



**PROTECTED SELF INSURANCE PROGRAM  
OF THE DIOCESE OF ROCKVILLE CENTRE**

Financial Statements

August 31, 2010 and 2009

(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 participants of the Protected Self Insurance Program of the Diocese of Rockville Centre (PSIP) as of August 31, 2010 and 2009, and the related statements of changes in net assets held for the benefit of participants 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, 2010 and 2009, 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.

As discussed in note 2(n) to the financial statements, PSIP has elected to change its method of accounting for recoverables from health facilities in 2010.

**KPMG LLP**

October 6, 2011

**PROTECTED SELF INSURANCE PROGRAM  
OF THE DIOCESE OF ROCKVILLE CENTRE**

Statements of Net Assets Held for the Benefit of Participants

August 31, 2010 and 2009

	<b>2010</b>	<b>2009</b>
<b>Assets:</b>		
Cash	\$ 223,277	370,163
Due from other Diocesan entities (note 9(b))	3,861,653	25,000
Investments (note 3)	36,364,986	47,316,849
Receivables from participants, net (note 4)	88,245,014	83,821,114
Insurance reimbursable on paid losses and loss adjustment expenses	4,939,009	1,972,309
Insurance reimbursable on unpaid losses and loss adjustment expenses (notes 2(m) and 5)	40,102,184	43,171,355
Prepaid expenses and other assets (notes 2(h) and 9(c))	11,291,715	10,566,075
Total assets	185,027,838	187,242,865
<b>Liabilities:</b>		
Losses and loss adjustment expenses payable (note 5):		
Retained	93,370,068	86,295,479
Reimbursable from insurers	40,102,184	43,171,355
Total losses and loss adjustment expenses payable	133,472,252	129,466,834
Reserve for Workers' Compensation Board assessments	32,193,283	29,165,773
Accounts payable and accrued expenses	398,744	187,818
Due to other Diocesan entities (note 9(b))	61	193,599
Total liabilities	166,064,340	159,014,024
Net assets held for the benefit of participants (notes 1, 2 (e) and 2(n))	\$ 18,963,498	28,228,841

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 Participants

Years ended August 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Revenues:		
Assessments and billings to participants	\$ 26,824,703	38,239,653
Change in allowance for bad debts, net of recoveries (note 4)	655,866	329,671
	<u>27,480,569</u>	<u>38,569,324</u>
Net investment income (loss) (note 3)	2,730,076	(1,967,383)
Total revenues	<u>30,210,645</u>	<u>36,601,941</u>
Expenses:		
Losses and loss adjustment expenses and insurance premiums paid and payable on behalf of participants, net of insurance reimbursements paid and payable (notes 5 and 6)	32,011,979	26,294,969
Workers' Compensation Board Assessments	5,031,022	7,934,566
Operating expenses (note 8)	2,432,987	2,853,811
Total expenses	<u>39,475,988</u>	<u>37,083,346</u>
Surplus/(deficit) of revenues over expenses	(9,265,343)	(481,405)
Funding of captive insurance company (note 9(c))	—	(1,000,000)
Cumulative effect of change in accounting principle (note 2(n))	—	14,915,415
Change in net assets held for the benefit of participants	<u>(9,265,343)</u>	<u>13,434,010</u>
Net assets held for the benefit of participants		
At beginning of year	<u>28,228,841</u>	<u>14,794,831</u>
At end of year	<u>\$ 18,963,498</u>	<u>28,228,841</u>

See accompanying notes to financial statements.

