

**ASSOCIATION OF THE DIOCESE
OF WESTERN MICHIGAN**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

For the Years Ended December 31, 2009 and 2008

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SEBER TANS, PLC

CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Executive Council
Association of the Diocese of Western Michigan

We have audited the accompanying statement of financial position of the Association of the Diocese of Western Michigan (a Michigan nonprofit organization) as of December 31, 2009, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Diocese's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Association of the Diocese of Western Michigan as of December 31, 2008, were audited by other auditors whose report dated August 11, 2009, expressed an unqualified opinion on those 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 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 audit provides a reasonable basis for our opinion.

In our opinion, the 2009 financial statements referred to above present fairly, in all material respects, the financial position of the Association of the Diocese of Western Michigan as of December 31, 2009 and the changes in the Diocese's net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



Seber Tans, PLC
Kalamazoo, Michigan

September 6, 2010

Association of the Diocese of Western Michigan
Statements of Financial Position
December 31, 2009 and 2008

	2009		
	Unrestricted	Temporarily Restricted	Total
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 241,141	\$ 20,551	\$ 261,692
Investments	1,879,648	191,574	2,071,222
Pledges receivable	9,473	-	9,473
Other receivables	15,928	-	15,928
Prepaid expenses	8,251	-	8,251
Total Current Assets	<u>2,154,441</u>	<u>212,125</u>	<u>2,366,566</u>
Noncurrent Assets			
Assets held for parish development	460,000	-	460,000
Net Property and Equipment	306,756	-	306,756
Total Assets	<u>\$ 2,921,197</u>	<u>\$ 212,125</u>	<u>\$ 3,133,322</u>
LIABILITIES AND NET ASSETS			
Current Liabilities			
Accounts payable	\$ 35,111	\$ -	\$ 35,111
Deferred revenue	2,647	-	2,647
Current maturities of long-term debt	4,256	-	4,256
Total Current Liabilities	<u>42,014</u>	<u>-</u>	<u>42,014</u>
Deposits held for others	104,999	-	104,999
Long-term debt, net of current maturities	204,988	-	204,988
Total Liabilities	<u>352,001</u>	<u>-</u>	<u>352,001</u>
Net Assets			
Unrestricted			
Designated for religious and social welfare programs	84,150	-	84,150
Designated for youth and young adult ministries	202,069	-	202,069
Designated for parish development	522,278	-	522,278
Undesignated	1,760,699	-	1,760,699
Total Unrestricted	<u>2,569,196</u>	<u>-</u>	<u>2,569,196</u>
Temporarily Restricted	-	212,125	212,125
Total Net Assets	<u>2,569,196</u>	<u>212,125</u>	<u>2,781,321</u>
Total Liabilities and Net Assets	<u>\$ 2,921,197</u>	<u>\$ 212,125</u>	<u>\$ 3,133,322</u>

See Accompanying Notes to Financial Statements

2008		
Unrestricted	Temporarily Restricted	Total
\$ 269,146	\$ 17,145	\$ 286,291
1,494,016	335,570	1,829,586
14,799	-	14,799
27,011	-	27,011
16,482	-	16,482
<u>1,821,454</u>	<u>352,715</u>	<u>2,174,169</u>
<u>460,000</u>	<u>-</u>	<u>460,000</u>
<u>319,987</u>	<u>-</u>	<u>319,987</u>
<u>\$ 2,601,441</u>	<u>\$ 352,715</u>	<u>\$ 2,954,156</u>
\$ 38,808	-	\$ 38,808
3,632	-	3,632
3,999	-	3,999
<u>46,439</u>	<u>-</u>	<u>46,439</u>
<u>169,154</u>	<u>-</u>	<u>169,154</u>
208,701	-	208,701
<u>424,294</u>	<u>-</u>	<u>424,294</u>
110,013	-	110,013
-	-	-
474,068	-	474,068
1,593,066	-	1,593,066
<u>2,177,147</u>	<u>-</u>	<u>2,177,147</u>
<u>-</u>	<u>352,715</u>	<u>352,715</u>
<u>2,177,147</u>	<u>352,715</u>	<u>2,529,862</u>
<u>\$ 2,601,441</u>	<u>\$ 352,715</u>	<u>\$ 2,954,156</u>

