

Diocese of Yakima Capital Revolving Program

Financial Statements and
Independent Auditors' Report

June 30, 2020 and 2019



DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

**Diocese of Yakima Capital Revolving Program
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INDEPENDENT AUDITORS' REPORT

Finance Council
Diocese of Yakima Capital Revolving Program
Yakima, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of the Diocese of Yakima Capital Revolving Program (the CRP) (a nonprofit organization), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 auditors consider 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, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2020, the CRP adopted new accounting guidance, Financial Accounting Standards Board Accounting Standards Update No. 2014-19, *Revenue from Contracts With Customers* (Topic 606) and ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made* (Topic 958). Our opinion is not modified with respect to this matter.

Emphasis of Matter – COVID-19 Pandemic

As discussed in Note 6 to the financial statements, the COVID-19 pandemic has created economic uncertainties which may negatively impact the CRP’s financial position. Management’s evaluation of the events and conditions and management’s plans to mitigate these matters are also described in Note 6. Our opinion is not modified with respect to this matter.

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
September 10, 2020

Diocese of Yakima Capital Revolving Program
Statements of Financial Position
June 30, 2020 and 2019

ASSETS	2020	2019
<i>Assets</i>		
Cash and cash equivalents	\$ 794,068	\$ 1,145,763
Investments	24,969,968	22,791,481
Notes receivable	4,377,243	4,115,803
Total assets	\$ 30,141,279	\$ 28,053,047
LIABILITIES AND NET ASSETS		
<i>Liabilities</i>		
Deposits held for others	\$ 30,118,526	\$ 28,031,026
Accounts payable and accrued liabilities	20,797	20,048
Deferred interest income	1,956	1,973
Total liabilities	30,141,279	28,053,047
<i>Net assets without donor restrictions</i>	-	-
Total liabilities and net assets	\$ 30,141,279	\$ 28,053,047

See accompanying notes to financial statements.

Diocese of Yakima Capital Revolving Program
Statements of Activities
Years Ended June 30, 2020 and 2019

	2020	2019
<i>Revenues</i>		
Interest income	\$ 623,380	\$ 595,320
Investment income	536,958	586,220
Total revenues	1,160,338	1,181,540
<i>Expenses</i>		
Legal and professional fees	11,319	7,689
Administrative fees	71,668	66,385
Distributions of quarterly earnings to depositor accounts	1,077,351	1,107,465
Total expenses	1,160,338	1,181,540
<i>Changes in net assets without donor restrictions</i>	-	-
<i>Net assets without donor restrictions, beginning of year</i>	-	-
Net assets without donor restrictions, end of year	\$ -	\$ -

See accompanying notes to financial statements.

**Diocese of Yakima Capital Revolving Program
Statements of Cash Flows
Years Ended June 30, 2020 and 2019**

	2020	2019
<i>Increase (Decrease) in Cash and Cash Equivalents</i>		
<i>Cash flows from operating activities</i>		
Cash received from investment income	\$ 623,380	\$ 595,320
Cash paid to vendors	(140,257)	(125,158)
Net cash provided by operating activities	483,123	470,162
<i>Cash flows from investing activities</i>		
Purchases of investments	(13,551,223)	(11,799,550)
Proceeds from sale of investments	11,967,696	10,973,035
Advances on notes receivable	(1,385,611)	(171,274)
Payments on notes receivable	1,124,171	178,726
Net cash used in investing activities	(1,844,967)	(819,063)
<i>Cash flows from financing activities</i>		
Proceeds from deposits held for others	6,929,759	8,815,692
Payments on deposits held for others	(5,919,610)	(8,514,746)
Net cash provided by financing activities	1,010,149	300,946
Net decrease in cash and cash equivalents	(351,695)	(47,955)
Cash and cash equivalents, beginning of year	1,145,763	1,193,718
Cash and cash equivalents, end of year	\$ 794,068	\$ 1,145,763

See accompanying notes to financial statements.

**Diocese of Yakima Capital Revolving Program
Statements of Cash Flows (continued)
Years Ended June 30, 2020 and 2019**

	2020	2019
<i>Reconciliation of Changes in Net Assets to Net Cash Provided by Operating Activities</i>		
Changes in net assets	\$ -	\$ -
<i>Adjustments to reconcile changes in net assets to net cash provided by operating activities</i>		
Realized gain on investments	(426,109)	(385,818)
Unrealized gain on investments	(168,851)	(253,262)
Distribution of earnings to depositor accounts	1,077,351	1,107,465
<i>Increase (decrease) in liabilities:</i>		
Accrued investment fees payable	732	1,777
Net cash provided by operating activities	\$ 483,123	\$ 470,162

See accompanying notes to financial statements.

