PROTECTED SELF INSURANCE PROGRAM OF THE DIOCESE OF ROCKVILLE CENTRE

Financial Statements

August 31, 2008 and 2007

(With Independent Auditors' Report Thereon)

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 statements 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, 2008 and 2007, and the related statements of changes in net assets held for the benefit of participating organizations and cash flows for the years 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 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 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 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 the Protected Self Insurance Program of the Diocese of Rockville Centre as of August 31, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

February 12, 2009

PROTECTED SELF INSURANCE PROGRAM
OF THE DIOCESE OF ROCKVILLE CENTRE

Statements of Net Assets Held for the Benefit of Participating Organizations

August 31, 2008 and 2007

		2008	2007
Assets:			
Cash	$	314,478	44,791
Due from other Diocesan entities (note 8)		2,679,027	—
Investments, at fair value (note 3)		55,091,604	67,267,638
Receivables:			
From participating organizations, net (note 4)		54,544,368	53,096,450
Reinsurance recoverable on paid losses and loss adjustment expenses		1,512,072	1,566,914
Reinsurance recoverable on unpaid losses and loss adjustment expenses (note 5)		5,406,797	5,442,489
Prepaid expenses and other assets		8,733,127	7,860,271
Total assets		128,281,473	135,278,553
Liabilities:			
Accounts payable and accrued expenses		382,588	1,561,722
Reserve for premiums		—	1,250,000
Due to other Diocesan entities (note 8)		300,000	—
Reserve for Workers' Compensation Board assessments		23,166,132	21,050,940
Losses and loss adjustment expenses payable (note 5):			
Retained		84,231,125	88,452,500
Ceded		5,406,797	5,442,489
Total liabilities		113,486,642	117,757,651
Contingencies (note 6)			
Net assets held for the benefit of participating organizations (note 2(a))	$	14,794,831	17,520,902

See accompanying notes to financial statements.

PROTECTED SELF INSURANCE PROGRAM
OF THE DIOCESE OF ROCKVILLE CENTRE

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

Years ended August 31, 2008 and 2007

	2008	2007
Revenues and losses:		
Assessments and billings to participating organizations	$ 25,630,099	22,673,786
Deductions and adjustments:		
Jubilee grant (note 8)	—	(1,267,047)
Claims, insurance and reinsurance expense paid and payable on behalf of participating organizations, net of insurance recoveries (note 5)	(18,336,429)	(44,426,624)
Change in Workers' Compensation Board Assessments	(5,400,094)	5,112,341
	1,893,576	(17,907,544)
Investment return (note 3)	(1,805,367)	6,224,896
Net revenues (losses)	88,209	(11,682,648)
Expenses:		
Operating expenses (note 7)	2,814,280	2,413,577
Change in net assets held for the benefit of participating organizations	(2,726,071)	(14,096,225)
Net assets held for the benefit of participating organizations:		
At beginning of year	17,520,902	31,617,127
At end of year	$ 14,794,831	17,520,902

See accompanying notes to financial statements.

PROTECTED SELF INSURANCE PROGRAM
OF THE DIOCESE OF ROCKVILLE CENTRE

Statements of Cash Flows

Years ended August 31, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
Change in net assets held for the benefit of participating organizations	$ (2,726,071)	(14,096,225)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net depreciation (appreciation) in fair value of investments	3,431,639	(5,020,354)
(Increase) decrease in receivables from participating organizations	(1,447,918)	4,117,966
Decrease in reinsurance recoverable on paid and unpaid losses and loss adjustment expenses	90,534	1,271,055
Increase in prepaid expenses and other assets	(872,856)	(1,917)
(Decrease) increase in accounts payable and accrued expenses	(1,179,134)	1,226,041
Decrease in reserve for premiums	(1,250,000)	—
Increase (decrease) in due to other Diocesan entities	300,000	(3,545,283)
Increase (decrease) in reserve for Workers' Compensation Board assessments	2,115,192	(5,460,809)
(Decrease) increase in losses and loss adjustment expenses payable	(4,257,067)	15,741,901
Net cash used in operating activities	(5,795,681)	(5,767,625)
Cash flows from investing activities:		
Purchase of investments	(3,524,105)	(4,252,059)
Proceeds from sale of investments	12,268,500	10,045,283
Net cash provided by investing activities	8,744,395	5,793,224
Cash flows from financing activity:		
Increase in due from other Diocesan entities	(2,679,027)	—
Net cash used in financing activity	(2,679,027)	—
Net increase in cash	269,687	25,599
Cash at beginning of year	44,791	19,192
Cash at end of year	$ 314,478	44,791

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, 2007, 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. In 2008, this policy was assumed by Ecclesia Assurance Company.

PSIP as a program of the Diocese 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) 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.

(c) 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.

(d) 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.

(e) Risks and Uncertainties

PSIP invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of net assets held for the benefit of participating organizations.

