

FINANCIAL STATEMENTS TOGETHER WITH  
REPORT OF INDEPENDENT CERTIFIED PUBLIC  
ACCOUNTANTS

**MEDICAL INSURANCE FUND  
OF THE DIOCESE OF ROCKVILLE CENTRE**

August 31, 2003 and 2002

Grant Thornton 

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**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

To the Most Reverend William F. Murphy, S.T.D., L.H.D.  
Bishop of Rockville Centre:

We have audited the accompanying statements of financial position of the Medical Insurance Fund of the Diocese of Rockville Centre (the "Fund") as of August 31, 2003 and 2002, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Fund'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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 Medical Insurance Fund of the Diocese of Rockville Centre as of August 31, 2003 and 2002, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Grant Thornton LLP*

Melville, New York  
November 6, 2003

Medical Insurance Fund  
of the Diocese of Rockville Centre

**STATEMENTS OF FINANCIAL POSITION**

As of August 31, 2003 and 2002

ASSETS	2003	2002
Cash	\$ -	\$ 25,850
Investment in Diocesan Deposit and Loan Account (Note B)	17,573,916	16,585,324
Premiums receivable - parishes and institutions, net of allowance for uncollectible accounts of approximately \$195,000 and \$8,000 as of August 31, 2003 and 2002, respectively (Note C)	1,081,081	698,501
Prepaid expenses and other assets	-	266
Total assets	<b>\$ 18,654,997</b>	<b>\$ 17,309,941</b>
<u>LIABILITIES AND NET ASSETS</u>		
Liabilities:		
Accounts payable and accrued expenses	\$ 84,145	\$ 6,770
Premiums and claims payable to insurance carriers	67,626	7,644
Due to other Diocesan funds (Note E)	123,769	70,001
Premium and claim reserves (Note D)- Diocese of Rockville Centre	12,814,790	12,817,837
Religious orders	986,724	967,390
Total liabilities	14,077,054	13,869,642
Net assets:		
Designated unrestricted (Note A)	4,577,943	3,440,299
Total net assets	4,577,943	3,440,299
Total liabilities and net assets	<b>\$ 18,654,997</b>	<b>\$ 17,309,941</b>

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

Medical Insurance Fund  
of the Diocese of Rockville Centre

**STATEMENTS OF ACTIVITIES**

For the years ended August 31, 2003 and 2002

	2003	2002
Revenue and support:		
Assessment income	\$ 22,794,861	\$ 21,641,599
Fee income and other revenues	1,176,519	249,349
Investment gain (loss) (Note B)	<u>1,007,190</u>	<u>(544,036)</u>
Total revenue and support	<u>24,978,570</u>	<u>21,346,912</u>
Expenses:		
Insurance expenses-		
Claims	2,080,829	287,275
HMO premiums	16,027,381	17,090,739
Other insurance premiums	2,417,038	2,142,347
Insurance companies' retention and fees	2,449,217	1,937,993
Transfers (from) to premium and claim reserves - Diocese and Religious Orders	<u>(147,971)</u>	<u>214,716</u>
Total insurance expenses	<u>22,826,494</u>	<u>21,673,070</u>
General and administrative expenses-		
Professional fees	293,592	342,608
Salaries	204,547	258,850
Discounts on fees	189,475	180,361
Employees' group insurance	23,197	19,714
Payroll taxes	15,008	25,092
Office expenses	55,583	71,570
Postage	13,663	28,814
Space occupancy costs	20,927	10,000
Pension plan contribution (Note F)	11,757	17,236
Bad debt expense	<u>186,683</u>	<u>68,702</u>
Total general and administrative expenses	<u>1,014,432</u>	<u>1,022,947</u>
Total expenses	<u>23,840,926</u>	<u>22,696,017</u>
Increase (decrease) in designated unrestricted net assets	1,137,644	(1,349,105)
Designated unrestricted net assets, beginning of year	<u>3,440,299</u>	<u>4,789,404</u>
Designated unrestricted net assets, end of year	<u>\$ 4,577,943</u>	<u>\$ 3,440,299</u>

