KPMG

DIOCESE OF ROCKVILLE CENTRE
HEALTH AND WELFARE BENEFITS PROGRAM

Financial Statements

August 31, 2014 and 2013

(With Independent Auditors' Report Thereon)

DIOCESE OF ROCKVILLE CENTRE
HEALTH AND WELFARE BENEFITS PROGRAM

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KPMG LLP
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Independent Auditors' Report

The Most Reverend William F. Murphy, S.T.D., L.H.D.
Bishop of the Diocese of Rockville Centre:

We have audited the accompanying financial statements of the Diocese of Rockville Centre Health and Welfare Benefits Program (the Plan), which comprise the statements of net assets available for plan benefits and of plan benefit obligations as of August 31, 2014 and 2013, and the related statements of changes in net assets available for plan benefits and changes in plan 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 U.S. generally accepted accounting principles; 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 of 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 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 Plan's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement 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 status of the Diocese of Rockville Centre Health and Welfare Benefits Program as of August 31, 2014 and 2013, and the changes in its financial status for the years then ended, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

February 3, 2015

DIOCESE OF ROCKVILLE CENTRE
HEALTH AND WELFARE BENEFITS PROGRAM

Statements of Net Assets Available for Plan Benefits

August 31, 2014 and 2013

	2014	2013
Assets:		
Investments (note 5):		
Cash equivalents	$ 4,941,222	5,852,284
Unitas Money Market Fund	12,146,892	4,067,554
Unitas Balanced Fund	11,592,425	5,185,601
Unitas Capital Preservation Fund	—	3,053,930
Total investments	28,680,539	18,159,369
Cash	1,651,097	3,461,340
Receivables:		
Participants' and employers' contributions, net of allowance for doubtful accounts of $4,962,580 and $4,838,094 in 2014 and 2013, respectively (note 6)	4,509,438	4,256,560
Due from other Diocesan organizations	27,462	—
Other receivables	599,885	129,615
Total receivables	5,136,785	4,386,175
Other assets	17,511	17,420
Total assets	35,485,932	26,024,304
Liabilities:		
Accounts payable and accrued expenses	203,306	375,310
Due to other Diocesan organizations	—	54,278
Other liabilities	99,457	—
Total liabilities	302,763	429,588
Net assets available for plan benefits	$ 35,183,169	25,594,716

See accompanying notes to financial statements.

DIOCESE OF ROCKVILLE CENTRE
HEALTH AND WELFARE BENEFITS PROGRAM

Statements of Changes in Net Assets Available for Plan Benefits

Years ended August 31, 2014 and 2013

	2014	2013
Additions:		
Contributions:		
Participating employers	$ 35,442,964	33,825,492
Participants	8,251,691	8,123,582
Total contributions	43,694,655	41,949,074
Investment income:		
Net appreciation in fair value of investments	1,294,103	78,994
Interest and dividends	287,578	154,152
Net investment income	1,581,681	233,146
Fee income and other	191,498	192,876
Total additions	45,467,834	42,375,096
Deductions:		
Healthcare and flexible spending benefits paid	30,110,700	29,894,614
Insurance companies' premiums and fees	4,066,084	4,839,749
General and administrative expenses	1,702,597	1,041,552
Total deductions	35,879,381	35,775,915
Increase in net assets available for plan benefits	9,588,453	6,599,181
Net assets available for plan benefits at beginning of year	25,594,716	18,995,535
Net assets available for plan benefits at end of year	$ 35,183,169	25,594,716

See accompanying notes to financial statements.

DIOCESE OF ROCKVILLE CENTRE
HEALTH AND WELFARE BENEFITS PROGRAM

Statements of Plan Benefit Obligations

August 31, 2014 and 2013

		2014	2013
Amounts currently payable:			
Claims payable and claims incurred but not reported	$	2,819,943	2,743,623
Premiums due to insurers		649	30,203
Total plan benefit obligations	$	2,820,592	2,773,826

See accompanying notes to financial statements.

