

Financial Statements and Report of
Independent Certified Public Accountants

Inter-Parish Loan Fund, Inc.

June 30, 2018 and 2017

CONTENTS

	Page
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS	3-4
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION	6
STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS	7
STATEMENTS OF CASH FLOWS	8
NOTES TO FINANCIAL STATEMENTS	9-17

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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To the Board of Trustees of
Inter-Parish Loan, Fund, Inc.

We have audited the accompanying financial statements of Inter-Parish Loan Fund, Inc. (“IPLF, Inc.”), which comprise the statement of financial position as of June 30, 2018 and 2017, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management’s responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of IPLF, Inc. as of June 30, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Arlington, Virginia
November 28, 2018

FINANCIAL STATEMENTS

Inter-Parish Loan Fund, Inc.

STATEMENTS OF FINANCIAL POSITION

June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents	\$ 16,694,868	\$ 14,338,190
Investments, at fair value	<u>37,979,869</u>	<u>37,840,568</u>
Total cash and investments	54,674,737	52,178,758
Loan receivables from Archdiocesan parishes and schools, net of allowance of \$0 at June 30, 2018 and 2017.	14,764,615	21,584,032
Agency funds held for others	<u>31,333,738</u>	<u>27,812,119</u>
Total assets	<u>\$100,773,090</u>	<u>\$101,574,509</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Demand deposits payable to Archdiocesan parishes and schools	\$ 67,608,513	\$ 72,281,438
Accrued expenses	459,015	-
Agency funds held for others	<u>31,333,738</u>	<u>27,812,119</u>
Total liabilities	99,401,266	100,093,557
Net assets, unrestricted	<u>1,371,824</u>	<u>1,481,352</u>
Total liabilities and net assets	<u>\$100,773,090</u>	<u>\$101,574,909</u>

The accompanying notes are an integral part of these financial statements.

Inter-Parish Loan Fund, Inc.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Years ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Revenue, gains and other support:		
Interest on outstanding loans	\$ 849,839	\$ 757,369
Interest and dividends	679,354	691,199
Realized loss on investments	(146,034)	(306,439)
Unrealized loss on investments	<u>(268,384)</u>	<u>(212,466)</u>
Total revenue, gains and other support	<u>1,114,775</u>	<u>929,663</u>
Expenses:		
Management and banking fees	513,800	538,151
Interest expense on demand deposits	<u>710,503</u>	<u>739,559</u>
Total expenses	<u>1,224,303</u>	<u>1,277,710</u>
Change in net assets	(109,528)	(348,047)
Net assets:		
Beginning of year	<u>1,481,352</u>	<u>1,829,399</u>
End of year	<u>\$ 1,371,824</u>	<u>\$ 1,481,352</u>

The accompanying notes are an integral part of these financial statements.

Inter-Parish Loan Fund, Inc.

STATEMENTS OF CASH FLOWS

Years ended June 30, 2018 and 2017

	2018	2017
	<u> </u>	<u> </u>
Cash flows from operating activities		
Changes in net assets	\$ (109,528)	\$ (348,047)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities		
Reinvested proceeds from interest and dividends	679,354	691,199
Unrealized loss on investments	268,384	212,466
Realized loss on investments	146,034	306,439
Increase in agency funds held for others - asset	(3,521,619)	(3,479,837)
Increase in agency funds held for others - liability	3,521,619	3,479,837
Change in operating assets and liabilities		
Decrease (Increase) in Loan receivables	6,819,417	(3,361,142)
Accrued expenses	459,015	(26,008)
	<u> </u>	<u> </u>
Net cash provided by (used in) operating activities	8,262,676	(2,525,093)
Cash flows from investing activities		
Proceeds from sales and maturities of investments	8,330,647	13,040,838
Purchase of investments	(9,563,720)	(14,276,965)
	<u> </u>	<u> </u>
Net cash used in investing activities	(1,233,073)	(1,236,127)
Cash flows from financing activities		
Proceeds from deposits payable to Archdiocesan entities	19,957,740	16,855,072
Principal payments on deposits payable to Archdiocesan Entities	(24,630,665)	(19,879,289)
	<u> </u>	<u> </u>
Net cash used in financing activities	(4,672,925)	(3,024,217)
Net increase (decrease) in cash and cash equivalents	2,356,678	(6,785,437)
Cash and cash equivalents, beginning of year	<u>14,338,190</u>	<u>21,123,627</u>
Cash and cash equivalents, end of year	<u>\$ 16,694,868</u>	<u>\$ 14,338,190</u>

The accompanying notes are an integral part of these financial statements.