**PROTECTED SELF INSURANCE PROGRAM  
OF THE DIOCESE OF ROCKVILLE CENTRE**

Statements of Cash Flows

Years ended August 31, 2010 and 2009

	<b>2010</b>	<b>2009</b>
Cash flows from operating activities:		
Change in net assets held for the benefit of participants	\$ (9,265,343)	13,434,010
Adjustments to reconcile change in net assets held for the benefit of participants to net cash used in operating activities:		
Cumulative effect of change in accounting principle (note 2(n))	—	(14,915,415)
Net (appreciation) depreciation in fair value of investments	(1,711,981)	3,408,706
Increase in receivables from participants	(4,423,900)	(14,361,331)
Decrease (increase) in insurance reimbursable on paid and unpaid losses and loss adjustment expenses	102,471	(10,458,373)
Increase in prepaid expenses and other assets	(725,640)	(1,832,948)
Increase (decrease) in accounts payable and accrued expenses	210,926	(194,770)
Decrease in due to other Diocesan entities	(193,538)	(106,401)
Increase in reserve for Workers' Compensation Board assessments	3,027,510	5,999,641
Increase in losses and loss adjustment expenses payable	4,005,418	12,062,490
Net cash used in operating activities	(8,974,077)	(6,964,391)
Cash flows from investing activities:		
Purchase of investments	(44,603,784)	(36,242,164)
Proceeds from sale of investments	57,267,628	40,608,213
Net cash provided by investing activities	12,663,844	4,366,049
Cash flows from financing activity:		
(Increase) decrease in due from other Diocesan entities	(3,836,653)	2,654,027
Net cash (used in) provided by financing activity	(3,836,653)	2,654,027
Net (decrease) increase in cash	(146,886)	55,685
Cash at beginning of year	370,163	314,478
Cash at end of year	\$ 223,277	370,163

See accompanying notes to financial statements.

**PROTECTED SELF INSURANCE PROGRAM  
OF THE DIOCESE OF ROCKVILLE CENTRE**

Notes to Financial Statements

August 31, 2010 and 2009

**(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, organizations, and individuals within the Diocese on an occurrence basis (the Program). As part of the Program, the Diocese retains third-party claims administrators that administer the settlement of claims and make recommendations on reserves for losses and loss adjustment expenses.

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 through loss prevention efforts and by insuring certain levels of risk in various areas of exposure with insurance enterprises. Assessments are used to pay for claims, administrative costs, and the purchase of insurance coverage for excess losses. Amounts reimbursable from insurers are estimated in a manner consistent with the expected claim liability associated with the related insurance policy. The claim retentions were as follows:

<u>Period</u>	<u>Year</u>	<u>Workers compensation</u>	<u>General liability</u>	<u>Auto liability</u>	<u>Property</u>	<u>Auto physical damage</u>
1 – 10	10/1976 – 8/1986	\$ 100,000	100,000	100,000	100,000	100,000
11 – 17	9/1986 – 8/1993	150,000	150,000	150,000	150,000	150,000
18 – 23	9/1993 – 8/1999	250,000	250,000	250,000	250,000	250,000
24 – 25	9/1999 – 8/2001	250,000	250,000	250,000	100,000	250,000
26	9/2001 – 8/2002	400,000	250,000	250,000	250,000	250,000
27 – 28	9/2002 – 8/2004	750,000	250,000	250,000	250,000	250,000
29	9/2004 – 8/2005	800,000	250,000	250,000	100,000	250,000
30 – 32	9/2005 – 8/2008	750,000	500,000	500,000	250,000	500,000
33	9/2008 – 10/2008	500,000	500,000	500,000	250,000	500,000
	11/2008 – 8/2009	100,000	100,000	100,000	100,000	100,000
34	9/2009 – 8/2010	100,000	100,000	100,000	100,000	100,000

Insurance contracts do not relieve the Program from its obligations to participants. Failure of insurers to honor their obligations could result in losses to the Program. In 2008, the Diocesan insurance captive, Ecclesia Assurance Company (Ecclesia), a related entity stock corporation wholly owned by the Diocese, began insuring portions of the risk.

The excess of assessments over expenses incurred, if any, would be used to purchase additional insurance, reduce future premium allocations due, or be returned to participants. If funds are not sufficient to pay claims, then additional assessments may be made against participants.

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.

**PROTECTED SELF INSURANCE PROGRAM  
OF THE DIOCESE OF ROCKVILLE CENTRE**

Notes to Financial Statements

August 31, 2010 and 2009

**(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) 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) Fair Value Measurements**

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 classification of an asset or liability in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of the asset or liability.

**(d) Investments**

A substantial portion of PSIP's investments are invested in pooled investment funds held by Unitas, a separately incorporated, nonregulated 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. Investments in Unitas are reported in accordance with the guidance in Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2009-12, *Fair Value Measurements and Disclosures – Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)*. This guidance allows for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value using net asset value per share or its equivalent.

Short-term investments and certificates of deposit are stated at cost which approximates fair value.

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

**PROTECTED SELF INSURANCE PROGRAM  
OF THE DIOCESE OF ROCKVILLE CENTRE**

Notes to Financial Statements

August 31, 2010 and 2009

could materially affect the amounts reported in the statements of net assets held for the benefit of participants.

