

**THE PROGRAM AND ADMINISTRATIVE OFFICES
OF THE CORPORATION OF
THE CATHOLIC ARCHBISHOP OF SEATTLE**

FINANCIAL REPORT

JUNE 30, 2019

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INDEPENDENT AUDITORS' REPORT

Most Reverend Paul D. Etienne
Roman Catholic Archbishop of Seattle
The Program and Administrative Offices of the
Corporation of the Catholic Archbishop of Seattle
Seattle, Washington

We have audited the accompanying financial statements of the Program and Administrative Offices 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, functional expenses, 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 Program and Administrative Offices 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.

Emphasis of a Matter – Recent Accounting Pronouncement Adopted

As discussed in Note 1 to the financial statements, during the year ended June 30, 2019, the Program and Administrative Offices of the Corporation of the Catholic Archbishop of Seattle adopted the provisions of Accounting Standards Update ("ASU") No. 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. Our opinion is not modified with respect to this matter.

Peterson Sullivan LLP

October 10, 2019

**THE PROGRAM AND ADMINISTRATIVE OFFICES OF THE
CORPORATION OF THE CATHOLIC ARCHBISHOP OF SEATTLE**

STATEMENT OF FINANCIAL POSITION

June 30, 2019

ASSETS	
Current Assets	
Cash	\$ 13,357,000
Investments	21,127,000
Contributions and other receivables	7,494,000
Notes receivable	402,000
Insurance reimbursement receivable	1,538,000
Prepaid expenses and other assets	609,000
Total current assets	44,527,000
Endowment Investments	15,301,000
Annuity/Trust Investments	9,435,000
Notes Receivable, less current portion and net of allowances	6,861,000
Property and Equipment, net	22,171,000
Total assets	\$ 98,295,000
LIABILITIES AND NET ASSETS	
Current Liabilities	
Revolving fund deposits	\$ 32,495,000
Notes payable, current portion	556,000
Accounts payable and accrued expenses	2,894,000
Deferred revenue	1,073,000
Claims payable	10,559,000
Other accrued post-retirement benefits	630,000
Custodial liabilities	3,734,000
Total current liabilities	51,941,000
Notes Payable, less current portion	7,243,000
Accrued Priests' Pension Liability	17,399,000
Other Accrued Post-Retirement Benefits, less current portion	15,043,000
Annuity/Trust Liabilities	2,776,000
Total liabilities	94,402,000
Net Assets	
Without donor restrictions	
Undesignated deficit	(43,838,000)
Designated funds	21,659,000
Total net assets without donor restrictions	(22,179,000)
With donor restrictions	26,072,000
Total net assets	3,893,000
Total liabilities and net assets	\$ 98,295,000

See Notes to Financial Statements

**THE PROGRAM AND ADMINISTRATIVE OFFICES OF THE
CORPORATION OF THE CATHOLIC ARCHBISHOP OF SEATTLE**

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended June 30, 2019

WITHOUT DONOR RESTRICTIONS

Revenue and Other Support	\$	6,841,000
Parish assessments		6,594,000
Program fees		582,000
Interest and dividends		241,000
Interest on Revolving Loan Fund notes		2,010,000
Contributions and bequests		372,000
Special parish billings		201,000
Subscriptions and advertising		312,000
Other		<u>17,153,000</u>
Net Assets Released from Restrictions		
Satisfaction of time restrictions		11,043,000
Satisfaction of program restrictions		<u>2,875,000</u>
Total revenue and other support		31,071,000
Expenses		
Program		17,618,000
Management and general		8,262,000
Stewardship and development		<u>1,709,000</u>
Total expenses		<u>27,589,000</u>
Change in net assets before insurance and other gains and losses		3,482,000
Insurance revenue		12,350,000
Insurance premiums, taxes, and claims		<u>11,744,000</u>
Insurance revenue and expense, net		606,000
Realized gains on investments		571,000
Unrealized gains on investments		25,000
Change in priests' pension liability		(1,525,000)
Change in other post-retirement benefit liability		(406,000)
Realized gains on sale of property		<u>264,000</u>
Change in net assets without donor restrictions	\$	<u><u>3,017,000</u></u>

NET ASSETS WITH DONOR RESTRICTIONS

Contributions	\$	13,358,000
Investment income		90,000
Realized gains on investments		150,000
Unrealized gains on investments		126,000
Net assets released from restrictions		
Satisfaction of time restrictions		(11,043,000)
Satisfaction of program restrictions		<u>(2,875,000)</u>
Change in net assets with donor restrictions	\$	<u><u>(194,000)</u></u>

TOTAL NET ASSETS

Change in net assets without donor restrictions	\$	3,017,000
Change in net assets with donor restrictions		<u>(194,000)</u>
Total change in net assets		2,823,000
Net Assets, beginning of year		<u>1,070,000</u>
Net Assets, end of year	\$	<u><u>3,893,000</u></u>

