PROTECTED SELF INSURANCE PROGRAM OF THE DIOCESE OF ROCKVILLE CENTRE

Financial Statements

August 31, 2006

(With Independent Auditors' Report Thereon)

PROTECTED SELF INSURANCE PROGRAM
OF THE DIOCESE OF ROCKVILLE CENTRE

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KPMG LLP
345 Park Avenue
New York, NY 10154

Independent Auditors' Report

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

We have audited the accompanying statement of net assets held for the benefit of participating organizations of the Protected Self Insurance Program of the Diocese of Rockville Centre (PSIP) as of August 31, 2006, and the related statements of changes in net assets held for the benefit of participating organizations and cash flows for the year then ended. These financial statements are the responsibility of PSIP's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of PSIP's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Protected Self Insurance Program of the Diocese of Rockville Centre as of August 31, 2006, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

October 10, 2008

PROTECTED SELF INSURANCE PROGRAM
OF THE DIOCESE OF ROCKVILLE CENTRE

Statement of Net Assets Held for the Benefit of Participating Organizations

August 31, 2006

Assets:		
Cash	$	19,192
Security deposits		8,888,121
Investments, at fair value (note 3)		66,537,535
Receivables:		
From participating organizations, net (note 4)		57,214,416
Reinsurance recoverable on paid losses and loss adjustment expenses		2,932,291
Reinsurance recoverable on unpaid losses and loss adjustment expenses (note 5)		5,348,167
Prepaid expenses and other assets		358,354
Total assets		141,298,076
Liabilities:		
Accounts payable and accrued expenses		335,681
Reserve for premiums		1,250,000
Due to Diocese of Rockville Centre		3,545,283
Reserve for Workers’ Compensation Board assessments		26,396,897
Losses and loss adjustment expenses payable (note 5):		
Retained		72,804,921
Ceded		5,348,167
Total liabilities		109,680,949
Contingencies (note 6)		
Net assets held for the benefit of participating organizations (note 2(a))	$	31,617,127

See accompanying notes to financial statements.

PROTECTED SELF INSURANCE PROGRAM
OF THE DIOCESE OF ROCKVILLE CENTRE

Statement of Changes in Net Assets Held for the Benefit of Participating Organizations

Year ended August 31, 2006

Revenues and losses:	
Assessments and billings to participating organizations	$ 12,216,803
Adjustments:	
Claims and insurance expense paid and payable on behalf of participating organizations (note 5)	(29,785,423)
Change in Workers' Compensation Board Assessments	(7,260,016)
	(24,828,636)
Investment income	3,797,421
Total revenues (losses)	(21,031,215)
Expenses:	
Operating expenses (note 7)	2,252,025
Required funding of captive insurance company (note 8)	1,600,000
Total expenses and transfers	3,852,025
Change in net assets held for the benefit of participating organizations	(24,883,240)
Net assets held for the benefit of participating organizations:	
At beginning of year	56,500,367
At end of year	$ 31,617,127

See accompanying notes to financial statements.

PROTECTED SELF INSURANCE PROGRAM
OF THE DIOCESE OF ROCKVILLE CENTRE

Statement of Cash Flows

Year ended August 31, 2006

Cash flows from operating activities:	
Change in net assets held for the benefit of participating organizations	$ (24,883,240)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Net appreciation in fair value of investments	(3,474,792)
Change in net realizable value of receivables	11,686,737
Increase in receivables from participating organizations	(12,789,984)
Increase in reinsurance recoverable on paid losses and loss adjustment expenses	(1,449,353)
Decrease in reinsurance recoverable on unpaid losses and loss adjustment expenses	32,067
Increase in prepaid expenses and other assets	131,669
Decrease in accounts payable and accrued expenses	(1,009,503)
Increase in due to Diocese of Rockville Centre	3,545,283
Increase in reserve for Workers' Compensation Board assessments	4,649,742
Increase in losses and loss adjustment expenses payable	15,053,947
Net cash used in operating activities	(8,507,427)
Cash flows from investing activities:	
Purchase of investments	(20,675)
Proceeds from sale of investments	8,555,922
Net cash provided by investing activities	8,535,247
Net increase in cash	27,820
Cash and security deposits at beginning of year	8,879,493
Cash and security deposits at end of year	$ 8,907,313

See accompanying notes to financial statements.