**(e) Revenue Recognition**

Revenue related to assessments for insurance and operating expenses to participants is recognized when the related insurance expense is paid and/or payable on behalf of participants and the related operating expenses are incurred. Participants are billed based in part on estimates of such charges.

**(f) 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 participants.

**(g) 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.

The Program's significant accounting estimates include loss and loss adjustment expenses payable, reserves for Workers' Compensation Board assessments, allowance for bad debts, and realization of various reimbursable amounts.

**(h) Security Deposit**

Included in prepaid expenses and other assets at August 31, 2010 and 2009 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.

**(i) Income Taxes**

In 2010, PSIP adopted ASU No. 2009-06, *Implementation Guidance on Accounting for Uncertainty in Income Taxes and Disclosure Amendments for Nonpublic Entities*, in conjunction with its adoption of FASB Interpretation No. 48, *Accounting for Uncertainties in Income Taxes* (FIN 48) (now included in Accounting Standards Codification (ASC) Subtopic 740-10, *Income Taxes – Overall*). In accordance with FIN 48 and ASU No. 2009-06, PSIP accounts for uncertainties in



**PROTECTED SELF INSURANCE PROGRAM  
OF THE DIOCESE OF ROCKVILLE CENTRE**

Notes to Financial Statements

August 31, 2010 and 2009

income taxes recognized in the organization's financial statements using a threshold of more likely than not. The adoption of FIN 48 and ASU No. 2009-06 had no impact on PSIP's financial statements.

**(j) Insurance Reimbursables**

Insurance recoveries have been recognized to the extent realization of the claim for reimbursement of a loss recognized in the financial statements has been deemed probable.

**(k) Workers Compensation Board Assessments**

The Program is subject to assessments by the New York State Workers Compensation Board. The ultimate liability for this assessment is actuarially determined in a manner similar to loss and loss adjustment expense payable.

**(l) Reclassifications**

Certain reclassifications have been made to the 2009 financial statements to conform to the 2010 presentation. The presentation of the statements of changes in net assets held for the benefit of participants has been more closely aligned with ASC 944, *Financial Services – Insurance*.

**(m) Correction of 2009 Balances**

During 2010, management self-identified an immaterial error in the Program's financial statements as of August 31, 2009. Management corrected this error in the accompanying comparative financial statements as of August 31, 2009 through (a) an increase of approximately \$37.8 million to insurance reimbursable on unpaid losses and loss adjustment expenses and (b) a comparable increase in losses and loss adjustment expenses payable as of the same date. This correction had no impact on net assets held for the benefit of participants at August 31, 2009 or changes therein for the year then ended.

**(n) Change in Accounting for Recoverables from Health Facilities**

As of August 31, 2010, the Program changed its method of accounting for recoverables from health facilities such as to report such balances on an undiscounted basis. In prior years, the Program reported such recoverables on a discounted basis. The Program believes this accounting change to be preferable in accordance with generally accepted accounting principles.

The impact of this change in accounting principle is presented as an adjustment to net assets available to participants as of September 1, 2008.

**PROTECTED SELF INSURANCE PROGRAM  
OF THE DIOCESE OF ROCKVILLE CENTRE**

Notes to Financial Statements

August 31, 2010 and 2009

The change in accounting principle and the correction of an error identified in note 2 (m) had the following impact on previously reported balances and amounts as of and for the year ended August 31, 2009:

	<b>2009</b>			
	<u>As previously reported</u>	<u>Correction of error</u>	<u>Impact of change in accounting</u>	<u>As currently reported</u>
Statement of net assets held for the benefit of participants:				
Receivables from participants	\$ 66,579,224	—	17,241,890	83,821,114
Insurance reimbursables on unpaid losses and loss adjustment expenses	5,335,245	37,836,110	—	43,171,355
Total assets	132,164,865	37,836,110	17,241,890	187,242,865
Losses and loss adjustment expenses payable – reimbursable from insurers	5,335,245	37,836,110	—	43,171,355
Total liabilities	121,177,914	37,836,110	—	159,014,024
Net assets held for the benefit of participants, end of period	10,986,951	—	17,241,890	28,228,841
Statement of changes in net assets held for the benefit of participants:				
Claims and loss adjustment expenses paid and payable on behalf of participants and insurance expense, net of insurance recoveries	\$ (28,621,444) *	—	2,326,475	(26,294,969)
Cumulative effect of change in accounting principle	—	—	14,915,415	14,915,415
Change in net assets held for the benefit of participants	(3,807,880)	—	17,241,890	13,434,010

