

**CORPORATION OF THE CATHOLIC BISHOP OF
YAKIMA – DIOCESAN ADMINISTRATION**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED JUNE 30, 2016 AND 2015



DINGUS | ZARECOR & ASSOCIATES^{PLLC}
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT	1-2
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION	3
STATEMENTS OF ACTIVITIES	4-5
STATEMENTS OF CHANGES IN NET ASSETS	6
STATEMENTS OF CASH FLOWS	7
NOTES TO FINANCIAL STATEMENTS	8-16
SUPPLEMENTARY INFORMATION	17-20



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INDEPENDENT AUDITORS' REPORT

Finance Council
Corporation of the Catholic Bishop of Yakima – Diocesan Administration
Yakima, Washington

We have audited the accompanying financial statements of the Corporation of the Catholic Bishop of Yakima – Diocesan Administration (the Corporation) (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, and the related statements 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 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.

Auditors' 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 auditors' 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 Corporation as of June 30, 2016, 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.

Emphasis of Matter

As discussed in Note 11 to the financial statements, the 2015 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Other Matters

Prior Year (June 30, 2015) Auditors' Report

The financial statements of the Corporation as of and for the year ended June 30, 2015, were audited by CliftonLarsonAllen LLP, and whose report dated September 11, 2015, expressed an unmodified opinion of those financial statements.

As part of our audit of the 2016 financial statements, we also audited the adjustments described in Note 11 that were applied to restate the 2015 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2015 financial statements of the Corporation other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2015 financial statements as a whole.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The detail statements of activities on pages 17-20 are presented for purposes of additional analysis and are not required parts 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.

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
September 8, 2016

CORPORATION OF THE CATHOLIC BISHOP OF YAKIMA – DIOCESAN ADMINISTRATION
STATEMENTS OF FINANCIAL POSITION
YEARS ENDED JUNE 30, 2016 AND JUNE 30, 2015

ASSETS	<u>2016</u>	<u>2015</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 681,953	\$ 1,392,920
Accounts Receivable from Related Parties, Net of Allowance for Doubtful Accounts of \$102,800 and \$80,000, Respectively	232,197	749,726
Current Portion of Notes Receivable	45,839	15,819
Annual Catholic Appeal Pledges Receivable, Net of Allowance for Uncollectible Pledges of \$4,574 and \$9,464, Respectively	50,069	106,064
Bishop's Founder Circle Pledges Receivable - Current Portion	11,000	-
Prepaid Expenses	-	5,333
Investments	2,567,014	992,004
Total Current Assets	<u>3,588,072</u>	<u>3,261,866</u>
PROPERTY AND EQUIPMENT, Net	1,669,233	1,695,411
OTHER ASSETS		
Investments, Annuities	210,213	279,435
Bishop's Founder Circle Pledges Receivable - Long-Term Portion	18,250	-
Notes Receivable - Long-Term Portion	257,750	109,398
Total Non-Current Assets	<u>486,213</u>	<u>388,833</u>
Total Assets	<u>\$ 5,743,518</u>	<u>\$ 5,346,110</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 30,231	\$ 32,990
Current Maturities of Note Payable to Related Party	-	7,324
Accrued Liabilities	260,799	93,575
Deferred Income - Clergy Retirement	-	108,225
Deferred Income - Grants	113,075	-
Custodial Liability	128,427	129,323
Total Current Liabilities	<u>532,532</u>	<u>371,437</u>
LONG-TERM DEBT		
Reserve for Annuity Payments	241,426	253,269
Note Payable to Related Party	-	197,095
Total Long-Term Debt	<u>241,426</u>	<u>450,364</u>
Total Liabilities	773,958	821,801
NET ASSETS		
Unrestricted	3,438,842	3,136,320
Temporarily Restricted	1,530,718	1,387,989
Total Net Assets	<u>4,969,560</u>	<u>4,524,309</u>
Total Liabilities and Net Assets	<u>\$ 5,743,518</u>	<u>\$ 5,346,110</u>

See accompanying notes to financial statements.

