THE ADMINISTRATIVE OFFICE OF THE DIOCESE OF LAS VEGAS

FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

(With Report of Independent Certified Public Accountants Thereon)

HRP CPAs
Certified Public Accountants & Consultants

TABLE OF CONTENTS

FINANCIAL SECTION

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Trustees
The Administrative Office of the Diocese of Las Vegas
Las Vegas, Nevada

We have audited the accompanying financial statements of The Administrative Office of the Diocese of Las Vegas (a non- profit organization) which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and change in net assets, 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 controls 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 controls 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 controls. 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Administrative Office of the Diocese of Las Vegas as of June 30, 2017 and 2016, 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.

HRP CPAs

HRP CPAs
October 31, 2017
Las Vegas, Nevada

THE ADMINISTRATIVE OFFICE OF THE DIOCESE OF LAS VEGAS
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2017 AND 2016

ASSETS

	2017	2016
Current assets		
Cash and cash equivalents	$ 26,782,697	$ 27,431,676
Receivables	658,289	480,428
Investments	13,083,678	11,941,334
Prepaid expense	27,393	35,892
Total current assets	40,552,057	39,889,330
Notes and mortgages receivable	8,035,776	8,216,978
Land, buildings and equipment, net	7,584,276	7,844,852
Total assets	$ 56,172,109	$ 55,951,160

LIABILITIES AND NET ASSETS

	2017	2016
Current liabilities		
Accounts payable and accrued expenses	$ 356,058	$ 358,618
Total current liabilities	356,058	358,618
Pension plan obligation	1,625,000	2,339,000
Due to related parties	7,144,819	9,333,402
Note payable	792,145	792,145
Total liabilities	9,918,022	12,823,165
Commitments and Contingencies (Note 10)		
Net assets		
Unrestricted	29,919,074	26,891,491
Temporarily restricted	15,613,542	15,515,033
Permanently restricted	721,471	721,471
Total net assets	46,254,087	43,127,995
Total liabilities and net assets	$ 56,172,109	$ 55,951,160

THE ADMINISTRATIVE OFFICE OF THE DIOCESE OF LAS VEGAS
STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
Changes in unrestricted net assets:		
Revenues and gains:		
Contributions, bequests and grants	$ 417,736	$ 244,653
Diocesan assessment	2,975,823	2,897,208
Investment income	231,796	88,489
Other income	1,204,054	825,499
Total unrestricted revenues and gains	4,829,409	4,055,849
Net assets released from restriction due to satisfaction of program restrictions	10,212,415	10,664,568
Total unrestricted revenues, gains and other support	15,041,824	14,720,417
Expenses and losses:		
Pastoral service programs	378,389	1,346,413
Clergy formation and support	1,645,926	1,299,027
Adult/youth education and development	1,287,761	1,328,121
Communication apostolate	219,712	220,761
Health insurance	4,180,199	3,953,356
Property and building	1,699,157	1,493,718
Diocesan offices	2,979,511	2,614,952
Catholic stewardship appeal - rebate and expenses	575,781	740,782
Interest expense	217,805	206,148
Total expenses and losses	13,184,241	13,203,278
Increase in unrestricted net assets	1,857,583	1,517,139
Changes in temporarily restricted net assets:		
Contributions	10,143,792	12,884,169
Investment income	167,132	71,903
Net assets released from restrictions due to satisfaction of program restrictions	(10,212,415)	(10,664,568)
Increase in temporarily restricted net assets	98,509	2,291,504
INCREASE IN NET ASSETS	1,956,092	3,808,643
Net assets at beginning of year	43,127,995	40,197,352
(Increase) decrease in pension liability	1,170,000	(878,000)
NET ASSETS, end of year	$ 46,254,087	$ 43,127,995