Diocese of Yakima Capital Revolving Program
Notes to Financial Statements
Years Ended June 30, 2020 and 2019

1. Organization and Summary of Significant Accounting Policies:

a. Organization

The Corporation of the Catholic Bishop of Yakima – Diocesan Administration (the Corporation), a nonprofit organization, was created on June 23, 1951, and serves 40 parishes, six schools, and four missions in seven counties in the state of Washington. 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.

b. Summary of Significant Accounting Policies

Basis of presentation – Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB). The CRP is required to report information regarding its financial position and activities according to two classes of net assets: with and without donor restrictions. The CRP has no net assets with donor restrictions.

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 materially differ from those estimates.

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.

Investments – Investments in equity securities with readily determinable fair values and all debt securities are carried at fair value based on quoted market values. Unrealized gains and losses are included in the change in net assets without donor restrictions. The CRP holds various investments, and the underlying investment securities are exposed to various risks, such as interest rate, market, and credit risks.

Fair value measurements – Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the “exit price”) in an orderly transaction between market participants at the measurement date.

Diocese of Yakima Capital Revolving Program
Notes to Financial Statements (Continued)
Years Ended June 30, 2020 and 2019

1. Organization and Summary of Significant Accounting Policies (continued):

b. Summary of Significant Accounting Policies (continued)

Fair value measurements (continued) – The CRP classifies its investments based upon an established fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

- **Level 1** – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- **Level 2** – Quoted prices in markets that are not considered to be active or financial instruments without quoted market prices, but for which all significant inputs are observable, either directly or indirectly.
- **Level 3** – Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

Investments are stated at fair value, which is determined by using market quotations and other information available at the valuation date.

The CRP has bond funds that 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.

Notes receivable – Notes receivable represent credit extended to depositors, which are made up of related entities and other Catholic related organizations. Credit is extended based upon evaluation of the borrowing entity's financial condition and other factors. Collateral is not generally required. Interest is charged monthly between 4 and 6 percent on outstanding balances, 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.

Off-balance sheet credit exposures – In the normal course of business, the CRP makes commitments to extend lines of credit to meet the financing needs of the parishes and institutions it serves. At June 30, 2020 and 2019, the CRP had outstanding commitments to fund construction and other projects of approximately \$299,000 and \$2,952,000, respectively.

Outstanding commitments are letters that outline the terms and conditions of the credit to be granted. The total commitment amount does not necessarily represent future cash requirements since construction costs may not total the amount the CRP agreed to lend. The borrower must fulfill the requirements outlined in the loan agreement. The terms and conditions set forth in the loan agreements are comparable to those given to existing borrowers and are subject to the same credit policies and approval process that are followed for the granting of loans. The commitments generally have fixed expiration dates or other termination clauses.

Diocese of Yakima Capital Revolving Program
Notes to Financial Statements (Continued)
Years Ended June 30, 2020 and 2019

1. Organization and Summary of Significant Accounting Policies (continued):

b. Summary of Significant Accounting Policies (continued)

Off-balance sheet credit exposures (continued) – These instruments are not reflected as liabilities on the accompanying statements of net position since they represent contractual obligations that may require the use of cash in the future. They involve, to varying degrees, elements of credit and interest rate risk that are not recognized in the accompanying statements of financial position. The contractual amount of these financial instruments represents the maximum possible credit risk should the counterparties draw down the commitment. The commitments may expire without being drawn.

To provide for the risk of loss inherent in these off-balance sheet financial instruments, the CRP estimates an allowance for credit losses based on the following factors:

- Changes in the economic environment, including current contribution levels at the parishes or other entities
- Credit risk factors for loans outstanding to similar entities
- Probability of drawdown by the entity
- Terms and expiration dates of the unfunded credit facilities
- Estimated realizable value of collateral

Based on the CRP's assessments, no allowance was recorded for credit losses as the full amount of any future draws is expected to be collectible.

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.

Income taxes – 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, 2020 and 2019.

Reclassifications – Certain reclassifications have been made to the 2019 financial statements to conform to the classifications used in the 2020 financial statements, with no effect on previously reported change in net assets.

Subsequent events – Subsequent events have been reviewed through September 10, 2020, the date on which the financial statements were available to be issued.

