PENSION PLAN FOR PRIESTS OF THE ARCHDIOCESE OF SAINT PAUL AND MINNEAPOLIS

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

PENSION PLAN FOR PRIESTS OF
THE ARCHDIOCESE OF SAINT PAUL AND MINNEAPOLIS
TABLE OF CONTENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017

CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

Archdiocese of Saint Paul and Minneapolis
Pension Board of Trustees (Board of Trustees)
Pension Plan for Priests of the Archdiocese of Saint Paul and Minneapolis
St. Paul, Minnesota

We have audited the accompanying financial statements of Pension Plan for Priests of the Archdiocese of Saint Paul and Minneapolis (the Plan), which comprise the statements of net assets available for benefits and of accumulated plan benefits as of December 31, 2018 and 2017, and the related statements of changes in net assets available for benefits and changes in accumulated plan 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.

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 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.

Archdiocese of Saint Paul and Minneapolis
Pension Board of Trustees (Board of Trustees)
Pension Plan for Priests of the Archdiocese of Saint Paul and Minneapolis

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the Plan as of December 31, 2018 and 2017, and the changes in financial status for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

Minneapolis, Minnesota
March 2, 2020

PENSION PLAN FOR PRIESTS OF
THE ARCHDIOCESE OF SAINT PAUL AND MINNEAPOLIS
STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS
DECEMBER 31, 2018 AND 2017

	2018	2017
ASSETS		
INVESTMENTS (at Fair Value)		
Mutual Funds	$ 28,690,552	$ 30,504,477
CASH		
Plan Interest in Pooled Cash and Cash Equivalents	1,000	1,000
RECEIVABLES		
Employer Contributions Receivable, Net of Allowance for Doubtful Accounts of $170,078 and $178,402 for 2018 and 2017, Respectively	1,049,245	978,860
Other Receivables, Net of Allowance for Doubtful Accounts of $-0- and $150,000 for 2018 and 2017, Respectively	356,137	202,297
PREPAID EXPENSES	74,587	3,262
Total Assets	30,171,521	31,689,896
LIABILITIES		
ACCOUNTS PAYABLE	90,968	14,081
NET ASSETS AVAILABLE FOR BENEFITS	$ 30,080,553	$ 31,675,815

See accompanying Notes to Financial Statements.

PENSION PLAN FOR PRIESTS OF
THE ARCHDIOCESE OF SAINT PAUL AND MINNEAPOLIS
STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
ADDITIONS TO (DEDUCTIONS FROM) NET ASSETS AVAILABLE FOR BENEFITS ATTRIBUTED TO:		
INVESTMENT INCOME (LOSS)		
Net Appreciation (Depreciation) in Fair Value of Investments	$ (2,798,211)	3,811,885
Interest and Dividends	741,337	609,414
Total Investment Income (Loss)	(2,056,874)	4,421,299
Less: Investment Expenses	6,250	6,250
Net Investment Income (Loss)	(2,063,124)	4,415,049
EMPLOYER CONTRIBUTIONS	3,868,326	3,581,175
OTHER INCOME	605	2,549
BENEFITS PAID		
Pensions	(2,876,815)	(3,068,998)
Health Insurance Premiums	(524,918)	(435,811)
Total Benefits Paid	(3,401,733)	(3,504,809)
ARCHDIOCESE ADMINISTRATIVE EXPENSES	(58,987)	(63,064)
PROFESSIONAL AND CONTRACT SERVICES	(98,673)	(53,562)
BAD DEBT EXPENSE	158,324	(119,505)
NET INCREASE (DECREASE)	(1,595,262)	4,257,833
NET ASSETS AVAILABLE FOR BENEFITS:		
Beginning of Year	31,675,815	27,417,982
End of Year	$ 30,080,553	$ 31,675,815

See accompanying Notes to Financial Statements.

PENSION PLAN FOR PRIESTS OF
THE ARCHDIOCESE OF SAINT PAUL AND MINNEAPOLIS
STATEMENTS OF ACCUMULATED PLAN BENEFITS
DECEMBER 31, 2018 AND 2017

	2018	2017
ACTUARIAL PRESENT VALUE OF ACCUMULATED PLAN BENEFITS		
Vested Benefits		
Participants Currently Receiving Payments	$ 24,683,871	$ 22,886,516
Other Participants	12,556,314	11,638,066
Total Vested Benefits	37,240,185	34,524,582
Nonvested Benefits	79,210	67,800
Total	$ 37,319,395	$ 34,592,382

See accompanying Notes to Financial Statements.

PENSION PLAN FOR PRIESTS OF
THE ARCHDIOCESE OF SAINT PAUL AND MINNEAPOLIS
STATEMENTS OF CHANGES IN ACCUMULATED PLAN BENEFITS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
BEGINNING OF YEAR		
Actuarial Present Value of Accumulated Plan Benefits	$ 34,592,382	$ 35,836,605
CHANGES		
Benefits Accumulated and Actuarial Experience	1,111,967	511,260
Benefits Paid	(3,401,733)	(3,834,594)
Interest Accumulated	2,304,420	2,376,621
Assumption Changes	2,712,359	(297,510)
NET INCREASE (DECREASE)	2,727,013	(1,244,223)
END OF YEAR		
Actuarial Present Value of Accumulated Plan Benefits	$ 37,319,395	$ 34,592,382

See accompanying Notes to Financial Statements.