See Accompanying Notes to Financial Statements

THE ADMINISTRATIVE OFFICE OF THE DIOCESE OF LAS VEGAS
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	$ 3,126,092	$ 2,930,643
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation	425,869	343,916
Net (gain) loss on investments	(147,137)	27,591
Net (gain) loss from property dispositions	(10,400)	14,388
Changes in operating assets and liabilities		
Receivables	(177,861)	(89,389)
Prepaid expenses	8,499	121,674
Pension plan obligation	(714,000)	826,000
Accounts payable and accrued expenses	(2,560)	(50,589)
Net cash provided by operating activities	2,508,502	4,124,234
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of land, buildings and equipment	(165,293)	(1,958,975)
Proceeds from sale of fixed assets	10,400	-
Purchase of investments	(995,207)	(1,803,254)
Collections from notes and mortgages receivable	181,202	185,414
Net cash used in investing activities	(968,898)	(3,576,815)
CASH FLOWS FROM FINANCING ACTIVITIES		
Due to related parties	(2,188,583)	(1,083,335)
Net cash used in financing activities	(2,188,583)	(1,083,335)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(648,979)	(535,916)
CASH AND CASH EQUIVALENTS, beginning of year	27,431,676	27,967,592
CASH AND CASH EQUIVALENTS, end of year	$ 26,782,697	$ 27,431,676
SUPPLEMENTAL CASH FLOW DATA:		
Cash paid during the year for interest	$ 217,805	$ 206,148

See Accompanying Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation – The accompanying financial statements include the assets, liabilities and operations of departments under the administration of The Administrative Office of the Diocese of Las Vegas ("Diocese"). Except for transactions with the Diocese, assets, liabilities and operations of the parishes, missions, convents, schools and charity operations of the Diocese of Las Vegas have not been included in the accompanying financial statements.

The financial statements of the Diocese have been prepared in accordance with generally accepted accounting principles and "Accounting Principles and Reporting Practices for Churches and Church-related Dioceses", adopted by The National Conference of Catholic Bishops, The Leadership Conference of Women Religious and The Conference of Major Superiors of Men.

Unrestricted Net Assets – Net assets that are not subject to donor-imposed stipulations. Donations received and spent in the same reporting period are also included in this classification.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Diocese or passage of time.

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Diocese. Generally, the donors of these assets would permit the Diocese to use all or part of the income earned on related investments for general or specific purposes.

Cash and Cash Equivalents – The Diocese considers all money market accounts and highly liquid debt instruments with an initial maturity of three months or less to be cash equivalents.

Investments – Marketable equity securities 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, is included in investment income (loss) in the statements of activities.

Fair Value of Financial Instruments – The Diocese's financial instruments include certificates of deposit, government securities, receivables, notes and mortgages receivable, accounts payable, accrued expenses, and deposits payable. The fair value hierarchy under U.S. GAAP distinguishes between assumptions based on market data (observable inputs) and an entity's own assumptions (unobservable inputs). The hierarchy prioritizes valuation inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of three levels:

Level one – Unadjusted quoted market prices in active markets for identical assets or liabilities;

Level two – Inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities;

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Level three – Unobservable inputs developed using estimates and assumptions, which are developed by the reporting entity and reflect those assumptions that a market participant would use. The Diocese has determined the estimated fair values of its financial instruments using available market information and commonly accepted valuation methodologies. However, considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the Diocese's estimates are not necessarily indicative of the amounts that it, or holders of the instruments, could realize in a current market exchange. The use of different assumptions or valuation methodologies could have a material effect on the estimated fair value amounts. The fair value estimates are based on information available as of June 30, 2017. These amounts have not been revalued since those dates, and current estimates of fair value could differ significantly from the amounts presented.

The carrying value of certificates of deposit, government securities, receivables, notes and mortgages receivable, accounts payable, accrued expenses, and deposits payable approximate their respective fair values.

Depreciation – Property acquired is presented at cost, if purchased, or fair market value at date of donation, if acquired by gift or bequest. Depreciation of assets is computed on a straight-line basis over the estimated useful life of the asset. Expenses for maintenance and repairs are charged to operations when incurred.

Notes and Mortgages Receivable – Notes and mortgages receivable are carried at cost. The funds required for the purchase of a new parish land site is provided by the Diocese through a twenty-year note receivable. The parish land is held by the Diocese as a future parish site until the start of construction, at which time it is transferred at cost to the parish for a note receivable. Interest income is recognized when earned per the terms of the agreement.