See Notes to Financial Statements

**THE PROGRAM AND ADMINISTRATIVE OFFICES OF THE
CORPORATION OF THE CATHOLIC ARCHBISHOP OF SEATTLE**

STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2019

	Salaries and Benefits	Professional Services	Insurance Premiums	Rentals and Leases	Supplies	Telephone and Utilities	Travel	Copying and Printing	Bad Debt Expense	Taxes and Assessments	Donations and Contributions	Insurance Claims	Education	Interest	Depreciation	Other	Total	Less: Insurance	Total Without Insurance
Program																			
Insurance, premiums, taxes, and claims	\$ 320,000	\$ 1,554,000	\$ 2,834,000	\$ -	\$ 34,000	\$ 2,000	\$ 2,000	\$ -	\$ 63,000	\$ 1,392,000	\$ -	\$ 5,477,000	\$ -	\$ 24,000	\$ 41,000	\$ 1,000	\$ 11,744,000	\$ 11,744,000	\$ -
Archbishop's office	1,231,000	234,000	44,000	23,000	44,000	36,000	66,000	29,000		2,000	1,154,000		8,000	158,000	108,000	3,137,000		3,137,000	
Catholic schools	940,000	332,000		38,000	109,000	7,000	28,000	2,000		35,000	37,000		4,000	120,000	94,000	1,746,000		1,746,000	
Outdoor ministries	825,000	88,000		19,000	216,000	121,000	16,000	4,000	2,000	7,000	101,000		6,000	106,000	227,000	1,738,000		1,738,000	
Retreat Center	634,000	66,000	40,000		58,000	109,000	3,000							81,000	230,000	1,221,000		1,221,000	
Pastoral care - Vicar for Clergy	971,000	16,000			10,000	2,000	14,000	1,000			28,000		7,000	125,000	9,000	1,183,000		1,183,000	
Seminarians	102,000	10,000			12,000	3,000	20,000	5,000		10,000	82,000		801,000	13,000	27,000	1,085,000		1,085,000	
Northwest Catholic	339,000	31,000			242,000	1,000	2,000	272,000		1,000	38,000			43,000	60,000	1,029,000		1,029,000	
Revolving fund									338,000					781,000			1,119,000		1,119,000
Priest support	35,000	564,000		84,000	17,000	2,000	13,000							5,000	40,000	760,000		760,000	
Tribunal	579,000	36,000			5,000	1,000	6,000	3,000					3,000	74,000	10,000	717,000		717,000	
Office of Evangelization	508,000	13,000		1,000	6,000	3,000	3,000						1,000	65,000	8,000	608,000		608,000	
Funding to related organizations											600,000					601,000		601,000	
Athletics	207,000	129,000	2,000	92,000	48,000	2,000	3,000	3,000			1,000			26,000	13,000	526,000		526,000	
Pastoral care ministries	23,000	55,000		1,000	10,000	2,000	17,000	1,000			346,000		2,000	3,000	21,000	481,000		481,000	
Youth and young adult ministry	201,000	11,000		60,000	8,000	1,000	3,000	1,000			120,000		1,000	26,000	11,000	443,000		443,000	
Multicultural ministries	154,000	34,000		1,000	12,000	3,000	23,000	5,000			139,000		28,000	20,000	25,000	444,000		444,000	
Missions	246,000	21,000			5,000	2,000	12,000	32,000			1,000		2,000	31,000	5,000	357,000		357,000	
Formation	221,000	28,000			3,000		12,000	2,000			6,000		11,000	28,000	19,000	330,000		330,000	
Other programs		57,000									36,000					93,000		93,000	
Total program expenses	7,536,000	3,279,000	2,920,000	319,000	839,000	298,000	243,000	360,000	403,000	1,447,000	2,689,000	5,477,000	874,000	805,000	965,000	908,000	29,362,000	11,744,000	17,618,000
Management and General	3,075,000	2,646,000	9,000	46,000	747,000	234,000	81,000	64,000	60,000	237,000	21,000		113,000	282,000	394,000	253,000	8,262,000		8,262,000
Stewardship and Development	935,000	245,000			112,000	3,000	5,000	193,000					1,000		120,000	95,000	1,709,000		1,709,000
Total expenses	\$ 11,546,000	\$ 6,170,000	\$ 2,929,000	\$ 365,000	\$ 1,698,000	\$ 535,000	\$ 329,000	\$ 617,000	\$ 463,000	\$ 1,684,000	\$ 2,710,000	\$ 5,477,000	\$ 988,000	\$ 1,087,000	\$ 1,479,000	\$ 1,256,000	\$ 39,333,000	\$ 11,744,000	\$ 27,589,000

See Notes to Financial Statements

**THE PROGRAM AND ADMINISTRATIVE OFFICES 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	\$ 2,823,000
Adjustments to reconcile change in net assets to net cash flows from operating activities	
Depreciation	1,479,000
Gain on sale of property	(264,000)
Endowment contributions	(77,000)
Unrealized gains on investments	(151,000)
Realized gains on investments	(721,000)
Change in pension and post-retirement benefit liability	(1,378,000)
Change in operating receivables	1,226,000
Change in prepaid expenses and other assets	167,000
Change in claims payable	(5,704,000)
Change in accounts payable and accrued expenses	221,000
Changes in deferred revenue	(126,000)
Annuities and trusts	26,000
Provisions for bad debt	401,000
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Net cash flows from operating activities	(2,078,000)
Cash Flows from Investing Activities	
Net proceeds from sales of investments	4,808,000
Proceeds from sales of property and equipment	1,659,000
Purchase of property and equipment	(866,000)
ARF loan principal receipts	88,000
ARF additional loans issued	(34,000)
Deposits into Revolving Fund	8,214,000
Withdrawal of Revolving Fund deposits	(7,746,000)
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Net cash flows from investing activities	6,123,000

See Notes to Financial Statements

**THE PROGRAM AND ADMINISTRATIVE OFFICES OF THE
CORPORATION OF THE CATHOLIC ARCHBISHOP OF SEATTLE**

STATEMENT OF CASH FLOWS
(Continued)

For the Year Ended June 30, 2019

Cash Flows from Financing Activities	
Change in custodial liability	\$ 498,000
Repayments of note payable	(1,787,000)
Endowment contributions	<u>77,000</u>
Net cash flows from financing activities	<u>(1,212,000)</u>
Net change in cash	2,833,000
Cash, beginning of year	<u>10,524,000</u>
Cash, end of year	<u><u>\$ 13,357,000</u></u>

Supplemental Disclosures:

Interest paid on a cash basis was \$1,099,000 during the year ended June 30, 2019.

Archdiocesan high schools have received term loans from the Knights of Columbus. The Archdiocese is the primary borrower on these loans. Payments are made by the high schools. The high schools repaid \$372,000 directly to the lender during the year ended June 30, 2019.

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

Note 1. Organization and Significant Accounting Policies

Organization

The accompanying financial statements include the assets, liabilities, net assets, and financial activities under direct control of the Program and Administrative Offices of the Corporation of the Catholic Archbishop of Seattle ("the Archdiocese"). The Program and Administrative Offices are staffed by approximately 160 permanent employees ("the Chancery"). These employees work on First Hill in Seattle, the Archbishop Brunett Retreat Center in Federal Way, and the Catholic Youth Organization camps in Carnation and Monroe. These locations are owned and managed by the Archdiocese. The parishes of the Archdiocese, which are separate canonical units, Archdiocesan high schools, the Parish Revolving Fund, and the Associated Catholic Cemeteries ("ACC") are not included in these financial statements. While these entities are part of the Archdiocesan Corporate Sole, they are managed under local control.

Catholic Community Services of Western Washington, the Archdiocesan Housing Authority, Catholic Charities Foundation of Western Washington, Called to Serve as Christ Campaign ("CTSC"), and the Fulcrum Foundation are independent corporations and are not included in these financial statements. The Archdiocese is affiliated with an overall international religious entity based in Vatican City.

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 Archdiocese reports information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions.

Contributions

Contributions received are recorded depending on the existence and/or nature of any donor restrictions. Temporarily restricted contributions are required to be reported as net assets with donor restrictions and are then reclassified to net assets without donor restrictions when the restrictions are met.