NOTE 1 DESCRIPTION OF THE PLAN

The following brief description of the Pension Plan for Priests of the Archdiocese of Saint Paul and Minneapolis (the Plan) is provided for general information purposes only. Participants should refer to the Plan document for complete information.

General

The Plan is a defined benefit pension plan covering substantially all incardinated priests, or those beginning the process of incardination, and Bishops of the Archdiocese of Saint Paul and Minneapolis (the Archdiocese). The Plan was restated effective January 1, 2014 and most recently amended effective July 1, 2019. The Plan is a qualified plan and is exempt from income taxes under the provisions of the Internal Revenue Code (IRC). The Plan is a Church Plan, as defined in Section 414(e) of the IRC, and is exempt from Title I of the Employee Retirement Income Security Act of 1974 (ERISA), as amended.

Pension Benefits

Pension benefits shall be payable to a pensioner in monthly installments on the first day of each month for the life of the pensioner. A pensioner who is entitled to payment and who is at normal retirement and no longer functioning as a priest and is married or was married at the time of ordination or incardination may elect a joint and survivor annuity payment. Participants are eligible for benefits upon attaining age 65 and the completion of five years of service. Pension benefits are calculated based on a benefit rate that factors in the age of the participant and the years of service (as defined in the Plan document) completed, not to exceed 40 years of service. Prior to July 1, 2003, a participant was eligible for pension benefits upon attaining age 70 and completing ten years of service. Additional pension benefits are outlined in the Plan document.

Active participants who become totally and permanently disabled receive disability benefits computed as though they had been employed to normal retirement age. Participants are also eligible for benefits upon death and termination of employment for reasons other than death, disability or retirement provided five years of service were completed.

The Board of Trustees has the discretionary authority to pay the cost of medical and dental insurance for participants who retire or become disabled.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements 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 management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and accumulated plan benefits at the date of the financial statements. Actual results could differ from those estimates.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Plan Interest in Pooled Cash and Cash Equivalents

The Plan considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. At times throughout the year, the Plan's cash balances may exceed amounts insured by the Federal Deposit Insurance Corporation. The Plan's cash and cash equivalents are maintained in segregated accounts held by the Archdiocese.

Contributions Receivable

Receivables from employers are recorded at their estimated net realizable value. The Plan follows a policy of providing an allowance for doubtful accounts and bases its estimate on a variety of factors including the current status of receivables, collection experience, and the financial condition of the related entities. Accounts are considered past due if payment is not made on a timely basis in accordance with the Plan's credit terms. Accounts considered uncollectible are written off.

Other Receivables

In November 2017, a lump sum benefit was paid to a participant in the amount of $352,297. The participant was not entitled to this benefit under the terms of the Plan. The Plan has entered into a settlement agreement with the participant to repay a lump sum of $120,000 plus the amount that the participant will receive from his federal and Minnesota state tax refunds, which is estimated to be $82,297. Based on the agreement, Plan management believed $150,000 of the total amount due was uncollectible as of December 31, 2017. The participant began repaying the Plan during the 2019 Plan year. Based on subsequent activity and current payment history, Plan management believes the full overpayment is collectible at December 31, 2018.

Payment of Benefits

Benefits are recorded when paid.

Administrative Expenses

Administrative and other eligible expenses of the Plan are paid from Plan assets.

Actuarial Present Value of Accumulated Plan Benefits

Accumulated plan benefits are those future periodic payments that are attributable under the Plan's provisions to the service participants have rendered. Accumulated plan benefits include benefits expected to be paid to retired, disabled, or terminated participants to the extent they are deemed attributable to service rendered prior to the valuation date.

The actuarial present value of accumulated plan benefits, and the related changes therein, was determined by the actuary and is the amount that results from applying actuarial assumptions to adjust the accumulated plan benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, or retirement) between the valuation date and the expected date of payment. It is at least reasonably possible that estimates inherent in the actuarial valuation process may change in the near future.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Actuarial Present Value of Accumulated Plan Benefits (Continued)

The significant actuarial assumptions used in the valuation as of December 31, 2018 and 2017 were:

- Life expectancy of participants – RP-2014 Employee and Healthy Annuitant Tables adjusted back to 2006 and then projected forward with Scale MP-2018 (2018) and RP-2014 Employee and Healthy Annuitant Tables adjusted back to 2006 and then projected forward with Scale MP-2017 (2017).
- Retirement age – For priests, the assumption for age at retirement is 25% at age 65, 10% at each of ages 66-69, and 100% at age 70. For bishops, the assumption for age at retirement is 100% at age 75.
- Investment return – 7.00%.
- Actuarial cost method – Traditional unit credit actuarial cost method. Normal cost and actuarial accrued liability are calculated on an individual basis.
- Assumed expenses – $160,000 and $120,000 for 2018 and 2017, respectively
- Inflation assumed for pension benefits – 0% per year.
- Inflation assumed for medical/dental premiums – 0% per year.
- Actuarial value of assets – Market Value of assets as of the date of the valuation

The increase of $2,712,359 and decrease of $297,510 due to assumption changes reflected on the statements of changes in accumulated plan benefits for the for the years ended December 31, 2018 and 2017 are related to the changes in mortality tables, change in assumed future medical premiums, and demographic data changes.