(f) Security Deposit

Included in prepaid expenses and other assets at August 31, 2008 and 2007 is a security deposit of $7,500,000 maintained with the State of New York Workers’ Compensation Board, which invests it in a short-term investment pool.

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(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. PSIP 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 changes in net assets held for the benefit of participating organizations.

In June 2006, FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109* (FIN 48). 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 PSIP's August 31, 2010 financial statements. The adoption of FIN 48 is not expected to have a significant impact on PSIP's financial statements.

(h) Reclassifications

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

(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.

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.

At August 31, 2008 and 2007, the investments of PSIP were comprised of the following:

		2008	2007
Short-term investments	$	180,717	—
Certificates of deposit		1,570,912	1,502,973
Unitas Short-Term Fund		9,929,247	9,299,081
Unitas Balanced Fund		37,739,160	56,398,740
Unitas Structured Debt Fund		5,651,754	—
Other		19,814	66,844
	$	55,091,604	67,267,638

Investment (loss) return for the years ended August 31, 2008 and 2007 consists of the following:

		2008	2007
Net (depreciation) appreciation in fair value of investments	$	(3,431,639)	5,020,354
Interest and dividends		1,626,272	1,204,542
Total investment (loss) return	$	(1,805,367)	6,224,896

(4) Receivables from Participating Organizations

For the years ended August 31, 2008 and 2007, receivables from participating organizations consisted of the following:

		2008	2007
Parishes and other participating organizations, net of allowance of $1,399,364 and $1,177,888 in 2008 and 2007, respectively	$	1,212,177	1,879,396
Currently due from health facilities, net of allowance of $1,259,565 and $713,722 in 2008 and 2007, respectively		2,428,043	2,748,892
Recoverable from health facilities, net of discount of $14,915,415 in 2008 and $12,310,831 in 2007		50,904,148	48,468,162
Total	$	54,544,368	53,096,450

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, 2008 have been billed to each facility and the related receivable is reflected as currently due from health facilities.

The recoverable from health facilities includes the amounts estimated by the third-party claims administrator for reported claim periods 1 (1976) through 32 (2008) losses. It also includes an actuarial calculation for the trending of claim periods 1 through 32 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 $17,565,000 (net of discount of $3,980,000) for the years ended August 31, 2008 and 2007. 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 14% to 20%.

(5) Losses and Loss Adjustment Expenses Payable

At August 31, 2008 and 2007, the activity of losses and loss adjustment expenses payable consisted of the following:

		2008	2007
Balance, September 1	$	93,894,989	78,153,088
Less reinsurance recoverable on unpaid loss		(5,442,489)	(5,348,167)
Net balance, September 1		88,452,500	72,804,921
Incurred – related to:			
Current year		14,654,143	15,894,731
Prior years		10,490,457	31,708,063
Total incurred		25,144,600	47,602,794
Paid – related to:			
Current year		(2,885,870)	(3,739,253)
Prior years		(12,517,107)	(19,486,916)
Total paid		(15,402,977)	(23,226,169)
Insurance recoveries		(13,962,998)	(8,729,046)
Net balance, August 31		84,231,125	97,181,546
Plus reinsurance recoverable on unpaid loss		5,406,797	5,442,489
Balance, August 31	$	89,637,922	102,624,035

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For the years ended August 31, 2008 and 2007, reinsurance premiums paid were allocated as follows:

		2008	2007
Directors and officers	$	111,190	123,907
Workers' compensation		668,054	2,149,641
Property and liability		2,213,793	1,738,122
Excess umbrella		1,463,722	1,478,016
Auto		90,703	90,948
Total premiums paid	$	4,547,462	5,580,634

During the years ended August 31, 2008 and 2007, the Program also incurred expenses associated with risk management grants that are used to encourage participants to comply with recommended practices.

In 2008, PSIP recognized insurance recoveries of $6,250,000 related to claims that had been accrued in prior years for which recoverability was uncertain.

(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 years ended August 31, 2008 and 2007:

		2008	2007
Salaries and administrative charges	$	563,380	876,262
Payroll taxes		40,690	43,820
Employees' group insurance		57,923	53,007
Pension plan contribution		52,493	48,205
Professional fees		1,223,643	874,587
Office expenses		112,725	74,277
Space occupancy costs		47,214	44,421
Background screening		716,212	398,998
Total	$	2,814,280	2,413,577

(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 SFAS No. 87, *Employers' Accounting for Pensions, as amended by SFAS No. 132, Employers' Disclosures about Pensions and Other Postretirement Benefits*. Pension expense totaled $52,493 and $48,205 for the years ended August 31, 2008 and 2007.

(b) 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 insurance premiums.

(c) Due to (from) Other Diocesan Entities

Due to (from) other Diocesan entities arises as PSIP pays bills on behalf of other Diocesan organizations or other Diocesan organizations pay bills on behalf of PSIP.