

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

CONSOLIDATED FINANCIAL STATEMENTS

***DECEMBER 31, 2019 AND 2018
WITH SUPPLEMENTARY INFORMATION***

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

CONSOLIDATED FINANCIAL STATEMENTS

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NICHOLAS LAPIER, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Diocesan Council of
The Administrative Offices of the
Episcopal Diocese of Western Massachusetts and Affiliate
37 Chestnut Street
Springfield, MA 01103

We have audited the accompanying consolidated financial statements of the Administrative Offices of the Episcopal Diocese of Western Massachusetts and Affiliate (the "Diocese"), which comprise the consolidated statement of financial position as of December 31, 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

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To the Diocesan Council of
The Administrative Offices of the
Episcopal Diocese of Western Massachusetts and Affiliate
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Basis for Qualified Opinion

As explained in Note 2 to the consolidated 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.

As explained in Note 8 to the consolidated financial statements, certain 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 accompanying consolidated financial statements of the above practices have not been determined.

Qualified Opinion

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraph, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Administrative Offices of the Episcopal Diocese of Western Massachusetts and Affiliate as of December 31, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters – 2018 Financial Statements

The financial statements of the Diocese for the year end December 31, 2018, were audited by another auditor, who expressed a qualified opinion on those statements on June 6, 2019.

Other Matters – Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraph, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Nicholas LaPier CPA, P.C.

Nicholas LaPier, CPA, PC

West Springfield, Massachusetts
June 4, 2020

**THE ADMINISTRATIVE OFFICES OF THE EPISCOPAL DIOCESE
OF WESTERN MASSACHUSETTS AND AFFILIATE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018**

	2019	2018
ASSETS		
Assets		
Cash	\$ 600,684	\$ 727,941
Accounts receivable, net	14,196	14,638
Distribution receivable	391,096	393,040
Prepaid expenses	34,162	50,537
Due from parishes	53,267	32,588
Notes receivable	277,584	287,692
Interest in net assets of the Trustees for the Diocese of Western Massachusetts	32,596,515	30,322,589
Property and equipment, net	<u>854,754</u>	<u>867,542</u>
Total assets	<u>\$ 34,822,258</u>	<u>\$ 32,696,567</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 11,496	\$ 8,231
Refundable advances	7,086	-
Deferred revenue	-	11,500
Agency obligations	98,568	122,909
Amounts held on behalf of others	15,343	8,788
Line of credit	-	280,000
Other postretirement benefit obligations	<u>1,178,841</u>	<u>1,909,182</u>
Total liabilities	<u>1,311,334</u>	<u>2,340,610</u>
Net assets		
Without donor restrictions		
Unrestricted	859,575	(15,912)
Unrestricted - board designated	<u>9,804,480</u>	<u>9,494,214</u>
Total net assets without donor restrictions	<u>10,664,055</u>	<u>9,478,302</u>
With donor restrictions		
Time and purpose restricted	18,755,029	16,785,815
Perpetual in nature	<u>4,091,840</u>	<u>4,091,840</u>
Total net assets with donor restrictions	<u>22,846,869</u>	<u>20,877,655</u>
Total net assets	<u>33,510,924</u>	<u>30,355,957</u>
Total liabilities and net assets	<u>\$ 34,822,258</u>	<u>\$ 32,696,567</u>

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

**THE ADMINISTRATIVE OFFICES OF THE EPISCOPAL DIOCESE
OF WESTERN MASSACHUSETTS AND AFFILIATE
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019
WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2018**

	Without Donor Restrictions	With Donor Restrictions	2019 Total	2018 Total
Support and revenues				
Common ministry	\$ 1,144,906	\$ -	\$ 1,144,906	\$ 1,124,645
Other income	225,228	37,414	262,642	217,310
Net assets released from restrictions	<u>32,414</u>	<u>(32,414)</u>	<u>-</u>	<u>-</u>
	<u>1,402,548</u>	<u>5,000</u>	<u>1,407,548</u>	<u>1,341,955</u>
Operating expenses				
Program Activities				
Bishop's ministry	699,974	-	699,974	634,948
Congregational development	601,719	-	601,719	527,419
Diocesan agency	156,604	-	156,604	217,231
Fanning the Flames	136,902	-	136,902	264,381
Human to Human	254,647	-	254,647	-
Leadership development and clergy support	300,418	-	300,418	254,196
Mission in the world	<u>554,288</u>	<u>-</u>	<u>554,288</u>	<u>785,068</u>
Total program activities	<u>2,704,552</u>	<u>-</u>	<u>2,704,552</u>	<u>2,683,243</u>
Supporting Services				
Administrative and finance	346,243	-	346,243	343,017
Episcopal missions activity	63,177	-	63,177	17,300
Fundraising and development	89,331	-	89,331	24,669
Governance	<u>191,017</u>	<u>-</u>	<u>191,017</u>	<u>245,256</u>
Total supporting services	<u>689,768</u>	<u>-</u>	<u>689,768</u>	<u>630,242</u>
Total operating expenses	<u>3,394,320</u>	<u>-</u>	<u>3,394,320</u>	<u>3,313,485</u>
Change in net assets before other changes	(1,991,772)	5,000	(1,986,772)	(1,971,530)
Other changes				
Change in net assets of the Trustees for the Diocese of Western Massachusetts - investment activity, net of release of restrictions	2,428,466	1,964,214	4,392,680	(1,196,770)
Investment income, net	-	-	-	(912)
Gain (loss) on sale of assets	-	-	-	78,924
Adjustment of property to net realizable value	-	-	-	-
Transfer of property and equipment	18,718	-	18,718	(4,027)
Adjustment to employee benefit obligations	<u>730,341</u>	<u>-</u>	<u>730,341</u>	<u>-</u>
Change in net assets	1,185,753	1,969,214	3,154,967	(3,094,315)
Net assets, beginning of year	<u>9,478,302</u>	<u>20,877,655</u>	<u>30,355,957</u>	<u>33,450,272</u>
Net assets, end of year	<u>\$ 10,664,055</u>	<u>\$ 22,846,869</u>	<u>\$ 33,510,924</u>	<u>\$ 30,355,957</u>