**PROTECTED SELF INSURANCE PROGRAM  
OF THE DIOCESE OF ROCKVILLE CENTRE**

Notes to Financial Statements

August 31, 2010 and 2009

	2009			
	As previously reported	Correction of error	Impact of change in accounting	As currently reported
Statement of cash flow:				
Change in net assets held for the benefit of participants	\$ (3,807,880)	—	17,241,890	13,434,010
Cumulative effect of change in accounting principle	—	—	14,915,415	14,915,415
Increase in receivables from participants	(12,034,856)	—	(2,326,475)	(14,361,331)
Increase in insurance recoverables on paid and unpaid losses and loss adjustment expenses	(388,685)	10,069,688	—	(10,458,373)
Increase in losses and loss adjustment expenses payable	1,992,802	10,069,688	—	12,062,490

\* After giving effect to certain reclassifications made to the 2009 financial statements to conform to the 2010 presentation.

The change in accounting principle had no impact on cash flows from investing or financing activities.

**(3) Investments**

At August 31, 2010 and 2009, the investments of PSIP comprised the following:

	2010	2009
Short-term investments	\$ 2,291,280	218,962
Certificates of deposit	1,120,000	1,481,727
Unitas Money Market Fund	1,234,194	6,276,872
Unitas Balanced Fund	26,619,591	36,160,061
Unitas Structured Debt Fund	26,397	3,159,413
Unitas Capital Preservation Fund	5,053,710	—
Other	19,814	19,814
	<u>\$ 36,364,986</u>	<u>47,316,849</u>

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. In December 2009, the Unitas Board discontinued the mission fee for the remainder of fiscal year 2010. The mission fee was reinstated effective September 1, 2010.

**PROTECTED SELF INSURANCE PROGRAM  
OF THE DIOCESE OF ROCKVILLE CENTRE**

Notes to Financial Statements

August 31, 2010 and 2009

Net investment income (loss) for the years ended August 31, 2010 and 2009 consists of the following:

	<b>2010</b>	<b>2009</b>
Net appreciation (depreciation) in fair value of Unitas investments	\$ 1,711,981	(3,408,706)
Unitas interest and dividends, net of investment manager fees	986,169	1,317,758
Interest from other investments	31,926	123,565
Net investment income (loss)	\$ 2,730,076	(1,967,383)

The following tables present the fair value hierarchy of investments as of August 31, 2010 and 2009.

		<b>2010</b>			
	<b>Fair value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
Short-term investments	\$ 2,291,280	2,291,280	—	—	
Certificates of deposit	1,120,000	—	1,120,000	—	
Unitas Money Market Fund	1,234,194	—	1,234,194	—	
Unitas Balanced Fund	26,619,591	—	26,619,591	—	
Unitas Structured Debt Fund	26,397	—	26,397	—	
Unitas Capital Preservation Fund	5,053,710	—	5,053,710	—	
Other	19,814	—	19,814	—	
Total	\$ 36,364,986	2,291,280	34,073,706	—	

		<b>2009</b>			
	<b>Fair value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
Short-term investments	\$ 218,962	218,962	—	—	
Certificates of deposit	1,481,727	—	1,481,727	—	
Unitas Money Market 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	218,962	47,097,887	—	

The investments in the Unitas Money Market Fund are redeemable daily. The investments in the other Unitas funds are redeemable quarterly with one day's notice.

- a) The Unitas Short Term Fund invests in short-term debt securities and money market instruments.
- b) The Unitas Capital Preservation Fund, which invests in a combination of money market securities and short-term, investment-grade fixed income securities.

**PROTECTED SELF INSURANCE PROGRAM  
OF THE DIOCESE OF ROCKVILLE CENTRE**

Notes to Financial Statements

August 31, 2010 and 2009

- c) The Unitas Balance Fund invests approximately 50% of its assets in the Unitas Total Fixed Income Fund and 50% of its assets in equity securities.
- d) The Unitas Structured Debt Fund invests in residential mortgage-backed securities, credit/bank loans, and investment grade corporate debt and asset-backed securities.

