

DIOCESE OF YAKIMA CAPITAL REVOLVING PROGRAM

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017



DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

**DIOCESE OF YAKIMA CAPITAL REVOLVING PROGRAM
TABLE OF CONTENTS
YEARS ENDED JUNE 30, 2018 AND 2017**

INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION	2
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN UNRESTRICTED NET ASSETS	3
STATEMENTS OF CASH FLOWS	4
NOTES TO FINANCIAL STATEMENTS	5-9



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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 statements of financial position as of June 30, 2018 and 2017, and the related statements of revenues, expenses, and changes in unrestricted net assets, 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 audits 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, 2018 and 2017, 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.

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
September 27, 2018

DIOCESE OF YAKIMA CAPITAL REVOLVING PROGRAM
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017
(SEE INDEPENDENT AUDITORS' REPORT)

	2018	2017
ASSETS		
ASSETS		
Cash and Cash Equivalents	\$ 1,193,718	\$ 449,373
Notes Receivable	4,123,256	3,033,983
Investments	21,325,886	21,639,625
Total Assets	\$26,642,860	\$25,122,981
LIABILITIES AND UNRESTRICTED NET ASSETS		
LIABILITIES		
Deposits Held for Others	\$26,622,615	\$25,098,120
Accrued Investment Fees Payable	18,272	22,888
Deferred Interest Income	1,973	1,973
Total Liabilities	26,642,860	25,122,981
UNRESTRICTED NET ASSETS		
Total Liabilities and Unrestricted Net Assets	\$26,642,860	\$25,122,981

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, 2018 AND 2017**

(SEE INDEPENDENT AUDITORS' REPORT)

	2018	2017
REVENUES		
Interest Income	\$ 512,029	\$ 392,704
Realized Gain (Loss) on Investments	333,671	65,457
Unrealized Gain on Investments	129,674	745,969
Total Revenues	975,374	1,204,130
EXPENSES		
Investment Management and Administrative Fees	115,429	109,351
Legal and Professional Fees	6,674	13,192
Distribution of Quarterly Earnings to Depositor Accounts	853,271	1,081,587
Total Expenses	975,374	1,204,130
CHANGES IN UNRESTRICTED NET ASSETS	-	-
Unrestricted Net Assets - Beginning of Year	-	-
UNRESTRICTED NET ASSETS - END OF YEAR	\$ -	\$ -

See accompanying Notes to Financial Statements.

DIOCESE OF YAKIMA CAPITAL REVOLVING PROGRAM
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2018 AND 2017
(SEE INDEPENDENT AUDITORS' REPORT)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Paid to Vendors	\$ (126,719)	\$ (116,770)
Interest Received	512,029	392,704
Net Cash Provided (Used) by Operating Activities	385,310	275,934
CASH FLOWS FROM INVESTING ACTIVITIES		
Advances on Notes Receivable	(1,208,808)	(1,961,948)
Payments on Notes Receivable	119,535	112,844
Proceeds on Sale of Investments	5,641,869	2,930,656
Purchases of Investments	(4,864,785)	(4,356,071)
Net Cash Used by Investing Activities	(312,189)	(3,274,519)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Deposits Held for Others	4,196,960	9,144,975
Payments on Deposits Held for Others	(3,525,736)	(7,051,461)
Net Cash Provided by Financing Activities	671,224	2,093,514
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	744,345	(905,071)
Cash and Cash Equivalents - Beginning of Year	449,373	1,354,444
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,193,718	\$ 449,373
RECONCILIATION OF CHANGES IN UNRESTRICTED NET ASSETS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Changes in Unrestricted Net Assets	\$ -	\$ -
Adjustments to Reconcile Changes in Unrestricted Net Assets to Net Cash Provided (Used) by Operating Activities:		
Unrealized (Gain) Loss on Marketable Securities	(129,674)	(745,969)
Realized (Gain) Loss on Marketable Securities	(333,671)	(65,457)
Distribution of Earnings to Depositor Accounts	853,271	1,081,587
Increase (Decrease) in Liabilities:		
Accrued Investment Fees Payable	(4,616)	5,773
Accrued Interest Payable	-	-
Total Adjustments	385,310	275,934
Net Cash Provided (Used) by Operating Activities	\$ 385,310	\$ 275,934

See accompanying Notes to Financial Statements.

DIOCESE OF YAKIMA CAPITAL REVOLVING PROGRAM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(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, six schools, 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 represents 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 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, 2018 and 2017, were \$144,203 and \$101,051, respectively.

DIOCESE OF YAKIMA CAPITAL REVOLVING PROGRAM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(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. During the years ended June 30, 2018 and 2017, the CRP distributed accumulated investment earnings to depositors in the amount of \$853,271 and \$1,081,587, 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 statements of financial position and the statements of revenues, expenses, and changes in unrestricted net assets as net assets released from restrictions. There were no temporarily restricted net assets at June 30, 2018 and 2017.

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, 2018 and 2017.

DIOCESE OF YAKIMA CAPITAL REVOLVING PROGRAM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(SEE INDEPENDENT AUDITORS' REPORT)

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 reporting period. Actual results could differ from those estimates.

Functional Allocation of Expenses

Program expenses, including distributions of earnings to depositors' accounts, were \$904,185 and \$1,138,566 for the years ended June 30, 2018 and 2017, respectively. Management and general expenses were \$71,190 and \$65,564 for the years ended June 30, 2018 and 2017, respectively. The CRP had no fundraising expenses for the years ended June 30, 2018 and 2017.

Federal Income Tax

The CRP is a tax-exempt organization qualifying under Section 501(c)(3) of the Internal Revenue Code (IRC). 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, 2018 and 2017.

Subsequent Events

Subsequent events have been evaluated through September 27, 2018, which is the date the financial statements were available to be issued.

DIOCESE OF YAKIMA CAPITAL REVOLVING PROGRAM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(SEE INDEPENDENT AUDITORS' REPORT)

NOTE 2 INVESTMENTS AND FAIR VALUE MEASUREMENTS

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

	2018	2017
Money Market Funds	\$ 6,199,986	\$ 5,113,170
Bond Funds	13,524,519	13,764,147
Fixed Income Securities	-	726
Equity Securities	1,601,381	2,761,582
Total	\$ 21,325,886	\$ 21,639,625

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.

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.

DIOCESE OF YAKIMA CAPITAL REVOLVING PROGRAM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
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NOTE 2 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 CRP measured at fair value on a recurring basis as of June 30:

	2018			
	Level 1	Level 2	Level 3	Total
Money Market Funds	\$ 6,199,986	\$ -	\$ -	\$ 6,199,986
Bond Funds	-	13,524,519	-	13,524,519
Fixed Income Securities	-	-	-	-
Equities	1,601,381	-	-	1,601,381
	\$ 7,801,367	\$ 13,524,519	\$ -	\$ 21,325,886

	2017			
	Level 1	Level 2	Level 3	Total
Money Market Funds	\$ 5,113,170	\$ -	\$ -	\$ 5,113,170
Bond Funds	-	13,764,147	-	13,764,147
Fixed Income Securities	726	-	-	726
Equities	2,761,582	-	-	2,761,582
	\$ 7,875,478	\$ 13,764,147	\$ -	\$ 21,639,625