

Association of the Diocese  
of Western Michigan

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**

December 31, 2007 and 2006

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# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

January 13, 2009

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

We have audited the accompanying consolidated statements of financial position of the Association of the Diocese of Western Michigan (a Michigan nonprofit corporation) and affiliate as of December 31, 2007 and 2006, and the related consolidated statements of activities, functional expenses, and cash flows for the years 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 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 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 audits provide 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, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



Association of the Diocese of Western Michigan  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
December 31, 2007 and 2006

ASSETS

	2007		
	Unrestricted	Temporarily restricted	Total
<b>CURRENT ASSETS</b>			
Cash	\$ 192,998	\$ 12,849	\$ 205,847
Investments	1,761,363	429,407	2,190,770
Receivables			
Pledges	34,141	-	34,141
Loans	1,371	-	1,371
Other	31,193	-	31,193
Prepaid expenses	10,255	-	10,255
Total current assets	2,031,321	442,256	2,473,577
 PROPERTY AND EQUIPMENT, net of accumulated depreciation	 46,281	 -	 46,281
 ASSETS HELD FOR SALE	 37,918	 -	 37,918
 ASSETS HELD FOR PARISH DEVELOPMENT	 742,000	 -	 742,000
	\$ 2,857,520	\$ 442,256	\$ 3,299,776

LIABILITIES AND NET ASSETS

<b>CURRENT LIABILITIES</b>			
Current maturities of long term debt	\$ 6,362	\$ -	\$ 6,362
Accounts payable	29,417	-	29,417
Deferred revenue	3,279	-	3,279
Total current liabilities	39,058	-	39,058
 DEPOSITS HELD FOR OTHERS	 221,699	 -	 221,699
 POSTRETIREMENT BENEFITS	 422,750	 -	 422,750
 LONG TERM DEBT, less current maturities	 209,497	 -	 209,497
Total liabilities	893,004	-	893,004
 <b>NET ASSETS</b>			
Unrestricted			
Designated for religious and social welfare programs	96,190	-	96,190
Designated for parish development	775,781	-	775,781
Unrestricted	1,092,545	-	1,092,545
Temporarily restricted	-	442,256	442,256
	1,964,516	442,256	2,406,772
	\$ 2,857,520	\$ 442,256	\$ 3,299,776

The accompanying notes are an integral part of these statements.

2006		
<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
\$ 166,655	\$ 19,815	\$ 186,470
551,384	442,599	993,983
33,668	-	33,668
3,284	-	3,284
38,583	-	38,583
11,380	-	11,380
<u>804,954</u>	<u>462,414</u>	<u>1,267,368</u>
408,864	-	408,864
-	-	-
<u>786,935</u>	<u>-</u>	<u>786,935</u>
<u>\$ 2,000,753</u>	<u>\$ 462,414</u>	<u>\$ 2,463,167</u>
\$ 55,462	\$ -	\$ 55,462
37,880	-	37,880
4,930	-	4,930
<u>98,272</u>	<u>-</u>	<u>98,272</u>
234,663	-	234,663
532,468	-	532,468
215,860	-	215,860
<u>1,081,263</u>	<u>-</u>	<u>1,081,263</u>
160,017	-	160,017
515,613	-	515,613
243,860	-	243,860
-	462,414	462,414
<u>919,490</u>	<u>462,414</u>	<u>1,381,904</u>
<u>\$ 2,000,753</u>	<u>\$ 462,414</u>	<u>\$ 2,463,167</u>

Association of the Diocese of Western Michigan  
**CONSOLIDATED STATEMENT OF ACTIVITIES**

Years ended December 31, 2007 and 2006

	2007		
	Unrestricted	Temporarily restricted	Total
Revenues and support			
Local grants	\$ 10,000	\$ -	\$ 10,000
Contributions			
Parish pledges	759,338	-	759,338
Other	14,426	33,855	48,281
Discernment	6,387		6,387
Fees	59,228	-	59,228
Rents	4,863	-	4,863
Investment income	64,764	18,437	83,201
Other	3,882	-	3,882
Donated building	282,000	-	282,000
Gain on sale of asset	814,319	-	814,319
	2,019,207	52,292	2,071,499
Net assets released from restrictions			
Satisfaction of performance restrictions	72,450	(72,450)	-
	2,091,657	(20,158)	2,071,499
Expenses			
Program services			
Office of the Bishop	342,084	-	342,084
Commissions and Committees	41,830	-	41,830
National Church Pledge	84,247	-	84,247
Congregational Development	264,710	-	264,710
Children Youth and Young Adult Ministries	106,362	-	106,362
Communications and Technology	8,276	-	8,276
Supporting services			
Cathedral Operations	93,070	-	93,070
Management and general	227,622	-	227,622
Uncollectible pledges	7,783	-	7,783
	1,175,984	-	1,175,984
Changes in net assets before change in accounting principle	915,673	(20,158)	895,515
Effect of adoption of recognition provisions of SFAS No. 158	129,353	-	129,353
	1,045,026	(20,158)	1,024,868
Net assets at beginning of year	919,490	462,414	1,381,904
Net assets at end of year	\$ 1,964,516	\$ 442,256	\$ 2,406,772