**CORPORATION OF THE CATHOLIC BISHOP OF YAKIMA – DIOCESAN ADMINISTRATION
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016**

	Unrestricted	Temporarily Restricted	Total
REVENUES			
Contributions:			
Annual Catholic Appeal	\$ 1,491,641	\$ 50,069	\$ 1,541,710
Seminary	-	697,953	697,953
Special Funds	-	215,887	215,887
Priest Retirement Fund	-	162,067	162,067
Other Donations and Bequests	35,766	-	35,766
Diocesanum	554,890	-	554,890
Property Income	224,963	-	224,963
Management and Investment Fees	166,634	-	166,634
Other Income	73,010	-	73,010
Grants	49,699	-	49,699
Total Revenues	2,596,603	1,125,976	3,722,579
Net Assets Released from Restrictions due to Lapse in Time Restrictions	106,064	(106,064)	-
Net Assets Released from Restrictions due to Satisfaction of Program Restrictions	877,183	(877,183)	-
	3,579,850	142,729	3,722,579
OPERATING EXPENSES	3,391,711	-	3,391,711
INCREASE IN NET ASSETS BEFORE OTHER INCOME (EXPENSE)	188,139	142,729	330,868
OTHER INCOME (EXPENSE)			
Interest Income	17,202	-	17,202
Interest Expense	(14,644)	-	(14,644)
Gain on Sale of Property and Equipment	142,676	-	142,676
Unrealized Gain on Investments	2,844	-	2,844
Gain on CRP Savings	11,703	-	11,703
Loss on Gift Annuities	(45,398)	-	(45,398)
Total Other Income (Expense)	114,383	-	114,383
CHANGES IN NET ASSETS	\$ 302,522	\$ 142,729	\$ 445,251

See accompanying notes to financial statements.

**CORPORATION OF THE CATHOLIC BISHOP OF YAKIMA – DIOCESAN ADMINISTRATION
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015**

	Unrestricted	Temporarily Restricted	Total
REVENUES			
Contributions			
Annual Catholic Appeal	\$ 1,447,268	\$ 106,064	\$ 1,553,332
Seminary	-	562,889	562,889
Special Funds	-	274,387	274,387
Priest Retirement Fund	-	175,307	175,307
Other Donations and Bequests	78,271	-	78,271
Diocesanum	550,788	-	550,788
Property Income	213,418	-	213,418
Management and Investment Fees	140,273	-	140,273
Other Income	62,848	-	62,848
Grants	52,500	-	52,500
Total Revenues	2,545,366	1,118,647	3,664,013
Net Assets Released from Restrictions due to Lapse in Time Restrictions	59,073	(59,073)	-
Net Assets Released from Restrictions due to Satisfaction of Program Restrictions	960,410	(960,410)	-
	3,564,849	99,164	3,664,013
OPERATING EXPENSES	3,650,635	-	3,650,635
INCREASE IN NET ASSETS BEFORE OTHER INCOME (EXPENSE)	(85,786)	99,164	13,378
OTHER INCOME (EXPENSE)			
Interest Income	191,651	-	191,651
Interest Expense	(14,607)	-	(14,607)
Realized Loss on Investments	(3,652)	-	(3,652)
Unrealized Loss on Investments	(2,352)	-	(2,352)
Gain on CRP Savings	30,304	-	30,304
Loss on Gift Annuities	(33,156)	-	(33,156)
Total Other Income (Expense)	168,188	-	168,188
CHANGES IN NET ASSETS	\$ 82,402	\$ 99,164	\$ 181,566

See accompanying notes to financial statements.

**CORPORATION OF THE CATHOLIC BISHOP OF YAKIMA – DIOCESAN ADMINISTRATION
STATEMENT OF CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2016**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
NET ASSETS - JUNE 30, 2014 (As Previously Stated)	\$ 2,802,524	\$ 1,481,146	\$ 4,283,670
RESTATEMENT	<u>251,394</u>	<u>(192,321)</u>	<u>59,073</u>
NET ASSETS - JUNE 30, 2014	\$ 3,053,918	\$ 1,288,825	\$ 4,342,743
CHANGES IN NET ASSETS	<u>82,402</u>	<u>99,164</u>	<u>181,566</u>
NET ASSETS - JUNE 30, 2015	3,136,320	1,387,989	4,524,309
CHANGES IN NET ASSETS	<u>302,522</u>	<u>142,729</u>	<u>445,251</u>
NET ASSETS - JUNE 30, 2016	<u>\$ 3,438,842</u>	<u>\$ 1,530,718</u>	<u>\$ 4,969,560</u>

See accompanying notes to financial statements.

