

EPISCOPAL DIOCESE OF WESTERN MICHIGAN
FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT
For the Years Ended December 31, 2013 and 2012

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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, 2013 and 2012, and the related statements of financial position, activities, cash flows and functional expenses 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 auditors' 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Episcopal Diocese of Western Michigan as of December 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Seber Tans, PLC
Kalamazoo, Michigan

January 15, 2015

**Episcopal Diocese of Western Michigan
Statements of Financial Position
December 31, 2013 and 2012**

	2013		
	Unrestricted	Temporarily Restricted	Total
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 201,083	\$ 243,580	\$ 444,663
Investments	3,077,745	216,746	3,294,491
Pledges receivable	24,319	-	24,319
Other receivables	5,328	-	5,328
Prepaid expenses	6,260	-	6,260
Total Current Assets	3,314,735	460,326	3,775,061
Noncurrent Assets			
Assets held for parish development	345,000	-	345,000
Net Property and Equipment	62,711	-	62,711
Total Assets	\$ 3,722,446	\$ 460,326	\$ 4,182,772
LIABILITIES AND NET ASSETS			
Current Liabilities			
Accounts payable	\$ 32,174	\$ -	\$ 32,174
Deferred revenue	1,015	-	1,015
Current maturities of long-term obligations	6,478	121,936	128,414
Total Current Liabilities	39,667	121,936	161,603
Deposits held for others	108,324	-	108,324
Long-term obligations, net of current maturities	185,588	-	185,588
Total Liabilities	333,579	121,936	455,515
Net Assets			
Unrestricted			
Designated for religious and social welfare programs	445,399	-	445,399
Designated for youth and young adult ministries	-	-	-
Designated for parish development	411,943	-	411,943
Undesignated	2,531,525	-	2,531,525
Total Unrestricted	3,388,867	-	3,388,867
Temporarily Restricted	-	338,390	338,390
Total Net Assets	3,388,867	338,390	3,727,257
Total Liabilities and Net Assets	\$ 3,722,446	\$ 460,326	\$ 4,182,772

See Accompanying Notes to Financial Statements

2012		
Unrestricted	Temporarily Restricted	Total
\$ 277,268	\$ 313,231	\$ 590,499
2,624,285	187,388	2,811,673
28,515	-	28,515
10,438	-	10,438
9,409	-	9,409
<u>2,949,915</u>	<u>500,619</u>	<u>3,450,534</u>
 345,000	 -	 345,000
 68,427	 -	 68,427
 <u>\$ 3,363,342</u>	 <u>\$ 500,619</u>	 <u>\$ 3,863,961</u>
 \$ 36,239	 -	 \$ 36,239
9,305	-	9,305
3,396	121,936	125,332
<u>48,940</u>	<u>121,936</u>	<u>170,876</u>
 81,151	 -	 81,151
 192,604	 121,936	 314,540
<u>322,695</u>	<u>243,872</u>	<u>566,567</u>
 510,184	 -	 510,184
233,389	-	233,389
486,927	-	486,927
1,810,147	-	1,810,147
<u>3,040,647</u>	<u>-</u>	<u>3,040,647</u>
 -	 256,747	 256,747
 3,040,647	 256,747	 3,297,394
 <u>\$ 3,363,342</u>	 <u>\$ 500,619</u>	 <u>\$ 3,863,961</u>

Episcopal Diocese of Western Michigan
Statements of Activities
For the Years Ended December 31, 2013 and 2012

	2013		
	Unrestricted	Temporarily Restricted	Total
Support and Revenue			
Contributions:			
Parish pledges	\$ 868,137	\$ -	\$ 868,137
Other	17,649	38,018	55,667
Fees	25,520	40,014	65,534
Local grants	10,400	-	10,400
Other	1,854	-	1,854
Investment income	595,908	41,223	637,131
Write down of investment in parish	-	-	-
Loss on disposal of asset	-	-	-
Total Support and Revenue	<u>1,519,468</u>	<u>119,255</u>	<u>1,638,723</u>
Net Assets Released From			
Restrictions	<u>37,612</u>	<u>(37,612)</u>	<u>-</u>
Total Support, Revenue and Reclassifications	<u>1,557,080</u>	<u>81,643</u>	<u>1,638,723</u>
Expenses			
Program services			
Office of the Bishop	533,778	-	533,778
Commissions and Committees	28,302	-	28,302
Episcopal Church Pledge	154,565	-	154,565
Congregational Development	4,297	-	4,297
Children, Youth and Young Adult Ministries	161,597	-	161,597
Social Justice Ministries	80,101	-	80,101
Supporting services			
Management and general	246,220	-	246,220
Total Expenses	<u>1,208,860</u>	<u>-</u>	<u>1,208,860</u>
Increase in Net Assets	348,220	81,643	429,863
Net assets at beginning of year	<u>3,040,647</u>	<u>256,747</u>	<u>3,297,394</u>
Net Assets at End of Year	<u>\$ 3,388,867</u>	<u>\$ 338,390</u>	<u>\$ 3,727,257</u>

