

**THE PARISH REVOLVING FUND OF
THE CORPORATION OF
THE CATHOLIC ARCHBISHOP OF SEATTLE**

FINANCIAL REPORT

JUNE 30, 2019

C O N T E N T S

	Page
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
STATEMENT OF FINANCIAL POSITION.....	2
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS.....	3
STATEMENT OF CASH FLOWS.....	4
NOTES TO FINANCIAL STATEMENTS	5 - 8

INDEPENDENT AUDITORS' REPORT

Most Reverend Paul D. Etienne
Roman Catholic Archbishop of Seattle
The Parish Revolving Fund of the Corporation
of the Catholic Archbishop of Seattle
Seattle, Washington

We have audited the accompanying financial statements of the Parish Revolving Fund of the Corporation of the Catholic Archbishop of Seattle, which comprise the statement of financial position as of June 30, 2019, and the related statements of activities and changes in net assets, 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; 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.

Auditor's 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. 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 auditor's 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 Parish Revolving Fund of the Corporation of the Catholic Archbishop of Seattle as of June 30, 2019, 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.

Peterson Sullivan LLP

October 10, 2019

**THE PARISH REVOLVING FUND OF THE CORPORATION
OF THE CATHOLIC ARCHBISHOP OF SEATTLE**

STATEMENT OF FINANCIAL POSITION

June 30, 2019

ASSETS	
Current Assets	
Cash	\$ 6,486,000
Investments	102,354,000
Interest receivable	259,000
Notes receivable, current portion	<u>5,287,000</u>
Total current assets	114,386,000
Notes Receivable, less current portion and allowances	<u>23,653,000</u>
Total assets	<u><u>\$ 138,039,000</u></u>
LIABILITIES AND NET ASSETS	
Current Liabilities	
Revolving fund deposits	\$ 134,870,000
Accounts payable and accrued expenses	<u>254,000</u>
Total current liabilities	135,124,000
Net Assets	
Without donor restrictions	<u>2,915,000</u>
Total liabilities and net assets	<u><u>\$ 138,039,000</u></u>

See Notes to Financial Statements

**THE PARISH REVOLVING FUND OF THE CORPORATION
OF THE CATHOLIC ARCHBISHOP OF SEATTLE**

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2019

Revenue and Other Support	
Interest and dividends	\$ 2,456,000
Interest on Revolving Loan Fund notes	1,686,000
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Total revenue and other support	4,142,000
 Program Expenses	
Interest	2,937,000
Bad debts	191,000
Salaries and benefits	130,000
Professional services	137,000
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Total expenses	3,395,000
 Change in net assets without donor restrictions before realized losses and unrealized gains on investments	 747,000
 Realized Losses on Investments	(509,000)
Unrealized Gains on Investments	1,551,000
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Total change in net assets	1,789,000
 Net Assets, beginning of year	 1,126,000
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Net Assets, end of year	\$ 2,915,000
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See Notes to Financial Statements

**THE PARISH REVOLVING FUND OF THE CORPORATION
OF THE CATHOLIC ARCHBISHOP OF SEATTLE**

STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2019

Cash Flows from Operating Activities	
Reconciliation of change in net assets to net cash flows from operating activities	
Change in net assets	\$ 1,789,000
Adjustments to reconcile change in net assets to net cash flows from operating activities	
Unrealized gains on investments	(1,551,000)
Realized losses on investments	509,000
Additional loans issued	(11,246,000)
Loan principal receipts	10,449,000
Deposits into Revolving Fund	39,390,000
Withdrawals from Revolving Fund	(34,558,000)
Change in operating receivables	(71,000)
Change in accounts payable and accrued expenses	34,000
Provisions for bad debt	191,000
	4,936,000
Net cash flows from operating activities	4,936,000
Cash Flows from Investing Activity	
Net purchases of investments by the Parish Revolving Fund	(4,833,000)
Cash Flows from Financing Activity	
Change in custodial liability	(6,000)
	97,000
Net change in cash	97,000
Cash, beginning of year	6,389,000
Cash, end of year	\$ 6,486,000
Interest Paid on a Cash Basis	\$ 2,937,000

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

Note 1. Organization and Significant Accounting Policies

Organization

The Parish Revolving Fund ("the PRF") is a division of the Corporation of the Catholic Archdiocese of Seattle ("the Archdiocese"). The PRF is a deposit and loan fund operated by the Archdiocese and represents resources arising from cooperative investment and lending programs established solely for the mutual benefit of parishes within the Archdiocese.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from the estimated amounts.

Financial Statement Presentation

The PRF reports information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions. As of June 30, 2019, the PRF had no net assets with donor restrictions, so this class of net assets is not presented in the financial statements.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities and changes in net assets. The PRF considers all expenses to be program expenses. The PRF does not solicit any contributions, so there are no fundraising expenses. Management believes any management and general expenses are immaterial to the financial statements as a whole, so these expenses have not been allocated from program expenses.

