

**ROMAN CATHOLIC ARCHDIOCESE OF BOSTON
HEALTH BENEFIT PLAN**

**FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

ROMAN CATHOLIC ARCHDIOCESE OF BOSTON HEALTH BENEFIT PLAN

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June 30, 2016 and 2015

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Independent Auditor's Report

To the Board of Trustees of the
Roman Catholic Archdiocese of Boston Health Benefit Plan:

Report on the Financial Statements

We have audited the accompanying financial statements of the Roman Catholic Archdiocese of Boston Health Benefit Plan (the Plan), which comprise the statements of benefit obligations and net assets available for benefits as of June 30, 2016 and 2015, and the related statements of changes in benefit obligations and net assets available for benefits 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 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. 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.

Emphasis of Matter

As described in Note B, in May 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-07, *Fair Value Measurement* (Topic 820), *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share* (or Its Equivalent). This ASU makes substantial changes to existing FASB literature. As early application of this ASU is allowed, the Plan has used the retrospective approach for all periods presented; accordingly, the 2015 financial statements as presented herein, is different from that to the previously issued financial statements.

Opinion

In our opinion, the financial statements referred to on page one present fairly, in all material respects, the financial status of the Roman Catholic Archdiocese of Boston Health Benefit Plan as of June 30, 2016 and 2015, and the changes in its financial status for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules of cash receipts and disbursements and changes in cash and cash equivalents as of June 30, 2016 and 2015, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Alexander, Brown, Pinney & Co., P.C.

Westborough, Massachusetts
December 14, 2016

ROMAN CATHOLIC ARCHDIOCESE OF BOSTON HEALTH BENEFIT PLAN

Statements of Benefit Obligations and Net Assets Available for Benefits
June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Benefit Obligations:		
Claims payable and estimated claims incurred but not yet reported	\$ 2,626,000	\$ 2,148,000
Net Assets Available for Benefits:		
Assets:		
Cash and cash equivalents	3,181,032	5,079,072
Investments, at fair value	12,782,454	13,984,690
Participating employers' contributions receivable, net of allowance for uncollectible assessments of \$256,005 and \$142,228 as of June 30, 2016 and 2015, respectively	114,590	208,757
Notes receivable	916,462	916,462
Interest and dividend receivable	321,163	277,090
Other receivable	294,188	97,500
Total assets	17,609,889	20,563,571
Accounts payable and accrued expenses	130,374	56,731
Net assets available for benefits	17,479,515	20,506,840
Excess of Net Assets Available for Benefits over Benefit Obligations:		
Board-designated	3,064,152	2,990,277
Excess of board-designated	11,789,365	15,368,563
Total excess of net assets available for benefits over benefit obligations	<u>\$ 14,853,517</u>	<u>\$ 18,358,840</u>

ROMAN CATHOLIC ARCHDIOCESE OF BOSTON HEALTH BENEFIT PLAN

Statements of Changes in Benefit Obligations and Net Assets Available for Benefits
For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Net Increase (Decrease) in Benefit Obligations:		
Claims payable and estimated claims incurred but not reported	\$ 478,000	\$ (388,000)
Net Increase (Decrease) in Net Assets Available for Benefits:		
Additions to net assets:		
Employer contributions:		
Health plan	30,539,677	30,051,712
Dental plan	2,019,963	1,990,536
Net depreciation in fair value of investments	(479,799)	(177,821)
Interest and dividend income	324,383	352,139
Insurance recoveries	245,944	197,451
Total additions	<u>32,650,168</u>	<u>32,414,017</u>
Deductions from net assets:		
Claims paid:		
Health claims	30,968,321	27,534,259
Dental claims	2,007,579	1,690,132
Total claims paid	<u>32,975,900</u>	<u>29,224,391</u>
Administrative expenses:		
Medical and dental claim processing	1,272,502	1,271,042
Stop loss insurance	411,385	393,379
Administration - Roman Catholic Archbishop of Boston, A Corporation Sole	316,977	339,104
ACA transitional reinsurance fee	251,305	194,806
Actuarial and consulting	123,455	192,828
Professional fees	101,488	47,257
Office and other administrative expenses	60,379	62,788
Wellness program	46,498	30,367
Total administrative expenses	<u>2,583,989</u>	<u>2,531,571</u>
Provision for uncollectible assessments	<u>117,602</u>	<u>55,339</u>
Total deductions	<u>35,677,491</u>	<u>31,811,301</u>
Net increase (decrease) in net assets available for benefits	<u>(3,027,323)</u>	<u>602,716</u>
Increase (decrease) in excess of net assets available for benefits over benefit obligations	(3,505,323)	990,716
Net Assets Available for Benefits:		
Beginning of year	<u>18,358,840</u>	<u>17,368,124</u>
End of year	<u>\$ 14,853,517</u>	<u>\$ 18,358,840</u>

The accompanying notes are an integral part of these statements.

