	\$ 2,084,759	\$ 2,031,129
Terra Sancta Guild - Operations	160,241	159,021
Travel Trust	151,801	150,855
Bishop Residence	83,949	85,515
	<u>\$ 2,480,750</u>	<u>\$ 2,426,520</u>

Net assets with donor restrictions at June 30 are available for the following purposes:

	<u>2020</u>	<u>2019</u>
Priest Education	\$ 461,237	\$ 465,622
Bishop's Overseas Fund	327,417	326,131
Adopt a Seminarian	296,851	303,715
Western SD Catholic Foundation - Operations	250,000	350,000
Native American Ministries	189,150	204,493
Foreign Mission	172,255	165,604
We Walk By Faith Appeal -- General Project Needs (Note 2) *	57,191	60,433
Terra Sancta Retreat Operations	53,142	128,978
Seminary Burse Fund (Note 9)	37,620	99,480
Bishop Installation	36,673	-
Theology Education	31,969	30,735
Leichtnam Memorial Trust - Vocations/Religious Education/CSS	27,774	31,508
Terra Sancta Guild - Operations (Note 9)	17,027	11,237
Lay Ministry - Association	13,679	12,978
National Pastoral Musician	4,694	5,219
St. Francis Fund - Poor	4,139	2,169
Family Life	4,044	3,887
Campaign for Human Development	3,542	1,714
Travel Trust (Note 9)	1,958	2,736
Lay Ministry - Education	1,648	1,584
Bishop's Admin Charity Fund	1,320	7,893
Hispanic Ministry Fund	1,038	998
Rachel's Vineyard	636	611
	<u>\$ 1,995,004</u>	<u>\$ 2,217,725</u>

Substantially all investment income earned on purpose restricted investments is recorded as net assets with donor restrictions. In addition, investment income from funds held in perpetuity, which is available for expenditure to support programs for the Diocese, is reported as income in these purpose restricted funds.

In accordance with donor agreements, realized and unrealized gains are allocated in part to net assets restricted in perpetuity to provide for inflationary growth of the funds. In addition, the agreements provide for realized and unrealized investment losses to be deducted from net assets restricted in perpetuity. In such cases, the Diocese's intent and understanding with donors is to restore any losses with future gains.

* The Diocese completed its construction of the Terra Sancta facility during the fiscal year ended June 30, 2015. As such, the purpose restriction of these net assets had been met. However, a time restriction still exists for the remaining promises to give under the capital campaign (Note 2). Accordingly, amounts were released to the extent of balances remaining on the net promises to give as of June 30, 2020.

THE DIOCESE OF RAPID CITY

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020 AND 2019**

(9) Endowment Funds

The Finance Council has interpreted the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Diocese classifies as net assets with donor restrictions for perpetuity (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not held in perpetuity is considered donor restricted until those amounts are appropriated for expenditure by the Diocese in a manner consistent with the standard of prudence prescribed by state law.

No board designated endowment funds exist at June 30, 2020 or 2019. Changes in donor-restricted endowment net assets for the years ended June 30, 2020 and 2019, are as follows:

	<u>With Donor Restrictions</u>		Totals
	Time/Purpose	Perpetuity	
Endowment, Net Assets - June 30, 2018	\$ 79,846	\$ 2,313,992	\$ 2,393,838
Investment Return, Net	52,729	110,066	162,795
Contributions	-	2,462	2,462
<u>Appropriation for Expenditure</u>	<u>(19,122)</u>	<u>-</u>	<u>(19,122)</u>
Endowment, Net Assets - June 30, 2019	113,453	2,426,520	\$ 2,539,973
Investment Return, Net	50,433	51,678	102,111
Contributions	-	2,552	2,552
<u>Appropriation for Expenditure</u>	<u>(107,281)</u>	<u>-</u>	<u>(107,281)</u>
Endowment, Net Assets - June 30, 2020	\$ 56,605	\$ 2,480,750	\$ 2,537,355

The Diocese has adopted investment and spending policies for endowment assets that attempt to provide a predictable growth for its endowment. The Finance Council has approved an allocation of investment return that includes allocating unrealized and realized gains/losses to net assets restricted in perpetuity. The current long-term return objective is to achieve a moderate rate of return; however, actual returns in any given year may vary. The investment policy attempts to achieve this goal through asset diversification, to include limits on individual securities and asset classes. The Diocese considers the following factors in determining whether to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purposes of the Diocese and the donor-restricted endowment fund;
- General economic conditions;
- The possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments;
- Other resources of the Diocese.

(10) Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The three-level fair value hierarchy is defined as follows:

- Level One: observable inputs such as quoted market prices for identical assets or liabilities in active markets. The types of assets and liabilities included in Level One are highly liquid and actively traded instruments with quoted market prices.

THE DIOCESE OF RAPID CITY

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020 AND 2019**

(10) Fair Value Measurements (Continued)

- Level Two: inputs include quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability. The types of assets and liabilities included in Level Two are typically either comparable to actively traded securities or priced with models using observable inputs.
- Level Three: inputs are based on prices or valuation techniques that are unobservable. These types of assets and liabilities require significant management judgment or estimation.