Contributions – The Diocese recognizes all contributed support received as income 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 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.

Functional Allocation of Expenditures – The costs of providing the various programs and other activities of the Diocese have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Tax Status – The Diocese is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and has been classified as other than a private foundation by the Internal Revenue Service. Accordingly, no income tax is reflected in the accompanying financial statements.

Concentrations of Credit Risk – Financial instruments, which potentially subject the Diocese to significant concentration of credit risk, consist primarily of cash and cash equivalents, money market funds, and notes receivable. The Diocese maintains its cash in bank deposit accounts, which at times may exceed federally insured limits. The Diocese maintains a significant portion of money market funds with a single trustee. The Diocese does not require collateral for notes receivable. The Diocese has not experienced any losses in such accounts. The Diocese believes it is not exposed to any significant credit risk on cash and cash equivalents, money market funds and notes receivable.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates based on management's knowledge and experience. Due to their prospective nature, actual results could differ from those estimates.

2. CASH AND CASH EQUIVALENTS, INVESTMENTS AND INVESTMENT INCOME

Balances as of and for the years ended June 30:

	2017	2016
Cash and cash equivalents:		
Cash	$ 1,593,352	$ 2,270,987
Cash equivalents	25,189,345	25,160,689
	$ 26,782,697	$ 27,431,676
Investments:		
Government securities	$ 11,023,623	$ 10,122,816
Stocks, bonds and other investments	2,060,055	1,818,518
	$ 13,083,678	$ 11,941,334
Investment income:		
Interest and dividend income	$ 251,791	$ 187,983
Realized gains	103,104	30,222
Unrealized gains (losses)	44,033	(57,813)
Net investment income	$ 398,928	$ 160,392

3. LAND, BUILDINGS AND EQUIPMENT, NET

Land, buildings and equipment under the direct control of the Diocese consist of the following as of June 30:

	2017	2016
Land	$ 2,919,893	$ 2,919,893
Buildings and improvements	6,072,705	5,984,235
Furnishings and equipment	1,812,573	1,767,667
Other property	54,109	54,109
	10,859,280	10,725,904
Future parish sites and other property	22,152	22,152
	10,881,432	10,748,056
Less accumulated depreciation	(3,297,156)	(2,903,204)
	$ 7,584,276	$ 7,844,852

4. PENSION PLAN

The Diocese sponsors various defined benefit pension plans for most full-time employees and all priests in good standing who are incardinated in the Diocese.

Although these plans are exempt from the funding requirements of ERISA, it has been the policy of the Diocese to make contributions annually that are not less than the pre-ERISA minimum contribution requirement.

The Diocese uses a June 30 measurement date for the defined benefit pension plans. The amounts disclosed in this footnote for the lay employees' pension plan reflect the Diocesan allocated share of the overall plan liability. The Diocesan allocated share for the years ended June 30, 2017 and 2016 were 6.83% and 6.66%, respectively.

4. PENSION PLAN (continued)

The funded status of the Diocesan Pension Plans and the net amount recognized in the Diocesan statement of financial position at June 30, 2017 and 2016 are as follows:

	2017	2016
Projected/accumulated benefit obligation	$ (8,162,000)	$ (8,497,000)
Plan assets at fair value	6,537,000	6,158,000
Funded status of the Plan – underfunded	$ (1,625,000)	$ (2,339,000)
Net amount recognized	$ (1,625,000)	$ (2,339,000)

Under FASB Codification 715-30 Defined Benefit Plans - Pension, the funded status is recognized in the statement of financial position. Unrecognized prior service costs and unrecognized actuarial losses are recognized in unrestricted net assets.