Inter-Parish Loan Fund, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

NOTE 1 - ORGANIZATION

Inter-Parish Loan Fund, Inc. (“IPLF, Inc.” or the “Fund”) was established in July 1, 2011 to provide depository, investment, and financing services and assistance, to parishes, schools and institutions affiliated with the Roman Catholic Archbishop of Baltimore. The mission of IPLF, Inc. is to provide parishes and schools of the Archdiocese of Baltimore with a good, safe, and stable return on their deposits while providing funds to parishes and schools as needed for capital projects. IPLF, Inc. is incorporated in the state of Maryland and is organized and at all times shall be operated exclusively (i) for religious, charitable, and educational purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code.

The Board of Trustees is authorized to provide all rules, policies, and procedures necessary to establish and administer the program. Rates offered on both deposits and loans are set at levels competitive with commercial banks and are approved by the Board of Trustees. IPLF, Inc. currently engages the Central Services of the Roman Catholic Archbishop of Baltimore, a corporation sole of the state of Maryland (“Central Services”) to provide certain administration functions in exchange for administrative fees.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Use of Estimates and Judgments

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of bank deposits and short-term, highly liquid investments that are readily convertible into known amounts of cash and have original maturities of three months or less from the date of purchase.

Inter-Parish Loan Fund, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018 and 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Investments

Investments are stated at fair value based on quoted market prices. The Board of Trustees has established an investment policy with a priority of preserving principal and has delegated authority to the Archdiocesan Investment Committee to monitor performance and ensure proper asset allocation and diversification. The fair values of investment accounts held as of June 30, 2018 and 2017 are:

	<u>2018</u>	<u>2017</u>
Short-term marketable securities	\$37,979,869	\$37,840,568

Loan Receivables

Typical IPLF, Inc. loans have variable interest rates with repayment terms of 120 months. Loans may be prepaid at any time without incurring any fees and are automatically re-financed if additional principal of \$10,000 or more is paid. Loans are limited to capital projects of parishes, schools and affiliates of the Archdiocese of Baltimore. During fiscal years 2018 and 2017, interest rates averaged 4.0%. Central Services reviews each loan on a quarterly basis and provides an allowance for those loans where collection appears doubtful.

Loan receivables consist of the following as of June 30:

	<u>2018</u>	<u>2017</u>
Less than one year	\$ 4,252,090	\$ 2,732,407
One to five years	5,920,944	10,261,276
Over five years	<u>4,591,581</u>	<u>8,590,349</u>
Gross loan receivable	<u>14,764,615</u>	<u>21,584,032</u>
Allowance for uncollectible loans	<u>—</u>	<u>—</u>
Net loan receivables	<u>\$14,764,615</u>	<u>\$21,584,032</u>

Inter-Parish Loan Fund, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018 and 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Loan Receivables - Continued

It is the policy of IPLF, Inc. to record a bad debt expense if circumstances regarding a specific loan make it more likely than not that a portion of the principal may be uncollected. If such conditions warrant, management will estimate the likely loss and reserve this amount.

Agency Assets Held for Others

During 2016, IPLF, Inc. became a custodian in an investment program which is administered by a commercial bank for parishes, schools, and affiliates of the Archdiocese to utilize. The Board of the IPLF, Inc. does not have any variance power in terms of the use of these investments or any economic interest. IPLF, Inc. relies on a third party investment professional to review investment performance and recommend and changes, if necessary, available investment options. The value of these assets is also accounted for as a liability on the statements of financial position. IPLF, Inc. receives no investment income or records any changes on the statements of activities or changes in net assets relating to their agency assets.

Demand Deposits Payable to Archdiocesan Parishes and Schools

Eligible participants that have made deposits to IPLF, Inc. are beneficial owners of the assets held in trust. IPLF, Inc. will pay to Certificate Holders interest on deposits at a rate which shall be determined and adjusted from time to time by the Board of Trustees. Absent extraordinary circumstances, the interest rate shall not be less than the average rate on a 90-day Treasury bill determined as of the first day of the most recently completed calendar quarter. During fiscal years 2018 and 2017, the interest rates paid on deposits averaged 1.0%. Although the payables are due on demand, Archdiocesan policy requires parishes to keep excess funds in IPLF, Inc.

