

**ASSOCIATION OF THE DIOCESE  
OF WESTERN MICHIGAN**

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**

**For the Years Ended December 31, 2011 and 2010**

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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 statements of financial position of the Association of the Diocese of Western Michigan (a Michigan nonprofit organization) as of December 31, 2011 and 2010, and the related statements of activities, functional expenses, and cash flows for the years 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 audits.

Except as discussed in the following paragraph, 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.

As more fully described in Note F to the financial statements, in July 2005 the Diocese acquired a church property to assist a local parish. The Diocese intends to hold the property until such time as the parish's financing improves and the parish can take over the related financial obligations. The property is recorded at cost in the accompanying statements of financial position. The fair market value of the property has not been determined and may be substantially different from the cost of the property, \$460,000, recorded in the accompanying statement of financial position as of December 31, 2011 and 2010. Generally accepted accounting principles require the church property to be recorded at the lower of cost or fair market value.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves about the valuation of the Diocese's church property, the 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, 2011 and 2010 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*

Seber Tans, PLC  
Kalamazoo, Michigan

October 30, 2012

**Association of the Diocese of Western Michigan**  
**Statements of Financial Position**  
**December 31, 2011 and 2010**

	2011		Total
	Unrestricted	Temporarily Restricted	
<b>ASSETS</b>			
Current Assets			
Cash and cash equivalents	\$ 261,237	\$ 37,419	\$ 298,656
Investments	2,413,299	198,773	2,612,072
Pledges receivable	6,869	-	6,869
Other receivables	28,148	-	28,148
Prepaid expenses	7,234	-	7,234
Total Current Assets	<u>2,716,787</u>	<u>236,192</u>	<u>2,952,979</u>
Noncurrent Assets			
Assets held for parish development	460,000	-	460,000
Net Property and Equipment	72,929	-	72,929
<b>Total Assets</b>	<b><u>\$ 3,249,716</u></b>	<b><u>\$ 236,192</u></b>	<b><u>\$ 3,485,908</u></b>
<b>LIABILITIES AND NET ASSETS</b>			
Current Liabilities			
Accounts payable	\$ 29,644	\$ -	\$ 29,644
Deferred revenue	2,789	-	2,789
Current maturities of long-term debt	4,777	-	4,777
Total Current Liabilities	<u>37,210</u>	<u>-</u>	<u>37,210</u>
Deposits held for others	64,222	-	64,222
Long-term debt, net of current maturities	195,775	-	195,775
Total Liabilities	<u>297,207</u>	<u>-</u>	<u>297,207</u>
Net Assets			
Unrestricted			
Designated for religious and and social welfare programs	440,400	-	440,400
Designated for youth and young adult ministries	221,985	-	221,985
Designated for parish development	570,531	-	570,531
Undesignated	1,719,593	-	1,719,593
Total Unrestricted	<u>2,952,509</u>	<u>-</u>	<u>2,952,509</u>
Temporarily Restricted	-	236,192	236,192
Total Net Assets	<u>2,952,509</u>	<u>236,192</u>	<u>3,188,701</u>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 3,249,716</u></b>	<b><u>\$ 236,192</u></b>	<b><u>\$ 3,485,908</u></b>

See Accompanying Notes to Financial Statements

2010		
Unrestricted	Temporarily Restricted	Total
\$ 235,349	\$ 17,730	\$ 253,079
2,279,854	192,380	2,472,234
8,604	-	8,604
12,005	-	12,005
6,192	-	6,192
<u>2,542,004</u>	<u>210,110</u>	<u>2,752,114</u>
460,000	-	460,000
<u>305,856</u>	<u>-</u>	<u>305,856</u>
<b><u>\$ 3,307,860</u></b>	<b><u>\$ 210,110</u></b>	<b><u>\$ 3,517,970</u></b>
\$ 45,706	-	\$ 45,706
2,764	-	2,764
4,488	-	4,488
<u>52,958</u>	<u>-</u>	<u>52,958</u>
<u>120,539</u>	<u>-</u>	<u>120,539</u>
200,372	-	200,372
<u>373,869</u>	<u>-</u>	<u>373,869</u>
234,243	-	234,243
229,903	-	229,903
567,188	-	567,188
1,902,657	-	1,902,657
<u>2,933,991</u>	<u>-</u>	<u>2,933,991</u>
<u>-</u>	<u>210,110</u>	<u>210,110</u>
<u>2,933,991</u>	<u>210,110</u>	<u>3,144,101</u>
<b><u>\$ 3,307,860</u></b>	<b><u>\$ 210,110</u></b>	<b><u>\$ 3,517,970</u></b>

