

DIOCESE OF YAKIMA CAPITAL REVOLVING PROGRAM

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED JUNE 30, 2016 AND 2015



DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

Finance Council
Diocese of Yakima Capital Revolving Program
Yakima, Washington

We have audited the accompanying financial statements of the Diocese of Yakima Capital Revolving Program (the CRP) (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 CRP 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.

Other Matters

Prior Year (June 30, 2015) Auditors' Report

The financial statements of the CRP 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.

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
September 8, 2016

DIOCESE OF YAKIMA CAPITAL REVOLVING PROGRAM
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015
(SEE INDEPENDENT AUDITORS' REPORT)

ASSETS	2016	2015
ASSETS		
Cash and Cash Equivalents	\$ 1,354,444	\$ 531,634
Notes Receivable - Affiliated	58,938	299,553
Notes Receivable - Other	1,125,941	602,964
Investments	19,402,784	15,106,105
Total Assets	\$21,942,107	\$16,540,256
LIABILITIES AND UNRESTRICTED NET ASSETS		
LIABILITIES		
Deposits Held for Others - Affiliated	19,315,056	14,464,852
Deposits Held for Others - Other	2,607,963	2,063,753
Accrued Investment Fees Payable	17,115	12,650
Deferred Interest Income	1,973	-
Total Liabilities	21,942,107	16,541,255
UNRESTRICTED NET ASSETS	-	(999)
Total Liabilities and Unrestricted Net Assets	\$21,942,107	\$16,540,256

See accompanying notes to financial statements.

DIOCESE OF YAKIMA CAPITAL REVOLVING PROGRAM
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2016 AND 2015
(SEE INDEPENDENT AUDITORS' REPORT)

	2016	2015
REVENUES		
Interest Income	\$ 394,006	\$ 360,448
Donations	4,062	3,205
Realized Gain on Investments	54,233	1,420,252
Unrealized Gain (Loss) on Investments	20,339	(1,328,427)
Total Revenues	472,640	455,478
EXPENSES		
Investment Management and Administrative Fees	113,365	129,806
Legal and Professional Fees	16,061	7,169
Reduction of Notes Receivable	-	176,639
Interest Expense	-	46,673
Distribution of Quarterly Earnings to Depositor Accounts	342,215	903,979
Total Expenses	471,641	1,264,266
CHANGES IN UNRESTRICTED NET ASSETS	999	(808,788)
Unrestricted Net Assets - Beginning of Year	(999)	807,789
UNRESTRICTED NET ASSETS - END OF YEAR	\$ -	\$ (999)

See accompanying notes to financial statements.

DIOCESE OF YAKIMA CAPITAL REVOLVING PROGRAM
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2016 AND 2015
(SEE INDEPENDENT AUDITORS' REPORT)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Paid to Vendors	\$ (122,988)	\$ (160,347)
Donations Received	4,062	3,205
Interest Received	394,006	358,825
Interest Paid	-	(46,673)
Net Cash Provided by Operating Activities	275,080	155,010
CASH FLOWS FROM INVESTING ACTIVITIES		
Advances on Notes Receivable	(600,000)	(350,000)
Payments on Notes Receivable	317,637	778,690
Proceeds on Sale of Investments	8,502,970	15,109,608
Purchases of Investments	(12,725,077)	(17,191,889)
Net Cash Used in Investing Activities	(4,504,470)	(1,653,591)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Deposits Held for Others	8,570,231	2,413,627
Payments on Deposits Held for Others	(3,518,031)	(1,735,902)
Net Cash Provided by Financing Activities	5,052,200	677,725
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	822,810	(820,856)
Cash and Cash Equivalents - Beginning of Year	531,634	1,352,490
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,354,444	\$ 531,634
RECONCILIATION OF CHANGES IN UNRESTRICTED NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Changes in Unrestricted Net Assets	\$ 999	\$ (808,788)
Adjustments to Reconcile Changes in Unrestricted Net Assets to Net Cash Provided by Operating Activities:		
Unrealized (Gain) Loss on Marketable Securities	(20,339)	1,328,427
Realized (Gain) on Marketable Securities	(54,233)	(1,420,252)
Reduction of Note Receivable	-	176,639
Distribution of Earnings to Depositor Accounts	342,215	903,979
(Increase) Decrease in Assets:		
Accrued Interest Receivable	-	(1,623)
Increase (Decrease) in Liabilities:		
Accrued Investment Fees Payable	4,465	(23,372)
Deferred Interest Income	1,973	-
Total Adjustments	274,081	963,798
Net Cash Provided by Operating Activities	\$ 275,080	\$ 155,010

See accompanying notes to financial statements.

DIOCESE OF YAKIMA CAPITAL REVOLVING PROGRAM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015
(SEE INDEPENDENT AUDITORS' REPORT)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature 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 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.

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. These financial statements include only the accounts of the Diocese of Yakima Capital Revolving Program.

Basis of Accounting

The CRP 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.

Cash and Cash Equivalents

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

Notes Receivable

Notes receivable - affiliated from parishes, schools, and institutions represent credit extended to these related entities. Notes receivable - other from other Catholic related organizations represent credit extended to these entities. Credit is extended based upon evaluation of the borrowing entity's financial condition and other factors. Collateral is not generally required. Interest is charged between 4 percent and 5.25 percent on outstanding balances, monthly, with the length of terms for all notes set at 10 years. Loans are reported at the current or existing principal value, which approximates fair value. Management has determined that an allowance is not considered necessary, as they consider all the amounts to be fully collectible. Total current notes receivable as of June 30, 2016, were \$109,237. See Note 2 for details on the Diocesan Administration note receivable.

