KPMG

DIOCESE OF ROCKVILLE CENTRE
HEALTH AND WELFARE BENEFITS PROGRAM

Financial Statements

August 31, 2008 and 2007

(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
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 Diocese of Rockville Centre Health and Welfare Benefits Program (the Plan) as of August 31, 2008 and 2007, and the related statements of changes in net assets available for benefits and of changes in the Plan's 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 and 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 Diocese of Rockville Centre Health and Welfare Benefits Program as of August 31, 2008 and 2007, and the changes in its financial status for the years then ended, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

February 11, 2009

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DIOCESE OF ROCKVILLE CENTRE
HEALTH AND WELFARE BENEFITS PROGRAM

Statements of Net Assets Available for Benefits

August 31, 2008 and 2007

		2008	2007
Assets:			
Investments, at fair value (note 2):			
Unitas Short-Term Fund	$	237,218	4,834,118
Unitas Balanced Fund		7,532,703	11,895,659
Unitas Structured Debt Fund		4,251,383	—
Equity Securities – MetLife		993,540	1,174,101
Cash and cash equivalents		537,534	29,925
Total investments		13,552,378	17,933,803
Receivables:			
Participants’ and employers’ contributions, net of allowance for doubtful accounts of approximately $2,035,000 and $2,093,000 in 2008 and 2007, respectively (note 4)		6,127,844	1,422,332
Due from deposit and loan account of the Administrative Offices of the Diocese of Rockville Centre (note 7)		—	6,236,464
Due from other Diocesan organizations		585,017	—
Total receivables		6,712,861	7,658,796
Other assets		91,089	81,709
Total assets		20,356,328	25,674,308
Liabilities:			
Accounts payable and accrued expenses		742,631	2,501,814
Due to other Diocesan organizations (note 7)		—	1,214,785
Due to deposit and loan account of the Administrative offices of the Diocese of Rockville Centre (note 7)		122,434	—
Total liabilities		865,065	3,716,599
Net assets available for benefits	$	19,491,263	21,957,709

See accompanying notes to financial statements.

DIOCESE OF ROCKVILLE CENTRE
HEALTH AND WELFARE BENEFITS PROGRAM

Statements of Changes in Net Assets Available for Benefits

Years ended August 31, 2008 and 2007

		2008	2007
Additions:			
Contributions:			
Participating employers	$	29,222,953	27,600,560
Participants		7,194,456	6,244,293
Total contributions		36,417,409	33,844,853
Investment (loss) income:			
Net (depreciation) appreciation in fair value of investments		(889,034)	1,402,063
Interest and dividends		19,274	10,815
Total investment (loss) income		(869,760)	1,412,878
Fee income and other (note 4)		478,242	447,522
Total additions		36,025,891	35,705,253
Deductions:			
Healthcare and flexible spending benefits paid to participants		30,466,088	26,435,427
Jubilee grant (note 6)		—	6,507,667
Insurance companies' premiums and fees		7,048,929	5,638,142
General and administrative expenses (note 7)		977,320	1,167,186
Total deductions		38,492,337	39,748,422
Decrease in net assets available for benefits		(2,466,446)	(4,043,169)
Net assets available for benefits at beginning of year		21,957,709	26,000,878
Net assets available for benefits at end of year	$	19,491,263	21,957,709

See accompanying notes to financial statements.

DIOCESE OF ROCKVILLE CENTRE
HEALTH AND WELFARE BENEFITS PROGRAM

Statements of Plan's Benefit Obligations

August 31, 2008 and 2007

		2008	2007
Amounts currently payable:			
Claims payable to providers and participants	$	4,537,092	3,923,716
Premiums due to insurers		220,278	272,139
Plan's total benefit obligations	$	4,757,370	4,195,855

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, 2008 and 2007

		2008	2007
Amounts currently payable to or for participants, beneficiaries, and dependents:			
Balance at beginning of year	$	4,195,855	2,675,780
Claims reported and approved for payment		31,079,464	28,146,956
Claims paid		(30,466,088)	(26,435,427)
Premiums to insurance carriers		6,997,068	5,446,688
Insurance companies' premiums and fees paid		(7,048,929)	(5,638,142)
Balance at end of year	$	4,757,370	4,195,855

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.

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 entities) within the Roman Catholic Diocese of Rockville Centre (the Diocese).

The Plan purchases individual stop-loss protection for claims exceeding $250,000.

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 Sections 414(e) and 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 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.

(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 employee, who is regularly scheduled to work 20 or more hours per week, 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. 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 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 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 rates range from 0.05% to 0.5% 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, 2008 and 2007 as follows:

	2008	2007
Unitas Short-Term Fund	$ *	4,834,118
Unitas Balanced Fund	7,532,703	11,895,659
Unitas Structured Debt Fund	4,251,383	*
Equity Securities – MetLife	993,540	1,174,101

* Investment did not exceed 5% of net assets available for benefits at the respective dates.

(f) Benefit Obligations

For August 31, 2007, the actuarial present value of the expected cost of benefits covered by the Plan for claims incurred but not reported (IBNR), was calculated from actuarial assumptions (trend rates), to historical claims data to estimate the Plan's benefit obligations for the year then ended. For August 31, 2008, the Plan's actuary, using the trends listed below, calculated the IBNR that is shown in the accompanying financial statements.

For measurement purposes, the trend numbers used for the years ended August 31, 2008 and 2007 were as follows:

	2008	2007
Hospital – PPO	11.3%	15.3%
Hospital – EPO	11.3	15.7
Medical – both plans	9.9	9.5
Prescription drugs – both plans	10.7	10.7

(g) New Accounting Standards

In September 2006, the Financial Accounting Standards Board (FASB) issued 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 requires expanded disclosures about fair value measurements. SFAS 157 is effective for reporting periods beginning after November 15, 2007. The Plan is currently evaluating the impact of SFAS 157 on its financial statements; however, the adoption of SFAS 157 will require additional disclosures regarding the inputs used to develop the fair value measurements, and the impacts of certain measurements on the statement of net assets available for benefits.

In June 2006, FASB issued FASB Interpretation No. 48 (FIN 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 Plan's August 31, 2010 financial statements based on recent FASB Extension. The adoption of FIN 48 is not expected to have a significant impact on the Plan's financial statements.

(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, 2008 and 2007, the Plan had premiums receivable, which included balances due from participating entities, totaling approximately \$8.2 million and \$3.5 million, respectively. At August 31, 2008 and 2007, the Plan had recorded a reserve for losses against these receivables totaling approximately \$2 million and \$2.1 million, respectively. At August 31, 2008 and 2007, the plan recorded bad debt expense as part of general and administrative expenses totaling approximately \$134,000 and \$281,000, respectively.

In addition, late charges are assessed on accounts past due over 60 days. Fee income and other revenue include approximately \$158,000 and \$146,000 in late charges for the years ended August 31, 2008 and 2007, 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 are reported based on certain assumptions pertaining to interest rates, 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.

(6) Jubilee Grant

In celebration of the Diocese's 50th 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.

(Continued)

The total gift was 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 No. 116, *Accounting for Contributions Received and Contributions Made*, such amounts were expensed in 2007.

(7) Related-Entity Transactions

The entities discussed below are separate and distinct 501(c)(3) corporations respecting which the Bishop of the Diocese (and in certain cases, other personnel of the Diocese) serves as a corporate member.

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, 2008, due to deposit and loan account of administrative offices represented these amounts. At August 31, 2007, the amounts represented amounts owed to certain religious orders who withdrew from the Plan.

(8) Plan Termination

The Plan 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.