

**EPISCOPAL DIOCESE  
OF WESTERN MICHIGAN**

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**

**For the Years Ended December 31, 2012 and 2011**

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# SEBER TANS, PLC

## CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

### INDEPENDENT AUDITORS' REPORT

To the Executive Council  
Episcopal Diocese of Western Michigan

We have audited the accompanying financial statements of the Episcopal Diocese of Western Michigan (a Michigan nonprofit organization) as of December 31, 2012 and 2011, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

#### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements according with accounting principles generally accepted in the United States of America, this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditors' Responsibility**

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### **Basis for Qualified Opinion on Prior Year**

As more fully described in Note G 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 was recorded at cost in 2011. In 2012, the property is recorded at market value according to an appraisal completed in 2012. In our opinion, the parish property should be recorded at market value to conform with accounting principles generally accepted in the United States of America. The effects of this departure from accounting principles generally accepted in the United States of America is to decrease non-current assets, net assets, support and revenue and change in net assets by \$115,000 as of and for the year ended December 31, 2011. There is

no effect on the 2012 statement of financial position. However, the 2012 statement of activities would have an \$115,000 increase to support and revenue and changes in net assets.

**Unmodified Opinion on 2012 and Qualified Opinion on 2011**

In our opinion, except for the effects on the year 2011 financial statements of the matter discussed in the Basis for Qualified Opinion on Prior Year, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Episcopal Diocese of Western Michigan as of December 31, 2012 and 2011 and the changes in the Diocese's net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Seber Tans, PLC*

Seber Tans, PLC  
Kalamazoo, Michigan

October 16, 2013

**Episcopal Diocese of Western Michigan  
Statements of Financial Position  
December 31, 2012 and 2011**

	2012		
	Unrestricted	Temporarily Restricted	Total
<b>ASSETS</b>			
Current Assets			
Cash and cash equivalents	\$ 277,268	\$ 313,231	\$ 590,499
Investments	2,624,285	187,388	2,811,673
Pledges receivable	28,515	-	28,515
Other receivables	10,438	-	10,438
Prepaid expenses	9,409	-	9,409
Total Current Assets	<u>2,949,915</u>	<u>500,619</u>	<u>3,450,534</u>
Noncurrent Assets			
Assets held for parish development	<u>345,000</u>	<u>-</u>	<u>345,000</u>
Net Property and Equipment	<u>68,427</u>	<u>-</u>	<u>68,427</u>
<b>Total Assets</b>	<b><u>\$ 3,363,342</u></b>	<b><u>\$ 500,619</u></b>	<b><u>\$ 3,863,961</u></b>
<b>LIABILITIES AND NET ASSETS</b>			
Current Liabilities			
Accounts payable	\$ 36,239	\$ -	\$ 36,239
Deferred revenue	9,305	-	9,305
Current maturities of long-term obligations	3,396	121,936	125,332
Total Current Liabilities	<u>48,940</u>	<u>121,936</u>	<u>170,876</u>
Deposits held for others	<u>81,151</u>	<u>-</u>	<u>81,151</u>
Long-term obligations, net of current maturities	<u>192,604</u>	<u>121,936</u>	<u>314,540</u>
Total Liabilities	<u>322,695</u>	<u>243,872</u>	<u>566,567</u>
Net Assets			
Unrestricted			
Designated for religious and social welfare programs	510,184	-	510,184
Designated for youth and young adult ministries	233,389	-	233,389
Designated for parish development	486,927	-	486,927
Undesignated	1,810,147	-	1,810,147
Total Unrestricted	<u>3,040,647</u>	<u>-</u>	<u>3,040,647</u>
Temporarily Restricted	<u>-</u>	<u>256,747</u>	<u>256,747</u>
Total Net Assets	<u>3,040,647</u>	<u>256,747</u>	<u>3,297,394</u>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 3,363,342</u></b>	<b><u>\$ 500,619</u></b>	<b><u>\$ 3,863,961</u></b>

