

Association of the Diocese
of Western Michigan

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

December 31, 2008 and 2007

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BRICKLEY DELONG
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

August 11, 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, 2008 and 2007 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, 2008 and 2007 and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Brickley De Long, P.C.

Association of the Diocese of Western Michigan
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
December 31, 2008 and 2007

ASSETS

	2008		
	Unrestricted	Temporarily restricted	Total
CURRENT ASSETS			
Cash	\$ 269,146	\$ 17,145	\$ 286,291
Investments	1,494,016	335,570	1,829,586
Receivables			
Pledges	14,799	-	14,799
Loans	-	-	-
Other	27,011	-	27,011
Prepaid expenses	16,482	-	16,482
Total current assets	1,821,454	352,715	2,174,169
 PROPERTY AND EQUIPMENT, net of accumulated depreciation	 319,987	 -	 319,987
 ASSETS HELD FOR SALE	 -	 -	 -
 ASSETS HELD FOR PARISH DEVELOPMENT	 460,000	 -	 460,000
	\$ 2,601,441	\$ 352,715	\$ 2,954,156

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES			
Current maturities of long term debt	\$ 3,999	\$ -	\$ 3,999
Accounts payable	38,808	-	38,808
Deferred revenue	3,632	-	3,632
Total current liabilities	46,439	-	46,439
 DEPOSITS HELD FOR OTHERS	 169,154	 -	 169,154
 POSTRETIREMENT BENEFITS	 -	 -	 -
 LONG TERM DEBT, less current maturities	 208,701	 -	 208,701
Total liabilities	424,294	-	424,294
NET ASSETS			
Unrestricted			
Designated for religious and social welfare programs	110,013	-	110,013
Designated for parish development	474,068	-	474,068
Undesignated	1,593,066	-	1,593,066
Temporarily restricted	-	352,715	352,715
	2,177,147	352,715	2,529,862
	\$ 2,601,441	\$ 352,715	\$ 2,954,156

The accompanying notes are an integral part of these statements.

2007		
<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
\$ 192,998	\$ 12,849	\$ 205,847
1,761,363	429,407	2,190,770
34,141	-	34,141
1,371	-	1,371
31,193	-	31,193
<u>10,255</u>	<u>-</u>	<u>10,255</u>
2,031,321	442,256	2,473,577
46,281	-	46,281
37,918	-	37,918
<u>742,000</u>	<u>-</u>	<u>742,000</u>
<u>\$ 2,857,520</u>	<u>\$ 442,256</u>	<u>\$ 3,299,776</u>
\$ 6,362	\$ -	\$ 6,362
29,417	-	29,417
<u>3,279</u>	<u>-</u>	<u>3,279</u>
39,058	-	39,058
221,699	-	221,699
422,750	-	422,750
<u>209,497</u>	<u>-</u>	<u>209,497</u>
893,004	-	893,004
96,190	-	96,190
775,781	-	775,781
1,092,545	-	1,092,545
-	442,256	442,256
<u>1,964,516</u>	<u>442,256</u>	<u>2,406,772</u>
<u>\$ 2,857,520</u>	<u>\$ 442,256</u>	<u>\$ 3,299,776</u>

Association of the Diocese of Western Michigan
CONSOLIDATED STATEMENT OF ACTIVITIES
Years ended December 31, 2008 and 2007

