

# Protected Self Insurance Program of the Diocese of Rockville Centre

Independent Auditors' Report and Financial Statements

As of and for the Years Ended  
August 31, 2011 and 2010



Saslow Lufkin & Buggy, LLP  
*Certified Public Accountants and Consultants*



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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 statement 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, 2011, and the related statements of changes in net assets held for the benefit of participants and cash flows for the year then ended. These financial statements are the responsibility of the PSIP's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of PSIP as of and for the year ended August 31, 2010 were audited by other auditors whose report dated October 6, 2011 expressed an unqualified opinion on those statements.

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 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 audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the PSIP as of August 31, 2011 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Saslow Lufkin & Buggy, LLP*

January 11, 2011

**Protected Self Insurance Program of the Diocese of Rockville Centre**  
**Statements of Net Assets Held for the Benefit of Participants**  
**August 31, 2011 and 2010**

	<b>2011</b>	<b>2010</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 778,703	\$ 2,514,557
Certificates of deposit (Note 2)	1,122,243	1,120,000
Due from other Diocesan entities (Note 9)	3,979,072	3,861,653
Investments (Note 3)	32,443,762	32,953,706
Receivables from participants, net (Note 4)	81,807,033	88,245,014
Insurance reimbursable on paid losses and loss adjustment expenses	7,481,926	4,939,009
Insurance reimbursable on unpaid losses and loss adjustment expenses	40,089,715	40,102,184
Prepaid expenses and other assets	9,103,000	11,291,715
Total assets	<b>176,805,454</b>	185,027,838
<b>Liabilities</b>		
Losses and loss adjustment expenses payable		
Retained	103,417,339	93,370,068
Insurance reimbursable	40,089,715	40,102,184
Total losses and loss adjustment expenses payable	<b>143,507,054</b>	133,472,252
Reserve for Workers' Compensation Board assessments	14,331,636	32,193,283
Accounts payable and accrued expenses	907,325	398,744
Due to other Diocesan entities (Note 9)	1,449,787	61
Total liabilities	<b>160,195,802</b>	166,064,340
Net assets held for the benefit of participants	<b>\$ 16,609,652</b>	<b>\$ 18,963,498</b>

The accompanying notes are an integral part of these financial statements.

**Protected Self Insurance Program of the Diocese of Rockville Centre  
Statements of Changes in Net Assets Held for the Benefit of Participants  
For the Years Ended August 31, 2011 and 2010**

	<b>2011</b>	<b>2010</b>
<b>Revenues:</b>		
Assessments and billings to participants	\$ <b>12,809,714</b>	\$ 11,303,702
Change in allowance for bad debts net of recoveries	<b>(778,791)</b>	655,866
	<b>12,030,923</b>	11,959,568
Net investment income	<b>2,408,003</b>	2,730,076
Total revenue	<b>14,438,926</b>	14,689,644
 <b>Expenses:</b>		
Loss and loss adjustment expenses, net of insurance reimbursements	<b>7,561,002</b>	6,038,688
Workers' compensation board assessments	<b>(1,175,518)</b>	3,220,681
Insurance premiums expense	<b>8,335,528</b>	12,262,631
Operating expenses	<b>2,071,760</b>	2,432,987
Total expenses	<b>16,792,772</b>	23,954,987
Change in net assets held for the benefit of participants	<b>(2,353,846)</b>	(9,265,343)
At beginning of year	<b>18,963,498</b>	28,228,841
At end of year	<b>\$ 16,609,652</b>	\$ 18,963,498

The accompanying notes are an integral part of these financial statements.

**Protected Self Insurance Program of the Diocese of Rockville Centre**  
**Statements of Cash Flows**  
**For the Years Ended August 31, 2011 and 2010**

	<b>2011</b>	<b>2010</b>
Cash flows from operations activities:		
Change in net assets held for the benefit of participants	\$ (2,353,846)	\$ (9,265,343)
Adjustments to reconcile net income to net cash provided by operating activities:		
Net appreciation on investments	(1,847,390)	(1,711,981)
Changes in assets and liabilities:		
Receivables from participants, net (Note 4)	6,437,981	(4,423,900)
Insurance reimbursable on paid and unpaid losses and loss adjustment expenses	(2,530,448)	102,471
Prepaid expenses and other assets	2,188,715	(725,640)
Losses and loss adjustment expenses payable	10,034,802	4,005,418
Reserve for workers' compensation board assessments	(17,861,647)	3,027,510
Accounts payable and accrued expenses	508,581	210,926
Due to other Diocesan entities (Note 9)	1,449,726	(193,538)
Net cash used in operating activities	(3,973,526)	(8,974,077)
Cash flow from investing activities:		
Purchases of investments	(5,456,282)	(14,474,909)
Proceeds from sales of investments	7,811,373	29,211,282
Net cash provided by investing activities	2,355,091	14,736,373
Cash flow from financing activities:		
Due from other Diocesan entities (Note 9)	(117,419)	(3,836,653)
Net cash used in financing activities	(117,419)	(3,836,653)
Net change in cash and cash equivalents	(1,735,854)	1,925,643
Cash and cash equivalents, beginning of year	2,514,557	588,914
Cash and cash equivalents, end of year	\$ 778,703	\$ 2,514,557

The accompanying notes are an integral part of these financial statements.

