# Priest Health Plan of the Archdiocese of Seattle

## Financial Statements
Years Ended June 30, 2022 and 2021

The report accompanying these financial statements was issued by BDO USA, P.C., a Virginia professional corporation, and the U.S. member of BDO International Limited, a UK company limited by guarantee.

# Priest Health Plan of the Archdiocese of Seattle

Financial Statements
Years Ended June 30, 2022 and 2021

# Contents

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# Independent Auditor's Report

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

### *Opinion*

We have audited the 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 accumulated plan benefits as of June 30, 2022 and 2021, and the related statements of changes in net assets available for benefits and changes in plan benefit obligations for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the net assets available for benefits and plan benefit obligations of the Plan as of June 30, 2022 and 2021, and the changes in its net assets available for benefits and plan benefit obligations for the years then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

### *Basis for Opinion*

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Plan and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with GAAP, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Plan's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Management is responsible for maintaining a current plan instrument, including all plan amendments. Management is also responsible for administering the Plan and determining that the Plan's transactions that are presented and disclosed in the financial statements are in conformity with the Plan's provisions, including maintaining sufficient records with respect to each of the participants, to determine the benefits due or which may become due to such participants.

***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Plan's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

BDO USA, P.C.

March 14, 2024

# Financial Statements

# Priest Health Plan of the Archdiocese of Seattle

## Statements of Net Assets Available for Benefits

| *June 30,* | **2022** | 2021 |
|---|---|---|
| **Assets** | | |
| Investments at fair value | **$ 11,931,697** | $ 11,760,814 |
| Cash and cash equivalents | **983,855** | 1,259,655 |
| Employer contributions receivable | **289,344** | 68,036 |
| Other receivables | **154,684** | 229,473 |
| **Total Assets** | **13,359,580** | 13,317,978 |
| **Liabilities** | | |
| Accounts payable | **178,849** | 32,458 |
| Related-party payables | **611,171** | 9,923 |
| **Total Liabilities** | **790,020** | 42,381 |
| **Net Assets Available for Benefits** | **$ 12,569,560** | $ 13,275,597 |

*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,* | **2022** | 2021 |
|---|---|---|
| **Additions** | | |
| Investment income (loss): | | |
| Net appreciation (depreciation) in fair value of investments | **$ (2,097,261)** | $ 1,906,507 |
| Interest and dividend income | **171,337** | 133,939 |
| **Total Investment Income (Loss)** | **(1,925,924)** | 2,040,446 |
| Investment expenses | **(11,436)** | (8,267) |
| **Net Investment Income (Loss)** | **(1,937,360)** | 2,032,179 |
| Contributions: | | |
| Called to Serve as Christ contributions | **1,524,775** | 2,757,446 |
| Employer contributions | **1,514,325** | 1,537,683 |
| Retired priest contributions | **698,395** | 734,775 |
| Donations and other | **173,876** | 279,496 |
| **Total Contributions** | **3,911,371** | 5,309,400 |
| **Total Additions,** net of investment loss | **1,974,011** | 7,341,579 |
| **Deductions** | | |
| Benefits to participants: | | |
| Premiums paid | **1,839,379** | 1,623,265 |
| Claims paid | **317,366** | 343,501 |
| Wellness costs | **162,625** | 10,123 |
| **Total Benefits** | **2,319,370** | 1,976,889 |
| Administrative expenses | **360,678** | 243,823 |
| **Total Deductions** | **2,680,048** | 2,220,712 |
| **Net Increase (Decrease)** | **(706,037)** | 5,120,867 |
| **Net Assets Available for Benefits**, beginning of year | **13,275,597** | 8,154,730 |
| **Net Assets Available for Benefits**, end of year | **$ 12,569,560** | $ 13,275,597 |

*See accompanying notes to financial statements.*

# Priest Health Plan of the Archdiocese of Seattle

## Statements of Plan Benefit Obligations

| *June 30,* | **2022** | 2021 |
|---|---|---|
| **Postretirement Benefit Obligations** | | |
| Current retirees | **$ 5,706,000** | $ 7,397,000 |
| Other participants fully eligible for benefits | **1,777,000** | 3,468,000 |
| Active participants not yet fully eligible for benefits | **4,445,000** | 6,708,000 |
| **Total Plan Benefit Obligations** | **$ 11,928,000** | $ 17,573,000 |

*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,* | **2022** | 2021 |
|---|---|---|
| **Amounts Currently Payable** | | |
| Balance at beginning of year | **$ -** | $ - |
| Claims reported and approved for payment | **20,663** | 12,030 |
| Claims paid | **(20,663)** | (12,030) |
| **Balance**, end of year | **-** | - |
| **Postretirement Benefit Obligations** | | |
| Balance, beginning of year | **17,573,000** | 18,046,000 |
| Benefits accumulated | **552,000** | 597,000 |
| Increase due to passage of time - assumed interest | **465,000** | 454,000 |
| Actuarial gain | **(5,985,000)** | (867,000) |
| Benefits paid during the year | **(677,000)** | (657,000) |
| **Plan's Total Benefit Obligations**, end of year | **$ 11,928,000** | $ 17,573,000 |

*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 and other 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:

*June 30, 2022*

| | 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 year | Up to 30 visits per calendar year |
| 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. All benefits are fully insured.

