DIOCESE OF ROCKVILLE CENTRE
HEALTH AND WELFARE BENEFITS PROGRAM

Financial Statements

August 31, 2011 and 2010

(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, 2011 and 2010, 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, 2011 and 2010, and the changes in its financial status for the years then ended, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

December 19, 2011

DIOCESE OF ROCKVILLE CENTRE
HEALTH AND WELFARE BENEFITS PROGRAM

Statements of Net Assets Available for Benefits

August 31, 2011 and 2010

		2011	2010
Assets:			
Investments (note 5):			
Unitas Money Market Fund	$	4,050,528	5,531,928
Unitas Structured Debt Fund		—	19,856
Unitas Capital Preservation Fund		3,048,940	3,032,226
Cash and cash equivalents		5,294,992	1,438,800
Total investments		12,394,460	10,022,810
Receivables:			
Participants’ and employers’ contributions, net of allowance for doubtful accounts of approximately $4,520,000 and $3,020,000 in 2011 and 2010, respectively (note 6)		3,949,201	6,663,382
Other receivables		96,269	133,222
Due from other Diocesan organizations		29,964	—
Total receivables		4,075,434	6,796,604
Other assets		8,570	9,482
Total assets		16,478,464	16,828,896
Liabilities:			
Accounts payable and accrued expenses		711,525	1,013,112
Due to other Diocesan organizations		412	172,789
Other liabilities		62,193	—
Total liabilities		774,130	1,185,901
Net assets available for benefits	$	15,704,334	15,642,995

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, 2011 and 2010

	2011	2010
Additions:		
Contributions:		
Participating employers	$ 32,662,542	32,521,486
Participants	7,439,647	7,773,693
Total contributions	40,102,189	40,295,179
Investment income (loss):		
Net (depreciation) appreciation in fair value of investments	(7,778)	138,391
Interest and dividends	40,932	53,696
Total investment income (loss)	33,154	192,087
Fee income and other	248,245	237,205
Total additions	40,383,588	40,724,471
Deductions:		
Healthcare and flexible spending benefits paid	31,994,445	34,920,006
Insurance companies' premiums and fees	5,496,265	6,179,579
General and administrative expenses	2,831,539	1,659,279
Total deductions	40,322,249	42,758,864
Increase (decrease) in net assets available for benefits	61,339	(2,034,393)
Net assets available for benefits at beginning of year	15,642,995	17,677,388
Net assets available for benefits at end of year	$ 15,704,334	15,642,995

See accompanying notes to financial statements.

DIOCESE OF ROCKVILLE CENTRE
HEALTH AND WELFARE BENEFITS PROGRAM

Statements of Plan's Benefit Obligations

August 31, 2011 and 2010

		2011	2010
Amounts currently payable:			
Claims payable and claims incurred but not reported	$	3,020,813	3,567,278
Premiums due to insurers		301,204	284,945
Plan's total benefit obligations	$	3,322,017	3,852,223

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, 2011 and 2010

		2011	**2010**
Amounts currently payable to or for participants, beneficiaries, and dependents:			
Balance at beginning of year	$	3,852,223	4,372,065
Claims reported and approved for payment and estimate of claims incurred but not yet reported		31,447,980	34,581,430
Claims paid		(31,994,445)	(34,920,006)
Premiums to insurance carriers		5,512,524	5,998,313
Insurance companies' premiums and fees paid		(5,496,265)	(6,179,579)
Plan's total benefit obligations at end of year	$	3,322,017	3,852,223

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.

(a) General

The Plan was established to provide placement of medical, prescription drug, dental, 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:

(b) 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. 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. This coverage ceased as of December 31, 2009 and was replaced with Empire Blue POS.
- Empire Blue POS – 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; or receive out-of-network benefits both without referral. This plan has deductibles, coinsurance, and out-of-pocket maximums for both in-network and out-of-network inpatient hospital care.

- 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.

(c) Other Insurance and Benefits

The Plan provides 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).

(d) Eligibility and Participation

Each employee, who is regularly scheduled to work 28 or more hours per week, may participate in the Plan after 90 days of continuous employment 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 elect to participate) in the program until December 31, 2010. 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. Eligible Clergy and Religious who participate are automatically enrolled 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 Accounting

The accompanying financial statements are prepared on the accrual basis of accounting.

(b) 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. Significant estimates include the valuation of investments, evaluating collectability of receivables, and calculation of claims incurred but not reported.

(c) 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 asset's fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement.