ROMAN CATHOLIC ARCHDIOCESE OF BOSTON HEALTH BENEFIT PLAN

Notes to Financial Statements
June 30, 2016 and 2015

NOTE A - DESCRIPTION OF PLAN

The following description of the Roman Catholic Archdiocese of Boston Health Benefit Plan (the Plan) provides only general information. Participants should refer to the Plan document for a more complete description of the Plan's provisions.

General

The Plan provides health and dental benefits for eligible employees who work for a participating employer. All participating employers are Catholic organizations within the Archdiocese of Boston.

Eligibility

Eligible participants are employees who work a minimum of 20 hours per week and at least 1,000 hours per year. School employees must work 24 hours per week. For all employees desiring coverage, participation begins the first day of the next month following employment, or such other time frame as established by the employer, but no more than 90 days from date of hire.

Benefits

The Health and Dental Plans cover eligible employees, their spouses, and all unmarried, dependent children up to age 26. Health and Dental benefits are self-funded. The maximum dental benefit is \$1,500 per person, per year, for the years ended June 30, 2016 and 2015.

Contributions

The Plan document provides that the participating employers make monthly contributions to the Plan of a specified amount for each class of employee. The employer's contribution rates are determined annually by the Plan's Trustees.

Stop Loss Coverage

The Plan has entered into a stop loss insurance arrangement in an effort to limit its exposure for self-insured benefits (individual participant claims over a specific dollar amount, as well as its aggregate exposure for all claims).

Self-insured Benefits

All plan benefits are self-insured. The claims for self-insured benefits are processed by the Plan's third-party claims processors. The claims processors pay claims directly to or on behalf of participants and are then reimbursed by the Plan. Despite the Plan's utilization of third-party claim's processors, ultimate responsibility for payments to providers and participants is retained by the Plan.

ROMAN CATHOLIC ARCHDIOCESE OF BOSTON HEALTH BENEFIT PLAN

Notes to Financial Statements
June 30, 2016 and 2015

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Plan prepares its financial statements in accordance with generally accepted accounting standards and principles established by the Financial Accounting Standards Board (FASB). References to generally accepted accounting principles (U.S. GAAP) in these notes are to the FASB Accounting Standards Codification (ASC).

Accounting Principle Adopted

In fiscal year 2016, the Plan adopted FASB Accounting Standards Update (ASU) 2015-07, *Fair Value Measurement (Topic 820), Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, removing the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value (NAV) per share practical expedient. As early application is allowed, the Plan has used the retrospective approach for all periods presented whereby investments for which fair value is measured using the NAV per share practical expedient have been removed from the fair value hierarchy. The material impact of adopting this ASU was to footnote disclosure only.

Use of Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, benefit obligations and changes therein and disclosure of contingent assets and liabilities. Actual results may differ from those estimates.

Cash and Cash Equivalents

For purposes of presentation of the statements of benefit obligations and net assets available for benefits, cash and cash equivalents include all checking and savings accounts and overnight investments from the accounts. The Plan deposits its cash in major financial institutions, which are insured by the Federal Deposit Insurance Corporation (FDIC) up to certain amounts. Cash balances will generally exceed the insured amounts. The Plan has not experienced any losses in such accounts. The Plan believes it is not exposed to any significant credit risk on cash and cash equivalents.

Investment Valuation and Income Recognition

The Plan's investments are carried at fair value. Changes in fair value are reflected in the statements of changes in benefit obligations and net assets available for benefits as net depreciation in fair value of investments. The Plan's financial statements are presented on the accrual basis.

ROMAN CATHOLIC ARCHDIOCESE OF BOSTON HEALTH BENEFIT PLAN

Notes to Financial Statements
June 30, 2016 and 2015

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment Valuation and Income Recognition (Continued)

Investments represent the Plan's unit holdings in the Common Investment Fund, Roman Catholic Archbishop of Boston (the "Common Investment Fund"), the Fixed Income Investment Fund, Roman Catholic Archbishop of Boston (the "Fixed Income Fund"), and the Income Opportunity Fund, an investment operating unit consolidating under the Roman Catholic Archbishop of Boston, a Corporation Sole, (collectively, the Funds). All are related funds established to provide common investment pools in which the Plan and other Catholic related organizations may participate. The participants own units based upon a per-unit value at the time of purchase.

