

THE ADMINISTRATIVE OFFICE OF THE DIOCESE OF RENO

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2017

THE ADMINISTRATIVE OFFICE OF THE DIOCESE OF RENO
TABLE OF CONTENTS
JUNE 30, 2017

	<u>Page</u>
Independent Auditor's Report	1
Consolidated Financial Statements:	
Consolidated Statement of Financial Position	3
Consolidated Statement of Activities	4
Consolidated Statement of Cash Flows	5
Consolidated Notes to Financial Statements	6
Supplementary Information:	
Consolidated Schedule of Expenses by Natural Category	17



INDEPENDENT AUDITOR'S REPORT

To the Finance Council of the Administrative Office
of the Diocese of Reno

We have audited the accompanying consolidated financial statements of the Administrative Office of the Diocese of Reno, which comprise the consolidated statement of financial positions of June 30, 2017, and the related consolidated statement of activities 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 consolidated 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 consolidated 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 consolidated 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 in the first paragraph present fairly, in all material respects, the financial position of the Administrative Office of the Diocese of Reno as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Administrative Office of the Diocese of Reno 2016 consolidated financial statements and we expressed an unmodified opinion on those audited financial statements in our report dated January 26, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

**INDEPENDENT AUDITOR'S REPORT
CONTINUED**

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Consolidated Schedule of Expenses by Natural Category is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Correction of Error

As discussed in Note 12 to the financial statements, certain errors resulting in an understatement of amounts related to a beneficial interest in assets held by the Catholic Community Foundation of the Diocese of Reno as of June 30, 2016, was discovered by management during the current year. Accordingly, amounts reported for this beneficial interest have been restated in the 2016 financial statements now presented, and an adjustment has been made to net assets as of June 30, 2016, to correct the error. Our opinion is not modified with respect to that matter.

PANGBORN & CO., LTD.

Reno, Nevada
January 25, 2018

THE ADMINISTRATIVE OFFICE OF THE DIOCESE OF RENO
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017
(WITH COMPARATIVE TOTALS AT JUNE 30, 2016)

ASSETS		
	2017	2016 (Restated)
Current Assets:		
Cash and cash equivalents	\$ 5,166,140	\$ 3,689,661
Receivables	604,637	636,120
Inventories	223,502	271,975
Prepaid expenses	-	2,177
Total Current Assets	5,994,279	4,599,933
Other Assets:		
Investments	20,943,917	16,815,739
Land, building and equipment, net of accumulated depreciation	6,032,677	6,123,920
Notes receivable, less allowance for doubtful accounts of \$1,929,764 for 2017 and 2016, respectively	11,297,156	12,553,782
Beneficial interest in assets held by the Catholic Community Foundation of the Diocese of Reno	2,189,491	1,948,444
Other assets	74,869	74,869
Total Other Assets	40,538,110	37,516,754
Total Assets	\$ 46,532,389	\$ 42,116,687
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 268,421	\$ 211,537
Funds held for others	1,677,285	1,657,907
Annuities payable	156,857	156,857
Deferred income	1,484,446	1,300,314
Total Current liabilities	3,587,009	3,326,615
Long-Term Liabilities:		
Line of credit	4,457,765	5,018,578
Deposits payable	16,523,722	12,997,284
Pension plan obligation	3,200,000	4,132,000
Total Long-Term Liabilities	24,181,487	22,147,862
Total Liabilities	27,768,496	25,474,477
Net Assets:		
Unrestricted		
Undesignated operating	7,804,407	7,213,009
Cemetery Care Fund	2,189,491	1,948,444
Total unrestricted net assets	9,993,898	9,161,453
Temporarily restricted	8,769,995	7,480,757
Total Net Assets	18,763,893	16,642,210
Total Liabilities and Net Assets	\$ 46,532,389	\$ 42,116,687

The attached auditor's report and notes should be read with the financial statements.

