KPMG

# ECCLESIA ASSURANCE COMPANY

Financial Statements

December 31, 2007 and 2006

(With Independent Auditors' Report Thereon)

**KPMG LLP**
345 Park Avenue
New York, NY 10154

# Independent Auditors' Report

The Board of Directors
Ecclesia Assurance Company:

We have audited the accompanying balance sheets of Ecclesia Assurance Company (the Company) as of December 31, 2007 and 2006, and the related statements of operations and stockholder's equity and cash flows for the years then ended. These financial statements are the responsibility of the Company'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 Company'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 position of Ecclesia Assurance Company as of December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

June 26, 2008

**ECCLESIA ASSURANCE COMPANY**

Balance Sheets

December 31, 2007 and 2006

| **Assets** | | **2007** | **2006** |
|---|---|---|---|
| Cash and cash equivalents | $ | 4,578,199 | 2,709,297 |
| Premiums receivable | | 93,739 | 1,736,029 |
| Prepaid reinsurance premiums (note 3) | | 45,000 | — |
| Other prepaid expenses | | 3,750 | — |
| Reinsurance recoverable (note 4) | | 22,500 | — |
| Total assets | $ | 4,743,188 | 4,445,326 |
| **Liabilities and Stockholder's Equity** | | | |
| Liabilities: | | | |
| Accounts payable and accrued expenses | $ | 113,261 | 45,999 |
| New York State premium tax payable | | 3,750 | 3,750 |
| Reinsurance premium payable | | 67,500 | — |
| Unearned premiums (note 3) | | 50,379 | 174,403 |
| Loss and loss adjustment expense reserves (notes 3 and 4) | | 1,912,286 | 1,400,000 |
| Total liabilities | | 2,147,176 | 1,624,152 |
| Stockholder's equity: | | | |
| Common stock, par value $1 per share. Authorized, issued and outstanding 100,000 shares | | 100,000 | 100,000 |
| Additional paid-in capital | | 1,900,000 | 1,900,000 |
| Retained earnings | | 596,012 | 821,174 |
| Total stockholder's equity | | 2,596,012 | 2,821,174 |
| Total liabilities and stockholder's equity | $ | 4,743,188 | 4,445,326 |

See accompanying notes to financial statements.

**ECCLESIA ASSURANCE COMPANY**

Statements of Operations and Stockholder's Equity

Years ended December 31, 2007 and 2006

| | | 2007 | 2006 |
|---|---|---|---|
| Underwriting income (note 3): | | | |
| Gross premiums written | $ | 93,739 | 1,736,629 |
| Change in gross unearned premiums | | 124,024 | 152,643 |
| Ceded premiums written | | (67,500) | — |
| Change in prepaid reinsurance premiums | | 45,000 | — |
| Net premiums earned | | 195,263 | 1,889,272 |
| Underwriting expenses: | | | |
| Losses and loss adjustment expense incurred (notes 3 and 4) | | 545,814 | 1,400,000 |
| New York State premium taxes | | 5,000 | 5,000 |
| New York State premium assessment | | 234 | 654 |
| Total underwriting expenses | | 551,048 | 1,405,654 |
| Net underwriting (loss) gain | | (355,785) | 483,618 |
| Operating expenses (note 6) | | (90,185) | (163,779) |
| Interest income | | 220,808 | 130,137 |
| Net (loss) income | | (225,162) | 449,976 |
| Retained earnings at beginning of year | | 821,174 | 371,198 |
| Retained earnings at end of year | $ | 596,012 | 821,174 |

See accompanying notes to financial statements.

