

Fides Insurance Group, Inc.

Audited Financial Statements

*As of June 30, 2016 and 2015  
with Report of Independent Auditors*

Fides Insurance Group, Inc.

Financial Statements

For the year ended June 30, 2016 and for the period  
from commencement of operations (July 1, 2014)  
through June 30, 2015

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## Report of Independent Auditors

The Board of Directors  
Fides Insurance Group, Inc.

We have audited the accompanying financial statements of Fides Insurance Group, Inc. which comprise the balance sheets as of June 30, 2016 and 2015 and the related statements of operations, changes in member's equity and cash flows for the year ended June 30, 2016 and the period from the commencement of operations (July 1, 2014) through June 30, 2015, 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 audits 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 over financial reporting. 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 Fides Insurance Group, Inc. as of June 30, 2016 and 2015, and the results of its operations and its cash flows for the year ended June 30, 2016 and for the period from (July 1, 2014) through June 30, 2015 in conformity with accounting principles generally accepted in the United States of America.



Burlington, Vermont  
September 13, 2016  
Vermont Firm Registration 092-0000267

Fides Insurance Group, Inc.

Balance Sheets

	<b>As of June 30,</b>	
	<b>2016</b>	<b>2015</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 2,569,378	\$ 2,060,045
Subrogation receivable	100,000	-
Contribution receivable from member	-	160,000
Prepaid expenses	<u>11,700</u>	<u>10,400</u>
Total Assets	<u>\$ 2,681,078</u>	<u>\$ 2,230,445</u>
<b>Liabilities and Member's Equity</b>		
<b>Liabilities:</b>		
Loss and loss adjustment expenses	\$ 1,373,278	\$ 1,127,445
Losses payable	238,592	758,748
Accrued expenses	<u>21,390</u>	<u>42,960</u>
Total Liabilities	<u>1,633,260</u>	<u>1,929,153</u>
<b>Member's Equity:</b>		
Contributed capital	1,592,000	1,442,000
Retained deficit	<u>(544,182)</u>	<u>(1,140,708)</u>
Total Member's Equity	<u>1,047,818</u>	<u>301,292</u>
Total Liabilities and Member's Equity	<u>\$ 2,681,078</u>	<u>\$ 2,230,445</u>

*See accompanying notes to the financial statements.*

Fides Insurance Group, Inc.

Statements of Operations

For the year ended June 30, 2016 and for the period from commencement of operations (July 1, 2014) through June 30, 2015

	<u>2016</u>	<u>2015</u>
<b>Revenues</b>		
Premiums written and earned	\$ 2,999,000	\$ 2,834,049
<b>Expenses</b>		
Loss and loss adjustment expenses, net of subrogation	2,300,254	3,850,747
Policy acquisition costs	11,396	3,269
General and administrative expenses	<u>90,824</u>	<u>120,741</u>
Total Expenses	<u>2,402,474</u>	<u>3,974,757</u>
Net Income (Loss)	<u>\$ 596,526</u>	<u>\$ (1,140,708)</u>

*See accompanying notes to the financial statements.*

Fides Insurance Group, Inc.

Statements of Changes in Member's Equity

For the year ended June 30, 2016 and for the period from commencement of operations (July 1, 2014) through June 30, 2015

	<u>Contributed Capital</u>	<u>Retained Deficit</u>	<u>Total Member's Equity</u>
Balance at July 1, 2014	\$ -	\$ -	\$ -
Contributed capital	1,442,000	-	1,442,000
Net loss	<u>-</u>	<u>(1,140,708)</u>	<u>(1,140,708)</u>
Balance at June 30, 2015	1,442,000	(1,140,708)	301,292
Contributed capital	150,000	-	150,000
Net income	<u>-</u>	<u>596,526</u>	<u>596,526</u>
Balance at June 30, 2016	<u>\$ 1,592,000</u>	<u>\$ (544,182)</u>	<u>\$ 1,047,818</u>

*See accompanying notes to the financial statements.*

Fides Insurance Group, Inc.

