

Association of the Diocese
of Western Michigan

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

December 31, 2005

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BRICKLEY DELONG
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

October 17, 2006

Executive Council
Association of the Diocese of Western Michigan
Portage, Michigan

We have audited the accompanying consolidated statement of financial position of the Association of the Diocese of Western Michigan (a Michigan nonprofit corporation) and affiliate as of December 31, 2005 and the related consolidated statement of activities, functional expenses, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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 audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Association of the Diocese of Western Michigan and affiliate as of December 31, 2005 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note B to the financial statements, net assets as of December 31, 2004 were restated for a change in accounting principle and to correct errors.

Brickley DeLong, PLLC

Association of the Diocese of Western Michigan
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2005

ASSETS

	Unrestricted	Temporarily restricted	Total
CURRENT ASSETS			
Cash	\$ 92,612	\$ 15,387	\$ 107,999
Investments	954,087	223,755	1,177,842
Receivables			
Pledges	36,701	-	36,701
Loans	4,927	-	4,927
Other	14,861	-	14,861
Prepaid insurance	8,319	-	8,319
Total current assets	1,111,507	239,142	1,350,649
PROPERTY AND EQUIPMENT, net	485,126	-	485,126
ASSET HELD FOR PARISH DEVELOPMENT	675,029	-	675,029
	\$ 2,271,662	\$ 239,142	\$ 2,510,804

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES			
Accounts payable	\$ 23,945	\$ -	\$ 23,945
Notes payable	443,682	-	443,682
Deferred revenue	1,700	-	1,700
Total current liabilities	469,327	-	469,327
DEPOSITS HELD FOR OTHERS	372,687	-	372,687
POSTRETIREMENT BENEFIT	511,444	-	511,444
Total liabilities	1,353,458	-	1,353,458
Net assets			
Unrestricted			
Designated for religious and social welfare programs	327,732	-	327,732
Designated for parish development	235,029	-	235,029
Unrestricted	355,443	-	355,443
Temporarily restricted	-	239,142	239,142
	918,204	239,142	1,157,346
	\$ 2,271,662	\$ 239,142	\$ 2,510,804

The accompanying notes are an integral part of this statement.

Association of the Diocese of Western Michigan
CONSOLIDATED STATEMENT OF ACTIVITIES
Year ended December 31, 2005

	Unrestricted	Temporarily restricted	Total
Revenues and support			
Local grants	\$ 47,500	\$ -	\$ 47,500
Contributions			
Parish pledges	776,111	-	776,111
Other	156,170	19,635	175,805
Discernment	17,338	-	17,338
Fees	46,764	-	46,764
Rents	21,266	-	21,266
Deacon project	40,592	-	40,592
Investment income	26,404	6,255	32,659
Other	2,266	-	2,266
	1,134,411	25,890	1,160,301
Net assets released from restrictions			
Satisfaction of time restrictions	22,279	(22,279)	-
	1,156,690	3,611	1,160,301
Expenses			
Program services			
Office of the Bishop	290,431	-	290,431
Commissions and Committees	76,108	-	76,108
National Church Pledge	39,000	-	39,000
Congregational Development	139,180	-	139,180
Children Youth and Young Adult Ministries	103,286	-	103,286
Communications and Technology	57,423	-	57,423
Support services			
Cathedral Operations	162,204	-	162,204
Management and General	257,305	-	257,305
Uncollectible pledges	38,210	-	38,210
	1,163,147	-	1,163,147
Change in net assets	(6,457)	3,611	(2,846)
Net assets at beginning of year, as restated	924,661	235,531	1,160,192
Net assets at end of year	\$ 918,204	\$ 239,142	\$ 1,157,346

The accompanying notes are an integral part of this statement.

