

DIOCESE OF YAKIMA CAPITAL REVOLVING PROGRAM
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2014 AND 2013

**DIOCESE OF YAKIMA CAPITAL REVOLVING PROGRAM
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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Most Reverend Joseph Tyson, Bishop of Yakima
Diocese of Yakima Capital Revolving Program
Yakima, Washington

We have reviewed the accompanying statements of financial position of the Diocese of Yakima Capital Revolving Program (a nonprofit organization) as of June 30, 2014 and 2013, and the related statements of revenues, expenses, and changes in unrestricted net assets and cash flows for the years then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of organization management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the reviews in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our reviews, we are not aware of any material modifications that should be made to the financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.



CliftonLarsonAllen LLP

Yakima, Washington
December 16, 2014

DIOCESE OF YAKIMA CAPITAL REVOLVING PROGRAM
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2014 AND 2013
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

	2014	2013
ASSETS		
ASSETS		
Cash and Cash Equivalents	\$ 1,352,490	\$ 1,831,185
Notes Receivable - Related Party	1,506,223	1,645,566
Investments	12,931,999	11,091,113
Total Assets	\$ 15,790,712	\$ 14,567,864
LIABILITIES AND UNRESTRICTED NET ASSETS		
LIABILITIES		
Accounts Payable	\$ 22,118	\$ -
Deposits Held for Others - Related Party	14,946,901	14,749,195
Accrued Interest Payable	13,904	17,880
Total Liabilities	14,982,923	14,767,075
UNRESTRICTED NET ASSETS	807,789	(199,211)
Total Liabilities and Unrestricted Net Assets	\$ 15,790,712	\$ 14,567,864

See accompanying Notes to Financial Statements.

DIOCESE OF YAKIMA CAPITAL REVOLVING PROGRAM
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN UNRESTRICTED NET ASSETS
YEARS ENDED JUNE 30, 2014 AND 2013
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

	<u>2014</u>	<u>2013</u>
REVENUES		
Interest Income	\$ 440,117	\$ 327,906
Realized and Unrealized Gain on Investments	1,087,924	382,152
Total Revenues	<u>1,528,041</u>	<u>710,058</u>
EXPENSES		
Office Expense	46,217	32,721
Reduction of Notes Receivable	219,544	163,953
Interest Expense	255,280	633,540
Total Expense	<u>521,041</u>	<u>830,214</u>
CHANGES IN UNRESTRICTED NET ASSETS	1,007,000	(120,156)
Unrestricted Net Assets - Beginning of Year	<u>(199,211)</u>	<u>(79,055)</u>
UNRESTRICTED NET ASSETS - END OF YEAR	<u>\$ 807,789</u>	<u>\$ (199,211)</u>

See accompanying Notes to Financial Statements.

DIOCESE OF YAKIMA CAPITAL REVOLVING PROGRAM
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2014 AND 2013
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Paid to Vendors	\$ (28,075)	\$ (28,568)
Interest Received	440,117	327,906
Interest Paid	<u>(255,280)</u>	<u>(633,540)</u>
Net Cash Provided (Used) by Operating Activities	156,762	(334,202)
CASH FLOWS FROM INVESTING ACTIVITIES		
Advances on Notes Receivable - Related Party	(599,030)	(1,447,169)
Payments on Notes Receivable - Related Party	518,829	1,771,851
Proceeds on Sale of Investments	769,663	3,870,376
Purchases of Investments	<u>(1,522,625)</u>	<u>(7,226,396)</u>
Net Cash Used by Investing Activities	(833,163)	(3,031,338)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Deposits Held for Others - Related Party	2,527,267	10,359,701
Payments on Deposits Held for Others - Related Party	<u>(2,329,561)</u>	<u>(6,908,496)</u>
Net Cash Provided by Financing Activities	<u>197,706</u>	<u>3,451,205</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(478,695)	85,665
Cash and Cash Equivalents - Beginning of Year	<u>1,831,185</u>	<u>1,745,520</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 1,352,490</u></u>	<u><u>\$ 1,831,185</u></u>
RECONCILIATION OF CHANGES IN UNRESTRICTED NET ASSETS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Changes in Unrestricted Net Assets	\$ 1,007,000	\$ (120,156)
Adjustments to Reconcile Changes in Unrestricted Net Assets to Net Cash Provided (Used) by Operating Activities:		
Unrealized Gain on Marketable Securities	(1,087,924)	(356,572)
Realized Gain on Marketable Securities	-	(25,580)
Reduction of Note Receivable	219,544	163,953
(Increase) Decrease in Assets:		
Accrued Interest Receivable	(3,976)	4,153
Increase (Decrease) in Liabilities:		
Accounts Payable	22,118	-
Total Adjustments	<u>(850,238)</u>	<u>(214,046)</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 156,762</u></u>	<u><u>\$ (334,202)</u></u>

See accompanying Notes to Financial Statements.

DIOCESE OF YAKIMA CAPITAL REVOLVING PROGRAM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Corporation of the Catholic Bishop of Yakima (the Corporation), a nonprofit organization, was created June 23, 1951, in Yakima, Washington and serves 41 parishes in seven counties. The Corporation has legal control and ownership of the Diocesan Administration, the parishes, and institutions. The parishes, which are unincorporated associations, consist of churches while the institutions consist primarily of schools (which are owned and operated by the parishes) and cemeteries.