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

THE ADMINISTRATIVE OFFICES OF THE EPISCOPAL DIOCESE OF WESTERN MASSACHUSETTS AND AFFILIATE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
DECEMBER 31, 2019
WITH SUMMARIZED FINANCIAL INFORMATION FOR DECEMBER 31, 2018

	Program Activities						Supporting Services						
	Bishop's Ministry	Congregational Development	Diocesan Agency	Fanning the Flames	Human to Human	Leadership Development and Clergy Support	Mission in the World	Episcopal Missions Activity	Fundraising and Development	Governance	Administrative and Finance	2019 Total	2018 Total
Employee compensation and related costs													
Employee salary and payroll taxes	\$ 233,306	\$ 162,350	\$ 92,245	\$ 58,168	\$ 79,914	\$ 108,517	\$ 19,692	\$ 2,000	\$ 53,691	\$ 18,034	\$ 217,357	\$ 1,045,274	\$ 1,031,282
Employee benefits	<u>194,224</u>	<u>226,779</u>	<u>35,501</u>	<u>7,058</u>	<u>69,102</u>	<u>69,438</u>	<u>67,299</u>	<u>-</u>	<u>9,408</u>	<u>65,655</u>	<u>56,833</u>	<u>801,297</u>	<u>802,896</u>
	427,530	389,129	127,746	65,226	149,016	177,955	86,991	2,000	63,099	83,689	274,190	1,846,571	1,834,178
Other expenses													
Depreciation	3,197	2,910	955	488	1,114	1,331	650	-	472	626	2,050	13,793	14,889
Food and refreshments	1,291	4,726	66	1,092	552	15,383	350	-	134	2,032	4,236	29,862	22,786
Grants	3,000	135,366	-	59,741	18,500	5,675	433,921	32,414	-	-	-	688,617	631,599
Insurance	1,904	1,733	569	290	664	793	387	278	281	373	1,221	8,493	11,131
Interest	-	-	-	-	-	-	-	-	-	-	8,357	8,357	5,016
Internet	4,593	4,180	1,372	701	1,601	1,912	934	-	678	899	2,945	19,815	12,942
Memberships, dues and subscriptions	1,700	1,250	856	-	-	6,976	550	-	4,611	350	259	16,552	8,219
Miscellaneous	62	264	40	-	-	1,331	-	-	34	832	2,727	5,290	11,685
Office supplies	4,823	4,390	1,441	736	1,681	2,008	981	-	712	944	3,094	20,810	19,680
Postage and delivery	743	677	222	113	259	309	151	-	110	146	477	3,207	13,332
Printing and binding	14,176	943	-	62	501	-	119	-	189	850	1,007	17,847	17,494
Professional conferences	1,169	2,308	-	1,104	507	23,997	214	-	131	364	4,000	33,794	68,550
Professional fees	-	70	-	-	70	-	-	17,441	70	55,675	19,500	92,826	89,837
Professional services and consultants	6,010	728	15,231	-	3,150	14,971	18,933	8,958	14,500	10,195	3,816	96,492	87,749
Rent	19,692	17,923	5,884	3,004	10,700	8,196	4,007	-	2,906	3,855	12,629	88,796	86,762
Repairs and maintenance	5,317	4,840	1,589	811	1,853	2,213	1,082	2,086	785	1,041	3,411	23,028	33,986
Speaker fees and honorariums	-	1,000	-	-	-	2,000	-	-	-	-	-	3,000	9,420
Supplies and expenses	169,342	6,017	-	1,950	47,399	18,757	-	-	238	20,889	-	264,592	231,371
Telephone	1,876	1,708	561	286	654	781	382	-	277	367	1,204	8,096	9,167
Travels and meals	33,549	21,557	72	1,298	12,916	15,830	4,636	-	104	7,890	1,120	98,972	90,413
Utilities	-	-	-	-	3,510	-	-	-	-	-	-	3,510	3,279
Total operating expenses	<u>\$ 699,974</u>	<u>\$ 601,719</u>	<u>\$ 156,604</u>	<u>\$ 136,902</u>	<u>\$ 254,647</u>	<u>\$ 300,418</u>	<u>\$ 554,288</u>	<u>\$ 63,177</u>	<u>\$ 89,331</u>	<u>\$ 191,017</u>	<u>\$ 346,243</u>	<u>\$ 1,194,130</u>	<u>\$ 1,113,485</u>

