Statutory Basis Financial Statements and
Report of Independent Certified Public Accountants

Massachusetts Catholic Self-Insurance Group, Inc.

March 31, 2011 and 2010

Contents

Grant Thornton

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Report of Independent Certified Public Accountants

Board of Directors
Massachusetts Catholic Self-Insurance Group, Inc.

We have audited the accompanying statutory basis statements of admitted assets, liabilities and policyholders' surplus of the Massachusetts Catholic Self-Insurance Group, Inc. (the "Group") as of March 31, 2011 and 2010, and the related statutory basis statements of operations, changes in policyholders' surplus, and cash flows for the years then ended. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these statutory basis financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants. 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 Group'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.

As described more fully in Note B, these financial statements were prepared in conformity with accounting practices prescribed or permitted by the Commonwealth of Massachusetts Division of Insurance, which is a comprehensive basis of accounting other than generally accepted accounting principles in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities and policyholders' surplus of the Massachusetts Catholic Self-Insurance Group, Inc. as of March 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended, on the basis of accounting described in Note B.

As discussed in Note B, in accordance with permitted practice, the Group discounts its reserves for losses and loss adjustment expenses based on an estimate of the time value of money. If the reserves for losses and loss adjustment expenses were recorded on an undiscounted basis in accordance with the National Association of Insurance Commissioners Statutory Accounting Principles, reserves for losses and loss adjustment expenses would increase and statutory surplus would decrease by approximately $603,000 and $658,000 as of March 31, 2011 and 2010, respectively. Additionally, net loss would decrease by approximately $54,000 for the year ended March 31, 2011 and net income would decrease by approximately $33,000 for year ended March 31, 2010.

This report is intended solely for the information and use of the Board of Directors and the management of the Massachusetts Catholic Self-Insurance Group, Inc. and the Commonwealth of Massachusetts Division of Insurance and is not intended to be and should not be used by anyone other than these specified parties.

Grant Thornton LLP

October 11, 2011
Boston, Massachusetts

NOTE A - ORGANIZATION

The Massachusetts Catholic Self-Insurance Group, Inc. (the "Group") was organized in March 1990 as a workers' compensation self-insurance group under Massachusetts General Law Chapter 152 and writes workers' compensation insurance in Massachusetts for its members, which include schools, hospitals, institutions and parishes which operate under the auspices of the Archdiocese of Boston (the "Archdiocese"), and other Catholic organizations located in Massachusetts. The Group is included in the United States Conference of Catholic Bishops Group Ruling and in the official Catholic Directory and is therefore exempt from income tax under Section 501(c)(3) of the Internal Revenue Code.

Effective April 1, 2010, Caritas Christi and its managed health care entities withdrew from the Group thereby ending their participation in the Group's workers' compensation insurance program. These entities represented approximately 52% of the Group's premiums earned in the year ended March 31, 2010.

NOTE B - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

The accompanying financial statements have been prepared in conformity with accounting practices prescribed or permitted by the Commonwealth of Massachusetts Division of Insurance (the "Division of Insurance"). "Prescribed" statutory accounting practices ("SAP") are interspersed throughout the state insurance laws and regulations, the National Association of Insurance Commissioners' ("NAIC") Accounting Practices and Procedures Manual and a variety of other NAIC publications. "Permitted" SAP encompass all accounting practices that are not prescribed; such practices may differ from state to state and company to company within a state, and may change in the future.

The Group has evaluated subsequent events through October 11, 2011, which is the date these statutory basis financial statements were issued.

In accordance with permitted practice, the Group discounts its reserves for losses and loss adjustment expenses based on an estimate of the time value of money. If the losses and loss adjustment expense reserves were recorded on an undiscounted basis in accordance with NAIC SAP, reserves for losses and loss adjustment expenses would increase and statutory surplus would decrease by approximately $603,000 and $658,000 at March 31, 2011 and 2010, respectively. Additionally, net loss would decrease by approximately $54,000 for the year ended March 31, 2011 and net income would decrease by approximately $33,000 for the year ended March 31, 2010. Other permitted practices that are not prescribed by SAP but which are utilized by the Group did not have a material effect on surplus or results of operations.

