

**ST. LUKE BENEFIT & INSURANCE
SERVICES CORP.**

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

**ST. LUKE BENEFIT & INSURANCE SERVICES CORP.
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INDEPENDENT AUDITORS' REPORT

Board of Directors
St. Luke Benefit & Insurance Services Corp.
Green Bay, Wisconsin

We have audited the accompanying financial statements of St. Luke Benefit & Insurance Services Corp. (a Wisconsin corporation), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities and cash flows 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 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.

Board of Directors
St. Luke Benefit & Insurance Services Corp.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of St. Luke Benefit & Insurance Services Corp. as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Oshkosh, Wisconsin
September 23, 2019

ST. LUKE BENEFIT & INSURANCE SERVICES CORP.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND 2018

	2019	2018
ASSETS		
Cash and Interest in Cash	\$ 419,569	\$ 376,392
Property and Equipment	2,337	2,680
Accounts Receivable, Net of Allowance for Doubtful Accounts of \$953	433,993	72,497
Prepaid Expenses	1,820	659
Investments	7,021,610	9,107,617
Total Assets	\$ 7,879,329	\$ 9,559,845
LIABILITIES AND NET ASSETS		
LIABILITIES		
Medical and Dental Claims Payable	\$ 2,419,169	\$ 1,582,000
Accounts Payable and Accrued Expenses	106,013	94,575
Unemployment Compensation Claims Payable	9,861	2,916
Total Liabilities	2,535,043	1,679,491
NET ASSETS		
Without Donor Restrictions	5,344,286	7,880,354
Total Liabilities and Net Assets	\$ 7,879,329	\$ 9,559,845

See accompanying Notes to Financial Statements.

ST. LUKE BENEFIT & INSURANCE SERVICES CORP.
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
REVENUES AND SUPPORT		
Premium Revenue - Medical and Dental Insurance	\$ 14,522,750	\$ 11,930,092
Cost of Sales - Medical and Dental Insurance	(16,955,378)	(12,538,460)
Net Premium Revenue - Medical and Dental Insurance	(2,432,628)	(608,368)
Premium Revenue - Unemployment Compensation	144,310	141,177
Cost of Sales - Unemployment Compensation	(45,901)	(57,435)
Net Premium Revenue - Unemployment Compensation	98,409	83,742
Service Revenue	94,528	154,680
Other	309,811	255,075
Total Revenues and Support	(1,929,880)	(114,871)
EXPENSES		
Salaries and Wages	397,969	387,259
Personnel Benefits	154,730	148,482
Purchased Services	227,546	313,420
Occupancy	27,300	27,300
Office	16,350	14,780
Grants and Direct Assistance	46,043	30,086
Total Expenses	869,938	921,327
Expenses in Excess of Revenues and Support	(2,799,818)	(1,036,198)
OTHER CHANGE IN NET ASSETS		
Investment Return	263,750	243,523
CHANGE IN NET ASSETS	(2,536,068)	(792,675)
Net Assets - Beginning of Year	7,880,354	8,673,029
NET ASSETS - END OF YEAR	\$ 5,344,286	\$ 7,880,354

See accompanying Notes to Financial Statements.

ST. LUKE BENEFIT & INSURANCE SERVICES CORP.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received From Customers	\$ 14,709,903	\$ 12,416,303
Cash Paid to and on Behalf of Employees	(539,193)	(532,397)
Cash Paid to Suppliers	(16,431,247)	(11,129,164)
Cash Paid for Grants and Assistance	<u>(46,043)</u>	<u>(30,086)</u>
Net Cash Flows from Operating Activities	(2,306,580)	724,656
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	(4,000)	(900,000)
Sale of Investments	<u>2,353,757</u>	<u>347,636</u>
Net Cash Flows from Investing Activities	<u>2,349,757</u>	<u>(552,364)</u>
NET CHANGE IN CASH AND INTEREST IN CASH	43,177	172,292
Cash and Interest in Cash - Beginning of Year	<u>376,392</u>	<u>204,100</u>
CASH AND INTEREST IN CASH - END OF YEAR	<u>\$ 419,569</u>	<u>\$ 376,392</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (2,536,068)	\$ (792,675)
Adjustments to Reconcile Change in Net Assets to Net Cash Flows from Operating Activities:		
Depreciation	343	343
Investment Return	(263,750)	(243,523)
Medical and Dental Insurance Expenses Paid by Administrator	-	647,685
Changes in Certain Assets and Liabilities:		
Funds Held by Self-Funded Health Insurance Administrator	-	865,597
Accounts Receivable	(361,496)	(64,721)
Prepaid Expenses	(1,161)	(659)
Accounts Payable and Accrued Expenses	11,438	54,145
Medical and Dental Claims Payable	837,169	272,000
Unemployment Compensation Claims Payable	<u>6,945</u>	<u>(13,536)</u>
Net Cash Flows from Operating Activities	<u>\$ (2,306,580)</u>	<u>\$ 724,656</u>

ST. LUKE BENEFIT & INSURANCE SERVICES CORP.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 1 PRINCIPAL ACTIVITY

St. Luke Benefit & Insurance Services Corp. (St. Luke Corp.) is a nonprofit corporation organized under the laws of the state of Wisconsin for the purpose of organizing, directing, and administering programs to provide employee benefits, insurance, and human resources services for various Catholic entities within the Catholic Diocese of Green Bay.