**Protected Self Insurance Program of the Diocese of Rockville Centre**  
**Notes to the Financial Statements**  
**As of and For the Years Ended August 31, 2011 and 2010**

**Note 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 recoverable 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:

<b>Period</b>	<b>Year</b>	<b>Workers Compensation</b>	<b>General Liability</b>	<b>Auto Liability</b>	<b>Property</b>	<b>Auto Physical Damage</b>
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
35	9/2010 - 3/2/2011	100,000	100,000	100,000	100,000	100,000
	4/2011 - 8/2011	100,000	100,000	100,000	250,000	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 the Financial Statements**  
**As of and For the Years Ended August 31, 2011 and 2010**

**Note 2 - Summary of Significant Accounting Policies**

**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.

**Reclassifications** - Certain items were reclassified in the 2010 financial statements for comparability with the 2011 presentation. These items were not material to the overall financial statements.

**Cash and Cash Equivalents** - Cash equivalents include highly liquid instruments with original maturities of three months or less, which includes a money market fund. Cash represents cash held at the bank and is insured by the Federal Depository Insurance Corporation (FDIC) up to \$250,000 per depositor per bank for interest bearing accounts and unlimited for non-interest bearing accounts.

**Certificates of Deposit** - PSIP holds certificates of deposit with various banks. These certificates of deposit are valued at actual cash deposited plus accrued interest. As of August 31, 2011 and 2010, \$1,122,243 and \$1,120,000 of these certificates of deposit are restricted as collateral for letters of credit taken for the benefit of certain third party insurance carriers. These certificates of deposit are subject to the FDIC insurance limits.

**Investments** - The PSIP invests within the guidelines of Section 125.31, F.S. Effective July 1, 2008, the PSIP adopted FASB ASC 825 "*Financial Instruments*." This statement permits entities to choose, at specified election dates, to measure eligible items at fair value (i.e., the fair value option). As of August 31, 2011 and 2010, the PSIP invests in equity and fixed maturity securities, which the PSIP has elected to utilize the fair value option. For purposes of the PSIP, the election date of investments is defined as the date that the PSIP first recognizes the eligible item which typically for the PSIP is the date upon which the PSIP purchases an interest in each of these investments. The PSIP reports unrealized gains and losses on items for which the fair value option has been elected in net income. The fair value option: (a) may be applied instrument by instrument, with certain exceptions; (b) is irrevocable (unless a new election date occurs); and (c) is applied only to entire instruments and not to portions of instruments.

A substantial portion of PSIP's investments are invested 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. 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.

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 participants.

**Protected Self Insurance Program of the Diocese of Rockville Centre**  
**Notes to the Financial Statements**  
**As of and For the Years Ended August 31, 2011 and 2010**

**Note 2 - Summary of Significant Accounting Policies (continued)**

**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 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 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, either directly or indirectly.

Level 3 inputs are unobservable inputs for the asset .

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.

**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.

**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.

**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 recoverable balances.

**Security Deposit** - Included in prepaid expenses and other assets at August 31, 2011 and 2010 is a security deposit of \$7,500,000 maintained with the State of New York Workers' Compensation Board, which is currently in cash.

**Protected Self Insurance Program of the Diocese of Rockville Centre**  
**Notes to the Financial Statements**  
**As of and For the Years Ended August 31, 2011 and 2010**

**Note 2 - Summary of Significant Accounting Policies (continued)**

**Income Taxes** - PSIP accounts for uncertainties in income taxes recognized in the organization's financial statements using a threshold of more likely than not. Income generated from activities unrelated to PSIP's exempt purpose is subject to tax. PSIP did not have any material unrelated business income tax liability at August 31, 2011 and 2010.

**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.

**Workers' Compensation Board Assessments** - The Program is subject to assessments by the New York State Workers' Compensation Board. In fiscal year 2011 and 2010, the ultimate liability for this assessment is actuarially determined in a manner similar to loss and loss adjustment expense payable.

