

Diocesan Service, Inc.

Independent Auditors' Report and
Financial Statements

As of and for the Years Ended
August 31, 2011 and 2010



Saslow Lufkin & Buggy, LLP
Certified Public Accountants and Consultants



Independent Auditors' Report

To the Board of Directors of Diocesan Service, Inc.:

We have audited the accompanying balance sheet of Diocesan Service, Inc. (the Company) as of August 31, 2011, and the related statements of operations and retained earnings, and cash flows for the year 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 audit. The financial statements of the Company as of August 31, 2010, and for the year then ended, were audited by other auditors, whose report dated February 4, 2011 expressed an unqualified opinion on those financial statements.

We conducted our audit 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 audit provides 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, 2011, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Saslow Lufkin & Buggy, LLP

December 15, 2011

Diocesan Service, Inc.
Balance Sheets
August 31, 2011 and 2010

	2011	2010
Assets		
Cash	\$ 19,834	\$ 21,530
Investments	141,192	147,134
Accounts and commissions receivable	1,615	2,999
Due from other Diocesan organizations	83	-
Other assets	570	59
 Total assets	 \$ 163,294	 \$ 171,722
Liabilities and Stockholder's Equity		
Liabilities:		
Premiums payable to insurance companies	\$ -	\$ 4,678
Due to other Diocesan organizations	10,000	4,784
Accounts payable and accrued expenses	10,251	11,190
Franchise tax payable	-	316
 Total liabilities	 20,251	 20,968
Stockholder's equity:		
Common stock, \$10 par value. 100 shares authorized, issued and outstanding	1,000	1,000
Retained earnings	142,043	149,754
 Total stockholder's equity	 143,043	 150,754
 Total liabilities and stockholder's equity	 \$ 163,294	 \$ 171,722

The accompanying notes are an integral part of these financial statements.

Diocesan Service, Inc.
Statements of Operations and Retained Earnings
For the Years Ended August 31, 2011 and 2010

	2011	2010
Revenues:		
Commissions	\$ 15,004	\$ 18,764
Interest	60	133
	15,064	18,897
Expenses:		
Professional fees	10,950	9,166
Service fees	10,000	10,000
Administrative expenses	2,615	1,459
	23,565	20,625
Expenses before franchise tax credit	23,565	20,625
Franchise tax credit	790	-
	(7,711)	(1,728)
Net loss	(7,711)	(1,728)
Retained earnings at beginning of year	149,754	151,482
Retained earnings at end of year	\$ 142,043	\$ 149,754

The accompanying notes are an integral part of these financial statements.

Diocesan Service, Inc.
Statements of Cash Flows
For the Years Ended August 31, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Net loss	\$ (7,711)	\$ (1,728)
Adjustments to reconcile net loss to net cash used in operating activities:		
Changes in current assets and liabilities:		
Accounts and commissions receivable	1,384	3,889
Due from other Diocesan organizations	(83)	-
Other assets	(511)	159
Premiums payable to insurance companies	(4,678)	(5,680)
Due to other Diocesan organizations	5,216	(13,948)
Accounts payable and accrued expenses	(939)	11,190
Franchise tax payable	(316)	-
Net cash used in operating activities	(7,638)	(6,118)
Cash flows from investing activities:		
Purchases of investments	(10,633)	(33,907)
Proceeds from sale of investments	16,575	26,414
Net cash provided by (used in) investing activities	5,942	(7,493)
Net decrease in cash and cash equivalents	(1,696)	(13,611)
Cash, beginning of year	21,530	35,141
Cash, end of year	\$ 19,834	\$ 21,530

The accompanying notes are an integral part of these financial statements.

Diocesan Service, Inc.
Notes to the Financial Statements
As of and For the Years Ended August 31, 2011 and 2010

Note 1 - Nature of Operations

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.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation - The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP), as promulgated by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC).

Use of Estimates - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the amounts of revenues and expenses recorded during the reporting period. Actual results could differ from these estimates. Such estimates relate primarily to the collectability of accounts receivable, and estimated commissions at year end.

Reclassifications - Certain amounts in the prior year financial statements were reclassified to conform with the presentation used in the current period. These reclassifications did not have a material effect on the Company's financial statements.

