KPMG

ECCLESIA ASSURANCE COMPANY

Financial Statements

December 31, 2008 and 2007

(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, 2008 and 2007, and the related statements of operations, changes in 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, 2008 and 2007, and the results of its operations, changes in stockholder's equity, and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

March 27, 2009

ECCLESIA ASSURANCE COMPANY

Balance Sheets

December 31, 2008 and 2007

Assets		**2008**	**2007**
Cash and cash equivalents	$	310	4,714
Investments (note 3)		5,090,029	4,573,485
Premiums receivable		7,180,942	93,739
Prepaid reinsurance premiums (note 4)		284,000	45,000
Other prepaid expenses		3,750	3,750
Reinsurance recoverable (note 5)		84,005	22,500
Deferred policy acquisition costs		23,372	—
Total assets	$	12,666,408	4,743,188
Liabilities and Stockholder's Equity			
Liabilities:			
Accounts payable and accrued expenses	$	189,053	113,261
New York State premium tax payable		27,524	3,750
Reinsurance premium payable		—	67,500
Unearned premiums (note 4)		5,842,937	50,379
Loss and loss adjustment expense reserves (notes 4 and 5)		2,759,618	1,912,286
Total liabilities		8,819,132	2,147,176
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		2,900,000	1,900,000
Retained earnings		847,276	596,012
Total stockholder's equity		3,847,276	2,596,012
Total liabilities and stockholder's equity	$	12,666,408	4,743,188

See accompanying notes to financial statements.

ECCLESIA ASSURANCE COMPANY

Statements of Operations

Years ended December 31, 2008 and 2007

		2008	2007
Underwriting income (note 4):			
Gross premiums written	$	7,193,476	93,739
Ceded premiums written		(352,072)	(67,500)
Net premiums written		6,841,404	26,239
Change in net unearned premiums		(5,553,558)	169,024
Net premiums earned		1,287,846	195,263
Underwriting expenses:			
Losses and loss adjustment expense incurred (notes 4 and 5)		877,303	545,814
New York State premium taxes		5,402	5,000
New York State premium assessment		30,440	234
Total underwriting expenses		913,145	551,048
Net underwriting gain (loss)		374,701	(355,785)
Operating expenses (note 7)		(239,666)	(90,185)
Interest income		116,229	220,808
Net income (loss)	$	251,264	(225,162)

See accompanying notes to financial statements.

ECCLESIA ASSURANCE COMPANY

Statements of Changes in Stockholder's Equity

Years ended December 31, 2008 and 2007

		Common stock	Additional Paid-in capital	Retained earnings	Total
Stockholder's equity at December 31, 2006	$	100,000	1,900,000	821,174	2,821,174
Net loss		—	—	(225,162)	(225,162)
Stockholder's equity at December 31, 2007		100,000	1,900,000	596,012	2,596,012
Capital contribution (note 6)		—	1,000,000	—	1,000,000
Net income		—	—	251,264	251,264
Stockholder's equity at December 31, 2008	$	100,000	2,900,000	847,276	3,847,276

See accompanying notes to financial statements.

ECCLESIA ASSURANCE COMPANY

Statements of Cash Flows

Years ended December 31, 2008 and 2007

		2008	2007
Cash flows from operating activities:			
Net income (loss)	$	251,264	(225,162)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:			
Amortization of policy acquisition costs		5,402	—
Changes in assets and liabilities:			
Premiums receivable		(7,087,203)	1,642,290
Prepaid reinsurance premiums		(239,000)	(45,000)
Prepaid expenses		—	(3,750)
Reinsurance recoverable		(61,505)	(22,500)
Deferred policy acquisition costs		(28,774)	—
Accounts payable and accrued expenses		75,792	67,262
New York State premium tax payable		23,774	—
Reinsurance premium payable		(67,500)	67,500
Unearned premiums		5,792,558	(124,024)
Increase in loss and loss adjustment expense reserves		847,332	512,286
Net cash (used in) provided by operating activities		(487,860)	1,868,902
Cash flows from investing activities:			
Purchases of investments		(1,189,146)	(1,980,838)
Proceeds from sale of investments		672,602	111,049
Net cash used in investing activities		(516,544)	(1,869,789)
Cash flows from financing activity:			
Capital contribution		1,000,000	—
Net cash provided by financing activity		1,000,000	—
Decrease in cash and cash equivalents		(4,404)	(887)
Cash and cash equivalents at beginning of year		4,714	5,601
Cash and cash equivalents at end of year	$	310	4,714

