PENSION PLAN AND TRUST FOR THE PRIESTS
OF THE ARCHDIOCESE OF SEATTLE

FINANCIAL REPORT

JUNE 30, 2018

C O N T E N T S

petersonsullivan LLP

Certified Public Accountants
& Advisors

INDEPENDENT AUDITORS' REPORT

To the Trustees
Pension Plan and Trust for the Priests
of the Archdiocese of Seattle
Seattle, Washington

We have audited the accompanying financial statements of the Pension Plan and Trust for the Priests of the Archdiocese of Seattle ("the Plan"), which comprise the statements of net assets available for benefits and of accumulated plan benefits as of June 30, 2018 and 2017, and the related statements of changes in net assets available for benefits and of changes in accumulated plan benefits for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Plan 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 audits. We conducted our audits 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 Plan'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 Plan'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 status of the Pension Plan and Trust for the Priests of the Archdiocese of Seattle as of June 30, 2018 and 2017, and the changes in its financial status for the years then ended in accordance with accounting principles generally accepted in the United States.

Peterson Sullivan LLP

February 26, 2019

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PENSION PLAN AND TRUST FOR THE PRIESTS OF THE ARCHDIOCESE OF SEATTLE

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

June 30, 2018 and 2017

ASSETS	2018	2017
Investments at Fair Value		
Money market accounts	$ 505,996	$ 256,428
Common stocks	1,552,240	1,442,652
Master trusts	1,992,615	1,720,022
Mutual funds	3,208,320	3,279,787
Cash surrender value of life insurance policies	1,191,024	1,166,705
Total investments at fair value	8,450,195	7,865,594
Receivables		
Employer contribution receivable	18,702	
Accrued interest and dividends receivable	3,336	3,952
Total receivables	22,038	3,952
Cash and Cash Equivalents	329,664	685,208
Total assets	8,801,897	8,554,754
LIABILITIES		
Accounts Payable	17,117	12,980
NET ASSETS AVAILABLE FOR BENEFITS	$ 8,784,780	$ 8,541,774

See Notes to Financial Statements

PENSION PLAN AND TRUST FOR THE PRIESTS OF THE ARCHDIOCESE OF SEATTLE

STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

For the Years Ended June 30, 2018 and 2017

	2018	2017
Additions		
Investment income		
Net appreciation in fair value of investments	$ 668,911	$ 808,033
Interest	18,089	28,226
Dividends	41,693	42,495
	728,693	878,754
Investment expense		
Custodian's fee	12,978	15,619
	715,715	863,135
Plan interest in master trust investment income	96,593	117,017
Total investment income	812,308	980,152
Contributions		
Employer contributions	987,000	1,044,783
Additional Archdiocesan contributions	800,000	800,000
Memorial contributions and other	244,201	255,376
Total contributions	2,031,201	2,100,159
Total additions	2,843,509	3,080,311
Deductions		
Benefits paid directly to participants	2,403,997	2,432,102
Administrative expenses and other	196,506	190,949
Total deductions	2,600,503	2,623,051
Net increase during year	243,006	457,260
Net Assets Available for Benefits		
Beginning of year	8,541,774	8,084,514
End of year	$ 8,784,780	$ 8,541,774

See Notes to Financial Statements

PENSION PLAN AND TRUST FOR THE PRIESTS OF THE ARCHDIOCESE OF SEATTLE

STATEMENTS OF ACCUMULATED PLAN BENEFITS

June 30, 2018 and 2017

	2018	2017
Actuarial Present Value of Accumulated Plan Benefits		
Vested benefits		
Participants currently receiving payments	$ 20,103,889	$ 22,062,233
Other vested benefits	6,690,438	7,085,974
Total	26,794,327	29,148,207
Nonvested benefits	1,616,931	1,707,247
Total actuarial present value of accumulated Plan benefits	$ 28,411,258	$ 30,855,454

See Notes to Financial Statements

PENSION PLAN AND TRUST FOR THE PRIESTS OF THE ARCHDIOCESE OF SEATTLE

STATEMENTS OF CHANGES IN ACCUMULATED PLAN BENEFITS

For the Years Ended June 30, 2018 and 2017

	2018	2017
Actuarial Present Value of Accumulated Plan Benefits at Beginning of Year	$ 30,855,454	$ 33,399,532
Benefits accumulated	346,373	353,257
Increase due to passage of time - assumed interest	1,040,889	1,007,595
Benefits paid during the year	(2,403,997)	(2,432,102)
Actuarial gains	(1,427,461)	(1,472,828)
Net decrease	(2,444,196)	(2,544,078)
Actuarial Present Value of Accumulated Plan Benefits at End of Year	$ 28,411,258	$ 30,855,454

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

Note 1. Description of Plan

The following brief description of the Pension Plan and Trust for the Priests of the Archdiocese of Seattle ("the Plan") is provided for general information purposes only. Participants should refer to the Plan document for more complete information.