Association of the Diocese of Western Michigan
Statements of Activities
For the Years Ended December 31, 2009 and 2008

	2009		
	Unrestricted	Temporarily Restricted	Total
Support and Revenue			
Contributions:			
Parish pledges	\$ 695,459	\$ -	\$ 695,459
Other	8,420	30,167	38,587
Fees	65,955	-	65,955
Local grants	11,690	-	11,690
Rents	15,400	-	15,400
Other	8,724	-	8,724
Investment income (loss)	316,153	33,248	349,401
Gain (loss) on disposal of asset	(32,000)	-	(32,000)
Gain on curtailment of postretirement benefits	-	-	-
Total Support and Revenue	<u>1,089,801</u>	<u>63,415</u>	<u>1,153,216</u>
Net Assets Released From			
Restrictions	204,005	(204,005)	-
Total Support, Revenue and Reclassifications	<u>1,293,806</u>	<u>(140,590)</u>	<u>1,153,216</u>
Expenses			
Program services			
Office of the Bishop	325,604	-	325,604
Commissions and Committees	8,200	-	8,200
Episcopal Church Pledge	91,193	-	91,193
Congregational Development	84,857	-	84,857
Children, Youth and Young Adult Ministries	121,171	-	121,171
Social Justice Ministries	9,752	-	9,752
Supporting services			
Management and general	260,980	-	260,980
Total Expenses	<u>901,757</u>	<u>-</u>	<u>901,757</u>
Increase (Decrease) in Net Assets	392,049	(140,590)	251,459
Net assets at beginning of year	<u>2,177,147</u>	<u>352,715</u>	<u>2,529,862</u>
Net Assets at End of Year	<u>\$ 2,569,196</u>	<u>\$ 212,125</u>	<u>\$ 2,781,321</u>

See Accompanying Notes to Financial Statements

2008		
Unrestricted	Temporarily Restricted	Total
\$ 778,284	\$ -	\$ 778,284
1,441	57,976	59,417
60,214	-	60,214
25,000	-	25,000
10,800	-	10,800
10,762	-	10,762
(313,531)	(83,796)	(397,327)
102,082	-	102,082
426,319	-	426,319
<u>1,101,371</u>	<u>(25,820)</u>	<u>1,075,551</u>
63,721	(63,721)	-
<u>1,165,092</u>	<u>(89,541)</u>	<u>1,075,551</u>
322,099	-	322,099
31,258	-	31,258
109,926	-	109,926
96,077	-	96,077
124,455	-	124,455
18,470	-	18,470
250,176	-	250,176
<u>952,461</u>	<u>-</u>	<u>952,461</u>
212,631	(89,541)	123,090
<u>1,964,516</u>	<u>442,256</u>	<u>2,406,772</u>
<u>\$ 2,177,147</u>	<u>\$ 352,715</u>	<u>\$ 2,529,862</u>

Association of the Diocese of Western Michigan
Statements of Cash Flows
For the Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 251,459	\$ 123,090
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation	10,196	8,293
(Gain) loss on asset disposal	32,000	(102,082)
Gain on curtailment of postretirement benefits	-	(426,319)
In-kind contributions of debt payments	(3,456)	(3,159)
Realized and unrealized (gain) loss on investments	(335,368)	324,962
Decrease (increase) in:		
Receivables	16,409	24,895
Prepaid expenses	8,231	(6,227)
Increase (decrease) in:		
Accounts payable and accrued expenses	(3,696)	9,391
Deferred revenue	(985)	353
Postretirement benefits	-	91,641
Deposits held for others	(64,155)	-
Net Cash Provided By (Used For) Operating Activities	<u>(89,365)</u>	<u>44,838</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	894,779	48,085
Purchase of investments	(801,048)	(152,479)
Purchase of property and equipment	(28,965)	-
Proceeds from sale of asset	-	140,000
Net Cash Provided by Investing Activities	<u>64,766</u>	<u>35,606</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(24,599)	80,444
Cash and cash equivalents at beginning of year	<u>286,291</u>	<u>205,847</u>
Cash and Cash Equivalents at End of Year	<u>\$ 261,692</u>	<u>\$ 286,291</u>
Non-cash Financing Activities		
Payment of Debt with in-kind contributions	<u>\$ 3,456</u>	<u>\$ 3,159</u>

