



**ECCLESIA ASSURANCE COMPANY**

Financial Statements

December 31, 2010 and 2009

(With Independent Auditors' Report Thereon)



KPMG LLP  
345 Park Avenue  
New York, NY 10154

## Independent Auditors' Report

The Board of Directors  
Ecclesia Assurance Company:

We have audited the accompanying balance sheets of Ecclesia Assurance Company (the Company) as of December 31, 2010 and 2009, and the related statements of operations, changes in stockholder's equity and cash flows for the years then ended. These financial statements are the responsibility of the Company'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 Company'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 Ecclesia Assurance Company as of December 31, 2010 and 2009, and the results of its operations, changes in stockholder's equity, and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

**KPMG LLP**

June 9, 2011

**ECCLESIA ASSURANCE COMPANY**

Balance Sheets

December 31, 2010 and 2009

<b>Assets</b>	<b>2010</b>	<b>2009</b>
Cash and cash equivalents	\$ 250,000	—
Investments (note 3)	20,950,748	14,927,463
Premiums receivable	1,701,324	5,640,523
Prepaid reinsurance premiums (note 4)	1,369,624	850,932
Other prepaid expenses	33,738	20,834
Reinsurance recoverable on unpaid losses (note 4)	1,727,128	915,598
Reinsurance recoverable on paid losses	697,628	—
Deferred acquisition costs	17,351	26,102
Advances on losses (note 8)	174,372	—
Total assets	\$ 26,921,913	22,381,452
<b>Liabilities and Stockholder's Equity</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 59,466	322,260
New York State premium tax payable	—	252
Reinsurance premium payable	—	359,291
Unearned premiums (note 4)	4,337,726	6,525,486
Unearned ceding commissions	65,755	75,825
Loss and loss adjustment expense reserves (notes 4 and 5)	10,044,941	6,653,580
Total liabilities	14,507,888	13,936,694
Stockholder's equity:		
Common stock, par value \$1 per share. Authorized, issued and outstanding 100,000 shares	100,000	100,000
Additional paid-in capital	2,900,000	2,900,000
Retained earnings	9,414,025	5,444,758
Total stockholder's equity	12,414,025	8,444,758
Total liabilities and stockholder's equity	\$ 26,921,913	22,381,452

See accompanying notes to financial statements.

## ECCLESIA ASSURANCE COMPANY

### Statements of Operations

Years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Underwriting income (note 4):		
Gross premiums written	\$ 7,634,972	10,466,576
Ceded premiums written	<u>(3,061,725)</u>	<u>(2,327,949)</u>
Net premiums written	4,573,247	8,138,627
Change in net unearned premiums	<u>2,706,452</u>	<u>(115,617)</u>
Net premiums earned	<u>7,279,699</u>	<u>8,023,010</u>
Ceding commission	219,413	195,723
Change in unearned ceding commissions	<u>10,070</u>	<u>(75,825)</u>
Ceding Commissions earned	<u>229,483</u>	<u>119,898</u>
Underwriting expenses:		
Losses and loss adjustment expense incurred (notes 4 and 5)	3,022,267	3,152,383
Claims handling expenses	133,722	35,436
New York State premium taxes	39,291	39,136
New York State premium assessment	76,666	116,701
Federal excise taxes	<u>—</u>	<u>500</u>
Total underwriting expenses	<u>3,271,946</u>	<u>3,344,156</u>
Net underwriting income	<u>4,237,236</u>	<u>4,798,752</u>
Operating expenses (note 7)	(281,791)	(229,942)
Net interest income	<u>13,822</u>	<u>28,672</u>
Net income	<u>\$ 3,969,267</u>	<u>4,597,482</u>

See accompanying notes to financial statements.

**ECCLESIA ASSURANCE COMPANY**

Statements of Changes in Stockholder's Equity

Years ended December 31, 2010 and 2009

	<u>Common stock</u>	<u>Additional paid-in capital</u>	<u>Retained earnings</u>	<u>Total</u>
Stockholder's equity at December 31, 2008	\$ 100,000	2,900,000	847,276	3,847,276
Net income	—	—	4,597,482	4,597,482
Stockholder's equity at December 31, 2009	100,000	2,900,000	5,444,758	8,444,758
Net income			3,969,267	3,969,267
Stockholder's equity at December 31, 2010	\$ <u>100,000</u>	<u>2,900,000</u>	<u>9,414,025</u>	<u>12,414,025</u>

See accompanying notes to financial statements.