CORPORATION OF THE CATHOLIC BISHOP OF YAKIMA – DIOCESAN ADMINISTRATION
STATEMENTS OF CASH FLOWS
JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Contributions and Services	\$ 4,203,545	\$ 3,653,402
Cash Paid to Suppliers and Employees	(3,062,093)	(3,380,024)
Investment/Interest Income Received	17,202	191,651
Interest Paid	(14,644)	(12,708)
Net Cash Provided by Operating Activities	<u>1,144,010</u>	<u>452,321</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Investments	(1,636,777)	(166,256)
Proceeds from Sale of Investments	144,699	188,016
Principal Payments Received - Notes Receivable	11,834	(10,448)
New Loans Issued - Notes Receivable	(30,206)	-
Proceeds from Disposal of Property and Equipment	73,897	-
Purchase of Property and Equipment	(214,005)	(128,182)
Net Cash Used by Investing Activities	<u>(1,650,558)</u>	<u>(116,870)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Long-Term Debt	(204,419)	(183,589)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(710,967)</u>	<u>151,862</u>
Cash and Cash Equivalents - Beginning of Year	<u>1,392,920</u>	<u>1,241,058</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 681,953</u>	<u>\$ 1,392,920</u>
RECONCILIATION OF CHANGES IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Changes in Net Assets	\$ 445,251	\$ 181,566
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	153,085	139,576
Gain on Disposal of Property and Equipment	(146,799)	-
Bad Debt Allowance	17,910	9,810
Unrealized Loss (Gain) on Investments	(2,844)	2,352
Realized Loss (Gain) on Investments	(10,866)	3,652
(Increase) Decrease in Assets:		
Accounts Receivable from Related Parties	494,729	71,172
Annual Catholic Appeal Pledges Receivable, Net	60,885	23,199
Bishop's Founder Circle Pledges Receivable, Net	(29,250)	-
Prepaid Expenses	5,333	99,314
Increase (Decrease) in Liabilities:		
Accounts Payable	(2,759)	(245,560)
Accrued Liabilities	167,224	163,271
Deferred Income - Clergy Retirement	(108,225)	-
Deferred Income - Grants	113,075	-
Custodial Liability	(896)	3,969
Reserve for Annuity Payments	(11,843)	-
Total Adjustments	<u>698,759</u>	<u>270,755</u>
Net Cash Provided by Operating Activities	<u>\$ 1,144,010</u>	<u>\$ 452,321</u>

See accompanying notes to financial statements.

Noncash Investing and Financing Activities

The Corporation sold real property in 2016. The buyer paid a down-payment of \$90,000, and financed the remaining \$160,000 with the Corporation. A portion of the proceeds were used to pay settlement costs. The note is to be repaid over five years at 5% interest.

CORPORATION OF THE CATHOLIC BISHOP OF YAKIMA – DIOCESAN ADMINISTRATION
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 1 DESCRIPTION OF OPERATIONS

The Corporation of the Catholic Bishop of Yakima – Diocesan Administration (the Corporation), a nonprofit organization, was created June 23, 1951, in Yakima, Washington, and serves 41 parishes and four missions in seven counties. The accompanying financial statements include certain funds and accounts of the administrative departments of the Corporation and do not purport to represent the net assets, changes in net assets, and cash flows of the parishes and institutions. The parishes consist of churches while the institutions consist primarily of schools and cemeteries. Under canonical law, the parishes and institutions are considered separate juridical persons. These financial statements include only the accounts of the Diocesan Administration.

Historically, the Diocesan Administration had included the investments of the parishes and institutions in its financial statements. On October 22, 2010, investments, other than those relating to gift annuities, notes receivable, and deposits payable from the parishes and institutions, were transferred from the Diocesan Administration to a new entity called the Diocese of Yakima Capital Revolving Program (CRP). This was done to clarify the civil and canonical relationships between the Diocesan Administration and the parishes and institutions and to document the equitable ownership of the assets transferred as property belonging to the separate entities.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Corporation presents its financial statements in accordance with accounting principles generally accepted in the United States of America. The full accrual basis of accounting is used to record revenues and expenses. Accordingly, all revenues and expenses are recognized when earned and incurred.

