ECCLESIA ASSURANCE COMPANY

Financial Statements

December 31, 2009 and 2008

(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, 2009 and 2008, 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, 2009 and 2008, 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

April 9, 2010

ECCLESIA ASSURANCE COMPANY

Balance Sheets

December 31, 2009 and 2008

Assets		**2009**	**2008**
Cash and cash equivalents	$	—	310
Investments (note 3)		14,927,463	5,090,029
Premiums receivable		5,640,523	7,180,942
Prepaid reinsurance premiums (note 4)		850,932	284,000
Other prepaid expenses		20,834	3,750
Reinsurance recoverable (note 4)		915,598	84,005
Deferred acquisition costs		26,102	23,372
Total assets	$	22,381,452	12,666,408
Liabilities and Stockholder's Equity			
Liabilities:			
Accounts payable and accrued expenses	$	322,260	189,053
New York State premium tax payable		252	27,524
Reinsurance premium payable		359,291	—
Unearned premiums (note 4)		6,525,486	5,842,937
Unearned ceding commissions		75,825	—
Loss and loss adjustment expense reserves (notes 4 and 5)		6,653,580	2,759,618
Total liabilities		13,936,694	8,819,132
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	2,900,000
Retained earnings		5,444,758	847,276
Total stockholder's equity		8,444,758	3,847,276
Total liabilities and stockholder's equity	$	22,381,452	12,666,408

See accompanying notes to financial statements.

ECCLESIA ASSURANCE COMPANY

Statements of Operations

Years ended December 31, 2009 and 2008

	2009	2008
Underwriting income (note 4):		
Gross premiums written	$ 10,466,576	7,193,476
Ceded premiums written	(2,327,949)	(352,072)
Net premiums written	8,138,627	6,841,404
Change in net unearned premiums	(115,617)	(5,553,558)
Net premiums earned	8,023,010	1,287,846
Ceding commission	195,723	—
Change in unearned ceding commissions	(75,825)	—
Ceding Commissions earned	119,898	—
Underwriting expenses:		
Losses and loss adjustment expense incurred (notes 4 and 5)	3,152,383	877,303
Claims handling expenses	35,436	13,833
New York State premium taxes	39,136	5,402
New York State premium assessment	116,701	30,440
Federal excise taxes	500	—
Total underwriting expenses	3,344,156	926,978
Net underwriting income	4,798,752	360,868
Operating expenses (note 7)	(229,942)	(225,833)
Net interest income	28,672	116,229
Net income	$ 4,597,482	251,264

See accompanying notes to financial statements.

ECCLESIA ASSURANCE COMPANY

Statements of Changes in Stockholder's Equity

Years ended December 31, 2009 and 2008

		Common stock	Additional paid-in capital	Retained earnings	Total
Stockholder's equity at December 31, 2007	$	100,000	1,900,000	596,012	2,596,012
Capital contribution		—	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
Net income		—	—	4,597,482	4,597,482
Stockholder's equity at December 31, 2009	$	100,000	2,900,000	5,444,758	8,444,758

See accompanying notes to financial statements.

ECCLESIA ASSURANCE COMPANY

Statements of Cash Flows

Years ended December 31, 2009 and 2008

	2009	2008
Cash flows from operating activities:		
Net income	$ 4,597,482	251,264
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Amortization of acquisition costs	39,136	5,402
Changes in assets and liabilities:		
Premiums receivable	1,540,419	(7,087,203)
Prepaid reinsurance premiums	(566,932)	(239,000)
Prepaid expenses	(17,084)	—
Reinsurance recoverable	(831,593)	(61,505)
Deferred acquisition costs	(41,866)	(28,774)
Accounts payable and accrued expenses	133,207	75,792
New York State premium tax payable	(27,272)	23,774
Reinsurance premium payable	359,291	(67,500)
Unearned premiums	682,549	5,792,558
Unearned ceding commission	75,825	—
Increase in loss and loss adjustment expense reserves	3,893,962	847,332
Net cash provided by (used in) operating activities	9,837,124	(487,860)
Cash flows from investing activities:		
Purchases of investments	(12,117,955)	(1,189,146)
Proceeds from sale of investments	2,280,521	672,602
Net cash used in investing activities	(9,837,434)	(516,544)
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	(310)	(4,404)
Cash and cash equivalents at beginning of year	310	4,714
Cash and cash equivalents at end of year	$ —	310

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.

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. Some underlying investments of the money market fund may have a maturity date of greater than 90 days. Interest income on these investments is recorded when earned.

(d) Fair Value

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. 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 a reporting entity 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 measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement.

(e) Premiums Receivable

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

(f) 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.

(g) Deferred Acquisition Costs (DAC)

DAC consists of New York State 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, 2009 and 2008, the Company incurred taxes totaling $41,866 and $28,774, respectively. DAC expense is included in underwriting expenses in the statements of operations.