Amounts recognized in the statement of financial position consist of:

	Fiscal Year Ended June 30, 2017	Fiscal Year Ended June 30, 2016
Noncurrent assets	$ 388,000	$ 367,000
Current liabilities	-	-
Noncurrent liabilities	(2,013,000)	(2,706,000)
	$ (1,625,000)	$ (2,339,000)

Amounts recognized in unrestricted net assets consist of:

	Fiscal Year Ended June 30, 2017	Fiscal Year Ended June 30, 2016
Net loss (gain)	$ 1,448,000	$ 2,775,000
Net transition obligation (asset)	-	-
Prior service cost (credit)	336,000	199,000
	$ 1,784,000	$ 2,954,,000

The Diocesan Pension Plans net pension expenses, pension benefits paid, and employer contributions for the years ended June 30, 2017 and 2016 are as follows:

	June 30, 2017	June 30, 2016
Net pension expense	$ 591,000	$ 439,000
Pension benefits paid	$ 410,000	$ 415,000
Employer contributions	$ 135,000	$ 491,000

4. PENSION PLAN (continued)

Other changes in plan assets and benefit obligations recognized in unrestricted net assets:

	Fiscal Year Ended June 30, 2017	Fiscal Year Ended June 30, 2016
Net loss (gain)	$ (1,010,000)	$ 1,128,000
Prior service cost (credit)	196,000	-
Amortization of loss (gain)	(297,000)	(141,000)
Amortization of prior service cost (credit)	(59,000)	(100,000)
Amortization of transition obligation	-	(9,000)
Total recognized in unrestricted net assets	$ (1,170,000)	$ 878,000
Total recognized in net periodic benefit cost and unrestricted net assets	$ (579,000)	$ 354,000

Assumptions used to determine net pension expense

	Fiscal Year Ended June 30, 2017	Fiscal Year Ended June 30, 2016
Discount Rate	3.24%	4.06%
Expected Long-Term Rate of Return on Assets	5.93%	6.93%
Salary Scale	5.00%	5.00%

Assumptions used to determine benefit obligation at year-end

	Fiscal Year Ended June 30, 2017	Fiscal Year Ended June 30, 2016
Discount Rate	3.58%	3.24%
Salary Scale	5.00%	5.00%

Expected Long-Term Asset Return Assumption

The Diocese employs a methodical process to determine the estimates of expected long-term rate of return on assets. These estimates are primarily driven by actual historical asset-class returns and advice from external actuarial consulting firms while incorporating specific asset-class risk factors.

4. PENSION PLAN (continued)

Plan Asset Investment Strategy and Allocation

The asset allocation for the pension plans as of June 30, 2017 and 2016 and the target allocation, by asset category are:

Lay Employees Pension Plan

(i) Asset Category	(ii) Diocesan Approved Asset Allocation Range	(iii) Policy Benchmark Asset Allocation	(iv) Actual Percentage of Plan Assets at June 30 2017	2016
Equities	30-70%	60%	64%	63%
Fixed Income	28-68%	30%	34%	35%
Cash	0-20%	10%	2%	2%

Priest Basic Pension Plan

(i) Asset Category	(ii) Diocesan Approved Asset Allocation Range	(iii) Policy Benchmark Asset Allocation	(iv) Actual Percentage of Plan Assets at June 30 2017	2016
Equities	30-70%	60%	65%	64%
Fixed Income	28-68%	30%	33%	34%
Cash	0-20%	10%	2%	2%

Investment policy in Writing

The Diocese has adopted an official Statement of Investment Policy for this plan. Pension plan assets are invested by an independent professional investment manager, with the objective of achieving long-term growth in assets with reasonable risk as compared to established benchmarks. The investment policy requires high quality investments and adequate diversification. Prohibited investments include options, short sale contracts and derivatives. The Diocese regularly monitors the investment manager's performance relative to short-term and long-term objectives as set forth in the official policy. A compliance audit of the managers' adherence to policy guidelines is conducted as a component of each performance evaluation. The Statement of Investment Policy includes consideration for social responsibility and Roman Catholic social teaching.

Plan assets for the supplemental plan are insufficient to necessitate an independent investment policy. Assets are currently held in fixed income mutual funds and cash equivalents to meet near term benefit payments.

Contributions

The Diocese expects to contribute approximately $319,000 to the pension plans for the fiscal year ending June 30, 2018.

