PROTECTED SELF INSURANCE PROGRAM OF THE DIOCESE OF ROCKVILLE CENTRE

Financial Statements

August 31, 2009 and 2008

(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, 2009 and 2008, 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, 2009 and 2008, 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

December 11, 2009

PROTECTED SELF INSURANCE PROGRAM
OF THE DIOCESE OF ROCKVILLE CENTRE

Statements of Net Assets Held for the Benefit of Participating Organizations

August 31, 2009 and 2008

		2009	2008
Assets:			
Cash	$	370,163	314,478
Due from other Diocesan entities (note 8)		25,000	2,679,027
Investments (note 3)		47,316,849	55,091,604
Receivables:			
From participating organizations, net (note 4)		66,579,224	54,544,368
Reinsurance recoverable on paid losses and loss adjustment expenses		1,972,309	1,512,072
Reinsurance recoverable on unpaid losses and loss adjustment expenses (note 5)		5,335,245	5,406,797
Prepaid expenses and other assets (note 8)		10,566,075	8,733,127
Total assets		132,164,865	128,281,473
Liabilities:			
Accounts payable and accrued expenses		187,818	382,588
Due to other Diocesan entities (note 8)		193,599	300,000
Reserve for Workers' Compensation Board assessments		29,165,773	23,166,132
Losses and loss adjustment expenses payable (note 5):			
Retained		86,295,479	84,231,125
Ceded		5,335,245	5,406,797
Total liabilities		121,177,914	113,486,642
Contingencies (note 6)			
Net assets held for the benefit of participating organizations (note 2(a))	$	10,986,951	14,794,831

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, 2009 and 2008

		2009	2008
Revenues and losses:			
Assessments and billings to participating organizations	$	38,304,822	25,630,099
Deductions and adjustments:			
Claims, insurance and reinsurance expense paid and payable on behalf of participating organizations, net of insurance recoveries (note 5)		(28,297,773)	(18,336,429)
Change in Workers' Compensation Board Assessments		(7,934,566)	(5,400,094)
		2,072,483	1,893,576
Investment loss (note 3)		(2,026,552)	(1,805,367)
Net revenues and losses		45,931	88,209
Expenses:			
Operating expenses (note 7)		2,853,811	2,814,280
Required funding of captive insurance company (note 8)		1,000,000	—
Total expenses		3,853,811	2,814,280
Change in net assets held for the benefit of participating organizations		(3,807,880)	(2,726,071)
Net assets held for the benefit of participating organizations:			
At beginning of year		14,794,831	17,520,902
At end of year	$	10,986,951	14,794,831

See accompanying notes to financial statements.

PROTECTED SELF INSURANCE PROGRAM
OF THE DIOCESE OF ROCKVILLE CENTRE

Statements of Cash Flows

Years ended August 31, 2009 and 2008

	2009	2008
Cash flows from operating activities:		
Change in net assets held for the benefit of participating organizations	$ (3,807,880)	(2,726,071)
Adjustments to reconcile change in net assets held for the benefit of participating organizations to net cash used in operating activities:		
Net depreciation in fair value of investments	3,408,706	3,431,639
Increase in receivables from participating organizations	(12,034,856)	(1,447,918)
(Increase) decrease in reinsurance recoverable on paid and unpaid losses and loss adjustment expenses	(388,685)	90,534
Increase in prepaid expenses and other assets	(1,832,948)	(872,856)
Decrease in accounts payable and accrued expenses	(194,770)	(1,179,134)
Decrease in reserve for premiums	—	(1,250,000)
(Decrease) increase in due to other Diocesan entities	(106,401)	300,000
Increase in reserve for Workers' Compensation Board assessments	5,999,641	2,115,192
Increase (decrease) in losses and loss adjustment expenses payable	1,992,802	(4,257,067)
Net cash used in operating activities	(6,964,391)	(5,795,681)
Cash flows from investing activities:		
Purchase of investments	(3,511,667)	(3,524,105)
Proceeds from sale of investments	7,877,716	12,268,500
Net cash provided by investing activities	4,366,049	8,744,395
Cash flows from financing activity:		
Decrease (increase) in due from other Diocesan entities	2,654,027	(2,679,027)
Net cash provided by (used in) financing activity	2,654,027	(2,679,027)
Net increase in cash	55,685	269,687
Cash at beginning of year	314,478	44,791
Cash at end of year	$ 370,163	314,478

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. In 2008, the loss limit for workers’ compensation claims was reduced to $500,000.

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 a Diocesan insurance captive, Ecclesia Assurance Company (Ecclesia), a related entity stock corporation wholly owned by the Diocese.

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.

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(b) Cash Equivalents

Cash equivalents include highly liquid instruments with original maturities of three months or less, except for those instruments held by investment managers for long-term investment purposes.

(c) 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.

(d) 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.

(e) 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.

(f) 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.

(g) Security Deposit

Included in prepaid expenses and other assets at August 31, 2009 and 2008 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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(h) Recent Accounting Standards

Effective September 1, 2008, PSIP 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 PSIP's financial statements.

In connection with the adoption of SFAS 157, PSIP 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 the 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, PSIP 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 PSIP's financial statements.

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, An Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 addresses the accounting for uncertainties in income taxes recognized in an organization's financial statements and prescribes a threshold of more likely than not for recognition and de-recognition of tax positions taken or expected to be taken in a tax return. FIN 48 also provides related guidance on measurement, classification, interest and penalties, and disclosures. 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.