	2008		
	Unrestricted	Temporarily restricted	Total
Revenues and support			
Local grants	\$ 25,000	\$ -	\$ 25,000
Contributions			
Parish pledges	773,977	-	773,977
Other	5,748	57,976	63,724
Discernment	6,442	-	6,442
Fees	60,214	-	60,214
Rents	10,800	-	10,800
Investment income (loss)	(313,531)	(83,796)	(397,327)
Other	4,320	-	4,320
Donated building	-	-	-
Gain on sale of asset	102,082	-	102,082
Gain on curtailment of postretirement benefits	426,319	-	426,319
	<u>1,101,371</u>	<u>(25,820)</u>	<u>1,075,551</u>
Net assets released from restrictions			
Satisfaction of performance restrictions	<u>63,721</u>	<u>(63,721)</u>	<u>-</u>
Total revenues and support	1,165,092	(89,541)	1,075,551
Expenses			
Program services			
Office of the Bishop	322,099	-	322,099
Commissions and Committees	31,258	-	31,258
National Church Pledge	109,926	-	109,926
Congregational Development	96,077	-	96,077
Children Youth and Young Adult Ministries	124,455	-	124,455
Communications and Technology	-	-	-
Social Justice Ministries	18,470	-	18,470
Supporting services			
Cathedral Operations	-	-	-
Management and general	244,278	-	244,278
Uncollectible pledges	5,898	-	5,898
	<u>952,461</u>	<u>-</u>	<u>952,461</u>
Changes in net assets before change in accounting principle	212,631	(89,541)	123,090
Effect of adoption of recognition provisions of SFAS No. 158	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets	212,631	(89,541)	123,090
Net assets at beginning of year	<u>1,964,516</u>	<u>442,256</u>	<u>2,406,772</u>
Net assets at end of year	<u>\$ 2,177,147</u>	<u>\$ 352,715</u>	<u>\$ 2,529,862</u>

The accompanying notes are an integral part of these statements.

2007		
Unrestricted	Temporarily restricted	Total
\$ 10,000	\$ -	\$ 10,000
759,338	-	759,338
14,426	33,855	48,281
6,387	-	6,387
59,228	-	59,228
4,863	-	4,863
64,764	18,437	83,201
3,882	-	3,882
282,000	-	282,000
814,319	-	814,319
-	-	-
<u>2,019,207</u>	<u>52,292</u>	<u>2,071,499</u>
<u>72,450</u>	<u>(72,450)</u>	<u>-</u>
2,091,657	(20,158)	2,071,499
342,084	-	342,084
41,830	-	41,830
84,247	-	84,247
264,710	-	264,710
106,362	-	106,362
8,276	-	8,276
-	-	-
93,070	-	93,070
227,622	-	227,622
7,783	-	7,783
<u>1,175,984</u>	<u>-</u>	<u>1,175,984</u>
915,673	(20,158)	895,515
<u>129,353</u>	<u>-</u>	<u>129,353</u>
1,045,026	(20,158)	1,024,868
<u>919,490</u>	<u>462,414</u>	<u>1,381,904</u>
<u>\$ 1,964,516</u>	<u>\$ 442,256</u>	<u>\$ 2,406,772</u>

Association of the Diocese of Western Michigan
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year ended December, 31 2008