NOTE B - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Reconciliations of the Group's net (loss) income and policyholders' surplus between NAIC SAP and practices permitted by the Commonwealth of Massachusetts for the years ended March 31 are as follows:

	2011	2010
Net (loss) income, Massachusetts statutory basis	**$ (729,841)**	$ 620,988
Effect of permitted practice - discounting reserves for losses and loss adjustment expenses	**54,418**	(33,473)
Net (loss) income, NAIC SAP	**$ (675,423)**	$ 587,515
Policyholders' surplus, Massachusetts statutory basis	**$ 5,286,255**	$ 6,013,681
Effect of permitted practice - discounting reserves for losses and loss adjustment expenses	**(603,139)**	(657,557)
Policyholders' surplus, NAIC SAP	**$ 4,683,116**	$ 5,356,124

NAIC SAP differ from accounting principles generally accepted in the United States of America (US GAAP) in several respects, which cause differences in reported assets, liabilities, stockholders' equity (policyholders' surplus), net (loss) income, and cash flow. The principal differences include the following:

- Reserves are reported net of ceded reinsurance, while under US GAAP, reserves are generally reported gross with a corresponding reinsurance receivable.

- NAIC SAP prescribe limitations to the admissibility of certain assets while, under US GAAP, such amounts are carried at cost with appropriate valuation allowances.

- Investments in bonds are carried at amortized cost for NAIC SAP, while US GAAP for not-for-profit entities generally requires that all investment securities be carried at fair value, with unrealized gains and losses included in income.

- The statement of cash flows differs from US GAAP principally due to the presentation of the changes in cash and short-term investments instead of cash and cash equivalents. In addition, under NAIC SAP, there is no reconciliation between net (loss) income and cash flow from operations.

NOTE B - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The Group's significant accounting policies are as follows:

Cash and Short-Term Investments

Cash and short-term investments, which are accounted for at cost, consist of funds held in bank accounts and mutual funds. For US GAAP purposes, only highly liquid debt instruments with original maturities of ninety days or less would be included under this caption. Short-term investments at March 31, 2011 and 2010 consist of an investment in a money market mutual fund.

The Group deposits its cash in accounts in major financial institutions. These deposits are insured by the Federal Deposit Insurance Corporation ("FDIC") up to $250,000 per depositor. At times, balances held in such accounts are in excess of FDIC-insured limits. The Group has not experienced any losses as a result of having uninsured deposits.

Investment

The Group's investment at March 31, 2011 and 2010 consists of funds placed in the State Street Bank and Trust Company Intermediate U.S. Government Index Securities Lending Common Trust Fund (the "State Street Fund"). This investment is accounted for at cost.

Nonadmitted Assets

Prepaids and premiums receivable are excluded from the accompanying statements of admitted assets, liabilities and policyholders' surplus. The related change in these balances is recorded directly to policyholders' surplus.

Reinsurance

Reserves for losses and loss adjustment expenses are reported net of estimated reinsurance amounts.

Reserves for Losses and Loss Adjustment Expenses

Reserves for losses and loss adjustment expenses represent the estimated ultimate net cost of all losses incurred, reported and unreported, but unpaid through the end of the year net of estimated losses ceded to the Group's reinsurer. The reserves for unpaid losses and loss adjustment expenses are estimated by management using individual case basis valuations and statistical analyses as determined by an independent actuary and are recorded net of anticipated salvage and subrogation recoveries. Those estimates are subject to the effects of trends in loss severity and frequency. Although considerable uncertainty is inherent in such estimates, management believes that the reserves for losses and loss adjustment expenses are adequate. The estimates are continually reviewed and adjusted as experience develops or new information becomes known and any necessary adjustments are reflected in operations in the period identified.

NOTE B - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Reserves for losses and loss adjustment expenses are recorded on a discounted basis using an interest rate set by the Board of Directors. The approved rate, which under State regulations cannot exceed discount rates prescribed by the IRS, was set at 4% at March 31, 2011 and 2010.

Included in losses and loss adjustment expenses incurred are amounts paid to a third party administrator that handles claims processing activities. The Group expensed $164,000 and $271,000 for such services during the years ended March 31, 2011 and 2010, respectively.

Premium Revenue

Premiums are established annually based on rates for workers' compensation established by the Commonwealth of Massachusetts and adjusted for individual experience. Premium rates are intended to be sufficient to cover all operating costs and to maintain and continue the program in full force and effect. Premiums are recorded as earned on a pro rata basis over the terms of the policies, net of premiums ceded for reinsurance with third parties. All policies issued by the Group expire each year on March 31.

Premiums resulting from final payroll adjustments are recognized as revenue in the year in which the related payroll audits are completed.