St. Luke Corp. offers the following benefits to these entities:

Dental Insurance

Dental insurance is offered to eligible employees as determined separately by each diocesan entity. The insurance is a self-funded plan in which the premiums are received from the entities and their employees.

Health Insurance

Medical and prescription drug insurance is offered to eligible employees as determined separately by each diocesan entity. The insurance is a self-funded plan in which the premiums are received by the self-funded health insurance administrator from the entities.

Unemployment Compensation

Unemployment compensation is offered to eligible lay employees who work at least 20 hours per week. The unemployment compensation is a self-funded plan in which premiums and dividend payments are set and reviewed by management.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions

Net assets available for use in general operation and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions

Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

St. Luke Corp. had only net assets without donor restrictions as of June 30, 2019 and 2018.

ST. LUKE BENEFIT & INSURANCE SERVICES CORP.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interest in Cash

St. Luke Corp. participates in a pooled cash account with an interdiocesan entity. This account sweeps daily to a zero balance. The total of the pooled cash account, at times, may exceed federally insured limits. St. Luke Corp. has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Accounts Receivable

The majority of St. Luke Corp.'s accounts receivable are due from private parties within the Diocese region. Accounts receivable are due within 30 days or according to separately stated terms and are stated as amounts due, net of allowance for doubtful accounts. St. Luke Corp. provides an allowance for doubtful accounts equal to the estimated uncollectible amounts. The estimate is based on historical collection experience and a review of the current status of accounts receivable.

Investments

Investments are generally recorded at fair value based upon quoted market prices, when available, or estimates of fair value. Investment income or loss and unrealized gains or losses are included in the accompanying statements of activities as increases or decreases in net assets without donor restrictions unless the income or loss is restricted by donor or law.

Claims Payable

Unemployment compensation claims payable has been prepared based on past experience and management's estimates of future amounts due to current eligible participants. The medical claims payable is an estimate of unpaid claims as determined by the administrators for medical insurance based on claim reporting experience. The dental claims payable is a reserve for claims incurred but not reported and is determined by St. Luke Corp. based on claim reporting experience.

Revenue Recognition

Revenue from insurance premiums is recorded on an accrual basis. Premiums are billed monthly.

Tax-Exempt Status

St. Luke Corp. has received notification that it qualifies as a tax-exempt organization under Section 501(c)(3) covered by the U.S. Internal Revenue Service group exemption letter of the United States Conference of Catholic Bishops and corresponding provisions of state law and, accordingly, is not subject to federal or state income taxes.

ST. LUKE BENEFIT & INSURANCE SERVICES CORP.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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.

Subsequent Events

In preparing these financial statements, St. Luke Benefit & Insurance Services Corp. has evaluated events and transactions for potential recognition or disclosure through September 23, 2019, the date the financial statements were available to be issued.

NOTE 3 ACCOUNTING STANDARDS UPDATE

In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update 2016-14, *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. St. Luke Corp. adopted this standard on July 1, 2018. Accordingly, the required presentation and disclosure changes have been retrospectively applied to the prior period presented as if the policy had been used in that year.

NOTE 4 LIQUIDITY AND AVAILABILITY

St. Luke Corp. regularly monitors liquidity required to meet its operating needs, liabilities, and other obligations as they become due. Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following at June 30:

	2019	2018
Cash and Interest in Cash	\$ 419,569	\$ 376,392
Accounts Receivable	433,993	72,497
Investments	7,021,610	9,107,617
Total Financial Assets Available for General Expenditure	\$ 7,875,172	\$ 9,556,506

NOTE 5 INVESTMENTS

Investments are held by St. Francis Xavier Investment Corp. (St. Francis Xavier Corp.), an interdiocesan entity. St. Francis Xavier Corp. has grouped their investments and created a unitized fixed income fund, equity fund, and money market fund. St. Luke Corp. owns units in the money market, fixed income, and equity funds.