**(4) Receivables from Participants**

Receivables from health facilities, parishes, and other participants are as follows:

	2010	2009
Current receivables:		
Health facilities	\$ 194,421	761,157
Parish and other participants	2,035,573	2,763,354
	2,229,994	3,524,511
Recoverables from health facilities:		
Loss and loss adjustment expenses	61,629,723	58,453,513
Workers compensation board assessments	25,961,405	24,151,064
	87,591,128	82,604,577
Less allowance for bad debts	(1,576,108)	(2,307,974)
Total	\$ 88,245,014	83,821,114

Effective September 1, 1988, the Program modified its method of assessments for the Diocesan health facilities to include: a) Allocated amounts of program overhead (insurance, workers compensation board assessments, and operating expenses) and actual retained amounts paid for claims occurring on or after September 1, 1988 have been billed to each facility and the related receivable is reflected as currently due from health facilities (note 5), and b) Allocated amounts of unpaid and incurred, but not reported, claims are included in recoverables from health facilities. Allocated amounts of unpaid losses are estimated by the third-party administrators, and incurred, but not reported, claims are estimated by an actuary. In addition, unpaid loss estimates include an actuarial calculation for the trending of claims to their ultimate estimated settlement value. Also, included in this balance is the actuarially determined amount of future Workers' Compensation Board assessments, which are attributable to the health facilities.

During 2010, the Diocese further modified the Program, whereas the health facilities will directly fund all loss and loss adjustment expense paid after December 31, 2009 for:

- a) all claims occurring on or after April 1, 2006; and
- b) all claims incurred prior to April 1, 2006, which are administered by the current third-party administrators.

This funding arrangement means the health facilities assume the risk for any uncollectible insurance reimbursements. However, the Program remains responsible for the portion of loss and loss adjustment

**PROTECTED SELF INSURANCE PROGRAM  
OF THE DIOCESE OF ROCKVILLE CENTRE**

Notes to Financial Statements

August 31, 2010 and 2009

expense that relates to statutory risks. Failure of the health facility to honor such obligations could result in losses to the Program.

Further, as a consequence of this change, effective January 1, 2010, health facilities were no longer assessed the loss and loss adjustment expense that were previously funded by the Program.

At August 31, 2010, there are five health facilities that participate in the Program, of which 35% of the amount recoverable is from one facility, 23% is from another facility, and the remaining concentrations range from 13% to 15%.

Changes in the allowance for bad debts attributable to current receivables were as follows:

	<u>2010</u>	<u>2009</u>
Allowance for bad debts, beginning of period	\$ 2,307,974	2,659,929
Allowance for bad debts, net of recoveries	(655,866)	(329,671)
Accounts charged off	<u>(76,000)</u>	<u>(22,284)</u>
Allowance for bad debts, end of period	<u>\$ 1,576,108</u>	<u>2,307,974</u>

**(5) Losses and Loss Adjustment Expenses Payable**

At August 31, 2010 and 2009, the activity of losses and loss adjustment expenses payable consisted of the following:

	<u>2010</u>	<u>2009</u>
Balance, September 1	\$ 129,466,834	126,456,909
Less insurance reimbursable on unpaid loss	<u>(43,171,355)</u>	<u>(42,225,784)</u>
Net balance, September 1	<u>86,295,479</u>	<u>84,231,125</u>
Incurred – related to:		
Current year	22,036,204	22,940,507
Prior years	<u>(5,359,337)</u>	<u>(810,354)</u>
Total incurred	<u>16,676,867</u>	<u>22,130,153</u>
Paid – related to:		
Current year	(2,271,199)	(2,627,149)
Prior years	<u>(7,331,079)</u>	<u>(17,438,650)</u>
Total paid	<u>(9,602,278)</u>	<u>(20,065,799)</u>
Net balance, August 31	93,370,068	86,295,479
Plus insurance reimbursable on unpaid loss	<u>40,102,184</u>	<u>43,171,355</u>
Balance, August 31	<u>\$ 133,472,252</u>	<u>129,466,834</u>

**PROTECTED SELF INSURANCE PROGRAM  
OF THE DIOCESE OF ROCKVILLE CENTRE**

Notes to Financial Statements

August 31, 2010 and 2009

The lower prior year incurred loss in 2010 is primarily due to the change in the health facilities funding arrangement whereby, effective January 1, 2010, unpaid nonstatutory claims became the sole, direct, responsibility of the health facilities. Also, see note (4).