**ECCLESIA ASSURANCE COMPANY**

Statements of Cash Flows

Years ended December 31, 2010 and 2009

	<b>2010</b>	<b>2009</b>
Cash flows from operating activities:		
Net income	\$ 3,969,267	4,597,482
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of acquisition costs	39,291	39,136
Changes in assets and liabilities:		
Premiums receivable	3,939,199	1,540,419
Prepaid reinsurance premiums	(518,692)	(566,932)
Prepaid expenses	(12,904)	(17,084)
Other Prepaid losses	(174,372)	—
Reinsurance recoverable	(1,509,158)	(831,593)
Deferred acquisition costs	(30,540)	(41,866)
Accounts payable and accrued expenses	(262,794)	133,207
New York State premium tax payable	(252)	(27,272)
Reinsurance premium payable	(359,291)	359,291
Unearned premiums	(2,187,760)	682,549
Unearned ceding commission	(10,070)	75,825
Increase in loss and loss adjustment expense reserves	3,391,361	3,893,962
Net cash provided by operating activities	6,273,285	9,837,124
Cash flows from investing activities:		
Purchases of investments	(11,667,779)	(12,117,955)
Proceeds from sale of investments	5,644,494	2,280,521
Net cash used in investing activities	(6,023,285)	(9,837,434)
Cash flows from financing activity:		
Net cash provided by financing activity	—	—
Increase (Decrease) in cash and cash equivalents	250,000	(310)
Cash and cash equivalents at beginning of year	—	310
Cash and cash equivalents at end of year	\$ 250,000	—

See accompanying notes to financial statements.

## ECCLESIA ASSURANCE COMPANY

Notes to Financial Statements

December 31, 2010 and 2009

### (1) Organization and Nature of Business

Ecclesia Assurance Company (the Company) was incorporated on December 10, 2003 under the insurance laws of the State of New York and is a wholly owned subsidiary of the Roman Catholic Diocese of Rockville Centre (the Diocese). The Company is licensed to transact insurance and reinsurance business as a captive insurance company pursuant to applicable statutes of the State of New York. The Company provides various property and casualty insurance coverage to the Diocese.

As an insurance company operating in the State of New York, the Company was required to issue shares of common stock, which are held by the Diocese.

### (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.

#### (b) *Cash and Cash Equivalents*

Cash and cash equivalents are comprised of highly liquid instruments with original maturities of three months or less.

#### (c) *Investments*

Investments consist of a money market fund, which is recorded at cost, which approximates fair value. Some underlying investments of the money market fund may have a maturity date of greater than 90 days. Interest income on these investments is recorded when earned.

#### (d) *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.

#### (e) *Premiums Receivable*

Premiums receivable consist of amounts due from the Protected Self Insurance Program of the Diocese of Rockville Centre, a related entity.

## ECCLESIA ASSURANCE COMPANY

Notes to Financial Statements

December 31, 2010 and 2009

**(f) Premium Revenues**

Premiums are recognized as revenue over the period that the insurance coverage is provided. Unearned premiums represent the portion of premiums written that relate to the unexpired terms of the policies in force and are calculated on a pro-rata basis.

**(g) Deferred Acquisition Costs (DAC)**

DAC consists of New York State premium taxes, which are deferred and expensed on a pro-rata basis over the term of the related insurance policies. For the years ended December 31, 2010 and 2009, the Company incurred taxes totaling \$30,540 and \$41,866, respectively. DAC expense is included in underwriting expenses in the statements of operations.

**(h) Losses and Loss Adjustment Reserves**

The liability for unpaid losses and loss adjustment expense reserves includes estimates for reported losses, and supplemental amounts for projected incurred but not reported losses calculated based upon actuarial loss projections using historical loss experience. In establishing the liability for losses and loss adjustment expenses, the Company utilizes the work of an independent actuary. Management believes that the aggregate liability for unpaid losses and loss adjustment expenses at December 31, 2010 represents its best estimate, based upon the available data, of the amount necessary to cover the ultimate cost of losses. Unpaid losses and loss adjustment expenses are based upon estimates and the ultimate liability could vary significantly in excess of, or less than, the amount indicated in the financial statements. As adjustments to these estimates become necessary, such adjustments will be reflected in current operations.

