

**THE ADMINISTRATIVE OFFICES OF
THE DIOCESE OF WESTERN MASSACHUSETTS
OF THE PROTESTANT EPISCOPAL CHURCH
AND AFFILIATE**

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010

WITH COMPARATIVE TOTALS

FOR THE YEAR ENDED DECEMBER 31, 2009

**THE ADMINISTRATIVE OFFICES OF
THE DIOCESE OF WESTERN MASSACHUSETTS
OF THE PROTESTANT EPISCOPAL CHURCH AND AFFILIATE
CONSOLIDATED FINANCIAL STATEMENTS**

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INDEPENDENT AUDITORS' REPORT

To the Diocesan Council of
The Administrative Offices of
the Diocese of Western Massachusetts
of the Protestant Episcopal Church

We have audited the accompanying consolidated statement of financial position of the Administrative Offices of the Diocese of Western Massachusetts of the Protestant Episcopal Church and Affiliate (the "Diocese") as of December 31, 2010, and the related consolidated statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Diocese's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Diocese's 2009 financial statements and, in our report dated June 17, 2010, we expressed a qualified opinion on those financial statements for the matters discussed in the third paragraph of this report.

We conducted our audit 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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.

As more fully described in Note 2 to the financial statements, certain buildings are recorded at management's estimated value; no depreciation is recorded on these buildings. Effective January 1, 1997, the Diocese started capitalizing property and equipment additions at cost and recognizing depreciation. Property and equipment used in operations should be stated at cost and depreciation should be recorded. In addition, property and equipment to be disposed of by sale should be recorded at the lesser of its carrying amount or the fair value, less costs to sell, in order to conform with accounting principles generally accepted in the United States of America. As more fully described in Note 8 to the financial statements, certain pension and other postretirement benefit plans are updated once every five years and actuarial calculations and disclosure requirements are not available in order to conform with accounting principles generally accepted in the United States of America. The effects on the financial statements of the above practices are not reasonably determinable.

In our opinion, except for the effects of the matters discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Administrative Offices of the Diocese of Western Massachusetts of the Protestant Episcopal Church and Affiliate as of December 31, 2010, 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.

Viola, Chrabasz, Reynolds & Co. LLP

Enfield, Connecticut
June 7, 2011

**THE ADMINISTRATIVE OFFICES OF
THE DIOCESE OF WESTERN MASSACHUSETTS
OF THE PROTESTANT EPISCOPAL CHURCH AND AFFILIATE
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2010
WITH COMPARATIVE TOTALS FOR 2009**

**THE ADMINISTRATIVE OFFICES OF THE DIOCESE OF WESTERN MASSACHUSETTS
OF THE PROTESTANT EPISCOPAL CHURCH & AFFILIATE**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2010 WITH COMPARATIVE TOTALS FOR 2009

ASSETS

	Unrestricted	Temporarily Restricted	Permanently Restricted	2010 Total	2009 Total
Assets					
Cash and cash equivalents	\$ 646,405	\$ -	\$ -	\$ 646,405	\$ 575,788
Accounts receivable, net	37,581	-	-	37,581	10,021
Distribution receivable	245,272	33,608	-	278,880	304,850
Bequest and trust receivables	-	-	-	-	299,972
Prepaid expenses	7,471	-	-	7,471	5,879
Interest in net assets of the Trustees for the Diocese of Western Massachusetts	5,549,305	14,692,622	3,884,606	24,126,533	22,132,519
Cash value of life insurance	400,823	-	-	400,823	379,216
Assets, less property and equipment	6,886,857	14,726,230	3,884,606	25,497,693	23,708,245
 Property and equipment used in operations					
Buildings and improvements	5,330,145	-	-	5,330,145	4,958,230
Equipment	166,281	-	-	166,281	163,767
Furniture and fixtures	26,870	-	-	26,870	24,174
	5,523,296	-	-	5,523,296	5,146,171
Accumulated depreciation	(452,026)	-	-	(452,026)	(414,873)
Property and equipment, net	5,071,270	-	-	5,071,270	4,731,298
 Property and equipment to be disposed of by sale	2,535,000	-	-	2,535,000	3,629,000
 Total assets	\$ 14,493,127	\$ 14,726,230	\$ 3,884,606	\$ 33,103,963	\$ 32,068,543

LIABILITIES AND NET ASSETS

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2010 Total</u>	<u>2009 Total</u>
Liabilities					
Accounts payable and accrued expenses	\$ 244,866	\$ -	\$ -	\$ 244,866	\$ 217,200
Line of credit	-	-	-	-	50,000
Long term debt	291,674	-	-	291,674	53,872
Retirement benefit obligations	140,576	-	-	140,576	167,824
Other postretirement benefit obligations	<u>1,908,909</u>	-	-	<u>1,908,909</u>	<u>1,908,909</u>
Total liabilities	<u>2,586,025</u>	-	-	<u>2,586,025</u>	<u>2,397,805</u>
Net assets					
Unrestricted	6,357,797	-	-	6,357,797	7,474,010
Unrestricted - board designated	5,549,305	-	-	5,549,305	4,648,684
Temporarily restricted	-	14,726,230	-	14,726,230	13,663,438
Permanently restricted	-	-	<u>3,884,606</u>	<u>3,884,606</u>	<u>3,884,606</u>
Total net assets	<u>11,907,102</u>	<u>14,726,230</u>	<u>3,884,606</u>	<u>30,517,938</u>	<u>29,670,738</u>
Total liabilities and net assets	<u>\$ 14,493,127</u>	<u>\$ 14,726,230</u>	<u>\$ 3,884,606</u>	<u>\$ 33,103,963</u>	<u>\$ 32,068,543</u>

The accompanying notes are an integral part of these financial statements.

