

FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC
ACCOUNTANTS

**PROTECTED SELF INSURANCE PROGRAM
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 Protected Self Insurance Program of the Diocese of Rockville Centre (the "Program") as of August 31, 2003 and 2002, and the related statements of activities-program claim fund and uninsured perils fund and cash flows for the years 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 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 Protected Self Insurance Program 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.

Our audits were made for the purpose of forming an opinion on the basic financial statements of the Program taken as a whole as of and for the years ended August 31, 2003 and 2002. The supplementary information as of and for the year ended August 31, 2003 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in our audits of the basic financial statements and, accordingly, we express no opinion on it.

Grant Thornton LLP

Melville, New York
November 21, 2003

Protected Self Insurance Program of the Diocese of Rockville Centre

STATEMENTS OF FINANCIAL POSITION

As of August 31, 2003 and 2002

<u>ASSETS</u>	<u>2003</u>	<u>2002</u>
Cash	\$ 316,497	\$ 11,262
Investment in Diocesan Deposit and Loan Account (Note B)	68,542,441	63,395,715
Restricted investment – U.S. Treasury Note (Note A)	7,439,722	7,585,430
Receivables:		
Billings to parishes (Note C)	453,956	139,467
Billings to health facilities and institutions, less allowance for doubtful accounts of \$353,782 and \$114,647 as of August 31, 2003 and 2002, respectively	5,605,212	1,636,060
Recoverable from health facilities (Note D)	23,481,709	21,361,774
Reinsurance recoverable on paid losses and loss adjustment expenses	1,707,848	1,124,467
Reinsurance recoverable on unpaid losses and loss adjustment expenses	5,285,292	5,318,236
Accrued interest	50,781	132,812
Prepaid expenses	<u>496,546</u>	<u>582,264</u>
Total assets	<u>\$113,380,004</u>	<u>\$101,287,487</u>
<u>LIABILITIES AND NET ASSETS</u>		
Liabilities:		
Accounts payable and accrued expenses	\$ 3,108,864	\$ 826,527
Reserve for premiums (Note A)	1,250,000	1,250,000
Losses and loss adjustment expenses payable (Notes A and F)		
Retained	40,333,332	37,092,689
Ceded	<u>5,285,292</u>	<u>5,318,236</u>
Total liabilities	<u>49,977,488</u>	<u>44,487,452</u>
Contingencies (Notes A, D and G)		
Designated unrestricted net assets (Note A):		
Program Claim Fund	52,484,363	45,901,221
Uninsured Perils Fund	<u>10,918,153</u>	<u>10,898,814</u>
Total designated unrestricted net assets	<u>63,402,516</u>	<u>56,800,035</u>
Total liabilities and net assets	<u>\$113,380,004</u>	<u>\$101,287,487</u>

The accompanying notes are an integral part of these statements.

Protected Self Insurance Program of the Diocese of Rockville Centre

**STATEMENTS OF ACTIVITIES
PROGRAM CLAIM FUND**

For the years ended August 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Revenue and support:		
Parish and institution assessments	\$ 10,301,935	\$ 8,219,775
Health facilities assessments	12,485,164	5,814,435
Less-reinsurance (excess coverage premiums) (Note A)	<u>(5,081,566)</u>	<u>(3,024,807)</u>
Net assessments	17,705,533	11,009,403
Change in recoverable from health facilities	2,119,935	2,785,560
Investment income	<u>4,080,984</u>	<u>-</u>
Total revenue and support	<u>23,906,452</u>	<u>13,794,963</u>
Expenses and losses:		
Losses and loss adjustment expenses incurred (Note A)	13,676,739	10,456,243
Recoveries from reinsurance	<u>(812,897)</u>	<u>(716,503)</u>
Net losses and loss adjustment expenses	12,863,842	9,739,740
Workers' Compensation Board assessments	2,607,860	1,238,921
Investment loss	-	275,166
General and administrative:		
Professional fees	1,288,033	1,094,767
Salaries and administrative charges	294,094	424,067
Office expenses	32,981	19,540
Employees' group insurance	19,623	30,898
Payroll taxes	19,192	27,407
Space occupancy costs	19,685	10,000
Pension plan contribution (Note F)	10,316	12,195
Captive formation expense	23,413	-
Bad debt	<u>144,271</u>	<u>-</u>
Total expenses and losses	<u>17,323,310</u>	<u>12,872,701</u>
Increase in net assets	6,583,142	922,262
Designated unrestricted net assets, beginning of year	<u>45,901,221</u>	<u>44,978,959</u>
Designated unrestricted net assets, end of year	<u>\$ 52,484,363</u>	<u>\$ 45,901,221</u>

The accompanying notes are an integral part of these statements.