See Accompanying Notes to Financial Statements

**Association of the Diocese of Western Michigan
Statement of Functional Expenses
For the Year Ended December 31, 2009**

	Program Services					Supporting Services		Total
	Office of the Bishop	Commissions and Committees	Episcopal Church Pledge	Congregational Development	Children, Youth and Young Adult Ministries	Social Justice Ministries	Management and general	
Compensation and related expenses								
Compensation	\$ 200,173	-	\$ -	\$ 28,085	\$ 43,954	\$ -	\$ 66,096	\$ 338,308
Health insurance	32,227	-	-	10,482	7,746	-	6,655	57,110
Pension	33,222	-	-	5,055	3,956	-	4,863	47,096
Payroll taxes and workers compensation	27	-	-	-	3,354	-	7,241	10,622
	<u>265,649</u>	<u>-</u>	<u>-</u>	<u>43,622</u>	<u>59,010</u>	<u>-</u>	<u>84,855</u>	<u>453,136</u>
Advertising	-	-	-	-	-	-	229	229
Communications	-	-	-	-	-	-	569	569
Contracted services	351	408	-	-	-	-	2,070	2,829
Donations	22,196	-	91,193	26,451	-	9,650	-	149,490
Dues and fees	-	-	-	-	-	-	1,510	1,510
Property insurance	-	-	-	-	-	-	4,042	4,042
Office supplies	-	-	-	-	-	-	9,977	9,977
Postage and shipping	-	-	-	-	-	-	2,329	2,329
Professional fees	8,468	-	-	635	-	-	23,614	32,717
Rent	-	-	-	-	840	-	31,455	32,295
Repairs and maintenance, building	-	-	-	-	-	-	13,147	13,147
Repairs and maintenance, Resurrection Garden	-	-	-	-	-	-	1,531	1,531
Supplies	-	-	-	-	-	-	4,584	4,584
Training, committees and conferences	5,503	7,476	-	10,496	2,284	-	58,691	84,450
Telephone	-	-	-	-	-	-	7,444	7,444
Travel	18,638	-	-	2,531	2,744	-	2,682	26,595
Youth and young adult ministries	-	-	-	-	52,098	-	-	52,098
Depreciation	3,976	408	-	1,122	1,529	102	3,059	10,196
Uncollectible pledges	-	-	-	-	-	-	-	-
Other	823	(92)	-	-	2,666	-	9,192	12,589
Total	<u>\$ 325,604</u>	<u>\$ 8,200</u>	<u>\$ 91,193</u>	<u>\$ 84,857</u>	<u>\$ 121,171</u>	<u>\$ 9,752</u>	<u>\$ 260,980</u>	<u>\$ 901,757</u>

See Accompanying Notes to Financial Statements

**Association of the Diocese of Western Michigan
Statement of Functional Expenses
For the Year Ended December 31, 2008**

	Program Services						Supporting Services	Total
	Office of the Bishop	Commissions and Committees	Episcopal Church Pledge	Congregational Development	Children, Youth and Young Adult Ministries	Social Justice Ministries	Management and general	
Compensation and related expenses								
Compensation	\$ 180,211	\$ 4,000	\$ -	\$ 27,422	\$ 42,917	\$ -	\$ 64,615	\$ 319,165
Health insurance	30,097	-	-	9,546	7,141	-	5,333	52,117
Pension	32,438	-	-	4,936	3,862	-	8,035	49,271
Payroll taxes and workers compensation	724	306	-	-	3,290	-	6,135	10,455
	<u>243,470</u>	<u>4,306</u>	<u>-</u>	<u>41,904</u>	<u>57,210</u>	<u>-</u>	<u>84,118</u>	<u>431,008</u>
Advertising	-	-	-	-	-	-	5,000	5,000
Communications	-	-	-	-	-	-	534	534
Contracted services	10,884	1,665	-	-	-	-	2,550	15,099
Donations	28,160	-	109,926	42,955	-	18,363	-	199,404
Dues and fees	-	-	-	-	-	-	881	881
Property insurance	-	-	-	-	-	-	-	-
Office supplies	-	-	-	-	-	-	9,828	9,828
Postage and shipping	-	-	-	-	-	-	2,665	2,665
Postretirement benefits	-	-	-	-	-	-	19,625	19,625
Professional fees	6,941	-	-	364	-	-	26,378	33,683
Rent	-	-	-	-	840	-	31,236	32,076
Repairs and maintenance, building	-	-	-	-	-	-	12,611	12,611
Repairs and maintenance, Resurrection Garden	-	-	-	-	-	-	888	888
Supplies	-	546	-	-	-	-	5,320	5,866
Training, committees and conferences	11,079	23,724	-	7,080	7,720	-	27,777	77,380
Telephone	-	-	-	-	-	-	6,313	6,313
Travel	18,287	-	-	2,828	3,195	-	2,471	26,781
Youth and young adult ministries	-	-	-	-	53,654	-	-	53,654
Depreciation	3,170	357	-	946	1,225	107	2,488	8,293
Uncollectible pledges	-	-	-	-	-	-	5,898	5,898
Other	108	660	-	-	611	-	3,595	4,974
Total	<u>\$ 322,099</u>	<u>\$ 31,258</u>	<u>\$ 109,926</u>	<u>\$ 96,077</u>	<u>\$ 124,455</u>	<u>\$ 18,470</u>	<u>\$ 250,176</u>	<u>\$ 952,461</u>