**THE ADMINISTRATIVE OFFICES OF THE DIOCESE OF WESTERN MASSACHUSETTS
OF THE PROTESTANT EPISCOPAL CHURCH & AFFILIATE**

CONSOLIDATED STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2010 WITH COMPARATIVE TOTALS FOR 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2010 Total</u>	<u>2009 Total</u>
Support and revenues					
Common ministry	\$ 1,160,769	\$ -	\$ -	\$ 1,160,769	\$ 1,150,306
Campus ministries	4,350	-	-	4,350	-
Other income	<u>106,318</u>	<u>-</u>	<u>-</u>	<u>106,318</u>	<u>441,529</u>
	<u>1,271,437</u>	<u>-</u>	<u>-</u>	<u>1,271,437</u>	<u>1,591,835</u>
Operating expenses					
Wider church	391,247	-	-	391,247	444,517
Congregational development	431,996	-	-	431,996	552,655
Leadership development and clergy support	341,183	-	-	341,183	312,568
Episcopal oversight	378,491	-	-	378,491	341,030
Campus ministries	101,169	-	-	101,169	-
Administrative and finance	460,925	-	-	460,925	458,941
Diocesan agency	97,279	-	-	97,279	121,097
Episcopal Missions activity	<u>13,429</u>	<u>-</u>	<u>-</u>	<u>13,429</u>	<u>-</u>
Total operating expenses	<u>2,215,719</u>	<u>-</u>	<u>-</u>	<u>2,215,719</u>	<u>2,230,808</u>
Excess of expenses over support and revenues	<u>(944,282)</u>	<u>-</u>	<u>-</u>	<u>(944,282)</u>	<u>(638,973)</u>
Change in net assets of the Trustees for the Diocese of Western Massachusetts					
Investment activity, net of release of restrictions	1,505,286	1,062,792	-	2,568,078	4,188,061
Transfers to Trustees - contributions and parish closing	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,162,828</u>
	<u>1,505,286</u>	<u>1,062,792</u>	<u>-</u>	<u>2,568,078</u>	<u>5,350,889</u>
Change in net assets before other changes and discontinued operations	561,004	1,062,792	-	1,623,796	4,711,916

(Continued)

**THE ADMINISTRATIVE OFFICES OF THE DIOCESE OF WESTERN MASSACHUSETTS
OF THE PROTESTANT EPISCOPAL CHURCH & AFFILIATE**

CONSOLIDATED STATEMENT OF ACTIVITIES (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2010 WITH COMPARATIVE TOTALS FOR 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2010 Total</u>	<u>2009 Total</u>
Other changes					
Loss on sale of assets	\$ (36,453)	\$ -	\$ -	\$ (36,453)	\$ (18,833)
Transfer of property and equipment due to parish closing	-	-	-	-	540,000
Adjustment to retirement benefit obligations	-	-	-	-	(117,668)
Adjustment of property to management's estimated value	-	-	-	-	(8,069,436)
	<u>(36,453)</u>	<u>-</u>	<u>-</u>	<u>(36,453)</u>	<u>(7,665,937)</u>
 Change in net assets before discontinued operations	 524,551	 1,062,792	 -	 1,587,343	 (2,954,021)
 Loss on discontinued operations	 <u>(740,143)</u>	 <u>-</u>	 <u>-</u>	 <u>(740,143)</u>	 <u>(564,722)</u>
 Change in net assets	 (215,592)	 1,062,792	 -	 847,200	 (3,518,743)
 Net assets, beginning of year	 <u>12,122,694</u>	 <u>13,663,438</u>	 <u>3,884,606</u>	 <u>29,670,738</u>	 <u>33,189,481</u>
 Net assets, end of year	 <u>\$ 11,907,102</u>	 <u>\$ 14,726,230</u>	 <u>\$ 3,884,606</u>	 <u>\$ 30,517,938</u>	 <u>\$ 29,670,738</u>

The accompanying notes are an integral part of these financial statements.

**THE ADMINISTRATIVE OFFICES OF THE DIOCESE OF WESTERN MASSACHUSETTS
OF THE PROTESTANT EPISCOPAL CHURCH & AFFILIATE**

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

	2010	2009
Cash flows from operating activities		
Net change in net assets	\$ 847,200	\$ (3,518,743)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	37,153	128,808
Loss on sale of property and equipment	36,453	18,833
Transfer of property and equipment due to parish closing	-	(540,000)
Adjustment of property to estimated value	-	8,069,436
Adjustment of assets to be disposed of by sale	655,000	283,434
Actuarial loss on annuity obligations	-	117,668
Change in net assets of the Trustees for the Diocese of Western Massachusetts	(3,254,691)	(5,350,889)
Changes in operating assets and liabilities:		
Accounts receivable	(27,560)	44,195
Distribution receivable	25,970	23,220
Bequest and trust receivables	299,972	(299,972)
Prepaid expenses	(1,592)	5,306
Cash value of life insurance	(8,057)	(9,026)
Accounts payable and accrued expenses	27,666	(3,287)
Retirement benefit obligations	(27,248)	(31,545)
Net cash used by operating activities	(1,389,734)	(1,062,562)
Cash flows from investing activities		
Purchase of property and equipment and development costs	(55,777)	(57,077)
Proceeds on sale of property and equipment	431,199	36,450
Increase in cash value of life insurance	(13,550)	(13,089)
Net cash provided (used) by investing activities	361,872	(33,716)
Cash flows from financing activities		
Payments on long term debt	(112,198)	(11,704)
Line of credit, net	(50,000)	50,000
Proceeds from interest in net assets of the Trustees for the Diocese of Western Massachusetts	1,260,677	1,255,383
Net cash provided by financing activities	1,098,479	1,293,679
Net increase in cash and cash equivalents	70,617	197,401
Cash and cash equivalents, beginning of year	575,788	378,387
Cash and cash equivalents, end of year	\$ 646,405	\$ 575,788
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ 12,378	\$ 7,584
Purchase of property through long term debt	350,000	-

The accompanying notes are an integral part of these financial statements.