**ECCLESIA ASSURANCE COMPANY**

Statements of Cash Flows

Years ended December 31, 2007 and 2006

| | | 2007 | 2006 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Net (loss) income | $ | (225,162) | 449,976 |
| Adjustments to reconcile net (loss) income to net cash provided by operating activities: | | | |
| Changes in assets and liabilities: | | | |
| Premiums receivable | | 1,642,290 | (798,971) |
| Prepaid reinsurance premiums | | (45,000) | — |
| Prepaid expenses | | (3,750) | — |
| Reinsurance recoverable receivable | | (22,500) | — |
| Accounts payable and accrued expenses | | 67,262 | (82,970) |
| Reinsurance premium payable | | 67,500 | — |
| Unearned premiums | | (124,024) | (152,643) |
| Increase in loss and loss adjustment expense reserves | | 512,286 | 1,400,000 |
| Net cash provided by operating activities | | 1,868,902 | 815,392 |
| Cash flows from financing activities: | | | |
| Decrease in other receivable – Diocese of Rockville Centre | | — | 1,600,000 |
| Net cash provided by financing activities | | — | 1,600,000 |
| Increase in cash and cash equivalents | | 1,868,902 | 2,415,392 |
| Cash and cash equivalents at beginning of year | | 2,709,297 | 293,905 |
| Cash and cash equivalents at end of year | $ | 4,578,199 | 2,709,297 |

See accompanying notes to financial statements.

## (1) Organization and Nature of Business

Ecclesia Assurance Company (the Company) was incorporated on December 10, 2003 under the insurance laws of the State of New York and is a wholly owned subsidiary of the Roman Catholic Diocese of Rockville Centre (the Diocese). The Company is licensed to transact insurance and reinsurance business as a captive insurance company pursuant to applicable statutes of the State of New York. The Company provides various property and casualty insurance coverage to the Diocese.

The Company is classified under Section 501(c)(3) and is exempt from income taxes under Section 501(a) of the Internal Revenue Code. As an insurance company operating in the State of New York, the Company was required to issue shares of common stock, which are held by the Diocese.

## (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.

### *(b) Cash and Cash Equivalents*

Cash and cash equivalents are comprised of highly liquid instruments with original maturities of three months or less.

### *(c) Recognition of Premium Revenues*

Premiums are recognized as revenue over the period that the insurance coverage is provided. Unearned premiums represent the portion of premiums written that relate to the unexpired terms of the policies in force and are calculated on a prorata basis.

### *(d) Deferred Policy Acquisition Costs (DAC)*

DAC represents premium taxes, which are deferred and expensed on a prorata basis over the term of the related insurance policies. For the years ended December 31, 2007 and 2006, the Company incurred the minimum tax totaling $5,000 per year. DAC expense is included in underwriting expenses in the statements of operations and stockholder’s equity.

### *(e) Unpaid Losses and Loss Adjustment Expenses*

The liability for unpaid losses and loss adjustment expense reserves includes estimates for reported losses, and supplemental amounts for projected incurred but not reported losses calculated based upon actuarial loss projections using historical loss experience. In establishing the liability for losses and loss adjustment expenses, the Company utilizes the findings of an independent actuary. Management believes that the aggregate liability for unpaid losses and loss adjustment expenses at December 31, 2007 represents its best estimate, based upon the available data, of the amount necessary to cover the ultimate cost of losses. Unpaid losses and loss adjustment expenses are necessarily based upon the estimates and the ultimate liability could vary significantly in excess of, or less than, the amount indicated in the financial statements. As adjustments to these estimates become necessary, such adjustments will be reflected in current operations.



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### *(f) Reinsurance*

The Company seeks to reduce the loss that may arise from catastrophes or other events that cause unfavorable underwriting results by reinsuring its risk with various reinsurers. Reinsurance premiums are deferred and subsequently expensed on a quarterly prorata basis in accordance with the terms of the underlying reinsurance contracts. Amounts recoverable from reinsurers are estimated in a manner consistent with the reinsurance policy.

Reinsurance contracts do not relieve the Company of its obligations to the policyholders. To the extent that reinsuring companies are later unable to meet obligations under reinsurance agreements, the Company would be liable for such obligations.

### *(g) 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) Insurance and Reinsurance Activity

The Company issued an Excess Liability insurance policy with limits of $3 million, excess of $7 million per occurrence with an effective date of September 1, 2006 and an annual term. This was extended for two months as of September 1, 2007 covering Errors and Omissions (E&O), Directors and Officers (D&O) and Employment Practices (EP) Liability.