Dividend Distributions

The declaration of dividend distributions to policyholders and former policyholders is at the discretion of the Group's Board of Directors. In accordance with applicable Massachusetts regulations, dividend distributions will not begin until twenty-four months after the end of the policy year in which the related surplus was earned, at which point 25% of the distribution can be made. Thereafter, up to an accumulated 33%, 50% and 100% of the declared distribution may be made in each of the successive years.

Income Taxes

No income tax provision has been recorded as the Group is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. A favorable determination letter was granted by the Internal Revenue Service on February 6, 1992.

Use of Estimates

The preparation of the financial statements in conformity with accounting practices prescribed or permitted by the Division of Insurance requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The determination of reserves for losses and loss adjustment expenses represents a significant estimate made by the Group's management. Actual results could vary from this estimate.

NOTE C - STATUTORY REQUIREMENTS

The Division of Insurance periodically examines the Group's statutory financial statements as part of their legally prescribed oversight of the insurance industry in Massachusetts. Based on these examinations, regulators can direct that the Group's statutory financial statements be adjusted in accordance with their findings. The most recent examination report, dated July 2, 2009, covered each fiscal year in the six-year period ended March 31, 2008.

The Group is in compliance with the following minimum statutory financial requirements as of March 31, 2011 and 2010:

Liquidity

The Group is required to provide security to the Commissioner of Insurance of the Commonwealth of Massachusetts to the extent the undiscounted loss reserves and unearned premiums exceed liquid assets. This condition did not exist at March 31, 2011 and 2010.

Member Net Worth

The combined net worth of all the members of the Group is required to exceed the greater of 400% of the Group's standard premium or $1,000,000.

Reinsurance/Excess Insurance

The Group is required to maintain excess reinsurance coverage of at least $5,000,000 per occurrence and aggregate excess insurance attaching at 105% of standard premium. The retention limit for the Group's excess reinsurance coverage shall not be more than 30% of the net premium of the Group, up to a maximum of $500,000. Reinsurers shall be licensed, admitted or otherwise authorized to transact insurance or reinsurance in the Commonwealth of Massachusetts and have acceptable ratings (noted in parentheses) from at least two of the following rating agencies: A.M. Best & Company (A), Duff & Phelps (AA), Moody's Investors Services (AA2) and Standard & Poors Corporation (A).

Security

The Group is required to provide to the Commissioner of Insurance of the Commonwealth of Massachusetts security equal to the greater of 10% of the Group's standard premium or $100,000. Such security is provided through the maintenance of a restricted bank account. As of March 31, 2011, the amount held in the restricted bank account exceeded the required balance and will be reduced to the required amount upon approval from the Massachusetts Division of Insurance.

NOTE D - INVESTMENT

At March 31, 2011, the Group's investment in the State Street Fund had a cost of $9,525,205 and an estimated fair value of $10,027,631 resulting in an unrealized gain of $502,426. At March 31, 2010, the Group's investment in the State Street Fund had a cost of $9,324,545 and an estimated fair value of $9,661,888 resulting in an unrealized gain of $337,343. Such unrealized gains are not reflected in the statements of admitted assets, liabilities and policyholders' surplus or the statement of operations, in accordance with NAIC SAP. The State Street Fund invests in four separate trust funds formed by State Street Bank and Trust Company. The underlying investments of these trust funds are U.S. Treasury and agency notes and bonds with terms to maturity of 1 to 10 years.

SAP 100 establishes a single authoritative definition of fair value, sets a framework for measuring fair value, and requires additional disclosures about fair value measurements. The Group classifies assets and liabilities into Level 1 (securities valued using quoted prices from active markets for identical assets), Level 2 (securities not traded on an active market for which observable market inputs are readily available), and Level 3 (securities valued based on significant unobservable inputs). Investments are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The investment in the State Street Fund is the only asset or liability measured at fair value (for disclosure purposes only). The investment in the State Street Fund is an alternative investment, and is redeemable at or near year-end at NAV per share. As such, it is classified within Level 3 of the fair value hierarchy.

NOTE E - RESERVES FOR LOSSES AND LOSS ADJUSTMENT EXPENSES

The Group uses an independent consulting actuary to assist in determining its reserves for losses and loss adjustment expenses. The consulting actuary determines a "low reasonable estimate" and a "high reasonable estimate" for the Group's losses and loss adjustment expense reserves. These estimated discounted net reserves ranged from $7,093,040 to $8,198,805 at March 31, 2011 and from $7,883,408 to $8,939,091 at March 31, 2010. The Group's recorded discounted reserves for losses and loss adjustment expenses were $7,642,000 and $8,431,000 at March 31, 2011 and 2010, respectively, approximating the mid-point of the consulting actuary's calculated range.