The accompanying notes are an integral part of these statements.

2006		
Unrestricted	Temporarily restricted	Total
\$ 15,000	\$ -	\$ 15,000
852,795	-	852,795
56,737	39,439	96,176
3,237	-	3,237
47,367	-	47,367
26,336	-	26,336
33,073	36,851	69,924
5,170	-	5,170
277,291	-	277,291
3,152	-	3,152
<u>1,320,158</u>	<u>76,290</u>	<u>1,396,448</u>
68,902	(68,902)	-
1,389,060	7,388	1,396,448
285,929	-	285,929
30,917	-	30,917
81,430	-	81,430
160,908	-	160,908
105,731	-	105,731
61,313	-	61,313
169,845	-	169,845
266,558	-	266,558
9,259	-	9,259
<u>1,171,890</u>	<u>-</u>	<u>1,171,890</u>
217,170	7,388	224,558
-	-	-
217,170	7,388	224,558
<u>702,320</u>	<u>455,026</u>	<u>1,157,346</u>
<u>\$ 919,490</u>	<u>\$ 462,414</u>	<u>\$ 1,381,904</u>

Association of the Diocese of Western Michigan  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
Year ended December, 31 2007

	Program Services								Total
	Office of the Bishop	Commissions and Committees	National Church Pledge	Congregational Development	Children Youth and Young Adult Ministries	Communications and Technology	Supporting Services		
							Cathedral Operations	Management and general	
Compensation and related expenses									
Compensation	\$ 198,968	\$ -	\$ -	\$ -	\$ 41,126	\$ 4,550	\$ 12,513	\$ 62,622	\$ 319,779
Health insurance	39,336	-	-	-	6,605	180	2,196	252	48,569
Pension	35,814	-	-	-	3,664	-	-	4,211	43,689
Payroll taxes/workers compensation	-	-	-	-	3,070	348	1,271	6,200	10,889
	<u>274,118</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>54,465</u>	<u>5,078</u>	<u>15,980</u>	<u>73,285</u>	<u>422,926</u>
Contracted services	2,443	2,152	-	-	-	3,098	12,741	-	20,434
Donations	28,047	-	84,247	253,788	-	-	-	-	366,082
Dues and fees	-	-	-	-	-	-	-	830	830
Insurance	386	47	-	299	119	9	7,446	271	8,577
Office supplies	-	-	-	-	-	-	-	10,964	10,964
Postage and shipping	-	-	-	-	-	-	-	3,639	3,639
Postretirement	-	-	-	-	-	-	-	48,838	48,838
Professional fees	9,279	-	-	450	-	-	-	19,895	29,624
Rent	-	-	-	-	-	-	-	30,000	30,000
Repairs and maintenance, building	-	-	-	-	-	-	6,999	2,080	9,079
Specific assistance	-	17,713	-	-	-	-	-	-	17,713
Supplies	-	1,622	-	-	54	-	1,671	4,806	8,153
Training, committees and conferences	2,118	19,538	-	6,327	2,718	-	-	21,063	51,764
Telephone	-	-	-	-	-	-	-	7,360	7,360
Travel	20,537	-	-	916	1,773	-	-	1,413	24,639
Utilities	-	-	-	-	-	-	24,683	-	24,683
Youth and young adult ministries	-	-	-	-	43,715	-	-	-	43,715
Depreciation	3,786	463	-	2,930	1,177	91	23,463	2,656	34,566
Other	1,370	295	-	-	2,341	-	87	522	4,615
	<u>\$ 342,084</u>	<u>\$ 41,830</u>	<u>\$ 84,247</u>	<u>\$ 264,710</u>	<u>\$ 106,362</u>	<u>\$ 8,276</u>	<u>\$ 93,070</u>	<u>\$ 227,622</u>	<u>\$ 1,168,201</u>

The accompanying notes are an integral part of these statements.