The Company issued another Excess Liability policy, with limited lines of coverage (Auto Liability, General Liability and Employers Liability) with limits of $3 million, excess of $7 million per occurrence, effective September 1, 2007 with an annual term. The Company has secured a facultative reinsurance contract for 90% of the risk on this policy from the commercial insurance market.

In addition to the above, the Company renewed the Surety Bond on August 20, 2007 with a $60,000 limit. This remains unchanged from August 2004.

The Company has issued a difference-in-conditions terrorism insurance policy, with an effective date of September 1, 2006 and an annual term, covering acts of terrorism against the Diocese as defined in the Terrorism Risk Insurance Act of 2002 (TRIA), supplementing the terrorism coverage purchased in the commercial marketplace by the Diocese. This coverage was not renewed on September 1, 2007.



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The Company has issued a Self-Insured Retention (SIR) Reimbursement Loss Portfolio Transfer Insurance Policy covering a preexisting Specific Excess Workers' Compensation and Employees Liability policy of the Diocese with an effective date of September 1, 2006, covering risks underwritten by the Diocese for the four-year period from September 1, 1996 to September 1, 2000. Under this loss portfolio transfer agreement, the Company received a total consideration of $1,475,000 in 2006 and assumed preexisting loss reserves of the same value from the Diocese. The actuarial evaluation at December 31, 2007 resulted in a total loss reserve of $1,703,972 ($1,400,000 as of December 31, 2006).

| | 2007 | | | | |
|---|---|---|---|---|---|
| | **Written** | **Earned** | **Unearned** | **Loss and loss adjustment expenses incurred** | **Loss and loss adjustment expenses reserves** |
| Gross | $ 93,739 | 217,763 | 50,379 | 545,814 | 1,912,286 |
| Ceded | (67,500) | (22,500) | (45,000) | — | (22,500) |
| Net | $ 26,239 | 195,263 | 5,379 | 545,814 | 1,889,786 |

| | 2006 | | | | |
|---|---|---|---|---|---|
| | **Written** | **Earned** | **Unearned** | **Loss and loss adjustment expenses incurred** | **Loss and loss adjustment expenses reserves** |
| Gross | $ 1,736,629 | 1,889,272 | 174,403 | 1,400,000 | 1,400,000 |
| Ceded | — | — | — | — | — |
| Net | $ 1,736,629 | 1,889,272 | 174,403 | 1,400,000 | 1,400,000 |

**(4) Reserves for Losses and Loss Adjustment Expenses**

The activity in the reserve for losses and loss adjustment expenses for 2007 is as follows:

| | | |
|---|---|---|
| Balance as at January 1, 2007 | $ | 1,400,000 |
| Reinsurance recoverables | | — |
| Net balance as at January 1 | | 1,400,000 |
| Incurred losses and loss adjustment expenses related to: | | |
| Current year | | 130,755 |
| Prior years | | 415,059 |
| Total incurred losses and loss adjustment expenses | | 545,814 |
| Paid losses and loss adjustment expenses related to: | | |
| Current year | | — |
| Prior years | | (56,028) |
| Total paid losses and loss adjustment expenses | | (56,028) |
| Net balance as at December 31, 2007 | | 1,889,786 |
| Reinsurance recoverables | | 22,500 |
| Balance as at December 31, 2007 | $ | 1,912,286 |

**(5) Regulatory Matters**

***Capital and Surplus***

New York Captive Insurance Law requires single parent insurance companies to maintain a minimum capital and surplus balance of $250,000. The Company met the minimum capitalization requirements as of and for the years ended December 31, 2007 and 2006. There were no dividends declared or paid for the years ended December 31, 2007 and 2006.

There are no differences between amounts included in the financial statements presented herein, as of December 31, 2007 and 2006, and that reported by the Company in its unaudited Annual Statements as filed with the New York State Insurance Department on February 28, 2008 and February 28, 2007, respectively.

**(6) Related-Party Transactions**

On June 1, 2004, the Company contracted with the Diocese for management and consulting services related to the captive, which contemplates a maximum annual service fee of $30,000. In 2007 and 2006 management fees charged under this agreement were $30,000 per year.