KPMG

DIOCESAN SERVICE, INC.

Financial Statements

August 31, 2008 and 2007

(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 balance sheets of Diocesan Service, Inc. (the Company) as of August 31, 2008 and 2007, and the related statements of operations 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, 2008 and 2007, 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

November 6, 2008

DIOCESAN SERVICE, INC.

Balance Sheets

August 31, 2008 and 2007

Assets		**2008**	**2007**
Cash and cash equivalents	$	71,174	112,919
Investments (note 3)		106,710	111,652
Accounts and commissions receivable		14,597	8,356
Other assets		200	433
Total assets	$	192,681	233,360
Liabilities and Stockholder's Equity			
Liabilities:			
Premiums payable to insurance companies	$	17,667	74,339
Due to other Diocesan organizations		18,750	8,400
Franchise tax payable		1,687	1,210
Total liabilities		38,104	83,949
Stockholder's equity:			
Common stock, par value $10 per share. Authorized, issued and outstanding 100 shares		1,000	1,000
Retained earnings		153,577	148,411
Total stockholder's equity		154,577	149,411
Total liabilities and stockholder's equity	$	192,681	233,360

See accompanying notes to financial statements.

DIOCESAN SERVICE, INC.

Statements of Operations and Retained Earnings

Years ended August 31, 2008 and 2007

		2008	2007
Revenues:			
Commissions	$	21,559	17,121
Interest		4,038	7,452
Total revenues		25,597	24,573
Administrative expenses (note 4)		19,431	26,623
Excess (deficiency) of revenues over administrative expenses before franchise taxes		6,166	(2,050)
Franchise taxes (note 1)		1,000	1,443
Net income (loss)		5,166	(3,493)
Retained earnings at beginning of year		148,411	151,904
Retained earnings at end of year	$	153,577	148,411

See accompanying notes to financial statements.

DIOCESAN SERVICE, INC.

Statements of Cash Flows

Years ended August 31, 2008 and 2007

		2008	2007
Cash flows from operating activities:			
Net income (loss)	$	5,166	(3,493)
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
(Increase) decrease in accounts and commissions receivable		(6,241)	4,089
Decrease (increase) in other assets		233	(82)
(Decrease) increase in premiums payable to insurance companies		(56,672)	57,044
Increase (decrease) in due to other Diocesan organizations		10,350	(63,849)
Increase (decrease) in franchise tax payable		477	(590)
Net cash used in operating activities		(46,687)	(6,881)
Cash flows from investing activities:			
Purchases of investments		(110,022)	(24,452)
Proceeds from sale of investments		114,964	44,000
Net cash provided by investing activities		4,942	19,548
(Decrease) increase in cash and cash equivalents		(41,745)	12,667
Cash and cash equivalents at beginning of year		112,919	100,252
Cash and cash equivalents at end of year	$	71,174	112,919
Supplemental disclosure:			
Franchise tax paid	$	523	2,033

See accompanying notes to financial statements.

(1) Organization

Diocesan Service, Inc. (the Company) engages in the brokerage of 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 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 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.

(c) Investments

Investments are recorded at fair value (see note 3).

(d) 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.

(e) Risks and Uncertainties

The Company invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the balance sheets.

(Continued)

(f) New Accounting Standards

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value, and requires expanded disclosures about fair value measurements. SFAS 157 is effective for reporting periods beginning after November 15, 2007. The Company is currently evaluating the impact of SFAS 157 on its financial statements; however, the adoption of SFAS 157 will require additional disclosures regarding the inputs used to develop the fair value measurements and the impacts of certain measurements on the statement of operations and retained earnings.

In June 2006, FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—An Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements. FIN 48 requires entities to determine whether it is more-likely than-not that a tax position will be sustained upon examination by the appropriate taxing authorities before any part of the benefit can be recorded in the financial statements. FIN 48 is currently effective for the Company's August 31, 2010 financial statements. The adoption of FIN 48 is not expected to have a significant impact on the Company's financial statements.

(g) Reclassifications

Certain amounts in the 2007 financial statements have been reclassified to conform to the 2008 presentation.

(3) Investments

The Company's investments at August 31, 2008 and 2007 consist of a U.S. Treasury money market investment.

(4) Related Parties

(a) Due to Other Diocesan Organizations

Due to other Diocesan organizations at August 31, 2008 and 2007 primarily represents amounts due to the Administrative Offices of the Diocese of Rockville Centre (Administrative Offices) for expenses paid by the Administrative Offices on behalf of the Company.

(b) Administrative Charges

The Administrative Offices allocate certain administrative expenses to the Company. For the years ended August 31, 2008 and 2007, $10,000 of administrative expenses were allocated to the Company and are included in operating expenses in the accompanying statements of operations and retained earnings.