The Common Investment Fund invests all of its funds in the RCAB Collective Investment Partnership (the "Investment Partnership"). The underlying investments of the Investment Partnership, Fixed Income Fund and Investment Opportunity Fund are primarily equity and fixed income securities owned either directly or indirectly through mutual funds and private investment entities.

The fair value of the Investment Partnership, Fixed Income Fund and Income Opportunity Fund's investments in domestic and foreign securities listed on security exchanges are valued at the last reported sales price, or if there is no such reported sale or official closing price, at the most recent quoted bid price. For those securities whose prices are not available through independent pricing services, bid price quotations are obtained by State Street Bank and Trust Company from the principal market makers in those securities or at fair value as determined in good faith by management. Investment holdings of private investment entities that are not actively traded are valued based on the NAV per share on the valuation date as reported by the individual investment managers.

Participating Employers' Contributions Receivable

Amounts receivable from participating employers are stated net of an allowance for uncollectible assessments, which are reported on the Plan's statements of benefit obligations and net assets available for benefits. The allowance is established via a provision for uncollectible assessments. On a periodic basis, management evaluates its receivables and establishes or adjusts its allowance to an amount that it believes will be adequate to absorb possible losses on accounts that may become uncollectible based on evaluations of the collectability of individual accounts.

Benefit Obligations

Benefit obligations consist of medical and dental claims payable, as well as claims incurred but not yet reported as of the fiscal year-end, and are estimated by the Plan's actuaries in accordance with generally accepted actuarial principles. There are no post-retirement benefit obligations associated with this Plan.

Payment of Benefits

Claim payments are recorded when paid by the third-party claims processor. Amounts due to claims processors that have yet to be reimbursed by the Plan are recorded as claims payable in the accompanying statements of benefit obligations and net assets available for benefits.

ROMAN CATHOLIC ARCHDIOCESE OF BOSTON HEALTH BENEFIT PLAN

Notes to Financial Statements
June 30, 2016 and 2015

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Administrative Expenses

The Plan pays office and other administrative expenses that consist primarily of fees paid to third-party claims administrators and accounting fees. The Plan also pays a service fee for administrative, technology, and clerical services, which is charged to the Plan by the Roman Catholic Archbishop of Boston, A Corporation Sole (see Note E) (the Plan Sponsor). These expenses are reported in the accompanying statements of changes in benefit obligations and changes in net assets available for benefits as general and administrative expenses.

Provision for Income Taxes

The Plan is included in the United States Catholic Conference Group Ruling and in the Official Catholic Directory and is therefore exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). The Plan adopted guidance recognizing the financial statement benefit of a tax position only after determining that the relevant tax authority would more-likely-than-not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement with the relevant tax authority. The Plan's management has reviewed the tax positions for open periods and determined that no provision for income tax is required in the Plan's financial statements.

Included in the statement of changes in benefit obligations and net assets available for benefits for the years ended June 30, 2016 and 2015, is \$199,146 and \$194,806, which consists of federal excise tax and ACA transitional reinsurance fee.

Stop Loss

Premiums for stop loss insurance premium payments were \$411,385 and \$393,379 for fiscal years 2016 and 2015, respectively. Stop loss refunds were \$245,944 and \$197,451 for fiscal years 2016 and 2015, respectively.

Subsequent Events

Subsequent events have been evaluated through December 14, 2016, which is the date the financial statements were available to be issued. There were no events that met the criteria for recognition or disclosure in the financial statements.

NOTE C - NOTES RECEIVABLE

At June 30, 2016 and 2015, the Plan has a \$916,462 demand note receivable from the Sons of Divine Providence, Inc. Interest accrued and receivable totaled \$253,621 and \$205,243 at June 30, 2016 and 2015, respectively. Interest accrues at a rate of 5.25%. Upon demand for payment on the note, interest accrues at 9.25%. The note is secured by a mortgage on real property granted by the Sons of Divine Providence, Inc. to the Plan. This note is in satisfaction of outstanding receivables owed by the Sons of Divine Providence, Inc. to the Plan.

ROMAN CATHOLIC ARCHDIOCESE OF BOSTON HEALTH BENEFIT PLAN

Notes to Financial Statements
June 30, 2016 and 2015

NOTE D - FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. ASC 820, *Fair Value Measurements and Disclosures*, establishes a hierarchy of the valuation techniques based upon whether the inputs to those valuation techniques reflect assumptions other market participants would use based upon market data obtained from independent sources (also referred to as observable inputs). The fair value hierarchy is 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; and
- 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; and

The asset or liability's fair value measurement 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, 2016 and 2015.