THE ADMINISTRATIVE OFFICE OF THE DIOCESE OF RENO
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2016)

	2017	2016 (Restated)
Operating Activities:		
Unrestricted Revenue, Gains and Other Support:		
Contributions, bequests and grants	\$ 267,962	\$ 306,338
Diocesan assessment	1,044,408	1,015,056
Investment income	537,608	90,434
Cemetery operations	878,377	684,311
Other income	1,320,195	377,164
Net assets released from restrictions	7,386,034	5,883,584
Total Unrestricted Revenue, Gains and Other Support	11,434,584	8,356,887
Expenses:		
Pastoral	1,130,332	1,135,046
Religious personnel development	398,277	491,315
Education	875,620	664,646
Social services	153,514	156,072
Development expenses	174,523	165,293
Diocesan/parish services	1,428,290	980,625
Diocesan insurance programs	5,042,739	3,431,859
Catholic Services Appeal - rebate and expenses	471,854	542,430
Chancery operations	640,706	649,511
Cemetery operations	1,006,273	838,195
Life income expense	2,427	1,967
Interest expense	209,583	185,792
Total Expenses	11,534,138	9,242,751
Change in Unrestricted Net Assets	(99,554)	(885,864)
Temporarily Restricted Net Assets:		
Contributions	7,785,545	5,968,032
Investment income	889,726	(376,884)
Net assets released from restrictions	(7,386,034)	(5,883,584)
Change in Temporarily Restricted Net Assets	1,289,237	(292,436)
Change in Net Assets from Operating Activities	1,189,683	(1,178,300)
Nonoperating Activities:		
Bad debt expense	-	(1,879,764)
Pension-related changes other than net periodic pension costs	932,000	(908,000)
Change in Net Assets	2,121,683	(3,966,064)
Net Assets, beginning of year	16,642,210	20,608,274
Net Assets, end of year	\$ 18,763,893	\$ 16,642,210

The attached auditor's report and notes should be read with the financial statements.

THE ADMINISTRATIVE OFFICE OF THE DIOCESE OF RENO
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2016)

	2017	2016 (Restated)
Cash Flows From Operating Activities:		
Change in net assets	\$ 2,121,683	\$ (3,966,064)
Adjustment to reconcile changes in net assets to net cash used in operating activities		
Depreciation	275,514	192,532
Net realized and unrealized (gains) and losses on investments	(1,899,670)	583,762
Change in certain components of working capital (Increase) decrease in:		
Receivables	31,483	(143,638)
Allowance for doubtful accounts	-	1,879,764
Prepaid expenses	2,177	3,363
Inventories	48,473	41,269
Beneficial interest in assets held by others	(241,047)	(40,908)
Increase (decrease) in:		
Accounts payable and accrued expenses	56,885	(188,281)
Pension plan obligation	(932,000)	908,000
Deferred income	184,132	154,362
Net Cash from Operating Activities	(352,370)	(575,839)
Cash Flows From Investing Activities:		
Proceeds from sale of investments	12,903,071	8,519,714
Purchases and other additions to investments	(16,038,108)	(9,781,007)
Purchases of fixed assets, land and other building additions	(289,218)	(663,896)
Proceeds from sale of fixed assets	1,011,476	-
Proceeds from notes receivable	1,282,209	692,043
Issuance of notes receivable	(25,582)	(35,250)
Net Cash Provided from Investing Activities	(1,156,152)	(1,268,396)
Cash Flows From Financing Activities:		
Proceeds on deposits payable	5,734,330	1,826,336
Payments on deposits payable	(2,207,891)	(1,257,300)
Proceeds from line of credit	-	517,870
Payments on line of credit	(560,813)	(2,462)
Payments, net of investment income (expense) on funds held for others	19,375	(2,450)
Net Cash from Financing Activities	2,985,001	1,081,994
Net Increase (Decrease) In Cash and Cash Equivalents	1,476,479	(762,241)
Cash and Cash Equivalents, Beginning of Year	3,689,661	4,451,902
Cash and Cash Equivalents, End of Year	\$ 5,166,140	\$ 3,689,661
Supplemental Cash Flow Data		
Cash paid for interest	\$ 209,583	\$ 185,792

The attached auditor's report and notes should be read with the financial statements.

THE ADMINISTRATIVE OFFICE OF THE DIOCESE OF RENO
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 –NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

The following information is a summary of the nature of activities and significant accounting policies consistently applied in the preparation of the accompanying financial statements.

