

CATHOLIC EMPLOYEE BENEFITS GROUP

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED JUNE 30, 2017 AND 2016

**CATHOLIC EMPLOYEE BENEFITS GROUP
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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Catholic Employee Benefits Group
Las Colinas, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of Catholic Employee Benefits Group (the Trust), which comprise the statements of net assets available for benefits as of June 30, 2017 and 2016, and the related statements of changes in net assets available for benefits and of changes in benefit obligations 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.

Auditors' 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 auditors' 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 Trust'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 Trust'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.

Board of Trustees
Catholic Employee Benefits Group

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the Trust as of June 30, 2017 and 2016, and the changes in financial status for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Fort Worth, Texas
January 9, 2018

CATHOLIC EMPLOYEE BENEFITS GROUP
STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS
JUNE 30, 2017 AND 2016

	2017	2016
ASSETS		
Cash and Cash Equivalents	\$ 4,800,513	\$ 4,568,754
Accounts Receivable	158,802	37,100
Stop Loss Insurance Reimbursement Receivable	114,803	232,000
Prepaid Expenses	4,390	4,305
Total Assets	5,078,508	4,842,159
LIABILITIES		
Accounts Payable	4,067	25,470
Deferred Revenue - Premiums Collected in Advance	179,527	300,566
Total Liabilities	183,594	326,036
NET ASSETS AVAILABLE FOR BENEFITS	\$ 4,894,914	\$ 4,516,123

See accompanying Notes to Financial Statements.

CATHOLIC EMPLOYEE BENEFITS GROUP
STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
ADDITIONS TO NET ASSETS AVAILABLE FOR BENEFITS		
ATTRIBUTABLE TO:		
Participant Contributions	\$ 10,073,614	\$ 9,926,331
Rebates	171,367	70,796
Stop Loss Reimbursement	674,304	232,200
Interest Income	20,513	453
Total Additions	10,939,798	10,229,780
DEDUCTIONS FROM NET ASSETS AVAILABLE FOR BENEFITS		
ATTRIBUTABLE TO:		
Medical and Dental Claims	9,155,731	7,564,563
Insurance Premiums	619,143	622,952
Management Expenses	756,161	791,294
Administrative Expense	11,409	12,174
Professional Services	18,562	29,361
Total Deductions	10,561,006	9,020,344
 NET INCREASE IN NET ASSETS AVAILABLE FOR BENEFITS	 378,791	 1,209,436
Net Assets Available for Benefits - Beginning of Year	4,516,123	3,306,687
 NET ASSETS AVAILABLE FOR BENEFITS - END OF YEAR	 \$ 4,894,914	 \$ 4,516,123

See accompanying Notes to Financial Statements.

**CATHOLIC EMPLOYEE BENEFITS GROUP
STATEMENTS OF BENEFIT OBLIGATIONS
YEARS ENDED JUNE 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
AMOUNTS CURRENTLY PAYABLE		
Claims Payable and Claims Incurred but Not Reported	<u>\$ 532,743</u>	<u>\$ 946,226</u>
TOTAL BENEFIT OBLIGATIONS	<u><u>\$ 532,743</u></u>	<u><u>\$ 946,226</u></u>

See accompanying Notes to Financial Statements.

**CATHOLIC EMPLOYEE BENEFITS GROUP
STATEMENTS OF CHANGES IN BENEFIT OBLIGATIONS
YEARS ENDED JUNE 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
AMOUNTS CURRENTLY PAYABLE		
Balance at Beginning of Year	\$ 946,226	\$ 470,296
Claims Incurred	8,742,248	8,040,493
Claims Paid	<u>(9,155,731)</u>	<u>(7,564,563)</u>
Balance at End of Year	<u>\$ 532,743</u>	<u>\$ 946,226</u>

See accompanying Notes to Financial Statements.

CATHOLIC EMPLOYEE BENEFITS GROUP
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 1 DESCRIPTION OF TRUST

The following description of Catholic Employee Benefits Group (the Trust) provides only general information. Participants should refer to the Trust document for a more complete description of the Trust's provisions.