Following is a description of the valuation methodologies used for assets measured at fair value:

Common Investment Fund, Fixed Income Fund and Income Opportunity Fund (the Funds): The Plan's unit holdings in the Funds do not have quoted prices in active markets or significant other observable inputs that have quoted market prices, although the Plan can redeem its investment at the NAV per share at June 30, 2016 and 2015. These assets are valued using NAV per share as a practical expedient to estimate fair value. The Plan evaluates the Funds' estimate of the fair value of the Plan's unit holdings in the Funds based on the Plan's share of the underlying investment portfolios that consist of actively traded equities, bonds and money market funds, and private investment entities.

In accordance with Subtopic 820-10 (see Note B), certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy.

ROMAN CATHOLIC ARCHDIOCESE OF BOSTON HEALTH BENEFIT PLAN

Notes to Financial Statements
June 30, 2016 and 2015

NOTE D - FAIR VALUE MEASUREMENTS (Continued)

The following table summarizes investments measured at fair value based on NAV per share as of June 30:

	<u>Fair Value</u>		<u>Unfunded Commitments</u>	<u>Redemption Frequency (if currently eligible)</u>	<u>Redemption Notice Period</u>
	<u>2016</u>	<u>2015</u>			
Roman Catholic Archbishop of Boston Common Investment Fund (a)	\$ 6,313,715	\$ 7,126,535	N/A	Monthly	15 days
Fixed Income Fund (b)	\$ 5,444,711	\$ 6,858,155	N/A	Monthly	15 days
Income Opportunity Fund (c)	\$ 1,024,028	\$ -	N/A	Monthly	15 days

(a) The Common Investment Fund, Roman Catholic Archbishop of Boston (the "Fund") seeks to achieve its investment objective of maximizing long-term return by investing substantially all of its net investable assets through a master-feeder structure, in the Roman Catholic Archbishop of Boston Collective Investment Partnership (the "Partnership"), which has the same objective and policies as the Fund.

(b) The investment objective of the Fixed Income Fund is to maximize long-term total return by investment in investment grade debt and fixed income securities, owned either directly or indirectly through a private investment entity.

(c) The investment objective of the Income Opportunity Fund is to maximize long-term return by investing in equity, fixed income, or cash securities.

Depreciation, including gains and losses on investments bought and sold, as well as held during the year from the Funds consisted of the following at June 30:

	<u>2016</u>	<u>2015</u>
Total unrealized loss	\$ (473,188)	\$ (274,442)
Total realized loss	<u>(6,611)</u>	<u>96,621</u>
Net depreciation	<u>\$ (479,799)</u>	<u>\$ (177,821)</u>

NOTE E - RELATED PARTY TRANSACTIONS

A service fee for administrative, technology, and clerical services is charged to the Plan by the Roman Catholic Archbishop of Boston, A Corporation Sole. The fees charged for the years ended June 30, 2016 and 2015, were \$316,977 and \$339,104, respectively.

NOTE F - BOARD-DESIGNATED NET ASSETS

The Trustees have established a targeted reserve for net assets. The methodology to calculate the reserve is 10% of the annualized subsequent July premium. At June 30, 2016 and 2015, the net assets available are sufficient to satisfy this reserve and are presented in the accompanying statements of benefit obligations and net assets available for benefits as Board-designated net assets.

ROMAN CATHOLIC ARCHDIOCESE OF BOSTON HEALTH BENEFIT PLAN

Notes to Financial Statements
June 30, 2016 and 2015

NOTE G - RISKS AND UNCERTAINTIES

The Plan invests in various cash-related instruments and investment securities that are potentially subject to various risks such as interest rate, market, and credit risk. 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 those changes could materially affect the amounts reported in the statements of benefit obligations and net assets available for benefits.

The actuarial present value of benefit obligations is reported based on certain assumptions pertaining to interest rates, health care inflation 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 would be material to the financial statements.

ROMAN CATHOLIC ARCHDIOCESE OF BOSTON HEALTH BENEFIT PLANSupplemental Schedules of Cash Receipts and Disbursements and Changes in Cash and Cash Equivalents
June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash Receipts:		
Employer contributions	\$ 32,471,616	\$ 32,287,172
Interest and other income	397,761	516,109
	<u>32,869,377</u>	<u>32,803,281</u>
Cash Disbursements:		
Claims	34,248,403	30,495,433
General and administrative expenses	1,241,452	1,257,535
Investments in Common Investment Fund and Fixed Income Fund	(722,438)	315,072
	<u>34,767,417</u>	<u>32,068,040</u>
Net increase (decrease) in cash and cash equivalents	(1,898,040)	735,241
Cash and Cash Equivalents:		
Beginning of year	<u>5,079,072</u>	<u>4,343,831</u>
End of year	<u>\$ 3,181,032</u>	<u>\$ 5,079,072</u>