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

Medical Insurance Fund  
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**STATEMENTS OF CASH FLOWS**

For the years ended August 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Cash flows from operating activities:		
Increase (decrease) in designated unrestricted net assets	<b>\$ 1,137,644</b>	\$ (1,349,105)
Adjustments to reconcile increase (decrease) in designated unrestricted net assets to net cash provided by operating activities:		
Changes in operating assets and liabilities:		
(Increase) decrease in premiums receivable – parishes and institutions, net	<b>(382,580)</b>	127,660
Decrease in due from other Diocesan entities	-	16,031
Decrease in prepaid expenses and other assets	<b>266</b>	1,481,778
Increase (decrease) in accounts payable and accrued expenses	<b>77,375</b>	(131,688)
Increase (decrease) in premiums and claims payable to insurance carriers	<b>59,982</b>	(9,851)
Increase in due to other Diocesan funds	<b>53,768</b>	41,767
Increase in premium and claim reserves	<b><u>16,287</u></b>	<u>246,444</u>
Net cash provided by operating activities	<b><u>962,742</u></b>	<u>423,036</u>
Cash flows from investing activities:		
Increase in investment in Diocesan Deposit and Loan Account	<b><u>(988,592)</u></b>	<u>(434,992)</u>
Net cash used in investing activities	<b><u>(988,592)</u></b>	<u>(434,992)</u>
Net decrease in cash	<b>(25,850)</b>	(11,956)
Cash, beginning of year	<b><u>25,850</u></b>	<u>37,806</u>
Cash, end of year	<b><u>\$ -</u></b>	<u>\$ 25,850</u>

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

Medical Insurance Fund  
of the Diocese of Rockville Centre

**NOTES TO FINANCIAL STATEMENTS**

August 31, 2003 and 2002

**NOTE A – NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES**

1. *Nature of Business*

The Medical Insurance Fund of the Diocese of Rockville Centre (the “Fund”) bills and collects from parishes, religious orders and organizations within the Diocese of Rockville Centre (the “Diocese”) for the placement of medical, dental and/or life and non-occupational disability insurance coverage.

The Fund, as part of the Diocese, is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of the New York State income tax laws.

A summary of the Fund’s significant accounting policies is as follows:

2. *Basis of Accounting and Presentation*

The Fund’s financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America using the accrual basis of accounting.

In accordance with Statement of Financial Accounting Standards (“SFAS”) No. 117, “*Financial Statements of Not-For-Profit Organizations*”, the Fund’s financial statements distinguish between unrestricted, temporarily restricted and permanently restricted net assets and changes in net assets, as follows:

Designated Unrestricted Net Assets – includes all resources of the Fund, which are expendable for carrying on the Fund’s operations. These net assets are designated for the operations of the Fund by the Ordinary of the Diocese.

As of August 31, 2003 and 2002, the Fund did not have any temporarily or permanently restricted net assets.

3. *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Medical Insurance Fund  
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**NOTES TO FINANCIAL STATEMENTS (continued)**

August 31, 2003 and 2002

**NOTE B – INVESTMENT IN DIOCESAN DEPOSIT AND LOAN ACCOUNT**

The Fund is a participant in the Diocesan Deposit and Loan Account (“DLA”). The DLA is administered by the Administrative Offices of the Diocese of Rockville Centre and offers two options for participating depositors. Depositors in the first option, the Diocesan Investment Pool Savings Account, receive a rate of 75% of the prime rate, adjusted quarterly. The second option, in which the Fund also participates, is the Diocesan Investment Pool Balanced Account. Funds invested in this vehicle may achieve higher rates of appreciation, but involve risk of loss of principal based on market fluctuations. Investments in the DLA are carried at cost, plus or minus accumulated earnings. A “mission fee” equal to 1% of the average balance in the Balanced Account is deducted from the investment performance for the purpose of funding the mission function of the DLA provided the fund had a positive return. As of August 31, 2003, the Fund had \$7,934,727 and \$9,639,189 invested in the Savings and Balanced accounts, respectively. As of August 31, 2002, the Fund had \$998,806 and \$15,586,518 invested in the Savings and Balanced accounts, respectively.