With the passage of Senate File 2807, the New York State Workers' Compensation Board advised that there would be assessment relief given to PSIP should the Diocese decide to cease self-insuring its workers' compensation exposure as of December 31, 2011. As a result, the Diocese has decided to place its workers' compensation program into run-off and will end its status as a self insurer of workers' compensation exposures as of December 31, 2011. For fiscal year-end August 31, 2011, the actuary has calculated the loss-based workers' compensation assessment using the following assumptions based upon information the New York State Workers' Compensation Board has provided to the Diocese:

1. The Workers' Compensation Board, Interdepartmental, Special Funds Conservation Committee, Special Disability Fund and Reopened Case Fund assessments terminate with 4/1/11-3/31/12 Workers' Compensation Program fiscal year,
2. The self-insured assessment, 50-5, should be recognized on an on-going basis,
3. Assessment on medical costs continue.

**Note 3 - Investments**

At August 31, 2011 and 2010, the total invested assets of PSIP inclusive of money market funds and certificates of deposit were comprised of the following:

	2011	2010
Short-term investments	\$ 778,703	\$ 2,291,280
Certificates of deposit	1,122,243	1,120,000
Unitas Short Term Fund	3,107,589	1,234,194
Unitas Balanced Fund	24,234,793	26,619,591
Unitas Structured Debt Fund	-	26,397
Unitas Capital Preservation Fund	5,081,566	5,053,710
Other	19,814	19,814
	\$ 34,344,708	\$ 36,364,986

**Protected Self Insurance Program of the Diocese of Rockville Centre**  
**Notes to the Financial Statements**  
**As of and For the Years Ended August 31, 2011 and 2010**

**Note 3 - Investments (continued)**

A “mission fee” that is used for parish assistance to further the mission and ministry of the Diocese may be deducted from the investment performance of all Unitas fund participants. In December 2009, the Unitas Board discontinued the mission fee for the remainder of fiscal year 2010. Effective September 1, 2010, the mission fee was reinstated.

The mission fee will only be charged, if net of fees, the return exceeds 12.5 basis points per month on the Money Market Fund or 37.5 basis points per quarter on the Capital Preservation and/or the Long Term Funds (150 basis points annualized). Each month/quarter is independent of prior or future months/quarters performance when determining if MAC fee has met the assessment criteria. The mission fee to participants in the Money Market Fund will equal 0.0042% monthly (0.05% annualized), the mission fee to participants in the Capital Preservation Fund will be 0.0125% quarterly (0.05% annualized), while the mission fee to participants in the Long-Term Funds will equal 0.125% quarterly (0.50% annualized).

Net investment income for the years ended August 31, 2011 and 2010 consists of the following:

	<b>2011</b>	<b>2010</b>
Net appreciation in fair value of Unitas investments	<b>\$ 1,847,390</b>	\$ 1,711,981
Unitas interest and dividends, net of investment manager fees	<b>492,666</b>	986,169
Interest from other investments	<b>67,947</b>	31,926
	<b>\$ 2,408,003</b>	<b>\$ 2,730,076</b>

The following tables present the fair value hierarchy of investments as of August 31, 2011, and 2010.

	<b>2011</b>			
	<b>Fair value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Chase Money Market Fund	\$ 778,703	\$ 778,703	\$ -	\$ -
Unitas Short Term Fund	3,107,589	-	3,107,589	-
Unitas Balanced Fund	24,234,792	-	24,234,792	-
Unitas Capital Preservation Fund	5,081,566	-	5,081,566	-
Other	19,814	-	19,814	-
	<b>\$ 33,222,464</b>	<b>\$ 778,703</b>	<b>\$ 32,443,761</b>	<b>\$ -</b>

**Protected Self Insurance Program of the Diocese of Rockville Centre**  
**Notes to the Financial Statements**  
**As of and For the Years Ended August 31, 2011 and 2010**

**Note 3 - Investments (continued)**

	<b>2010</b>			
	<b>Fair value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Chase Money Market Fund	\$ 2,291,280	\$ 2,291,280	\$ -	\$ -
Unitas Short Term 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	-
	<u>\$ 35,244,986</u>	<u>\$ 2,291,280</u>	<u>\$ 32,953,706</u>	<u>\$ -</u>

The investments in the Unitas Short Term 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.
- c) The Unitas Balance Fund invests approximately 50% of its assets in fixed income securities 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.

**Protected Self Insurance Program of the Diocese of Rockville Centre**  
**Notes to the Financial Statements**  
**As of and For the Years Ended August 31, 2011 and 2010**

**Note 4 - Receivables from Participants**

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

	<u>2011</u>	<u>2010</u>
Current receivables:		
Health facilities	\$ 212,479	\$ 194,421
Parish and other participants	<u>2,563,168</u>	<u>2,035,573</u>
Total current receivables	<u>2,775,647</u>	2,229,994
Recoverables from health facilities		
Loss and loss adjustment expenses	<u>69,694,071</u>	61,629,723
Workers compensation board assessments	<u>11,648,963</u>	<u>25,961,405</u>
Total recoverables from health facilities	<u>81,343,034</u>	<u>87,591,128</u>
Less: allowance for bad debts	<u>(2,311,648)</u>	<u>(1,576,108)</u>
Total	<u>\$ 81,807,033</u>	<u>\$ 88,245,014</u>

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 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 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 expenses that were previously funded by the program.