	Program Services							Total
	Office of the Bishop	Commissions and Committees	National Church Pledge	Congregational Development	Children Youth and Young Adult Ministries	Social Justice Ministries	Supporting Services Management and general	
Compensation and related expenses								
Compensation	\$ 180,211	\$ 4,000	\$ -	\$ 27,422	\$ 42,917	\$ -	\$ 64,615	\$ 319,165
Health insurance	30,097	-	-	9,546	7,141	-	5,333	52,117
Pension	32,438	-	-	4,936	3,862	-	8,035	49,271
Payroll taxes/workers compensation	724	306	-	-	3,290	-	6,135	10,455
	<u>243,470</u>	<u>4,306</u>	<u>-</u>	<u>41,904</u>	<u>57,210</u>	<u>-</u>	<u>84,118</u>	<u>431,008</u>
Advertising	-	-	-	-	-	-	5,000	5,000
Communications	-	-	-	-	-	-	534	534
Contracted services	10,884	1,665	-	-	-	-	2,550	15,099
Donations	28,160	-	109,926	42,955	-	18,363	-	199,404
Dues and fees	-	-	-	-	-	-	881	881
Office supplies	-	-	-	-	-	-	9,828	9,828
Postage and shipping	-	-	-	-	-	-	2,665	2,665
Postretirement benefits	-	-	-	-	-	-	19,625	19,625
Professional fees	6,941	-	-	364	-	-	26,378	33,683
Rent	-	-	-	-	840	-	31,236	32,076
Repairs and maintenance								
Building	-	-	-	-	-	-	9,669	9,669
Resurrection Garden	-	-	-	-	-	-	888	888
Supplies	-	546	-	-	-	-	5,320	5,866
Training, committees and conferences	11,079	23,724	-	7,080	7,720	-	27,777	77,380
Telephone	-	-	-	-	-	-	6,313	6,313
Travel	18,287	-	-	2,828	3,195	-	2,471	26,781
Utilities	-	-	-	-	-	-	2,942	2,942
Youth and young adult ministries	-	-	-	-	53,654	-	-	53,654
Depreciation	3,170	357	-	946	1,225	107	2,488	8,293
Other	108	660	-	-	611	-	3,595	4,974
	<u>\$ 322,099</u>	<u>\$ 31,258</u>	<u>\$ 109,926</u>	<u>\$ 96,077</u>	<u>\$ 124,455</u>	<u>\$ 18,470</u>	<u>\$ 244,278</u>	<u>\$ 946,563</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 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	Cathedral Operations		Supporting Services 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 benefits	-	-	-	-	-	-	-	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
Supplies	-	1,622	-	-	54	-	1,671	4,806	8,153
Specific assistance	-	17,713	-	-	-	-	-	-	17,713
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 CASH FLOWS
Years ended December 31, 2008 and 2007

	2008		
	Unrestricted	Temporarily restricted	Total
Cash flows from operating activities			
Change in net assets	\$ 212,631	\$ (89,541)	\$ 123,090
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities			
Depreciation	8,293	-	8,293
Gain on sale of asset	(102,082)	-	(102,082)
Gain on curtailment of postretirement benefits	(426,319)	-	(426,319)
In-kind contributions of debt payments	(3,159)	-	(3,159)
In-kind contributions of assets for parish development	-	-	-
Realized and unrealized (gain) loss on investments	324,962	88,072	413,034
	<u>14,326</u>	<u>(1,469)</u>	<u>12,857</u>
(Increase) decrease in operating assets			
Receivables	24,895	-	24,895
Prepaid expenses	(6,227)	-	(6,227)
Increase (decrease) in operating liabilities			
Accounts payable	9,391	-	9,391
Deferred revenue	353	-	353
Postretirement benefits	3,569	-	3,569
Net cash provided by (used for) operating activities	<u>46,307</u>	<u>(1,469)</u>	<u>44,838</u>
Cash flows from investing activities			
Investment purchases	(132,690)	(19,789)	(152,479)
Proceeds from sale of investments	22,531	25,554	48,085
Proceeds from sale of asset held for parish development	-	-	-
Equipment purchases	-	-	-
Proceeds from sale of asset	140,000	-	140,000
Net cash used for investing activities	<u>29,841</u>	<u>5,765</u>	<u>35,606</u>
Cash flows from financing activities			
Principal payments on long-term debt	-	-	-
Net cash provided by (used for) financing activities	<u>-</u>	<u>-</u>	<u>-</u>
INCREASE (DECREASE) IN CASH	76,148	4,296	80,444
Cash at beginning of year	<u>192,998</u>	<u>12,849</u>	<u>205,847</u>
Cash at end of year	<u>\$ 269,146</u>	<u>\$ 17,145</u>	<u>\$ 286,291</u>

The accompanying notes are an integral part of these statements.