Money Market: These are valued at the exit price of \$1 per share. The Diocese's money market and cash equivalent investments may, at times, exceed federally insured limits. The Diocese has not experienced any losses on such accounts and feels the risk of exposure to loss is minimal.

Bonds: These are valued at either the yields currently available on comparable securities of issuers with similar credit ratings or valued under a discounted cash flow approach that maximizes observable inputs such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable such as credit and liquidity risks.

Annuities: These are held at a life insurance company and are valued based on the underlying securities, which are comprised mostly of actively traded mutual funds.

The following table presents the assets measured at fair value on a recurring basis as of June 30, 2020 and 2019, on the accompanying Statements of Financial Position by the three-level fair value hierarchy. No other assets or liabilities are measured at fair value on a recurring or nonrecurring basis.

As of June 30, 2020	Level One	Level Two	Level Three	Total
<i>Money Market included in Cash Equivalents</i>	\$ 782,082	\$ -	\$ -	\$ 782,082
<i>Investments</i>				
<i>Bonds</i>	-	2,762,770	-	2,762,770
<i>Equities</i>				
Large Cap Stock	889,220	-	-	889,220
Mid Cap Stock	166,478	-	-	166,478
International Stock	706,822	-	-	706,822
<i>Mixed Funds</i>	187,021	-	-	187,021
<i>Real Estate Securities</i>	19,180	-	-	19,180
<i>Annuities</i>	-	505,003	-	505,003
Total Investments	1,968,721	3,267,773	-	5,236,494

As of June 30, 2019	Level One	Level Two	Level Three	Total
<i>Money Market included in Cash Equivalents</i>	\$ 160,756	\$ -	\$ -	\$ 160,756
<i>Investments</i>				
<i>Bonds</i>	-	3,920,412	-	3,920,412
<i>Equities</i>				
Large Cap Stock	729,700	-	-	729,700
Mid Cap Stock	118,576	-	-	118,576
International Stock	634,787	-	-	634,787
<i>Mixed Funds</i>	178,011	-	-	178,011
<i>Real Estate Securities</i>	13,789	-	-	13,789
<i>Annuities</i>	-	517,943	-	517,943
Total Investments	1,674,863	4,438,355	-	6,113,218

THE DIOCESE OF RAPID CITY

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020 AND 2019**

(11) Defined Benefit Pension Plan

On July 1, 2000, the Diocese became the plan sponsor for the Pension Plan for Priests of the Diocese of Rapid City (EIN 46-6028078, plan 001), a multi-employer defined benefit plan, (the Plan) administered by the Priest Retirement and Aid Association (PRAA), an unrelated not-for-profit organization. The Plan covers priests employed by individual parishes within the Diocese. The Plan is a church plan, as defined in ERISA Section 3(33) and Internal Revenue Code 414(e), and the plan sponsor has not made an election under IRC 410(d) to have the provisions applicable to non-church plans apply to this Plan. Accordingly, the Plan is exempt from filing the Form 5500, in addition to being exempt from the Pension Protection Act certified zone status requirements.

The risks of participating in this multi-employer plan are different from single-employer plans in the following aspects:

1. Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers.
2. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

The funded status of the Plan as of June 30 is as follows:

<u>2020 – 50% Funded</u>	
Plan Assets at Fair Value	\$5,504,636
Projected Benefit Obligation	<u>11,001,247</u>
Projected Benefit Obligation in Excess of Plan Assets	5,496,611
Actuarial Present Value of Accumulated Plan Benefits	\$5,047,558
<u>2019 – 61% Funded</u>	
Plan Assets at Fair Value	\$5,254,265
Projected Benefit Obligation	<u>8,614,819</u>
Projected Benefit Obligation in Excess of Plan Assets	3,360,554
Actuarial Present Value of Accumulated Plan Benefits	\$4,691,642

Assumptions

The significant actuarial assumptions used in the valuation as of June 30, 2020 and 2019, were (a) life expectancy of participants (the Pri-2012 Private Retirement Plans Mortality Table projected using Mortality Improvement Scale MP-2019 was used for 2020 and the RP-2014 Mortality Table projected using Mortality Improvement Scale MP-2018 was used for 2019), (b) disability of participants (the Pri-2012 Private Retirement Plans Mortality Table projected using Mortality Improvement Scale MP-2019 was used for 2020 the RP-2014 Mortality Table projected using Mortality Improvement Scale MP-2018 was used for 2019), (c) retirement age assumptions (the assumed average retirement was 100 percent of participants age 70 and 5 percent of participants ages 65 to 69), (d) investment return (assumed 7 percent per year for June 30, 2020 and 2019, compounded annually, net of investment expenses), (e) discount rate (assumed **2.39** percent and 3.34 percent for June 30, 2020 and 2019, respectively), and (f) rate of compensation increases (assumed 3 percent each year). The foregoing actuarial assumptions are based on the presumption that the Plan will continue. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the present value of accumulated plan benefits.

