



# **The Parish Revolving Fund of the Corporation of the Catholic Archbishop of Seattle**

**Financial Statements**  
Years Ended June 30, 2020 and 2019

**The Parish Revolving Fund of  
the Corporation of  
the Catholic Archbishop of Seattle**

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**Contents**

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<b>Independent Auditor's Report</b>	3-4
<b>Financial Statements</b>	
Statements of Financial Position	6
Statements of Activities and Changes in Net Assets	7
Statements of Cash Flows	8
Notes to Financial Statements	9-14



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## **Independent Auditor's 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

### ***Report on Financial Statements***

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, 2020, 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 of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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.



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### ***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, 2020, 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 of America.

### ***Other Matter - Prior-Period Financial Statements***

The financial statements of the Parish Revolving Fund of the Corporation of the Catholic Archbishop of Seattle as of and for the year ended June 30, 2019, were audited by Peterson Sullivan, LLP, whose partners and professional staff joined BDO USA, LLP as of November 1, 2019, and has subsequently ceased operations. Peterson Sullivan, LLP expressed an unmodified opinion on those statements in their report dated October 10, 2019.

*BDO USA, LLP*

November 11, 2020

## Financial Statements

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**The Parish Revolving Fund of  
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**Statements of Financial Position**

<i>June 30,</i>	<b>2020</b>	<b>2019</b>
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$ 4,297,000	\$ 6,486,000
Investments	109,922,000	102,354,000
Interest receivable, net of allowance	163,000	163,000
Notes receivable, current portion	3,283,000	5,287,000
<b>Total Current Assets</b>	<b>117,665,000</b>	<b>114,290,000</b>
Notes receivable, less current portion and allowances	31,452,000	23,749,000
<b>Total Assets</b>	<b>\$ 149,117,000</b>	<b>\$ 138,039,000</b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Revolving fund deposits	\$ 144,202,000	\$ 134,870,000
Accounts payable and accrued expenses	289,000	254,000
<b>Total Current Liabilities</b>	<b>144,491,000</b>	<b>135,124,000</b>
<b>Net Assets</b>		
Without donor restrictions	4,626,000	2,915,000
<b>Total Liabilities and Net Assets</b>	<b>\$ 149,117,000</b>	<b>\$ 138,039,000</b>

*See accompanying notes to financial statements.*

**The Parish Revolving Fund of  
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**Statements of Activities and Changes in Net Assets**

<i>Years Ended June 30,</i>	<b>2020</b>	<b>2019</b>
<b>Revenue and Other Support</b>		
Interest and dividends	\$ 2,605,000	\$ 2,456,000
Interest on Revolving Loan Fund notes	1,588,000	1,686,000
<b>Total Revenue and Other Support</b>	<b>4,193,000</b>	<b>4,142,000</b>
<b>Program Expenses</b>		
Interest	2,569,000	2,937,000
Bad debts	130,000	191,000
Salaries and benefits	128,000	130,000
Professional services	172,000	137,000
<b>Total Expenses</b>	<b>2,999,000</b>	<b>3,395,000</b>
<b>Change in net assets without donor restrictions</b>		
before realized losses and unrealized gains on investments	1,194,000	747,000
Realized losses on investments	(102,000)	(509,000)
Unrealized gains on investments	619,000	1,551,000
<b>Total Change in Net Assets</b>	<b>1,711,000</b>	<b>1,789,000</b>
<b>Net Assets, beginning of year</b>	<b>2,915,000</b>	<b>1,126,000</b>
<b>Net Assets, end of year</b>	<b>\$ 4,626,000</b>	<b>\$ 2,915,000</b>

*See accompanying notes to financial statements.*



**The Parish Revolving Fund of  
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**Statements of Cash Flows**

<i>Years Ended June 30,</i>	<b>2020</b>	<b>2019</b>
<b>Cash Flows from Operating Activities</b>		
Reconciliation of change in net assets to net cash flows from operating activities:		
Change in net assets	\$ 1,711,000	\$ 1,789,000
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Unrealized gains on investments	(619,000)	(1,551,000)
Realized losses on investments	102,000	509,000
Additional loans issued	(11,319,000)	(11,246,000)
Loan principal receipts	5,450,000	10,449,000
Deposits into Revolving Fund	44,512,000	39,390,000
Withdrawals from Revolving Fund	(35,180,000)	(34,558,000)
Change in operating receivables	96,000	(71,000)
Change in accounts payable and accrued expenses	35,000	34,000
Provisions for bad debt	74,000	191,000
<b>Net Cash Flows from Operating Activities</b>	<b>4,862,000</b>	<b>4,936,000</b>
<b>Cash Flows for Investing Activity</b>		
Net purchases of investments by the Parish Revolving Fund	(7,051,000)	(4,833,000)
<b>Cash Flows for Financing Activity</b>		
Change in custodial liability	-	(6,000)
<b>Net Change in Cash</b>	<b>(2,189,000)</b>	<b>97,000</b>
<b>Cash, beginning of year</b>	<b>6,486,000</b>	<b>6,389,000</b>
<b>Cash, end of year</b>	<b>\$ 4,297,000</b>	<b>\$ 6,486,000</b>
<b>Interest Paid on a Cash Basis</b>	<b>\$ 2,569,000</b>	<b>\$ 2,937,000</b>