2007		
<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
\$ 1,045,026	\$ (20,158)	\$ 1,024,868
34,566	-	34,566
(814,319)	-	(814,319)
-	-	-
(5,961)	-	(5,961)
(282,000)	-	(282,000)
<u>(50,312)</u>	<u>(14,154)</u>	<u>(64,466)</u>
(73,000)	(34,312)	(107,312)
8,830	-	8,830
1,125	-	1,125
(8,463)	-	(8,463)
(1,651)	-	(1,651)
<u>(109,718)</u>	<u>-</u>	<u>(109,718)</u>
(182,877)	(34,312)	(217,189)
(1,579,124)	(1,800)	(1,580,924)
406,493	29,146	435,639
326,935	-	326,935
(2,281)	-	(2,281)
<u>1,106,699</u>	<u>-</u>	<u>1,106,699</u>
258,722	27,346	286,068
<u>(49,502)</u>	<u>-</u>	<u>(49,502)</u>
<u>(49,502)</u>	<u>-</u>	<u>(49,502)</u>
26,343	(6,966)	19,377
<u>166,655</u>	<u>19,815</u>	<u>186,470</u>
<u>\$ 192,998</u>	<u>\$ 12,849</u>	<u>\$ 205,847</u>

Association of the Diocese of Western Michigan
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2008 and 2007

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, 2008 and 2007

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.

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.

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 consolidated 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 consolidated 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 consolidated 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 the straight-line method.

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, 2008 and 2007

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.

Description of Activities

Below is a summary of the program services administered by the Diocese.

Office of the Bishop

The Office of the Bishop includes the activities of the Bishop, his support staff, Transition Ministries and the Canon to the Ordinary.

Commissions and Committees

The Commission and Committee provides education and support for seminarians, postulants, and all clergy in the diocese.

National Church Pledge

The National Church Pledge provides financial support to the National Episcopal Church.

Congregational Development

Congregational Development supports the staff that provides support and growth opportunities to the congregation in the diocese. It also provides financial support for new church starts.

Children, Youth & Young Adult Ministries

Children, Youth and Young Adult Ministries provides for youth camps, other youth and young adult programs and staff to organize the activities.

Communication & Technology

Communication and Technology includes activities needed to maintain the office computers, website, and electronic newsletter.

Social Justice Ministries

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

Tax Status

The Diocese 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.

Association of the Diocese of Western Michigan
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED
 December 31, 2008 and 2007

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 Diocese 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.

NOTE C—RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	2008	2007
Deacon Outreach Project	\$ 500	\$ 500
Canon's Discretionary Fund	767	1,093
Bishop's Special Needs Fund	4,639	8,213
Deacon's Discretionary Fund	996	302
Clergy Days Grant	-	2,591
Max Phares Memorial	816	-
Education for Ministry	150	150
Mission Fund	9,277	-
Campus Fund and Young Adult	123,810	159,870
Jarvis Fund	45,632	45,333
Waddell Fund-Seminarian Support	115,622	152,988
Popkey Fund-Camp	5,737	12,092
Youth Division Fund	44,769	59,124
	\$ 352,715	\$ 442,256

Association of the Diocese of Western Michigan
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED
 December 31, 2008 and 2007

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 \$250,000. At December 31, 2008, the Organization's uninsured cash balances were approximately \$20,000.

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, 2008 and 2007 are summarized as follows:

	2008			2007		
	Cost	Fair value	Unrealized appreciation (depreciation)	Cost	Fair value	Unrealized appreciation (depreciation)
Investment type:						
Money market funds	\$ 514,788	\$ 514,788	\$ -	\$ 297,438	\$ 297,438	\$ -
Certificate of deposit	50,000	51,258	1,258	225,000	224,923	(77)
Corporate bonds and notes	202,136	197,943	(4,193)	202,136	202,832	696
Equities	1,137,855	854,459	(283,396)	972,359	1,160,901	188,542
U.S. Government securities	195,387	211,138	15,751	295,547	304,676	9,129
	<u>\$ 2,100,166</u>	<u>\$ 1,829,586</u>	<u>\$ (270,580)</u>	<u>\$ 1,992,480</u>	<u>\$ 2,190,770</u>	<u>\$ 198,290</u>