**NOTE C – PREMIUMS RECEIVABLE FROM PARISHES, NET**

As of August 31, 2003 and 2002, the Fund had premiums receivable from parishes totaling approximately \$876,700 and \$482,000, respectively. In order to ensure the collectibility of such receivables and amounts owed by parishes to other Diocesan entities, the Administrative Offices of the Diocese has guaranteed the issuance of a loan from the DLA to certain parishes or has granted loans to certain parishes after August 31, 2003 and 2002, in order to repay the liability due to the Fund.

**NOTE D – PREMIUM AND CLAIM RESERVES**

Premium and claim reserves represent amounts collected from Fund participants to pay for future claim requirements, fund future premiums paid to insurance carriers and offset future assessment increases to participants.

The retired priests’ medicare supplemental medical coverage is covered under a policy known as an Administrative Services Only (“ASO”) policy, which is administered by Blue Cross (“BC”). As such, the Diocese is billed monthly for claims paid plus applicable administrative charges.

Medical Insurance Fund  
of the Diocese of Rockville Centre

**NOTES TO FINANCIAL STATEMENTS (continued)**

August 31, 2003 and 2002

**NOTE D (continued)**

*1. Major Medical Coverage*

The Fund provides options for participants in the Diocesan Health Plan (“DHP”) of the Diocese of Rockville Centre:

- MDNY Focus 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 (“PCP”) in the Focus network and do not require referrals to see any doctor or specialist in the Focus network. This option was terminated at the end of December 2002.
- MDNY Flex HMO – an insured product where participants receive all of their care through an expanded network of participating providers, hospitals and specialists. Participants must have a PCP in the Flex network and do not require referrals to see any doctor or specialist in the Flex network.
- MDNY Flex POS – an insured product where participants are encouraged to use the MDNY network, but are able to use out-of-network providers if they choose, subject to deductibles and co-insurance. This option will be terminated at the end of December 2003.
- Empire Blue PPO – a self-insured plan through Empire Blue Cross Blue Shield, which has in-network and out-of-network benefits, subject to deductibles and co-insurance.

The MDNY products are insured HMO and POS products purchased from MDNY. The Catholic Healthcare Network of Long Island, Inc. (“CHNLI”) has a partial ownership interest in MDNY. CHNLI is an organization whose members are composed of individuals representing the Diocese and the five Catholic hospitals of the Diocese of Rockville Centre.

*2. Other Insurance*

The Fund 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 (Metropolitan Life and AFLAC).

Medical Insurance Fund  
of the Diocese of Rockville Centre

**NOTES TO FINANCIAL STATEMENTS (continued)**

August 31, 2003 and 2002

**NOTE E – DUE TO OTHER DIOCESAN FUNDS**

General and administrative expenses of the Fund are paid through the Diocese's Chancery Operating Account ("COA"). As of August 31, 2003 and 2002, due to other diocesan funds represents amounts owed to the COA for expenses paid by the COA on behalf of the Fund.

**NOTE F – PENSION PLAN**

The Fund is a participant in the noncontributory lay pension plan established by the Diocese covering employees who meet certain minimum service requirements. Due to the nature of the plan, it is not practicable to determine the extent to which the assets of the plan cover the actuarially computed value of vested benefits for the Fund standing alone. In addition, because the plan is considered a multi-employer plan, it is only subject to certain minimum reporting requirements of SFAS No. 87, *"Employers' Accounting for Pensions"*, as amended by SFAS No. 132, *"Employers' Disclosures about Pensions and Other Postretirement Benefits"*. Pension expense allocated to the Fund for the years ended August 31, 2003 and 2002 was \$11,757 and \$17,236, respectively.