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

**THE ADMINISTRATIVE OFFICES OF THE EPISCOPAL DIOCESE
OF WESTERN MASSACHUSETTS AND AFFILIATE
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Change in net assets	\$ 3,154,967	\$ (3,094,315)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	13,793	14,889
(Gain) loss on sale of property and equipment	-	(78,924)
Gain on employee benefit obligations	(730,341)	-
Change in net assets of the Trustees	(4,392,680)	1,196,770
Unrealized and realized (gains) losses from investments	-	5,199
Changes in operating assets and liabilities:		
Receivables	2,386	21,292
Prepaid expenses	16,375	(35,629)
Due from parishes	(20,679)	23,251
Accounts payable and accrued expenses	3,265	(22,694)
Refundable advances	7,086	(30,000)
Deferred revenue	(11,500)	11,500
Agency obligations	(24,341)	(843)
Amounts held on behalf of others	6,555	(17,915)
Net cash used by operating activities	<u>(1,975,114)</u>	<u>(2,007,419)</u>
Cash flows from investing activities		
Purchase of property and equipment and development costs	(1,005)	(17,052)
Proceeds on sale of property and equipment	-	78,924
Cash provided on note receivable	(8,134)	(15,631)
Repayments on note receivable	18,242	11,970
Proceeds from sale of investments held by EDWMA	-	225,202
Net cash provided by investing activities	<u>9,103</u>	<u>283,413</u>
Cash flows from financing activities		
Line of credit, net	(280,000)	5,000
Proceeds from/transfers to interest in net assets of the Trustees, net	2,118,754	1,542,007
Net cash provided by financing activities	<u>1,838,754</u>	<u>1,547,007</u>
Net decrease in cash	(127,257)	(176,999)
Cash, beginning of year	727,941	904,940
Cash, end of year	<u>\$ 600,684</u>	<u>\$ 727,941</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ 8,357	\$ 5,016

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

**THE ADMINISTRATIVE OFFICES OF THE EPISCOPAL DIOCESE
OF WESTERN MASSACHUSETTS AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

1. NATURE OF ACTIVITIES:

The consolidated financial statements of the Administrative Offices of the Episcopal Diocese of Western Massachusetts and Affiliate (the “Diocese”) include the following:

Administrative Offices of the Episcopal Diocese of Western Massachusetts	“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.
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 rights, title and interest of “EDWMA” in certain land and buildings.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Principles of consolidation

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

EDWMA follows the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“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 approximately fifty 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 consolidated 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.

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.

**THE ADMINISTRATIVE OFFICES OF THE EPISCOPAL DIOCESE
OF WESTERN MASSACHUSETTS AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Net assets

The Diocese follows the provisions of Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) *Revenue Recognition and Presentation of Financial Statements*. Under these provisions, net assets and all balances and transactions are presented based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- *Net assets without donor restrictions* - represent available resources other than donor-restricted resources. Net assets without donor restrictions used 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 net assets without donor restrictions designated by the Board. Any portion of board-designated funds may be expended with the approval of the Board.
- *Net assets with donor restrictions* – represent net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor, and also include accumulated investment income and gains on donor-restricted endowment assets that have not been appropriated for expenditure. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

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

Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law.

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.

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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions.

**THE ADMINISTRATIVE OFFICES OF THE EPISCOPAL DIOCESE
OF WESTERN MASSACHUSETTS AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Support and revenue (continued)

Contributions of land, buildings, and equipment are presented as support without restrictions 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. 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 consolidated 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.

Accounts receivable

Accounts receivable consist 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 the Diocesan Council, amounts are written off against the allowance when collection appears doubtful. No allowance was deemed necessary by management for the years ended December 31, 2019 and 2018.

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").

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 FASB 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 interests of the Episcopal Church within the Diocese of Western Massachusetts.

**THE ADMINISTRATIVE OFFICES OF THE EPISCOPAL DIOCESE
OF WESTERN MASSACHUSETTS AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

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

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 of 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 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 with donor restrictions, 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 restricted perpetually.

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 \$1,484,000 and \$1,489,000 for the years ended December 31, 2019 and 2018, respectively.

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 consolidated financial statements.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Property and equipment used in operations

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. Certain buildings, for which original cost information was not available, have been recorded at 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, 2019 and 2018 totaled \$13,793 and \$14,889, respectively.

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.

Property and equipment to be disposed of by sale

Accounting principles generally accepted in the United States of America require 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 value of the buildings (including land), improvements, and equipment to be disposed of by sale have been recorded at appraised values.

Fair value of financial instruments

The carrying values of the Diocese's cash, receivables, payables, and accrued expenses approximated their fair value based on their maturities as of December 31, 2019 and 2018.

Fair value measurements

The Diocese follows *Fair Value Measurements and Disclosures* 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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

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 consolidated financial statements.

Allocation of expenses

The costs of providing the various programs and other activities of the Diocese have been summarized on a functional basis in the consolidated statement of functional expenses. Expenses attributable to more than one program or supporting function are allocated on a reasonable basis that is consistently applied. The expenses are allocated on the basis of estimates of time and effort. Accordingly, certain costs have been allocated among activities that benefited. Activities of the Diocese include the following:

- Administrative and Finance oversees and performs the business transactions of the Diocese which includes accounts payable and receivable, financial reporting, audits, canonically required reports, real estate and property concerns, insurance, and budgeting.
- Bishop's Ministry is the role of the Bishop and his ecclesiastical function as president of the Convention, shepherd to the clergy, and administers the sacrament of confirmation.
- Congregational Development provides support, collaboration, and consulting with senior members of the Bishop's staff with a focus on developing healthy, mission focused congregations.
- Diocesan Agency oversees and performs the human resources functions of the diocesan office and serves as an agency for those functions at the level of congregations including payroll and full benefits administration along with support and advising.
- Fanning the Flames oversees the strategic investments in ministry which will yield tangible results. Funds will be used exclusively to invest in ministry to fan the flames of places where the Holy Spirit seems to be already at work.
- Fundraising and Development oversees the operation of the fundraising efforts beyond giving to congregations for ministries and programs focused on the humanitarian work of Jesus.
- Governance includes the canonically required functions and activities of a Diocese in the Episcopal Church such as Diocesan and General Convention and benefits for retirees.
- Human to Human is the Diocese's umbrella organization for its humanitarian, non-sectarian programs which address issues of poverty, isolations and addiction. In addition to running the Diocesan programs, grants are offered to parishes doing the same work.
- Leadership Development and Clergy Support oversees and performs the hiring function of ordained people and focuses on leadership development and training for clergy and lay people. Funding is available for group trainings as well as continuing education.
- Mission in the World is the designation for support and collaboration of ministries outside the parishes of the Diocese. Included is the Diocese support for the Episcopal Church, the Mass Council of Churches, and various ministries and programs around the globe.
- Episcopal Missions Activity includes the Episcopal Missions of Western Massachusetts created for the purpose of holding all rights, title and interest in the real estate assets of the Diocese. The expenses related to this area are for legal work and property management and consulting.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Reclassifications

Certain items in the consolidated financial statements for the year ended December 31, 2018 have been reclassified to conform to the 2019 presentation. There was no change to the December 31, 2018 change in net assets as a result of these reclassifications.

Summarized financial information for 2018

The consolidated 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 consolidated financial statements for the year ended December 31, 2018, from which the summarized information was derived.

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

The Diocese's interest in the net assets of the Trustees consists of approximately 130 individual funds (both donor-restricted funds and funds designated by the Diocese Council to function as endowments, see Note 2) established for a variety of purposes, 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 investments of 6% in excess of the Consumer Price Index. Actual returns in any given year may vary from this objective.

Interest in the net assets of the Trustees with donor restrictions 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. Perpetually 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 endowment funds is classified as with donor restrictions, perpetual in nature, cannot be reduced for any excess losses. Any excess losses shall reduce net assets with donor restrictions, time and purpose restricted. There were no funds underwater as of December 31, 2019 and 2018.

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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 consolidated statement of financial position at December 31, 2019:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board designated funds	\$ 9,804,480	\$ -	\$ 9,804,480
Donor-restricted purpose funds	-	446,100	446,100
Donor-restricted endowment funds			
Amounts required to be maintained in perpetuity by donor	-	4,091,840	4,091,840
Accumulated investment gains	-	18,254,095	18,254,095
Total	<u>\$ 9,804,480</u>	<u>\$ 22,792,035</u>	<u>\$ 32,596,515</u>

The following schedule summarizes the change in net assets of the Trustees for the benefit of the Diocese and its classification in the consolidated statement of financial position at December 31, 2019:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Interest in net assets of the Trustees, January 1, 2019	\$ 9,494,214	\$ 20,828,375	\$ 30,322,589
Investment results	1,353,096	3,039,584	4,392,680
Spending policy distributions	(408,530)	(1,075,924)	(1,484,454)
Transfers / other activity	(634,300)	-	(634,300)
Interest in net assets of the Trustees, December 31, 2019	<u>\$ 9,804,480</u>	<u>\$ 22,792,035</u>	<u>\$ 32,596,515</u>

The following schedule summarizes the change in net assets of the Trustees for the benefit of the Diocese and its classification in the consolidated statement of activities for the year ended December 31, 2019:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Unrealized gains (losses)	\$ 1,109,439	\$ 2,490,365	\$ 3,599,804
Realized gains (losses)	131,931	297,281	429,212
Interest and dividends, net	111,726	251,938	363,664
Release of restrictions	1,075,370	(1,075,370)	-
Change in net assets	<u>\$ 2,428,466</u>	<u>\$ 1,964,214</u>	<u>\$ 4,392,680</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 consolidated statement of financial position at December 31, 2018:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board designated funds	\$ 9,494,214	\$ -	\$ 9,494,214
Donor-restricted purpose funds	-	407,892	407,892
Donor-restricted endowment funds			
Amounts required to be maintained in perpetuity by donor	-	4,091,840	4,091,840
Accumulated investment gains	-	16,328,643	16,328,643
Total	<u>\$ 9,494,214</u>	<u>\$ 20,828,375</u>	<u>\$ 30,322,589</u>

The following schedule summarizes the change in net assets of the Trustees for the benefit of the Diocese and its classification in the consolidated statement of financial position at December 31, 2018:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Interest in the net assets of the Trustees, January 1, 2018	\$ 10,341,147	\$ 22,720,219	\$ 33,061,366
Investment results	(356,606)	(840,164)	(1,196,770)
Spending policy distributions	(437,553)	(1,051,680)	(1,489,233)
Transfers / other activity	(52,774)	-	(52,774)
Interest in the net assets of the Trustees, December 31, 2018	<u>\$ 9,494,214</u>	<u>\$ 20,828,375</u>	<u>\$ 30,322,589</u>

The following schedule summarizes the change in net assets of the Trustees for the benefit of the Diocese and its classification in the consolidated statement of activities for the year ended December 31, 2018:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Unrealized gains (losses)	\$ (605,501)	\$ (1,389,687)	\$ (1,995,188)
Realized gains (losses)	113,631	250,931	364,562
Interest and dividends, net	135,264	298,592	433,856
Release of restrictions	1,051,314	(1,051,314)	-
Change in net assets	<u>\$ 694,708</u>	<u>\$ (1,891,478)</u>	<u>\$ (1,196,770)</u>