DIOCESE OF YAKIMA CAPITAL REVOLVING PROGRAM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015
(SEE INDEPENDENT AUDITORS' REPORT)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments in equity securities with readily determinable fair values and all debt securities are carried at fair value based on quoted market values. Realized and unrealized gains and losses are included in the determination of change in net assets. The CRP holds various investments and the underlying investment securities that are exposed to various risks, such as interest rate, market, and credit risks.

A significant portion of the 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. All underlying assets have been treated as Level 2 investments.

Deposits Held for Others

The CRP provides a means for the various parishes, institutions and other Catholic related organizations to maintain deposits. These deposits are classified as a liability and are held in the CRP investment accounts. All deposits held for others are payable on demand. The average annual interest rate paid on deposits was zero and 1.5 percent during the years ended June 30, 2016 and 2015. As of June 30, 2016 and 2015, interest expense related to these accounts was zero and \$46,673, respectively; which represents investment earnings for the depositors that were earned during the respective periods. In addition, during the years ended June 30, 2016 and 2015, the CRP distributed accumulated investment earnings to depositors in the amount of \$342,215 and \$903,979, respectively.

Net Assets

The CRP 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 CRP 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 CRP.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the CRP 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 net assets as net assets released from restrictions. There were no temporarily restricted net assets at June 30, 2016 and 2015.

DIOCESE OF YAKIMA CAPITAL REVOLVING PROGRAM
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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets (continued)

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the CRP. Generally, the donors of these assets permit the CRP 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.

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.

Functional Allocation of Expenses

Program expenses, including distributions of earnings to depositors' accounts, were \$414,909 and \$1,219,773 for the years ended June 30, 2016 and 2015, respectively. Management and general expenses were \$56,732 and \$44,493 for the years ended June 30, 2016 and 2015, respectively. The CRP had no fundraising expenses for the years ended June 30, 2016 and 2015.

Federal Income Tax

The CRP is a tax-exempt organization qualifying under Section 501(c)(3) of the Internal Revenue Code. The CRP is exempt from filing tax returns under the Catholic Directory exemption. Income from certain activities not directly related to the CRP'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 CRP has determined they have no uncertain tax positions at June 30, 2016 and 2015.

Subsequent Events

Subsequent events have been evaluated through September 8, 2016, which is the date the financial statements were available to be issued.

DIOCESE OF YAKIMA CAPITAL REVOLVING PROGRAM
NOTES TO FINANCIAL STATEMENTS
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NOTE 2 NOTES RECEIVABLE – AFFILIATED

Included in notes receivable – affiliated balance as of June 30, 2015, is a note receivable that was entered into during 2010 as part of the transfer of assets and liabilities to the CRP from the Diocesan Administration. The receivable at the date of transfer was \$1,159,225. Earnings on investments (interest and dividends) were shared between the Diocesan Administration and other depositors until the note payable to the CRP from the Diocesan Administration was paid off. Fifty percent of earnings were allocated to depositors and classified as interest expense by the CRP; the remaining 50 percent was applied as a reduction of the Diocesan Administration note receivable. During June 30, 2015, investment earnings applied to reduce the note receivable of \$176,639 were made, leaving a balance of \$0 at June 30, 2015. The note matured and was fully repaid in December 2014. As of the years ended June 30, 2016 and 2015, interest income related to this account was zero and \$66,606, respectively.

NOTE 3 INVESTMENTS AND FAIR VALUE MEASUREMENTS

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

	<u>2016</u>	<u>2015</u>
Money Market Funds	\$ 3,026,882	\$ 39,113
Certificates of Deposit (Varying Maturities)	-	1,316,432
Bond Funds	13,874,616	10,517,479
Fixed Income Securities	2,854	158,962
Equity Securities	2,498,432	3,074,119
Total	<u>\$19,402,784</u>	<u>\$15,106,105</u>

As defined in *Accounting Standards Codification* Topic 820, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Based on the observability of the inputs used in the valuation techniques the CRP 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 value. 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. All investments held by CBIS are treated as Level 2.

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NOTE 3 INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

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 CRP has no Level 3 assets or liabilities.

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 CRP measured at fair value on a recurring basis as of June 30:

	2016			
	Level 1	Level 2	Level 3	Total
Money Market Funds	\$ 3,026,882	\$ -	\$ -	\$ 3,026,882
Bond Funds	-	13,874,616	-	13,874,616
Fixed Income Securities	2,854	-	-	2,854
Equities	2,498,432	-	-	2,498,432
	\$ 5,528,168	\$ 13,874,616	\$ -	\$ 19,402,784

	2015			
	Level 1	Level 2	Level 3	Total
Money Market Funds	\$ 39,113	\$ -	\$ -	\$ 39,113
Certificates of Deposit (Varying Maturities)	-	1,316,432	-	1,316,432
Bond Funds	-	10,517,479	-	10,517,479
Fixed Income Securities	158,962	-	-	158,962
Equities	3,074,119	-	-	3,074,119
	\$ 3,272,194	\$ 11,833,911	\$ -	\$ 15,106,105