Protected Self Insurance Program of the Diocese of Rockville Centre

**STATEMENTS OF ACTIVITIES
UNINSURED PERILS FUND**

For the years ended August 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Revenue and support:		
Investment income	\$ 554,347	\$ 138,357
Expenses:		
Claims and expenses	357,810	360,520
Virtus Program	99,287	-
Child Protection Program	<u>77,911</u>	<u>-</u>
Increase (decrease) in net assets	19,339	(222,163)
Designated unrestricted net assets, beginning of year	<u>10,898,814</u>	<u>11,120,977</u>
Designated unrestricted net assets, end of year	<u>\$ 10,918,153</u>	<u>\$ 10,898,814</u>

The accompanying notes are an integral part of these statements.

Protected Self Insurance Program of the Diocese of Rockville Centre

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 net assets-		
Program Claim Fund	\$ 6,583,142	\$ 922,262
Uninsured Perils Fund	19,339	(222,163)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities-		
Net depreciation (appreciation) in fair market value of restricted investment	145,708	(10,005)
Increase in receivables from billings to parishes	(314,489)	(48,968)
(Increase) decrease in receivables from billings to health facilities and institutions	(3,969,152)	1,462,455
Increase in recoverable from health facilities	(2,119,935)	(2,785,560)
(Increase) decrease in reinsurance recoverable on paid losses and loss adjustment expenses	(583,381)	205,586
Decrease in reinsurance recoverable on unpaid losses and loss adjustment expenses	32,944	147,229
Decrease in accrued interest receivable	82,031	-
Decrease in prepaid expenses	85,718	613,778
Increase in accounts payable and accrued expenses	2,282,337	808,207
Increase (decrease) in losses and loss adjustment expenses payable	<u>3,207,699</u>	<u>(573,363)</u>
Net cash provided by operating activities	<u>5,451,961</u>	<u>519,458</u>
Cash flows from investing activities:		
Increase in investment in Diocesan Deposit and Loan Account	<u>(5,146,726)</u>	<u>(906,701)</u>
Net cash used in investing activities	<u>(5,146,726)</u>	<u>(906,701)</u>
Net increase (decrease) in cash	305,235	(387,243)
Cash, beginning of year	<u>11,262</u>	<u>398,505</u>
Cash, end of year	<u>\$ 316,497</u>	<u>\$ 11,262</u>

The accompanying notes are an integral part of these statements.

Protected Self Insurance Program 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 Protected Self Insurance Program of the Diocese of Rockville Centre (the "Program") is a program initiated by the Diocese of Rockville Centre (the "Diocese") for the self-indemnification of property and casualty losses of participating parishes, health facilities, institutions and organizations within the Diocese on an occurrence basis. The Diocese retains a third-party claims administrator, which administers the payment of losses and sets reserves for claims. Assessments are used to pay for claims, which may occur, administrative costs and the purchase of insurance coverage for excess losses.

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 by reinsuring certain levels of risk in various areas of exposure with insurance enterprises or reinsurers. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. For the claim years through 1987, the per claim limit was \$100,000. For the years 1987 through 1993, the per claim limit was \$150,000. Starting in 1994, the per claim limit was \$250,000, except for property claims for the 2000-2001 year, for which the per claim limit was \$100,000. In 2002, the loss limit for workers' compensation claims was \$750,000. Under certain conditions for the years 1997-2001, the Diocese will have to pay additional insurance premiums and/or retain higher claim exposure at a maximum annual level of \$625,000. As of August 31, 2003 and 2002, the Program reserved \$1,250,000, each year, for this increased exposure. Reinsurance contracts do not relieve the Program from its obligations to participants. Failure of reinsurers to honor their obligations could result in losses to the Program or the Diocese.

The Uninsured Perils Fund was established in 1986 for legal defense fees and possible settlements in connection with sexual misconduct allegations.