Net Assets without Donor Restrictions

Although the accompanying statements of financial position reflect a deficit in net assets without donor restrictions or board designations, the Archdiocese will be able to meet its obligations and continue its operation in the ordinary course of its mission. In reaching this conclusion, management has considered the following factors and plans:

- The Archdiocese has a deficit of \$43,838,000 in net assets without donor restrictions or board designations.
 - The ARF holds deposits payable of \$32,495,000, which is a current liability. Of this balance, \$25,745,000 belongs to ACC. Management does expect to pay a small portion of this liability in the coming year based on historical trends and knowledge of the operations of the entities who hold the deposits.
 - Liabilities for Priests' Pension and Post-Retirement Medical Plans recorded in the statement of financial position total \$33,072,000. These obligations are noncurrent. In addition, the Archdiocese has begun a campaign, the CTSC, with the goal of substantially funding these benefit obligations, which will significantly reduce or eliminate the undesignated deficit. Through June 30, 2019, this campaign has raised a total of \$32,200,000 in cash and pledges. The funds raised will be shared between the Priests' Pension and Post-Retirement Medical Plans, women religious retirement plans, ordered priests plans, and the parishes. The plans will be funded as contributions are collected from the donors.
 - In the event that the proceeds from the CTSC are not sufficient to eliminate the undesignated deficit, designated funds (\$21,659,000) may be reclassified as undesignated.
- The balance in net assets with donor restrictions includes \$11,520,000 from the Annual Catholic Appeal as of June 30, 2019, which became unrestricted on July 1, 2019.
- Management believes that the Archdiocese has adequate capital and stable sources of revenue to support its present budget for the coming fiscal year and for the foreseeable future.

See Note 2 for further discussion of the Archdiocese' liquidity and availability of resources.

Net Assets with Donor Restrictions

Net assets with donor restrictions consist of unexpended contributions restricted for particular purposes or time periods and contributions restricted in perpetuity. The income from contributions restricted in perpetuity is utilized for the purpose specified by the donor. Net assets with donor restrictions that are temporary in nature are transferred to net assets without donor restrictions as restrictions are met or as time restrictions expire. Net assets with donor restrictions consist of the following at June 30, 2019:

Net assets with temporary donor restrictions	
Annual Appeal Pledges restricted for the next year	\$ 11,520,000
Contributions restricted for various purposes	3,013,000
Accumulated endowment earnings	
Priest support and education endowments	2,878,000
Religious education endowments	207,000
Poor and needy endowments	81,000
Camp maintenance and development	40,000
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Total net assets with temporary donor restrictions	17,739,000
Net assets with perpetual donor restrictions	
Priest support and education endowments	6,098,000
Religious education endowments	1,559,000
Poor and needy endowments	501,000
Camp maintenance and development	175,000
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Total net assets with perpetual donor restrictions	8,333,000
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Total donor restricted net assets	\$ 26,072,000

Fund Accounting

The Archdiocese uses the following fund groups:

- Operating Fund – all unrestricted and restricted resources available for support of Archdiocesan operations. The operating fund also includes non-endowment custodial liabilities, which represent funds to be paid to other Catholic organizations.
- Archdiocesan Revolving Fund ("ARF") (a segregated portion of the operating fund) – a deposit and loan fund representing resources arising from cooperative investment and lending programs established for the mutual benefit of Catholic organizations within the Archdiocese. Parishes participate in the PRF, a separate revolving fund not included in these financial statements. The Associated Catholic Cemeteries holds a significant portion of their investment funds in the ARF.
- Plant Fund – all expendable resources restricted for property and equipment acquisitions, amounts invested in property and equipment, and related debt.

- Endowment and Similar Funds – contributions to the Archdiocese and other amounts set aside to generate investment income for restricted and unrestricted purposes. Included within the endowment and similar funds are the following:
 - Permanent endowments: The principal of true endowments is expected to be invested for perpetuity.
 - Temporarily restricted endowments: Funds temporarily restricted by donors but included in this fund, as they are treated by the Archdiocese as long-term.
 - Unrestricted designated endowments: Funds designated to be treated as endowments by the Archbishop. Any portion may be expended with the Archbishop's approval.
 - Custodial liabilities: Funds that will eventually revert to Catholic organizations outside the reporting entity. Interest, dividends, and realized and unrealized gains and losses are allocated directly to the custodial liabilities.

All significant transactions among funds included in the reporting entity have been eliminated in the accompanying 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 statements of activities and changes in net assets and of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Most expenses are charged directly to the function served at the time they are recorded. Depreciation is allocated according to salaries and benefits expense.

Donated Services

A number of people have donated time to the activities of the Archdiocese. The donated services do not meet the requirements for recognition in the financial statements and have not been recorded.

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 statements of cash flows, the Archdiocese 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 statements of financial position.

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

Investments

Investments are reported at fair value or net asset value.

- Stocks, bonds, and publicly traded mutual funds are valued using Level 1 inputs such as market prices on national exchanges.
- Certificates of deposit are recorded at cost plus accrued interest (considered the same as Level 1 inputs).
- Non-publicly traded mutual funds are valued using the net asset value per unit ("NAV"). The NAV is determined each business day by the administrator of each fund. The funds invest in securities that have observable Level 1 inputs, including quoted prices for similar assets in active markets. There are no unfunded commitments, and the investments can be redeemed on a daily basis. This practical expedient would not be used if it is determined to be probable that the fund would sell the investment for an amount different from the reported NAV.

Pension-Related Investments

- The investments in common stocks listed on securities exchanges are valued at their closing price on the valuation date. Quoted market prices are used to value investments, which are Level 1 observable inputs.
- The life insurance policies are valued at the cash surrender value based on contractual terms as supplied by the insurance company, which is considered a Level 3 input.
- The investments in the master trusts are valued at fair value using the NAV, which is determined by the administrators of the funds and is used as a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying assets held by the master trusts, less any liabilities, and then divided by the number of units outstanding. This practical expedient would not be used if it is determined to be probable that the fund would sell the investment for an amount different from the reported NAV. The financial statements of these master trusts are audited; therefore, those financial statements are not included in the notes to the financial statements. As of June 30, 2019, there are no unfunded commitments or redemption restrictions on these investments.
- Non-publicly traded mutual funds are valued fair value using NAV, which is determined by the administrators of the funds and is used as a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying assets held by the mutual funds, less any liabilities, and then divided by the number of units outstanding. This practical expedient would not be used if it is determined to be probable that the fund would sell the investment for an amount different from the reported NAV. As of June 30, 2019, there are no unfunded commitments or redemption restrictions on these investments.

Contributions and Other Receivables

Contributions and other receivables are recorded at cost and adjusted for any bad debt allowance. Management estimates allowances for bad debts based primarily on historical bad debt experience. The allowance is adjusted annually, and bad debts are written off against the allowance when management determines a balance is uncollectible. Receivables that are expected to be collected within one year are recorded at net realizable value. Receivables expected to be collected over periods in excess of one year are initially recorded at fair value using appropriate discount rates for the receivable and amortizing the discount over the life of the receivable.