DIOCESE OF ROCKVILLE CENTRE
HEALTH AND WELFARE BENEFITS PROGRAM

Statements of Changes in Plan Benefit Obligations

Years ended August 31, 2014 and 2013

		2014	2013
Amounts currently payable to or for participants, beneficiaries, and dependents:			
Balance at beginning of year	$	2,773,826	2,933,696
Claims reported and approved for payment and estimate of claims incurred but not yet reported		30,187,020	29,808,650
Claims paid		(30,110,700)	(29,894,614)
Premiums and fees to insurance carriers		4,036,530	4,765,843
Insurance companies’ premiums and fees paid		(4,066,084)	(4,839,749)
Total plan benefit obligations at end of year	$	2,820,592	2,773,826

See accompanying notes to financial statements.

(1) Description of Plan

The following description of the Diocese of Rockville Centre Health and Welfare Benefits Program (the Plan) provides only general information. Participants should refer to the plan agreement for a complete description of the Plan's provisions.

(a) General

The Plan was established to provide placement of medical, prescription drug, dental, life, and nonoccupational disability insurance coverage for the participating employees of the parishes, schools, and other Roman Catholic organizations (participating entities) within the Roman Catholic Diocese of Rockville Centre (the Diocese).

The Plan purchases individual stop-loss protection for claims exceeding certain limits. At August 31, 2014 and 2013 the limits were $325,000 and $250,000, respectively.

The Diocese has been delegated the responsibility of administering the financial activities of the Plan, which is intended to be a "cafeteria plan" meeting the requirements of Section 125 of the Internal Revenue Code of 1986 (the Code). The Plan is also intended to be a qualified "church plan" within the meaning of Sections 414(e) of the Code and Section 3(33) of the Employee Retirement Income Security Act of 1974, as amended (ERISA), and is, therefore, exempt from the requirements of ERISA. The Plan's benefit coverage begins January 1 and ends December 31.

The Plan falls under the direct responsibility of the Administrative Offices of the Diocese, which is classified as a 501(c)(3) organization, and is exempt from federal income taxes under Section 501(a) of the Code and a similar provision of the New York State income tax laws.

The Plan's health benefit coverages are summarized below:

(b) Major Medical Coverage

The Plan provides options for participants as follows:

- Empire Blue EPO – a component plan of the wholly self-insured health plan where individual participants may receive all of their care through a network of participating providers, hospitals, and specialists. There are no out-of-network benefits attached to this component plan and referrals are not required.
- Empire Blue POS – a component plan of the wholly self-insured health plan where individual participants may receive all of their care through a network of participating providers, hospitals, and specialists; or receive out-of-network benefits both without referral. This plan has deductibles, coinsurance, and out-of-pocket maximums for both in-network and out-of-network inpatient hospital care.
- Empire Blue HMO – an insured product where participants receive all of their care through a network of participating providers, hospitals, and specialists. Participants must have a primary care physician in the network, and referrals are required to see specialists. This option is only offered for nonincardinated visiting priests.

(c) Other Insurance and Benefits

The Plan provides dental, life, disability, accidental death and dismemberment, flexible spending accounts, and cancer care insurance for all participants through conventional insurance policies with outside insurance carriers (The Hartford, CIGNA, and AFLAC) and ADP. In January 2013, the Diocese changed its policy for dental PPO coverage, with CIGNA, such that the Diocese is self-insured for dental PPO benefits.

(d) Eligibility and Participation

Each employee, who is regularly scheduled to work 28 or more hours per week, may participate in the Plan after 59 days (90 days prior to effective date) of continuous employment with the Diocese effective January 2014. Eligible Clergy and Religious are automatically enrolled in the medical, prescription drug, dental and basic life insurance options. Participants who elect certain benefits contribute specified amounts at predetermined rates negotiated by the plan administrator.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

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

(b) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, benefit obligations, and changes therein, claims incurred but not reported (IBNR), claims payable, and disclosure of contingencies. Actual results could differ from those estimates. Significant estimates include the valuation of investments, collectibility of receivables, and calculation of IBNR.

(c) Fair Value

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that a reporting entity has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The asset's fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement.

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The methods used may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Plan management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different fair value measurement at the reporting date.