See Accompanying Notes to Financial Statements

Association of the Diocese of Western Michigan
Notes to Financial Statements
For the Years Ended December 31, 2009 and 2008

NOTE A – Summary of Significant Accounting Policies

Diocese Purpose

The Association of the Diocese of Western Michigan (Diocese) was organized to assist member parishes in development and maintenance of the doctrine, discipline and worship of the Episcopal Church, through leadership and representation, and the marshaling of resources (cash and in-kind) to carry out programs and activities at the local level and beyond. A summary of the significant accounting policies applied in the preparation of the accompanying financial statements follows.

Basis of Presentation

The financial statements of the Diocese have been prepared on the accrual basis of accounting. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Diocese and changes therein are classified and reported as follows:

Unrestricted net assets are not subject to donor-imposed restrictions.

Temporarily restricted net assets are subject to donor-imposed restrictions that may or will be met, either by the actions of the Diocese and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the use of management's estimates. These estimates affect the amounts reported in the financial statements and the disclosures provided. Actual results may differ from management's estimates.

Cash and Cash Equivalents

The Diocese considers all certificates of deposit with a maturity of three months or less to be cash equivalents. Certificates of deposit with original maturities of greater than three months are considered investments. Cash and cash equivalents does not include cash held by investment managers and designated for investment.

Financial Instruments

The Diocese's financial instruments consist of cash balances, marketable securities, accounts receivable, pledges receivable, accounts payable, and notes payable. The Diocese's estimates of fair value approximate their carrying amounts as of December 31, 2009 and 2008.

Association of the Diocese of Western Michigan
Notes to Financial Statements
For the Years Ended December 31, 2009 and 2008

NOTE A – Summary of Significant Accounting Policies (Continued)

Revenue Recognition

The Diocese records appropriations, grants, and earned revenues on an accrual basis. The Diocese records as revenue in the period received the following types of contributions, when they are received unconditionally, at their fair value: cash, promises to give (pledges), certain contributed services and gifts of long-lived and other assets. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met. Substantially all of the Diocese's appropriations and grants are considered to be contributions for purposes of applying revenue recognition policies. Contributions are recorded net of estimated uncollectible amounts.

Revenue received but not earned at the balance sheet date is reported as deferred revenue.

Public Support and Revenue

Grants and other contributions of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Investments and Investment Income

The Diocese maintains investments, which it pools with monies from local parishes, and invests with a third party investment manager. Beginning January 1, 2009, investment transactions shown in the Statement of Cash Flows reflect gross sales and purchases made by the investment manager during the year. Previously, the transactions with the parishes and the related transactions with the investment manager were shown as net investment activity on the Statement of Cash Flows.

Investments are stated at fair value pursuant to the requirements of the *Fair Value Measurements and Disclosures Topic* of the FASB Codification. Adjustments to the fair value of investments are recorded in earnings.

Gains and losses of disposition are accounted for on a specific identification basis. Net realized and unrealized gains and losses are included in the Statement of Activities.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Property and Equipment

Property and equipment are recorded at cost or estimated fair value on the date donated. Property and equipment are assets with an initial cost of more than \$1,000 and an estimated useful life in excess one year. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives utilizing the straight-line method.