Interest

Interest income and expense are recognized on the Statements of Activities and Changes in Net Asset by applying the applicable rate to the outstanding daily balance and compounded at the end of each month.

Inter-Parish Loan Fund, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018 and 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Fair Value of Financial Instruments

- **Cash and Cash Equivalents and Investments**

The carrying amount for cash and cash equivalents and investments approximates fair value. The fair value for investments is based on quoted market prices. Income from cash and cash equivalents and investments are included in unrestricted investment income unless the income is restricted by express donor stipulations. All income is reported net of investment related expenses.

- **Fair Value Measurement**

The Financial Accounting Standards Board (“FASB”) Topic 820, under the FASB Accounting Standards Codification (“ASC”) defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This standard provides a consistent definition of fair value which focuses on an exit price between market participants in an orderly transaction. The standard also prioritizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the transparency of inputs as follows:

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.

Level 2 - Fair value is based on pricing inputs other than quoted prices in active markets and which are either directly or indirectly observable as of the reporting date. The nature of these securities includes investments for which quoted prices are available but traded less frequently than securities traded on what are deemed active markets.

Level 3 - Pricing of securities are unobservable as of the reporting date. The inputs used to determine fair value are not observable and require significant management judgment or estimation.

Inter-Parish Loan Fund, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018 and 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fair Value of Financial Instruments - Continued

- **Fair Value Measurement - Continued**

IPLF, Inc. endeavors to utilize the best available information in measuring fair value. The following table summarizes the valuation of our financial instruments by authoritative pricing levels as of June 30, 2018 and 2017:

	<u>Fair Value Measurements</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
At June 30, 2018:				
Cash equivalents	\$ 2,591,657	\$ —	\$ —	\$ 2,591,657
Fixed income	<u>14,782,567</u>	<u>20,605,645</u>	<u>—</u>	<u>35,388,212</u>
Total Investments	<u>\$17,374,224</u>	<u>\$20,605,645</u>	<u>\$ —</u>	<u>\$37,979,869</u>
Agency assets held for others	<u>\$14,741,649</u>	<u>\$16,592,089</u>	<u>\$ —</u>	<u>\$31,333,738</u>
At June 30, 2017:				
Cash equivalents	\$ 2,510,844	\$ —	\$ —	\$ 2,510,844
Fixed income	<u>14,195,543</u>	<u>21,134,181</u>	<u>—</u>	<u>35,329,724</u>
Total Investments	<u>\$16,706,387</u>	<u>\$21,134,181</u>	<u>\$ —</u>	<u>\$37,840,568</u>
Agency assets held for others	<u>\$11,359,550</u>	<u>\$16,452,569</u>	<u>\$ —</u>	<u>\$27,812,119</u>

IPLF, Inc. currently has no other financial instruments subject to fair value measurement on a recurring basis.

Income Taxes

IPLF, Inc. is exempt from most federal income taxes under Section 501(c)(3) of the Internal Revenue Code through its inclusion in United States Conference of Catholic Bishops (“USCCB”) group ruling and listing in the Official Catholic Directory.

Inter-Parish Loan Fund, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018 and 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Income Taxes - Continued

IPLF, Inc. follows the accounting guidance for uncertainties in income tax positions which requires that a tax position be recognized or not recognized based on a “more likely than not” threshold. This applies to positions taken or expected to be taken in a tax return. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged. IPLF has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; determine its filing and tax obligations in jurisdictions for which it has nexus; and to review other matters that may be considered tax positions. The tax years ended June 30, 2015, 2016, 2017, and 2018 are still open to audit for both federal and state purposes. As of June 30, 2018, management has determined that IPLF has no material uncertain tax positions that would require recognition or disclosure in the accompanying financial statements.

Risk Management

IPLF, Inc. has exposure to credit, liquidity, and market risk from financial instruments.

- **Credit Risk**

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation of commitment that it has entered into with IPLF, Inc., resulting in a financial loss to the Fund. Given the nature of IPLF, Inc., the majority of investments made with IPLF, Inc. will consist of loans to eligible participants. The eligible participants including parishes, schools and affiliates of the Archdiocese subject the fund to credit risk.

The Board of Trustees relies on two controls to mitigate credit risk: (i) strong controls on the process of approving and beginning capital projects; and, (ii) adequate oversight and knowledge of the participant and the capital project prior to approval of the loan.