See Accompanying Notes to Financial Statements

2011		
Unrestricted	Temporarily Restricted	Total
\$ 261,237	\$ 37,419	\$ 298,656
2,413,299	198,773	2,612,072
6,869	-	6,869
28,148	-	28,148
7,234	-	7,234
<u>2,716,787</u>	<u>236,192</u>	<u>2,952,979</u>
460,000	-	460,000
<u>72,929</u>	<u>-</u>	<u>72,929</u>
<b><u>\$ 3,249,716</u></b>	<b><u>\$ 236,192</u></b>	<b><u>\$ 3,485,908</u></b>
\$ 29,644	-	\$ 29,644
2,789	-	2,789
4,777	-	4,777
<u>37,210</u>	<u>-</u>	<u>37,210</u>
<u>64,222</u>	<u>-</u>	<u>64,222</u>
195,775	-	195,775
<u>297,207</u>	<u>-</u>	<u>297,207</u>
440,400	-	440,400
221,985	-	221,985
570,531	-	570,531
1,719,593	-	1,719,593
<u>2,952,509</u>	<u>-</u>	<u>2,952,509</u>
<u>-</u>	<u>236,192</u>	<u>236,192</u>
<u>2,952,509</u>	<u>236,192</u>	<u>3,188,701</u>
<b><u>\$ 3,249,716</u></b>	<b><u>\$ 236,192</u></b>	<b><u>\$ 3,485,908</u></b>

**Episcopal Diocese of Western Michigan**  
**Statements of Activities**  
**For the Years Ended December 31, 2012 and 2011**

	2012		
	Unrestricted	Temporarily Restricted	Total
Support and Revenue			
Contributions:			
Parish pledges	\$ 909,980	\$ -	\$ 909,980
Other	1,715	68,975	70,690
Fees	39,490	39,506	78,996
Local grants	8,800	-	8,800
Other	16,096	-	16,096
Investment income (loss)	230,275	17,004	247,279
Write down of investment in parish	(115,000)		(115,000)
Gain (loss) on disposal of asset	(797)	-	(797)
Total Support and Revenue	<u>1,090,559</u>	<u>125,485</u>	<u>1,216,044</u>
Net Assets Released From			
Restrictions	104,930	(104,930)	-
Total Support, Revenue and Reclassifications	<u>1,195,489</u>	<u>20,555</u>	<u>1,216,044</u>
Expenses			
Program services			
Office of the Bishop	415,680	-	415,680
Commissions and Committees	22,613	-	22,613
Episcopal Church Pledge	141,498	-	141,498
Congregational Development	891	-	891
Children, Youth and Young Adult Ministries	165,428	-	165,428
Social Justice Ministries	78,531	-	78,531
Supporting services			
Management and general	282,710	-	282,710
Total Expenses	<u>1,107,351</u>	<u>-</u>	<u>1,107,351</u>
<b>Increase in Net Assets</b>	<b>88,138</b>	<b>20,555</b>	<b>108,693</b>
Net assets at beginning of year	2,952,509	236,192	3,188,701
<b>Net Assets at End of Year</b>	<b><u>\$ 3,040,647</u></b>	<b><u>\$ 256,747</u></b>	<b><u>\$ 3,297,394</u></b>

See Accompanying Notes to Financial Statements

2011		
Unrestricted	Temporarily Restricted	Total
\$ 853,722	\$ -	\$ 853,722
15,698	70,727	86,425
27,191	35,911	63,102
8,300	-	8,300
2,236	-	2,236
17,481	(1,672)	15,809
-	-	-
(10,409)	-	(10,409)
<u>914,219</u>	<u>104,966</u>	<u>1,019,185</u>
78,884	(78,884)	-
<u>993,103</u>	<u>26,082</u>	<u>1,019,185</u>
378,343	-	378,343
12,631	-	12,631
140,904	-	140,904
25,328	-	25,328
152,505	-	152,505
32,682	-	32,682
232,192	-	232,192
<u>974,585</u>	<u>-</u>	<u>974,585</u>
<b>18,518</b>	<b>26,082</b>	<b>44,600</b>
<u>2,933,991</u>	<u>210,110</u>	<u>3,144,101</u>
<b><u>\$ 2,952,509</u></b>	<b><u>\$ 236,192</u></b>	<b><u>\$ 3,188,701</u></b>