The following schedule summarizes the investment return and its classification in the statement of activities for the years ended December 31, 2008 and 2007:

	2008			2007		
	Unrestricted	Temporarily restricted	Total	Unrestricted	Temporarily restricted	Total
Interest and dividends	\$ 6,128	\$ 8,941	\$ 15,069	\$ 37,340	\$ 10,097	\$ 47,437
Realized gain and unrealized appreciation	<u>(319,659)</u>	<u>(92,737)</u>	<u>(412,396)</u>	<u>27,424</u>	<u>8,340</u>	<u>35,764</u>
	<u>\$ (313,531)</u>	<u>\$ (83,796)</u>	<u>\$ (397,327)</u>	<u>\$ 64,764</u>	<u>\$ 18,437</u>	<u>\$ 83,201</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, 2008 and 2007

NOTE F—FAIR VALUE MEASUREMENTS

Financial Accounting Standards Board Statement No. 157, *Fair Value Measurements* (FASB Statement No. 157), 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 under FASB Statement No. 157 are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the organization 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 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.

Following is a description of the valuation methodologies used for assets measured at fair value.

Money market funds: Valued at amortized cost, which approximates fair value.

Equities, corporate bonds and notes, certificates of deposit and U.S. government securities: Valued at closing price reported on the active market on which the individual securities are traded.

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.

Association of the Diocese of Western Michigan
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED
December 31, 2008 and 2007

NOTE F—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, 2008:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ -	\$ 514,788	\$ -	\$ 514,788
Certificates of deposit	51,258	-	-	51,258
Corporate bonds and notes	197,943	-	-	197,943
Equities	854,459	-	-	854,459
U.S. Government securities	211,138	-	-	211,138
Total assets at fair value	<u>\$ 1,314,798</u>	<u>\$ 514,788</u>	<u>\$ -</u>	<u>\$ 1,829,586</u>

NOTE G—PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2008 and 2007 consists of the following:

	<u>2008</u>	<u>2007</u>
Building	\$ 63,000	\$ 63,000
Cascade rental property	282,000	-
Office equipment	40,429	50,424
Vehicles	29,720	29,720
	<u>415,149</u>	<u>143,144</u>
Less accumulated depreciation	<u>(102,162)</u>	<u>(103,863)</u>
	312,987	39,281
Land	7,000	7,000
	<u>\$ 319,987</u>	<u>\$ 46,281</u>

Association of the Diocese of Western Michigan
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED
December 31, 2008 and 2007

NOTE H—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, 2008 and 2007:

	2008	2007
Churches located in:		
Belmont	\$ 460,000	\$ 460,000
Cascade	-	282,000
	\$ 460,000	\$ 742,000

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 I). The Diocese will hold title to the Belmont, Michigan property and will assist the parish in making the principal and interest payments on the associated bank note through a donation to the parish.

In October 2007, the Diocese assumed a property located in Cascade, Michigan. The appraised value of the property is \$282,000. Beginning in March of 2008, the Diocese began renting the building for \$1,200 per month. The associated property is classified as property and equipment (Note G).

NOTE I—LONG TERM DEBT

Long-term debt at December 31, 2008 and 2007 consists of the following:

	2008	2007
6.25% Note payable in monthly installments of \$1,430 including interest; final payment due May 2013. Secured by real property in Belmont, Michigan.	\$ 212,700	\$ 215,859
Less current maturities	(3,999)	(6,362)
	\$ 208,701	\$ 209,497

Aggregate maturities of long-term debt for 2009 through 2013 are as follows:

<u>Year ending</u> <u>December 31,</u>	<u>Amount</u>
2009	\$ 3,999
2010	4,256
2011	4,730
2012	4,821
2013	194,894
	\$ 212,700

Association of the Diocese of Western Michigan
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED
December 31, 2008 and 2007

NOTE J—POST-RETIREMENT BENEFITS

Pension Plan

The Diocese participates in various pension plans sponsored by the National Episcopal Church covering substantially all religious and lay employees. Total pension expense for the year ended December 31, 2008 and 2007 was \$49,271 and \$43,689 respectively.