**Association of the Diocese of Western Michigan**  
**Statements of Activities**  
**For the Years Ended December 31, 2011 and 2010**

	2011		
	Unrestricted	Temporarily Restricted	Total
Support and Revenue			
Contributions:			
Parish pledges	\$ 853,722	\$ -	\$ 853,722
Other	17,698	70,727	88,425
Fees	27,191	35,911	63,102
Local grants	8,300	-	8,300
Rents	1,200	-	1,200
Other	1,036	-	1,036
Investment income (loss)	17,481	(1,672)	15,809
Gain (loss) on disposal of asset	(10,409)	-	(10,409)
Total Support and Revenue	<u>916,219</u>	<u>104,966</u>	<u>1,021,185</u>
Net Assets Released From Restrictions	<u>78,884</u>	<u>(78,884)</u>	<u>-</u>
Total Support, Revenue and Reclassifications	<u>995,103</u>	<u>26,082</u>	<u>1,021,185</u>
Expenses			
Program services			
Office of the Bishop	378,343	-	378,343
Commissions and Committees	13,143	-	13,143
Episcopal Church Pledge	140,904	-	140,904
Congregational Development	25,328	-	25,328
Children, Youth and Young Adult Ministries	152,505	-	152,505
Social Justice Ministries	32,170	-	32,170
Supporting services			
Management and general	234,192	-	234,192
Total Expenses	<u>976,585</u>	<u>-</u>	<u>976,585</u>
<b>Increase (Decrease) in Net Assets</b>	<b>18,518</b>	<b>26,082</b>	<b>44,600</b>
Net assets at beginning of year	<u>2,933,991</u>	<u>210,110</u>	<u>3,144,101</u>
<b>Net Assets at End of Year</b>	<b><u>\$ 2,952,509</u></b>	<b><u>\$ 236,192</u></b>	<b><u>\$ 3,188,701</u></b>

See Accompanying Notes to Financial Statements

2010		
Unrestricted	Temporarily Restricted	Total
\$ 765,659	\$ -	\$ 765,659
35,414	25,095	60,509
65,738	-	65,738
9,300	-	9,300
15,600	-	15,600
1,416	-	1,416
298,446	26,275	324,721
-	-	-
<u>1,191,573</u>	<u>51,370</u>	<u>1,242,943</u>
53,385	(53,385)	-
<u>1,244,958</u>	<u>(2,015)</u>	<u>1,242,943</u>
335,528	-	335,528
12,888	-	12,888
106,509	-	106,509
29,259	-	29,259
144,961	-	144,961
23,816	-	23,816
<u>227,202</u>	<u>-</u>	<u>227,202</u>
<u>880,163</u>	<u>-</u>	<u>880,163</u>
<b>364,795</b>	<b>(2,015)</b>	<b>362,780</b>
<u>2,569,196</u>	<u>212,125</u>	<u>2,781,321</u>
<b><u>\$ 2,933,991</u></b>	<b><u>\$ 210,110</u></b>	<b><u>\$ 3,144,101</u></b>

**Association of the Diocese of Western Michigan  
Statements of Cash Flows  
For the Years Ended December 31, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 44,600	\$ 362,780
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation	8,026	12,533
Loss on asset disposal	10,409	-
In-kind contributions of debt payments	(4,308)	(4,384)
Realized and unrealized (gain) loss on investments	19,507	(289,767)
Decrease (increase) in:		
Receivables	(14,407)	4,791
Prepaid expenses	(1,042)	2,059
Increase (decrease) in:		
Accounts payable and accrued expenses	(16,062)	10,596
Deferred revenue	25	117
Net Cash Provided By Operating Activities	<u>46,748</u>	<u>98,725</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of investments	751,907	561,910
Purchase of investments	(911,252)	(673,156)
Purchase of property and equipment	(6,887)	(11,632)
Proceeds from sale of asset	221,378	-
Net Cash Provided by (Used for) Investing Activities	<u>55,146</u>	<u>(122,878)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase (decrease) in deposits held for others	<u>(56,317)</u>	<u>15,540</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>45,577</b>	<b>(8,613)</b>
Cash and cash equivalents at beginning of year	<u>253,079</u>	<u>261,692</u>
<b>Cash and Cash Equivalents at End of Year</b>	<b><u>\$ 298,656</u></b>	<b><u>\$ 253,079</u></b>
<b>Non-cash Financing Activities</b>		
Payment of Debt with in-kind contributions	<u>\$ 4,308</u>	<u>\$ 4,384</u>