See Accompanying Notes to Financial Statements

2012		
Unrestricted	Temporarily Restricted	Total
\$ 909,980	\$ -	\$ 909,980
1,715	68,975	70,690
39,490	39,506	78,996
8,800	-	8,800
16,096	-	16,096
230,275	17,004	247,279
(115,000)	-	(115,000)
(797)	-	(797)
<u>1,090,559</u>	<u>125,485</u>	<u>1,216,044</u>
104,930	(104,930)	-
<u>1,195,489</u>	<u>20,555</u>	<u>1,216,044</u>
415,680	-	415,680
22,613	-	22,613
141,498	-	141,498
891	-	891
165,428	-	165,428
78,531	-	78,531
282,710	-	282,710
<u>1,107,351</u>	<u>-</u>	<u>1,107,351</u>
88,138	20,555	108,693
<u>2,952,509</u>	<u>236,192</u>	<u>3,188,701</u>
<u>\$ 3,040,647</u>	<u>\$ 256,747</u>	<u>\$ 3,297,394</u>

Episcopal Diocese of Western Michigan
Statements of Cash Flows
For the Years Ended December 31, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 429,863	\$ 108,693
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation	8,157	8,098
Loss on asset disposal	-	797
Write down of investment in parish	-	115,000
In-kind contributions of debt payments	(3,934)	(4,552)
Realized and unrealized gain on investments	(603,684)	(210,899)
Changes in:		
Receivables	9,306	(3,936)
Prepaid expenses	3,149	(2,175)
Accounts payable and accrued expenses	(4,065)	6,595
Deferred revenue	(8,290)	6,516
Net Cash (Used in) Provided By Operating Activities	<u>(169,498)</u>	<u>24,137</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	611,203	606,145
Purchase of investments	(490,337)	(594,847)
Purchase of property and equipment	(2,441)	(4,393)
Net Cash Provided by Investing Activities	<u>118,425</u>	<u>6,905</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment on long-term obligations	(121,936)	-
Increase in deposits and long term obligations held for others	27,173	260,801
Net Cash (Used in) Provided by Financing Activities	<u>(94,763)</u>	<u>260,801</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(145,836)	291,843
Cash and cash equivalents at beginning of year	<u>590,499</u>	<u>298,656</u>
Cash and Cash Equivalents at End of Year	<u>\$ 444,663</u>	<u>\$ 590,499</u>