General

The Plan is a noncontributory defined benefit pension plan established on June 1, 1978, covering any priest ordained for or incardinated into the Catholic Archdiocese of Seattle ("the Archdiocese"), whose work assignment is subject to the authority of the Archbishop of the Archdiocese of Seattle ("the Archbishop"). The Plan is a Church Plan and is not subject to the requirements of Title I of the Employee Retirement Income Security Act of 1974. The Plan is not required to file a Form 5500.

Plan assets are not comingled with the assets of other plans or the Archdiocese.

Pension Benefits

A participant is eligible for benefits on the first day of the month coincident with or next following the date on which he attains the benefit eligible age. For priests born before 1949, the benefit-eligible age is 65. The benefit-eligible age rises four months per year with a maximum benefit-eligible age of 70 for those born in 1963 and later.

The normal pension benefit is the amount recommended by the Trustees and established by the Archbishop as the current monthly benefit for life to fully vested priests who reach their benefit-eligible age while in service with the Archdiocese as described in the Plan document. If a priest has at least 30 years of service with the Archdiocese, he is eligible to receive a full normal pension benefit. The amount of the normal pension benefit is reduced to a partial normal pension benefit for a vested participant who starts receiving pension payments after attaining his benefit eligible age but who has fewer than 30 years of service required for a normal pension benefit as described in the Plan document. Participants who are not in service to the Archdiocese when reaching their benefit-eligible age must have at least 15 years of service to receive a partial benefit at their benefit-eligible age.

Disability and Death Benefits

There are no death benefits under the Plan.

If, after at least 15 years of service, a participant's service ends by reason of disability, the participant is entitled to receive a normal pension benefit upon reaching the benefit-eligible age. This benefit is substantially equivalent to the partial normal pension benefits (described above).

Contributions

Parishes, schools, and agencies where priests are assigned within the Archdiocese ("employer units") make annual employer contributions to the Plan. Additional contributions have historically been made by the Archdiocese, individuals, and estates.

Plan Administration

The Plan is administered by the Benefits Services Office of the Archdiocese.

Note 2. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements are prepared on the accrual basis of accounting.

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 the reported amounts of assets and liabilities and the 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.

Contributions

Employer contributions are recognized as revenue in the period the related service by active priests is earned. Other contributions and donations are recognized as revenue when the pledge is made. Contribution revenue received from the Archdiocese was 51% of total contributions for the year ended June 30, 2018. Contribution revenue received from the Archdiocese was 56% of total contributions for the year ended June 30, 2017. The contribution revenue from the Archdiocese includes employer contributions and additional Archdiocesan contributions on the statements of changes in net assets available for benefits.

Investment Valuation and Investment Income Recognition

The Plan's investments consist of money market accounts, common stocks, non-publicly traded mutual funds, master trusts, and cash surrender value of life insurance policies. Purchases and sales of securities are recorded on a trade-date basis. Dividends are recorded on the ex-dividend date. Interest income is recorded on the accrual basis.

Fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, 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.

An asset's or liability's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following is a description of the valuation methodologies used for investments measured at fair value, including a general description of the Plan's investments.

Money Market Accounts: Money market accounts are reported at cost plus accrued interest, which is essentially the same as fair value determined using Level 1 inputs.

Common Stocks: Common stocks are listed on securities exchanges and are valued at their closing price on the valuation date. Quoted market prices are used to value investments, which are Level 1 observable inputs.

Master Trusts: The investments in the master trusts include the following:

- The Washington Capital Joint Master Trust Fixed Income Fund, consisting of corporate fixed-income securities, U.S. government securities, collateralized mortgage obligations, and preferred stock.

- The Washington Capital Joint Master Trust Mortgage Income Fund, consisting of a wide variety of investments that are primarily mortgage and construction loans and debt.

- The Washington Capital Joint Master Trust Real Estate Equity Fund, consisting of a wide variety of underlying investments that are primarily real estate and debt securities.

All of the investments in these master trusts are valued at fair value using the net asset value ("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 are not included in the notes to the financial statements.

All investments in each of the master trusts described above are divided into units of equal value in accordance with the terms of the trust agreement; the proportionate value of each participant is expressed by the number of such units allocated to such trust. The net assets and net investment income (loss) are allocated based on the units. The Plan owned less than 1% of each fund at both June 30, 2018 and 2017.