**Episcopal Diocese of Western Michigan**  
**Statements of Cash Flows**  
**For the Years Ended December 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 108,693	\$ 44,600
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation	8,098	8,026
Loss on asset disposal	797	10,409
Write down of investment in parish	115,000	-
In-kind contributions of debt payments	(4,552)	(4,308)
Realized and unrealized (gain) loss on investments	(210,899)	19,507
Changes in:		
Receivables	(3,936)	(14,407)
Prepaid expenses	(2,175)	(1,042)
Accounts payable and accrued expenses	6,595	(16,062)
Deferred revenue	6,516	25
Net Cash Provided By Operating Activities	<u>24,137</u>	<u>46,748</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of investments	606,145	751,907
Purchase of investments	(594,847)	(911,252)
Purchase of property and equipment	(4,393)	(6,887)
Proceeds from sale of asset	-	221,378
Net Cash Provided by Investing Activities	<u>6,905</u>	<u>55,146</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase (decrease) in deposits and long term obligations held for others	<u>260,801</u>	<u>(56,317)</u>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>291,843</b>	<b>45,577</b>
Cash and cash equivalents at beginning of year	<u>298,656</u>	<u>253,079</u>
<b>Cash and Cash Equivalents at End of Year</b>	<b><u>\$ 590,499</u></b>	<b><u>\$ 298,656</u></b>

See Accompanying Notes to Financial Statements

**Episcopal Diocese of Western Michigan  
Statement of Functional Expenses  
For the Year Ended December 31, 2012**

	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	\$ 227,072	-	\$ -	\$ -	\$ 47,982	\$ -	\$ 76,479	\$ 351,533
Health insurance	25,753	-	-	-	9,186	-	6,528	41,467
Pension	34,180	-	-	-	4,318	-	5,794	44,292
Payroll taxes and workers compensation	-	-	-	-	3,518	-	8,926	12,444
	<u>287,005</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>65,004</u>	<u>-</u>	<u>97,727</u>	<u>449,736</u>
Advertising	-	-	-	-	-	-	19,653	19,653
Communications	-	-	-	-	-	-	20,023	20,023
Contracted services	-	-	-	-	-	15,124	2,265	17,389
Donations and grants	61,183	-	141,498	-	-	63,326	-	266,007
Dues and fees	-	-	-	-	-	-	2,060	2,060
Property insurance	-	-	-	-	-	-	5,830	5,830
Office supplies	-	-	-	-	-	-	7,606	7,606
Postage and shipping	-	-	-	-	-	-	1,718	1,718
Professional fees	10,201	-	-	-	-	-	34,618	44,819
Rent	-	-	-	-	840	-	33,959	34,799
Repairs and maintenance, building	-	-	-	-	-	-	4,235	4,235
Repairs and maintenance, Resurrection Garden	-	-	-	-	-	-	1,200	1,200
Search/transition	22,858	-	-	-	-	-	-	22,858
Supplies	-	-	-	-	-	-	5,064	5,064
Training, committees and conferences	10,139	22,499	-	-	8,560	-	21,390	62,588
Telephone	-	-	-	-	-	-	6,041	6,041
Travel	17,038	-	-	-	20	-	2,470	19,528
Youth and young adult ministries	-	-	-	-	89,783	-	-	89,783
Depreciation	3,158	324	-	891	1,215	81	2,429	8,098
Uncollectible pledges	-	-	-	-	-	-	-	-
Bad debts	-	-	-	-	-	-	11,000	11,000
Other	4,098	(210)	-	-	6	-	3,422	7,316
<b>Total</b>	<u>\$ 415,680</u>	<u>\$ 22,613</u>	<u>\$ 141,498</u>	<u>\$ 891</u>	<u>\$ 165,428</u>	<u>\$ 78,531</u>	<u>\$ 282,710</u>	<u>\$ 1,107,351</u>

See Accompanying Notes to Financial Statements

**Episcopal 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	-	21,029	42,633
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>\$ 12,631</u>	<u>\$ 140,904</u>	<u>\$ 25,328</u>	<u>\$ 152,505</u>	<u>\$ 32,682</u>	<u>\$ 232,192</u>	<u>\$ 974,585</u>

See Accompanying Notes to Financial Statements

**Episcopal Diocese of Western Michigan**  
**Notes to Financial Statements**  
**For the Years Ended December 31, 2012 and 2011**

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**NOTE A – Summary of Significant Accounting Policies**

Diocese Purpose

The Episcopal 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 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.