See Accompanying Notes to Financial Statements

**Episcopal Diocese of Western Michigan
Statement of Functional Expenses
For the Year Ended December 31, 2013**

	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	\$ 237,102	\$ -	\$ -	\$ -	\$ 49,798	\$ -	\$ 75,913	\$ 362,813
Health insurance	16,448	-	-	-	9,690	-	7,588	33,726
Pension	38,058	-	-	-	4,392	-	5,585	48,035
Payroll taxes and workers compensation	-	-	-	-	3,641	-	9,605	13,246
	<u>291,608</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>67,521</u>	<u>-</u>	<u>98,691</u>	<u>457,820</u>
Communications	-	-	-	-	-	-	25,108	25,108
Contracted services	-	-	-	-	-	10,501	2,577	13,078
Donations and grants	37,055	-	154,565	1,400	-	69,518	-	262,538
Dues and fees	-	-	-	-	-	-	1,550	1,550
Property insurance	-	-	-	-	-	-	5,182	5,182
Office supplies	-	-	-	-	-	-	7,992	7,992
Postage and shipping	-	-	-	-	-	-	1,478	1,478
Professional fees	9,228	-	-	-	-	-	29,240	38,468
Rent	-	-	-	-	840	-	34,720	35,560
Repairs and maintenance, building	-	-	-	-	-	-	4,246	4,246
Repairs and maintenance, Resurrection Garden	-	-	-	-	-	-	1,381	1,381
Search/transiting	152,736	-	-	-	-	-	-	152,736
Supplies	-	-	-	-	-	-	4,531	4,531
Training, committees and conferences	7,528	27,611	-	2,000	6,173	-	14,493	57,805
Telephone	-	-	-	-	-	-	6,894	6,894
Travel	27,425	-	-	-	287	-	1,864	29,576
Youth and young adult ministries	-	-	-	-	85,552	-	-	85,552
Depreciation	3,181	326	-	897	1,224	82	2,447	8,157
Other	5,017	365	-	-	-	-	3,826	9,208
Total	<u>\$ 533,778</u>	<u>\$ 28,302</u>	<u>\$ 154,565</u>	<u>\$ 4,297</u>	<u>\$ 161,597</u>	<u>\$ 80,101</u>	<u>\$ 246,220</u>	<u>\$ 1,208,860</u>

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
Bad debts	-	-	-	-	-	-	11,000	11,000
Other	4,098	(210)	-	-	6	-	3,422	7,316
Total	<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
Notes to Financial Statements
For the Years Ended December 31, 2013 and 2012**

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, 2013 and 2012.

Episcopal Diocese of Western Michigan
Notes to Financial Statements
For the Years Ended December 31, 2013 and 2012

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, 2013 and 2012

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, 2013 and 2012**

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, 2013 and 2012, uninsured carrying amount and bank balance were approximately \$38,876 and \$37,520, 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:

	2013	2012
Deacon Outreach Project	\$ 500	\$ 500
Bishop's Discretionary Fund	6,313	26,264
Deacon's Discretionary Fund	2,962	2,655
Dominican Republic Building Fund	111,938	46,213
Max Phares Memorial	1,816	1,816
Domestic Mission Fund	6,299	6,299
Jarvis Fund	1,295	5,414
Waddell Fund-Seminarian Support	175,044	149,011
Helen James Fund	3,861	3,861
Parish Church Residual	14,714	14,714
ECW - Mary Powers Fund	13,648	-
	<u>\$ 338,390</u>	<u>\$ 256,747</u>

Episcopal Diocese of Western Michigan
Notes to Financial Statements
For the Years Ended December 31, 2013 and 2012

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, 2013 and 2012 are summarized as follows:

	2013		
	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Investment type:			
Money market funds	\$ 128,688	\$ 128,688	\$ -
Certificate of deposit	452,301	456,342	4,041
Corporate bonds and notes	306,199	304,695	(1,504)
Equities	1,334,530	2,404,766	1,070,236
	<u>\$ 2,221,718</u>	<u>\$ 3,294,491</u>	<u>\$ 1,072,773</u>

	2012		
	Cost	Fair Value	Unrealized Appreciation
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>

The following schedule summarizes the investment return and its classification in the statements of activities for the years ended December 31, 2013 and 2012:

	2013		
	Unrestricted	Temporarily Restricted	Total
Interest and dividends	\$ 33,104	\$ 343	\$ 33,447
Realized gain and unrealized appreciation	562,804	40,880	603,684
	<u>\$ 595,908</u>	<u>\$ 41,223</u>	<u>\$ 637,131</u>

Episcopal Diocese of Western Michigan
Notes to Financial Statements
For the Years Ended December 31, 2013 and 2012

NOTE D – Investments (Continued)

	2012		
	Unrestricted	Temporarily Restricted	Total
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>

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
For the Years Ended December 31, 2013 and 2012**

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, 2013:

	Total	Quoted Prices in Active Markets (Level 1)	Prices with Other Observable Inputs (Level 2)	Prices with Unobserv- able Inputs (Level 3)
	<u>Total</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Cash and cash equivalents	\$ 444,663	\$ 444,663	\$ -	\$ -
Investments (marketable securities):				
Certificates of deposits	456,342	456,342	-	-
Money market accounts	128,688	-	128,688	-
Equities	2,404,766	2,404,766	-	-
Corporate bonds	304,695	-	304,695	-
Total Investments	<u>3,294,491</u>	<u>2,861,108</u>	<u>433,383</u>	<u>-</u>
Totals	<u>\$ 3,739,154</u>	<u>\$ 3,305,771</u>	<u>\$ 433,383</u>	<u>\$ -</u>