Association of the Diocese of Western Michigan
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year ended December, 31 2005

	Program Services					Support Services		Total	
	Office of the Bishop	Commissions and Committees	National Church Pledge	Congregational Development	Children Youth and Young Adult Ministries	Communications and Technology	Cathedral Operations		Management and general
Compensation and related expenses									
Compensation	\$ 172,577	\$ -	\$ -	\$ 70,750	\$ 40,300	\$ 35,733	\$ 37,335	\$ 80,735	\$ 437,430
Health insurance	25,890	-	-	7,745	5,563	2,472	21,657	14,322	77,649
Pension	31,064	-	-	12,735	3,627	3,240	2,557	7,772	60,995
Payroll taxes	-	-	-	-	3,083	2,504	4,344	8,137	18,068
	<u>229,531</u>	<u>-</u>	<u>-</u>	<u>91,230</u>	<u>52,573</u>	<u>43,949</u>	<u>65,893</u>	<u>110,966</u>	<u>594,142</u>
Contracted services									
Habitat for Humanity	-	40,562	-	-	-	-	-	-	40,562
Other	-	1,156	-	-	-	11,669	-	-	12,825
Donations	22,378	-	39,000	-	-	-	-	-	61,378
Dues and fees	-	-	-	-	-	-	-	1,540	1,540
Interest	-	-	-	10,079	-	-	-	-	10,079
Insurance, property and umbrella	2,685	704	-	1,287	955	531	5,341	3,174	14,677
Office supplies	-	-	-	-	-	-	-	11,461	11,461
Postage and shipping	-	-	-	-	-	-	-	6,871	6,871
Postretirement	-	-	-	-	-	-	-	51,271	51,271
Professional fees	8,653	-	-	1,511	-	-	-	20,849	31,013
Repairs and maintenance, building	-	-	-	-	-	-	5,040	-	5,040
Supplies	-	-	-	-	-	-	4,705	7,193	11,898
Training, committees and conferences	1,042	31,998	-	26,983	431	-	-	16,280	76,734
Telephone	-	-	-	-	-	-	-	6,349	6,349
Travel expense	18,926	-	-	5,003	-	-	-	1,069	24,998
Utilities	-	-	-	-	-	-	27,853	-	27,853
Youth and young adult ministries	-	-	-	-	47,036	-	-	-	47,036
Depreciation	6,438	1,688	-	3,087	2,291	1,274	45,351	7,605	67,734
Other	778	-	-	-	-	-	8,021	10,436	19,235
Loss on disposition of asset	-	-	-	-	-	-	-	2,241	2,241
	<u>\$ 290,431</u>	<u>\$ 76,108</u>	<u>\$ 39,000</u>	<u>\$ 139,180</u>	<u>\$ 103,286</u>	<u>\$ 57,423</u>	<u>\$ 162,204</u>	<u>\$ 257,305</u>	<u>\$ 1,124,937</u>

The accompanying notes are an integral part of this statement.

Association of the Diocese of Western Michigan
CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended December 31, 2005

	Unrestricted	Temporarily restricted	Total
Cash flows from operating activities			
Change in net assets	\$ (6,457)	\$ 3,611	\$ (2,846)
Adjustments to reconcile change in net assets to net cash provided by operating activities			
Depreciation	67,734	-	67,734
Loss on disposition of equipment	2,241	-	2,241
Realized and unrealized gain on investments	(17,030)	(6,223)	(23,253)
	46,488	(2,612)	43,876
(Increase) decrease in operating assets			
Receivables	53,600	-	53,600
Prepaid insurance	12,565	-	12,565
Increase (decrease) in operating liabilities			
Accounts payable	(51,170)	-	(51,170)
Deferred revenue	(1,717)	-	(1,717)
Postretirement benefits	20,146	-	20,146
	79,912	(2,612)	77,300
Net cash provided by operating activities			
Cash flows from investing activities			
Purchase of asset held for parish development	(460,000)	-	(460,000)
Purchase of investments	(45,000)	-	(45,000)
Sale of investments	57,281	3,100	60,381
	(447,719)	3,100	(444,619)
Net cash provided by (used for) investing activities			
Cash flows from financing activities			
Proceeds from long term debt	440,000	-	440,000
Principal payments on long-term debt	(5,523)	-	(5,523)
	434,477	-	434,477
Net cash provided by financing activities			
INCREASE (DECREASE) IN CASH	66,670	488	67,158
Cash at beginning of year	25,942	14,899	40,841
Cash at end of year	\$ 92,612	\$ 15,387	\$ 107,999

The accompanying notes are an integral part of this statement.