Mutual Funds: These investments consist of non-publicly traded mutual funds and are valued at 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.

Cash Surrender Value of Life Insurance Policies: For priests that were under age 60 on July 1, 2008, the Plan invested in whole-life insurance policies of $100,000 each covering their lives. Since that time through June 30, 2013, the Plan continued to purchase whole-life insurance policies for priests who were newly ordained or incardinated into the Archdiocese for those who were under age 60 and could pass individual underwriting. The Plan did not purchase policies for new priests over age 60. As of July 1, 2013, the Plan no longer purchases new policies. The policies require annual premium payments until the priest is age 65. Policy payments are not required after that time because the policy is considered fully paid up. Effective May 2014, all policies within the Plan were fully paid up and premium payments are no longer required. The cash value is recognized as an investment. Life insurance policies are valued at cash surrender value as supplied by the insurance company sponsoring the policy, which is categorized as Level 3 within the fair value hierarchy.

The following tables represent information about the Plan's assets that have been measured at fair value on a recurring basis and indicate the classification by level of input within the fair value hierarchy described above:

	Fair Value Measurements at June 30, 2018, Using:			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total
Money market accounts	$ 505,996	$ -	$ -	$ 505,996
Common stocks	1,552,240			1,552,240
Cash surrender value of life insurance policies			1,191,024	1,191,024
Total assets in the fair value hierarchy	$ 2,058,236	$ -	$ 1,191,024	3,249,260
Investments, at net asset value*				
Master trusts				1,992,615
Mutual funds				3,208,320
Total investments, at fair value				$ 8,450,195

	Fair Value Measurements at June 30, 2017, Using:			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total
Money market accounts	$ 256,428	$ -	$ -	$ 256,428
Common stocks	1,442,652			1,442,652
Cash surrender value of life insurance policies			1,166,705	1,166,705
Total assets in the fair value hierarchy	$ 1,699,080	$ -	$ 1,166,705	2,865,785
Investments, at net asset value*				
Master trusts				1,720,022
Mutual funds				3,279,787
Total investments, at fair value				$ 7,865,594

* Certain investments that were measured at NAV per share have not been classified in the fair value hierarchy.

The table below summarizes the changes in the fair value of the Plan's Level 3 assets for the years ended June 30:

	Cash Surrender Value of Life Insurance Policies	
	2018	2017
Balance at beginning of year	$ 1,166,705	$ 1,138,323
Increase in cash surrender value	24,319	28,382
Balance at end of year	$ 1,191,024	$ 1,166,705

The investments measured at net asset value as a practical expedient and their investment objectives are summarized as follows:

Investment Type	Name of Fund	Net Asset Value as of June 30, 2018	Net Asset Value as of June 30, 2017	Investment Objective	Unfunded Commitment	Redemption Policy	Redemption Notice Period
Fixed Income	Washington Capital Joint Master Trust - Fixed Income Fund	$ 403,276	$ 224,256	To seek long-term capital appreciation and current income.	$ -	Daily	None
Mortgage	Washington Capital Joint Master Trust - Mortgage Income Fund	787,895	717,669	To seek stable and competitive income from construction and/or permanent mortgages.		On the last business day of each calendar month	None
Real Estate	Washington Capital Joint Master Trust - Real Estate Equity Fund	801,444	778,097	To seek current income and long-term capital growth by investing in a diversified portfolio of properties located in the western U.S.		On the last business day of each calendar month	None
Equity	CUIT Small Cap Equity Mutual Fund	340,715	337,098	To seek long-term capital appreciation.		Seven days' notice	None
	CUIT Value Equity Mutual Fund	1,512,085	1,557,256	To seek long-term capital appreciation.		Seven days' notice	None
International	Aberdeen EAFE Plus Mutual Ethical Fund	1,355,520	1,385,433	To achieve total return in excess of the Morgan Stanley Capital International All Countries ex-U.S. Index.		Seven days' notice	None
		$ 5,200,935	$ 4,999,809		$ -		

Actuarial Present Value of Accumulated Plan Benefits

Accumulated plan benefits are future periodic payments attributable under the Plan's provisions to the service priests have rendered. Accumulated plan benefits include benefits expected to be paid to retired or terminated priests and to present priests who will retire in the future. The Plan benefits are not compensation-dependent. Benefits under the Plan are based on the monthly amount recommended by the trustees of the Plan and are approved by the Archbishop.