The Program's financial statements distinguish between unrestricted, temporarily restricted and permanently restricted net assets and changes in net assets. All of the Program's net assets have been classified as designated unrestricted net assets since the parishes and other Diocesan institutions have made payments to the Program for property and casualty insurance.

The Program, 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.

Protected Self Insurance Program of the Diocese of Rockville Centre

NOTES TO FINANCIAL STATEMENTS (continued)

August 31, 2003 and 2002

NOTE A (continued)

A summary of the Program's significant accounting policies is as follows:

1. *Basis of Accounting*

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

2. *Restricted Investment*

The restricted investment represents a U.S. Treasury Note due on March 31, 2005, which is being held as a security deposit by the Workers' Compensation Board of the State of New York. The investment is held in the Diocese's name and is carried at market value in the accompanying financial statements.

3. *Assessments*

Assessments for insurance coverage are reported as revenue over the term of the coverage.

4. *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 upon 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. The estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known. Such adjustments are charged or credited to current operations.

5. *Concentration of Credit Risk*

As of August 31, 2003 and 2002, the Program did not have any recoverable on paid losses and loss adjustment expenses from any individual reinsurer in excess of 3% of net assets. In addition, management believes that the Program did not have any recoverable on unpaid losses and loss adjustment expenses from any individual reinsurer in excess of 3% of net assets.

NOTES TO FINANCIAL STATEMENTS (continued)

August 31, 2003 and 2002

NOTE A (continued)

6. 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.

NOTE B - INVESTMENT IN DIOCESAN DEPOSIT AND LOAN ACCOUNT

The Program 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, will receive a rate of 75% of the prime rate, adjusted quarterly. The second option, which the Program also participates in, 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. A “mission fee” equal to 1% of the average balance in the Balanced Account will be deducted from the investment performance for the purpose of funding the mission function of the DLA. The amount the Program had invested in the Savings and Balanced accounts as of August 31, 2003 was \$27,284,960 and \$41,257,481, respectively and, as of August 31, 2002 was \$25,527,006 and \$37,868,709, respectively.

NOTE C - RECEIVABLES FROM PARISHES

As of August 31, 2003 and 2002, the Program had amounts receivable from parishes totaling \$453,956 and \$139,467, 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 Diocesan Deposit and Loan Account 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 Program.

Protected Self Insurance Program of the Diocese of Rockville Centre

NOTES TO FINANCIAL STATEMENTS (continued)

August 31, 2003 and 2002

NOTE D - RECOVERABLE FROM HEALTH FACILITIES

The Program modified its method of assessing the four health facilities, effective September 1, 1995. Allocated amounts of Program overhead (Reinsurance, Compensation Board assessments and expenses) were billed to each facility. Amounts paid for claims relative to the period September 1, 1995 through August 31, 2003 have also been billed.

The recoverable from health facilities includes the amounts estimated by the third-party claims administrator for reported claim periods 20 through 27 losses. It also includes an actuarial calculation for the trending of claim periods 20 through 27 losses to their ultimate estimated settlement value.

NOTE E -LOSSES AND LOSS ADJUSTMENT EXPENSES PAYABLE

Activity in the losses and loss adjustment expenses payable is summarized as follows:

	<u>2003</u>	<u>2002</u>
Balance, September 1	\$ 42,410,925	\$ 42,984,288
Less – Reinsurance recoverable on unpaid loss	<u>(5,318,236)</u>	<u>(5,465,465)</u>
Net balance, September 1	<u>37,092,689</u>	<u>37,518,823</u>
Incurred related to:		
Current year	11,268,633	9,624,770
Prior years	<u>2,408,106</u>	<u>831,473</u>
Total incurred	<u>13,676,739</u>	<u>10,456,243</u>
Paid related to:		
Current year	(1,738,398)	(1,716,365)
Prior years	<u>(8,697,698)</u>	<u>(9,166,012)</u>
Total paid	<u>(10,436,096)</u>	<u>(10,882,377)</u>
Net balance, August 31	40,333,332	37,092,689
Plus – Reinsurance recoverable on unpaid loss	<u>5,285,292</u>	<u>5,318,236</u>
Balance, August 31	<u>\$ 45,618,624</u>	<u>\$ 42,410,925</u>

Protected Self Insurance Program of the Diocese of Rockville Centre

NOTES TO FINANCIAL STATEMENTS (continued)

August 31, 2003 and 2002

NOTE E (continued)