Association of the Diocese of Western Michigan
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

Principles of Consolidation

The consolidated financial statements include the accounts of the Association of the Diocese of Western Michigan and its affiliate, The Cathedral Corporation of the Diocese of Western Michigan. All significant inter-entity transactions and balances have been eliminated in the consolidation.

Basis of Presentation

Financial statements presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117 *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Diocese is required to report information regarding its financial position and activities according to three classes of assets: unrestricted, temporarily restricted, and permanently restricted net assets.

Unrestricted net assets. Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets. Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Diocese and/or the passage of time.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

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 for expenditures to be incurred in the succeeding year is reported as deferred revenue and is not recognized as revenue until the year earned.

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.

Association of the Diocese of Western Michigan
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED
December 31, 2005

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Public Support and Revenue—Continued

Contributions of donated noncash assets are recorded at their fair value in the period received. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair value in the period received.

Cash

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 also does not include cash held by investment managers and designated for investment.

Investments

The Diocese maintains investments, which it pools with monies from local parishes, and invests with a third party investment manager. The transactions with the parishes and the related transactions with the investment manager have been netted on the Statement of Cash Flows to better show the activities of the Episcopal Dioceses of Western Michigan.

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at market value in the statement of financial position.

Market values for investments are based on quoted market prices.

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

Property and Equipment

Property and equipment are recorded at cost or estimated fair market value on the date donated. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives utilizing straight-line methods.

Volunteers

A number of volunteers, including the members of the Executive Council, have made significant contributions of time to the Diocese's policy-making, program, and support functions. The value of this contributed time does not meet the criteria for recognition of contributed services contained in SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, 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 Consolidated Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on management's analysis and estimates.

Tax Status

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

Association of the Diocese of Western Michigan
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED
December 31, 2005

NOTE B—PRIOR PERIOD ADJUSTMENTS

The net assets as of December 31, 2004 were restated due to the correction of three errors. The first required the reporting of the post-retirement health care benefit obligation, which had not been recognized as required by FASB SFAS No. 132. The second was the Diocese's accounts payable as of December 31, 2004 were overstated by \$154,403. The third was that the Diocese failed to report the 2003 receipt of property in Sparta, Michigan to be held for sale via a title transfer from one of its parishes (Note E) at a value approximating \$215,000.

A summary of how the effect of these corrections on the Diocese's net assets as of December 31, 2004 follows:

	Unrestricted net assets	Temporarily restricted net assets	Total
Net assets at December 31, 2004, as originally reported	\$ 1,046,527	\$ 235,531	\$ 1,282,058
Post-retirement benefit obligation	(491,298)	-	(491,298)
Overstatement of accounts payable	154,403	-	154,403
Property held for sale	215,029	-	215,029
Net assets at December 31, 2004, as restated	<u>\$ 924,661</u>	<u>\$ 235,531</u>	<u>\$ 1,160,192</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, 2005 are summarized as follows:

	Cost	Fair value	Unrealized appreciation (depreciation)
Investment type:			
Money market funds	\$ 150,472	\$ 150,472	\$ -
Certificate of deposit	110,000	109,193	(807)
Corporate bonds and notes	60,000	60,443	443
Equities	534,805	760,271	225,466
U.S. Government securities	100,000	97,463	(2,537)
	<u>\$ 955,277</u>	<u>\$ 1,177,842</u>	<u>\$ 222,565</u>

Association of the Diocese of Western Michigan
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED
December 31, 2005

