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HEALTH INSURANCE PROGRAM
OF THE DIOCESE OF ROCKVILLE CENTRE

Financial Statements

August 31, 2006

(With Independent Auditors’ Report Thereon)

HEALTH INSURANCE PROGRAM
OF THE DIOCESE OF ROCKVILLE CENTRE

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KPMG

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 available for benefits and of plan benefit obligations of the Health Insurance Program of the Diocese of Rockville Centre (the Program) as of August 31, 2006, and the related statements of changes in net assets available for benefits and of changes in benefit obligations for the year then ended. These financial statements are the responsibility of the Program's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 Program'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 audit provides 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 Health Insurance Program of the Diocese of Rockville Centre as of August 31, 2006, and the changes in its financial status for the year then ended in conformity with U.S. generally accepted accounting principles.

We have also audited the adjustments as described in note 7, that were applied to restate the 2005 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

KPMG LLP

September 7, 2007

HEALTH INSURANCE PROGRAM
OF THE DIOCESE OF ROCKVILLE CENTRE

Statement of Net Assets Available for Benefits

August 31, 2006

Assets

Investments, at fair value (note 3):		
Deposit and Loan Account	$	8,279,894
Unitas Short-Term Fund		4,355,339
Unitas Balanced Fund		10,788,228
Equity Securities – MetLife		1,008,755
Total investments		24,432,216
Receivables:		
Participants and employer contributions, net of allowance for doubtful accounts of approximately $1,988,000 (note 4)		2,833,915
Flexible spending account contributions		95,506
Total receivables		2,929,421
Cash		152,740
Total assets		27,514,377

Liabilities

Accounts payable and accrued expenses		427,921
Due to other Diocesan organizations (note 6)		1,085,578
Total liabilities		1,513,499
Net assets available for benefits	$	26,000,878

See accompanying notes to financial statements.

HEALTH INSURANCE PROGRAM
OF THE DIOCESE OF ROCKVILLE CENTRE

Statement of Changes in Net Assets Available for Benefits

Year ended August 31, 2006

Additions:		
Contributions:		
Participating employers	$	25,916,574
Participants		5,467,112
Total contributions		31,383,686
Investment income:		
Net appreciation in fair value of investments		110,903
Interest and dividends		1,046,988
Total investment income		1,157,891
Fee income and other additions (note 4)		1,324,977
Total additions		33,866,554
Deductions:		
Healthcare benefits paid to participants		22,968,090
Insurance companies' premiums, retention and fees		5,860,097
General and administrative expenses (note 6)		663,814
Total deductions		29,492,001
Increase in net assets available for benefits		4,374,553
Net assets available for benefits at beginning of year, as restated (note 7)		21,626,325
Net assets available for benefits at end of year	$	26,000,878

See accompanying notes to financial statements.

HEALTH INSURANCE PROGRAM
OF THE DIOCESE OF ROCKVILLE CENTRE

Statement of Plan’s Benefit Obligations

August 31, 2006

Amounts currently payable:		
Claims payable to providers and participants	$	2,212,187
Premiums due to insurers		463,593
Plan’s total benefit obligation	$	2,675,780

See accompanying notes to financial statements.

HEALTH INSURANCE PROGRAM
OF THE DIOCESE OF ROCKVILLE CENTRE

Statement of Changes in Plan's Benefit Obligations

Year Ended August 31, 2006

Amounts currently payable to or for participants, beneficiaries, and dependents:

Balance at beginning of year, as restated (note 7)	$	2,228,047
Claims reported and approved for payment		23,119,340
Claims paid		(22,968,090)
Premiums owed to insurance carriers		6,156,580
Insurance companies' premiums, retention and fees		(5,860,097)
Balance at end of year	$	2,675,780

See accompanying notes to financial statements.

(1) Description of the Plan

The following description of the Health Insurance Program of the Roman Catholic Diocese of Rockville Centre (the Program) provides only general information. Participants should refer to the Program agreement for a complete description of the Program's provisions.