Association of the Diocese of Western Michigan  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
Year ended December, 31 2006

	Program Services								Total
	Office of the Bishop	Commissions and Committees	National Church Pledge	Congregational Development	Children Youth and Young Adult Ministries	Communications and Technology	Supporting Services		
						Cathedral Operations	Management and general		
Compensation and related expenses									
Compensation	\$ 174,653	\$ -	\$ -	\$ 72,100	\$ 40,300	\$ 36,892	\$ 18,470	\$ 70,702	\$ 413,117
Health insurance	31,806	-	-	8,920	6,508	1,784	8,787	8,837	66,642
Pension	31,064	-	-	12,978	3,627	6,120	740	3,536	58,065
Payroll taxes/workers compensation	-	-	-	-	3,055	2,821	1,372	6,922	14,170
	<u>237,523</u>	<u>-</u>	<u>-</u>	<u>93,998</u>	<u>53,490</u>	<u>47,617</u>	<u>29,369</u>	<u>89,997</u>	<u>551,994</u>
Contracted services	-	2,676	-	-	-	12,196	26,888	-	41,760
Donations	15,719	-	81,430	26,288	-	-	-	-	123,437
Dues and fees	-	-	-	-	-	-	-	1,300	1,300
Interest	-	-	-	22,787	-	-	-	-	22,787
Insurance	921	100	-	518	341	197	5,051	1,099	8,227
Office supplies	-	-	-	-	-	-	-	9,094	9,094
Postage and shipping	-	-	-	-	-	-	-	6,348	6,348
Postretirement	-	-	-	-	-	-	-	50,399	50,399
Professional fees	6,242	-	-	883	-	-	-	16,733	23,858
Rent	-	-	-	-	-	-	-	33,637	33,637
Repairs and maintenance, building	-	-	-	-	-	-	19,339	1,720	21,059
Supplies	-	90	-	-	34	-	9,589	8,275	17,988
Specific assistance	-	376	-	-	-	-	-	-	376
Training, committees and conferences	1,584	27,061	-	8,415	53	-	-	31,824	68,937
Telephone	-	-	-	-	-	-	-	7,975	7,975
Travel	15,758	-	-	4,825	2,534	86	-	901	24,104
Utilities	-	-	-	-	-	-	33,567	-	33,567
Youth and young adult ministries	-	-	-	-	47,002	-	-	-	47,002
Depreciation	5,675	614	-	3,194	2,099	1,217	45,351	6,768	64,918
Other	2,507	-	-	-	178	-	691	488	3,864
	<u>\$ 285,929</u>	<u>\$ 30,917</u>	<u>\$ 81,430</u>	<u>\$ 160,908</u>	<u>\$ 105,731</u>	<u>\$ 61,313</u>	<u>\$ 169,845</u>	<u>\$ 266,558</u>	<u>\$ 1,162,631</u>

The accompanying notes are an integral part of these statements.

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

Years ended December 31, 2007 and 2006

	2007		
	Unrestricted	Temporarily restricted	Total
Cash flows from operating activities			
Change in net assets	\$ 1,045,026	\$ (20,158)	\$ 1,024,868
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities			
Depreciation	34,566	-	34,566
Loss (gain) on disposition of equipment	(814,319)	-	(814,319)
In-kind contributions of debt payments	(5,961)	-	(5,961)
In-kind contributions of assets for parish development	(282,000)	-	(282,000)
Realized and unrealized gain on investments	(50,312)	(14,154)	(64,466)
	<u>(73,000)</u>	<u>(34,312)</u>	<u>(107,312)</u>
(Increase) decrease in operating assets			
Receivables	8,830	-	8,830
Prepaid expenses	1,125	-	1,125
Increase (decrease) in operating liabilities			
Accounts payable	(8,463)	-	(8,463)
Deferred revenue	(1,651)	-	(1,651)
Postretirement benefits	(109,718)	-	(109,718)
Net cash provided by (used for) operating activities	<u>(182,877)</u>	<u>(34,312)</u>	<u>(217,189)</u>
Cash flows from investing activities			
Investment purchases	(1,579,124)	(1,800)	(1,580,924)
Proceeds from sale of investments	406,493	29,146	435,639
Purchase of asset held for parish development	-	-	-
Proceeds from sale of asset held for parish development	326,935	-	326,935
Equipment purchases	(2,281)	-	(2,281)
Proceeds from sale of equipment	1,106,699	-	1,106,699
Net cash provided by (used for) investing activities	<u>258,722</u>	<u>27,346</u>	<u>286,068</u>
Cash flows from financing activities			
Proceeds from debt activities	-	-	-
Principal payments on long-term debt	(49,502)	-	(49,502)
Net cash provided by (used for) financing activities	<u>(49,502)</u>	<u>-</u>	<u>(49,502)</u>
INCREASE (DECREASE) IN CASH	26,343	(6,966)	19,377
Cash at beginning of year	<u>166,655</u>	<u>19,815</u>	<u>186,470</u>
Cash at end of year	<u>\$ 192,998</u>	<u>\$ 12,849</u>	<u>\$ 205,847</u>

