DIOCESE OF ROCKVILLE CENTRE
HEALTH AND WELFARE BENEFITS PROGRAM

Financial Statements

August 31, 2009 and 2008

(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 plan benefit obligations of the Diocese of Rockville Centre Health and Welfare Benefits Program (the Plan) as of August 31, 2009 and 2008, and the related statements of changes in net assets available for benefits and 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, 2009 and 2008, and the changes in its financial status for the years then ended, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

February 1, 2010

DIOCESE OF ROCKVILLE CENTRE
HEALTH AND WELFARE BENEFITS PROGRAM

Statements of Net Assets Available for Benefits

August 31, 2009 and 2008

		2009	2008
Assets:			
Investments (note 3):			
Unitas Short-Term Fund	$	2,248,171	237,218
Unitas Balanced Fund		5,238,604	7,532,703
Unitas Structured Debt Fund		2,376,585	4,251,383
MetLife common stock		—	993,540
Cash and cash equivalents		847,399	537,534
Total investments		10,710,759	13,552,378
Receivables:			
Participants' and employers' contributions, net of allowance for doubtful accounts of approximately $2,513,000 and $2,035,000 in 2009 and 2008, respectively (note 5)		7,427,717	6,127,844
Other receivables		426,159	—
Due from other Diocesan organizations		—	585,017
Total receivables		7,853,876	6,712,861
Other assets		8,846	91,089
Total assets		18,573,481	20,356,328
Liabilities:			
Accounts payable and accrued expenses		850,270	742,631
Due to other Diocesan organizations		45,823	122,434
Total liabilities		896,093	865,065
Net assets available for benefits	$	17,677,388	19,491,263

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, 2009 and 2008

	2009	2008
Additions:		
Contributions:		
Participating employers	$ 31,855,640	29,222,953
Participants	7,880,199	7,194,456
Total contributions	39,735,839	36,417,409
Investment (loss) income:		
Net depreciation in fair value of investments	(542,826)	(889,034)
Interest and dividends	66,414	19,274
Total investment loss	(476,412)	(869,760)
Fee income and other	673,739	478,242
Total additions	39,933,166	36,025,891
Deductions:		
Healthcare and flexible spending benefits paid to participants	33,111,477	30,466,088
Insurance companies' premiums and fees	6,705,603	7,048,929
General and administrative expenses (note 7)	1,929,961	977,320
Total deductions	41,747,041	38,492,337
Decrease in net assets available for benefits	(1,813,875)	(2,466,446)
Net assets available for benefits at beginning of year	19,491,263	21,957,709
Net assets available for benefits at end of year	$ 17,677,388	19,491,263

See accompanying notes to financial statements.

DIOCESE OF ROCKVILLE CENTRE
HEALTH AND WELFARE BENEFITS PROGRAM

Statements of Plan's Benefit Obligations

August 31, 2009 and 2008

		2009	2008
Amounts currently payable:			
Claims payable and claims incurred but not reported	$	3,905,854	4,537,092
Premiums due to insurers		466,211	220,278
Plan's total benefit obligations	$	4,372,065	4,757,370

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, 2009 and 2008

		2009	2008
Amounts currently payable to or for participants, beneficiaries, and dependents:			
Balance at beginning of year	$	4,757,370	4,195,855
Claims reported and approved for payment		32,480,239	31,079,464
Claims paid		(33,111,477)	(30,466,088)
Premiums to insurance carriers		6,951,536	6,997,068
Insurance companies' premiums and fees paid		(6,705,603)	(7,048,929)
Plan's total benefit obligations at end of year	$	4,372,065	4,757,370

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 Sections 414(e) of the Code and Section 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, AFLAC and ADP).

(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 applied to 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. See note (2)(g).

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.

(f) Benefit Obligations

For August 31, 2008, the actuarial present value of the expected cost of benefits covered by the Plan for claims IBNR, was calculated from actuarial assumptions including the overall expected level of increase in the cost of benefits provided (trend rates), to historical claims data to estimate the Plan's benefit obligations for the year then ended. For August 31, 2009, the Plan’s actuary, using the trend rates listed below, calculated the IBNR that is shown in the accompanying financial statements.