Most investments classified in Levels 2 and 3 consist of shares or units in investment funds as opposed to direct interests in the funds' underlying holdings, which may be marketable. Because the net asset value reported by each fund is used as a practical expedient to estimate fair value of the Plan's interest therein, its classification in Level 2 or 3 is based on the Plan's ability to redeem its interest at or near August 31, 2011. If the interest can be redeemed in the near term, the investment is classified as Level 2. The classification of investments in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.

(d) Investment Valuation and Income Recognition

The Plan's investments in pooled funds are stated at net asset value. Net appreciation (depreciation) in fair value of investments consists of realized and unrealized gains and losses and is shown in the accompanying statements of changes in net assets available for benefits.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

(e) 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.

(f) Payment of Benefits

Benefits paid are recorded upon payment.

(g) Benefit Obligations

The actuarial present value of the expected cost of benefits covered by the Plan for claims incurred but not reported (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.

(3) Funding Policy

Each participating entity shall make all necessary contributions to meet the 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.

(4) 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. Each participating entity may also elect not to participate 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.

(5) Investments

The Plan invests 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 affiliated organizations, 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 each 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 return over a stated amount. The mission fee is only charged if, net of investment and administrative fees, the return exceeds 12.5 basis points (bps) per month on the Unitas Money Market Fund or 37.5 bps per quarter on the Unitas Capital Preservation Fund and/or the Unitas Long-Term Funds (150 basis points annualized). Each month/quarter is independent of prior or future months’/quarters’ performance when determining if the mission fee has met the assessment criteria. The mission fee to participants in the Unitas Money Market Fund is 0.0042% monthly (0.05% annualized); the mission fee to participants in the Unitas Capital Preservation Fund is 0.0125% quarterly (0.05% annualized), while the mission fee to participants in the Unitas Long-Term Funds is 0.125% quarterly (0.50% annualized).

The following table presents the Plan’s fair value hierarchy for those investments measured at fair value as of August 31, 2011 and 2010:

	2011			
	Fair value	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents	$ 5,294,992	5,294,992	—	—
Unitas Money Market Fund (a)	4,050,528	—	4,050,528	—
Unitas Capital Preservation Fund (b)	3,048,940	—	3,048,940	—
Total	$ 12,394,460	5,294,992	7,099,468	—

	2010			
	Fair value	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents	$ 1,438,800	1,438,800	—	—
Unitas Money Market Fund (a)	5,531,928	—	5,531,928	—
Unitas Capital Preservation Fund (b)	3,032,226	—	3,032,226	—
Unitas Structured Debt Fund (c)	19,856	—	19,856	—
Total	$ 10,022,810	1,438,800	8,584,010	—

(a) The Unitas Money Market Fund invests in short-term debt securities and money market instruments.

(b) The Unitas Capital Preservation Fund invests in a combination of money market securities and short-term investment-grade fixed income securities.

(c) The Unitas Structured Debt Fund is closed to new investors and invests in residential-mortgage-backed securities, credit/bank loans, and investment grade corporate debt and asset-backed securities.

The investments in the Unitas Money Market Fund are redeemable daily with 1 days notice. The investments in Unitas Capital Preservation and Structured Debt funds are redeemable quarterly with 1 day's notice. There are no unfunded commitments to any investment funds.

The Plan held investments with fair values representing 5% or more of the Plan's net assets available for benefits at August 31, 2011 and 2010 as follows:

	2011	**2010**
Identity of issuer:		
Unitas Money Market Fund	$ 4,050,528	5,531,928
Unitas Capital Preservation Fund	3,048,940	3,032,226
J.P. Morgan Money Market Fund	5,152,854	1,180,124

(6) Receivables, Net

At August 31, 2011 and 2010, the Plan had receivables, which included balances due from participating entities, totaling approximately $8.5 million and $9.7 million, respectively. At August 31, 2011 and 2010, the Plan had recorded a reserve for losses against these receivables totaling approximately $4.5 million and $3 million, respectively. At August 31, 2011 and 2010, the Plan recorded bad debt expense as part of general and administrative expenses totaling approximately $1,600,000 and $533,000, respectively.

(7) 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.

(8) 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, 2011 and 2010, due to other Diocesan organizations represented amounts owed for these amounts. Amounts due from other Diocesan organizations represented balances owed for current year assessments.

(9) Subsequent Events

In connection with the preparation of the financial statements, the Plan evaluated subsequent events from August 31, 2011 through December 19, 2011, which was the date the financial statements were approved for issuance and concluded that no additional disclosures were required.