The accompanying notes are an integral part of these statements.

2006		
Unrestricted	Temporarily restricted	Total
\$ 217,170	\$ 7,388	\$ 224,558
64,918	-	64,918
(3,152)	-	(3,152)
-	-	-
-	-	-
<u>(30,035)</u>	<u>(31,822)</u>	<u>(61,857)</u>
248,901	(24,434)	224,467
(19,046)	-	(19,046)
(3,061)	-	(3,061)
13,935	-	13,935
3,230	-	3,230
21,024	-	21,024
<u>264,983</u>	<u>(24,434)</u>	<u>240,549</u>
(52,020)	(9,555)	(61,575)
130,850	38,417	169,267
(326,935)	-	(326,935)
215,029	-	215,029
(1,248)	-	(1,248)
<u>15,744</u>	<u>-</u>	<u>15,744</u>
(18,580)	28,862	10,282
51,000	-	51,000
<u>(223,360)</u>	<u>-</u>	<u>(223,360)</u>
<u>(172,360)</u>	<u>-</u>	<u>(172,360)</u>
74,043	4,428	78,471
<u>92,612</u>	<u>15,387</u>	<u>107,999</u>
<u>\$ 166,655</u>	<u>\$ 19,815</u>	<u>\$ 186,470</u>

Association of the Diocese of Western Michigan  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2007 and 2006

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 statement 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 net 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.

Association of the Diocese of Western Michigan  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED**  
December 31, 2007 and 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

**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.

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 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 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.

**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 market 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 of one year. 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.

Association of the Diocese of Western Michigan  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED**  
December 31, 2007 and 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

**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.

**Reclassification**

Certain prior year accounts have been reclassified for comparative purposes to conform to the current year presentation.

NOTE B—NEW ACCOUNTING PRONOUNCEMENT

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 158, "Employers' Accounting for Defined Benefit Pension and Other Retirement Plans." This statement requires an employer to recognize the funded status of a defined benefit retirement plan, measured as the difference between plan assets at fair value and the benefit obligation, in its statement of financial position; to recognize within the change in net assets, the gains, losses and prior service costs that arise during the period but are not recognized as components of net periodic benefit cost; to measure the assets and obligations as of the date of the employer's fiscal year end; and to disclose additional information about net periodic benefit costs for the Diocese post-retirement health plan in the notes to the financial statements. The Association adopted the recognition and measurement provisions of this standard in the year ended December 31, 2007.

The incremental effect of applying the recognition provisions of SFAS No. 158 in the statement of financial position for the post retirement health plan obligation as of December 31, 2007 is as follows:

Amount recognized prior to the application of SFAS No. 158	\$ 552,103
Funded status of the plan	<u>422,750</u>
Additional amount recognized due to SFAS No. 158	\$ <u>129,353</u>

As a result of this implementation, accrued liabilities decreased \$129,353 and unrestricted net assets increased \$129,353.

As the Diocese has historically measured its plan assets and obligations as of the end of its fiscal year, there are no changes in its financial statement presentation as a result of this provision of SFAS No. 158.

Association of the Diocese of Western Michigan  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED**  
 December 31, 2007 and 2006

NOTE C—RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2007</u>	<u>2006</u>
Prison Ministry	\$ -	\$ 236
Deacon Outreach Project	500	6,440
Canon's Discretionary Fund	1,093	1,350
Bishop's Special Needs Fund	8,213	7,062
Deacon's Discretionary Fund	302	631
Clergy Days Grant	2,591	2,686
Anti-racism Library Grant	-	1,410
Education for Ministry	150	-
Campus Fund and Young Adult	159,870	159,165
Jarvis Fund	45,333	52,599
Waddell Fund-Seminarian Support	152,988	153,368
Popkey Fund-Camp	12,092	20,243
Youth Division Fund	59,124	57,224
	<u>\$ 442,256</u>	<u>\$ 462,414</u>

NOTE D—CASH

The Organization maintains its cash balances at one financial institution. The balances are insured by the Federal Deposit Insurance Corporation up to \$100,000. At December 31, 2007, the Organization's uninsured cash balances were approximately \$70,000.