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 location, and the local economy, and population where the borrower is located to determine the amount of the allowance for bad debts. The allowance is adjusted annually. A note is written off against the allowance when management determines that the balance is uncollectible. Notes are considered past due when the scheduled note 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.

Revenue Recognition

Parish assessment and special parish billings are billed and recognized as revenue during each fiscal year.

Program fees are recorded as revenue when the related program takes place.

Contributions (including appeals) are recorded when the unconditional promise to give is made.

Insurance program premiums are recognized as revenue, net of any associated discounts, in the period in which the coverage is provided.

Split-Interest Agreements

The Archdiocese receives contributions in the form of irrevocable split-interest agreements. These agreements include charitable annuities and charitable remainder trusts.

As the Archdiocese is the trustee, the assets are recorded at fair value and are included as part of annuity and trust investments; the estimated present value of the distributions expected to be paid to the beneficiaries over the term of the trust is recorded as a liability along with any amounts to be paid to other organizations at the termination of the agreement. The difference is recorded as contribution revenue. The discount rates used to compute the present value of the liabilities range from 6.5% to 7.0%, and the discount periods are based on Internal Revenue Service actuarial tables.

Property and Equipment

Property and equipment are recorded at cost when purchased and at fair value when contributed. The Archdiocese's policy is to capitalize assets with a cost greater than \$5,000. Depreciation is computed by the straight-line method over the estimated useful lives of the assets, ranging from 3 to 45 years. Donated property and equipment are considered unrestricted property unless specifically restricted by the donor. Restricted donated property and equipment are reclassified to net assets without donor restrictions when the restrictions are met.

Deferred Revenue

Deferred revenue primarily consists of program fees received in advance. Revenue from program fees is recognized as the programs take place. Deferred revenue consists of the following at June 30, 2019:

Summer camp programs	\$	625,000
Other		448,000
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	\$	1,073,000
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Income Taxes

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

Recently Issued Accounting Pronouncements

During the year ended June 30, 2019, the Archdiocese adopted the provisions of Accounting Standards Update ("ASU") No. 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classifications, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Archdiocese has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented, except for the liquidity and availability of resources note (see Note 2).

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 of Resources

The Archdiocese strives to maintain liquid financial assets sufficient to cover 180 days of general expenditures. Financial assets in excess of daily cash requirements are invested in money market funds and other short-term investments.

The following table reflects the Archdiocese 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 custodial liabilities as more fully described in Note 8. Amounts not available to meet general expenditures within one year also may include net assets with donor restrictions.

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

Cash	\$ 13,357,000
Investments	21,127,000
Contributions and other receivables	7,494,000
Notes receivable	402,000
Insurance reimbursement receivable	1,538,000
Total financial assets	<u>43,918,000</u>
Less: financial assets not available for general expenditure	
Custodial liabilities not available within one year	3,734,000
Revolving fund deposits not available within one year	8,872,000
Net assets with donor restrictions for certain purposes	3,013,000
	<u>\$ 28,299,000</u>

Note 3. Investments

The following table represents information about the Archdiocese's assets that have been measured at fair value on a recurring basis and indicates classification by level of inputs within the fair value hierarchy described in Note 1 as of June 30, 2019.

	Investments Measured Using Level 1 Inputs	Investments Measured at Net Asset Value*	Total Fair Value
Money market accounts	\$ 1,911,000	\$ -	\$ 1,911,000
Value equity mutual fund	104,000	4,424,000	4,528,000
U.S. corporate stocks	1,431,000		1,431,000
Inflation-protected bond fund	1,679,000		1,679,000
Ultrashort bond	2,000,000		2,000,000
Developed market equities	579,000		579,000
Growth mutual funds	217,000	10,531,000	10,748,000
Bond mutual funds	97,000	8,802,000	8,899,000
Corporate bonds		1,181,000	1,181,000
International equity mutual funds	2,542,000	8,046,000	10,588,000
Small cap equity mutual fund		2,044,000	2,044,000
Real estate	213,000		213,000
Other	62,000		62,000
	<u>\$ 10,835,000</u>	<u>\$ 35,028,000</u>	<u>\$ 45,863,000</u>

These investments are presented on the statement of financial position as follows:

Investments	\$ 21,127,000
Endowment investments	15,301,000
Annuity/trust investments	9,435,000
	<u>\$ 45,863,000</u>

The annuity and trust investments are restricted as follows:

Annuity assets	\$ 2,633,000
Unitrust assets	1,442,000
Priest medical plan assets	<u>5,360,000</u>
	<u>\$ 9,435,000</u>

The Priests' Pension Plan is discussed in Note 9. This plan has certain benefit obligations and holds investments to meet some of these obligations. The investments held by this plan are netted against the benefit obligation in the statement of financial position and are categorized in the fair value hierarchy as follows:

Fair Value Measurements at June 30, 2019, Using:				
	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>	<u>Total</u>
Money market accounts	\$ 109,000	\$ -	\$ -	\$ 109,000
Common stocks	2,139,000			2,139,000
Cash surrender value of life insurance policies			<u>1,220,000</u>	<u>1,220,000</u>
Total assets in the fair value hierarchy	<u>\$ 2,248,000</u>	<u>\$ -</u>	<u>\$ 1,220,000</u>	3,468,000
Investments measured at net asset value*				
Master trusts				2,604,000
Mutual funds				<u>4,120,000</u>
Total investments, at fair value				<u>\$ 10,192,000</u>

* In accordance with FASB Subtopic 820-10, certain investments that were measured at NA per unit (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statement of financial position.

The table below summarizes changes in the fair value of Level 3 assets for the year ended June 30, 2019:

	<u>Cash Surrender Value of Life Insurance Policies</u>
Balance at June 30, 2018	\$ 1,191,000
Increase in cash surrender value	<u>29,000</u>
Balance at June 30, 2019	<u>\$ 1,220,000</u>

Note 4. Revolving Fund Notes Receivable and Deposits

Archdiocesan Revolving Fund

The ARF is a deposit and loan fund operated by the Archdiocese for non-parish Catholic organizations. The resulting balances are included in the operating fund. Deposits are generally available for withdrawal on demand. The current savings rate is 2.5%. Loans are made based on financial status, an approved repayment plan, and the availability of funds. Payments are received monthly, quarterly, or annually over an agreed-upon payback period. Interest on loans is charged at agreed-upon rates, normally between 0% and 5%. Organizations with excess funds may deposit them and earn interest.

At June 30, 2019, accrued interest receivable was \$744,000. There was no accrued interest payable at June 30, 2019. The allowance for doubtful accounts is the estimated uncollectible amount of notes receivable. All notes in this fund are due on various payment schedules and are unsecured.