General

The Trust was established in 2006 to provide life, health, and dental benefits to employees of the subscribing employers (the Employers) and their eligible dependents, and covers substantially all employees of the subscribing employers. Subscribing employers are limited to those entities listed in the *Official Catholic Directory*.

Benefits are provided to retired ordained and active ordained and pre-ordained employees working thirty or more hours per week on the day the employee begins active employment. Benefits are provided to all other religious order and lay employees working thirty or more hours per week on the first of the month after 60 days of continuous active employment.

Participation in the Trust is voluntary; however, each person desiring dependent coverage is required to contribute an amount determined by the board of directors.

The Trust agreement provides that the subscribing employers contribute to the Trust all amounts (other than those required to be contributed by participants) necessary to provide benefits.

The Trust purchases Individual Excess Risk insurance covering medical and prescription drug paid claims exceeding \$250,000 per member per the insurance provider's calendar year. During the 2017 fiscal year, two members had excessive claims and the limit was raised to \$325,000 and \$350,000 for just those two members for the next year; all others remained at the \$250,000 limit.

Governance of the Trust believes this Trust is a "grandfathered health plan" under the Patient protection and Affordable Care Act (ACA). As permitted by the ACA, a grandfathered health plan can preserve certain basic health coverage that was already in effect when that law was enacted, but must comply with certain consumer protections in the ACA such as the elimination of lifetime and annual dollar limits on benefits. Therefore, the Trust no longer has an annual maximum amount per covered individual.

Contributions

The Trust agreement provides that the subscribing employers contribute to the Trust all amounts (other than those required to be contributed by participants) necessary to provide benefits.

In addition to deductibles and copayments, participants contribute specified amounts based on applicable monthly premiums for their respective benefit elections.

**CATHOLIC EMPLOYEE BENEFITS GROUP
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 1 DESCRIPTION OF TRUST (CONTINUED)

Benefits

Benefits are provided to retired ordained and active ordained and pre-ordained employees working thirty or more hours per week on the day the employee begins active employment. Benefits are provided to all other religious order and lay employees working thirty or more hours per week on the first of the month after 60 days of continuous active employment.

The Trust provides health benefits (medical, dental and prescription drugs), and life insurance, to eligible members and to their beneficiaries and dependents.

Insured Benefits

The Trust provides life insurance benefits for retired ordained and active ordained and pre-ordained employees, other religious order and lay employees working thirty or more hours per week.

The Trust purchases Individual Excess Risk insurance covering medical and prescription drug paid claims exceeding \$250,000 per member during the year. For the the years ended June 30, 2017 and 2016, the Trust no longer has an annual maximum amount per covered individual.

Stop Loss Coverage

The Trust 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

The Trust offers a network of preferred provider organizations that participants can choose from, and a dental plan. The claims for self-insured benefits are processed by the Trust's third-party claims processors under administrative services only (ASO) arrangements. Despite the Trust's utilization of third-party claim's processors, ultimate responsibility for payments to providers and participants is retained by the Trust.

The Trust utilizes a pharmacy benefit manager (PBM) which periodically pays rebates to the Trust based on the Trust's actual utilization pattern of specific drugs.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Trust are prepared on the accrual basis of accounting.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Trust administrator to make estimates and assumptions that affect the reported amounts of assets, liabilities, benefit obligations and changes therein, and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

CATHOLIC EMPLOYEE BENEFITS GROUP
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Administrative Expenses

The Trust pays administrative expenses that consist primarily of administrative fees paid to third-party claims administrators and the Trust administrator. These expenses are reported on the statements of changes in net assets available for benefits as management expenses. All other administrative expenses and professional fees are paid by the Trust.

Payment of Benefits

Claim payments are recorded when paid by the third-party claims processor. Amounts due to providers which have been incurred and reported, but that have yet to be reimbursed by the Trust, are recorded as claims payable to providers in the accompanying statements of net assets available for benefits.

Premiums paid by the Employers are recorded as premium payments in the accompanying the statements of changes in net assets available for benefits.

Cash and Cash Equivalents

The Trust considers cash equivalents to be short-term, highly liquid investments that are readily convertible to cash and have original maturities when acquired of three months or less.

Accounts Receivable

Accounts receivable are stated at unpaid balances less any allowance for doubtful accounts. Management has determined that all receivables are fully collectible at year-end.