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

Approximately 36% 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 (64%) 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 investment strategy of the Trustees includes investment vehicles that are structured as limited partnerships (Level 3) versus separate accounts or mutual funds. Approximately 61% of Level 3 investments are collective trusts that invest in Level 1 holdings priced daily. Certain Level 3 investment valuations involve appraisals, assumptions, and methods that are reviewed by the Trustees' 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. NOTES RECEIVABLE:

As of December 31, notes receivable consisted of the following:

	<u>2019</u>	<u>2018</u>
Note receivable dated January 8, 2014 in the original amount of \$325,000 to be collected in 240 monthly installments due in full January 2034. The initial interest rate is 4.75% per annum; on the fifth, tenth and fifteenth anniversary date the rate will be adjusted to the Federal Home Loan Bank – Boston Amortizing Advance Five Year Rate / 20 year in effect plus 3.5% per annum. The minimum interest during the term of the note will not be less than 4.75% and no individual increase shall be greater than 1.25% over the preceding period. The note is secured by real estate.	\$ 260,519	\$ 272,061
Note receivable date July 1, 2018 for up to \$30,000 to be collected in monthly installments of \$500, including simple interest at 3.25% per annum. All outstanding principal and interest is due December 2023.	17,065	15,631
Total notes receivable	277,584	287,692
Less current portion	(16,967)	(17,542)
Notes receivable, less current portion	<u>\$ 260,617</u>	<u>\$ 270,150</u>

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4. NOTES RECEIVABLE: (CONTINUED)

Future maturities of the notes receivable are as follows:

<u>For the Year Ending December 31</u>		
2020	\$	16,967
2021		18,464
2022		19,440
2023		14,961
2024		15,287
Thereafter		192,465
Total	\$	<u>277,584</u>

The notes receivable are stated at the unpaid principal balances. No allowance was deemed necessary by management as of December 31, 2019 and 2018.

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. The Diocese's consolidated financial statements do not conform with accounting principles generally accepted in the United States of America. The independent auditor's opinion has been qualified as a result of this departure (see Independent Auditor's Report).

Property and equipment used in operations

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

	<u>2019</u>	<u>2018</u>
Buildings and improvements		
Buildings reported at management's estimated value	\$ 750,000	\$ 750,000
Buildings reported at cost	50,000	50,000
Building improvements reported at cost	89,583	88,578
Total buildings and improvements	<u>889,583</u>	<u>888,578</u>
Equipment	53,416	53,416
Furniture and fixtures	22,099	22,099
Vehicle	31,155	31,155
	<u>996,253</u>	<u>995,248</u>
Accumulated depreciation	(141,499)	(127,706)
Property and equipment used in operations, net	<u>\$ 854,754</u>	<u>\$ 867,542</u>

Buildings reported at management's estimated value consisted of the following at December 31, 2019:

Mission Churches

Ashfield (St. John's)

Lenox (St. Helena's)

Millville (St. John's)

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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 consisted of the following at December 31, 2019:

Mission Churches

Blackinton (St. Andrew's)	North Grafton (St. Andrew's)
Lanesboro (St. Luke's)	Wilbraham (Epiphany Church)

The Diocese is acting as an agent on behalf of the merged parishes for the North Grafton and Wilbraham properties and as such, no net realizable value has been recorded on the Diocese's consolidated financial statements.

6. LINE OF CREDIT:

The Diocese maintains a demand line of credit with a financial institution which provides for maximum borrowings of \$1,500,000, with interest payable monthly based on the Wall Street Journal prime rate less .50% (4.25% and 5.00% at December 31, 2019 and 2018, respectively) but not less than 2.75% per annum. The line of credit includes a covenant that a certain investment fund held by the Trustees for the Diocese of Western Massachusetts does not drop below \$1,500,000.

This line of credit also 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 \$1,500,000 in the aggregate at any given time, require prior approval of the Diocese and include payment terms up to ten years.

There were no amounts outstanding on the line of credit as of December 31, 2019. The outstanding balance on the line of credit was \$280,000 as of December 31, 2018. The total loans outstanding from parishes and missions guaranteed by the Diocese were approximately \$283,000 and \$215,000 for the years ended December 31, 2019 and 2018, respectively.

7. RETIREMENT AND OTHER POSTRETIREMENT BENEFITS:

Defined contribution pension plan

The Diocese participates in the Episcopal Church Lay Employees' Defined Contribution Retirement Plan. 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 \$57,000 and \$56,000 for the years ended December 31, 2019 and 2018, respectively.

Multiemployer clergy pension plan

The Diocese, on behalf of its clerics, is required to participate (18% assessment rate on a cleric's total assessable compensation) in the Church Pension Fund, a multiemployer defined benefit pension plan. Expense under the plan totaled approximately \$125,700 and \$126,700 for the years ended December 31, 2019 and 2018, respectively. The Diocese's position with respect to the multiemployer plan is not readily determinable. The Church Pension Group which administers the clergy pension system is 100% funded as of the most recent financial statements.