Notes receivable and deposits payable for the ARF are summarized as follows as of June 30, 2019:

Receivables	
Notes receivable	\$ 4,727,000
Less: allowance for doubtful notes	(573,000)
	<u>4,154,000</u>
Less: current portion	(12,000)
	<u>\$ 4,142,000</u>
Liabilities - deposits	<u>\$ 32,495,000</u>

Of the total deposits payable as of June 30, 2019, \$25,957,000 was from the Associated Catholic Cemeteries, a part of the Corporate Sole. During the year ended June 30, 2019, \$628,000 of interest was paid to the Associated Catholic Cemeteries.

At June 30, 2019, there were nine notes receivable from eight outstanding borrowers. These notes had the following characteristics at June 30, 2019:

Largest note outstanding	\$ 2,644,000
Largest note as a percentage of total	55.9%
Number of past due notes	4
Amount of past due notes	\$ 4,710,000
Past due notes as a percentage of total	99.6%

As of June 30, 2019, two notes receivable from Saint Elizabeth Ann Seton High School ("Seton High School") total \$4,342,000 or 92% of the total notes receivable amount. These notes are past due as of June 30, 2019. See Note 7, Guarantees, for further discussion on this borrower.

At June 30, 2019, the note portfolio consisted of maturities between 36 months and 25 years.

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

Beginning balance	\$ 234,000
Provision	339,000
	<hr/>
Ending balance	<u>\$ 573,000</u>

Other Notes Receivable

Note receivable from Kennedy High School (see Note 7)	\$ 1,367,000
Note receivable from Bishop Blanchet High School (see Note 7)	1,742,000
	<hr/>
	<u>\$ 3,109,000</u>

Note 5. Contributions and Other Receivables

Contributions and other receivables are as follows at June 30, 2019:

Annual Catholic Appeal pledges	\$ 4,341,000
Insurance premiums receivable	1,802,000
Parish assessments	888,000
Accrued interest and dividends	744,000
Other	901,000
	<hr/>
	8,676,000
Less: allowance for doubtful accounts and discounts	(1,182,000)
	<hr/>
	<u>\$ 7,494,000</u>

Note 6. Property and Equipment

Property and equipment are as follows at June 30, 2019:

Land	\$ 8,966,000
Buildings	40,945,000
Furniture and equipment	4,732,000
	<hr/>
	54,643,000
Less: accumulated depreciation	(32,472,000)
	<hr/>
	<u>\$ 22,171,000</u>

Note 7. Notes Payable/Guarantees

Long-Term Notes Payable

Long-term notes payable are as follows at June 30, 2019:

Note payable to the Knights of Columbus in monthly installments of \$32,750, including interest at 4.91%. The note is collateralized by real property. Monthly payments started on July 1, 2017. The note is due in June 2037 and is secured by real property with a net book value of \$5,489,000.	\$ 4,690,000
Note payable to the Knights of Columbus in monthly installments of \$22,811, including interest at 4.51%. The proceeds were passed through to Kennedy High School (see Note 4). The note is due in February 2025 and is collateralized by real property of the school. The school is expected to make debt service payments.	1,367,000
Note payable to the Knights of Columbus in monthly installments of \$20,882, including interest at 4.66%. The proceeds were passed through to Bishop Blanchet High School (see Note 4). The note is due in November 2027 and is collateralized by real property of the school. The school is expected to make debt service payments.	<u>1,742,000</u>
	<u><u>\$ 7,799,000</u></u>

Principal payments on the long-term notes payable are as follows for the years ending June 30:

2020	\$ 556,000
2021	583,000
2022	611,000
2023	640,000
2024	669,000
Thereafter	<u>4,740,000</u>
	<u><u>\$ 7,799,000</u></u>

Guarantees

The Archdiocese has guaranteed a loan on behalf of Seton High School. As of June 30, 2019, the balance on the loan was \$9,500,000. The Archdiocese guaranteed \$7,700,000 of this balance. In addition, there are two outstanding ARF loans to Seton High School that totaled \$4,342,000 and \$1,800,000 notes outstanding to other borrowers as of June 30, 2019. The ARF loans are subordinate to the \$9,500,000 loan.

The Pope John Paul II High School has leased property under a lease ending in June 2025. The Archdiocese has guaranteed the payments on the lease through June 2024. The estimate of the guarantee is approximately \$1,669,000. In addition, there is one outstanding ARF loan to Pope John Paul II High School for \$366,000 as of June 30, 2019.

Note 8. Custodial Liabilities

The Archdiocese serves a custodial function for money due to other Catholic organizations. All custodial accounts are recorded as liabilities until remitted to the intended recipients. The custodial liabilities balances are as follows at June 30, 2019:

Other amounts held for local and national Archdiocesan organizations	\$ 2,767,000
Archdiocesan parish and other Archdiocesan organization endowment funds	<u>967,000</u>
	<u>\$ 3,734,000</u>

Note 9. Pension Plans and Other Post Retirement Benefits

The Archdiocese maintains the following separate plans, which provide retirement benefits to all lay employees and Archdiocesan priests who meet eligibility requirements:

- The Archdiocesan Pension Plan for Lay Employees (a defined contribution plan)
- Archdiocesan 403(b) Savings Plan (a defined contribution plan)
- Pension Plan and Trust for the Priests of the Archdiocese of Seattle (a defined benefit plan)
- CCAS Clergy Medical Plan (a defined benefit plan)

In addition, the Archdiocese contributed to retirement plans maintained by the various religious orders of women. The assets and liabilities of these pension plans are separately managed and are not included in these financial statements.

The pension plans are not subject to the requirements of Title I of the Employee Retirement Income Security Act of 1974. A summary of each of the four plans sponsored by the Archdiocese is as follows:

The Archdiocesan Pension Plan for Lay Employees is a noncontributory defined contribution plan. The plan covers all eligible employees of the Archdiocese who are not ordained priests or members of a religious order. The costs of the plan are paid by the employing parishes, schools, and agencies. Annual contributions to the plan are made on the basis of 6% of gross annual earnings.

Pension expense for the year ended June 30, 2019, was \$611,000. This represents the contribution by the Archdiocese on behalf of lay employees working in the Chancery.

The Archdiocesan 403(b) Savings Plan is a tax deferred savings plan covering substantially all employees of the Archdiocese. Archdiocesan contributions to this plan were not material during the year ended June 30, 2019.

Pension Plan and Trust for the Priests of the Archdiocese of Seattle ("Priests' Pension Plan") is a noncontributory defined benefit plan covering all eligible Archdiocesan priests. Contributions from parishes, schools, and agencies employing priests outside the Archdiocese are recognized as a reduction to pension expense by the Archdiocese.

On January 1, 2018, a new plan, the Frozen Pension Benefit Plan for Priests, was created for priests who are not in good standing. Priests who were not in good standing were removed from the Priests' Pension Plan and all related assets were transferred into the new plan.