(h) Losses and Loss Adjustment Reserves

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, 2009 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.

(i) 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.

(j) 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.

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(k) Income Taxes

The Company is classified under Section 501(c)(3) and is exempt from income taxes under Section 501(a) of the Internal Revenue Code.

(l) Recent Accounting Standards

In June 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Codification (ASC) 105-10, *The Financial Accounting Standards Board Accounting Standards Codification* (ASC 105-10). ASC 105-10 brings together and organizes all Generally Accepted Accounting Principles (GAAP) and designates GAAP into two levels, authoritative and nonauthoritative. New FASB accounting standards are now issued as amendments to the ASC and referred to as Accounting Standards Updates. The adoption of ASC 105-10 had no significant impact on the Company's financial statements.

In 2009, the Company adopted ASC 740, *Accounting for Income Taxes*, which prescribes a threshold of more-likely than-not for recognition and derecognition of tax positions taken or expected to be taken in a tax return. The adoption of ASC 740 did not have a significant impact on the Company's financial statements.

(m) Reclassifications

Certain reclassifications have been made to the 2008 financial statements to conform to the 2009 presentation.

(3) Investments

The Company's investments at December 31, 2009 and 2008 consist entirely of a money market fund, which is reported at cost, which approximates fair value.

(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. Current excess liability policies have limits ranging from $3 million excess of $1 million (without any reinsurance) to $4 million excess of $1 million with commercial reinsurance protection of 75% of the exposure.

The Company renewed the surety bond on August 20, 2009 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, and renewed on November 1, 2009, a deductible reimbursement workers compensation policy with limits of $400,000 excess of $100,000 per occurrence and policy aggregate of $2,496,734 (2008 – $2,072,289).

Effective November 1, 2008, the Company also issued, and remains valid today, a primary commercial package policy with an annual term covering six different lines each with separate limits of up to $900,000 excess of $100,000 per occurrence and in the aggregate.

The deductible reimbursement property and boiler policy issued on November 1, 2008, and renewed on April 1, 2009, has limits of $150,000 excess of $100,000 per occurrence and policy aggregate of $1,489,746 (2008 – $610,796).

Effective April 1, 2009, the Company issued a primary property and boiler policy with limits of $100 million excess of $250,000 per occurrence and in the aggregate and an excess property and boiler policy with limits of $200 million excess of $300 million per occurrence and in the aggregate. Both these policies have 100% commercial reinsurance protection.

A reconciliation of direct premiums written, reinsurance ceded and earned for the years ended December 31, 2009 and 2008 is as follows:

	2009				
	Written	Earned	Unearned	Loss and loss adjustment expenses incurred	Loss and loss adjustment expenses reserves
Gross	$ 10,466,576	9,784,027	6,525,486	3,983,976	6,653,580
Ceded	(2,327,949)	(1,761,017)	(850,932)	(831,593)	(915,598)
Net	$ 8,138,627	8,023,010	5,674,554	3,152,383	5,737,982

	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

(Continued)

(5) Reserves for Losses and Loss Adjustment Expenses

The activity in the reserve for losses and loss adjustment expenses for 2009 and 2008 is as follows:

		2009	2008
Balance as at January 1	$	2,759,618	1,912,286
Reinsurance recoverables		(84,005)	(22,500)
Net balance as at January 1		2,675,613	1,889,786
Incurred losses and loss adjustment expenses related to:			
Current year		2,829,430	354,993
Prior years		322,953	522,310
Total incurred losses and loss adjustment expenses		3,152,383	877,303
Paid losses and loss adjustment expenses related to:			
Current year		(63,361)	—
Prior years		(26,653)	(91,476)
Total paid losses and loss adjustment expenses		(90,014)	(91,476)
Net balance as at December 31		5,737,982	2,675,613
Reinsurance recoverables		915,598	84,005
Balance as at December 31	$	6,653,580	2,759,618

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, 2009 and 2008. There were no dividends declared or paid for the years ended December 31, 2009 and 2008.

There following is a reconciliation of amounts included in the financial statements presented herein, as of December 31, 2009, and that reported by the Company in its unaudited Annual Statement as filed with the New York State Insurance Department on February 22, 2010.

		Total assets	Total liabilities	Total equity	Net income
As filed	$	22,381,452	13,936,694	8,444,758	4,583,649
Adjustment to expenses		—	—	—	13,833
	$	22,381,452	13,936,694	8,444,758	4,597,482

(Continued)

The adjustment was for the reversal of the 2008 adjustment.

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 Statement 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 2009 and 2008, management fees charged under this agreement were $30,000.

(8) Subsequent Events

In connection with the preparation of the financial statements, the Company evaluated subsequent events from December 31, 2009 through April 9, 2010, which was the date the financial statements were available for issuance, and concluded that no additional disclosures were required.