

CATHOLIC DIOCESE OF LAS VEGAS CAPITAL MANAGEMENT CORPORATION

FINANCIAL STATEMENTS

JUNE 30, 2019



HOULDSWORTH, RUSSO & COMPANY

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CATHOLIC DIOCESE OF LAS VEGAS CAPITAL MANAGEMENT CORPORATION

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INDEPENDENT AUDITOR'S REPORT

To the Roman Catholic Bishop of Las Vegas and His Successors, a Corporation Sole and the Board of Directors of the Catholic Diocese of Las Vegas Capital Management Corporation
Las Vegas, Nevada

We have audited the accompanying financial statements of the Catholic Diocese of Las Vegas Capital Management Corporation (a nonprofit corporation), which comprise the statement of financial position as of June 30, 2019 and the related statements of activities, functional expenses, and cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Catholic Diocese of Las Vegas Capital Management Corporation as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Holdsworth, Russo & Company, P.C.

Las Vegas, Nevada
October 23, 2019

Certified Public Accountants
20 YEARS & COUNTING

CATHOLIC DIOCESE OF LAS VEGAS CAPITAL MANAGEMENT CORPORATION

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2019

ASSETS

Current assets:

Cash and cash equivalents	\$	8,633,997
Investments		41,588,999
Interest receivable		40,615
Parish and clergy loans, current		1,528,452
		<u>51,792,063</u>

Noncurrent assets:

Parish and clergy loans, net of current, allowance, and discount		<u>17,012,027</u>
	\$	<u>68,804,090</u>

LIABILITIES AND NET ASSETS

Long-term liabilities:

Deposits payable	\$	65,184,195
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Net assets:

Without donor restrictions		<u>3,619,895</u>
	\$	<u>68,804,090</u>

See accompanying notes to financial statements

CATHOLIC DIOCESE OF LAS VEGAS CAPITAL MANAGEMENT CORPORATION

**STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019**

Revenue, gains, and other support:

Investment return, net \$ 1,947,761

Expenses:

Program services 836,608

Support services:

Management and general 292,183

Total expenses 1,128,791

Increase in net assets 818,970

Net assets, beginning of year 2,800,925

Net assets, end of year \$ 3,619,895

CATHOLIC DIOCESE OF LAS VEGAS CAPITAL FUNDING CORPORATION

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2019

	<u>Program Services</u>	<u>Supporting Services Management and General</u>	<u>Total</u>
Bad debt	\$ -	\$ 91,041	\$ 91,041
Bank fees	-	4,132	4,132
Contributions	836,608	-	836,608
Interest	-	197,010	197,010
	<u>\$ 836,608</u>	<u>\$ 292,183</u>	<u>\$ 1,128,791</u>

See accompanying notes to financial statements

CATHOLIC DIOCESE OF LAS VEGAS CAPITAL MANAGEMENT CORPORATION

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2019

Cash flows from operating activities:

Increase in net assets \$ 818,970

Adjustments to reconcile change in net assets

to cash provided by operating activities:

Net unrealized gain on investments (491,963)

Discount on parish and clergy loans (imputed interest) 12,000

Allowance for doubtful accounts 91,041

Changes in operating assets and liabilities:

Note receivable, related party 472,832

Interest receivable 8,454

Accounts payable (789)

Deposits payable 751,055

Net cash provided by operating activities 1,661,600

Cash flows from investing activities:

Net investments in parish and clergy loans (7,734,334)

Net purchases of securities (24,004,132)

Net cash used in investing activities (31,738,466)

Net decrease in cash and cash equivalents (30,076,866)

Cash and cash equivalents, beginning of year 38,710,863

Cash and cash equivalents, end of year \$ 8,633,997

Supplemental disclosures:

Cash paid for interest \$ 197,010

See accompanying notes to financial statements

CATHOLIC DIOCESE OF LAS VEGAS CAPITAL MANAGEMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2019

1. HISTORY, BACKGROUND, AND NATURE OF THE ENTITY

The accompanying financial statements include the assets, liabilities, and operations of departments under the Catholic Diocese of Las Vegas Capital Management Corporation (“CDLV CMC”). The Roman Catholic Bishop of Las Vegas and His Successors, a Corporation Sole (“RCBLV”), is comprised of five counties, Clark, Esmeralda, Lincoln, Nye and White Pine, and covers 39,683 square miles. CDLV CMC is a supporting organization of RCBLV and its activities are consistent with the exempt purposes described in Section 509(a)(3) of the Internal Revenue Code. The Administrative Office of the Roman Catholic Bishop of Las Vegas and His Successors, a Corporation Sole (“the Diocese”), a program of the RCBLV, includes the Office of the Bishop, his staff, programs, and other services and support offered at the Diocesan level.