4. PENSION PLAN (continued)

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Fiscal Year Ending June 30	Annual Pension Benefits
2018	$ 612,000
2019	595,000
2020	605,000
2021	617,000
2022	603,000
2023-2027	$ 2,797,000

5. NOTES AND MORTGAGES RECEIVABLE

Notes and mortgages receivable consist of the following at June 30:

	2017	2016
Parish 20 year notes secured by land with no interest for first 10 years, and prime plus 1% thereafter, with maturities ranging from November 2022 to April 2026	$ 8,035,776	$ 8,216,978

6. DUE TO RELATED PARTIES

Balances due to the Catholic Diocese of Las Vegas Capital Funding Corporation ("CDLV CFC") consist of the following at June 30:

	2017	2016
Diocesan payable due in monthly installments of $90,278 including interest at 3.102% and 2.28%, respectively, through December 2023	$ 6,571,987	$ 7,655,320

Balances due to the Catholic Diocese of Las Vegas Capital Management Corporation ("CDLV CMC") consist of the following at June 30:

2017	2016
$ 572,832	$ 1,678,082

During November 2011, a term loan payable was refinanced with Bank of America, N.A. whereby the Diocese, CDLV CFC and CDLV CMC are co-borrowers. CDLV CFC has recognized this obligation as the primary borrower on the refinancing therefore the balance totaling $7,041,667 as of June 30, 2017 has not been recognized on these financial statements.

7. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were held for the following purposes as of June 30:

	2017	2016
Clergy formation and support	$ 3,818,620	$ 3,739,269
Pastoral service programs	2,942,969	2,922,273
Adult/youth education and development	1,418,353	1,511,269
Property and building	3,487,235	3,399,454
Health insurance	1,305,162	1,263,348
Diocesan offices	777,975	777,795
Catholic stewardship appeal	1,863,228	1,901,625
	$ 15,613,542	$ 15,515,033

8. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets were held for the following purposes as of June 30:

	2017	2016
Seminarian education fund	$ 692,066	$ 692,066
Laliberte seminarian fund	29,405	29,405
	$ 721,471	$ 721,471

Unexpended investment income earned on these assets is $1,540,220 and $1,201,863 as of June 30, 2017 and 2016, respectively, and is included in clergy formation and support in temporarily restricted net assets. As of June 30, 2017 and 2016, unexpended investment income earned includes $215,011 and $125,877 respectively, of unrealized investment appreciation.

9. LEGAL PROCEEDINGS

The Diocese is party to various general legal proceedings which have arisen in the ordinary course of operation. While the results of these matters cannot be predicted with certainty, the Diocesan management believes that losses, if any, resulting from the ultimate resolution of these matters will not have a material adverse effect on the Diocesan financial position, results of operations or cash flows. However, unfavorable resolution could affect the financial position, results of operations or cash flows for the years in which they are resolved.

10. COMMITMENTS AND CONTIGENCIES

A non-profit organization, the Bishop Gorman Development Corporation ("Development Corporation") affiliated with the Diocese, constructed a new campus (the "Campus Project") for Bishop Gorman High School. The Development Corporation secured a bond for approximately $25 million relating to the financing of the Campus Project. Additionally, the Development Corporation secured a bridge loan totaling $12.5 million for the construction of additional facilities to the campus. The Diocese is financially responsible for the bond and the bridge loans incurred by the Development Corporation as a guarantor. On April 17, 2017, the Development Corporation filed a Chapter 11 Bankruptcy petition in a United States Bankruptcy Court (District of Nevada). The Development Corporation, the Diocese and Bank of America entered into a forbearance agreement on January 11, 2017. As of June 30, 2017, the Development Corporation has satisfied the outstanding balance of the bridge loan.

11. NOTE PAYABLE

As of June 30, 2017 and 2016, note payable consists of a balance owed to a third party religious institution totaling $792,145 for costs incurred in development of land. The balance is secured by land and payable upon the sale of the land. The balance bears no interest and has no periodic principal payments.

12. SUBSEQUENT EVENTS

The Diocese has evaluated subsequent events through October 31, 2017, the date the financial statements were available to be issued and there were no material subsequent events to disclose.