

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

CONSOLIDATED FINANCIAL STATEMENTS

***DECEMBER 31, 2018 AND 2017
WITH SUPPLEMENTARY INFORMATION***

VIOLA, CHRABASCZ, REYNOLDS & CO. LLP

Certified Public Accountants

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

CONSOLIDATED FINANCIAL STATEMENTS

TABLE OF CONTENTS

Independent Auditor's Report	1 - 2
Financial Statements	
Consolidated Statements of Financial Position	3
Consolidated Statement of Activities	4
Consolidated Statement of Functional Expenses	5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7 - 26
Supplementary Information	
Consolidating Statement of Financial Position	27
Consolidating Statement of Activities	28

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, 2018, 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.

Basis for Qualified Opinion

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

Qualified Opinion

In our opinion, except for the possible 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, 2018, 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.

Report on Summarized Comparative Information

We have previously audited the Diocese's 2017 consolidated financial statements, and we expressed a qualified audit opinion on those audited consolidated financial statements in our report dated June 7, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Other Matters

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.

Viola, Chrabaszcz, Reynolds & Co. LLP

**THE ADMINISTRATIVE OFFICES OF THE
EPISCOPAL DIOCESE OF WESTERN MASSACHUSETTS
AND AFFILIATE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017**

**THE ADMINISTRATIVE OFFICES OF THE EPISCOPAL DIOCESE
OF WESTERN MASSACHUSETTS AND AFFILIATE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017**

	<i>ASSETS</i>	<u>2018</u>	<u>2017</u>
Assets			
Cash		\$ 727,941	\$ 904,940
Accounts receivable, net		14,638	41,570
Distribution receivable		393,040	387,400
Prepaid expenses		50,537	14,908
Due from parishes		32,588	55,839
Notes receivable		287,692	284,031
Investments held and managed by EDWMA		-	230,401
Interest in net assets of the Trustees for the Diocese of Western Massachusetts		30,322,589	33,061,366
Property and equipment, net		<u>867,542</u>	<u>865,379</u>
Total assets		<u>\$ 32,696,567</u>	<u>\$ 35,845,834</u>
<i>LIABILITIES AND NET ASSETS</i>			
Liabilities			
Accounts payable and accrued expenses		\$ 8,231	\$ 30,925
Refundable advances		-	30,000
Deferred revenue		11,500	-
Agency obligations		122,909	123,752
Amounts held on behalf of others		8,788	26,703
Line of credit		280,000	275,000
Other postretirement benefit obligations		<u>1,909,182</u>	<u>1,909,182</u>
Total liabilities		<u>2,340,610</u>	<u>2,395,562</u>
Net assets			
Without donor restrictions			
Unrestricted		(15,912)	345,588
Unrestricted - board designated		<u>9,494,214</u>	<u>10,341,147</u>
Total net assets without donor restrictions		<u>9,478,302</u>	<u>10,686,735</u>
With donor restrictions			
Time and purpose restricted		16,785,815	18,670,197
Perpetual in nature		<u>4,091,840</u>	<u>4,093,340</u>
Total net assets with donor restrictions		<u>20,877,655</u>	<u>22,763,537</u>
Total net assets		<u>30,355,957</u>	<u>33,450,272</u>
Total liabilities and net assets		<u>\$ 32,696,567</u>	<u>\$ 35,845,834</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, 2018
WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2017**

