Priest Health Plan of the Archdiocese of Seattle

Financial Statements
As of and for the Years Ended
June 30, 2020 and 2019

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As of and for the Years Ended June 30, 2020 and 2019

Contents

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Independent Auditor's Report

To the Most Reverend Paul D. Etienne
Roman Catholic Archbishop of Seattle and Trustees
Priest Health Plan of the Archdiocese of Seattle
Seattle, Washington

We have audited the accompanying financial statements of the Priest Health Plan 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, 2020, and the related statements of changes in net assets available for benefits and of changes in accumulated plan benefits for the year 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the Priest Health Plan of the Archdiocese of Seattle as of June 30, 2020, and the changes in its financial status for the year then ended in accordance with accounting principles generally accepted in the United States.

Other Matter - Prior Period Financial Statements

The financial statements of the Priest Health Plan of the Archdiocese of Seattle as of and for the year ended June 30, 2019 were audited by Peterson Sullivan LLP (PS), whose partners and professional staff joined BDO USA, LLP as of November 1, 2019, and has subsequently ceased operations. PS expressed an unmodified opinion on those statements in their report dated November 12, 2019.

BDO USA, LLP

January 13, 2022

Financial Statements

Priest Health Plan of the Archdiocese of Seattle

Statements of Net Assets Available for Benefits

June 30,	**2020**	2019
Assets		
Investments at fair value	**$ 7,437,109**	$ 4,206,011
Cash and cash equivalents	**821,814**	1,156,576
Employer contributions receivable	**28,919**	27,830
Other receivables		2
Total Assets	**8,287,842**	5,390,419
Liabilities		
Accounts payable	**133,112**	44,120
Net Assets Available for Benefits	**$ 8,154,730**	$ 5,346,299

See accompanying notes to financial statements.

Priest Health Plan of the Archdiocese of Seattle

Statements of Changes in Net Assets Available for Benefits

Year Ended June 30,		**2020**		2019
Additions to Net Assets				
Investment income				
Net appreciation in fair value of investments	$	**601,111**	$	201,435
Interest and dividend income		**96,119**		72,299
Total investment income		**697,230**		273,734
Investment expenses		**(3,196)**		(2,909)
Net investment income		**694,034**		270,825
Contributions				
Employer contributions		**2,172,485**		2,199,140
Called to Serve as Christ contributions		**1,935,338**		1,339,672
Donations and other		**37,640**		-
Total contributions		**4,145,463**		3,538,812
Total Additions		**4,839,497**		3,809,637
Deductions from Net Assets				
Benefits to participants				
Health care premiums		**1,551,642**		1,485,300
Dental premiums		**100,374**		153,207
Vision premiums		**17,766**		27,600
Disability premiums		**17,333**		21,206
Life insurance premiums		**12,868**		7,012
Benefit expense		**165,280**		199,546
Wellness costs		**13,955**		28,609
Other		**-**		3,487
Total benefits		**1,879,218**		1,925,967
Administrative expenses		**151,848**		211,223
Total Deductions		**2,031,066**		2,137,190
Net Increase, during the year		**2,808,431**		1,672,447
Net Assets Available for Benefits, beginning of year		**5,346,299**		3,673,852
Net Assets Available for Benefits, end of year	$	**8,154,730**	$	5,346,299

See accompanying notes to financial statements.

Priest Health Plan of the Archdiocese of Seattle

Statements of Plan Benefit Obligations

June 30,		**2020**		2019
Postretirement Benefit Obligations				
Current retirees	**$**	**7,457,000**	$	6,981,000
Other participants fully eligible for benefits		**3,529,000**		3,120,000
Active participants not yet fully eligible for benefits		**7,060,000**		5,572,000
Total Benefit Obligations	**$**	**18,046,000**	$	15,673,000

See accompanying notes to financial statements.

Priest Health Plan of the Archdiocese of Seattle

Statements of Changes in Plan Benefit Obligations

Year Ended June 30,	**2020**	2019
Amounts Currently Payable		
Balance at beginning of year	**$ -**	$ -
Claims reported and approved for payment	**10,991**	74,783
Claims paid	**(10,991)**	(74,783)
Balance, end of year	**-**	-
Postretirement Benefit Obligations		
Balance at beginning of year	**15,673,000**	14,837,000
Benefits accumulated	**438,000**	392,000
Amendments	**21,000**	
Increase due to passage of time - assumed interest	**524,000**	591,000
Actuarial loss	**2,020,000**	485,000
Benefits paid during the year	**(630,000)**	(632,000)
Balance, end of year	**18,046,000**	15,673,000
Plan's Total Benefit Obligation, end of year	**$ 18,046,000**	$ 15,673,000

See accompanying notes to financial statements.