NOTE C—INVESTMENTS—Continued

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended December 31, 2005:

Interest and dividends	\$	9,406
Realized gain (loss) and unrealized appreciation (depreciation)		<u>23,253</u>
Total investment return	\$	<u><u>32,659</u></u>

NOTE D—PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2005 consists of the following:

Building	\$	1,837,035
Office equipment		147,066
Vehicles		<u>29,720</u>
		2,013,821
Less accumulated depreciation		<u>(1,642,729)</u>
		371,092
Land		<u>114,034</u>
	\$	<u><u>485,126</u></u>

NOTE E—ASSET HELD FOR PARISH DEVELOPMENT AND ASSOCIATED SUBSEQUENT EVENTS

During the year ended December 31, 2003, a parish within the Diocese transferred title of a building and land in Sparta, Michigan to the Diocese. The purpose of this title transfer was to facilitate the sale of the Sparta, Michigan property and the purchase of a replacement property in Belmont, Michigan for such parish. The value assigned to this property approximated \$215,000.

In July 2005, the Diocese purchased property in Belmont, Michigan for \$460,000 with a down payment of \$20,000 donated by the local parish and a bank note payable (Note F) in the amount of \$440,000.

In May 2006, the Diocese sold the Sparta, Michigan property described in the first paragraph, and the net proceeds of approximately \$215,000 were applied to the bank note payable associated with the Belmont, Michigan property described in the preceding paragraph.

The Diocese will hold title to the Belmont, Michigan property and will make principal and interest payments on the associated bank note payable until the parish is financially able to service such obligation.

Association of the Diocese of Western Michigan
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED
 December 31, 2005

NOTE F—NOTE PAYABLE TO BANK AND ASSOCIATED SUBSEQUENT EVENTS

As of December 31, 2005, the Diocese had a note payable to bank in the amount of \$440,000, with interest payable monthly at the prime rate, due July 29, 2006. The note payable was secured by the Sparta, Michigan and Belmont, Michigan properties (Note E).

As described in Note E, net proceeds from the May 2006 sale of the Sparta, Michigan property were applied to the bank note payable, and then the Diocese refinanced the obligation with a bank note payable approximating \$225,000 with monthly payments approximating \$1,820 including interest at 7.15 percent and final payment due May 29, 2011.

NOTE G—POST-RETIREMENT BENEFITS

Pension Plan

The Diocese participates in a defined contribution pension plan sponsored by the National Episcopal Church covering substantially all religious and lay employees. Total pension expense for the year ended December 31, 2005 was \$60,995.

Health Care Benefits

The Diocese provides certain health benefits for retired clergy based on the number of years of service rendered. Diocesan clergy will become eligible for those benefits if they retire on or after age 65 and are employed in or by the Diocese at retirement. The Diocese currently has no funding policy related to these benefits and pays for them as premiums become due.

The following table sets forth the plan's funded status reconciled with the amount shown on the Statement of Financial Position as of December 31, 2005:

Accumulated post-retirement benefit obligation	
Retirees	\$ 214,706
Active participants - fully eligible	102,600
Active participants - not yet fully eligible	<u>194,138</u>
Post-retirement benefit obligation	511,444
Less fair value of plan assets	<u>-</u>
Accrued post-retirement obligation on the Statement of Financial Position	<u>\$ 511,444</u>

Association of the Diocese of Western Michigan
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED
December 31, 2005

NOTE G—POST-RETIREMENT BENEFITS—Continued

Health Care Benefits—Continued

For the year ended December 31, 2005, post-retirement expense related to the health care plan includes the following component:

Service cost	\$ 22,333
Interest cost on accumulated post-retirement benefit obligation	<u>28,938</u>
Post-retirement expenses	<u><u>\$ 51,271</u></u>

There was no increase in the per capita cost of covered health care benefits due to the benefit of the plan being a fixed fee of \$100 per a month.

The weighted-average discount rate used in determining the accumulated post-retirement benefit obligation was 6.25 percent.