Accumulated plan benefits for active priests is based on actual service period through which the benefit information is presented (the valuation date). Benefits payable under all circumstances – retirement, disability, and termination of employment – are included to the extent they are deemed attributable to employee service rendered to the valuation date. The actuarial present value of accumulated plan benefits is determined by an actuary and is the amount that results from applying actuarial assumptions to adjust the accumulated plan benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawal, or retirement) between the valuation date and the expected date of payment.

The significant actuarial assumptions used in the valuations as of June 30, 2018 and 2017, were (a) life expectancy of participants calculated using the RP-2017 Mortality Tables in 2018 and the RP-2016 Mortality Tables in 2017, (b) benefit commencement age, (c) expected return on assets, (d) withdrawals, death, and disability (none), and (e) extended service benefit. The expected return on plan assets was 6.0% for both years ended June 30, 2018 and 2017. The expected return takes into account payment of Plan expenses. The foregoing actuarial assumptions are based on the presumption that the Plan will continue. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated plan benefits.

The discount rates for 2018 and 2017 were 3.95% and 3.51%, respectively.

The increase in the discount rate produced an actuarial gain for fiscal year 2018, and updates on the mortality table produced an actuarial gain for fiscal year 2017.

Cash and Cash Equivalents

Cash and cash equivalents consist of a checking account in a bank. At times, the Plan has amounts deposited with a financial institution in excess of federally insured limits.

The Plan considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents.

Payment of Benefits

Benefit payments to participants are recorded upon distribution.

Plan Termination

Although it has not expressed any intention to do so, the Archbishop has the right under the Plan to discontinue its contributions at any time and to terminate the Plan. In the event of termination or discontinuation of the Plan by the Archbishop, the benefits of all participants shall be vested and non-forfeitable to the extent that such benefits shall be funded by amounts contributed by the Archdiocese.

Risks and Uncertainties

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect amounts reported in the statements of net assets available for benefits.

Plan contributions are made and the actuarial present value of accumulated plan benefits are reported based on certain assumptions pertaining to interest rates, inflation rates, and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term could be material to the financial statements.

Subsequent Events

The Plan has evaluated subsequent events through the date these financial statements were available to be issued, which was February 26, 2019.

On January 1, 2018, a new plan, the Frozen Pension Benefit Plan for Priests, was created for priests who are not in good standing. Subsequent to year-end, priests who were not in good standing were removed from the Priests' Pension Plan, and all related assets were transferred into the new plan. A total of nine retired priests were transferred out of the Plan and into the newly formed plan. The transfer consisted of $432,000 in total assets and $1,700,000 in total liabilities.

Note 3. Related Party Transaction

The Plan reimburses the Benefits Services Office, a division of the Archdiocese, for its share of administrative expenses. These include payroll, rent, and other expenses paid by the Archdiocese that are split between the following plans:

- Archdiocesan Pension Plan for Lay Employees
- Archdiocesan 403(b) Savings Plan
- Catholic Archdiocese Health and Welfare Plan
- Pension Plan and Trust for the Priests of the Archdiocese of Seattle
- Supplemental Savings Plan for Priests
- CCAS Clergy Medical Plan
- Corporation of the Catholic Archbishop of Seattle Workers Compensation Program

The Plan's share of expenses was $66,657 and $80,290 for 2018 and 2017, respectively. These amounts are included in administrative expenses in the statements of changes in net assets available for benefits.

Note 4. Funding Policy

The employer units make annual contributions to the Plan in amounts that are estimated to keep the present benefit levels constant. Each employer unit made annual contributions per priest of $9,400 in 2018 and $8,800 in 2017.

The Plan's deficiency of net assets available for benefits over accumulated Plan benefits at both June 30, 2018 and 2017, relates primarily to the accumulated benefit obligation and the contribution rate paid by the employer units of the Archdiocese. The Archdiocese has begun a capital campaign with the goal of substantially funding these benefit obligations, which will significantly reduce or eliminate the designated deficit.

Note 5. Investments

Interest and dividends from master trusts were not material for either of the years ended June 30, 2018 or 2017. The net change in the fair value of the master trusts (including gains and losses on investments bought and sold, as well as held during the year) was $96,593 in 2018 and $117,017 in 2017, as follows:

	2018	2017
Master trusts		
Washington Capital Joint Master Trust Fixed Income Fund	$ (1,981)	$ (64)
Washington Capital Joint Master Trust Mortgage Income Fund	31,226	30,439
Washington Capital Joint Master Trust Real Estate Equity Fund	67,348	86,642
Total net change in the fair value of the master trusts	$ 96,593	$ 117,017