Fair Value Measurements

Fair value is a market-based measurement determined based on assumptions that market participants would use in pricing an asset or liability. There are three levels that prioritize the inputs used in measuring fair value as follows:

- Level 1: Observable market inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Observable market inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3: Unobservable inputs where there is little or no market data, which require the reporting entity to develop its own assumptions.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the PRF considers cash in checking, savings, and certain money market accounts to be cash. Other money market accounts and short-term, highly liquid investments are classified as investments in the statement of financial position.

The PRF maintains a significant portion of its cash and investments in accounts that are not insured.

Investments

Investments consist of fixed income securities and are reported at fair value using Level 1 inputs.

Notes Receivable

Notes receivable are recorded at cost (adjusted for any bad debt allowance), and interest is recorded as earned. The Archdiocese does not charge fees for its loan programs. Management uses various factors, including the borrower's financial status, the local economy, and the population where the borrower is located to determine the amount of the allowance for bad debts. The allowance is adjusted annually. A loan is written off against the allowance when management determines that the balance is uncollectible. Notes are considered past due when the scheduled loan payments become 90 days past due. Due to the close working relationship between the Archdiocese and the borrowers, management has not established past due categories for loans. Accordingly, loans continually accrue interest while they are outstanding.

Income Taxes

The PRF is a nonprofit organization and is exempt from federal income taxes.

Subsequent Events

Management of the Archdiocese has evaluated subsequent events through the date these financial statements were available to be issued, which was October 10, 2019.

Note 2. Liquidity and Availability

The PRF strives to maintain liquid financial assets sufficient to cover annual operating expenditures and cash needs of the parishes. Financial assets in excess of daily cash requirements are invested in money market funds and other short-term investments.

The table below reflects the PRF's financial assets as of June 30, 2019, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of contractual restrictions or internal board designations. Amounts not available include restricted deposits as more fully described in Note 4.

A summary of the Parish Revolving Fund financial assets available for general expenditures within one year as of June 30, 2019, is as follows:

Cash	\$ 6,486,000
Investments	102,354,000
Interest receivable	259,000
Notes receivable, current portion	<u>5,287,000</u>
Total financial assets	<u><u>\$ 114,386,000</u></u>

Note 3. Investments

The following table represents information about the PRF's investments as of June 30, 2019.

Money market funds	\$ 33,986,000
Corporate bonds	59,713,000
International-developed bonds	<u>8,655,000</u>
	<u><u>\$ 102,354,000</u></u>

All investments are valued using Level 1 inputs.

Note 4. Revolving Fund Notes Receivable and Deposits

The PRF makes loans to and accepts deposits from parishes and ethnic faith communities. Loans are made based on need, an approved repayment plan, and the availability of funds. Payments are received monthly, quarterly, or annually based on the agreed repayment plan. Interest on existing loans is charged at 5.50%. Generally, PRF construction loans have a maximum term of 15 years, while property purchase loans are limited to a 30-year term.

Parishes are required to deposit excess funds in the PRF's savings accounts, paying 2.25% during the year ended June 30, 2019. Deposits are generally available for withdrawal on demand.

The allowance for doubtful notes is the estimated uncollectible amount of notes receivable. All notes in this fund are due on various payment schedules and are supported by the underlying properties. Under civil law, properties of parishes are owned by the Archdiocese. However, under canon law, parishes are considered separate. At June 30, 2019, \$1,683,000 of outstanding notes and \$96,000 of accrued interest were considered partially impaired and are included in the allowance for doubtful notes. All of the allowance for doubtful notes was related to impaired loans at June 30, 2019.

Notes receivable are summarized as follows as of June 30, 2019:

Notes receivable, current portion	\$ 5,287,000
Notes receivable, noncurrent portion	<u>25,432,000</u>
	30,719,000
Allowance for doubtful notes	<u>(1,779,000)</u>
	<u><u>\$ 28,940,000</u></u>

Loan balances are included as follows in the statement of financial position at June 30, 2019:

Notes receivable, current portion	\$ 5,287,000
Notes receivable, net of allowance, non-current portion	<u>23,653,000</u>
	<u>\$ 28,940,000</u>

At June 30, 2019, there were 69 notes receivable from 47 parishes outstanding. These notes had the following characteristics at June 30, 2019:

Largest note outstanding	\$ 2,931,000
Largest note as a percentage of total	9.5%
Number of past due notes	10
Amount of past due notes	\$ 1,683,000
Past due notes as a percentage of total	5.8%

At June 30, 2019, the portfolio consisted of maturities between 24 months and 30 years.

The following is a summary of the PRF's allowance for doubtful notes for the years ended June 30, 2019:

Beginning balance	\$ 1,588,000
Change in allowance	<u>191,000</u>
Ending balance	<u>\$ 1,779,000</u>

Note 5. Loan Commitments

During the year ended June 30, 2019, the PRF entered into loan commitments totaling \$6,404,000. At June 30, 2019, the entire amount remains outstanding and available for funding, subject to conditional performance requirements of the borrowers.

Note 6. Related Party Transactions

All payroll and other administrative services are paid for by the Archdiocese. The PRF reimburses the Archdiocese for these expenses. During the year ended June 30, 2019, these expenses totaled \$267,000. As of June 30, 2019, PRF owes the Archdiocese \$141,000 for payroll and administrative expenses.

Parishes included in the Archdiocese participate in the deposit and loan fund run by PRF.