**Association of the Diocese of Western Michigan
Notes to Financial Statements
For the Years Ended December 31, 2009 and 2008**

NOTE A – Summary of Significant Accounting Policies (Continued)

Volunteers

A number of volunteers, including the members of the Executive Council, have made significant contributions of time to the Diocese's policy-making, program, and support functions. The value of this contributed time does not meet the criteria for recognition of contributed services contained in the *Not-for-Profit Revenue Recognition Topic* of the FASB codification, and accordingly, is not reflected in the accompanying financial statements.

Functional Expenses

The cost of providing the various programs and other activities has been summarized on a functional basis in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on management's analysis and estimates.

Description of Activities

Below is a summary of the program services administered by the Diocese.

Office of the Bishop - includes the activities of the Bishop, his support staff, Transition Ministries and the Canon to the Ordinary.

Commissions and Committees - provides education and support for seminarians, postulants, and all clergy in the Diocese.

Episcopal Church Pledge - provides financial support for the mission and ministry of the Episcopal Church.

Congregational Development - supports the staff that provides support and growth opportunities to the congregation in the Diocese. It also provides financial support for new church starts.

Children, Youth & Young Adult Ministries - provides for youth camps, other youth and young adult programs and staff to organize the activities.

Social Justice Ministries - provides financial support to programs for Episcopal Relief and Development, millennium development goals, mission trips, and the elimination of racism.

Tax Status

The Diocese is exempt from federal income tax under Internal Revenue Code Section 501 (c)(3).

Association of the Diocese of Western Michigan
Notes to Financial Statements
For the Years Ended December 31, 2009 and 2008

NOTE B – Net Asset Restrictions

Temporarily restricted net assets are available for the following purposes:

	2009	2008
Deacon Outreach Project	\$ 500	\$ 500
Canon's Discretionary Fund	-	767
Bishop's Discretionary Fund	3,722	4,639
Deacon's Discretionary Fund	1,044	996
Dominican Republic Mission Fund	734	-
Max Phares Memorial	1,816	816
Education for Ministry	150	150
Mission Fund	12,584	9,277
Jarvis Fund	49,555	45,632
Waddell Fund-Seminarian Support	135,143	115,622
Popkey Fund-Camp	6,877	5,737
	<u>212,125</u>	<u>184,136</u>
Reclassification from temporary restricted to Board designated as of beginning of year	-	168,579
	<u>\$ 212,125</u>	<u>\$ 352,715</u>

As part of compliance with the Uniforma Prudent Management of Institutional Funds Act (UPMIFA), enacted by Michigan in September 2009, the Diocese determined that the Campus and Young Adult Fund and the Youth Division Fund were restricted by Board designation and were not subject to restrictions placed by a third party. Balances in the funds as of January 1, 2009, totaling \$168,579 were reclassified from restricted funds to board designated unrestricted funds. The reclassification has been treated as assets released from restrictions in the accompanying 2009 statement of activities.

NOTE C – Investments

Investments are stated at fair value and consist of money market funds, certificates of deposit, corporate bonds and notes, equities and U.S. Government securities. Fair values and unrealized appreciation (depreciation) at December 31, 2009 and 2008 are summarized as follows:

	2009		
	Cost	Fair Value	Unrealized Appreciation
Investment type:			
Money market funds	\$ 80,997	\$ 80,997	\$ ---
Certificate of deposit	276,509	276,509	---
Corporate bonds and notes	75,420	79,361	3,941
Equities	1,226,600	1,424,563	197,963
U.S. Government securities	196,408	209,792	13,384
	<u>\$ 1,855,934</u>	<u>\$ 2,071,222</u>	<u>\$ 215,288</u>

Association of the Diocese of Western Michigan
Notes to Financial Statements
For the Years Ended December 31, 2009 and 2008

NOTE C – Investments (Continued)

	2008		
	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Investment type:			
Money market funds	\$ 514,788	\$ 514,788	\$ ---
Certificate of deposit	50,000	51,258	1,258
Corporate bonds and notes	202,136	197,943	(4,193)
Equities	1,137,855	854,459	(283,396)
U.S. Government securities	195,387	211,138	15,751
	<u>\$ 2,100,166</u>	<u>\$ 1,829,586</u>	<u>\$ (270,580)</u>