There were no changes in fair value methodologies used at August 31, 2014 and 2013 and there were no transfers between levels for the year ended August 31, 2014.

Investments classified in Level 2 consist of shares or units in investment funds as opposed to direct interests in the funds' underlying holdings, which may be marketable. Because the net asset value reported by each fund is used as a practical expedient to estimate fair value of the Plan's interest therein, its classification in Level 2 is based on the Plan's ability to redeem its interest at or near August 31, 2014 or 2013. If the interest can be redeemed in the near term, the investment is classified as Level 2. The classification of investments in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.

(d) Investment Income Recognition

Net appreciation in fair value of investments consists of realized and unrealized gains and losses and is shown in the accompanying statements of changes in net assets available for plan benefits.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

(e) Allowance for Doubtful Accounts

The Plan Sponsor determines whether an allowance for uncollectible receivables should be provided for contributions and other receivables. Such estimates are based on management's assessment of the aged basis of the receivables, current economic conditions, subsequent cash receipts and historical information. Receivables may be written off against the allowance for doubtful accounts when all reasonable collection efforts have been exhausted.

(f) Payment of Benefits

Benefits paid are recorded upon payment.

(g) Benefit Obligations

The actuarial present value of the expected cost of benefits covered by the Plan for claims IBNR was calculated from actuarial assumptions including the overall expected level of increase in the cost of benefits provided (trend rates), to historical claims data to estimate the Plan's benefit obligations for the years ended August 31, 2014 and 2013.

(3) Funding Policy

Each participating entity shall make all necessary contributions to meet the funding requirements, as determined by the Diocesan Health Plan Board. The Diocese and participating entities contribute funds to the Plan to provide for benefit payments and to replenish funds held in the Plan. These funds are accumulated through employee payroll deductions, as well as from contributions made by the Diocese, participating entities, and certain terminated employees electing to remain in the Plan. Participant contributions for the various insurance plans are determined based upon the coverage chosen by the participant, the level, and number of dependents being covered, as well as the Plan in which they choose to enroll. It is the intention of the Diocese to continue the Plan and for the Diocese and each participating entity to make regular contributions to the Plan, but the Bishop reserves the right to suspend or reduce contributions to the Plan.

(4) Plan Termination

The plan administrator and the Bishop reserve the right to terminate all or any portion of the Plan or to terminate or limit the participation of any participating entity in the Plan at any time. Each participating entity may also elect to not participate in the Plan at any time. In the event of termination or discontinuance, the assets of the Plan remaining after paying all administrative expenses of the Plan will be allocated in accordance with applicable laws for the purpose of paying benefits provided for under the Plan.

(5) Investments

The Plan invests in pooled investment funds held by Unitas, a separately incorporated, nonregulated investment fund organized to provide investment options to Roman Catholic organizations in the Diocese. Unitas offers investment options to affiliated organizations, including a money market fund, fixed income, and equity offerings. The investments in Unitas are carried at estimated fair value based principally upon the fair value prices of the underlying assets of each fund. A “mission fee” is deducted from the investment performance of all participants for the purpose of funding the mission component, provided the fund had a return over a stated amount. The mission fee is only charged if, net of investment and administrative fees, the return exceeds 12.5 basis points (bps) per month on the Unitas Money Market Fund and the Capital Preservation Fund or 37.5 bps per quarter on the Unitas Long-Term Funds (which includes the Unitas Balanced Fund) (150 basis points annualized). Each month/quarter is independent of prior or future months’/quarters’ performance when determining if the mission fee has met the assessment criteria. For the year ended December 31, 2014 and 2013, the mission fee to participants in the Unitas Money Market Fund and the Capital Preservation Fund was 0.0042% monthly (0.0500% annualized), while the mission fee to participants in the Unitas Long-Term Funds was 0.1250% quarterly (0.5000% annualized).