1. Description of Plan

The following description of the Priest Health Plan of the Archdiocese of Seattle (formerly known as CCAS Clergy Medical Plan) (the Plan) provides only general information. Participants should refer to the Plan document for a complete description of the Plan's provisions.

General

The Plan provides health benefits to all incardinated priests in the Catholic Archdiocese of Seattle (the Archdiocese). For those who are eligible, participation in the Plan is mandatory unless otherwise stipulated by the Archbishop of the Archdiocese of Seattle (the Archbishop). The Plan covers active and senior priests (retired and not assigned) that are incardinated or ordained by the Archdiocese. The Plan qualifies as a Church Plan and is exempt from the requirement of Title I of the Employee Retirement Income Security Act of 1974. The Plan is not required to file a Form 5500. The Plan is exempt from federal income taxes under section 501(c)(9) of the Internal Revenue Code.

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

Benefits

Benefits include the following:

	Active Priests	Senior Priests
Medical insurance	Yes	Yes
Insurance for hearing and other practitioner coverage	Yes	Yes
Medicare supplemental insurance	No	Yes
Medicare Part D retiree drug insurance	No	Yes
Dental insurance	Yes	Yes
Vision insurance	Yes	Yes
Life insurance	Yes	Yes
Long-term disability insurance	Yes	No
Medically necessary out-of-pocket costs	Over $1,000	Over $600
Medicare Part B insurance premiums	No	Yes
Hearing aid devices	$3,000 every three years	$3,000 every three years
Hearing exam	$100 every three years	$100 every three years
Other practitioner benefits	Up to 30 visits per calendar	Up to 30 visits per calendar
Wellness program	Yes	Yes

Current health claims of active and senior priests are provided under group insurance contracts with one of several health care contractors. These group insurance contracts are experience rated. Death and disability benefits are covered by group term policies.

Contributions

Parishes where incardinated archdiocesan priests are assigned (employer units) make annual contributions to the Plan. Each location made a contribution of $14,000 for active priests in both 2020 and 2019. The contribution was $9,700 for each senior priest for both 2020 and 2019. Contributions for senior priests are primarily received from the Central Office of the Archdiocese. Additional contributions are made by the Called to Serve as Christ campaign (CTSC), individuals, and estates.

Benefits Paid

Benefits paid during the year on the Statements of Changes in Plan Benefit Obligations are included in benefits to participants (health care, dental, vision, and life insurance premiums and benefit payments) on the Statements of Changes in Net Assets Available for Benefits.

Plan Administration

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

2. Summary of Accounting Policies

Basis of Accounting

The financial statements of the Plan are prepared using the accrual method of accounting.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires the Plan administrator 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.

Cash and Cash Equivalents

Cash and cash equivalents consist of a checking account in a bank and money market accounts. 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.

Contributions

Employer contributions are recognized as revenue during the period the related active and senior priests are located within the Archdiocese. Other contributions and donations are recognized as revenue when the pledge is made. CTSC contributions are recognized when received by the Plan.

Investment Valuation and Investment Income Recognition

The Plan's investments consist of non-publicly traded mutual funds and are reported 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 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 significantly different from the reported NAV.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

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

Investment Type	Name of Fund	**Net Asset Value as of June 30, 2020**	Net Asset Value as of June 30, 2019	Investment Objective	Unfunded Commitment	Redemption Policy	Redemption Notice Period
Fixed income	CUIT Short-Term Bond	$ -	$ 205,598	To seek current income	$ -	Seven days' notice	None
	CUIT Intermediate Diversified Bond Fund Class B	**2,912,154**	1,879,095	To seek current income	-	Seven days' notice	None
Equity	CUIT International Equity Fund Class B	**1,578,276**	428,109	To seek long-term capital appreciation	-	Seven days' notice	None
	CUIT Small Cap Equity Index Fund Class B	**226,510**	309,291	To seek long-term capital appreciation	-	Seven days' notice	None
	CUIT Core Equity Index Fund Class B	**2,720,169**	1,383,918	To seek long-term capital appreciation	-	Seven days' notice	None
		$ 7,437,109	$ 4,206,011		$ -		

Postretirement Benefits

The postretirement benefit obligation represents the actuarial present value of those estimated future benefits that are attributed to employee service rendered to June 30, 2020. Postretirement benefits include future benefits expected to be paid to or for (a) senior priests, and (b) active priests after retirement from service with the Plan sponsor. Prior to an active priest's full eligibility date, the postretirement benefit obligation is the portion of the expected postretirement benefit obligation at retirement that is attributed to that priest's service rendered to the valuation date.