**THE ADMINISTRATIVE OFFICES OF THE DIOCESE OF WESTERN MASSACHUSETTS
OF THE PROTESTANT EPISCOPAL CHURCH AND AFFILIATE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

1. ORGANIZATION:

The consolidated financial statements of the Administrative Offices of the Diocese of Western Massachusetts of the Protestant Episcopal Church and Affiliate (the "Diocese") include the following:

The Administrative Offices of the Diocese of Western Massachusetts of the Protestant Episcopal Church	"EDWMA" was incorporated in accordance with the provisions of Chapter 180 of the General Laws of the Commonwealth of Massachusetts as a religious corporation, for the purpose of the support and advancement of the Christian religion according to the Doctrine, Discipline and Worship of the Protestant Episcopal Church in the United States.
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Episcopal Missions of Western Massachusetts	"EMWM" was incorporated in accordance with the provisions of Chapter 180 of the General Laws of the Commonwealth of Massachusetts as a religious corporation created for the purpose of holding all right, title and interest of "EDWMA" in certain land and buildings.
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The financial statements for the year ended December 31, 2009 were not consolidated. The purpose and activity of EMWM was conducted within EDWMA. EMWM was incorporated in August 2010. In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") for Not-for-Profit Entities and Consolidation, EMWM activity for the year ended December 31, 2010 is consolidated with EDWMA (see Note 2 for principles of consolidation).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Principles of consolidation

The consolidated financial statements include the accounts of the Administrative Offices of the Diocese of Western Massachusetts of the Protestant Episcopal Church and the Episcopal Missions of Western Massachusetts (collectively known as the "Diocese"). All significant intercompany accounts and transactions have been eliminated.

EDWMA follows the FASB ASC for Not-for-Profit Entities and Consolidation. The standard provides guidance on evaluating the nature of the relationship between entities and reporting requirements.

EDWMA has control over and an economic interest in EMWM as it was organized to hold certain land and buildings of EDWMA. In accordance with FASB ASC standards, the accounts of EMWM are consolidated with EDWMA.

EDWMA provides pastoral and financial oversight for more than sixty congregations, seeking to carry on Christ's ministry of transformation and reconciliation in the Western Massachusetts area. In accordance with FASB ASC standards, the accounts of these congregations are not consolidated with EDWMA.

Basis of presentation

The accompanying financial statements of the Diocese have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Net assets

In order to ensure observance of limitations and restrictions placed on the use of the resources available to the Diocese, the accompanying financial statements are classified for accounting and reporting purposes into classes of net assets in accordance with the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

- Unrestricted net assets represent net assets, including operating accounts, not subject to donor imposed stipulations.

Net assets unrestricted for operations represent the ongoing activity of the Diocese, exclusive of certain activities designated by the Diocesan Council (the "Board"). Designated net assets consist of unrestricted assets designated by the Board. Any portion of board-designated funds may be expended with the approval of the Board.

- Temporarily restricted net assets represent contributions and other inflows of assets whose use by the Diocese is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Diocese pursuant to those stipulations.

Temporarily restricted net assets also include, under Massachusetts law, cumulative appreciation and reinvested gains on permanently restricted endowment funds which are subject to prudent appropriation by the Board in accordance with provisions of Massachusetts law.

- Permanently restricted net assets represent contributions and other inflows of assets whose use by the Diocese is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled and removed by actions of the Diocese pursuant to those stipulations.

Permanently restricted net assets include permanently restricted endowment funds held by the Trustees for the Diocese of Western Massachusetts (the "Trustees") on behalf of the Diocese.

Support and revenue

The Diocese utilizes the accrual method of accounting whereby revenue is recorded when earned and expenses are recorded when incurred.

Contributions, including unconditional promises to give, are recognized as revenues in the period in which they are earned. Conditional promises to give are not recognized until they become unconditional, that is, at the time when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value.

**THE ADMINISTRATIVE OFFICES OF THE DIOCESE OF WESTERN MASSACHUSETTS
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Support and revenue (continued)

Contributions of cash and other assets are presented as 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 received with donor-imposed restrictions that are met in the same year as received are reported as revenues in the unrestricted net asset class.

Contributions of land, buildings, and equipment are presented as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Diocese reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Donated materials and services

Donated materials are recorded as contributions in the year received at their estimated values at date of receipt if an objective basis is available to measure such values.

Donated services are recorded as contributions when those services create or enhance non-financial assets or require specialized skills provided by individuals possessing those skills and which would be typically purchased if not provided by donation. No amounts have been reflected in the accompanying financial statements for donated services as no objective basis is available to measure the value of such services; however, a substantial number of volunteers have donated significant amounts of their time to the activities of the Diocese without compensation.

Cash equivalents

For purposes of reporting cash flows, the Diocese considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Accounts receivable

Accounts receivable consists of amounts due from the parishes of the Diocese for Common Ministry assessments, outstanding reimbursements for payroll and insurance transactions conducted by the Diocese on behalf of the parishes. Accounts receivable are recorded at the aggregate unpaid amount less any allowance for doubtful accounts.

The Diocese provides an allowance for uncollectible accounts based on management's evaluation of outstanding accounts receivable. With the approval of Diocesan Council, amounts are written off against the allowance when collection appears doubtful. The allowance for doubtful accounts totaled \$0 and \$ 11,500 at December 31, 2010 and 2009, respectively.

Distribution receivable

Distribution receivable consists of amounts due from the Trustees for the Diocese's quarterly distribution in accordance with the spending policy (see Note 2 "Interest in net assets of the Trustees for the Diocese of Western Massachusetts").

**THE ADMINISTRATIVE OFFICES OF THE DIOCESE OF WESTERN MASSACHUSETTS
OF THE PROTESTANT EPISCOPAL CHURCH AND AFFILIATE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Interest in net assets of the Trustees for the Diocese of Western Massachusetts

The Diocese recognizes its interest in the net assets of the Trustees in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) for “Revenue Recognition: Transfers of Assets to a Not-for-Profit Organization or Charitable Trust that Raises or Holds Contributions for Others.” The standard requires the Diocese to recognize its interest in the net assets of the Trustees (a financially interrelated organization) and adjust that interest for its share of the change in the Trustees’ net assets.

The Trustees is a corporate body established in 1902 expressly for the purpose of receiving, managing, investing and reinvesting, using and disposing of any and all monies or funds, and all real estate or other properties for the use, benefit, support, or promotion of any work, office, official, religious, or charitable institution, or other interest of the Episcopal Church within the Diocese of Western Massachusetts.