The following schedule summarizes the investment return and its classification in the statements of activities for the years ended December 31, 2009 and 2008:

	2009		
	Unrestricted	Temporarily Restricted	Total
Interest and dividends	\$ 31,809	\$ 3,213	\$ 35,022
Realized gain and unrealized appreciation	284,344	30,035	314,379
	<u>\$ 316,153</u>	<u>\$ 33,248</u>	<u>\$ 349,401</u>

	2008		
	Unrestricted	Temporarily Restricted	Total
Interest and dividends	\$ 6,128	\$ 8,941	\$ 15,069
Realized gain and unrealized appreciation (depreciation)	(319,659)	(92,737)	(412,396)
	<u>\$ (313,531)</u>	<u>\$ (83,796)</u>	<u>\$ (397,327)</u>

The Diocese invests in various investment securities. Investment securities are exposed to various risks such as interest rates, 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 changes could materially affect investment account balances and the amounts reported in the financial statements. Additionally, the Diocese is exposed to custodial risk. All investments are managed by one custodial investment advisory firm.

Association of the Diocese of Western Michigan
Notes to Financial Statements
For the Years Ended December 31, 2009 and 2008

NOTE D – Fair Value Measurements

The *Fair Value Measurements and Disclosure Topic* of the FASB Codification establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

- | | |
|---------|--|
| Level 1 | Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Diocese has the ability to access. |
| Level 2 | Inputs to the valuation methodology include:

quoted prices for similar assets or liabilities in active markets,

quoted prices for identical or similar assets or liabilities in inactive markets,

inputs other than quoted prices that are observable for the asset or liability, and

inputs that are derived principally from or corroborated by observable market data by correlation or other means |
| Level 3 | Inputs to the valuation methodology are unobservable and significant to the fair value measurement. |

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The Diocese's Level 1 marketable securities consist of certificates of deposit and equity securities and are valued using a market approach based on quoted prices from transactions in active exchange markets.

The Diocese's Level 2 marketable securities consist of money market accounts, corporate bonds, and US government and agency bonds. The Diocese's Level 2 marketable securities values are determined using prices for recently traded financial instruments with similar underlying terms as well as directly or indirectly observable inputs, such as interest rates and yield curves that are observable at commonly quoted intervals.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Diocese believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

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NOTE D – Fair Value Measurements (Continued)

The following table sets forth by level, within the fair value hierarchy, the Diocese's assets at fair value as of December 31, 2009:

	<u>Total</u>	<u>Quoted Prices in Active Markets (Level 1)</u>	<u>Prices with Other Observable Inputs (Level 2)</u>	<u>Prices with Unobserv- able Inputs (Level 3)</u>
Cash and cash equivalents	\$ 261,692	\$ 261,692	\$ ---	\$ ---
Investments (marketable securities):				
Certificates of Deposits	276,509	276,509	---	---
Money Market Accounts	80,997	---	80,997	---
Equities	1,424,563	1,424,563	---	---
Corporate Bonds	79,361	---	79,361	---
US Government and Agency Bonds	209,792	---	209,792	---
Total Investments	<u>2,071,222</u>	<u>1,701,072</u>	<u>370,150</u>	<u>---</u>
Totals	<u>\$ 2,332,914</u>	<u>\$ 1,962,764</u>	<u>\$ 370,150</u>	<u>\$ ---</u>

The following table sets forth by level, within the fair value hierarchy, the Diocese's assets at fair value as of December 31, 2008:

	<u>Total</u>	<u>Quoted Prices in Active Markets (Level 1)</u>	<u>Prices with Other Observable Inputs (Level 2)</u>	<u>Prices with Unobserv- able Inputs (Level 3)</u>
Cash and cash equivalents	\$ 286,291	\$ 286,291	\$ ---	\$ ---
Investments (marketable securities):				
Certificates of Deposits	51,258	51,258	---	---
Money Market Accounts	514,788	---	514,788	---
Equities	854,459	854,459	---	---
Corporate Bonds	197,943	---	197,943	---
US Government and Agency Bonds	211,138	---	211,138	---
Total Investments	<u>1,829,586</u>	<u>905,717</u>	<u>923,869</u>	<u>---</u>
Totals	<u>\$ 2,115,877</u>	<u>\$ 1,192,008</u>	<u>\$ 923,869</u>	<u>\$ ---</u>