CCAS Clergy Medical Plan ("Health Plan") is a plan used by the Archdiocese to provide health benefits including medical, dental, vision, and other benefits to its active, retired, and inactive priests.

The post-retirement benefits described above are provided at the discretion of the Archbishop and may be changed in the future.

Obligations, Funded Status, and Assumptions

The following tables summarize the funded status of the Priests' pension and health benefits, as well as significant actuarial assumptions based on a June 30 measurement date:

	Priests' Pension Benefits	Health Benefits
Benefit obligation	\$ 29,678,000	\$ 15,673,000
Fair value of plan assets	12,279,000	*
Funded status	<u>\$ (17,399,000)</u>	<u>\$ (15,673,000)</u>
Accrued benefit cost in the statements of financial position	<u>\$ 17,399,000</u>	<u>\$ 15,673,000</u>
Weighted-average assumptions to determine benefit obligations and net periodic benefit cost:		
Discount rate	3.21%	3.41%
Expected rate of return on plan assets	6.00%	N/A

* As of June 30, 2019, this plan held investment assets of \$5,360,000. However, these assets are not netted against the liability, as the plan covers both active and retired priests.

Benefits payable under this plan are established at certain amounts without regard to levels of compensation paid to priests during employment. Consequently, changes in priests' compensation levels have no effect on the amount of projected or accumulated benefit obligation.

The computations assume annual rates of increase in the per-capita cost of covered health care benefits to be 5.2%, grading down to 4.2% in later years.

Changes in Actuarial Assumptions

During the year ended June 30, 2019, accrued Priests' pension and health benefit costs increased by a total of \$2,200,000 due to an update on claims cost experience, changes in the discount rate from 3.95% to 3.21% for the pension plan and from 4.07% to 3.41% for health benefits, and an update on the mortality assumptions to reflect the MP-2018 mortality improvement scale recently released by the Society of Actuaries' Retirement Plans Experience Committee.

Benefit Cost and Contributions

Priest pension and health benefit expenses and related contribution information is summarized as follows for the year ended June 30, 2019:

	<u>Priests' Pension Benefits</u>	<u>Health Benefits</u>
Benefit cost	\$ 1,722,000	\$ 1,062,000
Less:		
Contributions paid by parishes, schools, and outside agencies	(5,327,000)	
Contributions and bequests	(152,000)	
Net benefit cost	(3,757,000)	1,062,000
Change in expense resulting from a change in the minimum liability	1,525,000	406,000
Total benefit	<u>\$ (2,232,000)</u>	<u>\$ 1,468,000</u>
Archdiocesan contribution to the Plan	<u>\$ 1,063,000</u>	<u>\$ 632,000</u>
Total benefits paid by the Plan	<u>\$ 2,316,000</u>	<u>\$ 632,000</u>
Items not yet recognized as a component of net periodic benefit cost		
Net loss	\$ 15,219,000	\$ 15,841,000
Prior service cost	3,239,000	(168,000)
	<u>\$ 18,458,000</u>	<u>\$ 15,673,000</u>
Reclassification of amounts to net periodic benefit cost		
Net loss	\$ 1,824,000	\$ 485,000
Prior service cost	(299,000)	(79,000)
	<u>\$ 1,525,000</u>	<u>\$ 406,000</u>
Amounts expected to be recognized in net periodic benefit cost for the year ending June 30, 2020		
Net loss*	\$ 683,000	\$ -
Prior service cost	299,000	(31,000)
	<u>\$ 982,000</u>	<u>\$ (31,000)</u>

* Amount to be determined including net gain/loss for pension plan.

These plans do not allow participant contributions.

Plan Assets

The Archdiocese's Priests' Pension Plan weighted-average asset allocations by asset category are as follows at June 30, 2019:

Cash and cash equivalents	1%
Domestic equity securities and mutual funds	44%
Fixed income and cash surrender value of life insurance	19%
International equity securities and mutual funds	17%
Real estate funds	10%
Mortgage-backed fixed income funds	9%
	<hr/>
Total	100%
	<hr/> <hr/>

The overall expected long-term rate of return on plan assets represents a weighted-average composite rate based on expected rates of return for the following individual asset categories:

Cash	2.88%
Domestic equity securities	6.78%
International equity securities	7.93%
Real estate	6.92%
Mortgage-backed fixed income funds	3.87%
Fixed income	3.89%

Such rates are estimated by adjusting historical results for each category of investment for anticipated market movement.

The Archdiocese's overall strategy is to invest in a diversified portfolio of high-grade securities and other assets to provide long-term growth through income and appreciation in excess of customized indexes and at a lower relative risk. However, market fluctuations may result in capital losses. In general, the Archdiocese's goal is to maintain the following allocation ranges:

Domestic equity securities	33.6% - 50.4%
International equity securities	14.4% - 21.6%
Fixed income and cash surrender value of life insurance	16% - 24%
Real estate and mortgage-backed fixed income funds	16% - 24%

Contributions

The Archdiocese expects to contribute approximately \$800,000 to its Priests' Pension Plan and \$800,000 to its Health Plan in the year ending June 30, 2020.

The CTSC contributed \$3,560,000 to the Priest Pension Plan and \$1,340,000 to the Health Benefits Plan during the year ended June 30, 2019.

Amounts to be paid into the plans from the CTSC for the year ending June 30, 2020, are dependent on cash collected against the CTSC pledges.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service for the current population of priests, are expected to be paid for the years ending June 30:

	<u>Priests' Pension Benefits</u>	<u>Health Benefits</u>
2020	\$ 2,369,000	\$ 630,000
2021	2,246,000	658,000
2022	2,139,000	679,000
2023	2,072,000	693,000
2024	1,991,000	720,000
2025 - 2029	8,710,000	3,718,000

Note 10. Insurance

Property, liability, and workers' compensation insurance coverage is purchased. The liability insurance includes coverage for sexual misconduct liabilities. The Archdiocese administers the insurance program for the administrative offices, parishes, and other Archdiocesan organizations. It collects premiums from the affected organizations and pays insurance policy premiums and certain claim costs.

The Archdiocese is self-insured for specific amounts. Coverage for losses in excess of the self-insured limits of liabilities is also purchased. Estimated unpaid claim costs that are self-insured have been recorded as a liability in these financial statements.

Note 11. Claims Payable and Contingencies

Claims payable include the following as of June 30:

Workers' compensation	\$ 5,582,000
Property and liability	1,297,000
Sexual abuse	3,630,000
Other	50,000
	<u>\$ 10,559,000</u>

Property and liability and workers' compensation liabilities represent exposure based on actuarially determined case reserves and incurred but not reported claims for losses up to the Archdiocese's \$250,000 self-insurance level.