Nature of Organization

The Administrative Office of the Diocese of Reno was established March 27, 1931, as the Diocese of Reno by His Holiness Pope Pius XI; canonical erection of the Diocese August 19, 1931; subsequently designated as the Diocese of Reno-Las Vegas by Pope Paul VI on October 13, 1976, and later designated as the Diocese of Reno by Pope John Paul II on March 21, 1995. The Diocese is a nonprofit organization and is dedicated to the administration of the Roman Catholic Church within the boundaries of the Diocese of Reno including the following Nevada counties: Carson City, Churchill, Douglas, Elko, Eureka, Humboldt, Lander, Lyon, Mineral, Pershing, Storey, and Washoe. There are twenty-eight parishes; eight missions; two stations; one-day home; four elementary schools, and one high school. The Administrative Office of the Diocese of Reno is supported primarily through assessments from the parishes and other entities for administration and management, in addition to revenue derived from cemetery operations.

Basis of Consolidation

The consolidated financial statements include the assets, liabilities, and operations of The Administrative Office of the Diocese of Reno and Our Mother of Sorrows Catholic Cemetery Corporation. The two organizations are referred to collectively through the notes as "Pastoral Center. "Except for the transactions with the Pastoral Center, assets, liabilities, and operations of the parishes, missions, convents, the Brothers of the Holy Rosary, schools and charity operations of the Diocese of Reno have not been included in the accompanying consolidated financial statements. All material inter-company transactions have been eliminated in these consolidated statements.

Basis of Presentation

The consolidated financial statements of the Pastoral Center have been prepared in accordance with generally accepted accounting principles and *Accounting Principles and Reporting Practices for Churches and Church-Related Organizations* adopted by The National Conference of Catholic Bishops, The Leadership Conference of Women Religious, and The Conference of Major Superiors of Men.

Net Assets

Net assets of the Pastoral Center are classified and reported as follows:

Unrestricted Net Assets: Net assets that are not subject to donor-imposed stipulations. Donations received and spent in the same reporting period are 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 Pastoral Center or the passage of time;

Permanently Restricted Net Assets: Net assets subject to donor-imposed stipulations that they be maintained permanently by the Pastoral Center. Generally, the donors of these assets would permit The Pastoral Center to use all of part of the income earned on related investments for general or specific purposes. There were no permanently restricted net assets as of June 30, 2017.

Cash and Cash Equivalents

The Pastoral Center considers all money market accounts and highly liquid debt instruments, other than funds held for endowment, purchased with an original maturity of three months or less to be cash equivalents.

THE ADMINISTRATIVE OFFICE OF THE DIOCESE OF RENO
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES(CONTINUED)

Receivables

Receivables from the parishes within the Diocese are stated at the amount management expects to collect from balances outstanding at year end. Management's assessment of the credit loss with parishes having outstanding balances is based on current relationships with them, loan payment history, ongoing assistance, and periodic financial statement review.

Investments

The Pastoral Center follows FASB ASC 958, in accounting for investments. According to the standard, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

Inventory

Inventory is stated at cost. Inventory consists of cemetery plots, niches, and mausoleum crypts located at Our Mother of Sorrows Cemetery.

Fixed Assets

Fixed assets are stated at cost, except for donated equipment, which is stated at fair market value at date of receipt. Depreciation is computed using the straight-line method over estimated useful lives of the assets, which range from 5 to 50 years. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. The Pastoral Center capitalizes assets valued \$1,600 or more. Expenditures for maintenance and repairs are charged to expense as incurred. Depreciation expense for the year ended June 30, 2017 and 2016 was \$275,514 and \$192,532, respectively.

Contributions

The Pastoral Center follows the recommendations of the FASB ASC 958 for accounting for contributions received and contributions made. In accordance with the standard, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Functional Allocation of Expenditures

The costs of providing the various programs and other activities of the Pastoral Center have been summarized on a functional basis in the Consolidated Statements of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefitted.

Income Tax Status

The Pastoral Center is exempt from federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code and regulations for certain religious organizations. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

In accordance with FASB ASC 740, the Pastoral Center has evaluated its operations as of June 30, 2017, and does not believe it has any business activities in place that would cause its tax-exempt not-for-profit status to not be sustained upon audit.

THE ADMINISTRATIVE OFFICE OF THE DIOCESE OF RENO
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES(CONTINUED)

Use of Estimates

In preparing consolidated financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Deferred Income

Cemetery sales of \$1,484,446 are included in deferred sales for the years ended June 30, 2017. This revenue represents the collected portion of all price-guaranteed and prearranged cemetery contracts. Sales of cemetery merchandise and services are deferred until the merchandise is delivered or services are performed.