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NOTE E – Property and Equipment

Property and equipment as of December 31, 2009 and 2008 consists of the following:

	<u>2009</u>	<u>2008</u>
Building	\$ 63,000	\$ 63,000
Cascade rental property	250,000	282,000
Office equipment	39,493	40,429
Vehicles	58,685	29,720
	<u>411,178</u>	<u>415,149</u>
Less accumulated depreciation	<u>(111,422)</u>	<u>(102,162)</u>
	299,756	312,987
Land	7,000	7,000
	<u>\$ 306,756</u>	<u>\$ 319,987</u>

NOTE F – Assets Held for Parish Development

The Diocese regularly helps local congregations establish or expand their parishes. At times this process will cause the Diocese to be in possession of real property for a short period of time.

In July 2005, the Diocese purchased a property in Belmont, Michigan for \$460,000 with a down payment of \$20,000 donated by the local parish and a bank note payable. The Diocese will hold title to the Belmont, Michigan property and will assist the parish in making the principal and interest payments on the associated bank note through a donation to the parish.

NOTE G – Long Term Debt

Long-term debt at December 31, 2009 and 2008 consists of the following:

	<u>2009</u>	<u>2008</u>
6.25% Note payable in monthly installments of \$1,430 including interest; final payment due May 2013. Secured by real property in Belmont, Michigan.	\$ 209,244	\$ 212,700
Less current maturities	<u>(4,256)</u>	<u>(3,999)</u>
	<u>\$ 204,988</u>	<u>\$ 208,701</u>

Aggregate maturities of long-term debt for 2010 through 2013 are as follows:

<u>Year ending</u> <u>December 31,</u>	<u>Amount</u>
2010	\$ 4,256
2011	4,730
2012	4,821
2013	195,437
	<u>\$ 209,244</u>

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NOTE H – Post-Retirement Benefits

Pension Plan

The Diocese participates in various pension plans sponsored by the Episcopal Church covering substantially all full time religious and lay employees. Total pension expense for the year ended December 31, 2009 and 2008 was \$47,096 and \$49,271, respectively.

Health Care Benefits

Prior to July 1, 2008, the Diocese provided certain health benefits for retired clergy based on the number of years of service rendered. Diocesan clergy become eligible for those benefits upon retirement or after age 65 if employed in or by the Diocese at retirement. The Diocese had no funding policy related to these benefits and paid for them as premiums became due. The plan terminated effective July 1, 2008, and there are no estimated future payments due to the plan.

The amounts recognized in the financial statements for 2008 are as follows:

	<u>2008</u>
Change in Benefit Obligation:	
Benefit obligation at end of prior year	\$ 422,750
Service cost	7,906
Interest cost	11,719
Plan participants' contributions	---
Amendments	---
Net actuarial loss/(gain) for the prior year	---
Expected benefits paid	<u>(16,056)</u>
Benefit obligation before curtailment	426,319
Curtailment cost (income)	<u>(426,319)</u>
Benefit obligation at end of year	<u>\$ ---</u>

During 2008, The Diocese contributed \$19,625 (service costs of \$7,906 and interest of \$11,719) to cover benefits paid by the plan in 2008.

NOTE I – Commitments

The Diocese conducts its operations in facilities leased under an agreement expiring February 28, 2014. The lease requires current monthly rentals of \$2,562, and the payment of all occupancy costs by the lessee. Rent expense and surcharges for the years ended December 31, 2009 and 2008 was approximately \$32,000, and \$31,000, respectively.

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NOTE J – Subsequent Events

Subsequent to December 31, 2009, the Diocese entered into an agreement to sell a parish property. The property, which had been held for possible expansion and is included in property and equipment on the accompanying statement of financial position, had a net book value of \$271,425 (cost of \$282,000 less depreciation of \$10,575). The anticipated sales price is \$250,000, less back taxes and other costs associated with the sale. The Diocese recorded a charge of \$32,000 in the accompanying statement of activities as a provision for the anticipated loss upon sale of the property.

Management has evaluated subsequent events through September 6, 2010, the date on which the financial statements were available to be issued.