NOTE E - RESERVES FOR LOSSES AND LOSS ADJUSTMENT EXPENSES - Continued

A summary of activity in the reserves for losses and loss adjustment expenses for the years ended March 31, 2011 and 2010 is as follows (in thousands):

	2011	2010
Beginning undiscounted balance incurred:	**$ 9,088**	$ 8,736
Incurred:		
Current year	**2,616**	4,633
Prior years	**(645)**	(1,363)
Total incurred	**1,971**	3,270
Paid related to:		
Current year	**700**	1,179
Prior years	**2,115**	1,739
Total paid	**2,815**	2,918
Ending undiscounted balance	**8,245**	9,088
Less discount	**(603)**	(657)
Ending discounted balance	**$ 7,642**	$ 8,431

As a result of changes in estimates of insured events in prior years, incurred claims and claim adjustment expenses decreased by $645,000 and $1,363,000 in 2011 and 2010, respectively, due to favorable loss development.

NOTE F - CONTINGENCIES

The Group is engaged in litigation in the ordinary course of business principally related to the defense of various liability and other claims. Liabilities are recorded to cover estimated losses and related expenses associated with these matters in setting the reserves for losses and loss adjustment expenses.

NOTE G - REINSURANCE

To help manage exposure to loss and comply with regulations, the Group has entered into a specific and aggregate loss reinsurance agreement. The coverage under this agreement is subject to specific retentions and limits as defined by the contract. The Group remains primarily liable for its obligations under its insurance contracts. In the event the reinsurer becomes unable to meet its obligations under the reinsurance agreement, the Group would become liable and would then be required to recognize such obligations in its financial statements.

The following table presents information relative to the Group's reinsurance agreement:

	2011	2010
Premiums earned for the years ended March 31:		
Premiums written	**$ 2,615,959**	$ 5,801,516
Reinsurance premiums	**(228,019)**	(429,777)
Premiums earned	**$ 2,387,940**	$ 5,371,739
Losses and loss adjustment expenses ceded to reinsurance for the years ended March 31	**$ 13,000**	$ 57,000

NOTE H - DUE TO POLICYHOLDERS - DIVIDEND DISTRIBUTIONS

In December 2010, the Group's Board of Directors declared a dividend distribution of $750,000 relating to previous policy years and for which payments will begin to be made in the fiscal year ending March 31, 2012 in accordance with regulations. In November 2009, the Group's Board of Directors declared a dividend distribution of $750,000 which was paid in the fiscal year ended March 31, 2011. Such dividends payments were made in compliance with the related state regulations.

At March 31, 2010, the liability for dividends to policyholders included $201,337 dating back to periods prior to 2003 due to former policyholders no longer in operation. During the year ended March 31, 2011, Group management determined, after consultation with legal counsel, that such dividends should be treated as forfeited by the former policyholders. Consequently, the forfeited dividends were reversed and are presented as a reduction to dividends to policyholders in the accompanying statement of operations for the year ended March 31, 2011.

Due to policyholders - other represents dividends which have been declared but remain unpaid, which eventually will be reduced by premiums due for future policy years.

NOTE I - SURPLUS AND DIVIDEND RESTRICTIONS

Without prior approval of the Commissioner, dividends to policyholders are limited to the greater of (i) net income excluding realized capital gains or (ii) 10% of statutory surplus as of the preceding March 31 with such amount not to exceed the Group's earned surplus. Within the limitation of the preceding and the regulation discussed in Note B, there are no restrictions placed on the portion of the Group's profits that may be paid as ordinary dividends to policyholders.

Policyholders' surplus has been reduced by the following nonadmitted assets at March 31:

	2011	2010
Premiums receivable	**$ 480,373**	$ 484,788
Prepaid expenses	**2,000**	-
	$ 482,373	$ 484,788

NOTE J - RELATED-PARTY TRANSACTIONS

All insurance written and claims paid originate with organizations meeting the criteria for membership. This includes any Catholic agency or educational, charitable or religious organization operating within the Commonwealth of Massachusetts. However, substantially all premium billings originate with organizations that operate under the auspices of the Archdiocese.

The Group shares the cost of facilities and employees with the Archdiocese. Included in other underwriting expenses incurred are approximately $331,000 and $394,000 for service fees charged by the Archdiocese for the years ended March 31, 2011 and 2010, respectively.