For measurement purposes, the trend rates used for the years ended August 31, 2009 and 2008 were as follows:

	2009	**2008**
Hospital – PPO	12.65%	11.3%
Hospital – EPO	12.65	11.3
Medical – both plans	12.65	9.9
Prescription drugs – both plans	12.65	10.7

(g) Recently Adopted Accounting Standards

Effective September 1, 2008, the Plan adopted Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS 157), as amended. SFAS 157 defines fair value and establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure 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. The adoption of SFAS 157 did not have a material impact on the Plan’s financial statements.

In connection with the adoption of SFAS 157, the Plan elected to early adopt the measurement provisions of Accounting Standards Update No. 2009-12, *Fair Value Measurements and Disclosures - Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, to certain investments in funds that do not have readily determinable fair values including the investments in Unitas Investment Fund, Inc. (Unitas). This guidance amends SFAS 157 and allows for the estimation of the fair value of investments within its scope using net asset value per share or its equivalent. Net asset value, in many instances, may not equal fair value that would be calculated pursuant to SFAS 157.

Effective August 31, 2009, the Plan adopted SFAS No. 165, *Subsequent Events* (SFAS 165). SFAS 165 establishes principles and requirements for subsequent events and applies to accounting for and disclosure of subsequent events not addressed in other applicable generally accepted accounting principles. The adoption of SFAS 165 had no significant impact on the Plan's financial statements.

In June 2006, the Financial Accounting Standards Board (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 the Plan's August 31, 2010 financial statements. The adoption of FIN 48 is not expected to have a significant impact on the Plan's financial statements.

(3) Investments

The Plan invests in a commingled investment fund held by 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 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. Previously, the Plan had common stock in MetLife, which was received as part of de-mutualization of MetLife.

The following table presents the Plan's fair value hierarchy for those investments measured at fair value as of August 31, 2009.

	Fair value	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 847,399	847,399	—	—
Unitas commingled funds	9,863,360	—	9,863,360	—
Total	$ 10,710,759	847,399	9,863,360	—

The Plan held investments with fair values representing 5% or more of the Plan's net assets available for benefits at August 31, 2009 and 2008 as follows:

		2009	2008
Unitas Short-Term Fund	$	2,248,171	*
Unitas Balanced Fund		5,238,604	7,532,703
Unitas Structured Debt Fund		2,376,585	4,251,383
MetLife Common Stock		*	993,540

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

(4) Funding Policy

Each participating entity shall make all necessary contributions to meet the minimum funding requirements, as determined by the Diocesan Health Plan Board. The Diocese contributes funds to the Plan to provide for benefit payments and to replenish funds held in the Plan. These funds are accumulated through employee payroll deductions, as well as from contributions made by the Diocese and certain terminated employees electing to remain in the Plan. Participant contributions for the various insurance plans are determined based upon the coverage chosen by the participant, the level and number of dependents being covered, as well as the plan in which they choose to enroll. 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.

(5) Receivables, Net

At August 31, 2009 and 2008, the Plan had receivables, which included balances due from participating entities, totaling approximately $9.9 million and $8.2 million, respectively. At August 31, 2009 and 2008, the Plan had recorded a reserve for losses against these receivables totaling approximately $2.5 million and $2 million, respectively. At August 31, 2009 and 2008, the Plan recorded bad debt expense as part of general and administrative expenses totaling approximately $616,000 and $134,000, respectively.

(6) 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 and statements of plan's benefit obligations.

The claims payable to providers and participants are reported based on certain assumptions pertaining to 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.

(7) Related-Entity Transactions

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, 2009 and 2008, due to other Diocesan organizations represented these amounts.

(8) Plan Termination

The plan administrator or Bishop 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.

(9) FAS 165 – Subsequent Events

In connection with the preparation of the financial statements, the Plan evaluated subsequent events through December 18, 2009, which was the date the financial statements were approved for issuance.

The Plan was amended effective July 1, 2009, to revise eligibility requirements. Effective July 1, 2009, each employee who is regularly scheduled to work 28 or more hours per week, may participate in the Plan after three months of continuous service with the Diocese. However, employees regularly scheduled to work at least 20 hours per week that were hired prior to July 1, 2009 shall be eligible to continue to participate (or to elect to participate) in the program until January 1, 2011, even if such employees had previously declined participation under the program. As of January 1, 2011, all employees will be required to work at least 28 hours per week in order to participate in the program.