Summarized Comparative Information

The financial statements include certain prior-year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Pastoral Center's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

Date of Management's Review

Management has evaluated subsequent events through January 25, 2018, which is the date the consolidated financial statements were issued.

NOTE 2 - CASH AND CONCENTRATION OF CREDIT RISK

Following is a summary of cash and cash equivalents at June 30:

	<u>2017</u>		<u>2016</u>	
	<u>Carrying</u>	<u>Bank</u>	<u>Carrying</u>	<u>Bank</u>
	<u>Amount</u>	<u>Balance</u>	<u>Amount</u>	<u>Balance</u>
Balances classified by depository:				
Mutual of Omaha Bank	\$ 2,077,028	\$ 2,331,195	\$ 1,914,241	\$ 2,404,896
USB Financial Services, Inc	3,088,412	3,088,412	1,774,720	1,774,720
Petty cash	<u>700</u>	<u>-</u>	<u>700</u>	<u>-</u>
	<u>\$ 5,166,140</u>	<u>\$ 5,419,607</u>	<u>\$ 3,689,661</u>	<u>\$ 4,179,616</u>

Bank accounts and money market funds are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 and Securities Investor Protection Corporation (SIPC) up to \$500,000 in the aggregate at each financial institution. As of June 30, 2017, the balances in the Pastoral Center's cash and money market funds exceeded of the amount guaranteed by FDIC and SIPC, as applicable, by \$4,619,607.

THE ADMINISTRATIVE OFFICE OF THE DIOCESE OF RENO
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 3 – INVESTMENTS AND FAIR VALUE

Investments, at fair value, consisted of the following at June 30:

	2017	2016
Common stock	\$ 852,833	\$ -
Exchange traded funds	3,892,864	5,120,625
Mutual funds	935,958	9,557,511
Fixed income	12,813,457	-
Mission Funds	2,436,752	2,137,603
Other	12,053	-
	<u>\$ 20,943,917</u>	<u>\$ 16,815,739</u>

Generally accepted accounting principles require disclosures regarding fair value measurements that establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs have the lowest priority. The Pastoral Center uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Pastoral Center measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs would be used only when Level 1 or Level 2 inputs are not available.

The three levels of the fair value hierarchy are described below.

- Level 1: quoted prices in active markets for identical investments
- Level 2: other significant observable inputs (including quoted prices for similar investments)
- Level 3: significant unobservable inputs (including the Pastoral Center's own assumptions in determining the fair value of investments)

The following tables represents the Pastoral Center's assets measured at fair value on a recurring basis at June 30:

	2017			Total
	Level 1	Level 2	Level 3	
Common stock	\$ 852,833	\$ -	\$ -	\$ 852,833
Exchange traded funds	3,892,864	-	-	3,892,864
Mutual funds	935,958	-	-	935,958
Fixed income	12,813,457	-	-	12,813,457
Mission Funds	-	2,436,752	-	2,436,752
Other	12,053	-	-	12,053
	<u>\$ 18,507,165</u>	<u>\$ 2,436,752</u>	<u>\$ -</u>	<u>\$ 20,943,917</u>

THE ADMINISTRATIVE OFFICE OF THE DIOCESE OF RENO
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 3 – INVESTMENTS AND FAIR VALUE (CONTINUED)

	2016			
	Level 1	Level 2	Level 3	Total
Exchange traded funds	\$ 5,120,625	\$ -	\$ -	\$ 5,120,625
Mutual funds	9,557,511	-	-	9,557,511
Mission funds	-	2,137,603	-	2,137,603
	\$ 14,678,136	\$ 2,137,603	\$ -	\$ 16,815,739

Mission fund includes several investments held by the Mission Diocese Fund, LLC. Investments are managed by an external investment management firm. Investment returns are verified through a proprietary performance database system on a monthly basis and reported through investment manager statements. The investments consist of 52.5% equity securities, 24.5% alternative investments, 11.5% fixed income securities, 8.5% real asset inflation hedges, and 2.9% cash.