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7. RETIREMENT AND OTHER POSTRETIREMENT BENEFITS: (CONTINUED)

Multiemployer clergy pension plan (continued)

The risks of participating in these multiemployer defined benefit pension plans are different from single-employer plans because: (a) assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers, (b) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be required to be borne by the remaining participating employers, and (c) if an organization chooses to stop participating in one of its multiemployer plans, it may be required to pay a withdrawal liability to the plan. In connection with ongoing renegotiation of participation agreements, an organization may discuss and negotiate for the complete or partial withdrawal from the multiemployer pension plan. Depending on the number of employees withdrawn in any future period and the financial condition of the multiemployer plan at the time of withdrawal, the associated withdrawal liabilities could be material to the Diocese's consolidated change in net assets in the period of the withdrawal. The Diocese has no plans to withdraw from the multiemployer clergy pension plan.

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 consolidated statement of activities in the year in which the changes occur and requires additional disclosures. The Diocese's consolidated financial statements do not conform with accounting principles generally accepted in the United States of America. The independent auditor's opinion has been qualified as a result of this departure (see Independent Auditor's Report). Management and the Board have chosen to update actuarial reports for the applicable plans once every five years, an exception qualifying the independent auditor's report.

The Diocese sponsors a 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, 2019 and 2018 totaled approximately \$64,000 and \$57,700, respectively.

Other postretirement benefit obligations based on actuarial assumptions at December 31, 2019 (the most recently completed actuarial analysis) totaled \$1,178,841. The change in funded status for the year ended December 31, 2019 and the previous actuarial analysis as of December 31, 2014 was recognized through the statement of activities and totaled \$730,341.

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7. RETIREMENT AND OTHER POSTRETIREMENT BENEFITS: (CONTINUED)

Other postretirement benefits (continued)

Expected annual benefit payments per the report are as follows:

<u>For the Year Ending December 31</u>	
2020	\$ 66,320
2021	65,082
2022	64,374
2023	63,502
2024	64,359
2025 – 2029	366,098

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

Actuarial cost method	Projected Unit Credit
Discount rate	3.25% per annum (previously 5.00%)
Healthcare trend rates	4.50% per annum (previously 5.00%)
General inflation assumption	2.75% per annum
Compensation increases	3.00% per annum

The healthcare cost trend rate assumption has a significant impact on the postretirement benefit costs and obligations. In the event that healthcare trend rates were 1% higher than forecast and employee contributions were to increase at the forecast rates, the actuarial accrued liability would increase from \$1,178,841 to \$1,286,798. If such healthcare trend rates were 1% less than forecast and employee contributions were to increase at the forecast rate, the actuarial accrued liability would decrease from \$1,178,841 to \$1,028,150.

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8. NET ASSETS WITH DONOR RESTRICTIONS:

Net assets held at December 31 with donor restrictions consisted of the following:

	<u>2019</u>	<u>2018</u>
Time and purpose restricted		
Religious and charitable purposes	\$ 16,634,925	\$ 14,996,098
Other purposes	1,236,480	1,114,018
Aged clergy	430,2785	381,881
Scholarships	442,753	288,222
Various	10,596	5,596
	<u>\$ 18,755,029</u>	<u>\$ 16,785,815</u>
Perpetual in nature		
Religious and charitable purposes	\$ 2,499,471	\$ 2,499,471
Other purposes	124,204	124,204
Aged clergy	134,730	134,730
Scholarships	1,333,435	1,333,435
	<u>\$ 4,091,840</u>	<u>\$ 4,091,840</u>

Other purposes include, but are not limited to, net assets with donor restrictions for clergy salaries, relief for widows and orphans, assistance for children, and missionary work. Net assets with donor restrictions, purpose and time restricted, consist of an interest in the net assets of the Trustees, distributions receivable from the Trustees, and cash. Releases of the interest in the net assets of the Trustees are shown as part of the change in net assets of the Trustees (see Note 3).

9. OPERATING LEASES:

The Diocese leases office equipment under operating leases which expire in 2023. The leases provide for monthly payments totaling approximately \$851. Total lease expense under office equipment leases was approximately \$5,700 and \$5,600 for the years ended December 31, 2019 and 2018, respectively.

In March 2019, the Diocese entered into a lease for facility space in Worcester, Massachusetts with monthly rental payments in the amount of \$900. The lease commenced March 2019 and is effective through February 2022 with an option for an additional term of three years.

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

	<u>Equipment</u>	<u>Buildings</u>
<u>For the Year Ending December 31</u>		
2020	\$ 5,764	\$ 10,800
2021	5,764	10,800
2022	4,096	1,800
2023	1,475	-
Total	<u>\$ 17,099</u>	<u>\$ 23,400</u>

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10. FAIR VALUE MEASUREMENTS:

Assets measured at fair value on a recurring basis were as follows:

Assets at	Total	Level 1	Level 2	Level 3
December 31, 2019				
Interest in the net assets of the Trustees	\$ 32,596,515	\$ -	\$ -	\$ 32,596,515
Long-lived assets held and used	750,000	-	-	750,000
	<u>\$ 33,346,515</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 33,346,515</u>
December 31, 2018				
Interest in the net assets of the Trustees	\$ 30,322,589	\$ -	\$ -	\$ 30,322,589
Long-lived assets held and used	750,000	-	-	750,000
	<u>\$ 31,072,589</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 31,072,589</u>

There were no changes in the valuation techniques during the current year. 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 others, 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 report date. The Board reviews and approves the Diocese's fair value measurement policies and procedures. At least annually the Board determines if the valuation techniques used in fair value measurements are still appropriate.