CDLV CMC and RCBLV entered into a Diocesan Service Agreement on February 1, 2011. Under this agreement, CDLV CMC is obligated to hold, invest, loan, and otherwise manage funds deposited by the RCBLV and its parishes and schools, and the Diocese will provide personnel, as necessary, to perform these functions. These statements do not reflect the assets, liabilities, or operations of the RCBLV except for those transactions directly related to the operation of CDLV CMC.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting – The accompanying financial statements have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

Basis of Presentation – CDLV CMC is required to report information regarding its financial position and activities according to two classes of net assets: net assets with donor restrictions and net assets without donor restrictions.

Net Assets Without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of CDLV CMC. These net assets may be used at the discretion of CDLV CMC’s management and the Board of Directors.

Net Assets With Donor Restrictions – Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of CDLV CMC or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Use of Estimates – Timely preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates that affect certain reported amounts, which may require revision in future periods.

CATHOLIC DIOCESE OF LAS VEGAS CAPITAL MANAGEMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents – Cash and cash equivalents include all cash balances in banks and highly-liquid investments with maturity dates of less than three months. The carrying value of cash and cash equivalents approximates fair value due to the short maturities of those financial instruments. The accounts are maintained in institutions insured by the Federal Deposit Insurance Corporation (FDIC). At various times CDLV CMC maintains cash in financial institutions in excess of amounts insured by the federal government. CDLV CMC has not experienced any losses in these accounts.

Investments – Marketable equity securities, debt instruments, and other investments are stated at their fair value, which is determined by quoted market prices. Net appreciation (depreciation) in the fair value of investments, which consists of the realized gains or losses and the unrealized appreciation (depreciation) on these investments, net of related investment fees, is included in investment return in the statement of activities.

Receivables – Parish and clergy loans are considered programmatic investments for below market loans and represent amounts lent to parishes and clergy members that fall under the umbrella of the RCBLV. These loans carry payment terms that range from 7 to 99 years and are presented at present value calculated on market interest rates at the origination of the loan, stated interest rates on the loans, and the length of the loans. Stated rates range from 0%-4.5% and market rates to assess discounts on below-market rate loans range from 3%-4.5%. It is CDLV CMC's policy to charge off uncollectible receivables when management determines the receivable will not be collected. At June 30, 2019, one parish loan, totaling \$275,680, was placed on nonaccrual status due to the financial condition and change in management at the parish. Repayment terms with the parish are expected to be renegotiated in January 2020.

Interest receivable at June 30, 2019 represents current amounts due from various parishes and clergy members that are affiliated with the RCBLV related to their long-term loans receivable. Interest income is recognized when earned per the terms of the note agreement. Imputed interest on below-market rate loans during the year ended June 30, 2019 was \$48,608.

Deposits Payable – Deposits payable represent amounts held for parishes that fall within the jurisdiction of the RCBLV and bear interest due to the depositor at 0.3% per annum. Amounts are held in cash, investments, and parish and clergy loans receivable. Deposits held for the Diocese represent 39% of total deposits payable.

Revenue and Expense Recognition – Revenue is recognized in the period that it is earned. Expenses are recognized during the period in which they are incurred.

Donations – Generally, donated equipment and materials, if significant in amount, are recorded at their fair market value, provided CDLV CMC has a clearly measurable and objective basis for determining the value.

Functional Allocation of Expenses – The costs of providing program and other activities have been summarized on a functional basis in the statement of activities and statement of functional expenses.

CATHOLIC DIOCESE OF LAS VEGAS CAPITAL MANAGEMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accordingly, certain costs have been directly allocated among program and supporting services benefited.

Income Tax Status – CDLV CMC is a nonprofit, tax-exempt organization under 509(a)(3) of the Internal Revenue Code and is generally exempt from federal income tax. CDLV CMC has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

New Accounting Pronouncement – On August 18, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. CDLV CMC has adopted the provisions of the ASU during the year ended June 30, 2019 and adjusted the presentation of these statements accordingly.

Subsequent Events – Subsequent events have been evaluated through October 23, 2019, which is the date the financial statements were available to be issued.

3. INFORMATION REGARDING LIQUIDITY AND AVAILABILITY

CDLV CMC receives investment income as its primary source of revenue, all of which is available to meet cash needs for general expenditures. CDLV CMC manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged.

The following table reflects CDLV CMC's financial assets as of June 30, 2019, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date:

Cash and cash equivalents	\$ 8,633,997
Investments	41,588,999
Interest receivable	40,615
Current portion of parish and clergy loans	<u>1,528,452</u>
Financial assets available to meet cash needs for general expenditures	<u>\$ 51,792,063</u>

CATHOLIC DIOCESE OF LAS VEGAS CAPITAL MANAGEMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2019

4. INVESTMENTS AND FAIR VALUE

Investments are all considered trading securities and consist of the following at June 30, 2019:

Government bonds	\$ 39,927,857
Corporate bonds	288,800
Corporate stocks	<u>1,372,342</u>
Total investments	<u><u>\$ 41,588,999</u></u>

In accordance with FASB ASC 820-10 and subsections, the following are quantitative disclosures about the fair value measurements of assets. Fair value measurements are categorized on three levels:

Level 1: Quoted prices in active markets for identical assets.