**(6) Insurance Premiums**

For the years ended August 31, 2010 and 2009, insurance premiums paid were allocated as follows:

	<u>2010</u>	<u>2009</u>
Directors and officers	\$ 216,002	113,150
Workers' compensation	1,811,235	1,569,817
Property and liability	6,362,240	5,589,641
Excess umbrella	3,779,231	2,678,714
Auto	<u>93,924</u>	<u>87,843</u>
Total premiums paid	<u>\$ 12,262,632</u>	<u>10,039,165</u>

**(7) 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.

**(8) Operating Expenses**

Operating expenses included the following for the years ended August 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Salaries and administrative charges	\$ 643,572	608,725
Payroll taxes	42,640	40,694
Employees' group insurance	45,690	46,018
Pension plan contribution	61,575	47,608
Professional fees	1,357,888	1,309,979
Office and other miscellaneous expenses	149,388	106,229
Space occupancy costs	27,950	41,592
Background screening	<u>104,284</u>	<u>652,966</u>
Total	<u>\$ 2,432,987</u>	<u>2,853,811</u>

**(9) 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

**PROTECTED SELF INSURANCE PROGRAM  
OF THE DIOCESE OF ROCKVILLE CENTRE**

Notes to Financial Statements

August 31, 2010 and 2009

is considered a multi-employer plan, it is only subject to certain minimum reporting requirements of ASC 715-10-05, *Employers' Accounting for Pensions*, as amended by ASC 715-20-55, *Employers' Disclosures about Pensions and Other Postretirement Benefits*. Pension expense totaled \$61,575 and \$47,608 for the years ended August 31, 2010 and 2009, respectively.

**(b) Due to (from) Other Diocesan Entities**

During fiscal year 2010, the Diocese and parishes within the Diocese offered their respective employees participation in a voluntary separation program (VSP). In order to assist several parishes in meeting their short-term needs to finance the payment of the VSP, the Diocese has secured a four-year financing facility with a bank, consisting of a one-year revolving credit note and a three-year term loan. The rate of interest on the revolving credit note and the term note is a variable rate of 1.00% above interest earned on collateral to secure a loan but no less than 2.25%. The entire facility is collateralized by a \$4,000,000 investment account opened at the bank. The parishes participating in the VSP loan program have signed notes in favor of the Diocese in order to access the amounts loaned by the bank to the Diocese, carrying interest of 2.50%. These parish loans have a three-year term; prepayment is permitted.

Currently, the funds in the collateral account, held in the name of the Diocese, consist of funds loaned to the Diocese by PSIP and recorded as due from other Diocesan entities in the accompanying statements of net assets held for the benefit of participating organizations. In order for the PSIP funds to remain in the bank as collateral for the loan to the Diocese, the PSIP Board has ratified the arrangement, under the following terms:

- i. Duration of the use of the PSIP funds as collateral will not exceed four years and two months, commencing as of August 27, 2010. The extra two months is to allow for release-of-collateral documents to be executed.
- ii. Interest of 1.25% on the PSIP funds in the collateral account and will be credited to PSIP in exchange for use of the funds as collateral.
- iii. Interest and principal will be paid to PSIP on the maturity date of the loan from the bank to the Diocese.
- iv. There will be no penalty for any prematurity crediting of funds back to PSIP or for release of collateral, or any portion thereof, which may be made in increments of \$100,000.

All other due to (from) other Diocesan entities balances arise as PSIP pays bills on behalf of other Diocesan organizations or other Diocesan organizations pay bills on behalf of PSIP.

**(c) Insurance Captive**

For the year ended August 31, 2009, the Program remitted \$1,000,000 to Ecclesia to cover capital requirements of the New York State Insurance Department.

Insurance reimbursables from Ecclesia on paid and unpaid losses at August 31, 2010 were \$1,199,800.



**PROTECTED SELF INSURANCE PROGRAM  
OF THE DIOCESE OF ROCKVILLE CENTRE**

Notes to Financial Statements

August 31, 2010 and 2009

Prepaid expenses at August 31, 2010 include \$2,675,904 related to Ecclesia for the premiums on the various insurance policies administered by Ecclesia.

Claims paid and payable on behalf of participants for the year ended August 31, 2010 include recoveries received or receivable from Ecclesia of \$1,199,800 and insurance premiums paid to Ecclesia of \$10,526,113.

**(10) Subsequent Events**

In connection with the preparation of the financial statements, PSIP evaluated events subsequent to the balance sheet date as of August 31, 2010 through October 6, 2011, which was the date the financial statements were available to be issued, and concluded that no additional disclosures were required.