



DIOCESAN SERVICE, INC.

Financial Statements

August 31, 2006

(With Independent Auditors' Report Thereon)

DIOCESAN SERVICE, INC.

Table of Contents

	Page
Independent Auditors' Report	1
Financial Statements:	
Statement of Financial Position as of August 31, 2006	2
Statement of Activities and Retained Earnings for the Year Ended August 31, 2006	3
Statement of Cash Flows for the Year Ended August 31, 2006	4
Notes to Financial Statements	5



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 statement of financial position of Diocesan Service, Inc. (the Company) as of August 31, 2006, and the related statements of activities 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.

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, 2006, and the results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

April 13, 2007

DIOCESAN SERVICE, INC.

Statement of Financial Position

August 31, 2006

Assets

Cash and cash equivalents	\$	231,452
Accounts and commissions receivable		12,445
Other assets		351
Total assets	\$	<u>244,248</u>

Liabilities and Stockholder's Equity

Liabilities:

Premiums payable to insurance companies	\$	17,295
Due to other Diocesan organizations (note 3)		72,249
Franchise tax payable		1,800
Total liabilities		<u>91,344</u>

Stockholder's equity:

Common stock, par value \$10 per share. Authorized, issued and outstanding 100 shares		1,000
Retained earnings		151,904
Total stockholder's equity		<u>152,904</u>
Total liabilities and stockholder's equity	\$	<u>244,248</u>

See accompanying notes to financial statements.

DIOCESAN SERVICE, INC.
Statement of Activities and Retained Earnings
Year ended August 31, 2006

Revenues:	
Commissions	\$ 22,031
Interest	5,524
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Total revenues	27,555
Administrative expenses (note 3)	15,346
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Excess of revenues over operating expenses before franchise taxes	12,209
Franchise taxes (note 1)	2,351
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Net income	9,858
Retained earnings at beginning of year	142,046
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Retained earnings at end of year	\$ 151,904
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See accompanying notes to financial statements.

DIOCESAN SERVICE, INC.

Statement of Cash Flows

Year ended August 31, 2006

Cash flows from operating activities:	
Net income	\$ 9,858
Adjustments to reconcile net income to net cash provided by operating activities:	
Increase in accounts and commissions receivable	(5,026)
Decrease in other assets	196
Increase in premiums payable to insurance companies	10,502
Increase in due to other Diocesan organizations	12,857
Decrease in franchise tax payable	(1,200)
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Net cash provided by operating activities	27,187
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Increase in cash and cash equivalents	27,187
Cash and cash equivalents at beginning of year	204,265
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Cash and cash equivalents at end of year	\$ 231,452
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Supplemental disclosure:	
Franchise tax paid	\$ 3,551
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See accompanying notes to financial statements.

DIOCESAN SERVICE, INC.

Notes to Financial Statements

August 31, 2006

(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 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 U.S. Treasury 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 primarily represents amounts due to the Protected Self Insurance Program of the Diocese of Rockville Center (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 allocate certain administrative expenses to the Company. For the year ended August 31, 2006, \$10,000 of administrative expenses were allocated to the Company and are included in operating expenses in the accompanying statement of activities and retained earnings.