**Protected Self Insurance Program of the Diocese of Rockville Centre**  
**Notes to the Financial Statements**  
**As of and For the Years Ended August 31, 2011 and 2010**

**Note 4 - Receivables from Participants (continued)**

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

	<u>2011</u>	<u>2010</u>
Allowance for bad debts, beginning of period	\$ 1,576,108	\$ 2,307,974
Allowance for bad debts, net of recoveries	778,791	(655,866)
Accounts charged off	<u>(43,251)</u>	<u>(76,000)</u>
Allowance for bad debts, end of period	<u>\$ 2,311,648</u>	<u>\$ 1,576,108</u>

**Note 5 - Losses and Loss Adjustment Expenses Payable**

At August 31, 2011 and 2010, the activity of losses and loss adjustment expenses payable consisted of the following:

	<u>2011</u>	<u>2010</u>
Balance, September 1	\$ 133,472,252	\$ 129,466,834
Less: insurance reimbursable on unpaid losses	<u>(40,102,184)</u>	<u>(43,171,355)</u>
Net balance, September 1	93,370,068	86,295,479
Incurred related to:		
Current year	23,049,934	22,036,204
Prior years	<u>(2,628,373)</u>	<u>(5,359,337)</u>
Total incurred	20,421,561	16,676,867
Paid related to:		
Current year	(2,761,128)	(2,271,199)
Prior years	<u>(7,613,162)</u>	<u>(7,331,079)</u>
Total paid	<u>(10,374,290)</u>	<u>(9,602,278)</u>
Net balance, August 31	103,417,339	93,370,068
Plus: insurance reimbursable on unpaid losses	<u>40,089,715</u>	<u>40,102,184</u>
Balance, August 31	<u>\$ 143,507,054</u>	<u>\$ 133,472,252</u>

**Protected Self Insurance Program of the Diocese of Rockville Centre**  
**Notes to the Financial Statements**  
**As of and For the Years Ended August 31, 2011 and 2010**

**Note 5 - Losses and Loss Adjustment Expenses Payable (continued)**

The lower prior year incurred loss in 2011 is primarily due to more favorable than anticipated development in workers' compensation and general liability lines of business. 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 non-statutory claims became the sole, direct, responsibility of the health facilities. Also, see note (4).

**Note 6 - Insurance Premiums**

For the years ended August 31, 2011 and 2010, insurance premiums paid were allocated as follows:

	<u>2011</u>	<u>2010</u>
Directors and officers	\$ 165,611	\$ 216,002
Workers' compensation	1,481,965	1,811,235
Property and liability	4,513,687	6,362,240
Excess umbrella	2,081,965	3,779,231
Auto	<u>92,300</u>	<u>93,924</u>
Total premiums paid	<u>\$ 8,335,528</u>	<u>\$ 12,262,632</u>

**Note 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.

**Note 8 - Operating Expenses**

Operating expenses included the following for the years ended August 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Salaries and administrative charges	\$ 528,673	\$ 643,572
Payroll taxes	36,207	42,640
Employees' group insurance	40,182	45,690
Pension plan contribution	53,350	61,575
Professional fees	1,182,300	1,357,888
Office expenses	95,337	149,388
Space occupancy costs	24,367	27,950
Background screening	<u>111,344</u>	<u>104,284</u>
Total operating expenses	<u>\$ 2,071,760</u>	<u>\$ 2,432,987</u>

**Protected Self Insurance Program of the Diocese of Rockville Centre**  
**Notes to the Financial Statements**  
**As of and For the Years Ended August 31, 2011 and 2010**

**Note 9 - Related Entity Transactions**

**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 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 \$53,350 and \$61,575 for the years ended August 31, 2011 and 2010, respectively.

**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 statement 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.

**Insurance Captive** - Prepaid expenses at August 31, 2011 and 2010 include \$1,203,664 and \$2,675,904, respectively, 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, 2011 and 2010, include recoveries received from Ecclesia of \$199,699 and \$1,199,800, respectively, and insurance premiums paid to Ecclesia of \$7,422,729 and \$10,526,113, respectively.

**Protected Self Insurance Program of the Diocese of Rockville Centre**  
**Notes to the Financial Statements**  
**As of and For the Years Ended August 31, 2011 and 2010**

**Note 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, 2011 through January 11, 2012, which was the date the financial statements were available to be issued, and concluded that no additional disclosures were required.