(3) Investments

A portion of PSIP's investments are in pooled investment funds held by Unitas, a separately incorporated, non-regulated investment fund organized to provide investment options to Roman Catholic organizations in the Diocese. Unitas offers investment options to participants, including a money market fund, fixed income and equity offerings. The investments in Unitas are carried at estimated 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 of all participants for the purpose of funding the mission component, provided the fund had a positive return. The rates range from 0.05% to 0.50% annually depending upon the investment options chosen.

At August 31, 2009 and 2008, the investments of PSIP were comprised of the following:

		2009	2008
Short-term investments	$	218,962	180,717
Certificates of deposit		1,481,727	1,570,912
Unitas Short-Term Fund		6,276,872	9,929,247
Unitas Balanced Fund		36,160,061	37,739,160
Unitas Structured Debt Fund		3,159,413	5,651,754
Other		19,814	19,814
	$	47,316,849	55,091,604

The following table presents the fair value hierarchy of investments as of August 31, 2009.

	Fair value	Level 1	Level 2	Level 3
Short-term investments	$ 218,962	218,962	—	—
Certificates of deposit	1,481,727	1,481,727	—	—
Unitas Short-Term Fund	6,276,872	—	6,276,872	—
Unitas Balanced Fund	36,160,061	—	36,160,061	—
Unitas Structured Debt Fund	3,159,413	—	3,159,413	—
Other	19,814	—	19,814	—
Total	$ 47,316,849	1,700,689	45,616,160	—

Investment (loss) return for the years ended August 31, 2009 and 2008 consists of the following:

	2009	2008
Net depreciation in fair value of investments	$ (3,408,706)	(3,431,639)
Interest and dividends	1,382,154	1,626,272
Total investment loss	$ (2,026,552)	(1,805,367)

(4) Receivables from Participating Organizations

For the years ended August 31, 2009 and 2008, receivables from participating organizations consisted of the following:

	2009	2008
Parishes and other participating organizations, net of allowance of $1,859,879 and $1,399,364 in 2009 and 2008, respectively	$ 903,475	1,212,177
Currently due from health facilities, net of allowance of $448,095 and $1,259,565 in 2009 and 2008, respectively	313,062	2,428,043
Recoverable from health facilities, net of discount of $17,241,890 in 2009 and $14,915,415 in 2008	65,362,687	50,904,148
Total	$ 66,579,224	54,544,368

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, 2009 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 33 (2009) losses. It also includes an actuarial calculation for the trending of claim periods 1 through 33 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 $24,151,064 (net of discount of $5,041,000) and $17,565,000 (net of discount of $3,980,000) for the years ended August 31, 2009 and 2008, respectively. There are five health facilities that participate in the Program; of which 31% of the amount recoverable is from one facility; 27% is from another facility, and the remaining concentrations range from 13% to 16%.

(5) Losses and Loss Adjustment Expenses Payable

At August 31, 2009 and 2008, the activity of losses and loss adjustment expenses payable consisted of the following:

		2009	2008
Balance, September 1	$	89,637,922	93,894,989
Less reinsurance recoverable on unpaid loss		(5,406,797)	(5,442,489)
Net balance, September 1		84,231,125	88,452,500
Incurred – related to:			
Current year		16,206,608	14,654,143
Prior years		17,808,040	10,490,457
Total incurred		34,014,648	25,144,600
Paid – related to:			
Current year		(2,627,149)	(2,885,870)
Prior years		(14,104,885)	(12,517,107)
Total paid		(16,732,034)	(15,402,977)
Insurance recoveries		(15,218,260)	(13,962,998)
Net balance, August 31		86,295,479	84,231,125
Plus reinsurance recoverable on unpaid loss		5,335,245	5,406,797
Balance, August 31	$	91,630,724	89,637,922

For the years ended August 31, 2009 and 2008, reinsurance premiums paid were allocated as follows:

		2009	2008
Directors and officers	$	113,150	111,190
Workers' compensation		1,569,817	668,054
Property and liability		5,589,641	2,213,793
Excess umbrella		2,678,714	1,463,722
Auto		87,843	90,703
Total premiums paid	$	10,039,165	4,547,462

During the years ended August 31, 2009 and 2008, the Program also incurred expenses associated with risk management grants that are used to encourage participants to comply with recommended practices.

(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, 2009 and 2008:

		2009	2008
Salaries and administrative charges	$	608,725	563,380
Payroll taxes		40,694	40,690
Employees' group insurance		46,018	57,923
Pension plan contribution		47,608	52,493
Professional fees		1,309,979	1,223,643
Office expenses		106,229	112,725
Space occupancy costs		41,592	47,214
Background screening		652,966	716,212
Total	$	2,853,811	2,814,280

(Continued)

(8) Related-Entity 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 $47,608 and $52,493 for the years ended August 31, 2009 and 2008.

(b) Prepaid Expenses

Prepaid expenses include $1,517,798 related to Ecclesia, for the premiums on the various insurance policies administered by Ecclesia.

(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.

(d) Required Funding of Insurance Captive

For the year ended August 31, 2009, the Program remitted $1,000,000 to Ecclesia to cover capital requirements.

(9) Subsequent Events

In connection with the preparation of the financial statements, PSIP evaluated subsequent events through December 11, 2009, which was the date the financial statements were approved for issuance, and concluded that no additional disclosures are required.