Accounts Receivable

Accounts receivable primarily represent parish pledges and are due and payable within one year. Accounts receivable are reviewed periodically to determine amounts which are potentially uncollectable. After reasonable attempts to collect a receivable have been unsuccessful, the amount is written off.

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, 2012 and 2011.

**Episcopal Diocese of Western Michigan**  
**Notes to Financial Statements**  
**For the Years Ended December 31, 2012 and 2011**

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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.

**Episcopal Diocese of Western Michigan**  
**Notes to Financial Statements**  
**For the Years Ended December 31, 2012 and 2011**

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

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.

The Asset Held for Parish Development is a Parish building located in Belmont, Michigan. The Parish has a one story, 8,173 square foot building, situated on 2.5 acres. The Diocese acquired the Parish building in 2005. The Parish building is not being depreciated. The Parish building is evaluated for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. See Note G.

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.

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.

*Commission 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 congregations in the Diocese. It also provides financial support for new church starts.

**Episcopal Diocese of Western Michigan  
Notes to Financial Statements  
For the Years Ended December 31, 2012 and 2011**

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

*Children, Youth & Young Adult Ministries* - provides for youth camps, other youth and young adult programs, support for camp and youth programs held in the diocese.

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

Tax Status

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

**NOTE B – Concentrations of Credit Risk**

Financial instruments that potentially subject the Diocese to concentrations of credit risk consist of bank balances that at times exceed federally insured limits. At December 31, 2012, uninsured carrying amount and bank balance were approximately \$60,215 and \$44,160, respectively. The Diocese has not experienced any losses on these accounts.

**NOTE C – Net Asset Restrictions**

Temporarily restricted net assets are available for the following purposes:

	<u>2012</u>	<u>2011</u>
Deacon Outreach Project	\$ 500	\$ 500
Bishop's Discretionary Fund	26,264	22,784
Deacon's Discretionary Fund	2,655	3,374
Dominican Republic Building Fund	46,213	30,345
Max Phares Memorial	1,816	1,816
Domestic Mission Fund	6,299	5,084
Jarvis Fund	5,414	25,129
Waddell Fund-Seminarian Support	149,011	143,299
Helen James Fund	3,861	3,861
Parish Church Residual	<u>14,714</u>	<u>-</u>
	<u>\$ 256,747</u>	<u>\$ 236,192</u>

**Episcopal Diocese of Western Michigan**  
**Notes to Financial Statements**  
**For the Years Ended December 31, 2012 and 2011**

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**NOTE D – 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, 2012 and 2011 are summarized as follows:

	2012		
	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation</u>
Investment type:			
Money market funds	\$ 80,585	\$ 80,585	\$ -
Certificate of deposit	531,030	531,030	-
Corporate bonds and notes	306,199	308,635	2,436
Equities	1,290,593	1,815,313	524,720
U.S. Government securities	71,396	76,110	4,714
	<u>\$ 2,279,803</u>	<u>\$ 2,811,673</u>	<u>\$ 531,870</u>

	2011		
	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation</u>
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>

The following schedule summarizes the investment return and its classification in the statements of activities for the years ended December 31, 2012 and 2011:

	2012		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Interest and dividends	\$ 35,509	\$ 871	\$ 36,380
Realized gain and unrealized appreciation	194,766	16,133	210,899
	<u>\$ 230,275</u>	<u>\$ 17,004</u>	<u>\$ 247,279</u>



**Episcopal Diocese of Western Michigan**  
**Notes to Financial Statements**  
**For the Years Ended December 31, 2012 and 2011**

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**NOTE D – Investments (Continued)**

	2011		
	Unrestricted	Temporarily Restricted	Total
Interest and dividends	\$ 32,644	\$ 2,672	\$ 35,316
Realized gain and unrealized appreciation (depreciation)	<u>(15,163)</u>	<u>(4,344)</u>	<u>(19,507)</u>
	<u>\$ 17,481</u>	<u>\$ (1,672)</u>	<u>\$ 15,809</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 E – 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;
  - inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement. The Diocese does not have any Level 3 assets.

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.

**Episcopal Diocese of Western Michigan  
Notes to Financial Statements  
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**NOTE E – Fair Value Measurements (Continued)**

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.