See Accompanying Notes to Financial Statements



**Association of the Diocese of Western Michigan  
Statement of Functional Expenses  
For the Year Ended December 31, 2011**

	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	\$ 219,268	-	\$ -	\$ -	\$ 46,335	\$ -	\$ 74,699	\$ 340,302
Health insurance	23,785	-	-	-	8,478	-	6,528	38,791
Pension	37,040	-	-	-	4,168	-	4,272	45,480
Payroll taxes and workers compensation	-	-	-	-	3,545	-	9,756	13,301
	<u>280,093</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>62,526</u>	<u>-</u>	<u>95,255</u>	<u>437,874</u>
Advertising	-	-	-	-	-	-	302	302
Communications	-	-	-	-	-	-	4,682	4,682
Contracted services	-	512	-	-	-	-	2,270	2,782
Donations and grants	44,623	-	140,904	23,805	-	32,090	-	241,422
Dues and fees	-	-	-	-	-	-	1,047	1,047
Property insurance	-	-	-	-	-	-	3,691	3,691
Office supplies	-	-	-	-	-	-	7,281	7,281
Postage and shipping	-	-	-	-	-	-	2,313	2,313
Professional fees	9,402	-	-	-	-	-	17,216	26,618
Rent	-	-	-	-	840	-	33,618	34,458
Repairs and maintenance, building	-	-	-	-	-	-	6,325	6,325
Repairs and maintenance, Resurrection Garden	-	-	-	-	-	-	1,401	1,401
Supplies	-	-	-	-	-	-	5,323	5,323
Training, committees and conferences	7,929	12,100	-	640	935	-	23,029	44,633
Telephone	-	-	-	-	-	-	6,535	6,535
Travel	25,421	-	-	-	53	-	2,981	28,455
Youth and young adult ministries	-	-	-	-	86,779	-	-	86,779
Depreciation	3,130	321	-	883	1,204	80	2,408	8,026
Uncollectible pledges	-	-	-	-	-	-	12,000	12,000
Other	7,745	210	-	-	168	-	6,515	14,638
<b>Total</b>	<u>\$ 378,343</u>	<u>\$ 13,143</u>	<u>\$ 140,904</u>	<u>\$ 25,328</u>	<u>\$ 152,505</u>	<u>\$ 32,170</u>	<u>\$ 234,192</u>	<u>\$ 976,585</u>

See Accompanying Notes to Financial Statements

**Association of the Diocese of Western Michigan  
Statement of Functional Expenses  
For the Year Ended December 31, 2010**

	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	\$ 199,593	\$ -	\$ -	\$ 7,253	\$ 46,273	\$ -	\$ 69,794	\$ 322,913
Health insurance	25,302	-	-	2,753	8,034	-	6,455	42,544
Pension	31,007	-	-	1,306	4,086	-	4,882	41,281
Payroll taxes and workers compensation	-	-	-	-	3,478	-	7,908	11,386
	<u>255,902</u>	<u>-</u>	<u>-</u>	<u>11,312</u>	<u>61,871</u>	<u>-</u>	<u>89,039</u>	<u>418,124</u>
Advertising	-	-	-	-	-	-	-	-
Communications	-	-	-	-	-	-	3,010	3,010
Contracted services	754	-	-	-	-	-	2,266	3,020
Donations and grants	27,658	-	106,509	15,195	-	23,691	-	173,053
Dues and fees	-	-	-	-	-	-	988	988
Property insurance	-	-	-	-	-	-	5,805	5,805
Office supplies	-	-	-	-	-	-	6,646	6,646
Postage and shipping	-	-	-	-	-	-	2,107	2,107
Postretirement benefits	-	-	-	-	-	-	(18)	(18)
Professional fees	9,061	-	-	-	-	-	22,340	31,401
Rent	-	-	-	-	770	-	32,049	32,819
Repairs and maintenance, building	-	-	-	-	-	-	9,719	9,719
Repairs and maintenance, Resurrection Garden	-	-	-	-	-	-	3,311	3,311
Supplies	-	-	-	-	-	-	5,902	5,902
Training, committees and conferences	9,503	12,177	-	1,373	1,202	-	22,859	47,114
Telephone	-	-	-	-	-	-	7,456	7,456
Travel	23,753	-	-	-	6	-	1,733	25,492
Youth and young adult ministries	-	-	-	-	79,092	-	-	79,092
Depreciation	4,888	501	-	1,379	1,880	125	3,760	12,533
Uncollectible pledges	-	-	-	-	-	-	5,382	5,382
Other	4,009	210	-	-	140	-	2,848	7,207
<b>Total</b>	<u>\$ 335,528</u>	<u>\$ 12,888</u>	<u>\$ 106,509</u>	<u>\$ 29,259</u>	<u>\$ 144,961</u>	<u>\$ 23,816</u>	<u>\$ 227,202</u>	<u>\$ 880,163</u>

