

Statutory Basis Financial Statements and
Report of Independent Certified Public Accountants
Massachusetts Catholic Self-Insurance Group, Inc.
March 31, 2007 and 2006

MASSACHUSETTS CATHOLIC SELF-INSURANCE GROUP, INC.

Table of Contents

March 31, 2007 and 2006

	<u>Page</u>
Report of Independent Certified Public Accountants	3
Statutory Basis Financial Statements	
Statements of Admitted Assets, Liabilities and Policyholders' Surplus.....	5
Statements of Operations	6
Statements of Changes in Policyholders' Surplus	7
Statements of Cash Flows	8
Notes to Statutory Basis Financial Statements	9

Report of Independent Certified Public Accountants

Board of Directors
The 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, 2007 and 2006, 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, 2007 and 2006, and the results of its operations and its cash flows for the years then ended, on the basis of accounting described in Note B.

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.

Guent Thornton LLP

Boston, Massachusetts
September 5, 2007

MASSACHUSETTS CATHOLIC SELF-INSURANCE GROUP, INC.

Statements of Admitted Assets, Liabilities and Policyholders' Surplus - Statutory Basis

March 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
ADMITTED ASSETS		
Cash and short-term investments	\$ 5,872,534	\$ 5,378,197
Restricted cash	408,607	407,825
Investment, at cost (fair value of \$8,086,730 in 2007 and \$7,646,317 in 2006)	8,340,792	7,975,199
Other receivable	5,261	13,579
Accrued investment income	<u>10,680</u>	<u>8,683</u>
Total admitted assets	<u>\$14,637,874</u>	<u>\$13,783,483</u>
LIABILITIES AND POLICYHOLDERS' SURPLUS		
LIABILITIES:		
Reserves for losses and loss adjustment expenses (note E)	\$ 6,763,522	\$ 5,996,392
Accounts payable and accrued expenses	85,278	100,813
Deposits on hand	1,246,191	739,056
Due to policyholders - dividend distributions	1,001,723	1,199,932
Due to policyholders - other	<u>280,677</u>	<u>85,298</u>
Total liabilities	9,377,391	8,121,491
POLICYHOLDERS' SURPLUS (note H)	<u>5,260,483</u>	<u>5,661,992</u>
Total liabilities and policyholders' surplus	<u>\$14,637,874</u>	<u>\$13,783,483</u>

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, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Premiums earned, net (note G)	\$5,011,722	\$5,288,287
Other assessments	<u>242,628</u>	<u>179,174</u>
Total underwriting income	<u>5,254,350</u>	<u>5,467,461</u>
Losses and loss adjustment expenses incurred	3,846,160	3,357,644
Other underwriting expenses incurred	691,824	544,093
Massachusetts Division of Industrial Accidents assessments	<u>263,908</u>	<u>231,682</u>
Total underwriting expenses	<u>4,801,892</u>	<u>4,133,419</u>
Net underwriting gain	452,458	1,334,042
Investment income	<u>612,433</u>	<u>444,265</u>
Net income before dividends to policyholders	1,064,891	1,778,307
Dividends to policyholders (note H)	<u>(1,000,000)</u>	<u>(1,000,000)</u>
Net gain after dividends to policyholders	<u>\$ 64,891</u>	<u>\$ 778,307</u>

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, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Policyholders' surplus at beginning of year	\$5,661,992	\$4,694,556
Net gain after dividends to policyholders	64,891	778,307
Change in nonadmitted assets	<u>(466,400)</u>	<u>189,129</u>
Policyholders' surplus at end of year	<u>\$5,260,483</u>	<u>\$5,661,992</u>

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, 2007 and 2006

	<u>2007</u>	<u>2006</u>
OPERATING ACTIVITIES:		
Premiums and assessments collected, net of reinsurance	\$5,295,085	\$6,153,814
Losses and loss adjustment expenses paid, net of reinsurance, salvage and subrogation	(3,102,675)	(2,978,533)
Underwriting expenses paid	(683,453)	(549,665)
Investment income, net of expenses	610,436	442,064
Massachusetts Division of Industrial Accidents assessments paid	(262,298)	(223,598)
Change in restricted cash	(782)	213
Distributions to policyholders	(1,198,209)	(1,499,067)
Change in amounts due to policyholders - other	195,379	(542,352)
Change in payables	<u>6,447</u>	<u>-</u>
Net cash provided by operating activities	859,930	802,876
INVESTING ACTIVITIES:		
Additional investment in common trust fund	<u>(365,593)</u>	<u>(291,396)</u>
Net cash used in investing activities	<u>(365,593)</u>	<u>(291,396)</u>
Increase in cash and short-term investments	494,337	511,480
Cash and short-term investments at beginning of year	<u>5,378,197</u>	<u>4,866,717</u>
Cash and short-term investments at end of year	<u>\$5,872,534</u>	<u>\$5,378,197</u>

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

MASSACHUSETTS CATHOLIC SELF-INSURANCE GROUP, INC.