Net Assets

The Corporation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Further, the Corporation reports contributions received as unrestricted, temporarily restricted, or permanently restricted support depending upon the existence or nature of any donor restrictions. Net assets are classified based on the existence or absence of donor-imposed restrictions as follows:

Unrestricted Net Assets – Net assets that are not subject to donor-imposed stipulations but are controlled and designated by the Corporation.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Corporation and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and the statement of changes in net assets as net assets released from restrictions.

CORPORATION OF THE CATHOLIC BISHOP OF YAKIMA – DIOCESAN ADMINISTRATION
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2016 AND 2015

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets (Continued)

Temporarily Restricted Net Assets (Continued)

Temporarily restricted net assets include the funding the Corporation receives from grant and other gift income to be used for purposes specified by the donor. Temporarily restricted net assets at June 30, 2016 and 2015 were \$1,530,718 and \$1,387,989, respectively.

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Corporation. Generally, the donors of these assets permit the Corporation to use all or part of the income earned on any related investments for general or specific purposes. There were no permanently restricted net assets at June 30, 2016 and 2015.

Cash and Cash Equivalents

The Corporation considers all highly liquid investments with maturity dates of three months or less to be cash and cash equivalents. The Corporation maintains its cash and cash equivalent accounts at financial institutions which, at times, may exceed federally insured limits. The Corporation has not experienced any losses in such accounts.

Accounts Receivable from Related Parties

Accounts receivable from related parties are receivables with amounts billed to the parishes and other Diocesan institutions for health, general liability, and workers' compensation insurance. In addition, the annual parish assessments are a component of these receivables. Accounts receivable from related parties totaled \$232,197 and \$749,726 for the years ended June 30, 2016 and 2015, respectively. These receivables are not subject to interest. Based upon management's evaluation of these receivables, an allowance for doubtful accounts of approximately \$102,800 and \$80,000, was deemed necessary for the years ended June 30, 2016 and 2015, respectively.

Investments

The Corporation is required to report investments with readily determinable fair values at fair value, with gains and losses included in the statement of activities and the statement of changes in net assets. Fair value is determined by the open market. As a result, investments are carried at fair value as of the financial statement date.

Investments in general are exposed to various risks, such as interest rate, market, and credit risk. It is reasonably possible, given the level of risk associated with the investment, that changes in the near term could materially affect the Corporation's account balances and the amounts reported in the financial statements.

A significant portion of the Corporation's investments are in the CRP investments. The CRP invests in money market funds, certificates of deposit, bond funds, fixed income securities, and equity securities. A significant portion of the CRP investments are held with Christian Brothers Investment Services (CBIS). CBIS is a specialized investment asset management firm that works exclusively with Catholic institutions and their fiduciaries. Assets held by CBIS are exempt from filing with the Securities and Exchange Commission and as a result are not considered actively traded in public markets.

CORPORATION OF THE CATHOLIC BISHOP OF YAKIMA – DIOCESAN ADMINISTRATION
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2016 AND 2015

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pledges Receivable

Unconditional promises to give are reported at fair value on the date the promise is verifiably committed. Unconditional promises to give that are expected to be collected are recorded at net realizable value. Unconditional promises to give are reported as pledges receivable. Conditional promises to give are not included as support until the conditions are substantially met.

There were no conditional promises to give at June 30, 2016 and 2015.

Pledges receivable are reflected on the statements of financial position at the full value of the contribution. Management determined an allowance for uncollectible pledges of \$4,574 and \$9,464 as of June 30, 2016 and 2015, respectively.

Property and Equipment

Land is recorded at cost or fair market value at the date of gift or purchase. Buildings and equipment are recorded at cost or fair market value at the date of gift or purchase. The Corporation capitalizes all expenditures that are capital in nature and are greater than \$500. The Corporation provides for depreciation of buildings and equipment using the straight-line method over the following estimated useful lives:

Buildings and Improvements	20 – 40 Years
Equipment	5 – 20 Years

Custodial Liability

Special collections occur at varying times throughout the year. As funds are collected, the amounts are accumulated by the Finance Office of the Corporation and are recorded as payable to the various funds which the collections are meant to benefit. The payable is relieved upon completion of the collection term.