The Trustees hold investments, stated at fair value using methodologies as discussed in Note 3, consisting of donor restricted endowment funds and funds functioning as quasi-endowment funds. Donor restricted endowments consist of gifts received with a donor stipulation that require the funds to be invested in perpetuity. Quasi-endowment funds consist of board designated and donor restricted purpose funds. Board designated funds consist of monies internally designated. Donor restricted purpose funds consist of gifts received with a donor stipulation to be used for a particular purpose, but with no requirement for the funds to be invested in perpetuity and for which a fund was established to function as an endowment.

In addition, the Diocese follows FASB ASC for “Presentation of Financial Statements: Classification of Donor-Restricted Endowment Funds Subject to UPMIFA.” The standard provides guidance on the net asset classification of donor restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management Institutional Funds Act of 2006 (“UPMIFA”) which serves as a model act for states to modernize their laws governing donor restricted endowment funds. The standard also requires additional disclosures about endowments (both donor restricted funds and quasi-endowment funds) for all organizations, including those that are not yet subject to an enacted version of UPMIFA.

The Diocesan Council (the “Board”) and the Trustees have interpreted UPMIFA as requiring unrealized and realized gains and losses (“total return”) of donor restricted endowment funds to be classified as temporarily restricted, absent explicit donor stipulations to the contrary, until appropriated by the Board and expended. Under this interpretation, the historic dollar value of the original gift that establishes a donor restricted endowment fund (and any subsequent gifts) is classified as permanently restricted.

UPMIFA allows prudent appropriation of the total return on donor restricted endowment funds taking into consideration the Diocese’s long and short-term needs, present and anticipated financial requirements, expected future total return on its investments, price level trends and general economic conditions. Under the applicable spending policy, each quarter up to 5% of the average of the fair value of donor restricted endowment funds at the end of the previous twelve quarters multiplied by 25% is appropriated to support current operations. This policy is designed to preserve the value of donor restricted endowment funds in real terms (after inflation) and provide a predictable flow of funds to support operations. Although not required by state law, the same spending policy is followed for the quasi-endowment funds. Appreciation utilized under this policy was approximately \$1,151,000 and \$1,247,000 for the years ended December 31, 2010 and 2009, respectively.

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OF THE PROTESTANT EPISCOPAL CHURCH AND AFFILIATE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Interest in net assets of the Trustees for the Diocese of Western Massachusetts (continued)

The investments held by the Trustees for the benefit of the Diocese are exposed to various risks, such as interest rate, market and credit risk. Due to the level of uncertainty related to changes in interest rates, market volatility and credit risks, it is at least reasonably possible that changes in these risks could materially affect the fair value of investments and related activity reported on the financial statements.

Property and equipment

Accounting principles generally accepted in the United States of America require property and equipment used in operations to be recorded at cost less accumulated depreciation and property and equipment to be disposed of by sale to be recorded at the lesser of the carrying amount or the fair value, less costs to sell.

The Diocese capitalized certain buildings, for which original cost information was not available, at insured replacement values determined by appraisals on buildings and contents, excluding the value of land. No depreciation was recorded on these buildings. During 2009, certain buildings were reclassified to be disposed of by sale. The value of the remaining buildings was adjusted from insured replacement value to management's estimated value. No depreciation is recorded on these buildings.

Effective January 1, 1997, the Diocese began capitalizing all long-lived assets at cost and providing for depreciation on a straight-line basis over the estimated useful lives of the assets, which range from 3 to 40 years. The Diocese charges the cost of maintenance and repairs to expense and capitalizes significant renewals and betterments. Depreciation expense for the years ended December 31, 2010 and 2009 totaled \$37,153 and \$128,808, respectively.

During 2009, certain buildings, including land, and equipment were reclassified to be disposed of by sale. The property and equipment reclassified to be disposed of by sale included buildings recorded at insured replacement value as well as buildings, improvements and equipment recorded at cost less accumulated depreciation. The value of the buildings (including land), improvements, and equipment was adjusted to appraised values and reclassified as property and equipment to be disposed of by sale.

The cost of assets sold or retired and the related amounts of accumulated depreciation are eliminated from the accounts in the year of sale or retirement. Any resulting gain or loss is credited or charged to net assets.

Income taxes

The Diocese qualifies as a tax-exempt organization under an exemption received by The Domestic and Foreign Missionary Society of the Protestant Episcopal Church from the Internal Revenue Service. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

Liquidity information

In order to provide information about liquidity, assets have been sequenced according to their nearness to conversion to cash, and liabilities have been sequenced according to the nearness of their resulting use of cash.

Reclassifications

Certain items in the financial statements for the year ended December 31, 2009 have been reclassified to conform to the 2010 presentation. There was no change to the December 31, 2009 change in net assets as a result of these reclassifications.

**THE ADMINISTRATIVE OFFICES OF THE DIOCESE OF WESTERN MASSACHUSETTS
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Fair value measurements

The Diocese follows “Fair Value Measurements” as required by the FASB ASC. This standard defines fair value, establishes a consistent framework for measuring fair value and expands the related disclosure requirements. The standard also establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. An asset or liability’s classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement. This hierarchy prioritizes the inputs into three broad levels as follows:

- Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Comparative financial information for 2009

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Diocese’s financial statements for the year ended December 31, 2009, from which the summarized information was derived.

3. INTEREST IN NET ASSETS OF THE TRUSTEES FOR THE DIOCESE OF WESTERN MASSACHUSETTS:

The Trustees hold investments consisting of endowment and quasi-endowment funds (see Note 2) restricted for the benefit of the Diocese. The Diocesan Council, as the governing Board of the Diocese, is responsible for oversight of its interest in the net assets of the Trustees. Establishment and implementation of investment policy, including the establishment of investment guidelines and the selection of investment managers, has been delegated by the Diocesan Council to the Trustees. Investments authorized by the Trustees include high quality, readily marketable equity and fixed income securities, alternative investments and community enterprise loans, whose allocation of assets is specified in the Trustees’ Investment Policy Statement.

The investment portfolio held and managed by the Trustees, consists of an investment pool in which a large number of individual funds (donor restricted endowment funds and funds functioning as quasi-endowment funds) participate in order to benefit from the diversification and economies of scale. The primary investment objective of the investment portfolio is growth of principal sufficient to preserve purchasing power and to provide income to support current and future activities. Long term, the total return on the portfolio should equal the rate of inflation, plus the payout rate which is used to support current activities, plus an amount reinvested to support future activities. Thus, the Trustees’ desired investment objective is a long-term rate of total return on the Fund of 6% in excess of the Consumer Price Index. Actual returns in any given year may vary from this objective.