The Program paid reinsurance premiums totaling approximately \$5,006,000 and \$2,933,000 for the years ended August 31, 2003 and 2002, respectively, these premiums are allocated as follows:

Policy	2003	2002
Directors and officers	\$ 89,000	\$ 89,000
Worker's compensation	716,000	369,000
Property and liability	3,122,000	1,455,000
Excess umbrella	460,000	460,000
Auto	<u>619,000</u>	<u>560,000</u>
	<u>\$ 5,006,000</u>	<u>\$ 2,933,000</u>

NOTE F - PENSION PLAN

The Program 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 Program 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 Program for the years ended August 31, 2003 and 2002 was \$10,316 and \$12,195, respectively.

NOTE G - 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 which have arisen in the ordinary course of the Diocese's activities and are not expected to have a material adverse effect on the Diocese's or the Program's financial position.

SUPPLEMENTARY INFORMATION

Protected Self Insurance Program of the Diocese of Rockville Centre

SCHEDULE OF PROGRAM LOSS INFORMATION

As of August 31, 2003
(unaudited)

Policy Year	Gross Estimated Ultimate Losses	Ultimate Losses Net of Recoveries	Aggregate Stop-Loss Attachment Point	Open Claims	Reserve for Losses
10/76 – 9/77	\$ 1,603,282	\$ 1,200,000	\$ 1,200,000	5	\$ (40,689)
10/77 – 9/78	1,359,218	1,296,679	1,400,000	1	5,869
10/78 – 9/79	3,167,212	1,865,057	1,950,000	0	(2,086)
10/79 – 9/80	4,074,821	1,834,530	2,400,000	3	(30,133)
10/80 – 9/81	2,763,009	2,247,382	2,400,000	5	50,429
10/81 – 9/82	4,491,147	2,400,000	2,400,000	0	3,777
10/82 – 9/83	3,060,571	2,446,759	2,500,000	6	21,160
9/83 – 8/84	4,132,643	2,600,000	2,600,000	3	(17,295)
9/84 – 8/85	6,362,742	3,405,100	3,200,000	5	(431,733)
9/85 – 8/86	3,974,116	3,242,834	4,500,000	4	(39,470)
9/86 – 8/87	6,182,893	4,845,179	5,000,000	9	227,163
9/87 – 8/88	6,900,598	5,728,281	6,150,000	6	95,656
9/88 – 8/89	6,452,159	5,456,887	6,150,000	6	133,582
9/89 – 8/90	7,047,936	6,150,000	6,150,000	14	44,621
9/90 – 8/91	12,334,189	7,420,544	6,500,000	15	475,313
9/91 – 8/92	12,812,665	8,032,810	6,750,000	21	354,615
9/92 – 8/93	11,502,637	7,081,717	7,000,000	15	(185,193)
9/93 – 8/94	13,373,305	11,077,032	-	24	717,315
9/94 – 8/95	11,193,386	10,690,994	-	24	1,528,364
9/95 – 8/96	10,192,501	8,852,556	-	19	1,079,660
9/96 – 8/97	10,423,241	10,096,589	-	33	2,190,960
9/97 – 8/98	9,862,926	9,378,942	-	34	2,125,751
9/98 – 8/99	9,042,389	9,042,389	-	42	2,905,275
9/99 – 8/00	9,416,591	8,745,263	-	51	3,735,983
9/00 – 8/01	11,283,884	11,283,884	-	89	5,770,431
9/01 – 8/02	11,935,000	11,935,000	-	161	8,345,372
9/02 – 8/03	<u>13,085,022</u>	<u>13,085,022</u>	<u>-</u>	<u>534</u>	<u>11,268,635</u>
Total	<u>\$ 208,030,083</u>	<u>\$ 171,441,430⁽²⁾</u>	<u>\$ 68,250,000</u>	<u>1,129</u>	<u>\$ 40,333,332⁽¹⁾⁽²⁾</u>

- (1) Included in the reserve for losses amount of \$40,333,332 is \$18,534,184 for estimates related to “incurred but not reported” losses and possible claim development. Additionally, loss adjustment expenses are included within this amount.
- (2) The ultimate losses net of recoveries and the reserve for losses amounts are net of reinsurance recoverable of \$5,285,292.

This schedule should be read in conjunction with the accompanying financial statements and notes thereto.