NOTE 4 – NOTES RECEIVABLE

Notes consist of the following at June 30:

	2017	2016
Notes to various parishes bearing variable interest rates up to 3%	\$ 13,152,487	\$ 14,363,731
Other loans to affiliates	74,432	119,815
Less: allowance for doubtful accounts	(1,929,764)	(1,929,764)
	\$ 11,297,155	\$ 12,553,782

In some instances, notes receivable are placed on nonaccrual (deferred status) to provide additional time for the parishes to achieve financial stability and repay their loans. Accrual of interest is resumed when notes are removed from nonaccrual status. Notes receivable are charged against the allowance for doubtful accounts when they are deemed uncollectible. As of June 30, 2017, the aggregated recorded notes on nonaccrual status with zero percent interest rates totaled \$11,369,251.

Notes receivable are considered impaired when, based on current information and events, it is probable that they will be unable to collect all amounts due to contractual terms of the loan agreement. Individual loans are assessed for impairment based on the following factors: (1) changes in borrower-specific financial condition, (2) changes in operating cash flow, or (3) changes in collateral value. As of June 30, 2016, no notes were impaired.

NOTE 5 – LAND, BUILDING AND EQUIPMENT

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

	2017	2016
Land	\$ 2,789,903	\$ 2,845,088
Buildings and improvements	4,958,563	5,020,690
Furnishings and equipment	486,693	439,853
Future parish sites and other property	813,181	813,181
	9,048,340	9,118,812
Less accumulated depreciation	(3,015,663)	(2,994,892)
	\$ 6,032,677	\$ 6,123,920

THE ADMINISTRATIVE OFFICE OF THE DIOCESE OF RENO
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 6 – BENEFICIAL INTEREST IN ASSETS HELD AT THE CATHOLIC COMMUNITY FOUNDATION OF THE DIOCESE OF RENO

The Pastoral Center owns and operates a cemetery in Reno, Nevada. The Pastoral Center created a Cemetery Care Fund to adequately provide for the future care of mausoleums, crypts, and gravesites. All assets accumulated over time for future care of the cemetery were moved to a separate investment account held by the Catholic Community Foundation. The Pastoral Center’s assets are held in a pooled interest-bearing account and investment accounts managed by Christian Brothers Investment Services. A beneficial interest in the Cemetery Care Fund appears on the statement of financial position.

The assets of the fund are not subject to donor-imposed restrictions and, accordingly, is reflected as unrestricted net assets on the statement of financial position. The beneficial interest is valued at the proportional share of pooled funds and is included within Level 3 of the fair value hierarchy at June 30.

	2017			
	Level 1	Level 2	Level 3	Total
Cemetery Care Fund	\$ -	\$ -	\$ 2,189,491	\$ 2,189,491

	2016			
	Level 1	Level 2	Level 3	Total
Cemetery Care Fund	\$ -	\$ -	\$ 1,948,444	\$ 1,948,444

The following table provides a summary of changes in fair value of the Pastoral Center’s Level 3 financial assets for the year ended June 30:

	2017	2016
Beginning balance	\$ 1,948,444	\$ 1,907,536
Additions	-	54,469
Interest and dividends	20,112	21,266
Unrealized gain (loss)	220,935	(34,827)
Ending balance	\$ 2,189,491	\$ 1,948,444

NOTE 7 - LINE OF CREDIT

The Pastoral Center entered into an agreement with UBS Bank USA, which provides borrowings on a demand line of credit. The line is secured by investment accounts held by UBS Bank USA. The outstanding balances on the line of credit for the years ended June 30, 2017 was \$4,457,765. Interest is payable in monthly installments at a variable rate of 2.024%, or on demand.

NOTE 8 - DEPOSITS PAYABLE

Deposits payable consist of cash and securities on deposit from various parishes and institutions. Cash deposits are due upon demand and bear interest at a one point spread between cost and revenue which is adjusted quarterly. Securities on deposit are also due upon demand. Securities on deposit are held at fair value with all investment income, realized and unrealized, being transferred to the depositor.