The following table sets forth by level, within the fair value hierarchy, the Diocese's assets at fair value as of December 31, 2012:

	<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	\$ 590,499	\$ 590,499	\$ -	\$ -
Investments (marketable securities):				
Certificates of Deposits	531,030	531,030	-	-
Money Market Accounts	80,585	-	80,585	-
Equities	1,815,313	1,815,313	-	-
Corporate Bonds	308,635	-	308,635	-
US Government and Agency Bonds	76,110	-	76,110	-
Total Investments	<u>2,811,673</u>	<u>2,346,343</u>	<u>465,330</u>	<u>-</u>
Totals	<u>\$ 3,402,172</u>	<u>\$ 2,936,842</u>	<u>\$ 465,330</u>	<u>\$ -</u>

**Episcopal Diocese of Western Michigan  
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**NOTE E – 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:

	Total	Quoted Prices in Active Markets (Level 1)	Prices with Other Observable Inputs (Level 2)	Prices with Unobserv- able Inputs (Level 3)
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>

**NOTE F – Property and Equipment**

Property and equipment as of December 31, 2012 and 2011 consists of the following:

	2012	2011
Building	\$ 63,000	\$ 63,000
Office equipment	52,632	52,980
Vehicles	58,685	58,685
	<u>174,317</u>	<u>174,665</u>
Less accumulated depreciation	(112,890)	(108,736)
	<u>61,427</u>	<u>65,929</u>
Land	7,000	7,000
	<u>\$ 68,427</u>	<u>\$ 72,929</u>

**Episcopal Diocese of Western Michigan**  
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**NOTE G – Assets Held for Parish Development**

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 has recorded the property at fair market value according to an appraisal completed in 2013. The appraisal indicated a fair value of \$345,000. The Diocese recorded a loss of \$115,000 in 2012. 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.

**NOTE H – Long Term Debt**

Long-term debt at December 31, 2012 and 2011 consists of the following:

	<u>2012</u>	<u>2011</u>
Note payable in monthly installments of \$1,430 including interest; through May 2013. Refinanced May 2013, monthly installments of \$1,288 including 4.95% interest. Secured by real property in Belmont, Michigan.	\$196,000	\$200,552
Long term closure agreement obligation with minister payable in monthly payments of \$10,161; non-interest bearing; final payment due December 2014.	<u>243,872</u>	<u>-</u>
	439,872	200,552
Less current maturities	<u>(125,332)</u>	<u>(4,777)</u>
	<u>\$314,540</u>	<u>\$195,775</u>

Aggregate maturities of long-term debt for 2013 through 2018 are as follows:

<u>Year ending</u> <u>December 31,</u>	<u>Note</u> <u>Payable</u>	<u>Obligation</u> <u>Payable</u>	<u>Total</u>
2013	\$ 3,396	\$121,936	\$125,332
2014	6,054	121,936	127,990
2015	6,361	-	6,361
2016	6,683	-	6,683
2017	7,021	-	7,021
2018	166,485	-	166,485
	<u>\$196,000</u>	<u>\$243,872</u>	<u>\$439,872</u>

**Episcopal Diocese of Western Michigan  
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**NOTE H – Long Term Debt (Continued)**

In 2012, a closure agreement was executed between a minister within the Diocese and the Church he was serving. The terms required the Church to make a lump sum payment of \$335,324 to the Diocese, which the Diocese received in 2012. The Diocese is required to make monthly payments which commenced in 2012 to the minister. 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.

**NOTE I – 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, 2012 and 2011 was \$44,292 and \$45,480, respectively.

**NOTE J – Commitments**

The Diocese conducts its operations in facilities leased under an agreement expiring February 28, 2014. The lease requires current monthly rentals of \$2,829, and the payment of all occupancy costs by the lessee. Rent expense and surcharges for the years ended December 31, 2012 and 2011 was approximately \$33,959, and \$33,618, respectively.

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

Commensurate with the Bishop announcing his intention to retire, the Diocese began budgeting and setting aside excess reserve funds in 2010 for the search for the new Bishop. As of the date of this report, the Diocese had designated \$201,985 for the Episcopal transition. The election and consecration of the Bishop was completed in September 2013.

Management has evaluated subsequent events through October 16, 2013, the date on which the financial statements were available to be issued.