Association of the Diocese of Western Michigan  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED**  
 December 31, 2007 and 2006

NOTE E—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, 2007 and 2006 are summarized as follows:

	2007			2006		
	Cost	Fair value	Unrealized appreciation (depreciation)	Cost	Fair value	Unrealized appreciation (depreciation)
Investment type:						
Money market funds \$	297,438	\$ 297,438	\$ -	\$ 39,172	\$ 39,172	\$ -
Certificate of deposit	225,000	224,923	(77)	100,000	99,408	(592)
Corporate bonds and notes	202,136	202,832	696	62,818	59,813	(3,005)
Equities	972,359	1,160,901	188,542	456,992	648,106	191,114
U.S. Government securities	295,547	304,676	9,129	150,363	147,484	(2,879)
	<u>\$ 1,992,480</u>	<u>\$ 2,190,770</u>	<u>\$ 198,290</u>	<u>\$ 809,345</u>	<u>\$ 993,983</u>	<u>\$ 184,638</u>

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended December 31, 2007 and 2006:

	2007			2006		
	Unrestricted	Temporarily restricted	Total	Unrestricted	Temporarily restricted	Total
Interest and dividends	\$ 37,340	\$ 10,097	\$ 47,437	\$ 10,224	\$ 8,604	\$ 18,828
Realized gain and unrealized appreciation	27,424	8,340	35,764	22,849	28,247	51,096
	<u>\$ 64,764</u>	<u>\$ 18,437</u>	<u>\$ 83,201</u>	<u>\$ 33,073</u>	<u>\$ 36,851</u>	<u>\$ 69,924</u>

The Organization 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.

Association of the Diocese of Western Michigan  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED**  
 December 31, 2007 and 2006

NOTE F—PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2007 and 2006 consists of the following:

	2007	2006
Building	\$ 63,000	\$ 1,837,035
Office equipment	50,424	115,969
Vehicles	29,720	29,720
	143,144	1,982,724
Less accumulated depreciation	(103,863)	(1,687,894)
	39,281	294,830
Land	7,000	114,034
	\$ 46,281	\$ 408,864

NOTE G—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 Diocese held the following churches due to parish development at December 31, 2007 and 2006:

	2007	2006
Churches located in:		
Belmont	\$ 460,000	\$ 460,000
Cascade	282,000	-
Grand Rapids	-	326,935
	\$ 742,000	\$ 786,935

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 H) in the amount of \$440,000. The Diocese will hold title to the Belmont, Michigan property and will make principal and interest payments on the associated bank note payable if the parish is financially unable to service such obligation.

In May 2006, the Diocese assumed a property located in Grand Rapids, Michigan along with a note payable attached to the property of \$51,000. In April 2007, the Diocese sold the property located in Grand Rapids, Michigan for \$350,000. The net proceeds from the sale after paying all associated costs, and the corresponding loan were \$277,168.

In October 2007, the Diocese assumed a property located in Cascade, Michigan. The appraised value of the property is \$282,000.

Association of the Diocese of Western Michigan  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED**  
December 31, 2007 and 2006

NOTE H—LONG TERM DEBT

Long-term debt at December 31, 2007 and 2006 consists of the following:

	<u>2007</u>	<u>2006</u>
7.15% Long term note payable in monthly installments of \$1,820 plus interest; final payment due May 2011. Secured by real property in Belmont, Michigan.	\$ 215,859	\$ 221,820
8.25% Long term note payable in monthly installments of \$353; final payment made in April 2007. Secured by real property in Grand Rapids, Michigan.	-	49,502
	<u>215,859</u>	<u>271,322</u>
Less current maturities	<u>(6,362)</u>	<u>(55,462)</u>
	<u>\$ 209,497</u>	<u>\$ 215,860</u>

Aggregate maturities of long-term debt for 2008 through 2011 are as follows:

<u>Year ending</u> <u>December 31,</u>	<u>Amount</u>
2008	\$ 6,362
2009	6,884
2010	7,400
2011	<u>195,213</u>
	<u>\$ 215,859</u>

NOTE I—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, 2007 and 2006 was \$43,689 and \$58,065 respectively.