Health Care Benefits

The Diocese provides certain health benefits for retired clergy based on the number of years of service rendered. Diocesan clergy 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 has no funding policy related to these benefits and pays for them as premiums become due. The plan terminated effective July 1, 2008, as described below.

The funded status of the plan as of December 31, 2008 and 2007 and the amount recognized in the financial statements are as follows:

	<u>2008</u>	<u>2007</u>
1. Change in Benefit Obligation:		
a. Benefit obligation at end of prior year	\$ 422,750	\$ 503,103
b. Service cost	7,906	20,729
c. Interest cost	11,719	28,109
d. Plan participants' contributions	-	-
e. Amendments	-	-
f. Net actuarial loss/(gain) for the prior year	-	(94,575)
g. Expected benefits paid	<u>(16,056)</u>	<u>(34,616)</u>
h. Benefit obligation before curtailment	426,319	422,750
i. Curtailment cost (income)	<u>(426,319)</u>	-
j. Benefit obligation at end of year	<u><u>\$ -</u></u>	<u><u>\$ 422,750</u></u>
2. Change in Plan Assets:		
a. Fair value of plan assets at beginning of year	\$ -	\$ -
b. Actuarial return on plan assets	-	-
c. Employer contributions	19,625	29,203
d. Plan participants' contributions	-	-
e. Benefits paid	<u>(19,625)</u>	<u>(29,203)</u>
f. Fair value of plan assets at end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
3. Net amount recognized:		
a. Funded status	\$ -	\$ (422,750)
b. Unrecognized prior service cost	-	-
c. Unrecognized transition (assets)/obligation	-	-
d. Unrecognized net actuarial loss/(gain)	<u>-</u>	<u>(129,353)</u>
e. Prepaid/(Accrued) benefit cost	<u><u>\$ -</u></u>	<u><u>\$ (552,103)</u></u>

Association of the Diocese of Western Michigan
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED
December 31, 2008 and 2007

NOTE J—POST-RETIREMENT BENEFITS—Continued

Health Care Benefits—Continued

	<u>2008</u>	<u>2007</u>
4. Amounts Recognized in the consolidated Statement of Financial Position:		
a. Prepaid benefit cost	\$ N/A	\$ N/A
b. Accrued benefit liability	-	(422,750)
c. Intangible asset	N/A	N/A
d. Accumulated other comprehensive income	-	(129,353)
e. Prepaid/(Accrued) benefit cost	<u>\$ -</u>	<u>\$ (552,103)</u>
5. Weighted-Average Assumptions at end of year:		
a. Discount:		
(1) Net periodic expense	6.00%	6.00%
(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	\$ 7,906	\$ 20,729
b. Interest cost	11,719	28,109
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	<u>\$ 19,625</u>	<u>\$ 48,838</u>
7. Cash Flows:		
a. As this plan is not pre-funded, no contributions other than those necessary to cover benefit payments are anticipated.		
b. As of December 31, 2008, there are no estimated future payments due to the plan termination effective July 1, 2008		

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 recognized as follows:

Association of the Diocese of Western Michigan
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED
December 31, 2008 and 2007

