DIOCESAN SERVICE, INC.

Financial Statements

August 31, 2009 and 2008

(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, 2009 and 2008, 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, 2009 and 2008, 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

December 11, 2009

DIOCESAN SERVICE, INC.

Balance Sheets

August 31, 2009 and 2008

Assets		**2009**	**2008**
Cash and cash equivalents	$	35,141	71,174
Investments (note 3)		139,641	106,710
Accounts and commissions receivable		6,888	14,597
Other assets		218	200
Total assets	$	181,888	192,681
Liabilities and Stockholder's Equity			
Liabilities:			
Premiums payable to insurance companies	$	10,358	17,667
Due to other Diocesan organizations (note 4)		18,732	18,750
Franchise tax payable		316	1,687
Total liabilities		29,406	38,104
Stockholder's equity:			
Common stock, par value $10 per share. Authorized, issued and outstanding, 100 shares		1,000	1,000
Retained earnings		151,482	153,577
Total stockholder's equity		152,482	154,577
Total liabilities and stockholder's equity	$	181,888	192,681

See accompanying notes to financial statements.

DIOCESAN SERVICE, INC.

Statements of Operations and Retained Earnings

Years ended August 31, 2009 and 2008

		2009	2008
Revenues:			
Commissions	$	17,207	21,559
Interest		954	4,038
Total revenues		18,161	25,597
Administrative expenses (note 4)		21,142	19,431
(Deficiency) excess of revenues over administrative expenses before franchise taxes		(2,981)	6,166
Franchise tax credit (expense) (note 1)		886	(1,000)
Net (loss) income		(2,095)	5,166
Retained earnings at beginning of year		153,577	148,411
Retained earnings at end of year	$	151,482	153,577

See accompanying notes to financial statements.

DIOCESAN SERVICE, INC.

Statements of Cash Flows

Years ended August 31, 2009 and 2008

		2009	2008
Cash flows from operating activities:			
Net (loss) income	$	(2,095)	5,166
Adjustments to reconcile net (loss) income to net cash used in operating activities:			
Decrease (increase) in accounts and commissions receivable		7,709	(6,241)
(Increase) decrease in other assets		(18)	233
Decrease in premiums payable to insurance companies		(7,309)	(56,672)
(Decrease) increase in due to other Diocesan organizations		(18)	10,350
(Decrease) increase in franchise tax payable		(1,371)	477
Net cash used in operating activities		(3,102)	(46,687)
Cash flows from investing activities:			
Purchases of investments		(47,764)	(110,022)
Proceeds from sale of investments		14,833	114,964
Net cash (used in) provided by investing activities		(32,931)	4,942
Decrease in cash and cash equivalents		(36,033)	(41,745)
Cash and cash equivalents at beginning of year		71,174	112,919
Cash and cash equivalents at end of year	$	35,141	71,174
Supplemental disclosure:			
Franchise tax paid	$	485	523

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 change could materially affect the amounts reported in the balance sheets.

(Continued)

(f) Recent Accounting Standards

Effective September 1, 2008, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS 157), as amended. SFAS 157 defines fair value and establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that a reporting entity has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement.

The adoption of SFAS 157 did not have a material impact on the Company's financial statements.

Effective August 31, 2009, the Company adopted SFAS No. 165, *Subsequent Events* (SFAS 165). SFAS 165 establishes principles and requirements for subsequent events and applies to accounting for and disclosure of subsequent events not addressed in other applicable generally accepted accounting principles. The adoption of SFAS 165 had no significant impact on the Company's financial statements.

In June 2006, the Financial Accounting Standards Board (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.

(3) Investments

The Company's investments at August 31, 2009 and 2008 consist of a U.S. Treasury money market investment. The Company's investments are Level 1 inputs within the fair value hierarchy.

(4) Related Parties

(a) Due to Other Diocesan Organizations

Due to other Diocesan organizations at August 31, 2009 and 2008 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, 2009 and 2008, $10,000 of administrative expenses were allocated to the Company.

(5) Subsequent Events

In connection with the preparation of the financial statements, the Company evaluated subsequent events through December 11, 2009, which was the date the financial statements were approved for issuance, and concluded that no additional disclosures are required.