(1) Organization

The Protected Self Insurance Program of the Diocese of Rockville Centre (PSIP) was initiated by the Roman Catholic Diocese of Rockville Centre (the Diocese) principally to administer a program for the self-indemnification of property and casualty losses of participating parishes, health facilities, institutions, and organizations (including individuals) herein referred to as participating organizations within the Diocese on an occurrence basis (the Program). As part of the Program, the Diocese retains a third-party claims administrator, which administers the payment of losses and sets reserves for claims.

In the normal course of business, the Program seeks to reduce the loss that may arise from catastrophes or other events that cause unfavorable underwriting results. This is accomplished by reinsuring certain levels of risk in various areas of exposure with insurance enterprises or reinsurers. Assessments are used to pay for claims, administrative costs, and the purchase of insurance coverage for excess losses. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. For the claim years through 1987, the per-claim limit was $100,000. For the years 1987 through 1993, the per-claim limit was $150,000. Starting in 1994, the per-claim limit was $250,000, except for property claims for the 2000–2001 year, for which the per-claim limit was $100,000. In 2002, the loss limit for workers' compensation claims was $750,000.

Under certain conditions for the years 1997 through 2001, the Program will have to pay additional insurance premiums and/or retain higher claim exposure at a maximum annual level of $625,000. At August 31 2006, the Program had reserved $1,250,000, for this increased exposure. Reinsurance contracts do not relieve the Program from its obligations to participants. Failure of reinsurers to honor their obligations could result in losses to the Program.

PSIP as a program of the Diocese of Rockville Centre is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code and a similar provision of the New York State income tax laws.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles using the accrual basis of accounting. As a program of the Diocese of Rockville Centre, PSIP follows the provisions of the AICPA Audit and Accounting Guide for Not-for-Profit Organizations. The Program has indicated that the excess of assessments over loss and loss adjustment expenses incurred, if any, would be used to purchase additional insurance, reduce future premium allocations due or be returned to participating organizations. Because such interest embodies a conditional obligation to return such funds upon events not certain to occur, the cumulative excess of revenues over expenses has been reported as net assets held for the benefit of participating organizations in the accompanying financial statements.

(b) Security Deposit

At August 31, 2006, PSIP maintained interest-bearing cash accounts in the amount of $1,388,121, which are required as collateral for the self-insurance policies. In addition, a security deposit is maintained with the State of New York Workers' Compensation Board in the amount of $7,500,000 which is held in cash equivalents.

(c) Revenue Recognition

Revenue related to charges for insurance and operating expenses to participating organizations is recognized when the related insurance expense is paid and/or payable on behalf of participating organizations and the related operating expenses are incurred. Participating organizations are billed based in part on estimates of such charges.

(d) Losses and Loss Adjustment Expenses Incurred and Unpaid Loss Reserves

Losses and loss adjustment expenses are recorded in the period incurred. The liability for unpaid losses and loss adjustment expenses is based upon an evaluation of reported losses and estimates of incurred but not reported losses and related loss adjustment expenses. These estimates are subject to the effects of trends in loss severity and frequency. Although considerable variability is inherent in such estimates, based on its own analysis and an evaluation by its consulting actuary, management believes that the reserves for losses and loss adjustment expenses are adequate to cover the ultimate net cost of claims, but the reserves are based on estimates and there can be no assurance that the ultimate liability for losses will not significantly exceed such estimates. These estimates are continually monitored and adjusted as necessary, as experience develops or new information becomes known. Any difference between loss and loss adjustment expenses and the amount ultimately paid is held for the benefit of participating organizations.

(e) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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.

(3) Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value based on quoted market prices.

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The majority of PSIP's investments are in a pooled investment fund held by Unitas Investment Fund, Inc. (Unitas), a separately incorporated, nonregulated investment fund organized to provide investment options to Roman Catholic organizations in the Diocese of Rockville Centre. Unitas offers investment options to participants including a short-term enhanced cash fund, fixed income, and equity offerings. The investments in Unitas are carried at fair value based principally upon the quoted market prices of the underlying assets of the fund. A "mission fee" is deducted from the investment performance for the purpose of funding the mission component, provided the fund had a positive return. The rate ranges from 0.05% to 0.50% annually depending upon the investment options chosen.

Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the accompanying financial statements.

At August 31, 2006, PSIP had $15,369,444 and $51,148,276 invested in the Unitas Short-Term and Balanced Funds, respectively.

(4) Receivables from Participating Organizations

As of August 31, 2006, receivables from participating organizations consisted of the following:

Parishes, net of allowance of $1,202,068	$	1,813,175
Currently due from health facilities, net of allowance of $713,722		9,546,581
Recoverable from health facilities, net of discount of $11,600,897		45,854,660
Total	$	57,214,416

Effective September 1, 1995, the Program modified its method of assessments for the Diocesan health facilities. Allocated amounts of Program overhead (reinsurance, compensation board assessments, and expenses) and amounts paid for claims relative to the period from September 1, 1995 through August 31, 2006 have been billed to each facility, and included in current receivable balances.

The recoverable from health facilities includes the amounts estimated by the third-party claims administrator for reported claim periods 1 (1976) through 30 (2006) losses. It also includes an actuarial calculation for the trending of claim periods 1 through 30 losses to their ultimate estimated settlement value. Also, included in this balance is the actuarially determined amount of the reserve for Workers' Compensation Board assessments, which is attributable to the health facilities, totaling approximately $15,088,000 (net of discount of $3,963,000) for the year ended August 31, 2006. There are five health facilities that participate in the Program; of which 35% of the amount recoverable is from one facility; the remaining concentrations range from 15% to 16%.

(5) Losses and Loss Adjustment Expenses Payable

For the year ended August 31, 2006, the activity of losses and loss adjustment expenses payable consisted of the following:

Balance, September 1, 2005	$	63,099,141
Less reinsurance recoverable on unpaid loss		(5,380,234)
Net balance, September 1, 2005		57,718,907
Incurred – related to:		
Current year		22,608,700
Prior years		8,361,030
Total incurred		30,969,730
Paid – related to:		
Current year		(3,045,792)
Prior years		(12,837,924)
Total paid		(15,883,716)
Net balance, August 31, 2006		72,804,921
Plus reinsurance recoverable on unpaid loss		5,348,167
Balance, August 31, 2006	$	78,153,088

For the year ended August 31, 2006, reinsurance premiums paid were allocated as follows:

Directors and officers	$	52,950
Workers' compensation		645,229
Property and liability		2,718,489
Excess umbrella		870,000
Auto		157,440
Total premiums paid	$	4,444,108

During the year ended August 31, 2006, the Program also incurred expenses associated with risk management grants that are used to encourage participants to comply with recommended practices.

(6) Litigation

The Diocese is subject to certain claims and pending litigation, which are covered by the Program. These claims and pending litigation are related to matters that have arisen in the ordinary course of the Diocese's activities and, in the opinion of management, are not expected to have a material adverse effect on the Diocese's or the Program's financial position.

(7) Operating Expenses

Operating expenses included the following for the year ended August 31, 2006:

Salaries and administrative charges	$	619,089
Payroll taxes		44,034
Employees' group insurance		34,825
Pension plan contribution		30,930
Professional fees		1,164,840
Office expenses		96,059
Space occupancy costs		38,681
Background screening		223,567
Total	$	2,252,025

(8) Related-Party Transactions

(a) Pension Plan

PSIP is a participant in the noncontributory lay pension plan, a defined benefit plan, established by the Diocese covering employees who meet certain minimum service requirements. Because the plan is considered a multi-employer plan, it is only subject to certain minimum reporting requirements of Statement of Financial Accounting Standards (SFAS) No. 87, *Employers' Accounting for Pensions*, as amended by SFAS No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits*. Pension expense totaled $30,930 for the year ended August 31, 2006.

(b) Required Funding of Insurance Captive

For the year ended August 31, 2006, the Program remitted $1,600,000 to a newly formed Diocesan insurance captive, Ecclesia Assurance Company (Ecclesia) to cover the capital requirements of this new entity. Ecclesia is a stock corporation wholly owned by The Diocese of Rockville Centre.