Publicly traded investments – these are traded by dealers or brokers in active markets, and valuations are obtained from readily available pricing sources for market transactions involving the assets.

Level 2: Inputs other than quoted prices within Level 1; for example, quoted prices for similar assets.

Level 3: Significant unobservable inputs (including CDLV CMC's own assumptions in determining the fair value of investments).

CDLV CMC's only assets valued at fair value are its investments. CDLV CMC holds all of its investments in publicly traded equity or debt instruments, as follows:

		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Publicly traded investments	<u>\$ 41,588,999</u>	<u>\$ 41,588,999</u>	<u>\$ -</u>	<u>\$ -</u>

CATHOLIC DIOCESE OF LAS VEGAS CAPITAL MANAGEMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED JUNE 30, 2019

5. PARISH AND CLERGY LOANS

Parish and clergy loans consist of the following at June 30, 2019:

Gross parish and clergy loans	\$ 19,759,323
Allowance for doubtful accounts	(91,041)
Unamortized discount	<u>(1,127,803)</u>
	18,540,479
Less: current portion	<u>(1,528,452)</u>
Parish and clergy loans, net of current, allowance, and discount	<u><u>\$ 17,012,027</u></u>

6. PRIOR PERIOD ADJUSTMENT

During the year ended June 30, 2019, CMC determined that adjustments were required to bring the June 30, 2018 financial statements into conformity with accounting principles generally accepted in the United States. The result of these prior period adjustments was a decrease to net assets without donor restrictions of \$1,139,803 to recognize the discount on parish loans with payment terms below market.

7. RELATED PARTY TRANSACTIONS

CDLV CMC is related to the Diocese, Bishop Gorman Development Corporation (BGDC) Bishop Gorman Assistance Corporation ("BGAC"), Bishop Gorman High School (the "School"), and Catholic Diocese of Las Vegas Capital Funding Corporation ("CDLV CFC") through common control from the RCBLV.

In November 2011, CDLV CFC, the RCBLV, and CDLV CMC entered into a non-revolving line of credit agreement not to exceed \$13 million. The interest rate on the note is the London Inter-Bank Offered Rate (LIBOR) plus two hundred basis points (2.00%) per year. CDLV CFC carries the note payable on its books and principal payments are required in equal installments of \$90,278 and interest is calculated on the remaining unpaid principal balance and added to the equal principal payments. Any remaining unpaid principal is due in full on November 28, 2023. The note is collateralized by vacant land owned by the RCBLV and first priority security interest in all the of the assets and gross revenues of CDLV CFC, the Diocese, and CDLV CMC.

As part of the line of credit, CDLV CFC, RCBLV, and CDLV CMC are subject to certain covenants, including requirements to provide financial statements at certain intervals after quarter- and fiscal year-end; combined debt service coverage ratio of 1.25:1.00; maintain combined net unencumbered liquid assets of not less than \$17,000,000; and not to encumber certain debts or additional liens. As of June 30, 2019, the combined entities were in compliance with the debt covenants.

CATHOLIC DIOCESE OF LAS VEGAS CAPITAL MANAGEMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED JUNE 30, 2019

7. RELATED PARTY TRANSACTIONS (Continued)

During the year ended June 30, 2019, the Diocese combined its financial reporting with Service Campaign Corporation (“SCC”), a nonprofit organization related to the Diocese through common control from the RCBLV. Assets and liabilities held by SCC were transferred into the Diocese during the year ended June 30, 2019 at their carrying amounts at the time of their respective transfers.

On September 11, 2018, a Settlement and Restructuring Agreement (“Settlement”) was reached regarding BGDC’s bankruptcy proceedings. As a result of the Settlement, BGDC was required to pay their construction contractor \$8.6 million. Additionally, the BGDC and the Diocese agreed to transfer 55 acres of real property owned by the Diocese, with an agreed upon value of \$18.4 million, to the contractor. This land was previously used as collateral to secure the line of credit associated with the CDLV CMC, CDLV CFC, and the RCBLV line of credit. The land transferred from SCC during the year ended June 30, 2019 replaced the land used in the settlement as partial collateral for the line of credit. BGDC made the payment of \$8.6 million on September 12, 2018. The land was re-zoned and transferred in July 2019 per the terms of the Settlement.

During the bankruptcy proceedings, BGDC borrowed money from SCC to pay for ongoing operations and legal fees related to the bankruptcy. These debts transferred to the Diocese during the combination with SCC with a \$500,000 note that accrues interest only at 4.25% until January 1, 2020, and then the full balance plus interest begins payment terms over a 5-year period and a current receivable for \$260,931.

CDLV CMC has loaned the School \$8.6 million. In turn, the School has paid the \$8.6 million to the BGDC partially as a contribution to BGDC and partially as repayment of an intercompany loan. The \$8.6 million will be repaid to CDLV CMC by the School over a 15-year term at 3.5% interest. The letter of credit for which CDLV CMC, CDLV CFC, and RCBLV are co-borrowers was amended in December 2018 to allow for this loan to be made to the School.