See Accompanying Notes to Financial Statements

**Association of the Diocese of Western Michigan**  
**Notes to Financial Statements**  
**For the Years Ended December 31, 2011 and 2010**

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**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, 2011 and 2010.

**Association of the Diocese of Western Michigan  
Notes to Financial Statements  
For the Years Ended December 31, 2011 and 2010**

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**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. Investment transactions shown in the Statement of Cash Flows reflect gross sales and purchases made by the investment manager during the year.

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 on 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, 2011 and 2010**

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**NOTE A – Summary of Significant Accounting Policies (Continued)**

Volunteers

A number of volunteers, including the members of the Diocesan 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, support for the joint Lutheran-Episcopal Campus ministries at WMU 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, through its parent organization, 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, 2011 and 2010**

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**NOTE B – Net Asset Restrictions**

Temporarily restricted net assets are available for the following purposes:

	2011	2010
Deacon Outreach Project	\$ 500	\$ 500
Bishop's Discretionary Fund	22,784	3,722
Deacon's Discretionary Fund	3,374	622
Dominican Republic Mission Fund	30,345	734
Max Phares Memorial	1,816	1,816
Mission Fund	5,084	9,240
Jarvis Fund	25,129	41,329
Waddell Fund-Seminarian Support	143,299	150,317
Helen James Fund	3,861	-
Popkey Fund-Camp	-	1,830
	<u>\$ 236,192</u>	<u>\$ 210,110</u>

**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, 2011 and 2010 are summarized as follows:

	2011		
	Cost	Fair Value	Unrealized Appreciation
Investment type:			
Money market funds	\$ 151,233	\$ 151,233	\$ -
Certificate of deposit	629,359	629,359	-
Corporate bonds and notes	125,544	125,598	54
Equities	1,262,595	1,626,910	364,315
U.S. Government securities	71,396	78,972	7,576
	<u>\$ 2,240,127</u>	<u>\$ 2,612,072</u>	<u>\$ 371,945</u>
	2010		
	Cost	Fair Value	Unrealized Appreciation
Investment type:			
Money market funds	\$ 297,858	\$ 297,858	\$ -
Certificate of deposit	250,919	250,919	-
Corporate bonds and notes	75,420	76,980	1,560
Equities	1,302,659	1,687,948	385,289
U.S. Government securities	145,300	158,529	13,229
	<u>2,072,156</u>	<u>2,472,234</u>	<u>400,078</u>

**Association of the Diocese of Western Michigan**  
**Notes to Financial Statements**  
**For the Years Ended December 31, 2011 and 2010**

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**NOTE C – Investments (Continued)**

The following schedule summarizes the investment return and its classification in the statements of activities for the years ended December 31, 2011 and 2010:

	2011		
	Unrestricted	Temporarily Restricted	Total
Interest and dividends	\$ 32,644	\$ 2,672	\$ 35,316
Realized gain and unrealized appreciation (depreciation)	(15,163)	(4,344)	(19,507)
	<u>\$ 17,481</u>	<u>\$ (1,672)</u>	<u>\$ 15,809</u>
	2010		
	Unrestricted	Temporarily Restricted	Total
Interest and dividends	\$ 31,922	\$ 3,032	\$ 34,954
Realized gain and unrealized appreciation (depreciation)	266,524	23,243	289,767
	<u>\$ 298,446</u>	<u>\$ 26,275</u>	<u>\$ 324,721</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.