The following tables present the Plan's fair value hierarchy for those investments measured at fair value as of August 31, 2014 and 2013:

	2014			
	Fair value	**Level 1**	**Level 2**	**Level 3**
Cash equivalents	$ 4,941,222	4,941,222	—	—
Unitas Money Market Fund (a)	12,146,892	—	12,146,892	—
Unitas Balanced Fund (b)	11,592,425	—	11,592,425	—
Total	$ 28,680,539	4,941,222	23,739,317	—

	2013			
	Fair value	**Level 1**	**Level 2**	**Level 3**
Cash equivalents	$ 5,852,284	5,852,284	—	—
Unitas Money Market Fund (a)	4,067,554	—	4,067,554	—
Unitas Balanced Fund (b)	5,185,601	—	5,185,601	—
Unitas Capital Preservation Fund (c)	3,053,930	—	3,053,930	—
Total	$ 18,159,369	5,852,284	12,307,085	—

(a) The Unitas Money Market Fund invests in short-term debt securities and money market instruments.

(b) The Unitas Balanced Fund invests approximately 50% of its assets in the fixed income pool and approximately 50% of its assets in the pool of equity securities.

(c) The Unitas Capital Preservation Fund invests in a combination of money market securities and short-term investment-grade fixed income securities.

The investments in the Unitas Money Market Fund are redeemable daily with one day's notice. The investments in Unitas Capital Preservation are redeemable monthly with one day's notice. Unitas Balanced Fund is redeemable quarterly with seven days' notice. There are no unfunded commitments to any investment funds. On May 28, 2014, the Unitas Capital Preservation Fund was terminated and all participant assets were transferred to the Unitas Money Market Fund.

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The Plan held investments with fair values representing 5% or more of the Plan's net assets available for benefits at August 31, 2014 and 2013 as follows:

		2014	2013
Identity of issuer:			
Unitas Money Market Fund	$	12,146,892	4,067,554
Unitas Balanced Fund		11,592,425	5,185,601
Unitas Capital Preservation Fund		—	3,053,930
J.P. Morgan Money Market Fund		4,941,222	5,852,284

(6) Receivables, Net

At August 31, 2014 and 2013, the Plan had receivables, which included balances due from participating entities, totaling approximately $9.5 million and $9.1 million, respectively. At August 31, 2014 and 2013, the Plan had recorded a reserve for losses against these receivables totaling approximately $5 million and $4.8 million, respectively. During the year ended August 31, 2014, the Plan recorded bad debt expense of approximately $130,000 and in 2013 the Plan recorded a recovery of approximately $237,000. Both the recovery and bad debt expense were part of general and administrative expenses.

(7) Risks and Uncertainties

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. In addition, various assumptions are used for the valuation of benefit obligations. Due to the level of risk associated with certain investment securities and the valuation of benefit obligations, it is at least reasonably possible that changes in the values of investment securities and the valuation of benefit obligations will occur in the near term and that such changes could materially affect the amounts reported in the statements of net assets available for plan benefits and statements of plan's benefit obligations.

The Plan invests indirectly in securities with contractual cash flows, such as asset-backed securities, collateralized mortgage obligations, and commercial mortgage-backed securities, including securities backed by subprime mortgage loans. The value, liquidity, and related income of these securities are sensitive to changes in economic conditions, including real estate values, delinquencies or defaults, or both, and may be adversely affected by shifts in the market's perception of the issuers and changes in interest rates.

The claims payable to providers and participants are reported based on certain assumptions pertaining to healthcare inflation rates and claims lag rates, 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.

(Continued)

(8) Related-Entity Transactions

The Diocese administers the financial activities of the Plan including paying general and administrative expenses of the Plan through the Diocese's Administrative Offices. Salaries, employee benefits, and occupancy costs are allocated by the Diocese based upon time studies and square footage utilized by the Plan. At August 31, 2014 amounts due from other Diocesan organizations represented balances owed to the Plan for the Plan's overpayment of current year expenses. At August 31, 2013, due to other Diocesan organizations represented amounts owed by the Plan for these amounts.

(9) Subsequent Events

In connection with the preparation of the financial statements, the Plan evaluated subsequent events from August 31, 2014 through February 3, 2015, which was the date the financial statements were approved for issuance and concluded that no additional disclosures were required.