



DIOCESAN SERVICE, INC.

Financial Statements

August 31, 2010 and 2009

(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, 2010 and 2009, 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, 2010 and 2009, 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

February 4, 2011

DIOCESAN SERVICE, INC.

Balance Sheets

August 31, 2010 and 2009

Assets	2010	2009
Cash	\$ 21,530	35,141
Investments (note 3)	147,134	139,641
Accounts and commissions receivable	2,999	6,888
Other assets	59	218
Total assets	\$ <u>171,722</u>	<u>181,888</u>
Liabilities and Stockholder's Equity		
Liabilities:		
Premiums payable to insurance companies	\$ 4,678	10,358
Due to other Diocesan organizations (note 4)	4,784	18,732
Accounts payable and accrued expenses	11,190	—
Franchise tax payable	316	316
Total liabilities	<u>20,968</u>	<u>29,406</u>
Stockholder's equity:		
Common stock, \$10 per share par value. Authorized, issued and outstanding, 100 shares	1,000	1,000
Retained earnings	149,754	151,482
Total stockholder's equity	<u>150,754</u>	<u>152,482</u>
Total liabilities and stockholder's equity	\$ <u>171,722</u>	<u>181,888</u>

See accompanying notes to financial statements.

DIOCESAN SERVICE, INC.
 Statements of Operations and Retained Earnings
 Years ended August 31, 2010 and 2009

	2010	2009
Revenues:		
Commissions	\$ 18,764	17,207
Interest	133	954
Total revenues	18,897	18,161
Administrative expenses (note 4)	20,625	21,142
Excess of administrative expenses over revenues before franchise taxes	(1,728)	(2,981)
Franchise tax credit (note 1)	—	886
Net loss	(1,728)	(2,095)
Retained earnings at beginning of year	151,482	153,577
Retained earnings at end of year	\$ 149,754	151,482

See accompanying notes to financial statements.

DIOCESAN SERVICE, INC.

Statements of Cash Flows

Years ended August 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Net loss	\$ (1,728)	(2,095)
Adjustments to reconcile net loss to net cash used in operating activities:		
Change in accounts and commissions receivable	3,889	7,709
Change in other assets	159	(18)
Change in premiums payable to insurance companies	(5,680)	(7,309)
Change in due to other Diocesan organizations	(13,948)	(18)
Change in accounts payable and accrued expenses	11,190	—
Change in franchise tax payable	—	(1,371)
Net cash used in operating activities	<u>(6,118)</u>	<u>(3,102)</u>
Cash flows from investing activities:		
Purchases of investments	(33,907)	(47,764)
Proceeds from sale of investments	26,414	14,833
Net cash used in investing activities	<u>(7,493)</u>	<u>(32,931)</u>
Decrease in cash and cash equivalents	(13,611)	(36,033)
Cash at beginning of year	<u>35,141</u>	<u>71,174</u>
Cash at end of year	<u>\$ 21,530</u>	<u>35,141</u>

See accompanying notes to financial statements.

DIOCESAN SERVICE, INC.

Notes to Financial Statements

August 31, 2010 and 2009

(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 financial instruments with original maturities of three months or less, except for those instruments held for long-term investment purposes.

(c) 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 value measurement in its entirety falls is based on the lowest-level input that is significant to the fair value measurement. The classification of an asset or liability in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of the asset or liability.

DIOCESAN SERVICE, INC.

Notes to Financial Statements

August 31, 2010 and 2009

(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.

(f) Income Taxes

In 2010, the Company adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2009-06, *Implementation Guidance on Accounting for Uncertainty in Income Taxes and Disclosure Amendments for Nonpublic Entities*, in conjunction with its adoption of FASB Interpretation No. 48, *Accounting for Uncertainties in Income Taxes* (now included in Accounting Standards Codification (ASC) Subtopic 740-10, *Income Taxes – Overall*). In accordance with FASB Interpretation No. 48 and ASU No. 2009-06, the Company accounts for uncertainties in income taxes recognized in the organization's financial statements using a threshold of more likely than not. The adoption of FIN 48 and ASC No. 2009-06 had no impact on the Company's financial statements.

(3) Investments

The Company's investment at August 31, 2010 and 2009 is recorded at fair value and consists of a U.S. Treasury money market investment. Fair value of this investment is based on 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, 2010 and 2009 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 Expenses

The Administrative Offices allocate certain administrative expenses to the Company. For the years ended August 31, 2010 and 2009, \$10,000 of administrative expenses were allocated to the Company in both years.

DIOCESAN SERVICE, INC.

Notes to Financial Statements

August 31, 2010 and 2009

(5) Subsequent Events

In connection with the preparation of the financial statements, the Company evaluated events subsequent to the balance sheet date of August 31, 2010 and through February 4, 2011, which is the date that the financial statements were available to be issued, and concluded that no additional disclosures were required.