NOTE 9 - ANNUITY PAYABLE

As part of certain donors’ planned contributions, the Pastoral Center has entered into charitable gift annuity contracts whereby donors contribute assets in exchange for a guaranteed fixed-dollar annual return during the lifetime of the donors or their designees. The assets received under the agreements are measured at fair value and included in investments. The liability to beneficiaries under agreements are measured at fair value at the time of the contribution

THE ADMINISTRATIVE OFFICE OF THE DIOCESE OF RENO
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 9 - ANNUITY PAYABLE (CONTINUED)

based upon the present value of future cash distributions and mortality-rate tables adopted by the United States Internal Revenue Service. The liability to a beneficiary is re-measured when the Pastoral Center becomes aware of a change in the beneficiary's life expectancy. The fair value of assets is \$216,201 as of June 30, 2017. The liability for split-interest agreements is \$156,857 as of June 30, 2017.

NOTE 10 - PENSION PLANS

The Diocese of Reno sponsors a defined benefit pension plan for all full-time lay employees (Lay Employees Plan) and all priests (Priests Plan) who are ordained or incardinated in the diocese and in good standing.

The Lay Employees Plan is a cash balance plan and provides benefits based on a pension account balance, which consists of prior service credits, employer credits and interest credits. Benefits for the Priests Plan are based on years of service.

The Priests Plan is comprised of a Qualified Plan and a Supplemental Plan. The Qualified Plan provides a basic benefit for all eligible priests. The Supplemental Plan provides additional miscellaneous benefits.

Since the Diocese is exempt from the funding requirements of ERISA, it has been the Diocese's practice to make contributions annually to the plan that are not less than the pre-ERISA minimum funding requirement as applicable to churches, and not in excess of the amount that could be deducted for federal income tax purposes, assuming the Diocese was not exempt from taxation.

Diocesan Lay Employees Plan pension contributions for the year ended June 30, 2017 were \$865,000. Benefit payments of \$608,000 were made during the year ended June 30, 2017.

The Priests Plan contributions of \$161,000 to the Qualified Plan and \$63,000 to the Supplemental Plan were made during the year ended June 30, 2017. Benefit payments of \$155,000 from the Qualified Plan and \$48,000 from the Supplemental Plan were made during the year ended June 30, 2017.

The actuarial reports for the Lay Employees Plan, Priests Plan and Supplemental Plan used for these disclosures was based on data provided as of June 30, 2017.

The following tables sets forth the plan's funded status at June 30:

	2017			Total
	Lay Employees Plan	Priests Plan	Supplemental Priests Plan	
Vested benefit obligation	\$ (7,994,000)	\$ (3,866,000)	\$ (458,000)	\$ (12,318,000)
Accumulated benefit obligation	\$ (8,699,000)	\$ (4,139,000)	\$ (458,000)	\$ (13,296,000)
Projected benefit obligation	\$ (8,906,000)	\$ (4,139,000)	\$ (458,000)	\$ (13,503,000)
Plan assets at fair value	6,969,000	3,036,000	298,000	10,303,000
Fund Status at end of year	\$ (1,937,000)	\$ (1,103,000)	\$ (160,000)	\$ (3,200,000)
Noncurrent liability for pension benefit	\$ (1,937,000)	\$ (1,103,000)	\$ (160,000)	\$ (3,200,000)
Net periodic pension costs	\$ 788,000	\$ 238,000	\$ 26,000	\$ 1,052,000

THE ADMINISTRATIVE OFFICE OF THE DIOCESE OF RENO
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 10 - PENSION PLANS (CONTINUED)

	2016			
	Lay Employees Plan	Priests Plan	Supplemental Priests Plan	Total
	Vested benefit obligation	<u>\$ (8,018,000)</u>	<u>\$ (4,034,000)</u>	<u>\$ (333,000)</u>
Accumulated benefit obligation	<u>\$ (8,653,000)</u>	<u>\$ (4,293,000)</u>	<u>\$ (333,000)</u>	<u>\$ (13,279,000)</u>
Projected benefit obligation	\$ (8,816,000)	\$ (4,293,000)	\$ (333,000)	\$ (13,442,000)
Plan assets at fair value	6,174,000	2,849,000	287,000	9,310,000
Fund Status at end of year	<u>\$ (2,642,000)</u>	<u>\$ (1,444,000)</u>	<u>\$ (46,000)</u>	<u>\$ (4,132,000)</u>
Noncurrent liability for pension benefit	<u>\$ (2,642,000)</u>	<u>\$ (1,444,000)</u>	<u>\$ (46,000)</u>	<u>\$ (4,132,000)</u>
Net periodic pension costs	<u>\$ 647,000</u>	<u>\$ 162,000</u>	<u>\$ 38,000</u>	<u>\$ 847,000</u>