The Diocese recognizes transfers between levels in the fair value hierarchy at the end of the reporting period.

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 consist of approximately 75% values based on Level 1 and 2 inputs (per the investment policy and prior year audited financial statements of the Trustees).

Long-lived assets held and used

Certain buildings, for which original cost information was not available, have been recorded at management's estimated value. No depreciation is recorded on these buildings.

Long-lived assets held for sale

Long-lived assets held for sale have been valued using a market approach. The values were determined using market prices of similar long-lived assets. At year end, management's estimate of property and equipment to be disposed of by sale had no net realizable value (see Note 5).

**THE ADMINISTRATIVE OFFICES OF THE EPISCOPAL DIOCESE
OF WESTERN MASSACHUSETTS AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

10. FAIR VALUE MEASUREMENTS: (CONTINUED)

The following schedule reconciles fair value measurements using significant unobservable inputs (Level 3) for the years ended December 31, 2019 and 2018:

	Total	Interest in the net assets of the Trustees	Long-lived assets held and used
Balance, December 31, 2017	\$ 33,811,366	\$ 33,061,366	\$ 750,000
Realized income (loss)	364,562	364,562	-
Unrealized income (loss)	(1,995,188)	(1,995,188)	-
Purchases, issuances, settlements	(1,108,151)	(1,108,151)	-
Balance, December 31, 2018	31,072,589	30,322,589	750,000
Realized income (loss)	429,212	429,212	-
Unrealized income (loss)	3,599,804	3,599,804	-
Purchases, issuances and settlements	(1,755,090)	(1,755,090)	-
Balance, December 31, 2019	<u>\$ 33,346,515</u>	<u>\$ 32,596,515</u>	<u>\$ 750,000</u>

Total activity for the period included on the consolidated statement of activities, related to Level 3 assets held at:

December 31, 2019	\$ 4,392,680	\$ 4,392,680	\$ -
December 31, 2018	\$ (1,196,770)	\$ (1,196,770)	\$ -

11. CONDITIONAL GRANTS:

Funds received in advance are recorded as refundable advances on the consolidated statement of financial position; and will be subsequently recognized as support (other income) on the consolidated statement of activities when the donor conditions are met.

	2019	2018
Beginning balance, conditional grant funds advanced	\$ -	\$ 30,000
Conditional grant funds advanced during the year	39,500	-
Cumulative expenses incurred, conditions met	(32,414)	(30,000)
Refundable advances, at year end	<u>\$ 7,086</u>	<u>\$ -</u>

**THE ADMINISTRATIVE OFFICES OF THE EPISCOPAL DIOCESE
OF WESTERN MASSACHUSETTS AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

12. AVAILABLE RESOURCES AND LIQUIDITY

The Diocese regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The following represents the Diocese's financial assets at December 31, 2019:

Financial assets at year end:	
Cash	\$ 600,684
Receivables	682,876
Investments	32,596,515
Total financial assets	<u>33,880,075</u>
Less amounts not available to be used within one year:	
Net assets with donor restrictions – time and purpose	18,55,029
Net assets with donor restrictions – perpetual	4,091,840
Board designated endowment funds	9,804,480
Long-term receivables	260,617
	<u>32,911,966</u>
Financial assets available to meet general expenditures over the next twelve months	\$ <u>968,109</u>

The Diocese's endowment funds consist of donor-restricted endowments and funds designated by the Board as endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

The Diocese's Board designated endowment funds of \$9,804,480 is subject to the spending policy as described in Note 2. Although the Diocese does not intend to spend from its Board designated endowments (other than amounts appropriated for general expenditures as part of the Diocese's annual budget approval and appropriation), these amounts could be made available if necessary.

13. CONCENTRATIONS OF CREDIT RISK:

The Diocese maintains cash balances at a financial institution in Western Massachusetts. At times, the Diocese's cash balances 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 creditworthiness 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 ADMINISTRATIVE OFFICES OF THE EPISCOPAL DIOCESE
OF WESTERN MASSACHUSETTS AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

13. CONCENTRATIONS OF CREDIT RISK: (CONTINUED)

The Diocese also has an interest in the net assets of the Trustees (see Note 3). The Trustees invest 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 risk in the near term would materially affect the amounts reported in the consolidated statement of financial position and the consolidated statement of activities and changes in net assets.

14. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through June 4, 2020, which is the date the consolidated financial statements were available to be issued.

The Diocese evaluated its December 31, 2019 consolidated financial statements for subsequent events through the date the consolidated financial statements were issued. As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which are likely to negatively impact its support and revenue as well as its interest in net assets of the Trustees. Other financial impacts could occur though such potential impact is unknown at this time. As of April 30, 2020 (certain investment holdings provided on a quarterly basis), the Diocese's interest in net assets of the Trustees value has experienced a temporary decline of approximately 10%, with continued improvement through the date of these statements. As such, the Diocese's financial condition and liquidity may be negatively impacted for the fiscal year 2020.