Contributions

Under the trust agreement, the Diocese has no responsibility to make contributions to the plan. No amounts were contributed by the Diocese for the year ended June 30, 2020. However, during the year ended June 30, 2019, the Diocese contributed \$460,694 to the Plan. Management anticipates the unfunded obligation will continue to be funded by the participating parishes.

Any parish, school, institution, or agency under the jurisdiction of the Diocese, which employs a participant, is required to make contributions to the Plan. Participants are not required to contribute to the Plan. Other contributors may make additional contributions to reduce unfunded costs. The minimum funding requirement for both the years ended June 30, 2020 and 2019 was \$-0-. The amount actually contributed to the Plan for the years ended June 30, 2020 and 2019 was **\$250,000** and \$710,694, respectively.

THE DIOCESE OF RAPID CITY

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020 AND 2019**

(11) Defined Benefit Pension Plan (Continued)

Estimated Future Benefit Payments

Total benefits paid for the years ended June 30, 2020 and 2019 were **\$120,950** and \$117,200, respectively. Benefits for eligible employees are calculated as follows:

Normal Retirement Benefit: Participants with at least 30 years of total Diocesan Service as of their normal retirement date (no earlier than age 70) receive a normal retirement benefit. The benefit shall be at least equal to the current monthly salary of active priests as determined by the Diocese. The benefit was **\$2,050** and \$2,000 per month for the years ended June 30, 2020 and 2019, respectively. The benefit for the year ending June 30, 2021, will be \$2,100 per month. Participants with less than 30 years of total service receive reduced monthly benefit payments. Benefit payments cease upon death of the participant.

Early Retirement Benefit: Participants with at least 30 years of total Diocesan Service may elect to retire at age 65 and receive the monthly pension benefit reduced by 6 percent for each year the payments begin before the normal retirement date.

Disability Pension: Participants whose service ends due to total and permanent disability shall be entitled to a disability pension equal to the normal retirement benefit without regard to years of Diocesan Service.

Death: Benefit payments cease at date of participant death.

(12) Liquidity and Availability

The Diocese receives significant contributions and grants on an annual basis that are considered essential to meeting cash needs for general expenditures. Contributions are supplemented by fees charged for events and accounting assistance services. In addition, the Western South Dakota Catholic Foundation provides annual support. The Diocese focuses on budgeting controls and maintains adequate cash reserves. In the event of unanticipated liquidity needs, key donors and granting agencies would be contacted for assistance, the board/Bishop could undesignate funds, and cash/investment reserves could be utilized to cover shortfalls. At June 30, 2020 and 2019, the Diocese has the following financial assets available for general use within one year of the Statement of Financial Position date:

	<u>2020</u>	<u>2019</u>
Cash and Cash Equivalents	\$ 1,249,089	\$ 349,932
Accounts Receivable	132,398	444,821
Promises to Give	6,606,074	8,010,945
Promises to Give - Western SD Catholic Foundation	381,361	623,329
Investments	5,236,494	6,113,218
Total Financial Assets	\$ 13,605,416	\$ 15,542,245
Less Designated Funds	(7,000,033)	(7,092,442)
Less Donor-Imposed Restrictions	(4,475,754)	(4,644,245)
Less Amounts Held for Others	(2,748,921)	(2,233,558)
Financial Assets Available for General Use Within One Year	\$ (619,292)	\$ 1,572,000

The deficit at year end is due to the Diocese having designated funds that have helped fund the building of the new pastoral center but have not been released from designated funds at June 30, 2020. The Diocese is working to undesignate these funds subsequent to June 30, 2021.

THE DIOCESE OF RAPID CITY

**NOTES TO FINANCIAL STATEMENTS (CONCLUDED)
JUNE 30, 2020 AND 2019**

(13) Refundable Advance

The Diocese was granted a **\$392,605** loan under the Paycheck Protection Program (PPP) administered by the U.S Small Business Administration (SBA) from a qualified lender. The loan is uncollateralized and is fully guaranteed by the SBA. The Diocese may be eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. Because the Diocese anticipates forgiveness, this is considered a conditional contribution, and funds received in advance of meeting the conditions are recorded as refundable advances. Proceeds from the loan are eligible for forgiveness if they are used for certain payroll, rent, and utility expenses. In addition, other requirements regarding salary and employee levels must be maintained. Management plans to submit a forgiveness application subsequent to year-end for 100 percent of the loan balance pending SBA approval.

If any portion of the loan is not forgiven, repayment begins November 2020. Monthly payments of \$21,984, including interest at 1 percent, would be required through May 2022.

(14) Current Economic Events

The Diocese has been impacted by the world-wide coronavirus pandemic. The Diocese's revenue consists primarily of contributions, program income and investment income. Its ability to fund programs and support its operations is significantly dependent on the receipt of contributions and the value of the investments that it manages. Investment values can fluctuate widely based on many factors, including investment performance and difficult market conditions, which can also impact the ability of donors to contribute to the Diocese. The continued decline and volatility of the equity, credit, and labor markets resulting from the coronavirus pandemic could have a significant impact on the value of the Diocese's investments and its receipt of contributions.

The Diocese is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this world-wide coronavirus pandemic. As of the date of issuance of these financial statements, the full impact to the Diocese's financial position is not known.