The Archdiocese is a defendant in cases claiming damages for sexual abuse. The Archdiocese's policy is to provide counseling assistance to all victims regardless of fault. However, it is also the Archdiocese's policy to ensure that it has competent legal representation in every claim made against it.

During the year ended June 30, 2019, the Archdiocese settled 16 sexual abuse cases for approximately \$7,319,000, net of insurance.

As of June 30, 2019, there were 11 sexual abuse cases outstanding and in litigation. Subsequent to year-end, the Archdiocese settled five cases. Management has concluded that reasonable estimates for settlements of the remaining six cases, as well as amounts for the cases settled subsequent to year-end, would be \$3,630,000, which is recorded as a liability as of June 30, 2019. Additionally, management reviewed the Archdiocese's insurance coverage for each case and has estimated that approximately \$1,538,000 of the estimated settlement liability will be covered by insurance carriers; this amount has been recorded in accounts receivable.

Management considers estimates of settlements of sexual abuse claims and related insurance recoveries to be significant estimates, and it is reasonably possible that the amounts will change in the near term based on further settlements and claims activity. The changes could have a material effect on the financial statements.

Note 12. Endowment

Archdiocesan Endowment

The Archdiocesan endowments consist of 12 individual funds established for a variety of purposes. The endowments include eight donor-restricted endowment funds and four funds designated by the Archbishop to function as endowments ("quasi-endowments"). Designated endowments may be re-designated as non-endowed funds at the discretion of the Archbishop. As required by accounting principles generally accepted in the United States, net assets associated with endowment funds, including quasi-endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

Management interpreted the State of Washington Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Archdiocese classifies (a) the original value of gifts donated to the permanent endowment plus (b) the original value of subsequent gifts to the permanent endowment as net assets with donor restrictions to be held in perpetuity. The remaining portion of the donor-restricted endowment fund that is not classified in donor restricted net assets to be held in perpetuity is classified as donor-restricted net assets until those amounts are appropriated for expenditure by the Archdiocese in a manner consistent with the standard of prudence described by UPMIFA. In accordance with UPMIFA, the Archdiocese considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

- The duration and preservation of the endowment fund
- The purposes of the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation or deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Archdiocese
- The investment policies of the Archdiocese

Endowment net assets consist of the following at June 30, 2019:

	Without Donor Restrictions	With Donor Restrictions		Total
		Accumulated Earnings	Perpetual Restrictions	
Donor-restricted endowment funds	\$ -	\$ 3,206,000	\$ 8,333,000	\$ 11,539,000
Quasi-endowment funds	<u>2,789,000</u>			<u>2,789,000</u>
Total	<u>\$ 2,789,000</u>	<u>\$ 3,206,000</u>	<u>\$ 8,333,000</u>	<u>\$ 14,328,000</u>

Changes in endowment net assets are as follows for the year ended June 30, 2019:

	Without Donor Restrictions	With Donor Restrictions		Total
		Accumulated Earnings	Perpetual Restrictions	
Endowment net assets at June 30, 2018	\$ 2,609,000	\$ 3,461,000	\$ 8,256,000	\$ 14,326,000
Investment return				
Investment income	66,000	90,000		156,000
Net appreciation (realized and unrealized)	<u>207,000</u>	<u>276,000</u>		<u>483,000</u>
Total investment return	273,000	366,000		639,000
Contributions			77,000	77,000
Appropriation of endowment net assets for expenditure	<u>(93,000)</u>	<u>(621,000)</u>		<u>(714,000)</u>
Endowment net assets at June 30, 2019	<u>\$ 2,789,000</u>	<u>\$ 3,206,000</u>	<u>\$ 8,333,000</u>	<u>\$ 14,328,000</u>

Return Objectives and Risk Parameters

The Archdiocese has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets and maintaining compliance with socially responsible investment guidelines of the Church. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s), as well as quasi-endowment funds. Under this policy, as approved by the Archbishop, the endowment investment objectives will be for the asset value, exclusive of contributions or withdrawals, to grow over time and earn, through a combination of investment income and capital appreciation, a rate of return (time-weighted total return) in excess of inflation, as measured by the Consumer Price Index and defined benchmarks. Allocations of endowment investments will change over time as circumstances, investment performance, economic, and other conditions change.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Archdiocese relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Archdiocese targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to the Spending Policy

The Archdiocese has a policy of appropriating for distribution each year no more than 5% of its endowment fund's fair value at June 30. This is consistent with the Archdiocese's objective to maintain the purchasing power of the endowment assets held in perpetuity for a specified term, as well as to provide additional real growth through new gifts and investment return. Investment returns depend on many factors, and there can be no assurance that the planned returns will be achieved.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires. As of June 30, 2019, there were no funds with deficiencies.

S U P P L E M E N T A R Y I N F O R M A T I O N

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

Most Reverend J. Peter Sartain
Roman Catholic Archbishop of Seattle
The Program and Administrative Offices of the
Corporation of the Catholic Archbishop of Seattle
Seattle, Washington

We have audited the financial statements of the Program and Administrative Offices of the Corporation of the Catholic Archbishop of Seattle as of and for the year ended June 30, 2019, and our report thereon dated October 10, 2019, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The 2019 fund information in Schedules I and II is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Peterson Sullivan LLP

October 10, 2019

**THE PROGRAM AND ADMINISTRATIVE OFFICES OF THE
CORPORATION OF THE CATHOLIC ARCHBISHOP OF SEATTLE**

SCHEDULE I – STATEMENT OF FINANCIAL POSITION BY FUND

June 30, 2019

ASSETS	Operating Fund	Archdiocesan Revolving Fund	Plant Fund	Endowment and Similar Funds	Total
Cash	\$ 13,357,000	\$ -	\$ -	\$ -	\$ 13,357,000
Investments	21,127,000				21,127,000
Contributions and other receivables	6,750,000	744,000			7,494,000
Notes receivable	390,000	12,000			402,000
Insurance reimbursement receivable	1,538,000				1,538,000
Prepaid expenses and other assets	609,000				609,000
Total current assets	43,771,000	756,000			44,527,000
Endowment investments				15,301,000	15,301,000
Annuity/trust investments	9,435,000				9,435,000
Notes receivable, less current portion	2,719,000	4,142,000			6,861,000
Property and equipment, net			22,171,000		22,171,000
Other interfund balance	(27,591,000)	27,597,000		(6,000)	
Total assets	\$ 28,334,000	\$ 32,495,000	\$ 22,171,000	\$ 15,295,000	\$ 98,295,000

**THE PROGRAM AND ADMINISTRATIVE OFFICES OF THE
CORPORATION OF THE CATHOLIC ARCHBISHOP OF SEATTLE**

SCHEDULE I – STATEMENT OF FINANCIAL POSITION BY FUND

(Continued)