Federal Income Tax Status

The Corporation has been recognized as tax-exempt by the Internal Revenue Service (IRS) under Section 501(c)(3). The Corporation is exempt from filing tax returns under the Catholic Directory exemption. Income from certain activities not directly related to the Corporation's tax-exempt purpose would be subject to taxation as unrelated business income. In accordance with requirements related to accounting for uncertainties in income taxes, the Corporation has determined they have no uncertain tax positions at June 30, 2016 and 2015.

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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CORPORATION OF THE CATHOLIC BISHOP OF YAKIMA – DIOCESAN ADMINISTRATION
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2016 AND 2015

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent events are events or transactions that occur after the statements of financial position date but before financial statements are issued. The Corporation recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statements of financial position, including the estimates inherent in the process of preparing the financial statements. The Corporation's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statements of financial position but arose after the statements of financial position date and before financial statements are available to be issued.

The Corporation has evaluated subsequent events through September 8, 2016, which is the date the financial statements were available to be issued.

NOTE 3 CHARITABLE GIFT ANNUITIES AND DEFERRED LIABILITIES

Charitable gift annuities are unrestricted irrevocable gifts under which the Corporation agrees in turn to pay a life annuity to the donor, or to the designated beneficiary. The contributed funds and the related reserve for annuity payments immediately become part of the general assets and liabilities of the Corporation.

The Corporation values deferred gifts of cash at face value and investments at market value. Contribution values are discounted on the basis of actuarial data. Published IRS discount rates (ranging from 3 percent to 6 percent) are employed to determine the net present value of both contributions and liabilities pertaining to these deferred-giving arrangements.

As an issuer of charitable gift annuities, Washington State requires that the Corporation has and maintains minimum unrestricted net assets of \$500,000. Unrestricted net assets are the excess of total assets over total liabilities that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

As of June 30, 2016 and 2015, charitable gift annuities of \$210,213 and \$279,435, respectively, are included in investments, and the liability for annuity payments to donors of \$241,426 and \$253,269, respectively, is included on the statements of financial position.

CORPORATION OF THE CATHOLIC BISHOP OF YAKIMA – DIOCESAN ADMINISTRATION
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2016 AND 2015

NOTE 4 INVESTMENTS AND FAIR VALUE MEASUREMENTS

The fair market value of investments was as follows for the years ended June 30:

	<u>2016</u>	<u>2015</u>
Money Market Funds	\$ 88,342	\$ 117,865
Investments in CRP (Related Party)	2,485,921	899,939
Certificates of Deposit (Varying Maturities)	21,959	33,106
Corporate Bonds	42,013	84,481
Equity Securities	67,588	66,332
Bond Funds	71,404	69,716
Total	<u>\$ 2,777,227</u>	<u>\$ 1,271,439</u>

Based on the observability of the inputs used in the valuation techniques, the Corporation is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1 – Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third-party pricing services for identical or similar assets or liabilities.

Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. The Corporation has no Level 3 assets or liabilities.

CORPORATION OF THE CATHOLIC BISHOP OF YAKIMA – DIOCESAN ADMINISTRATION
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2016 AND 2015

NOTE 4 INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

The fair value of investment securities is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers. The following tables present the fair value hierarchy for the balances of the assets of the Corporation measured at fair value on a recurring basis as of June 30:

	2016			
	Level 1	Level 2	Level 3	Total
Investments in CRP (Related Party)	\$ 1,400,210	\$ 1,085,711	\$ -	\$ 2,485,921
Money Market Funds	88,342	-	-	88,342
Certificates of Deposit (Varying Maturities)	-	21,959	-	21,959
Corporate Bonds	-	42,013	-	42,013
Equity Securities	67,588	-	-	67,588
Bond Funds	71,404	-	-	71,404
Total	<u>\$ 1,627,544</u>	<u>\$ 1,149,683</u>	<u>\$ -</u>	<u>\$ 2,777,227</u>