Diocese of Yakima Capital Revolving Program
Notes to Financial Statements (Continued)
Years Ended June 30, 2020 and 2019

1. Organization and Summary of Significant Accounting Policies (continued):

b. Summary of Significant Accounting Policies (continued)

Change in accounting principle – The FASB issued Accounting Standards Update (ASU) No. 2014-19, *Revenue from Contracts with Customers* (Topic 606). The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows from customer contracts, including significant judgements and changes in judgements and assets recognized from costs incurred to obtain or fulfill a contract.

The FASB also issued ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made* (Topic 958). The ASU provides guidance on determining whether a transaction is a contribution or exchange transaction and for distinguishing between conditional and unconditional contributions.

The CRP implemented ASUs 2014-19 and 2018-08 in 2020 using the modified retrospective method. The standards did not have any significant impact on revenue or contribution recognition in the current or prior years.

Upcoming accounting standard pronouncements – In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842), which will supersede the current lease requirements in Accounting Standards Codification 840. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statements of activities. Currently, leases are classified as either capital or operating, with only capital leases recognized on the statements of financial position. The reporting of lease-related expenses in the statements of activities and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the CRP's year ending June 30, 2023, and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The new lease standard is not expected to have a significant effect on the financial statements.

2. Liquidity and Availability of Financial Assets:

As described in Note 1, the CRP holds the investments for the Diocesan Administration, parishes, and institutions within the Yakima Diocese. At year end, all investment income earned by the CRP is transferred to each entity's account. Therefore, at the fiscal year end, the CRP has no liquid assets to report. The CRP's operating expenses are funded by the investment earnings each year.

Diocese of Yakima Capital Revolving Program
Notes to Financial Statements (Continued)
Years Ended June 30, 2020 and 2019

3. Investments:

Investments consisted of the following amounts:

	2020	2019
Money market funds	\$ 9,857,117	\$ 7,347,924
Equities	1,075,152	1,780,853
Bond funds	14,037,699	13,662,704
	\$ 24,969,968	\$ 22,791,481

Investment income and gains on investments consist of the following for the years ended June 30, 2020 and 2019.

	2020	2019
Investment income		
Interest	\$ 623,380	\$ 595,320
Realized gains on sale of securities	426,109	385,818
Less broker and bank fees	(58,002)	(52,860)
Unrealized gains	168,851	253,262
	\$ 1,160,338	\$ 1,181,540

4. Fair Value Measurements:

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 disclose, by level within the fair value hierarchy, the CRP's assets measured and reported at fair value on a recurring basis:

	2020			
	Level 1	Level 2	Level 3	Total
<i>Money market funds</i>	\$ 9,857,117	\$ -	\$ -	\$ 9,857,117
<i>Equities</i>	1,075,152	-	-	1,075,152
<i>Bond funds</i>	-	14,037,699	-	14,037,699
	\$ 10,932,269	\$ 14,037,699	\$ -	\$ 24,969,968

	2019			
	Level 1	Level 2	Level 3	Total
<i>Money market funds</i>	\$ 7,347,924	\$ -	\$ -	\$ 7,347,924
<i>Equities</i>	1,780,853	-	-	1,780,853
<i>Bond funds</i>	-	13,662,704	-	13,662,704
	\$ 9,128,777	\$ 13,662,704	\$ -	\$ 22,791,481

Diocese of Yakima Capital Revolving Program
Notes to Financial Statements (Continued)
Years Ended June 30, 2020 and 2019

5. Functional Expenses:

The table below presents expenses by both their nature and their function as follows:

2020				
	Program	Management and General	Fundraising	Total Expenses
Legal and professional fees	\$ 3,319	\$ 8,000	\$ -	\$ 11,319
Administrative fees	-	71,668	-	71,668
Distributions to depositor accounts	1,077,351	-	-	1,077,351
Total expenses	\$ 1,080,670	\$ 79,668	\$ -	\$ 1,160,338
2019				
	Program	Management and General	Fundraising	Total Expenses
Legal and professional fees	\$ 1,101	\$ 6,588	\$ -	\$ 7,689
Administrative fees	-	66,385	-	66,385
Distributions to depositor accounts	1,107,465	-	-	1,107,465
Total expenses	\$ 1,108,566	\$ 72,974	\$ -	\$ 1,181,540

6. COVID-19 Pandemic:

The COVID-19 pandemic has created economic uncertainties which may negatively impact the CRP's financial position. Beginning in March 2020, the CRP began experiencing declines in revenues due to the state of Washington temporarily suspending all public and private gatherings. The CRP has a diversified portfolio with a mix of securities and fixed income investments. Management is constantly monitoring the situation and evaluating its investments.