Cash - In general, the Federal Depository Insurance Corporation (FDIC) insures cash balances up to \$250,000 per depositor, per bank. The FDIC also provides separate unlimited coverage for deposit accounts that meet the definition of non-interest bearing accounts. Unlimited coverage on non-interest bearing accounts extends until December 31, 2012. It is the Company's policy to monitor the financial strength of the banks' that hold its deposits on an ongoing basis.

Investments - The Company's investments are comprised of a U.S. Treasury money market fund as of August 31, 2011 and 2010. The investments are measured using Level 1 inputs in accordance with FASB ASC 820, "*Fair Value Measurements and Disclosures*".

Money market funds are not insured by the FDIC and are not a risk-free investment. Money market funds invest in a variety of instruments including mortgage-backed and asset-backed securities. Although a money market fund seeks to preserve its \$1 per share value, it is possible that a money market fund's value can decrease below \$1 per share.

Diocesan Service, Inc.
Notes to the Financial Statements
As of and For the Years Ended August 31, 2011 and 2010

Note 2 - Summary of Significant Accounting Policies (continued)

Fair Value Measurements - FASB ASC 820 defines fair value, establishes a framework for measuring fair value under GAAP and requires certain disclosures about fair value measurements. The definition of fair value focuses on the price that would be received to sell the asset which is referred to as the exit price. FASB ASC 820 provides guidance on how to measure fair value, when required, under existing accounting standards. FASB ASC 820 established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels as follows:

Level 1 - Observable inputs that reflect quoted prices for identical assets in active markets that the Company has the ability to access at the measurement date.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets in active markets;
- Quoted prices for identical or similar assets in inactive markets;
- Inputs other than quoted prices that are observable for the asset; or
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset.

Level 3 - Unobservable inputs reflecting the Company's estimates of the assumptions that market participants would use in pricing the asset (including assumptions about risk).

As of August 31, 2011 and 2010, the Company has valued its money market funds of \$141,192 and \$147,134, respectively, using "Level 1" fair values as the money market funds are valued at the closing price reported on the national exchange in the active market on which the individual securities are traded.

Accounts and Commissions Receivable - The Company evaluates the receivables and establishes an allowance for doubtful accounts by assessing the past collection history as well as general economic and credit conditions. Management has determined that no allowance for doubtful accounts is necessary as of August 31, 2011 and 2010.

Revenue Recognition - Commission income, derived from the placement of accidental death and incidental medical coverages, placed within the commercial insurance market for a related entity, are recorded on the effective date of the coverages bound or the billing date, whichever is earlier. Premium adjustments, including policy cancellations, are recorded as they occur. Contingent commissions are recorded as revenue when earned. Certain contingent commissions are recorded based on best estimates based on the profitability of the underlying book of business. These policies are in accordance with predominant industry practice.

Diocesan Service, Inc.
Notes to the Financial Statements
As of and For the Years Ended August 31, 2011 and 2010

Note 2 - Summary of Significant Accounting Policies (continued)

Income Taxes - Income generated from activities unrelated to the Administrative Offices of the Diocese of Rockville Centre (Administrative Offices) exempt purpose is subject to tax. The Company did not have any unrelated business income tax liability for the years ended August 31, 2011 and 2010.

The Company accounts for uncertain tax positions in accordance with the provisions of FASB ASC 740, "*Income Taxes*", which provides a framework for how companies should recognize, measure, present and disclose uncertain tax positions in their financial statements. The Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

The Company did not record any unrecognized tax benefits as of August 31, 2011 and 2010. Therefore, the certain provisions of FASB ASC 740 had no impact on the annual effective tax rate. The Company does not believe it is reasonably possible that its unrecognized tax benefits would materially change in the next twelve months.

The Company's policy is to include interest and penalties related to unrecognized tax benefits as a component of general and administrative expense. As of August 31, 2011 and 2010, the Company did not record any penalties or interest associated with unrecognized tax benefits. All tax years from 2008 forward are open and subject to examination.

Subsequent Events - Subsequent events have been evaluated through December 15, 2011, which is the date the financial statements were available to be issued. Management believes there are no subsequent events that would have a material impact on the financial statements.

Note 3 - Related Parties

Due to other Diocesan organizations as of August 31, 2011 and 2010, primarily represents amounts due to the Administrative Offices for expenses paid by the Administrative Offices on behalf of the Company.

The Administrative Offices allocate certain administrative expenses to the Company for support services provided by personnel employed by the Administrative Office. For the years ended August 31, 2011 and 2010, the Company incurred allocated expenses of \$10,000 in both years.