The following benefit payments, which reflect expected future services, are expected to be paid:

	Lay Employees Plan	Priests Plan	Supplemental Priests Plan	Total
	Year ended June 30:			
2018	\$ 742,000	\$ 270,000	\$ 53,000	\$ 1,065,000
2019	907,000	278,000	50,000	1,235,000
2020	909,000	266,000	47,000	1,222,000
2021	960,000	264,000	44,000	1,268,000
2022	920,000	251,000	41,000	1,212,000
2023-2027	<u>4,134,000</u>	<u>1,189,000</u>	<u>161,000</u>	<u>5,484,000</u>
	<u>\$ 8,572,000</u>	<u>\$ 2,518,000</u>	<u>\$ 396,000</u>	<u>\$ 11,486,000</u>

Assumptions used to determine net periodic pension costs at June 30:

	2017		
	Lay Employees Plan	Priests Plan	Supplemental Priests Plan
	Discount Rate	3.17%	3.35%
Expected long-term return	6.25%	6.50%	4.00%
Salary Scale	4.50%	n/a	n/a

THE ADMINISTRATIVE OFFICE OF THE DIOCESE OF RENO
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 10 - PENSION PLANS (CONTINUED)

	2016		
	Lay Employees Plan	Priests Plan	Supplemental Priests Plan
	Discount Rate	3.93%	4.09%
Expected long-term return	7.00%	7.00%	4.00%
Salary Scale	4.50%	n/a	n/a

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 and investment consulting firms while incorporating specific asset-class risk factor. For the fiscal year ending June 30, 2017, the expected long-term rate of return used in determining net periodic pension cost was 6.25% for the Lay Employees Plan, 6.50% for the Qualified Priests Plan and 4.0% for the Priests Supplemental plans.

The asset allocation of the various plans as of June 30, and the target allocation, by asset category, are:

	2017			
	Lay, Priest and Supplemental Plans		Lay Pension	Priest and Supplemental
	Investment Policy	Policy Benchmark Asset Allocation	Actual Percentage of of Plan Assets	Actual Percentage of of Plan Assets
	Target Allocation Range	Allocation	Assets	Assets
	Equities	35-65%	55%	57%
Fixed income	25-55%	35%	16%	20%
Cash Equivalents	5-50%	10%	27%	23%

	2016			
	Lay, Priest and Supplemental Plans		Lay Pension	Priest and Supplemental
	Investment Policy	Policy Benchmark Asset Allocation	Actual Percentage of of Plan Assets	Actual Percentage of of Plan Assets
	Target Allocation Range	Allocation	Assets	Assets
	Equities	35-65%	55%	58%
Fixed income	25-55%	35%	16%	20%
Cash Equivalents	5-50%	10%	26%	23%

THE ADMINISTRATIVE OFFICE OF THE DIOCESE OF RENO
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 10 - PENSION PLANS (CONTINUED)

Assumptions used to determine benefit obligations at June 30:

	2017		
	Lay		Supplemental
	Employees	Priests	Priests
	Pension Plan	Pension Plan	Pension Plan
Discount Rate	3.41%	3.66%	3.66%
Salary Scale	4.50%	n/a	n/a

	2016		
	Lay		Supplemental
	Employees	Priests	Priests
	Pension Plan	Pension Plan	Pension Plan
Discount Rate	3.17%	3.35%	3.35%
Salary Scale	4.50%	n/a	n/a

The Lay Employees plan has a diversified investment program, utilizing a variety of asset classes that balances risk with return opportunities. It utilizes highly qualified external investment managers that have demonstrated skill in a particular asset class. The Diocese regularly monitors each investment manager's performance and the overall fund relative to benchmarks and also regularly reviews the asset allocation and makes appropriate changes accordingly. Prohibited investments include short sales, commodity contracts and equity option contracts. Investment decisions include consideration for corporate social responsibility and Roman Catholic social teaching.

The Qualified Priests Plan has a diversified investment program, utilizing a variety of asset classes that balances risk with return opportunities. The Diocese's Policy is to invest in non-speculative issues providing safety of capital, current income, and sustained growth; while complying with the United State Conference of Catholic Bishop's policies regarding responsible investing.

Plan assets for the Supplemental Plan are insufficient to necessitate an independent investment policy. Assets are currently held in cash equivalents to meet near term benefit payments.