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**3. INTEREST IN NET ASSETS OF THE TRUSTEES FOR THE DIOCESE OF WESTERN MASSACHUSETTS:
(CONTINUED)**

The following schedule summarizes the interest in the net assets of the Trustees for the benefit of the Diocese and its classification in the statement of financial position at December 31, 2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board designated funds	\$ 5,599,677	\$ -	\$ -	\$ 5,599,677
Donor restricted purpose funds	-	369,353	-	369,353
Donor restricted endowment funds	<u>(50,372)</u>	<u>14,323,269</u>	<u>3,884,606</u>	<u>18,157,503</u>
Interest in the net assets of the Trustees	<u>\$ 5,549,305</u>	<u>\$ 14,692,622</u>	<u>\$ 3,884,606</u>	<u>\$ 24,126,533</u>

The following schedule summarizes the change in net assets of the Trustees for the benefit of the Diocese and its classification in the statement of financial position at December 31, 2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Interest in the net assets of the Trustees, January 1, 2010	\$ 4,648,684	\$ 13,632,705	\$ 3,851,130	\$ 22,132,519
Investment results	599,642	1,968,436	-	2,568,078
Spending policy distributions	(195,199)	(956,016)	-	(1,151,215)
Other appropriations	(106,587)	(2,875)	-	(109,462)
Transfers	653,137	-	33,476	686,613
Reclassification of underwater	<u>(50,372)</u>	<u>50,372</u>	<u>-</u>	<u>-</u>
Interest in the net assets of the Trustees, December 31, 2010	<u>\$ 5,549,305</u>	<u>\$ 14,692,622</u>	<u>\$ 3,884,606</u>	<u>\$ 24,126,533</u>

The following schedule summarizes the change in net assets of the Trustees for the benefit of the Diocese and its classification in the statement of activities for the year ended December 31, 2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Unrealized gains	\$ 441,511	\$ 1,341,524	\$ -	\$ 1,783,035
Realized gains	81,183	368,652	-	449,835
Interest and dividends	76,948	258,260	-	335,208
Reclassification of underwater	(50,372)	50,372	-	-
Release of restrictions on spending policy distributions	<u>956,016</u>	<u>(956,016)</u>	<u>-</u>	<u>-</u>
Change in net assets	<u>\$ 1,505,286</u>	<u>\$ 1,062,792</u>	<u>\$ -</u>	<u>\$ 2,568,078</u>

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**3. INTEREST IN NET ASSETS OF THE TRUSTEES FOR THE DIOCESE OF WESTERN MASSACHUSETTS:
(CONTINUED)**

The following schedule summarizes the interest in the net assets of the Trustees for the benefit of the Diocese and its classification in the statement of financial position at December 31, 2009:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board designated funds	\$ 4,725,840	\$ -	\$ -	\$ 4,725,840
Donor restricted purpose funds	-	347,940	-	347,940
Donor restricted endowment funds	<u>(77,156)</u>	<u>13,284,765</u>	<u>3,851,130</u>	<u>17,058,739</u>
Interest in the net assets of the Trustees	<u>\$ 4,648,684</u>	<u>\$ 13,632,705</u>	<u>\$ 3,851,130</u>	<u>\$ 22,132,519</u>

The following schedule summarizes the change in net assets of the Trustees for the benefit of the Diocese and its classification in the statement of financial position at December 31, 2009:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Interest in the net assets of the Trustees, January 1, 2009	\$ 4,032,646	\$ 11,325,284	\$ 2,679,083	\$ 18,037,013
Investment results	931,749	3,256,312	-	4,188,061
Asset transfer – contributions	-	-	1,018,000	1,018,000
Asset transfer – parish closing	-	(9,219)	154,047	144,828
Spending policy distributions	(235,241)	(1,011,642)	-	(1,246,883)
Other appropriations	(3,314)	(5,186)	-	(8,500)
Reclassification of underwater	<u>(77,156)</u>	<u>77,156</u>	<u>-</u>	<u>-</u>
Interest in the net assets of the Trustees, December 31, 2009	<u>\$ 4,648,684</u>	<u>\$ 13,632,705</u>	<u>\$ 3,851,130</u>	<u>\$ 22,132,519</u>

The following schedule summarizes the change in net assets of the Trustees for the benefit of the Diocese and its classification in the statement of activities for the year ended December 31, 2009:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Unrealized gains	\$ 971,170	\$ 3,384,893	\$ -	\$ 4,356,063
Realized losses	(107,070)	(365,559)	-	(472,629)
Interest and dividends	67,649	236,978	-	304,627
Reclassification of underwater	(77,156)	77,156	-	-
Transfers to Trustees	-	(9,219)	1,172,047	1,162,828
Release of restrictions on spending policy distributions	<u>1,011,642</u>	<u>(1,011,642)</u>	<u>-</u>	<u>-</u>
Change in net assets	<u>\$ 1,866,235</u>	<u>\$ 2,312,607</u>	<u>\$ 1,172,047</u>	<u>\$ 5,350,889</u>

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**3. INTEREST IN NET ASSETS OF THE TRUSTEES FOR THE DIOCESE OF WESTERN MASSACHUSETTS:
(CONTINUED)**

Temporarily restricted interest in the net assets of the Trustees includes cumulative appreciation and reinvested gains on donor restricted endowment funds and donor restricted purpose funds (quasi-endowments) which are subject to donor-imposed stipulations. Permanently restricted interest in the net assets of the Trustees includes the original contribution on donor restricted endowment funds (historic gift value).