**(i) Reinsurance**

The Company seeks to reduce the loss that may arise from catastrophes or other events that cause unfavorable underwriting results by reinsuring its risk with various reinsurers. Reinsurance premiums are deferred and subsequently expensed on a pro-rata basis in accordance with the terms of the underlying reinsurance contracts. Amounts recoverable from reinsurers are estimated in a manner consistent with the reinsurance policy.

Reinsurance contracts do not relieve the Company of its obligations to the policyholders. To the extent that reinsuring companies are later unable to meet obligations under reinsurance agreements, the Company would be liable for such obligations.

**(j) 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.

## ECCLESIA ASSURANCE COMPANY

Notes to Financial Statements

December 31, 2010 and 2009

**(k) Income Taxes**

The Company is classified under Section 501(c)(3) and is exempt from income taxes under Section 501(a) of the Internal Revenue Code.

**(l) Recent Accounting Standards**

In October 2010, the FASB issued guidance regarding the treatment of costs associated with acquiring or renewing insurance contracts. This guidance modifies the definition of the types of costs that can be capitalized and specifies that the costs must be based on successful efforts that is acquiring a new contract or renewing a contract. This guidance is effective for periods beginning after December 15, 2011. The adoption of this guidance is not expected to have a material impact on the financial condition or results of operations.

**(3) Investments**

The Company's investments at December 31, 2010 and 2009 consist of a money market fund, which is reported at cost, which approximates fair value.

**(4) Insurance and Reinsurance Activity**

The Company issued excess liability insurance policies with three separate lines and with limits up to \$4 million, excess of \$7 million per occurrence and in the aggregate with effective dates ranging from September 1, 2006 through November 1, 2008. For certain policies, the Company has secured commercial reinsurance covering up to 90% of the exposure. During the period November 1, 2008 to November 1, 2010 excess liability policies have limits ranging from \$3 million excess of \$1 million (without any reinsurance) to \$4 million excess of \$1 million with commercial reinsurance protection of 75% of the exposure. Effective November 1, 2010, excess liability policies with more lines were written with limits of \$1 million excess of \$1 million (without any reinsurance) and \$4 million excess of \$1 million with 100% commercial reinsurance protection. The Company also wrote an excess liability policy with limits of \$5 million excess of \$5 million with 100% commercial reinsurance protection.

The Company renewed the surety bond on August 20, 2010 with a \$60,000 limit. This remains unchanged from August 2004.

Effective September 1, 2006, the Company assumed pre-existing specific excess workers' compensation losses in the layer of \$100,000 excess of \$250,000 per occurrence after \$300,000 annual aggregate is reached for each of the four years, covering risks retained by the Diocese for the four-year period from September 1, 1996 to September 1, 2000.

Effective November 1, 2008, the Company issued, and renewed on November 1, 2010, a deductible reimbursement workers compensation policy with limits of \$400,000 excess of \$100,000 per occurrence and policy aggregate of \$2,496,734 (2009 – \$2,496,734).

Effective November 1, 2008, the Company also issued, and renewed on November 1, 2010, a primary commercial package policy with an annual term covering six different lines each with separate limits of up to \$900,000 excess of \$100,000 per occurrence and in the aggregate.

**ECCLESIA ASSURANCE COMPANY**

Notes to Financial Statements

December 31, 2010 and 2009

The deductible reimbursement property and boiler policy issued on November 1, 2008, and renewed on April 1, 2010, has limits of \$150,000 excess of \$100,000 per occurrence and policy aggregate of \$1,489,746 (2009 – \$1,489,746).

Effective April 1, 2009, the Company issued a primary property and boiler policy with limits of \$100 million excess of \$250,000 per occurrence and in the aggregate and an excess property and boiler policy with limits of \$200 million excess of \$300 million per occurrence and in the aggregate. Both these policies have 100% commercial reinsurance protection.