Statements of Cash Flows

For the year ended June 30, 2016 and for the period from commencement of operations (July 1, 2014) through June 30, 2015

	<u>2016</u>	<u>2015</u>
<b>Cash Flows from Operating Activities</b>		
Net income (loss)	\$ 596,526	\$ (1,140,708)
Changes in assets and liabilities:		
Subrogation receivable	(100,000)	-
Contribution receivable from member	160,000	(160,000)
Prepaid expenses	(1,300)	(10,400)
Loss and loss adjustment expenses	245,833	1,127,445
Losses payable	(520,156)	758,748
Accrued expenses	<u>(21,570)</u>	<u>42,960</u>
Net cash provided by operating activities	<u>359,333</u>	<u>618,045</u>
<b>Cash Flows from Financing Activities</b>		
Capital contributions from member	<u>150,000</u>	<u>1,442,000</u>
Net cash provided by financing activities	<u>150,000</u>	<u>1,442,000</u>
Net change in cash and cash equivalents	509,333	2,060,045
Cash and cash equivalents, beginning of period	<u>2,060,045</u>	<u>-</u>
Cash and cash equivalents, end of period	<u>\$ 2,569,378</u>	<u>\$ 2,060,045</u>

See accompanying notes to the financial statements.

## Fides Insurance Group, Inc.

### Notes to the Financial Statements

For the year ended June 30, 2016 and for the period from commencement of operations (July 1, 2014) through June 30, 2015

#### **Note A - Nature of Operations and Significant Accounting Policies**

##### Organization:

Fides Insurance Group, Inc. (Fides) was incorporated under the laws of the State of Vermont on June 4, 2014, and was issued a Certificate of Authority on June 26, 2014 permitting it to transact the business as a captive insurance company. As of June 30, 2016 and 2015, Fides had one member, The Roman Catholic Archbishop of Boston, a Corporation Sole, (RCAB), the fourth largest archdiocese in the United States. Fides was formed to provide property deductible reimbursement coverage to RCAB, as more fully described in Note B and began writing coverage on July 1, 2014.

##### Basis of Presentation:

The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP), as promulgated by the Financial Accounting Standards Board Accounting Standards codification (the guidance). Preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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 is comprised of a non-interest bearing cash account. The Federal Deposit Insurance Corporation (FDIC) insures amounts on deposit with each financial institution up to limits as prescribed by law. Fides may hold funds with financial institutions in excess of the FDIC insured or amounts non-FDIC insured, however, Fides has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on cash and cash equivalents.

##### Recognition of Premium Revenue:

Premiums written are earned ratably over the terms of the policies to which they relate. The policies coincide with the fiscal year, therefore there is no unearned premiums recorded at June 30, 2016 and 2015.

## Fides Insurance Group, Inc.

### Notes to the Financial Statements (Continued)

#### **Note A - Nature of Operations and Significant Accounting Policies (Continued)**

##### Subsequent Events:

Fides has evaluated subsequent events for disclosure and recognition through September 13, 2016, the date these financial statements were available to be issued.

##### Subrogation Receivable:

As of June 30, 2016, Fides recorded an estimated subrogation receivable of \$100,000 for a property loss incurred on the July 1, 2014-15 policy period. The estimated receivable represents Fides recovery from a third party. The settlement of this loss is ongoing, the amount recorded by management is their best estimate of the amount recoverable upon the settlement of the claim and the ultimate receivable could be less than the amount indicated in these financial statements. As adjustments to this estimate become necessary, such adjustments are reflected in current operations.

##### Loss and Loss Adjustment Expenses:

The liability for unpaid loss and loss adjustment expenses includes case basis estimates of reported losses plus supplemental amounts for projected incurred but not reported losses (IBNR). IBNR is calculated based upon industry data. In establishing the liability, Fides utilized the findings of an independent consulting actuary. A significant degree of judgment is required in estimating this liability.