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the historic dollar value of the original gift ("historic gift value"). In accordance with accounting principles generally accepted in the United States of America, the historic gift value of donor restricted endowments funds is classified as permanently restricted and cannot be reduced for any excess losses. Any excess losses shall reduce temporarily restricted net assets to the extent there is net appreciation on the related funds. Any remaining excess losses shall reduce unrestricted net assets. As a result of market declines, the fair value of certain donor restricted endowments was less than the historic gift value ("underwater") by \$50,372 and \$77,156 at December 31, 2010 and 2009, respectively. These unrealized losses have been recorded as a reduction in unrestricted net assets. Future gains will be used to restore the deficiency in unrestricted net assets before any net appreciation above the historic gift value of such funds increases temporarily restricted net assets. For those endowments, allocations under the spending policy are being reinvested. Three endowment funds were underwater as of December 31, 2010 and 2009.

Historically approximately 90% of the Diocese's interest in the net assets of the Trustees, consisting of investments, is reported at fair value based on quoted prices in active markets or significant other observable inputs. The remaining percentage of investments is reported at fair value based on data provided by the external investment managers, updated for capital calls and distributions and other market activity. The valuations for these alternative investments involve appraisals, assumptions, and methods that are reviewed by the Trustee's management. Accordingly, such values may differ from the values that would have been used had a ready market for these investments existed. Such differences could be material.

4. CASH VALUE OF LIFE INSURANCE:

The Diocese is the owner and beneficiary of four life insurance policies. The cash surrender value of these policies have been reflected on the statement of financial position under assets and totaled \$400,823 and \$379,216 for the years ended December 31, 2010 and 2009, respectively. There were no outstanding loans on these policies for the years ended December 31, 2010 and 2009.

5. PROPERTY AND EQUIPMENT:

Accounting principles generally accepted in the United States of America require property and equipment used in operations to be recorded at cost less accumulated depreciation and property and equipment to be disposed of by sale to be recorded at the lesser of the carrying amount or the fair value, less costs to sell. The Diocese's financial statements do not conform with accounting principles generally accepted in the United States of America. The independent auditors' opinion has been qualified as a result of this departure (see Independent Auditors' Report).

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5. PROPERTY AND EQUIPMENT: (CONTINUED)

Property and equipment used in operations

Property and equipment used in operations consisted of the following at December 31:

	2010	2009
Buildings and improvements		
Buildings reported at management's estimated value	\$ 4,400,000	\$ 4,400,000
Buildings reported at cost	786,978	436,978
Building improvements reported at cost	143,167	121,252
Total buildings and improvements	5,330,145	4,958,230
Equipment	166,281	163,767
Furniture and fixtures	26,870	24,174
	5,523,296	5,146,171
Accumulated depreciation	452,026	414,873
Property and equipment used in operations, net	\$ 5,071,270	\$ 4,731,298

The change in buildings reported at management's estimated value for the year ended December 31, 2009 and insured replacement values for the year ended December 31, 2008 was recognized through the statement of activities and totaled \$8,069,436.

Buildings reported at management's estimated value consisted of the following:

Mission Churches

Ashfield (St. John's)	Palmer (St. Mary's)
Blackinton (St. Andrew's)	Pittsfield (St. Martin's)
Lanesboro (St. Luke's)	South Barre (Christ Church)
Lenox (St. Helena's)	South Lee (Good Shepherd)
Millville (St. John's)	Springfield (St. Luke's)
Otis (St. Paul's)	

Buildings and improvement reported at cost consisted of the following:

Buildings

Bishop's residence
Canon's resident
Southwick Mission Church

Improvements

Bishop's residence	Administrative office
Canon's residence	

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5. PROPERTY AND EQUIPMENT: (CONTINUED)

Property and equipment to be disposed of by sale

Property and equipment to be disposed of by sale reported at appraised values consisted of the following:

	2010	2009
The Ark (UMass Campus)	\$ -	\$ 439,000
Bement Center	1,995,000	2,650,000
166 Holden Street, Worcester (St. John's)	540,000	540,000
Property and equipment used in operations, net	\$ 2,535,000	\$ 3,629,000

The Ark (UMass Campus) was sold during 2010. The loss on sale was recognized through the statement of activities and totaled \$36,453. Bement Center value was reduced to reflect the current estimated realizable value of the property and facilities. The adjustment was recognized through the statement of activities and totaled \$655,000 (see Note 15, Discontinued Operations).

6. LINE OF CREDIT:

The Diocese maintains a line of credit with a financial institution which provides for maximum borrowings of \$1,000,000. This line of credit allows individual parishes and missions of the Diocese to borrow funds that, in the event of default by the parishes or missions, would be paid by the Diocese from the line of credit. The loans to the parishes, missions and the Diocese, not to exceed \$1,000,000 in the aggregate at any given time, require prior approval of the Diocese and include payment terms up to ten years. This line of credit is secured by certain investments held by the Trustees for the Diocese of Western Massachusetts. The balance outstanding on this line of credit totaled \$0 and \$50,000 for the years ended December 31, 2010 and 2009, respectively. The total loans outstanding from parishes and missions guaranteed by the Diocese were approximately \$300,000 and \$248,000 for the years ended December 31, 2010 and 2009, respectively.

7. LONG TERM DEBT:

As December 31 long term debt consisted of the following:

	2010	2009
Installment note dated December 4, 2003 in the original amount of \$115,000. The note is payable in 120 monthly installments in the amount of \$1,260 including principal and interest at 5.64% per annum. The note is secured by a building. The note was refinanced during 2010.	\$ -	\$ 53,872
Installment note dated July 2, 2010 in the original amount of \$50,800. The note is payable in 41 monthly installments in the amount of \$553 including principal and interest at 5.50% per annum; payments are based upon a ten year amortization period with a balloon payment due at maturity. The note is unsecured.	44,700	-

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7. LONG TERM DEBT: (CONTINUED)

	2010	2009
Installment note dated July 2, 2010 in the original amount of \$250,000. The note is payable in 120 monthly installments in the amount of \$1,754 including principal and interest at 5.66% per annum; payments are based upon a 20 year amortization period with a balloon payment due at maturity. The note is unsecured.	\$ 246,974	\$ -
Total long term debt	291,674	53,872
Current portion	(11,290)	(12,433)
Long-term portion	\$ 280,384	\$ 41,439

Future maturities of long term debt are as follows:

For the Year Ending December 31		
2011	\$	11,290
2012		11,938
2013		44,519
2014		8,592
2015		9,091
Thereafter		206,244
Total	\$	291,674

8. RETIREMENT AND OTHER POSTRETIREMENT BENEFITS:

Accounting principles generally accepted in the United States of America requires organizations to recognize the over-funded or under-funded status of defined benefit pension and other postretirement plans as assets or liabilities on their statement of financial position in accordance with FASB ASC “Compensation – Retirement Benefits: Defined Benefit Plans – Other Postretirement”. In addition, changes in the funded status must be recognized through the statement of activities in the year in which the changes occur and requires additional disclosures. The Diocese’s financial statements do not conform with accounting principles generally accepted in the United States of America. The independent auditors’ opinion has been qualified as a result of this departure (see Independent Auditors’ Report). Management and the Board have chosen to update actuarial reports for the applicable plans once every five years.