*See accompanying notes to financial statements.*

# The Parish Revolving Fund of the Corporation of the Catholic Archbishop of Seattle

## Notes to Financial Statements

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### 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, including parish schools, within the Archdiocese.

#### *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect 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, 2020 and 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.

# The Parish Revolving Fund of the Corporation of the Catholic Archbishop of Seattle

## Notes to Financial Statements

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### *Cash and Cash Equivalents*

For purposes of the statements 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 statements 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 a private debt fund limited partnership.

The fixed income securities are reported at fair value using Level 1 inputs.

The private debt fund limited partnership is valued at net asset value, which is a practical expedient to fair value for investments that do not have readily determinable fair values.

### *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 November 11, 2020.

## **2. Liquidity and Availability of Resources**

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, 2020 and 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 and the investment in the

**The Parish Revolving Fund of  
the Corporation of  
the Catholic Archbishop of Seattle**

**Notes to Financial Statements**

KOCAA/Audax Private Debt Fund, LP (“KOCAA”) more fully described in Note 3. There were no such restricted deposits as of June 30, 2020 or 2019.

A summary of the Parish Revolving Fund financial assets available for general expenditures within one year as of June 30, 2020 and 2019, is as follows:

	<b>2020</b>	<b>2019</b>
Cash	\$ 4,297,000	\$ 6,486,000
Investments (not including KOCAA)	104,985,000	102,354,000
Interest receivable, net of allowance	163,000	163,000
Notes receivable, current portion	3,283,000	5,287,000
<b>Total Financial Assets</b>	<b>\$ 112,728,000</b>	<b>\$ 114,290,000</b>

**3. Investments**

The following table represents information about the PRF’s investments as of June 30:

	<b>2020</b>	<b>2019</b>
Investments valued using level 1 inputs:		
Money market funds	\$ 23,972,000	\$ 33,986,000
Corporate bonds	68,286,000	59,713,000
International-developed bonds	12,727,000	8,655,000
	<b>104,985,000</b>	<b>102,354,000</b>
Investments valued using net asset value:		
KOCAA/Audax Private Debt Fund, LP	4,937,000	-
	<b>\$ 109,922,000</b>	<b>\$ 102,354,000</b>

Withdrawals from KOCAA are not allowed, without the general partner’s consent, for one year following the date on which the capital contribution was made. The PRF contributed \$5,000,000 to KOCAA in December 2019. After the one-year period, the PRF may only make withdrawals of its capital contribution on the last day of a fiscal quarter and must provide at least 90 days written notice to the general partner. Without consent of the general partner, the PRF may not withdraw more than 15% of KOCAA’s equity in any quarter and in total may not withdraw more than 25% of the limited partners’ respective capital accounts.

The PRF may request a withdrawal of a portion or all its capital contribution to KOCAA, by providing written notice to the Investment Manager at least 90 days prior to the last business day of a fiscal quarter. Upon receipt of a withdrawal request, the Investment Manager must cause KOCAA to satisfy 90% of such request within 45 days of receipt of such request from available cash, securities, or a combination of both and the balance of such request not later than 30 days after the audited financial statements of KOCAA for the year of withdrawal are delivered to the limited partners.

**The Parish Revolving Fund of  
the Corporation of  
the Catholic Archbishop of Seattle**

**Notes to Financial Statements**

**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 was charged at 5.50%. In April 2020, the PRF decided to lower the interest rate on all loans receivable to 2.0% as part of an effort to provide relief to parishes during the COVID-19 pandemic. 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 1.50% and 2.25% during the years ended June 30, 2020 and 2019, respectively. 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, 2020 and 2019, \$1,853,000 and \$1,683,000 of outstanding notes and \$56,000 and \$96,000 of accrued interest were considered partially impaired and are included in the allowance for doubtful notes, respectively. All of the allowance for doubtful notes was related to impaired loans at June 30, 2020 and 2019.