### *Contributions*

Parishes and The Central Office where incardinated archdiocesan priests are assigned (employer units) make annual contributions to the Plan. Each location made a contribution of $15,000 for active priests in the years ended June 30, 2022 and 2021. The contribution was $9,700 for each senior priest for 2022 and 2021. 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 pledged.

### *Administrative Expenses*

Certain expenses of maintaining the Plan are paid by the Plan, unless otherwise paid by the Archdiocese. Expenses that are paid by the Archdiocese are excluded from these financial statements. Investment-related expenses are included in net appreciation (depreciation) in fair value of investments.

***Investment Valuation and Investment Income Recognition***

The investments of the Plan are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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. 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.

Net appreciation (depreciation) includes the Plan's gains and losses on investments bought and sold as well as held during the year.

***Fair Value Measurements***

Accounting Standards Codification (ASC) 820, *Fair Value Measurement,* provides for a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under ASC 820 are described as follows:

*Level 1* - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

*Level 2* - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in inactive markets.
- Inputs other than quoted prices that are observable for the asset or liability.
- Inputs that are derived principally from, or corroborated by, observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

*Level 3* - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

There have been no changes in the methodologies used at June 30, 2022 or 2021. The following is a description of the valuation methodologies used for assets measured at fair value:

*Mutual Funds* - Mutual funds are valued at the net asset value (NAV) of units held. The NAV, as provided by the trustee of the mutual funds, is used as a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying investments held by the mutual fund less its liabilities. This practical expedient is not used when it is determined to be probable that the mutual funds will sell for an amount different than the reported NAV.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

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The following table summarizes investments for which fair value is measured using NAV as of June 30, 2022 and 2021. There are no participant redemption restrictions for this investment; the redemption notice period is applicable only to the Plan.

***June 30, 2022***

| Investment Type | Name of Fund | Net Asset Value | Investment Objective | Unfunded Commitment | Redemption Policy | Redemption Notice Period |
|---|---|---|---|---|---|---|
| Fixed income | Catholic Responsible Investments Bond Fund | $ 4,900,320 | To seek current income and long-term capital appreciation | $ - | Seven days' notice | None |
| Equity | Catholic Responsible Investments International Equity Fund | 2,470,683 | To seek long-term capital appreciation | - | Seven days' notice | None |
| | Catholic Responsible Investments Small Cap Fund | 372,436 | To seek long-term capital appreciation | - | Seven days' notice | None |
| | Catholic Responsible Investments Equity Index Fund | 4,188,258 | To seek long-term capital appreciation | - | Seven days' notice | None |
| | | $ 11,931,697 | | $ - | | |

*June 30, 2021*

| Investment Type | Name of Fund | Net Asset Value | Investment Objective | Unfunded Commitment | Redemption Policy | Redemption Notice Period |
|---|---|---|---|---|---|---|
| Fixed income | CUIT Intermediate Diversified Bond Fund Class B | $ 4,309,623 | To seek current income | $ - | Seven days' notice | None |
| Equity | CUIT International Equity Fund Class B | 2,464,135 | To seek long-term capital appreciation | - | Seven days' notice | None |
| | CUIT Small Cap Equity Index Fund Class B | 407,810 | To seek long-term capital appreciation | - | Seven days' notice | None |
| | CUIT Core Equity Index Fund Class B | 4,579,246 | To seek long-term capital appreciation | - | Seven days' notice | None |
| | | $ 11,760,814 | | $ - | | |

### *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, 2022. 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, 2022.

The following significant assumptions were used in the valuations:

| *June 30,* | **2022** | 2021 |
|---|---|---|
| Discount rate (%) | **4.42** | 2.7 |
| Increase in health care costs | **4.9% in 2022 grading to 3.7% through 2080** | 4.9% in 2021 grading to 4.0% through 2080 |

Mortality is estimated using the PRI-2012 Mortality Tables for both 2022 and 2021. These tables were adjusted to reflect mortality improvement scale MP-2021 for 2022.

The actuarial gain is due primarily to the change in discount rate to 4.42% from 2.70%, and adjustments from the mortality improvement study from the Society of Actuaries.

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, health care 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.

***Subsequent Events***

The Plan has evaluated subsequent events through the date these financial statements were available to be issued, which was March 14, 2024.

## 3. Benefit Obligations

The Plan's deficiency of net assets over benefit obligations at June 30, 2021 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 is in the collection phase of a fundraising campaign with the goal of substantially funding these benefit obligations, which is expected to significantly reduce or eliminate the deficit. During the year ended June 30, 2022, the Plan became fully funded.

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, 2022 by $1,780,000.

## 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 $131,744 and $127,142 for 2022 and 2021, respectively. This amount is included in administrative expenses in the statements of changes in net assets available for benefits.

During the year ended June 30, 2022, an overpayment was made to the Plan from the Archdiocese, resulting in a $600,000 liability outstanding as of year-end.

## 5. 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.