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 workers' compensation deductible and 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) Investments

Investments consist of a money market fund, which is recorded at cost, which approximates fair value. The underlying investments of the money market fund have a maturity date of greater than 90 days. Interest income on these investments is recorded when earned.

(d) Premiums Receivable

Premiums receivable consist of amounts due from the Protected Self Insurance Program of the Diocese of Rockville Centre, a related entity.

(e) 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 pro-rata basis.

(f) Deferred Policy Acquisition Costs (DAC)

DAC consists of premium taxes, which are deferred and expensed on a pro-rata basis over the term of the related insurance policies. For the years ended December 31, 2008 and 2007, the Company incurred taxes totaling $28,774 and $5,000, respectively, per year. DAC expense is included in underwriting expenses in the statements of operations.

(g) 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 work of an independent actuary. Management believes that the aggregate liability for unpaid losses and loss adjustment expenses at December 31, 2008 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 based upon 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.

(h) 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 pro-rata 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.

(i) 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.

(j) New Accounting Pronouncements

Effective January 1, 2008, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This pronouncement does not require any new fair value measurements. In February 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) No. FAS 157-2, *Effective Date of FASB Statement No. 157*, which defers the effective date of SFAS No. 157 for one year for nonfinancial assets and nonfinancial liabilities that are not disclosed at fair value in the financial statements on a recurring basis. The FSP did not defer the recognition and disclosure requirements for financial or nonfinancial assets and liabilities that are measured at least annually. In February 2008, the Company adopted FSP No. FAS 157-2. In October 2008, the FASB issued FSP No. FAS 157-3, *Determining the Fair Value of a Financial Asset in a Market That Is Not Active*. FSP No. FAS 157-3 was effective upon issuance, and applies to periods for which financial statements have not been issued. The FSP's guidance clarifies various application issues with respect to the objective of a fair value measurement, distressed transactions, relevance of observable data, and the use of management's assumptions. The impact of the adoption of SFAS 157, FAS 152-2 and FAS 157-3 did not have a material effect on the results of operations or financial position of the Company.

In June 2006, FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements. FIN 48 requires entities to determine whether it is more-likely than-not that a tax position will be sustained upon examination by the appropriate taxing authorities before any part of the benefit can be recorded in the financial statements. FIN 48 is currently effective for the Company's December 31, 2009 financial statements. The adoption of FIN 48 is not expected to have a significant impact on the Company's financial statements.

(k) Fair Value Hierarchy

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. SFAS 157 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). 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 the Company 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 level in the 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 in its entirety.

(l) Reclassifications

Certain reclassifications have been made to the 2007 financial statements to conform to the 2008 presentation.

(3) Investments

A summary of the Company's investments at December 31, 2008 and 2007, reported at fair value, is as follows:

	2008	2007
Money market funds	$ 5,090,029	4,573,485

The following table presents the Company's fair value hierarchy for those assets and liabilities measured at fair value as of December 31, 2008. At December 31, 2008, the Company had no Level 2 or 3 assets or liabilities.

		Fair value	Level 1	Level 2	Level 3
Financial assets-investments:					
Money market funds	$	5,090,029	5,090,029	—	—

(4) Insurance and Reinsurance Activity

The Company issued three excess liability insurance policies with separate limits up to $4 million, excess of $7 million per occurrence and in the aggregate with effective dates ranging from September 1, 2006 through November 1, 2008. For certain policies, the Company has secured commercial reinsurance covering up to 90% of the exposure.