Management believes that its liability for loss and loss adjustment expenses recorded as of June 30, 2016 and 2015, represents its best estimate, based on the available data, of the amount necessary to cover the ultimate cost of losses. However, because of the limited population of insured risks, lack of historical information, economic conditions, judicial decisions, legislation and other matters, actual loss experience may not conform to the assumptions used in determining the estimated amounts for such liability. Accordingly, the ultimate liability could be significantly in excess of or less than the amount indicated in these financial statements. As adjustments to these estimates become necessary, such adjustments are reflected in current operations.

##### Losses Payable:

Losses payable relate to claims that have been approved for payment but have not been paid yet by Fides.

##### Federal Income Taxes:

As a religiously based entity registered in the Official Catholic Directory, Fides will not be subject to U.S. income taxes.

Fides Insurance Group, Inc.

Notes to the Financial Statements (Continued)

**Note B - Insurance Activity**

Fides provides property liability insurance on a claims made basis for the various properties owned by RCAB and other Catholic Organizations participating in their risk management program with a limit of \$500,000 per occurrence, excess of varying deductibles up to \$5,000.

Effective July 1, 2015 Fides continues to provide \$500,000 per occurrence, however claims in excess of \$50,000 erode a \$1 million aggregate. Upon erosion of the \$1 million aggregate, Fides per occurrence limits drops to \$100,000.

The components of the liability for losses and loss adjustment expenses are as follows as of June 30:

	<u>2016</u>	<u>2015</u>
Case-basis reserves	\$ 1,281,981	\$ 1,127,445
IBNR reserves	91,297	-
Less: subrogation receivable	<u>(100,000)</u>	<u>-</u>
Total	<u>\$ 1,273,278</u>	<u>\$ 1,127,445</u>

Loss and loss adjustment expenses activity, net of subrogation are as follows for the periods ended June 30:

	<u>2016</u>	<u>2015</u>
Liability, as of beginning of the period	\$ 1,127,445	\$ -
Incurred related to:		
Current year	2,200,067	3,850,747
Development of prior years	<u>100,187</u>	<u>-</u>
Total incurred during the period	<u>2,300,254</u>	<u>3,850,747</u>
Paid related to:		
Current year	(1,023,862)	(2,723,302)
Prior years	<u>(1,130,559)</u>	<u>-</u>
Total paid during the period	<u>(2,154,421)</u>	<u>(2,723,302)</u>
Liability, as of end of the period	<u>\$ 1,273,278</u>	<u>\$ 1,127,445</u>

The unfavorable development of prior years is due to adverse development on the property losses for the 2014-2015 policy year .

## Fides Insurance Group, Inc.

### Notes to the Financial Statements (Continued)

#### **Note C - Related Party Transactions and Service Contracts**

As of June 30, 2015, Fides had a receivable due from RCAB of \$160,000 for a capital contribution.

Several officers and directors of Fides are employees of RCAB.

Fides has no direct employees. Policy administration, accounting, regulatory compliance, records retention and related services are provided by Strategic Risk Solutions, Inc. pursuant to a management agreement.

#### **Note D - Member's Equity**

As an entity operating under the captive insurance laws of the State of Vermont, for the purpose of submitting its financial statements to the State for regulatory purposes, Fides is required to use GAAP with the exception of variances prescribed by Vermont laws and regulations or permitted by the Department. Pursuant to laws of the State of Vermont, Fides is required to maintain capital and surplus (member's equity) of \$250,000. As of June 30, 2016 member's equity amounted to \$1,047,818. As of June 30, 2015, member's equity amounted to \$301,292, and included a receivable of \$160,000 which was received on July 13, 2015. Not inclusive of this receivable, member's equity amounted to \$141,292, which fell below the statutory minimum required surplus of \$250,000.

Vermont law provides that no dividends shall be paid to members without prior approval of the Insurance Commissioner of the Department. No dividends were declared or paid for the periods ended June 30, 2016 and 2015.

There were no variances between net loss and member's equity as reported in these financial statements and the corresponding amounts reported in the 2016 and 2015 Vermont Captive Insurance Company Annual Reports.