Key Processes and Controls Regarding Loans

- (a) Loans may only be for approved capital projects
- (b) Loans are limited to 35% of the total approved budget including both hard and soft costs
- (c) Capital projects may not begin until the participant has available cash of at least 50% of the total budget,
- (d) Participants must be able to demonstrate through uncollected pledges or available cash flow the ability to meet the debt service obligation and,
- (e) Loans should be fully paid within ten years.

Inter-Parish Loan Fund, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018 and 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Risk Management - Continued

- **Credit Risk - Continued**

Key Oversight Duties and Knowledge of Central Service Staff

- (a) Project management oversight of the approved capital project by the Division of Facility Services
- (b) Compliance with Archdiocesan capital project policy and procedures
- (c) Regular audit reviews by the Division of Fiscal Services on the financial statements and maintenance of proper internal controls of the participating location
- (d) Regular financial monitoring through quarterly reports
- (e) Adherence to not to exceed borrowing limits and timely collection of debt service

The Fund's policy over credit risk in investments is to minimize exposure by currently investing in U.S. government securities. The Board of Trustees has established an investment policy with a priority of preserving principal and has delegated authority to the Archdiocesan Investment Committee to monitor performance and ensure proper asset allocation and diversification.

Cash and cash equivalents are maintained at two financial institutions and at times, the total value of deposits maintained may exceed the amount insured by federal agencies and, therefore, bear some risk. IPLF, Inc. has not experienced any losses as a result of exceeding insured amounts. As of June 30, 2018 and 2017, there was \$6,387,583 and \$4,102,289, respectively, in funds held in excess of the FDIC limit.

- **Liquidity Risk**

Liquidity risk is the risk that IPLF, Inc. will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash.

Inter-Parish Loan Fund, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018 and 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Risk Management - Continued

- **Liquidity Risk - Continued**

IPLF, Inc.'s policy and the investment policy approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities under both normal and stress conditions.

Key Controls in Operation Regarding Liquidity Risk

- (a) Maintaining an asset allocation of investments that is highly liquid that prioritizes safety of principal
- (b) Regular review of cash flow expectations on upcoming and current capital projects
- (c) Policy that requires parishes of the Archdiocese of Baltimore to invest in IPLF, Inc. any funds in excess of amounts needed for ordinary operating needs
- (d) Not exceed a loan ratio of 80% or more of demand deposits

The Board of Trustees is authorized to borrow funds and obtaining credit facilities from financial institutions or the Archdiocese of Baltimore to meet short-term liquidity needs. As of June 30, 2018 and 2017, IPLF, Inc. does not have any of these facilities.

- **Market Risk**

Market risk is the risk that changes in market prices, such as interest rates, equity prices and credit spreads will affect IPLF, Inc.'s income or the fair value of its holdings of financial instruments.

This risk is minimized by the investment policy of placing a priority on principal over possible investment return. Interest rate risk is minimized as the majority of loans are made with variable interest rates. Additionally, the Board of Trustees set the interest rate on demand deposits and loans, based on economic circumstances, but in general, will be set at a level at least 200 basis points over the rate of interest paid on deposits.

Inter-Parish Loan Fund, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018 and 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Net Assets

The net assets of IPLF, Inc. are unrestricted. The change in net assets is primarily interest earned on capital loans to parishes and schools of the Archdiocese of Baltimore and investment income on available funds offset by interest expense provided to Certificate Holders on demand deposits payable and administrative expenses.

NOTE 3 - RELATED PARTY TRANSACTIONS

In exchange for administrative services, IPLF, Inc. provides a management fee that is calculated monthly and paid to Central Services. The fee is based on 2% of the principal amounts of loans outstanding and 75% of the difference between interest paid on deposits and interest earned on outstanding loans and in total may not exceed 95% of the operating cash flows for the period. Management fees for the years ended June 30, 2018 and 2017 totaled \$434,060 and \$429,000, respectively, and are included within management and banking fees on the Statements of Activities and Changes in Net Assets, respectively.

NOTE 4 - LITIGATION

IPLF, Inc. is not a party to any litigation or threatened litigation that is expected to have an adverse material impact on the accompanying financial statements. IPLF, Inc. is a separately incorporated, Maryland nonstock 501(c)(3) corporation. It is in good standing in the State of Maryland.

NOTE 5 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through November 28, 2018, which is the date the financial statements were available to be issued.

IPLF, Inc. is not aware of any subsequent events which would require additional recognition or disclosure in the accompanying financial statements as of June 30, 2018.