



DIOCESAN SERVICE, INC.

Financial Statements

August 31, 2007 and 2006

(With Independent Auditors' Report Thereon)



KPMG LLP
345 Park Avenue
New York, NY 10154

Independent Auditors' Report

The Board of Directors and Stockholder
Diocesan Service, Inc.:

We have audited the accompanying statements of financial position of Diocesan Service, Inc. (the Company) as of August 31, 2007 and 2006, and the related statements of activities and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company'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 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 Company'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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Diocesan Service, Inc. as of August 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

January 3, 2008

DIOCESAN SERVICE, INC.
 Statements of Financial Position
 August 31, 2007 and 2006

Assets	2007	2006
Cash and cash equivalents	\$ 224,571	231,452
Accounts and commissions receivable	8,356	12,445
Other assets	433	351
Total assets	\$ 233,360	244,248
Liabilities and Stockholder's Equity		
Liabilities:		
Premiums payable to insurance companies	\$ 74,339	17,295
Due to other Diocesan organizations (note 3)	8,400	72,249
Franchise tax payable	1,210	1,800
Total liabilities	83,949	91,344
Stockholder's equity:		
Common stock, par value \$10 per share. Authorized, issued and outstanding 100 shares	1,000	1,000
Retained earnings	148,411	151,904
Total stockholder's equity	149,411	152,904
Total liabilities and stockholder's equity	\$ 233,360	244,248

See accompanying notes to financial statements.

DIOCESAN SERVICE, INC.
Statements of Activities and Retained Earnings
Years ended August 31, 2007 and 2006

	2007	2006
Revenues:		
Commissions	\$ 17,121	22,031
Interest	7,452	5,524
Total revenues	24,573	27,555
Operating expenses (note 3)	26,623	15,346
(Deficiency) excess of revenues over operating expenses before franchise taxes	(2,050)	12,209
Franchise taxes (note 1)	1,443	2,351
Net (loss) income	(3,493)	9,858
Retained earnings at beginning of year	151,904	142,046
Retained earnings at end of year	\$ 148,411	151,904

See accompanying notes to financial statements.

DIOCESAN SERVICE, INC.

Statements of Cash Flows

Years ended August 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Net (loss) income	\$ (3,493)	9,858
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Decrease (increase) in accounts and commissions receivable	4,089	(5,026)
(Increase) decrease in other assets	(82)	196
Increase in premiums payable to insurance companies	57,044	10,502
(Decrease) increase in due to other Diocesan organizations	(63,849)	12,857
Decrease in franchise tax payable	(590)	(1,200)
Net cash (used in) provided by operating activities	<u>(6,881)</u>	<u>27,187</u>
(Decrease) increase in cash and cash equivalents	(6,881)	27,187
Cash and cash equivalents at beginning of year	<u>231,452</u>	<u>204,265</u>
Cash and cash equivalents at end of year	<u>\$ 224,571</u>	<u>231,452</u>
Supplemental disclosure:		
Franchise tax paid	\$ 2,033	3,551

See accompanying notes to financial statements.

DIOCESAN SERVICE, INC.

Notes to Financial Statements

August 31, 2007 and 2006

(1) Organization

Diocesan Service, Inc. (the Company) engages in the brokerage of certain insurance for ecclesiastical entities of the Roman Catholic Diocese of Rockville Centre (the Diocese), including parishes, hospitals and high schools. The Company's primary source of revenue is derived from commissions earned from the brokerage of such insurance.

The Company is classified as a 501(c)(3) organization and is exempt from Federal income taxes under Section 501(a) of the Internal Revenue Code. In order to qualify for tax exemption from New York State franchise tax, a company is not permitted to issue stock. As the Company has 100 shares of common stock authorized, issued and outstanding, the Company is subject to New York State franchise tax. The Company's common stock is held by a nonprofit trust for which the Ordinary of the Diocese of Rockville Centre is the sole trustee.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

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

(b) Cash Equivalents

Cash equivalents include highly liquid instruments with original maturities of three months or less, which consisted of a money market investment that is carried at fair value.

(c) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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.

(3) Related Parties

(a) Due to Other Diocesan Organizations

Due to other Diocesan organizations at August 31, 2006 primarily represented amounts due to the Protected Self Insurance Program of the Diocese of Rockville Centre (PSIP) totaling approximately \$68,000 for premiums paid by PSIP on behalf of the Company.

(b) Administrative Charges

The Administrative Offices of the Diocese of Rockville Centre allocates certain administrative expenses to the Company. For the years ended August 31, 2007 and 2006, \$10,000 of administrative expenses were allocated to the Company and are included in operating expenses in the accompanying statements of activities and retained earnings.