MASSACHUSETTS CATHOLIC SELF-INSURANCE GROUP, INC.
Statements of Admitted Assets, Liabilities and Policyholders' Surplus - Statutory Basis
Years ended March 31, 2011 and 2010

		2011		2010
ADMITTED ASSETS				
Cash and short-term investments	**$**	**4,410,938**	$	6,389,658
Restricted cash		**601,132**		602,121
Investment, at cost (fair value of $10,027,631 in 2011 and $9,661,888 in 2010)		**9,525,205**		9,324,545
Other assets		**230,324**		141
Total admitted assets	**$**	**14,767,599**	$	16,316,465
LIABILITIES AND POLICYHOLDERS' SURPLUS				
LIABILITIES:				
Reserves for losses and loss adjustment expenses (note E)	**$**	**7,641,799**	$	8,431,320
Accounts payable and accrued expenses		**82,178**		176,230
Due to policyholders - dividend distributions		**750,000**		951,337
Due to policyholders - other		**1,007,367**		743,897
Total liabilities		**9,481,344**		10,302,784
POLICYHOLDERS' SURPLUS (note I)		**5,286,255**		6,013,681
Total liabilities and policyholders' surplus	**$**	**14,767,599**	$	16,316,465

The accompanying notes are an integral part of the statutory basis financial statements.

MASSACHUSETTS CATHOLIC SELF-INSURANCE GROUP, INC.
Statements of Operations - Statutory Basis
Years ended March 31, 2011 and 2010

	2011	2010
Premiums earned, net (note G)	**$ 2,387,940**	$ 5,371,739
Other assessments	**142,877**	381,361
Total underwriting income	**2,530,817**	5,753,100
Losses and loss adjustment expenses incurred (note E)	**2,252,961**	3,666,364
Other underwriting expenses incurred (note J)	**501,097**	615,285
Massachusetts Department of Industrial Accidents assessments	**173,865**	363,840
Total underwriting expenses	**2,927,923**	4,645,489
Net underwriting (loss) gain	**(397,106)**	1,107,611
Investment income	**215,928**	263,377
Net (loss) income before dividends to policyholders	**(181,178)**	1,370,988
Dividends to policyholders (note H)	**(548,663)**	(750,000)
Net (loss) income	**$ (729,841)**	$ 620,988

The accompanying notes are an integral part of the statutory basis financial statements.

MASSACHUSETTS CATHOLIC SELF-INSURANCE GROUP, INC.

Statements of Changes in Policyholders' Surplus - Statutory Basis

Years ended March 31, 2011 and 2010

	2011	2010
Policyholders' surplus at beginning of year	**$ 6,013,681**	$ 5,277,297
Net (loss) income	**(729,841)**	620,988
Change in nonadmitted assets	**2,415**	115,396
Policyholders' surplus at end of year	**$ 5,286,255**	$ 6,013,681

The accompanying notes are an integral part of the statutory basis financial statements.

MASSACHUSETTS CATHOLIC SELF-INSURANCE GROUP, INC.
Statements of Cash Flows - Statutory Basis
Years ended March 31, 2011 and 2010

	2011	2010
OPERATING ACTIVITIES:		
Premiums and assessments collected, net of reinsurance	**$ 2,142,356**	$ 5,487,138
Investment income, net of expenses	**216,068**	264,601
Other assessments collected	**142,877**	381,361
Losses and loss adjustment expenses paid, net	**(2,622,743)**	(2,810,609)
Underwriting expenses paid and MDIA assessments	**(1,162,451)**	(1,483,047)
Distributions to policyholders	**(750,000)**	(999,944)
Net cash (used in) provided by operating activities	**(2,033,893)**	839,500
INVESTING ACTIVITIES:		
Purchases of investment	**(200,660)**	(233,234)
Net cash used in investing activities	**(200,660)**	(233,234)
FINANCING AND MISCELLANEOUS ACTIVITIES:		
Other cash provided (used)	**254,844**	(1,181,797)
Net cash provided by (used in) financing and miscellaneous activities	**254,844**	(1,181,797)
Net change in cash and short term investments	**(1,979,709)**	(575,531)
Cash and short-term investments at beginning of year	**6,991,779**	7,567,310
Cash and short-term investments at end of year	**$ 5,012,070**	$ 6,991,779

The accompanying notes are an integral part of the statutory basis financial statements.