	2015			
	Level 1	Level 2	Level 3	Total
Investments in CRP (Related Party)	-	\$ 899,939	\$ -	\$ 899,939
Money Market Funds	117,865	-	-	117,865
Certificates of Deposit (Varying Maturities)	-	33,106	-	33,106
Corporate Bonds	-	84,481	-	84,481
Equity Securities	66,332	-	-	66,332
Bond Funds	69,716	-	-	69,716
Total	<u>\$ 253,913</u>	<u>\$ 1,017,526</u>	<u>\$ -</u>	<u>\$ 1,271,439</u>

NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment as of June 30 were as follows:

	2016	2015
Land	\$ 257,733	\$ 280,700
Buildings and Building Improvements	3,534,936	3,413,655
Equipment	116,815	102,736
Total	<u>3,909,484</u>	<u>3,797,091</u>
Less: Accumulated Depreciation	2,240,251	2,101,680
Total	<u>\$ 1,669,233</u>	<u>\$ 1,695,411</u>

CORPORATION OF THE CATHOLIC BISHOP OF YAKIMA – DIOCESAN ADMINISTRATION
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2016 AND 2015

NOTE 6 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Annual Catholic Appeal	\$ 50,069	\$ 106,064
Priest Retirement Fund	127,685	74,878
Seminarian Education Fund	615,529	469,393
Special Funds	737,435	737,654
	<u>\$ 1,530,718</u>	<u>\$ 1,387,989</u>

On June 30, 2016 and 2015, net assets were released from donor restrictions by incurring expenditures satisfying the restricted purposes or by the lapsing of time restrictions in the amounts of \$983,247 and \$1,019,483, respectively. These amounts are included in net assets released from restrictions in the accompanying financial statements.

NOTE 7 NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions for use as specified by donors.

NOTE 8 NOTE PAYABLE TO RELATED PARTY

Long-term debt consisted of the following at June 30:

	<u>2016</u>	<u>2015</u>
CRP, Related Party, Payable \$1,490 Monthly, Including 5.25% Interest, Due January 1, 2033	-	\$ 204,419
Subtotal	-	204,419
Less: Current Maturities	-	(7,324)
Total Note Payable to Related Party	<u>-</u>	<u>\$ 197,095</u>

CORPORATION OF THE CATHOLIC BISHOP OF YAKIMA – DIOCESAN ADMINISTRATION
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2016 AND 2015

NOTE 9 CONTINGENCIES

Occasionally, in the normal course of business, there are various claims, lawsuits, and pending actions involving the Corporation. When such matters arise, the Corporation intends to defend its position vigorously. The liability, if any, associated with these matters is not determinable at June 30, 2016 and 2015; however, the results of these matters could have a material effect on the Corporation's financial position, changes in net assets, or cash flows.

The Diocese of Yakima is currently named in several lawsuits. The Corporation is insured up to set policy limits. Management and legal counsel are unable to determine the likelihood of an unfavorable outcome or the cost of an unfavorable outcome. As a result, no amounts have been recorded in the financial statements in event an unfavorable outcome were to occur.

NOTE 10 FUNCTIONAL EXPENSES

The supporting activities of the Corporation are all activities other than depreciation and development office operations expense. Generally, they include management and general expenses and fundraising activities. Total functional expenses were as follows:

	<u>2016</u>	<u>2015</u>
Program	1,320,640	1,688,227
Management & General	1,830,122	1,727,406
Fundraising	240,949	235,002
Total Functional Expenses	<u>\$ 3,391,711</u>	<u>\$ 3,650,635</u>

CORPORATION OF THE CATHOLIC BISHOP OF YAKIMA – DIOCESAN ADMINISTRATION
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2016 AND 2015

NOTE 11 PRIOR PERIOD ADJUSTMENT

During the year ended June 30, 2016, management discovered that its method of accounting for the Annual Catholic Appeal (ACA) fundraising activities required adjustments to meet proper accrual method of accounting rules according to GAAP. The 2015 financial statements have been restated to reflect the adjustments.