The computations of the actuarial present value of accumulated plan benefits were made as of January 1, 2019 and 2018. The January 1, 2019 valuation was adjusted to eliminate the impact of an amendment approved and effective after December 31, 2018. Had the January 1, 2018 valuation been performed as of December 31, 2017, there would be no material differences.

The foregoing actuarial assumptions are based on the presumption that the Plan will continue. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated plan benefits.

Fair Value Measurements

The framework for measuring fair value provides 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 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

The three levels of the fair value hierarchy 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 other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, such as:

- 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 assets 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.

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 used need to maximize the use of observable inputs and minimize the use of unobservable inputs. There have been no changes in the valuation methodologies used at December 31, 2018 and 2017.

Investment Valuation and Income Recognition

The Plan's investments are valued 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 on the measurement date.

The Plan is invested in mutual funds that are open-ended mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Plan are deemed to be actively traded.

Purchases and sales of investments are recorded on a trade date basis. Interest income is accrued based on the terms of the underlying investments and dividend income is recorded on the ex-dividend date. Net investment income includes the Plan's gains and losses on investments purchased and sold as well as held during the year.

NOTE 3 FUNDING POLICY

The Plan's funding policy has been for the employers to make contributions to the Plan in amounts that are estimated to remain fairly stable so that all participants' benefits will be fully provided for by the time they retire. The Plan is funded with a "per priest" assessed employer contribution which is reviewed annually. For the year ended December 31, 2017, the annual contribution was $18,000. The annual contribution was changed from $18,000 to $18,500 effective July 1, 2018. Although it has not expressed any intention to do so, the Board of Trustees has the right under the Plan to change contribution levels, discontinue contributions, and/or terminate the Plan at any time.

NOTE 4 PLAN TERMINATION

In the event the Plan terminates, the net assets of the Plan will be allocated in the order indicated as follows:

- To provide for continuance of pensions to retirees and beneficiaries.
- Payment to participants who have terminated service with a vested interest.
- Other participants will be allocated their accrued rights on an equitable and nondiscriminatory basis according to accepted actuarial principles.
- Remaining assets, if any, would be returned to the Archdiocese of Saint Paul and Minneapolis.

Whether all participants receive their benefits should the Plan terminate at some future time will depend on the sufficiency, at that time, of the Plan's net assets to provide those benefits.

NOTE 5 RISKS AND UNCERTAINTIES

The Plan invests in a variety of instruments through the shared portion of the investment pool. In general, investments are exposed to various risks, such as interest rate, credit, and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments 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.

Contributions to the Plan and the actuarial present value of accumulated plan benefits are reported based on certain assumptions pertaining to interest rates, inflation rates and Plan participant demographics, all of which are subject to change. Due to uncertainties inherent in these estimates and assumptions, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the financial statements.

NOTE 6 PLAN TAX STATUS

The Plan is established by the Archdiocese, a religious organization. The Plan is a "Church Plan" as defined in section 414(e) of the IRC and is exempt from federal income taxes.

Accounting principles generally accepted in the United States of America require Plan management to evaluate tax positions taken by the Plan and recognize a tax liability (or asset) if the Plan has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. The Plan administrator believes the Plan is not subject to income tax examinations due to the exempt status.

NOTE 7 AMOUNTS DUE FROM AND TO THE ARCHDIOCESE

The Archdiocese maintains a segregated account for the Plan totaling $1,000 as of December 31, 2018 and 2017. There was no interest earned on this account in 2018 and 2017 credited to the Plan.

There were no amounts due to or due from the Archdiocese as of December 31, 2018 and 2017. The Archdiocese charged an administration fee to the Plan totaling approximately $59,000 and $63,000 in 2018 and 2017, respectively.

NOTE 8 FAIR VALUE MEASUREMENTS

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of December 31:

	2018			
	Level 1	Level 2	Level 3	Total
Mutual Funds	$ 28,690,552	$ -	$ -	$ 28,690,552
Total Investments at Fair Value	$ 28,690,552	$ -	$ -	$ 28,690,552

	2017			
	Level 1	Level 2	Level 3	Total
Mutual Funds	$ 30,504,477	$ -	$ -	$ 30,504,477
Total Investments at Fair Value	$ 30,504,477	$ -	$ -	$ 30,504,477

NOTE 9 SUBSEQUENT EVENTS

In preparing these financial statements, the Plan has evaluated events and transactions for potential recognition or disclosure through March 2, 2020, the date the financial statements were available to be issued.