

**ADDENDUM TO THE REPORT ON THE DIOCESE OF ROCKVILLE CENTRE
FREE CASH RESERVES (FOR THE 2006 FISCAL YEAR) DATED FEBRUARY
19, 2008 AND PREPARED BY H. RICHARD GRAFER**

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The Diocese of Rockville Centre (“DRVC”) finally published in November 2008 (26 months after year-end) its last two audited financial statements for the fiscal year ended August 31, 2006. These two financial statements relate to the Protected Self Insurance Program (“PSIP”) and the Propagation of the Faith and Mission Office (“PFMO”). My report on DRVC free cash reserves dated February 19, 2008 included these two programs on an estimated basis using prior year amounts. Actual audited amounts for the PFMO differ only immaterially from the estimates, but actual amounts for the PSIP are materially different than the estimated amounts, resulting in a significant downward revision of the estimated \$267.7 million of free cash reserves estimated as of August 31, 2006 and the \$11.5 million year-to-year estimated increase in free cash reserves. However, for the reasons discussed below, free cash reserves still increased in 2006 after these revisions by \$6 million (compared to the \$11.5 million estimated). In summary, based on amounts derived from the audited financial statements, DRVC free cash reserves increased in the 2006 fiscal year by \$6 million (\$29.9 million during the four year period ended August 31, 2006), and free cash reserves equaled \$250.6 million as of August 31, 2006.

A summary of these changes is as follows:

Total Amount of Free Cash Reserves as of 8/31/06 (in millions):

Estimated amount	\$267.7
PFMO audit impact	(.3)
PSIP audit impact	<u>(16.8)</u>
Actual as restated	<u>\$250.6</u>

Increase in Free Cash Reserves from 2005 to 2006 (in millions):

Estimated increase	\$11.5
PFMO audit impact	(.3)
PSIP audit impact	<u>(5.2)</u>
Actual increase as restated	<u>6.0</u>

As can be seen, the audit impact on total free cash reserves is a lot greater than the audit impact on the increase in free cash reserves. The principal reason for this is that \$11.6 million of the downward reduction in free cash reserves relates to a change in accounting method at PSIP. Were this \$11.6 million “pushed back” to the prior year, putting both 2005 and 2006 on a comparable basis, it would probable not materially affect the year-to-year increase in free cash reserves. Thus, its impact has been removed from the PSIP actual \$5.2 million year-to-year decrease calculated, but its impact has not been removed from the PSIP \$16.8 million reduction in the total amount of free cash reserves.

It should also be noted that the total decrease in audited PSIP net assets in fiscal 2006 equaled \$24.9 million, significantly greater than the \$16.8 million reduction in free cash reserves noted above. The reason for this is that in 2005 the DRVC broke-out separately the \$8.1 million Uninsured Perils Fund (established over time to pay for the sexual abuse litigation and related expenses), but it did not do so in 2006. Thus, in 2005, I considered this Fund as restricted and not available as a free cash reserve, but I could not do so in 2006 because the remaining Fund amount was not separately disclosed. This had the impact of making the PSIP downward audit adjustments in total free cash reserves and the year-to-year decrease in free cash reserves less than they otherwise would be by an undeterminable amount. It is probable that the year-to-year increase in free cash reserves would be closer to zero than \$6 million were this amount known, but this depends heavily on the amount of the Fund expended in 2006 and when the Maiello case award was accounted for.

One final point on these adjustments: Although the PSIP experienced an increase in insurance claims and losses in 2006, by far the most significant factor contributing to its decrease in net assets and free cash reserves appears to be a significant decrease in its assessment income of \$8.8 million. Thus, the DRVC program to eliminate insurance assessments (insurance billings) that is known to have begun in 2007 may have actually started earlier in 2006. This is obviously a very good thing because it means that the DRVC is finally “giving back” some of its excess reserves to the parishes, which LIVOTF and I have been advocating for some time. However, at the current level of free cash reserves, the DRVC may only be able to continue this policy for another 2-4 years beginning in 2007, and the impact of the 2008 market crash may reduce this estimate further. It’s also interesting to note that Nassau County has a similar issue in that the state fund for worker healthcare has been over-funded in the past, and the state is now decreasing premiums charged to the County to “give-back” some or all of the over-funding.