The effects to the June 30, 2015, financial statements are as follows:

	<u>As Restated</u>	<u>Adjustment</u>	<u>As Previously Stated</u>
ACA Pledges Receivable, Net of Allowance	\$ 106,064	\$ (164,108)	\$ 270,172
Total Assets	<u>106,064</u>	<u>(164,108)</u>	<u>270,172</u>
Unrestricted	3,136,320	23,061	3,113,259
Temporarily Restricted	<u>1,387,989</u>	<u>(187,169)</u>	<u>1,575,158</u>
Total Net Assets	4,524,309	(164,108)	4,688,417
Temporarily Restricted Revenue	99,164	5,152	94,012
Unrestricted Revenue	<u>82,402</u>	<u>(228,333)</u>	<u>310,735</u>
Total Revenue	<u>\$ 181,566</u>	<u>\$ (223,181)</u>	<u>\$ 404,747</u>

The amounts as of July 1, 2014, were restated to increase unrestricted net assets by \$251,394, decrease temporarily restricted net assets by \$192,321, and increase Net ACA Pledges Receivable by \$59,073.

CORPORATION OF THE CATHOLIC BISHOP OF YAKIMA – DIOCESAN ADMINISTRATION
STATEMENT OF ACTIVITIES FOR DIOCESAN ADMINISTRATION
YEAR ENDED JUNE 30, 2016
(SEE INDEPENDENT AUDITORS' REPORT)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUES			
Contributions			
Annual Catholic Appeal	\$ 1,491,641	\$ 50,069	\$ 1,541,710
Seminary	-	697,953	697,953
Special Funds	-	215,887	215,887
Priest Retirement Fund	-	162,067	162,067
Other Donations and Bequests	35,766	-	35,766
Diocesanum	554,890	-	554,890
Property Income	224,963	-	224,963
Management and Investment Fees	166,634	-	166,634
Other Income	73,010	-	73,010
Grants	49,699	-	49,699
Total Revenues	<u>2,596,603</u>	<u>1,125,976</u>	<u>3,722,579</u>
EXPENSES			
Employee Salaries and Benefits	870,405	-	870,405
Clergy Salaries and Benefits	249,920	-	249,920
Property Insurance	203,424	-	203,424
Bad Debt Expense	17,910	-	17,910
Depreciation Expense	153,085	-	153,085
Legal and Professional Fees	137,504	-	137,504
Repairs and Maintenance	115,506	-	115,506
Continuing Education and Conferences	97,627	-	97,627
Office supplies and Expense	93,663	-	93,663
Printing and Publications	75,881	-	75,881
Utilities	71,576	-	71,576
Clergy Continuing Education and Retreats	67,809	-	67,809
Dues and Memberships	51,468	-	51,468
Program Expense	47,585	-	47,585
Contractual Services	46,320	-	46,320
Disbursements to Other Catholic Organizations	18,878	-	18,878
Institution Subsidy	37,992	-	37,992
Property Taxes	33,522	-	33,522
Travel - Mileage	29,559	-	29,559
Postage	24,822	-	24,822
Finance Charges and Bank Fees	23,101	-	23,101
Lease Expense	14,030	-	14,030
Telephone and Communications	12,927	-	12,927
Safe Environment Expense	11,712	-	11,712
Books and Periodicals	6,454	-	6,454
Advertising	4,308	-	4,308
Other Expense (Income)	(2,460)	-	(2,460)
Seminarian Education Fund Expense	-	551,817	551,817
Special Funds (includes Faith Formation)	-	216,105	216,105
Priest Retirement Fund Expense	-	109,261	109,261
Total Expenses	<u>2,514,528</u>	<u>877,183</u>	<u>3,391,711</u>

See accompanying independent auditors' report.

CORPORATION OF THE CATHOLIC BISHOP OF YAKIMA – DIOCESAN ADMINISTRATION
STATEMENT OF ACTIVITIES FOR DIOCESAN ADMINISTRATION
YEAR ENDED JUNE 30, 2016
(SEE INDEPENDENT AUDITORS' REPORT)

	Unrestricted	Temporarily Restricted	Total
INCREASE OF REVENUE OVER EXPENSES BEFORE OTHER INCOME (EXPENSE)	82,075	248,793	330,868
NET ASSETS RELEASED FROM RESTRICTIONS DUE TO LAPSE IN TIME RESTRICTIONS	106,064	(106,064)	-
OTHER INCOME (EXPENSE)			
Interest Income	17,202	-	17,202
Interest Expense	(14,644)	-	(14,644)
Gain on Sale of Property and Equipment	142,676	-	142,676
Unrealized Gain on Investments	2,844	-	2,844
Gain on CRP Savings	11,703	-	11,703
Loss on Gift Annuities	(45,398)	-	(45,398)
Total Other Income (Expense)	114,383	-	114,383
INCREASE OF REVENUES OVER EXPENSES	\$ 302,522	\$ 142,729	\$ 445,251

See accompanying independent auditors' report.