Multi-employer clergy pension plan

The Diocese, on behalf of its clerics, is required to participate in the Church Pension Fund, a multi-employer defined benefit pension plan. Expense under the plan totaled approximately \$76,000 and \$88,000 for the years ended December 31, 2010 and 2009, respectively. Separate actuarial calculations of the Diocese’s position are not available with respect to the multi-employer plans.

Defined contribution pension plan

The Diocese has a defined contribution pension plan for all eligible Diocesan employees. The employees may voluntarily contribute a portion of their salary in addition to the amount contributed by the Diocese (currently 12% of annual salary). Expense under the plan totaled approximately \$49,000 and \$52,000 for the years ended December 31, 2010 and 2009, respectively.

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8. RETIREMENT AND OTHER POSTRETIREMENT BENEFITS: (CONTINUED)

Supplemental retirement arrangements

The Diocese has entered into supplemental retirement arrangements with certain former employees that provide for fixed benefits, increased each year based on the Consumer Price Index, over their lives. Supplemental retirement benefits paid for each of the years ended December 31, 2010 and 2009 totaled approximately \$27,000 and \$32,000, respectively.

One of the former employees has a survivor benefit, whereby two-thirds of his benefit will be provided to his spouse should he pre-decease her. The Diocese is the owner and beneficiary of three life insurance policies on the former employee. The cash surrender values of these policies have been reflected on the statement of financial position under assets and are not included as part of the funded status of the retirement arrangement below. Cash surrender value on the life insurance policies totaled \$371,938 and \$352,825 as of December 31, 2010 and 2009, respectively.

As noted above, the Diocese has not adopted FASB ASC “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans” and actuarial assumptions are calculated and required disclosures provided for the supplemental retirement arrangements once every five years, an exception qualifying the independent auditor’s report.

Retirement benefit obligations based on actuarial assumptions at December 31, 2009 totaled \$167,824. The change in funded status for the year ended December 31, 2009 was recognized through the statement of activities and totaled \$35,740. Retirement benefits paid subsequent to December 31, 2009 and through the next actuarial assumption to be calculated as of December 31, 2014 will be reflected as reductions to the obligation.

Other postretirement benefits

The Diocese sponsors a defined benefit postretirement health care and life insurance plan covering employees who have met certain eligibility requirements. The health care plan is contributory based on the length of service of the employee, and the life insurance plan is 100% paid by the Diocese. The Diocese funds premium payments for current retirees only. Other postretirement benefits paid for each of the years ended December 31, 2010 and 2009 totaled approximately \$113,000 and \$108,000, respectively.

As noted above, the Diocese has not adopted FASB ASC “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans” and actuarial assumptions are calculated and required disclosures provided for the other postretirement benefits once every five years, an exception qualifying the independent auditor’s report.

Other postretirement benefit obligations based on actuarial assumptions at December 31, 2009 totaled \$1,908,909. The change in funded status for the year ended December 31, 2009 was recognized through the statement of activity and totaled \$81,928. Expected annual benefit payments for the next ten years are as follows:

<u>For the Year Ending December 31</u>		
2011	\$	107,200
2012		114,400
2013		117,200
2014		128,600
2015 – 2019		798,200
Total	\$	<u>1,265,600</u>

**THE ADMINISTRATIVE OFFICES OF THE DIOCESE OF WESTERN MASSACHUSETTS
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9. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets are available for the following purposes at December 31:

	2010	2009
Religious and charitable purposes	\$ 13,323,864	\$ 12,414,633
Other purposes	950,917	893,673
Aged clergy	333,069	305,949
Scholarships	118,380	49,183
	\$ 14,726,230	\$ 13,663,438

Other purposes include, but are not limited to, temporarily restricted net assets for clergy salaries, relief for widows and orphans, assistance for children and missionary work.

Temporarily restricted net assets consist of an interest in the net assets of the Trustees and distributions receivable; releases are shown as part of the change in net assets of the Trustees (see Note 3).

10. PERMANENTLY RESTRICTED NET ASSETS:

Permanently restricted net assets are available for the following purposes at December 31:

	2010	2009
Religious and charitable purposes	\$ 2,298,435	\$ 2,298,435
Other purposes	118,005	118,005
Aged clergy	134,731	134,731
Scholarships	1,333,435	1,333,435
	\$ 3,884,606	\$ 3,884,606

Other purposes include, but are not limited to, permanently restricted net assets for clergy salaries, relief for widows and orphans, assistance for children and missionary work.

Permanently restricted net assets consist of an interest in the net assets of the Trustees (see Note 3) and receivables permanently restricted (amounts transferred subsequent to year end).

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11. OPERATING LEASES:

The Diocese leases vehicles under operating leases which expire in 2010 through 2015. The leases provide for monthly payments totaling approximately \$1,245. Total lease expense under vehicle leases was approximately \$15,400 and \$15,900 for the years ended December 31, 2010 and 2009, respectively.

The Diocese leases office equipment under operating leases which expire in 2014. The leases provide for monthly payments totaling approximately \$1,000. Total lease expense under office equipment leases was approximately \$12,000 and \$8,800 for the years ended December 31, 2010 and 2009, respectively.

Future minimum lease payments under the terms of operating leases are as follows:

<u>For the Year Ending December 31</u>	
2011	\$ 26,948
2012	23,906
2013	15,923
2014	9,863
2015	3,219
Total	\$ <u>79,859</u>

The Diocese leases certain property and equipment (166 Holden Street, Worcester) to be disposed of by sale under an operating lease that expires in September 2012. Rental income totaled approximately \$42,000 and \$16,000 for the years ended December 31, 2010 and 2009, respectively, and has been classified with discontinued operation on the statement of activities.

