



**DIOCESE OF ROCKVILLE CENTRE  
HEALTH AND WELFARE BENEFITS PROGRAM**

Financial Statements

August 31, 2007 and 2006

(With Independent Auditors' Report Thereon)



**KPMG LLP**  
Suite 200  
1305 Walt Whitman Road  
Melville, NY 11747-4302

## **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 statements of net assets available for benefits and of plan benefit obligations of the of the Diocese of Rockville Centre Health and Welfare Benefits Program (the Plan) as of August 31, 2007 and 2006, and the related statements of changes in net assets available for benefits and of changes in benefit obligations for the years then ended. These financial statements are the responsibility of the Plan's management. 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 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 the Plan'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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the of the Diocese of Rockville Centre Health and Welfare Benefits Program as of August 31, 2007 and 2006, and the changes in its financial status for the years then ended in conformity with U.S. generally accepted accounting principles.

**KPMG LLP**

July 28, 2008

**DIOCESE OF ROCKVILLE CENTRE  
HEALTH AND WELFARE BENEFITS PROGRAM**

Statements of Net Assets Available for Benefits

August 31, 2007 and 2006

<b>Assets</b>	<b>2007</b>	<b>2006</b>
Investments, at fair value (note 2):		
Unitas Short-Term Fund	\$ 4,834,118	4,355,339
Unitas Balanced Fund	11,895,659	10,788,228
Equity Securities – MetLife	1,174,101	1,008,755
Cash	29,925	—
Total investments	17,933,803	16,152,322
Receivables:		
Participant’s and employer contributions, net of allowance for doubtful accounts of approximately \$2,093,000 and \$1,988,000 in 2007 and 2006, respectively (note 4)	1,422,332	2,833,915
Flexible spending account contributions	—	95,506
Due from deposit and loan account of the Administrative Offices of the Diocese of Rockville Centre	6,236,464	8,279,894
Total receivables	7,658,796	11,209,315
Other assets	81,709	—
Cash	—	152,740
Total assets	25,674,308	27,514,377
<b>Liabilities</b>		
Accounts payable and accrued expenses	2,501,814	427,921
Due to other Diocesan organizations (note 7)	1,214,785	1,085,578
Total liabilities	3,716,599	1,513,499
Net assets available for benefits	\$ 21,957,709	26,000,878

See accompanying notes to financial statements.

**DIOCESE OF ROCKVILLE CENTRE  
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Statements of Changes in Net Assets Available for Benefits

Years ended August 31, 2007 and 2006

	<b>2007</b>	<b>2006</b>
Additions:		
Contributions:		
Participating employers	\$ 27,600,560	25,916,574
Participants	6,244,293	5,467,112
Total contributions	33,844,853	31,383,686
Investment income:		
Net appreciation in fair value of investments	1,402,063	1,148,359
Interest and dividends	10,815	9,532
Total investment income	1,412,878	1,157,891
Fee income and other (note 4)	447,522	1,324,977
Total additions	35,705,253	33,866,554
Deductions:		
Healthcare and flexible spending benefits paid to participants	26,435,427	22,968,090
Jubilee Grant (note 6)	6,507,667	—
Insurance companies' premiums and fees	5,638,142	5,860,097
General and administrative expenses (note 7)	1,167,186	663,814
Total deductions	39,748,422	29,492,001
(Decrease) increase in net assets available for benefits	(4,043,169)	4,374,553
Net assets available for benefits at beginning of year	26,000,878	21,626,325
Net assets available for benefits at end of year	\$ 21,957,709	26,000,878

See accompanying notes to financial statements.

**DIOCESE OF ROCKVILLE CENTRE  
HEALTH AND WELFARE BENEFITS PROGRAM**

Statement of Plan's Benefit Obligations

August 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Amounts currently payable:		
Claims payable to providers and participants	\$ 3,923,716	2,212,187
Premiums due to insurers	272,139	463,593
Plan's total benefit obligation	<u>\$ 4,195,855</u>	<u>2,675,780</u>

See accompanying notes to financial statements.

**DIOCESE OF ROCKVILLE CENTRE  
HEALTH AND WELFARE BENEFITS PROGRAM**

Statements of Changes in Plan's Benefit Obligations

Years ended August 31, 2007 and 2006

	<b>2007</b>	<b>2006</b>
Amounts currently payable to or for participants, beneficiaries, and dependents:		
Balance at beginning of year	\$ 2,675,780	2,228,047
Claims reported and approved for payment	28,146,956	23,119,340
Claims paid	(26,435,427)	(22,968,090)
Premiums to insurance carriers	5,446,688	6,156,580
Insurance companies' premiums and fees paid	(5,638,142)	(5,860,097)
Balance at end of year	\$ 4,195,855	2,675,780

See accompanying notes to financial statements.