A reconciliation of direct and ceded written and earned premiums, losses incurred and loss reserves for the years ended December 31, 2010 and 2009 is as follows:

		<b>2010</b>				
		<u>Written</u>	<u>Earned</u>	<u>Unearned</u>	<u>Loss and loss adjustment expenses incurred</u>	<u>Loss and loss adjustment expenses reserves</u>
Gross		\$ 7,634,972	9,822,732	4,337,726	4,531,425	10,044,941
Ceded		<u>(3,061,725)</u>	<u>(2,543,033)</u>	<u>(1,369,624)</u>	<u>(1,509,158)</u>	<u>(1,727,128)</u>
	Net	<u>\$ 4,573,247</u>	<u>7,279,699</u>	<u>2,968,102</u>	<u>3,022,267</u>	<u>8,317,813</u>
		<b>2009</b>				
		<u>Written</u>	<u>Earned</u>	<u>Unearned</u>	<u>Loss and loss adjustment expenses incurred</u>	<u>Loss and loss adjustment expenses reserves</u>
Gross		\$ 10,466,576	9,784,027	6,525,486	3,983,976	6,653,580
Ceded		<u>(2,327,949)</u>	<u>(1,761,017)</u>	<u>(850,932)</u>	<u>(831,593)</u>	<u>(915,598)</u>
	Net	<u>\$ 8,138,627</u>	<u>8,023,010</u>	<u>5,674,554</u>	<u>3,152,383</u>	<u>5,737,982</u>

As of December 31, 2010, \$697,628 of paid losses recoverable and \$1,237,397 of ceded loss reserves are recoverable from Lexington Insurance Company. The Company also has \$128,889 and \$360,842 of ceded loss reserves recoverable from The National Catholic Risk Retention Group and Odyssey Reinsurance Company, respectively. The Company manages its reinsurance receivable risk by performing a credit evaluation on new reinsurance placements. Management does not believe significant risk exists in connection with the Company's concentration of credit as of December 31, 2010.

**ECCLESIA ASSURANCE COMPANY**

Notes to Financial Statements

December 31, 2010 and 2009

**(5) Reserves for Losses and Loss Adjustment Expenses**

The activity in the reserve for losses and loss adjustment expenses for 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
Balance as at January 1	\$ 6,653,580	2,759,618
Reinsurance recoverables	(915,598)	(84,005)
Net balance as at January 1	<u>5,737,982</u>	<u>2,675,613</u>
Incurred losses and loss adjustment expenses related to:		
Current year	2,913,240	2,829,430
Prior years	109,027	322,953
Total incurred losses and loss adjustment expenses	<u>3,022,267</u>	<u>3,152,383</u>
Paid losses and loss adjustment expenses related to:		
Current year	(82,131)	(63,361)
Prior years	(360,305)	(26,653)
Total paid losses and loss adjustment expenses	<u>(442,436)</u>	<u>(90,014)</u>
Net balance as at December 31	8,317,813	5,737,982
Reinsurance recoverables	<u>1,727,128</u>	<u>915,598</u>
Balance as at December 31	<u>\$ 10,044,941</u>	<u>6,653,580</u>

**(6) Regulatory Matters**

***Capital and Surplus***

New York Captive Insurance Law requires single parent insurance companies to maintain a minimum capital and surplus balance of \$250,000. The Company met the minimum capitalization requirements as of and for the years ended December 31, 2010 and 2009. There were no dividends declared or paid for the years ended December 31, 2010 and 2009.

The following is a reconciliation of amounts included in the financial statements presented herein, as of December 31, 2009, and that reported by the Company in its unaudited Annual Statement as filed with the New York State Insurance Department on February 22, 2010.

	<u>Total assets</u>	<u>Total liabilities</u>	<u>Total equity</u>	<u>Net income</u>
As filed	\$ 22,381,452	13,936,694	8,444,758	4,583,649
Adjustment to expenses	—	—	—	13,833
	<u>\$ 22,381,452</u>	<u>13,936,694</u>	<u>8,444,758</u>	<u>4,597,482</u>

The adjustment to expenses of \$13,833 was for the reversal of the 2008 adjustment.

## **ECCLESIA ASSURANCE COMPANY**

Notes to Financial Statements

December 31, 2010 and 2009

**(7) Commitment and Contingencies**

The Company is subject to disputes, including litigation and arbitration, arising in the ordinary course of its insurance business. The Company has no commitment and/or contingencies at December 31, 2010.

**(8) Related Party Transactions**

On June 1, 2004, the Company contracted with the Diocese for management and consulting services related to the captive, which contemplates a maximum annual service fee of \$30,000. In 2010 and 2009, management fees charged under this agreement were \$30,000.

During 2010, the Company transferred \$174,372 to the Diocese as advances against incurred losses expected to be paid in future periods.

**(9) Subsequent Events**

The Company has evaluated all subsequent transactions and events after the balance sheets date and through June 9, 2011, the date these financial statements were issued. There are no additional transactions or events requiring disclosure.