CORPORATION OF THE CATHOLIC BISHOP OF YAKIMA – DIOCESAN ADMINISTRATION
STATEMENT OF ACTIVITIES FOR DIOCESAN ADMINISTRATION
YEAR ENDED JUNE 30, 2015
(SEE INDEPENDENT AUDITORS' REPORT)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUES			
Contributions			
Annual Catholic Appeal	\$ 1,447,268	\$ 106,064	\$ 1,553,332
Seminary	-	562,889	562,889
Special Funds	-	274,387	274,387
Priest Retirement Fund	-	175,307	175,307
Other Donations and Bequests	78,271	-	78,271
Diocesanum	550,788	-	550,788
Property Income	213,418	-	213,418
Management and Investment Fees	140,273	-	140,273
Other Income	62,848	-	62,848
Grants	52,500	-	52,500
Total Revenues	<u>2,545,366</u>	<u>1,118,647</u>	<u>3,664,013</u>
EXPENSES			
Employee Salaries and Benefits	896,704	-	896,704
Clergy Salaries and Benefits	147,586	-	147,586
Property Insurance	163,091	-	163,091
Bad Debt Expense	9,810	-	9,810
Depreciation Expense	139,576	-	139,576
Legal and Professional Fees	124,191	-	124,191
Repairs and Maintenance	126,887	-	126,887
Continuing Education and Conferences	73,683	-	73,683
Office supplies and Expense	93,113	-	93,113
Printing and Publications	78,636	-	78,636
Utilities	66,233	-	66,233
Clergy Continuing Education and Retreats	91,322	-	91,322
Dues and Memberships	51,127	-	51,127
Program Expense	36,631	-	36,631
Contractual Services	30,224	-	30,224
Disbursements to Other Catholic Organizations	23,450	-	23,450
Institution Subsidy	49,992	-	49,992
Property Taxes	35,395	-	35,395
Travel - Mileage	37,114	-	37,114
Postage	25,207	-	25,207
Finance Charges and Bank Fees	17,786	-	17,786
Lease Expense	12,819	-	12,819
Telephone and Communications	15,601	-	15,601
Safe Environment Expense	15,570	-	15,570
Books and Periodicals	4,316	-	4,316
Advertising	6,567	-	6,567
Other Expense (Income)	317,594	-	317,594
Seminarian Education Fund Expense	-	586,616	586,616
Special Funds (includes Faith Formation)	-	269,495	269,495
Priest Retirement Fund Expense	-	104,299	104,299
Total Expenses	<u>2,690,225</u>	<u>960,410</u>	<u>3,650,635</u>

See accompanying independent auditors' report.

CORPORATION OF THE CATHOLIC BISHOP OF YAKIMA – DIOCESAN ADMINISTRATION
STATEMENT OF ACTIVITIES FOR DIOCESAN ADMINISTRATION
YEAR ENDED JUNE 30, 2015
(SEE INDEPENDENT AUDITORS' REPORT)

	Unrestricted	Temporarily Restricted	Total
INCREASE OF REVENUE OVER EXPENSES BEFORE OTHER INCOME (EXPENSE)	(144,859)	158,237	13,378
NET ASSETS RELEASED FROM RESTRICTIONS DUE TO LAPSE IN TIME RESTRICTIONS	59,073	(59,073)	-
OTHER INCOME (EXPENSE)			
Interest Income	191,651	-	191,651
Interest Expense	(14,607)	-	(14,607)
Realized Loss on Investments	(3,652)	-	(3,652)
Unrealized Loss on Investments	(2,352)	-	(2,352)
Gain on CRP Savings	30,304	-	30,304
Loss on Gift Annuities	(33,156)	-	(33,156)
Total Other Income (Expense)	168,188	-	168,188
INCREASE OF REVENUES OVER EXPENSES	\$ 82,402	\$ 99,164	\$ 181,566

See accompanying independent auditors' report.