June 30, 2019

LIABILITIES AND NET ASSETS	Operating Fund	Archdiocesan Revolving Fund	Plant Fund	Endowment and Similar Funds	Total
Revolving fund deposits	\$ -	\$ 32,495,000	\$ -	\$ -	\$ 32,495,000
Notes payable, current portion	556,000				556,000
Accounts payable and accrued expenses	2,875,000		19,000		2,894,000
Deferred revenue, current portion	1,073,000				1,073,000
Claims payable	10,559,000				10,559,000
Other accrued post-retirement benefits	630,000				630,000
Custodial liabilities	2,767,000			967,000	3,734,000
Total current liabilities	18,460,000	32,495,000	19,000	967,000	51,941,000
Notes payable, less current portion	7,243,000				7,243,000
Accrued priests' pension liability	17,399,000				17,399,000
Other accrued post-retirement benefits, less current portion	15,043,000				15,043,000
Annuity/trust liabilities	2,776,000				2,776,000
Total liabilities	60,921,000	32,495,000	19,000	967,000	94,402,000
Net Assets					
Without donor restrictions					
Undesignated deficit	(66,935,000)		21,297,000	1,800,000	(43,838,000)
Designated funds	19,815,000		855,000	989,000	21,659,000
Total without donor restrictions	(47,120,000)		22,152,000	2,789,000	(22,179,000)
With donor restrictions	14,533,000			11,539,000	26,072,000
Total net assets	(32,587,000)		22,152,000	14,328,000	3,893,000
Total liabilities and net assets	\$ 28,334,000	\$ 32,495,000	\$ 22,171,000	\$ 15,295,000	\$ 98,295,000

**THE PROGRAM AND ADMINISTRATIVE OFFICES OF THE
CORPORATION OF THE CATHOLIC ARCHBISHOP OF SEATTLE**

SCHEDULE II – STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS BY FUND

For the Year Ended June 30, 2019

	Operating Fund	Archdiocesan Revolving Fund	Plant Fund	Endowment and Similar Funds	Total before Eliminations	Eliminations	Total
<u>NET ASSETS WITHOUT DONOR RESTRICTIONS</u>							
Revenue and Other Support							
Parish assessments	\$ 6,841,000	\$ -	\$ -	\$ -	\$ 6,841,000	\$ -	\$ 6,841,000
Program fees	6,594,000				6,594,000		6,594,000
Interest and dividends	516,000			66,000	582,000		582,000
Interest on Revolving Loan Fund notes		241,000			241,000		241,000
Contributions and bequests	2,010,000		376,000		2,386,000	(376,000)	2,010,000
Special parish billings	372,000				372,000		372,000
Subscriptions and advertising	201,000				201,000		201,000
Other	312,000				312,000		312,000
	<u>16,846,000</u>	<u>241,000</u>	<u>376,000</u>	<u>66,000</u>	<u>17,529,000</u>	<u>(376,000)</u>	<u>17,153,000</u>
Net Assets Released from Restrictions							
Satisfaction of time restrictions	11,043,000				11,043,000		11,043,000
Satisfaction of program restrictions	2,254,000			621,000	2,875,000		2,875,000
Total revenue and other support	30,143,000	241,000	376,000	687,000	31,447,000	(376,000)	31,071,000
Expenses							
Program	17,994,000				17,994,000	(376,000)	17,618,000
Management and general	6,725,000		1,537,000		8,262,000		8,262,000
Stewardship and development	1,709,000				1,709,000		1,709,000
Total expenses	<u>26,428,000</u>		<u>1,537,000</u>		<u>27,965,000</u>	<u>(376,000)</u>	<u>27,589,000</u>
Change in net assets before insurance and other gains and losses	3,715,000	241,000	(1,161,000)	687,000	3,482,000		3,482,000
Insurance revenue	12,350,000				12,350,000		12,350,000
Insurance premiums, taxes, and claims	11,744,000				11,744,000		11,744,000
Insurance revenue and expense, net	606,000				606,000		606,000

**THE PROGRAM AND ADMINISTRATIVE OFFICES OF THE
CORPORATION OF THE CATHOLIC ARCHBISHOP OF SEATTLE**

SCHEDULE II – STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS BY FUND
(Continued)

For the Year Ended June 30, 2019

	Operating Fund	Archdiocesan Revolving Fund	Plant Fund	Endowment and Similar Funds	Total before Eliminations	Eliminations	Total
Realized gains on investments	\$ 461,000	\$ -	\$ -	\$ 110,000	\$ 571,000	\$ -	\$ 571,000
Unrealized gains (losses) on investments	(72,000)			97,000	25,000		25,000
Change in minimum pension liability	(1,525,000)				(1,525,000)		(1,525,000)
Change in minimum other benefit liability	(406,000)				(406,000)		(406,000)
Realized gains on sale of property	264,000				264,000		264,000
Internal transfers of net assets without donor restrictions	(257,000)	(241,000)	1,212,000	(714,000)			
Change in net assets without donor restrictions	<u>\$ 2,786,000</u>	<u>\$ -</u>	<u>\$ 51,000</u>	<u>\$ 180,000</u>	<u>\$ 3,017,000</u>	<u>\$ -</u>	<u>\$ 3,017,000</u>
<u>NET ASSETS WITH DONOR RESTRICTIONS</u>							
Contributions	\$ 13,281,000	\$ -	\$ -	\$ 77,000	\$ 13,358,000	\$ -	\$ 13,358,000
Investment income				90,000	90,000		90,000
Realized gains on investments				150,000	150,000		150,000
Unrealized gains on investments				126,000	126,000		126,000
Net assets released from restrictions							
Satisfaction of time restrictions	(11,043,000)				(11,043,000)		(11,043,000)
Satisfaction of program restrictions	(2,254,000)			(621,000)	(2,875,000)		(2,875,000)
Change in net assets with donor restrictions	<u>\$ (16,000)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (178,000)</u>	<u>\$ (194,000)</u>	<u>\$ -</u>	<u>\$ (194,000)</u>
<u>TOTAL NET ASSETS</u>							
Change in net assets without donor restrictions	\$ 2,786,000	\$ -	\$ 51,000	\$ 180,000	\$ 3,017,000	\$ -	\$ 3,017,000
Change in net assets with donor restrictions	(16,000)			(178,000)	(194,000)		(194,000)
Total change in net assets	2,770,000		51,000	2,000	2,823,000		2,823,000
Net Assets, beginning of year	(35,357,000)		22,101,000	14,326,000	1,070,000		1,070,000
Net Assets, end of year	<u>\$ (32,587,000)</u>	<u>\$ -</u>	<u>\$ 22,152,000</u>	<u>\$ 14,328,000</u>	<u>\$ 3,893,000</u>	<u>\$ -</u>	<u>\$ 3,893,000</u>