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

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2019 AND 2018

**THE ADMINISTRATIVE OFFICES OF THE EPISCOPAL DIOCESE
OF WESTERN MASSACHUSETTS AND AFFILIATE
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2019 WITH SUMMARIZED FINANCIAL INFORMATION FOR 2018**

	EDWMA	EMWM	Consolidating	2019 Diocese Total	2018 Diocese Total
ASSETS					
Assets					
Cash	\$ 370,298	\$ 230,386	\$ -	\$ 600,684	\$ 727,941
Accounts receivable, net	14,196	-	-	14,196	14,638
Due to/from Affiliate	-	-	-	-	-
Distribution receivable	391,096	-	-	391,096	393,040
Prepaid expenses	34,162	-	-	34,162	50,537
Due from parishes	-	53,267	-	53,267	32,588
Notes receivable	-	277,584	-	277,584	287,692
Investments held and managed by EDWMA	-	-	-	-	-
Interest in net assets of the Trustees for the Diocese of Western Massachusetts	32,596,515	-	-	32,596,515	30,322,589
Property and equipment, net	<u>104,754</u>	<u>750,000</u>	<u>-</u>	<u>854,754</u>	<u>867,542</u>
Total assets	\$ 33,511,021	\$ 1,311,237	\$ -	\$ 34,822,258	\$ 32,696,567
LIABILITIES AND NET ASSETS					
Liabilities					
Accounts payable and accrued expenses	\$ 8,658	\$ 2,838	\$ -	\$ 11,496	\$ 8,231
Refundable advances	-	7,086	-	7,086	-
Deferred revenue	-	-	-	-	11,500
Agency obligations	98,568	-	-	98,568	122,909
Amounts held on behalf of others	11,639	3,704	-	15,343	8,788
Line of credit	-	-	-	-	280,000
Other postretirement benefit obligations	<u>1,178,841</u>	<u>-</u>	<u>-</u>	<u>1,178,841</u>	<u>1,909,182</u>
Total liabilities	<u>1,297,706</u>	<u>13,628</u>	<u>-</u>	<u>1,311,334</u>	<u>2,340,610</u>
Net assets					
Without donor restrictions					
Unrestricted	(438,034)	1,297,609	-	859,575	(15,912)
Unrestricted - board designated	9,804,480	-	-	9,804,480	9,494,214
With donor restrictions					
Time and purpose restricted	18,755,029	-	-	18,755,029	16,785,815
Perpetual in nature	<u>4,091,840</u>	<u>-</u>	<u>-</u>	<u>4,091,840</u>	<u>4,091,840</u>
Total net assets	<u>32,213,315</u>	<u>1,297,609</u>	<u>-</u>	<u>33,510,924</u>	<u>30,355,957</u>
Total liabilities and net assets	\$ 33,511,021	\$ 1,311,237	\$ -	\$ 34,822,258	\$ 32,696,567

**THE ADMINISTRATIVE OFFICES OF THE EPISCOPAL DIOCESE
OF WESTERN MASSACHUSETTS AND AFFILIATE
CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019
WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED 2018**

	EDWMA	EMWM	Consolidating	2019 Diocese Total	2018 Diocese Total
Support and revenues					
Common ministry	\$ 1,144,906	\$ -	\$ -	\$ 1,144,906	\$ 1,124,645
Other income	<u>246,700</u>	<u>15,942</u>	<u>-</u>	<u>262,642</u>	<u>217,310</u>
	<u>1,391,606</u>	<u>15,942</u>	<u>-</u>	<u>1,407,548</u>	<u>1,341,955</u>
Operating expenses					
Program activities					
Bishop's ministry	699,974	-	-	699,974	634,948
Congregational development	601,719	-	-	601,719	527,419
Diocesan agency	156,604	-	-	156,604	217,231
Fanning the Flames	136,902	-	-	136,902	264,381
Human to Human	254,647	-	-	254,647	-
Leadership development and clergy support	300,418	-	-	300,418	254,196
Mission in the world	<u>554,288</u>	<u>-</u>	<u>-</u>	<u>554,288</u>	<u>785,068</u>
Total program activities	<u>2,704,552</u>	<u>-</u>	<u>-</u>	<u>2,704,552</u>	<u>2,683,243</u>
Supporting services					
Administrative and finance	346,243	-	-	346,243	343,017
Episcopal missions activity	-	63,177	-	63,177	17,300
Fundraising and development	89,331	-	-	89,331	24,669
Governance	<u>191,017</u>	<u>-</u>	<u>-</u>	<u>191,017</u>	<u>245,256</u>
	<u>626,591</u>	<u>63,177</u>	<u>-</u>	<u>689,768</u>	<u>630,242</u>
Total operating expenses	<u>3,331,143</u>	<u>63,177</u>	<u>-</u>	<u>3,394,320</u>	<u>3,313,485</u>
Change in net assets before other changes	(1,939,537)	(47,235)	-	(1,986,772)	(1,971,530)
Other changes					
Change in net assets of the Trustees for the Diocese of Western Massachusetts - investment activity					
net of release of restrictions	4,392,680	-	-	4,392,680	(1,196,770)
Investment income, net	-	-	-	-	(912)
Gain (loss) on sale of assets	-	-	-	-	78,924
Transfer of property and equipment	(15,265)	33,983	-	18,718	(4,027)
Adjustment to employee benefit obligations	<u>730,341</u>	<u>-</u>	<u>-</u>	<u>730,341</u>	<u>-</u>
Change in net assets	3,168,219	(13,252)	-	3,154,967	(3,094,315)
Net assets, beginning of year	<u>29,045,096</u>	<u>1,310,861</u>	<u>-</u>	<u>30,355,957</u>	<u>33,450,272</u>
Net assets, end of year	<u>\$ 32,213,315</u>	<u>\$ 1,297,609</u>	<u>\$ -</u>	<u>\$ 33,510,924</u>	<u>\$ 30,355,957</u>