Stop Loss

Premiums for stop loss insurance are included in premium payments in the accompanying statements of changes in net assets available for benefits. Stop loss refunds totaling \$674,304 and \$232,200 have been recorded in the accompanying statements of changes in net assets for the years ended June 30, 2017 and 2016, respectively.

Rebates

Rebates are recorded when earned. Rebates due as of the financial statement date are reported as a receivable, with the offset being netted against claims paid.

CATHOLIC EMPLOYEE BENEFITS GROUP
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 3 BENEFIT OBLIGATIONS

The Trust "self-funds" the majority of the benefits provided to participants but insures life, and accidental death and dismemberment. As of each June 30, there are many self-funded claims that have been incurred on which benefit payments will be made subsequent to that date. The liability for claims payable was estimated based on actual claims reported prior to June 30 but paid after June 30. The liability for claims incurred but not reported (IBNR) was estimated by the Trust's actuary in accordance with accepted actuarial principals based on claims data provided by the Trust's third-party administrators. These amounts are paid by the Trust only if claims are submitted and approved for payment. The Benefit Obligation balances as of June 30, 2017 and 2016 and Changes in Benefit Obligation balances for the years then ended are reflected in the basic financial statements.

NOTE 4 TAX STATUS

The Trust believes that it is designed and currently being operated in compliance with the applicable requirement of the Internal Revenue Code (IRC). Therefore, no provision has been made in the financial statements for federal income taxes.

In addition, the Trust is required to operate in conformity with the IRC to maintain the tax-exempt status of the Trust. The Trust administrator believes that the Trust is being operated in compliance with the applicable requirements of the IRC and, therefore, believes that it is tax-exempt.

Accounting principles generally accepted in the United States of America require Trust management to evaluate tax positions taken by the Trust and recognize a tax liability (or asset) if the Trust has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. The Trust is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress

NOTE 5 COMMITMENTS

Catholic Employee Benefits Group entered into a two-year contract on July 1, 2008, with a third-party administrator. This contract renews automatically each year for a one-year period unless modified or terminated with 120 days' notice. The current renewal covers the period July 1, 2016 to June 30, 2017. The monthly payments to the third-party administrator are dependent on the number of members in the Trust. The total expense for benefits management under the agreement for fiscal years 2017 and 2016 amounted to \$219,150 and \$212,764, respectively. Governmental fees associated with the Patient Protection and Affordable Care Act included in the total expense amounted to \$7,655 and \$43,926 as of June 30, 2017 and 2016, respectively.

NOTE 6 CONTINGENT LITIGATION

From time to time, the Trust may be named a defendant in legal actions arising out of the normal course of business. The Trust is not a party to any pending legal proceeding other than ordinary, routine litigation incidental to our business.

CATHOLIC EMPLOYEE BENEFITS GROUP
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 7 TRUST TERMINATION

The Board of Trustees has the right to amend, in whole or in part, any or all of the provisions of the Trust at any time. No modification or amendment shall divest an employee of a right to which he or she is entitled under the Trust. Additionally, the Board of Trustees also retains the right to terminate the Trust at any time, although it has no intention to do so. Upon such termination of the Trust, the assets will be used to pay claims and expenses until exhausted. No assets will revert to the Employers.

NOTE 8 RISKS AND UNCERTAINTIES

Financial instruments that potentially expose the Trust to concentrations of credit risk consist primarily of cash and cash equivalents in banks. At June 30, 2017 and 2016, the uninsured excess in the deposit accounts was \$717,962 and \$424,589, respectively. During 2017 and 2016, the Trust invested in sweep accounts in which the balances are invested daily in federal obligations. The balance of the sweep accounts was \$3,832,552 and \$3,896,171 at June 30, 2017 and 2016, respectively. The sweep accounts are not covered by federal depository insurance but are fully collateralized by U.S. government securities held by the Trust's bank.

The liability for claims incurred but not reported (IBNR) was estimated using Trust provisions, the number of eligible participants, and the actual lag patterns of the Trust, and was calculated by an actuary. 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.

NOTE 9 SUBSEQUENT EVENTS

The Trust has evaluated subsequent events through January 9, 2018, the date the financial statements were available to be issued.