**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.

Association of the Diocese of Western Michigan  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED**  
December 31, 2007 and 2006

NOTE I—POST-RETIREMENT BENEFITS—Continued

**Health Care Benefits—Continued**

The funded status of the plan as of December 31, 2007 and 2006 and the amount recognized in the financial statements are as follows:

	2007	2006
1. Change in Benefit Obligation:		
a. Benefit obligation at end of prior year	\$ 503,103	\$ 511,444
b. Service cost	20,729	20,719
c. Interest cost	28,109	29,680
d. Plan participants' contributions	-	-
e. Amendments	-	-
f. Net actuarial loss/(gain) for the prior year	(94,575)	(22,175)
g. Expected benefits paid	(34,616)	(36,565)
h. Benefit obligation at end of year	\$ 422,750	\$ 503,103
2. Change in Plan Assets:		
a. Fair value of plan assets at beginning of year	\$ -	\$ -
b. Actuarial return on plan assets	-	-
c. Employer contributions	29,203	29,375
d. Plan participants' contributions	-	-
e. Benefits paid	(29,203)	(29,375)
f. Fair value of plan assets at end of year	\$ -	\$ -
3. Net amount recognized:		
a. Funded status	\$ (422,750)	\$ (503,103)
b. Unrecognized prior service cost	-	-
c. Unrecognized transition (assets)/obligation	-	-
d. Unrecognized net actuarial loss/(gain)	(129,353)	(29,365)
e. Prepaid/(Accrued) benefit cost	\$ (552,103)	\$ (532,468)
4. Amounts Recognized in the Statement of Financial Position:		
a. Prepaid benefit cost	\$ N/A	\$ (532,468)
b. Accrued benefit liability	(422,750)	-
c. Intangible asset	N/A	-
d. Accumulated other comprehensive income	(129,353)	-
e. Prepaid/(Accrued) benefit cost	\$ (552,103)	\$ (532,468)

Association of the Diocese of Western Michigan  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED**  
 December 31, 2007 and 2006

NOTE I—POST-RETIREMENT BENEFITS—Continued

**Health Care Benefits—Continued**

	2007	2006
5. Weighted-Average Assumptions at end of year:		
a. Discount:		
(1) Net periodic expense	6.00%	6.25%
(2) End of year disclosure	6.00%	6.00%
b. Expected return on plan assets	N/A	N/A
c. Rate of compensation increase	N/A	N/A
d. Health care cost trend rate	N/A	N/A
6. Components of Periodic Benefit Cost:		
a. Service cost	\$ 20,729	\$ 20,719
b. Interest cost	28,109	29,680
c. Expected return on plan assets	-	-
d. Amortization of prior service cost	-	-
e. Amortization of transition (assets)/obligation	-	-
f. Recognition of net actuarial loss/(gain)	-	-
g. Net periodic benefit cost	\$ 48,838	\$ 50,399

7. Cash Flows:

a. Contributions:

As this plan is not pre-funded, no contributions other than those necessary to cover benefit payments are anticipated.

b. Estimated future benefit payments:

<u>Year end</u>	<u>Benefit payments</u>
2008	\$ 32,111
2009	31,915
2010	31,841
2011	32,461
2012	32,685
Years 2013-2017	177,891

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 plan terminated effective July 1, 2008 with curtailment and settlement gains totaling \$551,466.

Association of the Diocese of Western Michigan  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED**  
 December 31, 2007 and 2006

NOTE J—SUBSEQUENT EVENTS

**Sale of Carillon**

In May 2008, the Diocese sold the carillon that had been located at the Cathedral at 2500 Vincent Avenue, Portage, Michigan which was sold in June 2007. The selling price was \$140,000 and the gain from the sale, net of the carrying value, was \$102,082.

**Change in Investment Portfolio Value**

Subsequent to December 31, 2007, the Organization's investments experienced a significant reduction in fair value. The following charts provided by the Organization's investment manager summarizes the investment portfolio as of and for the year ended December 31, 2008.

	December 31, 2008	
	Market value	Percent of assets
<b>PORTFOLIO COMPOSITION</b>		
Cash and equivalents	\$ 514,868	28.1 %
Taxable fixed income	464,790	25.3
Equities	854,459	46.6
	\$ 1,834,117	100.0 %
 <b>CHANGE IN PORTFOLIO</b>		
Portfolio value on December 31, 2007	\$ 2,190,770	
Net additions/withdrawals	84,153	
Realized gains (losses)	(37,927)	
Unrealized gains (losses)	(454,638)	
Income received	47,306	
Accrued interest	4,453	
	\$ 1,834,117	