The actuarial present value of the expected postretirement benefit obligation is determined by an actuary and is the amount that results from applying actuarial assumptions to historical claims cost data to estimate future annual incurred claims cost per participant (including administrative costs) and to adjust such estimates for the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as those for death, disability, withdrawal, or retirement) between the valuation date and the expected date of payment. The most recent valuation was performed as of June 30, 2020.

The following significant assumptions were used in the valuations as of June 30:

Assumptions	**2020**	2019
Weighted-average discount rate	**2.56%**	3.41%
Increase in health care costs	**4.9% in 2020 grading to 4% through 2080**	6.1% in 2019 grading to 4.2% through 2080

Mortality is estimated using the PRI-2012 Mortality Tables and RP 2006 Mortality Tables for 2020 and 2019, respectively. These tables were adjusted to reflect mortality improvement scale MP 2019 for 2020 and MP 2018 for 2019.

The fiscal year 2020 actuarial loss is due primarily to change in the discount rate to 2.56% from 3.41%. The fiscal year 2019 actuarial loss is due primarily to change the in discount rate to 3.41% from 4.07%.

The foregoing assumptions are based upon the presumption that the Plan will continue and that Medicare will continue to pay the same percentage of future retiree health claims. Were the Plan to terminate or Medicare coverage to change, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of the postretirement benefit obligation.

Certain insurance costs may be impacted by the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (the Act). The post-employment benefit obligation does not include any impact of potential subsidies under the Act as the Plan is not directly entitled to the subsidy.

Payment of Benefit

Benefit payments are recorded upon distribution.

Plan Termination

Although it has not expressed any intention to do so, the Archdiocese has the right under the Plan to discontinue its contributions at any time and to terminate the Plan.

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 the amounts reported in the Statements of Net Assets Available for Benefits.

The actuarial present value of benefit obligations is reported based on certain assumptions pertaining to interest rates, healthcare cost trend 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.

COVID-19 and CARES Act

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.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. This pandemic has adversely affected global economic activity and greatly contributed to instability and volatility in financial markets. However, the actual impact, if any, on future required contributions, Plan liquidity, and benefit modification cannot be determined at this time.

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 several relief provisions available to tax-qualified retirement plans and their participants. The Plan did not adopt the provisions included in the CARES Act and continues to monitor the impact COVID-19 has on the Plan.

Subsequent Events

The Plan has evaluated subsequent events through the date these financial statements were available to be issued, which was January 13, 2022.

3. Benefit Obligations

The Plan’s deficiency of net assets over benefit obligations at June 30, 2020 and 2019, relates primarily to the postretirement benefit obligation, the funding of which is not covered by the contribution rate paid by the locations of the Archdiocese. The Archdiocese has begun a fundraising campaign with the goal of substantially funding these benefit obligations, which is expected to significantly reduce or eliminate the deficit.

The weighted average health care cost trend rate assumption has a significant effect on the amounts reported in the accompanying financial statements. If the assumed rates increased by one percentage point each year, it would increase the obligation as of June 30, 2020, by $3,298,000.

4. Related-Party Transactions

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

- Archdiocesan Pension Plan for Lay Employees
- Archdiocesan 403(b) Savings Plan
- Pre-2009 Accounts 403(b) Plan
- Archdiocese Health and Welfare Plan for Lay Employees
- Pension Plan and Trust for the Priests of the Archdiocese of Seattle
- Priest Health Plan of the Archdiocese of Seattle

The Plan's share of expenses was $88,376 and $133,308 for 2020 and 2019, respectively. These amounts are included in administrative expenses in the Statements of Changes in Net Assets Available for Benefits.

5. 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 of $14,000 per active priest and $9,700 for senior priests in both 2020 and 2019.

The Plan's deficiency of net assets available for benefits over accumulated Plan benefits at both June 30, 2020 and 2019, relates primarily to the accumulated benefit obligation and the contribution rate paid by the employer units of the Archdiocese. The Called to Serve as Christ campaign and related pledge redemptions, will significantly reduce or eliminate the designated deficit.

6. Investments

The Plan's cash equivalents and investments are held by a bank administered trust fund and by Christian Brothers, an investment entity for the exclusive benefit of Roman Catholic organizations that are listed in the Official Catholic Directory of the Roman Catholic Church in the United States.

The Board of Trustees is responsible for the investments made and utilizes an investment advisory firm to monitor performance and recommend any changes in investments to the Archbishop.