The Company renewed the surety bond on August 20, 2008 with a $60,000 limit. This remains unchanged from August 2004.

Effective September 1, 2006, the Company assumed pre-existing specific excess workers' compensation losses in the layer of $100,000 excess of $250,000 per occurrence after $300,000 annual aggregate is reached for each of the four years, covering risks retained by the Diocese for the four-year period from September 1, 1996 to September 1, 2000.

Effective November 1, 2008, the Company issued a deductible reimbursement workers compensation policy and a deductible reimbursement property and boiler policy with limits of $400,000 and $150,000, respectively, excess of $100,000 per occurrence and policy aggregates of $2,072,289 and $610,796, respectively. Effective November 1, 2008, the Company also issued a primary commercial package policy with an annual term covering six different lines each with separate limits up to of $900,000 excess of $100,000 per occurrence and in the aggregate.

In 2008 and 2007, incurred losses and loss adjustment expenses related to prior years is due to the deterioration in the workers' compensation losses of the Loss Portfolio Transfer (preexisting workers' compensation losses $100,000 excess of $250,000 after the $300,000 annual aggregate is reached) that was assumed effective September 1, 2006.

A reconciliation of direct premiums written and earned for the years ended December 31, 2008 and 2007 is as follows:

		2008				
		Written	**Earned**	**Unearned**	**Loss and loss adjustment expenses incurred**	**Loss and loss adjustment expenses reserves**
Gross	$	7,193,476	1,400,918	5,842,937	938,808	2,759,618
Ceded		(352,072)	(113,072)	(284,000)	(61,505)	(84,005)
Net	$	6,841,404	1,287,846	5,558,937	877,303	2,675,613

		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

(5) Reserves for Losses and Loss Adjustment Expenses

The components of the liability for losses and loss adjustment expenses at December 31, 2008 and 2007, respectively, are as follows:

The activity in the reserve for losses and loss adjustment expenses for 2008 is as follows:

Balance as at January 1, 2008	$	1,912,286
Reinsurance recoverables		(22,500)
Net balance as at January 1		1,889,786
Incurred losses and loss adjustment expenses related to:		
Current year		354,993
Prior years		522,310
Total incurred losses and loss adjustment expenses		877,303
Paid losses and loss adjustment expenses related to:		
Current year		—
Prior years		(91,476)
Total paid losses and loss adjustment expenses		(91,476)
Net balance as at December 31, 2008		2,675,613
Reinsurance recoverables		84,005
Balance as at December 31, 2008	$	2,759,618

For explanation of incurred losses and loss adjustment expenses related to prior years see note 4.

(Continued)

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

For explanation of incurred losses and loss adjustment expenses related to prior years see note 4.

(6) 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, 2008 and 2007. There were no dividends declared or paid for the years ended December 31, 2008 and 2007. In addition, the Protected Self Insurance Program of the Diocese of Rockville Centre made a $1,000,000 cash contribution of capital to the Company during 2008.

There are no differences between amounts included in the financial statements presented herein, as of December 31, 2007, and that reported by the Company in its unaudited Annual Statements as filed with the New York State Insurance Department on February 27, 2008.

The following is a reconciliation of amounts included in the financial statements presented herein, as of December 31, 2008, and that reported by the Company in its unaudited Annual Statements as filed with the New York State Insurance Department on February 23, 2009:

		Total assets	Total liabilities	Total equity	Net income
As filed	$	12,666,408	8,805,299	3,861,109	265,097
Adjustment to accounts payable and accrued expenses		—	13,833	(13,833)	(13,833)
As reported herein	$	12,666,408	8,819,132	3,847,276	251,264

The adjustment was for an invoice for services provided in 2008, but not paid until 2009.

(7) Related-Entity 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 2008 and 2007, management fees charged under this agreement were $30,000.