Future rental income to be received under this operating lease is as follows:

2011	\$ 42,000
2012	31,500
Total	\$ <u>73,500</u>

12. CONCENTRATIONS OF CREDIT RISK:

The Diocese maintains cash balances with various financial institutions and attempts to limit the amount of credit exposure at any one financial institution. However, at times, the Diocese's cash balances at a single financial institution may temporarily exceed the Federal Deposit Insurance Corporation ("FDIC") insurance limits, thus exposing the Diocese to some concentration of credit risk. The Diocese has not experienced any losses on its accounts and monitors the credit-worthiness of the financial institutions with which it conducts business. Management believes the Diocese is not exposed to any significant concentration of credit risk on cash.

The Diocese also has an interest in the net assets of the Trustees (see Note 3). The Trustees invests the majority of its assets in investments. Investment securities are exposed to various risks such as interest rate, market and credit risk. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of the investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect the amounts reported in the statement of financial position and the statement of activities and changes in net assets.

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13. FAIR VALUE MEASUREMENTS:

Assets measured at fair value on a recurring basis at December 31, 2010 were as follows:

	<u>Total 12/31/10</u>	<u>Quoted Prices in Active Markets for Identical Assets</u>	<u>Significant Other Observable Inputs</u>	<u>Significant Unobservable Inputs</u>
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets				
Cash equivalents	\$ 3,039	\$ -	\$ 3,039	\$ -
Interest in the net assets of the Trustees	\$ 24,126,533	\$ -	\$ -	\$ 24,126,533

Assets measured at fair value on a recurring basis at December 31, 2009 were as follows:

	<u>Total 12/31/09</u>	<u>Quoted Prices in Active Markets for Identical Assets</u>	<u>Significant Other Observable Inputs</u>	<u>Significant Unobservable Inputs</u>
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets				
Cash equivalents	\$ 1,509	\$ -	\$ 1,509	\$ -
Interest in the net assets of the Trustees	\$ 22,132,519	\$ -	\$ -	\$ 22,132,519

Cash equivalents

Fair values of cash equivalent instruments that do not trade on a regular basis in active markets are classified as Level 2.

Interest in net assets of the Trustees for the Diocese of Western Massachusetts

The Diocese's investments are held by the Trustees for the Diocese of Western Massachusetts and are stated at fair value using methodologies as discussed in Note 3. The interest in the net assets held by the Trustees consists of an investment pool in which a large number of individual funds participate in order to benefit from the diversification and economies of scale.

The Diocese owns an interest in the net assets of the Trustees and not the underlying individual investments (owns a unit of the investment pool). The fair value of its interest is considered a Level 3 input as its value is not supported by observable inputs. However, the underlying individual investments held by the Trustees on behalf of the Diocese and other organizations consists of approximately 90% values based on Level 1 and 2 inputs (per the investment policy and prior year audited financial statements of the Trustees).

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13. FAIR VALUE MEASUREMENTS: (CONTINUED)

Interest in net assets of the Trustees for the Diocese of Western Massachusetts (continued)

The following schedule reconciles fair value measurements for the Diocese's interest in net assets held by the Trustees using significant unobservable inputs (Level 3) as noted above for the years ended December 31, 2010 and 2009:

	2010	2009
Assets		
Balance, beginning of year	\$ 22,132,519	\$ 18,037,013
Total unrealized gains	1,783,035	4,356,063
Total realized gains (losses)	449,835	(472,629)
Purchases, issuances, and settlements	1,021,821	1,467,455
Transfers	<u>(1,260,677)</u>	<u>(1,255,383)</u>
Balance, end of year	<u>\$ 24,126,533</u>	<u>\$ 22,132,519</u>
Total activity for the period included on the statement of activities related to Level 3 assets held at December 31	\$ 2,568,078	\$ 5,350,889

14. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through June 7, 2011, which is the date the financial statements were available to be issued.

15. DISCONTINUED OPERATIONS:

During 2009, the Diocesan Council chose to close Bement Camp and The Ark and list the properties for sale. The decision to sell Bement Camp was based on decreased camp enrollment and conference functions as well as increased costs associated with maintenance and necessary infrastructure repairs. The decision to sell The Ark was based on repurposing of campus ministries to expand the reach beyond purely a physical location. In addition, during 2009, St. John's parish closed and all assets and liabilities were transferred to the Diocese. The Diocesan Council chose to list the property for sale based on decreased attendance and diminishing resources.

Discontinued operations at December 31, 2010:

	Support and Revenues, Net of (Expenses)	Write Down of Property and additional costs	Income (Loss) from Discontinued Operations
The Ark (UMass Campus)	\$ (5,282)	\$ -	\$ (5,282)
Bement Camp	(31,952)	(734,294)	(766,246)
166 Holden Street, Worcester (St. John's)	31,385	-	31,385
	<u>\$ (5,849)</u>	<u>\$ (734,294)</u>	<u>\$ (740,143)</u>

**THE ADMINISTRATIVE OFFICES OF THE DIOCESE OF WESTERN MASSACHUSETTS
OF THE PROTESTANT EPISCOPAL CHURCH AND AFFILIATE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

15. DISCONTINUED OPERATIONS: (CONTINUED)

Discontinued operations at December 31, 2009:

	<u>Support and Revenues, Net of (Expenses)</u>	<u>Write Down of Property and Equipment</u>	<u>Income (Loss) from Discontinued Operations</u>
The Ark (UMass Campus)	\$ (117,646)	\$ (80,480)	\$ (198,126)
Bement Camp	(137,368)	(191,455)	(328,823)
166 Holden Street, Worcester (St. John's)	(26,274)	(11,499)	(37,773)
	<u>\$ (281,288)</u>	<u>\$ (283,434)</u>	<u>\$ (564,722)</u>

The write-down of property and equipment to be disposed of by sale was based on appraised values. The amount included in the discontinued operations could be adjusted in the near term if experience differs from current estimates.

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SUPPLEMENTARY INFORMATION**