Notes receivable are summarized as follows as of June 30:

	<b>2020</b>	<b>2019</b>
Notes receivable, current portion	\$ 3,283,000	\$ 5,287,000
Notes receivable, noncurrent portion	33,305,000	25,432,000
	<b>36,588,000</b>	<b>30,719,000</b>
Allowance for doubtful notes	<b>(1,853,000)</b>	<b>(1,683,000)</b>
	<b>\$ 34,735,000</b>	<b>\$ 29,036,000</b>

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

	<b>2020</b>	<b>2019</b>
Notes receivable, current portion	\$ 3,283,000	\$ 5,287,000
Notes receivable, net of allowance, non-current portion	31,452,000	23,749,000
	<b>\$ 34,735,000</b>	<b>\$ 29,036,000</b>

**The Parish Revolving Fund of  
the Corporation of  
the Catholic Archbishop of Seattle**

**Notes to Financial Statements**

At June 30, 2020 and 2019, there were 78 and 69 notes receivable from 57 and 47 parishes outstanding, respectively. These notes had the following characteristics at June 30:

	<b>2020</b>	<b>2019</b>
Largest note outstanding	\$ 2,997,000	\$ 2,931,000
Largest note as a percentage of total	8.2%	9.5%
Number of past due notes	12	10
Amount of past due notes	\$ 1,853,000	\$ 1,683,000
Past due notes as a percentage of total	5.1%	5.5%

At June 30, 2020 and 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 and accrued interest for the years ended June 30:

	<b>2020</b>	<b>2019</b>
<b>Beginning Balance</b>	<b>\$ 1,779,000</b>	<b>\$ 1,588,000</b>
Change in allowance	130,000	191,000
<b>Ending Balance</b>	<b>\$ 1,909,000</b>	<b>\$ 1,779,000</b>

The allowance for doubtful notes is presented net of notes receivable and interest receivable on the statements of financial position as follows for the years ended June 30:

	<b>2020</b>	<b>2019</b>
Allowance for notes receivable	\$ 1,853,000	\$ 1,683,000
Allowance for interest receivable	56,000	96,000
<b>Total Allowance for Doubtful Notes</b>	<b>\$ 1,909,000</b>	<b>\$ 1,779,000</b>

## 5. Loan Commitments

During the years ended June 30, 2020 and 2019, the PRF entered into loan commitments totaling \$8,700,000 and \$6,404,000, respectively. At June 30, 2020 and 2019, the entire amount remains outstanding and available for funding, subject to conditional performance requirements of the borrowers.

## 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 years ended June 30, 2020 and 2019, these expenses totaled \$300,000 and \$267,000, respectively. As of June 30, 2020 and 2019, the PRF owes the Archdiocese \$143,000 and \$141,000 for payroll and administrative expenses.

**The Parish Revolving Fund of  
the Corporation of  
the Catholic Archbishop of Seattle**

**Notes to Financial Statements**

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

## **7. COVID-19 Pandemic**

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the “COVID-19 outbreak”) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

On March 27, 2020, President Trump signed into law the “Coronavirus Aid, Relief, and Economic Security (“CARES”) Act.” The CARES Act, among other things, includes provision relating to refundable payroll tax credits, deferment of employer side social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations, increased limitations on qualified charitable contributions, and technical corrections to the tax depreciation methods for qualified improvement property.

It also appropriated funds for the Small Business Administration Paycheck Protection Program (“PPP”) loans that are forgivable in certain situations to promote continued employment, as well as Economic Injury Disaster Loans to provide liquidity to small business and nonprofits harmed by COVID-19. The PRF did not apply for or receive a PPP loan. Virtually all parishes applied for and received PPP loans. While many businesses and nonprofits have been shut down, the PRF continues to operate during the COVID-19 outbreak and, as of this report date, has not experienced significant impacts to its financial condition or liquidity. However, given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the PRF is not able to estimate the effects of the pandemic on its future operations, financial condition or liquidity for fiscal year 2021. Management is actively monitoring the impact of the CARES Act and the global situation on its financial condition, liquidity, and operations.

Parish giving and school revenue have been negatively impacted by the COVID-19 outbreak, which could limit their future ability to service their notes. The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. While many businesses and nonprofits have been shut down, the PRF continues to operate during the COVID-19 outbreak and, as of this report date, has not experienced significant impacts to its financial condition or liquidity. However, given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the PRF is not able to estimate the effects of the pandemic on its future operations, financial condition or liquidity for fiscal year 2021. Management is actively monitoring the impact of the global situation and the CARES Act on its financial condition, liquidity, and operations.