Notes to Statutory Basis Financial Statements

March 31, 2007 and 2006

NOTE A - ORGANIZATION

The Massachusetts Catholic Self-Insurance Group, Inc., formerly known as The Archdiocese of Boston Self-Insurance Group, Inc., (the "Group") was organized in March 1990 as a workers' compensation self-insurance group under Massachusetts General Law Chapter 152. The Group is a separate legal entity organized under section 501(c)(3) of the Internal Revenue Code and writes workers' compensation insurance in Massachusetts for its members, which include schools, institutions and parishes which operate under the auspices of the Archdiocese of Boston (the "Archdiocese"), the Diocese of Springfield and Holy Family Hospital and Medical Center.

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"). "Prescribed" statutory accounting practices ("SAP") are interspersed throughout the state insurance law 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.

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 \$485,000 and \$467,000 at March 31, 2007 and 2006, respectively. Additionally, the net gain after dividends to policyholders would be decreased by approximately \$18,000 and \$113,000 for the years ended March 31, 2007 and March 31, 2006 respectively. 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.

MASSACHUSETTS CATHOLIC SELF-INSURANCE GROUP, INC.

Notes to Statutory Basis Financial Statements - Continued

March 31, 2007 and 2006

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

Reconciliations of the Group's net gain and surplus between NAIC SAP and practices permitted by the Commonwealth of Massachusetts are as follows:

	<u>2007</u>	<u>2006</u>
Net gain after dividends to policyholders, Massachusetts statutory basis	\$ 64,891	\$ 778,307
Effect of permitted practice - discounting reserves for losses and loss adjustment expenses	<u>(17,986)</u>	<u>(112,514)</u>
Net gain after dividends to policyholders, NAIC SAP	<u>\$ 46,905</u>	<u>\$ 665,793</u>
Policyholders' surplus, Massachusetts statutory basis	\$5,260,483	\$5,661,992
Effect of permitted practice - discounting reserves for losses and loss adjustment expenses	<u>(485,484)</u>	<u>(467,498)</u>
Policyholders' surplus, NAIC SAP	<u>\$4,774,999</u>	<u>\$5,194,494</u>

NAIC SAP differs 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 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 prescribes limitations to the admissibility of certain assets while, under US GAAP, such amounts are carried at cost with appropriate valuation allowances.
- Bonds are carried at amortized cost for NAIC SAP, while US GAAP generally requires classification of bonds into held-to-maturity, available-for-sale, and trading categories. Trading securities would be carried at fair value, with unrealized gains and losses included in income; available-for-sale securities would be carried at fair value, with unrealized gains and losses excluded from income and reported, as a component of accumulated other comprehensive income in policyholders' surplus; and held-to-maturity securities would be carried at amortized cost.

MASSACHUSETTS CATHOLIC SELF-INSURANCE GROUP, INC.

Notes to Statutory Basis Financial Statements - Continued

March 31, 2007 and 2006

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

In the event a decline in market value of an investment is determined to be other than temporary, US GAAP would require a write-down in cost which would be recognized as a realized loss.

- The statement of cash flow 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 income and cash from operations.

The Group's significant accounting policies are as follows:

Cash and Short-Term Investments

Cash and short-term investments consist of funds held in various types of bank accounts. 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, 2007 and 2006 consist of bank certificates of deposit and investments in money market mutual funds. The fair value of short-term investments approximates carrying value due to the nature and maturities of these investments.

The Group deposits its cash in accounts with financial institutions, which are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$100,000. At times, the balance 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, 2007 and 2006 consists of funds placed in the State Street Bank and Trust Company Intermediate U.S. Government Index Securities Lending Common Trust Fund. This investment is accounted for at cost.

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

Nonadmitted Assets

Prepays 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.

Premiums

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

Discount of Loss Reserves

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 reflects the current estimate of the Group's average return on its invested funds and was set at of 4.0% at March 31, 2007 and 2006.

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. The reserves for unpaid losses and loss adjustment expenses are estimated using individual case basis valuations and statistical analyses as determined by an independent actuary and are recorded without consideration of possible salvage or 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**

Premium Rates

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 and, accordingly, there were no unearned premiums at March 31, 2007 and 2006. Included in deposits on hand at March 31, 2007 and 2006, are premiums that were paid in advance by the Group's policyholders, which amounted to approximately \$1,246,000 related to the 2008 policy year and \$739,000 related to the 2007 policy year, respectively.

Dividend Distributions

The declaration of distributions to 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 related policy year, 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 Commonwealth of Massachusetts 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 reserve 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 June 11, 2003, for the five fiscal years ended March 31, 2002 contained no adjustments or findings.

The Group is in compliance with the following minimum statutory financial requirements as of March 31, 2007 and 2006:

Liquidity

The Group is required to provide security to the Commissioner to the extent the undiscounted loss reserves and unearned premiums exceed liquid assets. This condition did not exist at March 31, 2007 and 2006.

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).

The Group was not in compliance with the following minimum security requirement as of March 31, 2007 and 2006 but subsequent to year end the security restricted cash account was increased to 10% of the Group's standard premium.