**Episcopal Diocese of Western Michigan
Notes to Financial Statements
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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, 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>

NOTE F – Property and Equipment

Property and equipment as of December 31, 2013 and 2012 consists of the following:

	<u>2013</u>	<u>2012</u>
Building	\$ 63,000	\$ 63,000
Office equipment	51,074	52,632
Vehicles	58,685	58,685
	<u>172,759</u>	<u>174,317</u>
Less accumulated depreciation	<u>(117,048)</u>	<u>(112,890)</u>
	55,711	61,427
Land	7,000	7,000
	<u>\$ 62,711</u>	<u>\$ 68,427</u>

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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. For several years the property was recorded at cost as opposed to fair market value required by generally accepted accounting principles, as it was believed that the value of the property had depreciated below costs prior to 2012. In 2013, the Diocese obtained an appraisal that 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 funding the payments on the associated bank note. The Parish's payments are recorded as contribution income in the Diocese financial statements.

NOTE H – Long Term Debt

Long-term debt at December 31, 2013 and 2012 consists of the following:

	<u>2013</u>	<u>2012</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, maturing May 2018. Secured by real property in Belmont, Michigan.	\$192,066	\$196,000
Long term closure agreement obligation with a minister payable in monthly payments of \$10,161; non-interest bearing; final payment due December 2014.	121,936	243,872
	<u>314,002</u>	<u>439,872</u>
Less current maturities	<u>(128,414)</u>	<u>(125,332)</u>
	<u>\$185,588</u>	<u>\$314,540</u>

Aggregate maturities of long-term debt for 2014 through 2018 are as follows:

<u>Year ending December 31,</u>	<u>Note Payable</u>	<u>Obligation Payable</u>	<u>Total</u>
2014	\$ 6,478	\$121,936	\$128,414
2015	6,288	-	6,288
2016	6,586	-	6,586
2017	6,950	-	6,950
2018	165,764	-	165,764
	<u>\$192,066</u>	<u>\$121,936</u>	<u>\$314,002</u>

Episcopal Diocese of Western Michigan
Notes to Financial Statements
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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 Parish 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 Parish. The term of the pay-off arrangement is through December 2014.

NOTE I – Post-Retirement Benefits

The Diocese is a participant in a defined benefit pension plan administered by the Church Pension Fund (an independent organization) that provides pension benefits to all ordained clergy of the Episcopal Church. The current assessment rate is 18% of total annual compensation, including stipend, housing, utilities and self-employment tax allowance. The Diocese total pension expense for this plan for the years ended December 31, 2013 and 2012 was \$38,100 and \$34,180, respectively.

The Diocese also is a participant in the Episcopal Church Lay Employees' Defined Contribution Retirement Plan available to lay employees who meet the age and years of service requirements. The Diocese total pension expense for the years ended December 31, 2013 and 2012 was \$4,392 and \$4,318. The Diocese also is a participant in the Episcopal Church Lay Employees' Defined Benefit Retirement Plan available to lay employees and is based on salary and years of service requirements. The Diocese total pension expense for the years ended December 31, 2013 and 2012 was \$5,534 and \$5,795.

Diocese contributions are less than 5% of total employer contributions for each plan. Additional information for the Episcopal Church retirement's plans is available from Episcopal Church.

NOTE J – Commitments

The Diocese conducts its operations in facilities leased under an agreement that extends through February 2019. The lease requires current monthly rentals of \$2,829, increasing by 2.5% annually, and the payment of all occupancy costs by the lessee. Rent expense and surcharges for the years ended December 31, 2013 and 2012 was approximately \$34,720, and \$33,959, respectively. The Diocese has a one-time termination option on February 29, 2016, exercisable with 180 days notice to the lessor. Annual future lease payments as of December 31, 2013, are as follows:

2014	\$	34,650
2015		35,516
2016		36,403
2017		37,314
2018		38,246
Thereafter		<u>6,400</u>
	<u>\$</u>	<u>188,529</u>

**Episcopal Diocese of Western Michigan
Notes to Financial Statements
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NOTE K—Subsequent Events

Management has evaluated subsequent events through January 15, 2015, the date on which the financial statements were available to be issued.