The Pastoral Center has a qualified 403(B) annuity plan for its employees. Employees are eligible to contribute to the plan upon employment and anytime thereafter. There is no minimum age or service requirements for employees to participate. Employees may contribute on a pre-tax basis up to the IRS maximum contribution. The matching contribution is 100 percent of the employee's contribution up to a maximum contribution of 2%. The Pastoral Center's contributions for fiscal years June 30, 2017 and 2016 was \$17,835 and \$19,379, respectively.

THE ADMINISTRATIVE OFFICE OF THE DIOCESE OF RENO
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 11 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are held for the following purposes at June 30:

	<u>2017</u>	<u>2016</u>
Capital campaign	\$ 1,127,225	\$ -
Catholic Services Appeal	1,221,991	1,292,440
Diocesan/parish service	1,194,122	1,235,403
Diocesan insurance	3,061,654	3,673,036
Education	50,495	-
Pastoral	1,664,755	830,758
Religious personnel development	367,026	367,026
Social services	82,727	82,094
	<u>\$ 8,769,995</u>	<u>\$ 7,480,757</u>

NOTE 12 – CORRECTION OF ERROR

During the year ended June 30, 2017 the Pastoral Center determined that certain assets held by the Catholic Community Foundation on behalf of the Pastoral Center for future cemetery care should be reflected on its statement of financial position.

The correction resulted in a prior period adjustment of \$1,948,444 to unrestricted net assets and a restatement of the June 30, 2016 balances to reflect the changes as follows:

	<u>Original</u>	<u>Change</u>	<u>Restated</u>
Beneficial interest in assets held by the Catholic Community Foundation of the Diocese of Reno	\$ -	\$ 1,948,444	\$ 1,948,444
Total Assets	<u>\$ 40,168,243</u>	<u>\$ 1,948,444</u>	<u>\$ 42,116,687</u>
Net Assets:			
Unrestricted			
Cemetery Care Fund	<u>\$ -</u>	<u>\$ 1,948,444</u>	<u>\$ 1,948,444</u>
Total Net Assets	<u>\$ 14,693,766</u>	<u>\$ 1,948,444</u>	<u>\$ 16,642,210</u>
Total Liabilities and Net Assets	<u>\$ 40,168,243</u>	<u>\$ 1,948,444</u>	<u>\$ 42,116,687</u>
Change in Unrestricted Net Assets	<u>\$ (926,772)</u>	<u>\$ 40,908</u>	<u>\$ (885,864)</u>
Change in Net Assets from Operating Activities	<u>\$ (1,219,208)</u>	<u>\$ 40,908</u>	<u>\$ (1,178,300)</u>
Change in Net Assets	<u>\$ (4,006,972)</u>	<u>\$ 40,908</u>	<u>\$ (3,966,064)</u>

Supplementary Information

THE ADMINISTRATIVE OFFICE OF THE DIOCESE OF RENO
CONSOLIDATED SCHEDULE OF EXPENSES BY NATURAL CATEGORY
FOR THE YEAR ENDED JUNE 30, 2017
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2016)

	2017	2016
Expenses:		
Advertising	\$ 27,472	\$ 17,720
Contracts	64,543	57,964
Cost of goods sold - cemetery	198,457	122,472
Depreciation	275,514	192,532
Donations	414,697	583,100
Dues, subscriptions, memberships	40,786	41,356
Employee benefits	865,130	907,243
Insurance	5,110,667	3,554,727
Interest	209,583	185,792
Office	105,834	76,705
Operating subsidy	221,866	210,000
Other	217,038	196,332
Payroll taxes	130,685	114,293
Postage	43,028	42,350
Printing	51,060	48,237
Professional fees	928,074	506,740
Program materials	20,780	22,265
Programs and presentations	188,858	194,883
Repair and maintenance	138,947	128,828
Room and board	161,552	104,641
Salaries and wages	1,630,462	1,485,676
Special events	46,061	35,576
Taxes and licenses	14,909	12,187
Telephone and internet	32,160	40,045
Travel	56,286	63,841
Tuition	236,377	187,940
Utilities	103,407	109,314
Total Expenses	\$ 11,534,233	\$ 9,242,759

The attached auditor's report and notes should be read with the financial statements.