ST. LUKE BENEFIT & INSURANCE SERVICES CORP.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 5 INVESTMENTS (CONTINUED)

Investments are carried at fair value and consisted of the following at June 30:

	Fair Value		Redemption Frequency	Termination Notice Period
	2019	2018		
St. Francis Xavier Corp. Fixed Income Fund	\$ 686,363	\$ 699,440	Daily	30 days
St. Francis Xavier Corp. Equity Fund	1,605,523	1,588,034	Daily	30 days
St. Francis Xavier Corp. Money Market Fund	4,729,724	6,820,143	Daily	30 days
Total	<u>\$ 7,021,610</u>	<u>\$ 9,107,617</u>		

The money market fund is intended to be utilized by intermediate and short-term money. The fixed income fund is intended to be utilized by intermediate and long-term money. The target allocation of the fixed income fund is:

Intermediate Fixed Income	95 %
Cash	5
Total	<u>100 %</u>

The equity fund is intended to be utilized by long-term money. The participant is not allowed to invest more than 70% of their funds in the equity fund. The target allocation of the equity fund is:

Small-Cap Domestic Stocks	20 %
Mid-Cap Domestic Stocks	20
Large-Cap Domestic Stocks	40
International Stocks	17
Cash and Cash Equivalents	3
Total	<u>100 %</u>

As defined by current authoritative guidance, 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. In determining fair value, St. Luke Corp. uses various valuation methods including the market, income, and cost approaches. The assumptions used in the application of these valuation methods are developed from the perspective of market participants pricing the asset or liability. Inputs used in the valuation methods can be either readily observable, market corroborated, or generally unobservable inputs. Whenever possible, St. Luke Corp. attempts to utilize valuation methods that maximize the use of observable inputs and minimize the use of unobservable inputs.

ST. LUKE BENEFIT & INSURANCE SERVICES CORP.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 5 INVESTMENTS (CONTINUED)

The fair value hierarchy ranks the quality and reliability of the information used to determine the fair values. Assets and liabilities measured, reported, and/or disclosed at fair value will be classified and disclosed in one of the following three categories:

Level 1 – Quoted market prices in active markets for identical assets or liabilities.

Level 2 – Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3 – Unobservable inputs that are not corroborated by market data.

The table presents the balances of assets measured at fair value on a recurring basis:

	June 30, 2019			
	Total	Level 1	Level 2	Level 3
St. Francis Xavier Corp. Fixed Income Fund	\$ 686,363	\$ -	\$ 686,363	\$ -
St. Francis Xavier Corp. Equity Fund	1,605,523	-	1,605,523	-
St. Francis Xavier Corp. Money Market Fund	4,729,724	-	4,729,724	-
Total Investments	<u>\$ 7,021,610</u>	<u>\$ -</u>	<u>\$ 7,021,610</u>	<u>\$ -</u>

	June 30, 2018			
	Total	Level 1	Level 2	Level 3
St. Francis Xavier Corp. Fixed Income Fund	\$ 699,440	\$ -	\$ 699,440	\$ -
St. Francis Xavier Corp. Equity Fund	1,588,034	-	1,588,034	-
St. Francis Xavier Corp. Money Market Fund	6,820,143	-	6,820,143	-
Total Investments	<u>\$ 9,107,617</u>	<u>\$ -</u>	<u>\$ 9,107,617</u>	<u>\$ -</u>

The fair value of the investment in the fixed income fund, the equity fund, and the money market fund has been estimated using the net asset value per share of the fund as determined by the fund administrator. The funds are valued on a daily basis.

Investment return in the accompanying statements of activities for the years ended June 30 consisted of the following:

	2019	2018
Interest and Dividends	\$ 176,391	\$ 106,608
Realized and Unrealized Gains on Investments	87,359	136,915
Total	<u>\$ 263,750</u>	<u>\$ 243,523</u>

ST. LUKE BENEFIT & INSURANCE SERVICES CORP.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 6 UNEMPLOYMENT COMPENSATION CLAIMS PAYABLE

St. Luke Corp. accrues for unemployment compensation claims that may be payable to those currently receiving benefits. St. Luke Corp. assumes that all benefit recipients will receive the full 26 weeks of payments as allowed under the plan. The amount of the payable at June 30, 2019 and 2018 was \$9,861 and \$2,916, respectively.

NOTE 7 CLAIM PROCESSING

Dental and medical claims are processed by various third-party administrators, but the ultimate responsibility for payments to participants is retained by St. Luke Corp. Administrative fees for processing by the service organizations are included in administrative expenses.

NOTE 8 SIGNIFICANT ESTIMATES

Medical Insurance

St. Luke Corp. has a self-funded health care plan that provides medical benefits to employees and their dependents. Funds for the self-funded health care plan are held and maintained by an administrator. Health care costs are expensed as incurred. The health care expense is based upon actual claims paid, reinsurance premiums, administration fees, and estimated unpaid claims at year-end. For the years ended June 30, 2019 and 2018, St. Luke Corp. purchased reinsurance to cover claims over \$225,000 per covered participant per year with no aggregate benefit.