**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.

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**NOTE D – Fair Value Measurements (Continued)**

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, 2011:

	<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	\$ 298,656	\$ 298,656	\$ -	\$ -
Investments (marketable securities):				
Certificates of Deposits	629,359	629,359	-	-
Money Market Accounts	151,233	-	151,233	-
Equities	1,626,910	1,626,910	-	-
Corporate Bonds	125,598	-	125,598	-
US Government and Agency Bonds	78,972	-	78,972	-
Total Investments	<u>2,612,072</u>	<u>2,256,269</u>	<u>355,803</u>	<u>-</u>
Totals	<u>\$ 2,910,728</u>	<u>\$ 2,554,925</u>	<u>\$ 355,803</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, 2010:

	<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	\$ 253,079	\$ 253,079	\$ -	\$ -
Investments (marketable securities):				
Certificates of Deposits	250,919	250,919	-	-
Money Market Accounts	297,858	-	297,858	-
Equities	1,687,948	1,687,948	-	-
Corporate Bonds	76,980	-	76,980	-
US Government and Agency Bonds	158,529	-	158,529	-
Total Investments	<u>2,472,234</u>	<u>1,938,867</u>	<u>533,367</u>	<u>-</u>
Totals	<u>\$ 2,725,313</u>	<u>\$ 2,191,946</u>	<u>\$ 533,367</u>	<u>\$ -</u>

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**NOTE E – Property and Equipment**

Property and equipment as of December 31, 2011 and 2010 consists of the following:

	<u>2011</u>	<u>2010</u>
Building	\$ 63,000	\$ 63,000
Cascade rental property	-	250,000
Office equipment	52,980	46,094
Vehicles	<u>58,685</u>	<u>58,685</u>
	174,665	417,779
Less accumulated depreciation	<u>(108,736)</u>	<u>(118,923)</u>
	65,929	298,856
Land	<u>7,000</u>	<u>7,000</u>
	<u>\$ 72,929</u>	<u>\$ 305,856</u>

In 2011, the Diocese sold the Cascade rental property for approximately \$217,000, net of the closing costs. The Diocese designated the proceeds for the St. Michael's Mission Fund.

**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 until the parish is financially stable and can take over the loan obligation. The Diocese previously assisted the parish in making the principal and interest payments on the associated bank note through a donation to the parish. The parish is currently making payments on the associated bank note.

Generally accepted accounting principles require the church property to be recorded at the lower of cost or fair market value. The parish property is recorded at cost in the accompanying statements of financial position. The fair market value of the property has not been determined and may be substantially different from the cost of the property, \$460,000. Therefore, the parish property is not recorded in accordance with generally accepted accounting principles. The Diocese is in the process of valuing the property at fair market value and will make any necessary adjustments once the valuation is completed.

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**NOTE G – Long Term Debt**

Long-term debt at December 31, 2011 and 2010 consists of the following:

	<u>2011</u>	<u>2010</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.	\$ 200,552	\$ 204,860
Less current maturities	<u>(4,777)</u>	<u>(4,488)</u>
	<u>\$ 195,775</u>	<u>\$ 200,372</u>

Aggregate maturities of long-term debt for 2012 through 2013 are as follows:

<u>Year ending December 31,</u>	<u>Amount</u>
2012	4,777
2013	195,775
	<u>\$ 200,552</u>

**NOTE H – Post-Retirement Benefits**

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, 2011 and 2010 was \$42,960 and \$41,281, respectively.

**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 \$2,760, and the payment of all occupancy costs by the lessee. Rent expense and surcharges for the years ended December 31, 2011 and 2010 was approximately \$33,618, and \$32,049, respectively.

**NOTE J – Bishop Search and Subsequent Events**

In 2012, a closure agreement was executed between a minister within the Diocese and the Church he was serving. The terms call for the Church to make a lump sum payment to the Diocese and monthly payments will be made to the minister by the Diocese. It is not anticipated that the Diocese will have any monetary obligation for this agreement in excess of the amount funded by the Church. The term of the pay-off arrangement is through December 2014.

The Bishop has announced his intention to retire. A search committee has been established. The Diocese began budgeting and setting aside excess reserve funds in 2010 for the search for the new Bishop. To date, the Diocese has designated \$224,842 for the Episcopal transition. The election and consecration of the Bishop is scheduled to be completed in September 2013.

Management has evaluated subsequent events through October 30, 2012, the date on which the financial statements were available to be issued.