The Program was established to provide placement of medical, dental, and/or life and nonoccupational disability insurance coverage for the participating employees of the parishes, schools, and other Roman Catholic organizations within the Roman Catholic Diocese of Rockville Centre (the Diocese).

The Program administers the financial activities of the "Diocese of Rockville Centre Health and Welfare Benefits Program" (the Plan), which is a "cafeteria plan" meeting the requirements of Section 125 of the Internal Revenue Code of 1986 (the Code) and is qualified as a "church plan" within the meaning of the Code and is therefore exempt from the requirements of the Employee Retirement Income Security Act of 1974 (ERISA), as amended. The Plan benefit plan coverages begins January 1 and ends December 31.

The Program 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 Internal Revenue Code and a similar provision of the New York State income tax laws.

The Program's health benefit coverages are summarized below.

(a) Major Medical Coverage

The Program provides options for participants in the Plan, as follows:

- Empire Blue EPO – a component plan of the wholly self-insured health program 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 program 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 plan is only offered for nonincardinated visiting priests.

(b) Other Insurance

The Program continues to provide dental, life, disability, accidental death and dismemberment and cancer care insurance for all participants through conventional insurance policies with outside insurance carriers (Hartford, CIGNA and AFLAC).

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(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 Program determines its allowance for doubtful accounts based upon a formula used on 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, IBNR, claims payable and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

(3) Investments

The Program's investments are in a pooled investment fund held by Unitas Investment Fund, Inc., 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 participants, 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 .05% to .5% annually depending upon the investment options chosen.

Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the accompanying financial statements.

At August 31, 2006, investments consisted of the following:

Deposit and Loan Account	$	8,279,894
Unitas Short-Term Fund		4,355,339
Unitas Balanced Fund		10,788,228
Equity Securities – MetLife		1,008,755
Total investments	$	24,432,216

(4) Receivables, Net

At August 31, 2006, the Program had premiums receivable, which included balances due from parishes totaling approximately $4,795,000. At August 31, 2006, the Program had recorded a reserve for losses against these receivables totaling approximately $1,988,000.

In addition, late changes are assessed on accounts past due over 60 days. Fee income and other revenue include approximately $206,000 in late charges for the year ended August 31, 2006.

(5) Risks and Uncertainties

The Program 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 statement of net assets available for benefits.

(6) Related-Party Transactions

General and administrative expenses of the Program are paid 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 Program. At August 31, 2006, due to other Diocesan organizations represented amounts owed to certain religious orders who withdrew from the Program in previous years and are owed a refund for excess contributions to the Program.

The Program is a participant in a 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 Statement of Financial Accounting Standards (SFAS) No. 87, *Employer's Accounting for Pensions*, as amended by SFAS No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits*. As of December 31, 2005 (the most current audited plan year), the plan was fully funded. Pension expense approximated $10,200 for the year ended August 31, 2006.

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(7) Restatement

In previous years the financial statements of the Program followed the provisions of SFAS No. 117, *Financial Statements of Not-for-Profit Organizations*. In 2006, the financial statements of the Program were reformatted to follow the provisions of the AICPA Audit and Accounting Guide *Employee Benefit Plans for Health and Welfare Plans*. Accordingly, net assets available for benefits at the beginning of the year and the Plan's total benefit obligation were restated as follows:

Net assets – unrestricted at beginning of year, as previously reported	$	5,998,898
Reclassification of funds held for Diocesan entities		15,460,318
Premiums and claims payable to insurance carriers		167,109
Net assets available for benefits at beginning of year, as restated	$	21,626,325

Plan's benefit obligation at beginning of year, as previously reported	$	—
Premiums and claims payable to insurance carriers		167,109
Claims incurred but not reported		2,060,938
Plan's benefit obligation at beginning of year, as restated	$	2,228,047