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 properly belonging to the separate entities.

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

For purposes of the statement of cash flows, 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.

Note Receivable – Related Party

Note receivable - related party from parishes, schools, and institutions represent credit extended to these related 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 1 percent and 5.75 percent on outstanding balances, monthly. 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. See Note 2 for details on the Diocesan Administration note receivable.

DIOCESE OF YAKIMA CAPITAL REVOLVING PROGRAM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(SEE INDEPENDENT ACCOUNTANTS' REVIEW 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.

Deposits Held for Others – Related Party

The CRP provides a means for the various parishes and institutions located within the Diocese to maintain deposits. These deposits are classified as a liability and are held in the CRP investment accounts. The average annual interest rate paid on deposits was 1.5 percent during the years ended June 30, 2014 and 2013. As of June 30, 2014 and 2013, interest expense related to these accounts was \$255,280 and \$198,676, respectively; which represents investment earnings earned during the respective periods. In addition, during the year ended June 30, 2013, the CRP distributed accumulated investment earnings to depositors in the amount of \$434,864. There was no such distribution in 2014. The total interest expense for the years ended June 30, 2014 and 2013 amounted to \$255,280 and \$633,540, 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 as net assets released from restrictions. There were no temporarily restricted net assets at June 30, 2014 and 2013.

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 assets at June 30, 2014 and 2013.

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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 reported period. Actual results could differ from those estimates.

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, 2014 and 2013.

Subsequent Events

Subsequent events have been evaluated through December 16, 2014, which is the date the financial statements were available to be issued.

NOTE 2 NOTES RECEIVABLE – RELATED PARTY

Included in notes receivable – related-party balance 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) are shared between the Diocesan Administration and other depositors until the note payable to the CRP from the Diocesan Administration is paid off. Fifty percent of earnings are allocated to depositors and classified as interest expense by the CRP; the remaining 50 percent is applied as a reduction of the Diocesan Administration note receivable. During June 30, 2014 and 2013, investment earnings applied to reduce the note receivable of \$219,544 and \$163,953, respectively, were made, leaving a balance of \$176,639 and \$396,183 at June 30, 2014 and 2013, respectively. The note receivable bears interest at 3 percent, and has a maturity date of June 30, 2015, with options to extend the maturity date. Interest payments are made monthly by the Diocesan Administration. The remaining balance consists of receivables from parishes, schools, and institutions. As of the years ended June 30, 2014 and 2013, interest income related to these accounts was approximately \$-0- and \$30,000, respectively.

DIOCESE OF YAKIMA CAPITAL REVOLVING PROGRAM
NOTES TO FINANCIAL STATEMENTS
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NOTE 3 INVESTMENTS AND FAIR VALUE MEASUREMENTS

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

	2014			
	Cost	Unrealized Loss	Unrealized Gain/Investment Income	Fair Market Value
Money Market Funds	\$ 376,076	\$ -	\$ -	\$ 376,076
Certificates of Deposit (Varying Maturities)	2,367,947	-	-	2,367,947
Bond Funds	1,531,674	-	47,987	1,579,661
Fixed Income Securities	2,040,397	(33,449)	-	2,006,948
Equity Securities	5,527,981	-	1,073,386	6,601,367
Total	<u>\$ 11,844,075</u>	<u>\$ (33,449)</u>	<u>\$ 1,121,373</u>	<u>\$ 12,931,999</u>

	2013			
	Cost	Unrealized Loss	Unrealized Gain/Investment Income	Fair Market Value
Money Market Funds	\$ 320,077	\$ -	\$ -	\$ 320,077
Certificates of Deposit (Varying Maturities)	2,084,075	-	-	2,084,075
Fixed Income Securities	2,902,684	(14,611)	-	2,888,073
Equity Securities	4,949,192	-	398,139	5,347,331
Agency Securities	86,146	(6,492)	-	79,654
Bond Funds	392,367	(20,464)	-	371,903
Total	<u>\$ 10,734,541</u>	<u>\$ (41,567)</u>	<u>\$ 398,139</u>	<u>\$ 11,091,113</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.

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NOTE 3 INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

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 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:

	2014			
	Level 1	Level 2	Level 3	Total
Money Market Funds	\$ 376,076	\$ -	\$ -	\$ 376,076
Certificates of Deposit (Varying Maturities)	-	2,367,947	-	2,367,947
Bond Funds	1,579,661	-	-	1,579,661
Fixed Income Securities	2,006,948	-	-	2,006,948
Equities	6,601,367	-	-	6,601,367
	<u>\$ 10,564,052</u>	<u>\$ 2,367,947</u>	<u>\$ -</u>	<u>\$ 12,931,999</u>

	2013			
	Level 1	Level 2	Level 3	Total
Money Market Funds	\$ 320,077	\$ -	\$ -	\$ 320,077
Certificates of Deposit (Varying Maturities)	-	2,084,075	-	2,084,075
Bond Funds	371,903	-	-	371,903
Fixed Income Securities	2,888,073	-	-	2,888,073
Agency Securities	79,654	-	-	79,654
Equities	5,347,331	-	-	5,347,331
	<u>\$ 9,007,038</u>	<u>\$ 2,084,075</u>	<u>\$ -</u>	<u>\$ 11,091,113</u>