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 cash account.

MASSACHUSETTS CATHOLIC SELF-INSURANCE GROUP, INC.

Notes to Statutory Basis Financial Statements - Continued

March 31, 2007 and 2006

NOTE D - INVESTMENT

At March 31, 2007, the investment in the State Street Bank and Trust Company Intermediate U.S. Government Index Securities Lending Common Trust Fund (the "Fund") had a cost of \$8,340,792, an estimated fair value of \$8,086,730 and an unrealized loss of \$254,062. At March 31, 2006 the cost was \$7,975,199, the estimated fair value was \$7,646,317 and the unrealized loss was \$328,882. The underlying investments of the Fund consist of U.S. Treasury and agency bonds. In the opinion of management, the unrealized loss on the Fund at March 31, 2007 and 2006 was temporary in nature and, accordingly, no impairment adjustment was required under US GAAP.

NOTE E - RESERVES FOR LOSSES AND LOSS ADJUSTMENT EXPENSES

The Group uses an independent consulting actuary to determine 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 \$6,377,000 to \$7,254,000 at March 31, 2007 and from \$5,702,000 to \$6,584,000 at March 31, 2006. The Group's recorded discounted net reserves for losses and loss adjustment expense reserves were approximately \$6,764,000 and \$5,996,000 at March 31, 2007 and 2006, respectively, and were within the consulting actuary's calculated range.

A summary of activity in the reserves for losses and loss adjustment expenses for the years ended March 31, 2007 and 2006 is as follows:

	<u>2007</u>	<u>2006</u>
Beginning undiscounted balance	\$6,463,890	\$6,031,805
Incurred:		
Current year	3,929,365	3,849,820
Prior years	<u>(321,866)</u>	<u>(686,252)</u>
Total incurred	3,607,479	3,163,568
Paid related to:		
Current year	1,024,677	1,078,248
Prior years	<u>1,797,686</u>	<u>1,653,235</u>
Total paid	<u>2,822,363</u>	<u>2,731,483</u>
Ending undiscounted balance	7,249,006	6,463,890
Less discount	<u>(485,484)</u>	<u>(467,498)</u>
Ending discounted balance	<u>\$6,763,522</u>	<u>\$5,996,392</u>

MASSACHUSETTS CATHOLIC SELF-INSURANCE GROUP, INC.
Notes to Statutory Basis Financial Statements - Continued
March 31, 2007 and 2006

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

The discounted loss reserve estimate of \$6,763,522 represents the amount necessary to fully provide for the expected level of future losses and loss adjustment expenses (excluding any incentive fee due to the claim administrator) net of estimated losses ceded to the Group's reinsurer as of March 31, 2007.

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.

Effective January 1, 2002 the Group entered into a retroactive reinsurance agreement with Safety National Casualty Corporation ("SNCC") wherein all outstanding loss and loss adjustment expense liabilities for policy years prior to April 1, 1999 were ceded to SNCC. The Group has obtained permission from the Commonwealth of Massachusetts Division of Insurance to account for this agreement as a novation of policy year 1998 and prior insurance policies rather than reinsurance of outstanding liabilities. Accordingly, the Group has no recorded loss reserve liabilities for policy years 1998 and prior. The Group would be held responsible for these transferred losses in the event of SNCC's insolvency. SNCC is currently rated A ("Excellent") by A.M. Best & Company.

NOTE G - REINSURANCE

To manage exposure to loss and comply with regulations, the Group has entered into a specific and aggregate loss reinsurance agreement for its workers' compensation coverage. 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 contract. 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.

Premiums earned for the years ended March 31 are as follows:

	<u>2007</u>	<u>2006</u>
Premiums written	\$5,535,512	\$5,708,275
Reinsurance premiums	<u>(523,790)</u>	<u>(419,988)</u>
Premiums earned	<u>\$5,011,722</u>	<u>\$5,288,287</u>
Losses and loss adjustment expenses ceded	<u>\$ 362,669</u>	<u>\$ 312,466</u>

MASSACHUSETTS CATHOLIC SELF-INSURANCE GROUP, INC.

Notes to Statutory Basis Financial Statements - Continued

March 31, 2007 and 2006

NOTE H - DUE TO POLICYHOLDERS - DIVIDEND DISTRIBUTIONS

In November 2006, the Group's Board of Directors declared a dividend distribution of \$1,000,000 relating to previous policy years and for which payments will begin to be made in the fiscal year ending March 31, 2008 in accordance with regulations. In November 2005, the Group's Board of Directors declared a \$1,000,000 dividend distribution for which the majority of payments were made in the fiscal year ended March 31, 2007 in accordance with the related provisions.

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 of policyholders 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 is reduced by the following at March 31:

	<u>2007</u>	<u>2006</u>
Nonadmitted asset values	<u>\$470,110</u>	<u>\$3,710</u>

NOTE I - 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 \$392,000 and \$373,000 for service fees charged by the Archdiocese for the years ended March 31, 2007 and 2006, respectively.