**DIOCESE OF ROCKVILLE CENTRE  
HEALTH AND WELFARE BENEFITS PROGRAM**

Notes to Financial Statements

August 31, 2007 and 2006

**(1) Description of the 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.

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

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 the Code, and Section 414(e) and Section 3 (33) of the Employee Retirement Income Security Act of 1974 (ERISA), as amended, 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 Internal Revenue Code and a similar provision of the New York State income tax laws.

The Plan's health benefit coverages are summarized below.

**(a) 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. In addition, there are no out-of-network benefits attached to this component plan and referrals are not required.
- Empire Blue PPO – 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. In addition, after deductibles, there are out-of-network benefits attached to this component plan and referrals are not required.
- 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.

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**(b) *Other Insurance and Benefits***

The Plan continues to provide 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 (Hartford, CIGNA, and AFLAC and Wage Works).

**(c) *Eligibility and Participation***

Each eligible employee may participate in the Plan after three months of continuous service with the Diocese. Eligible Clergy and Religious may participate in the medical, prescription drug, dental and basic life insurance options.

**(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.

**(b) *Allowance for Doubtful Accounts***

The Diocese determines the allowance for doubtful accounts based upon a formula used on aged accounts, in addition to an assessment of the respective parishes' and institution's financial condition.

**(c) *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, 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.

**(d) *Payment of Benefits***

Benefits to participants are recorded upon payment.

**(e) *Investment Valuation***

The Plan's investments are stated at fair value. If available, quoted market prices are used to value investments. The Plan invests in a pooled investment fund held by Unitas Investment Fund, Inc., 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 affiliated organizations, including the Plan as follows: 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,



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provided the fund had a positive return. The rates range from .05% to .5% annually depending upon the investment options chosen.

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

The Plan held investments with fair values representing 5% or more of the plan's net assets available for benefits at August 31, 2007 and 2006 as follows:

	<b>2007</b>	<b>2006</b>
Unitas Short-Term Fund	\$ 4,834,118	4,355,339
Unitas Balanced Fund	11,895,659	10,788,228
Equity Securities – MetLife	1,174,101	1,008,755
Total investments	\$ 17,903,878	16,152,322

**(f) Benefit Obligations**

The actuarial present value of the expected cost of benefits covered by the Plan for the next year (IBNR), is the amount that results from applying actuarial assumptions to historical claims data to estimate future incurred claims.

For measurement purposes, the trend numbers used for the period ended August 31, 2007, were as follows:

Hospital – PPO	15.3%
Hospital – EPO	15.7
Medical – both plans	9.5
Prescription drugs – both plans	10.7

The Plan Administrator, using the trends supplied by the actuary, calculated the IBNR that is shown in the accompanying financial statements.

**(g) Reclassifications**

Certain reclassifications have been made to the 2006 financial statement presentation to confirm to 2007 presentation.

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**(3) Funding Policy**

Each participating entity shall make all necessary contributions to meet the minimum funding requirements, as determined by the Diocesan Health Plan Board. 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) Receivables, Net**

At August 31, 2007 and 2006, the Plan had premiums receivable, which included balances due from parishes totaling approximately \$3.5 million and \$4.8 million, respectively. At August 31, 2007 and 2006, the Program had recorded a reserve for losses against these receivables totaling approximately \$2.1 million and \$2.0 million, respectively.

In addition, late charges are assessed on accounts past due over 60 days. Fee income and other revenue include approximately \$146,000 and \$206,000 in late charges for the years ended August 31, 2007 and 2006, respectively.

**(5) 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 benefits.

The claims payable to providers and participants is reported based on certain assumptions pertaining to interest rates, health care 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.

**(6) Jubilee Grant**

In celebration of the Diocese's 50<sup>th</sup> Anniversary, Bishop Murphy gave a gift of immediate financial relief to the various Diocesan entities in June 2007, whereby each entity received a credit in an amount equal to approximately three months of medical insurance premiums.

The total gift is approximately \$6.5 million, awarding approximately \$4.7 million to the parishes and schools and approximately \$1.8 million to other Diocesan entities. In accordance with SFAS 116, Accounting for Contributions Received and Contributions Made, such amounts were expensed in 2007.

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**(7) Related-Party 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, 2007 and 2006, due to other Diocesan organizations represented amounts owed to certain religious orders who withdrew from the Plan in previous years and are owed a refund for excess contributions to the Plan.

**(8) Plan Termination**

The Administrator reserves 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. 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.