

FINANCIAL STATEMENTS TOGETHER WITH
REPORT OF INDEPENDENT CERTIFIED PUBLIC
ACCOUNTANTS

DIOCESAN SERVICE, INC.

August 31, 2003 and 2002

Grant Thornton 

CONTENTS

	<u>Page (s)</u>
Report of Independent Certified Public Accountants	1
Financial Statements:	
Statements of Financial Position as of August 31, 2003 and 2002	2
Statements of Activities and Retained Earnings for the years ended August 31, 2003 and 2002	3
Statements of Cash Flows for the years ended August 31, 2003 and 2002	4
Notes to Financial Statements	5-6

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

We have audited the accompanying statements of financial position of Diocesan Service, Inc. (the "Company") as of August 31, 2003 and 2002, and the related statements of activities 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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, 2003 and 2002, and the results of its activities and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Melville, New York
October 20, 2003

Diocesan Service, Inc.

STATEMENTS OF FINANCIAL POSITION

As of August 31, 2003 and 2002

<u>ASSETS</u>	<u>2003</u>	<u>2002</u>
Assets:		
Cash	\$ 125,789	\$ 108,216
Temporary cash investments	<u>89,141</u>	<u>101,376</u>
Total cash and cash equivalents	214,930	209,592
Premiums receivable	39	-
Prepaid expenses	<u>220</u>	<u>317</u>
Total assets	<u>\$ 215,189</u>	<u>\$ 209,909</u>
 <u>LIABILITIES AND STOCKHOLDER'S EQUITY</u> 		
Liabilities:		
Premiums payable – insurance companies	\$ 99,454	\$ 93,278
Due to other Diocesan funds and accrued expenses	<u>8,317</u>	<u>11,793</u>
Total liabilities	<u>107,771</u>	<u>105,071</u>
Stockholder's equity:		
Common stock, par value \$10 per share; 100 shares authorized, issued and outstanding	1,000	1,000
Retained earnings	<u>106,418</u>	<u>103,838</u>
Total stockholder's equity	<u>107,418</u>	<u>104,838</u>
	<u>\$ 215,189</u>	<u>\$ 209,909</u>

The accompanying notes are an integral part of these statements.

Diocesan Service, Inc.

STATEMENTS OF ACTIVITIES AND RETAINED EARNINGS

For the years ended August 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Revenue:		
Commissions-		
Parish activities	\$ 15,059	\$ 17,093
Interest	<u>765</u>	<u>1,666</u>
Total revenue	15,824	18,759
Operating expenses	<u>13,244</u>	<u>16,223</u>
Net income	2,580	2,536
Retained earnings, beginning of year	<u>103,838</u>	<u>101,302</u>
Retained earnings, end of year	<u>\$ 106,418</u>	<u>\$ 103,838</u>

The accompanying notes are an integral part of these statements.

Diocesan Service, Inc.

STATEMENTS OF CASH FLOWS

For the years ended August 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Cash flows from operating activities:		
Net income	\$ 2,580	\$ 2,536
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Changes in assets and liabilities:		
(Increase) decrease in premiums receivable	(39)	2,168
Decrease (increase) in prepaid expenses	97	(117)
Increase (decrease) in premiums payable – insurance companies	6,176	(17,594)
(Decrease) increase in due to other Diocesan funds and accrued expenses	<u>(3,476)</u>	<u>9,902</u>
Net cash provided by (used in) operating activities	<u>5,338</u>	<u>(3,105)</u>
Increase (decrease) in cash and cash equivalents	5,338	(3,105)
Cash and cash equivalents, beginning of year	<u>209,592</u>	<u>212,697</u>
Cash and cash equivalents, end of year	<u>\$ 214,930</u>	<u>\$ 209,592</u>
Supplemental information:		
Franchise tax paid	<u>\$ 420</u>	<u>\$ 653</u>

The accompanying notes are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS

August 31, 2003 and 2002

NOTE A - NATURE OF BUSINESS

1. Nature of Business

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, high schools, etc. The Company's primary source of revenue is derived from commissions earned from the brokerage of insurance.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Cash and Cash Equivalents

Cash and cash equivalents include cash held in banks and temporary cash investments with original maturities of three months or less. Temporary cash investments consisted of a U.S. Treasury money market investment that is carried at fair market value in the accompanying financial statements. As of August 31, 2003 and 2002, the fair market value of this investment approximated cost.

2. Income Taxes

The Company is exempt from Federal income taxes under Section 501(c)(3) 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 the Ordinary of the Diocese of Rockville Centre. Franchise taxes incurred by the Company were \$420 and \$653 for the years ended August 31, 2003 and 2002, respectively.

3. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require 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.

Diocesan Service, Inc.

NOTES TO FINANCIAL STATEMENTS (continued)

August 31, 2003 and 2002

NOTE C - ADMINISTRATIVE CHARGES

The Administrative Offices allocate certain administrative expenses to the Company. For the years ended August 31, 2003 and 2002, \$10,000 of administrative expenses were allocated to the Company and are included in operating expenses in the accompanying statements of activities and retained earnings.