NOTE J—POST-RETIREMENT BENEFITS—Continued

Accounting for a Plan Curtailment

1. Recognition of Prior Service Cost:		
a. Recognition of Prior Service Cost from plan amendments	\$	-
b. Transition Obligation recognized		-
c. Total recognition of Prior Service Cost		-
2. Change in PBO due to curtailment:		
a. PBO after curtailment		-
b. Value of special termination benefits to be paid from plan assets		-
c. Adjusted PBO after curtailment, (a)-(b)		-
d. PBO before curtailment		426,319
e. Change in PBO due to curtailment, (c)-(d)		(426,319)
3. Combined unrecognized net (gain) or loss:		
a. Unrecognized net loss		(125,147)
b. Unrecognized net (asset) at transition		-
c. Combined unrecognized net (gain) or loss, (a)+(b)		(125,147)
4. Curtailment gain:		
a. Curtailment gain, (2e)		(426,319)
b. Reduction in combined unrecognized loss		-
5. Curtailment loss:		
a. Curtailment loss		-
b. Reduction in combined unrecognized gain		-
6. Amount recognized in earnings for curtailment, (1c)+(4a)+(5a)		(426,319)
7. Reconciliation of items		
a. Transition obligation (asset) recognized		-
b. Prior Service Cost recognized, (1a)		-
c. (Gain) / loss reduction, (4b)		-

Association of the Diocese of Western Michigan
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED
December 31, 2008 and 2007

NOTE J—POST-RETIREMENT BENEFITS—Continued

Accounting for a Plan Settlement

1. Unrecognized net (gain) or loss before settlement	\$	(125,147)
2. (Gain) loss from settlement:		
a. PBO before settlement		-
b. PBO after settlement		-
c. Decrease in PBO, (a)-(b)		-
d. Decrease in assets due to settlement		-
e. (Gain) loss due to settlement, (d)-(c)		-
3. Unrecognized net (gain) or loss after settlement, (1)+(2e):		(125,147)
4. Unrecognized net (asset) from transition		-
5. Maximum (gain) loss, (3)+(4)		(125,147)
6. Settlement ratio:		
a. Amount settled = (1d)		-
b. PBO adjusted for settlement, (2a)+(2e)		-
c. Portion of PBO settled, (a)÷(b)		100 %
7. Amount recognized in earnings for settlement:		
a. (Gain) loss recognized, (3)x(6c)		(125,147)
b. (Asset) recognized, (4)x(6c)		-
c. Total recognized, (a)+(b)		(125,147)
8. Reconciliation of items:		
a. Change in unrecognized (gain) loss, (2e)-(7a)		125,147
b. Remaining unrecognized (gain) loss, (1)+(8a)		-
c. Change in unrecognized (asset) from transition = (7b)		-
d. Remaining unrecognized (asset) from transition, (4)+(8c)		-

Association of the Diocese of Western Michigan
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED
December 31, 2008 and 2007

NOTE J—POST-RETIREMENT BENEFITS—Continued

Reconciliation of a plan curtailment and settlement

	<u>Before Curtailment and Settlement</u>	<u>Effect of Curtailment</u>	<u>Effect of Settlement</u>	<u>After Curtailment and Settlement</u>
Assets and obligations as of July 1, 2008				
1. Accumulated post-retirement benefit obligation	\$ (426,319)	\$ 426,319	\$ -	\$ -
2. Plan assets at fair value	-	-	-	-
3. Items not yet recognized in earnings:				
a. Unrecognized net obligation (asset) at transition	-	-	-	-
b. Unrecognized prior service cost	-	-	-	-
c. Unrecognized net gain subsequent to transition	<u>(125,147)</u>	<u>-</u>	<u>125,147</u>	<u>-</u>
4. (Accrued) / prepaid pension cost on statement of financial position, (1)+(2)+(3a)+3(b)+(3c)	<u>\$ (551,466)</u>	<u>\$ 426,319</u>	<u>\$ 125,147</u>	<u>\$ -</u>

NOTE K—COMMITMENTS

The Diocese conducts its operations in facilities leased under an agreement expiring February 28, 2014. The lease requires current monthly rentals of \$2,562, and the payment of all occupancy costs by the lessee. Rent expense and surcharges for each of the years ended December 31, 2008 and 2007 was approximately \$31,000, and \$30,000, respectively.