Health care expense for the years ended June 30, 2019 and 2018 were \$16,349,276 and \$11,995,305, respectively. An estimated liability of \$2,378,422 and \$1,547,000, respectively, for claims outstanding at June 30, 2019 and 2018 has been recorded. Management believes this liability is sufficient to cover estimated claims incurred but not yet reported. Claim payments based on actual claims ultimately could differ materially from these estimates.

Dental Insurance

St. Luke Corp. provides dental benefits to employees and their dependents on a self-funded plan. Dental care cost is expensed as incurred. The dental care expense is based upon actual claims paid, administration fees, and unpaid claims at year-end.

Dental care expense was \$606,102 and \$543,155 for the years ended June 30, 2019 and 2018, respectively. An estimated liability of \$40,747 and \$35,000, respectively, for claims outstanding at June 30, 2019 and 2018 has been recorded. Management believes this liability is sufficient to cover claims incurred but not yet reported. Claim payments based on actual claims ultimately filed could differ materially from these estimates.

ST. LUKE BENEFIT & INSURANCE SERVICES CORP.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 9 FUNCTIONAL CLASSIFICATION OF EXPENSES

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy, which is allocated on a square footage basis, while the remaining natural expense categories are allocated on the basis of estimates of time and effort.

Expenses by function for the years ended June 30 are as follows:

	2019		
	Program Services	Management and General	Total
Salaries and Wages	\$ 369,331	\$ 28,638	\$ 397,969
Personnel Benefits	144,964	9,766	154,730
Purchased Services	17,170,205	58,620	17,228,825
Occupancy	27,300	-	27,300
Office	16,350	-	16,350
Grants and Direct Assistance	46,043	-	46,043
Total Expenses by Function	<u>17,774,193</u>	<u>97,024</u>	<u>17,871,217</u>
Less: Expenses Included with Revenues on the Statements of Activities:			
Cost of Sales - Medical and Dental Insurance	(16,955,378)	-	(16,955,378)
Cost of Sales - Unemployment Compensation	<u>(45,901)</u>	<u>-</u>	<u>(45,901)</u>
Total Expenses Included in the Expenses Section on the Statements of Activities	<u>\$ 772,914</u>	<u>\$ 97,024</u>	<u>\$ 869,938</u>

ST. LUKE BENEFIT & INSURANCE SERVICES CORP.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 9 FUNCTIONAL CLASSIFICATION OF EXPENSES (CONTINUED)

	2018		
	Program Services	Management and General	Total
Salaries and Wages	\$ 362,431	\$ 24,828	\$ 387,259
Personnel Benefits	141,866	6,616	148,482
Purchased Services	12,856,959	52,356	12,909,315
Occupancy	27,300	-	27,300
Office	14,780	-	14,780
Grants and Direct Assistance	30,086	-	30,086
Total Expenses by Function	13,433,422	83,800	13,517,222
Less: Expenses Included with Revenues on the Statements of Activities:			
Cost of Sales - Medical and Dental Insurance	(12,538,460)	-	(12,538,460)
Cost of Sales - Unemployment Compensation	(57,435)	-	(57,435)
Total Expenses Included in the Expenses Section on the Statements of Activities	<u>\$ 837,527</u>	<u>\$ 83,800</u>	<u>\$ 921,327</u>

NOTE 10 LEASES

St. Luke Corp. leases certain office space and equipment under operating lease agreements with other diocesan entities on a month-to-month basis. Total rent expense was \$27,300 for the years ended June 30, 2019 and 2018.

NOTE 11 INTERDIOCESAN TRANSACTIONS

St. Luke Corp. was a party to various transactions with other diocesan corporations during the years ended June 30, 2019 and 2018. Total revenues and support from other diocesan corporations were \$1,604,387 and \$1,680,389 for the years ended June 30, 2019 and 2018, respectively, and related to earned revenue for support services provided. Total revenues from other diocesan corporations constitute a substantial portion of St. Luke Corp.'s total revenues for the years ended June 30, 2019 and 2018. Total expenses paid to other diocesan corporations were \$189,609 and \$167,371 for the years ended June 30, 2019 and 2018, respectively, and related to occupancy and administrative and support services.

ST. LUKE BENEFIT & INSURANCE SERVICES CORP.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 12 RETIREMENT PLAN

St. Luke Corp. participates in the Catholic Diocese of Green Bay Employees' Retirement Plan. The defined contribution retirement plan covers most lay employees. The vesting period of the plan is six months. Contributions are 9% of an employee's wages and are made each pay period. Retirement plan expense for the years ended June 30, 2019 and 2018 was \$35,713 and \$34,518, respectively.