	Without Donor Restrictions	With Donor Restrictions	2018 Total	2017 Total
Support and revenues				
Common ministry	\$ 1,124,645	\$ -	\$ 1,124,645	\$ 1,109,045
Other income	210,214	7,096	217,310	394,415
Net assets released from restrictions	<u>1,500</u>	<u>(1,500)</u>	<u>-</u>	<u>-</u>
	<u>1,336,359</u>	<u>5,596</u>	<u>1,341,955</u>	<u>1,503,460</u>
Operating expenses				
Program Activities				
Bishop's ministry	634,948	-	634,948	565,638
Congregational development	527,419	-	527,419	506,315
Diocesan agency	217,231	-	217,231	191,694
Fanning the Flames	264,381	-	264,381	282,762
Leadership development and clergy support	254,196	-	254,196	272,771
Mission in the world	<u>785,068</u>	<u>-</u>	<u>785,068</u>	<u>625,966</u>
Total program activities	<u>2,683,243</u>	<u>-</u>	<u>2,683,243</u>	<u>2,445,146</u>
Supporting Services				
Administrative and finance	343,017	-	343,017	343,625
Episcopal missions activity	17,300	-	17,300	94,689
Fundraising and development	24,669	-	24,669	-
Governance	<u>245,256</u>	<u>-</u>	<u>245,256</u>	<u>108,142</u>
Total supporting services	<u>630,242</u>	<u>-</u>	<u>630,242</u>	<u>546,456</u>
Total operating expenses	<u>3,313,485</u>	<u>-</u>	<u>3,313,485</u>	<u>2,991,602</u>
Change in net assets before other changes	(1,977,126)	5,596	(1,971,530)	(1,488,142)
Other changes				
Change in net assets of the Trustees for the Diocese of Western Massachusetts - investment activity, net of release of restrictions	694,708	(1,891,478)	(1,196,770)	3,999,346
Investment income, net	(912)	-	(912)	9,863
Gain (loss) on sale of assets	78,924	-	78,924	433,340
Adjustment of property to net realizable value	-	-	-	(425,000)
Transfer of property and equipment	(4,027)	-	(4,027)	(67,666)
Adjustment to employee benefit obligations	<u>-</u>	<u>-</u>	<u>-</u>	<u>98,044</u>
Change in net assets	(1,208,433)	(1,885,882)	(3,094,315)	2,559,785
Net assets, beginning of year	<u>10,686,735</u>	<u>22,763,537</u>	<u>33,450,272</u>	<u>30,890,487</u>
Net assets, end of year	<u>\$ 9,478,302</u>	<u>\$ 20,877,655</u>	<u>\$ 30,355,957</u>	<u>\$ 33,450,272</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, 2018
WITH SUMMARIZED FINANCIAL INFORMATION FOR DECEMBER 31, 2017

	Program Activities						Supporting Services						
	Bishop's Ministry	Congregational Development	Diocesan Agency	Fanning the Flames	Leadership Development and Clergy Support	Mission in the World	Episcopal Missions Activity	Fundraising and Development	Governance	Administrative and Finance	2018 Total	2017 Total	
Employee compensation and related costs													
Employee salary and payroll taxes	\$ 221,867	\$ 125,064	\$ 133,220	\$ 96,646	\$ 111,144	\$ 105,313	\$ 2,500	\$ -	\$ 11,328	\$ 224,200	\$ 1,031,282	\$ 935,256	
Employee benefits	182,662	157,029	48,882	85,349	70,283	148,295	-	-	60,801	49,595	802,896	685,849	
	404,529	282,093	182,102	181,995	181,427	253,608	2,500	-	72,129	273,795	1,834,178	1,621,105	
Other expenses													
Depreciation	9,220	1,306	783	-	1,001	1,091	-	-	310	1,178	14,889	16,147	
Food and refreshments	5,327	4,744	-	-	8,317	184	-	71	878	3,265	22,786	22,901	
Grants	3,000	124,059	-	58,741	4,543	427,492	3,264	9,000	-	1,500	631,599	677,492	
Insurance	3,808	1,560	1,007	-	1,004	1,402	436	-	399	1,515	11,131	20,310	
Interest	-	-	-	-	-	-	-	-	-	5,016	5,016	6,579	
Internet	3,967	1,809	1,168	-	1,164	2,616	-	-	462	1,756	12,942	12,380	
Memberships, dues and subscriptions	1,504	1,800	890	-	2,750	750	-	350	-	175	8,219	7,272	
Miscellaneous	8,523	460	(4)	-	399	-	22	-	-	2,285	11,685	1,770	
Office supplies	5,307	3,551	2,200	-	2,116	2,816	-	-	769	2,921	19,680	26,113	
Postage and delivery	6,567	1,533	990	-	986	1,378	-	-	392	1,486	13,332	8,343	
Printing and binding	13,032	3,618	-	-	-	122	-	-	-	722	17,494	14,782	
Professional conferences	4,311	9,709	2,120	-	8,395	1,006	-	-	40,868	2,141	68,550	33,713	
Professional fees	5,886	18,755	13,785	21,600	163	815	6,926	15,248	3,734	2,925	89,837	56,346	
Professional services and consultants	-	-	-	-	-	-	24	-	68,225	19,500	87,749	86,743	
Program supplies and expenses	102,794	27,878	-	2,045	12,778	45,240	-	-	40,636	-	231,371	135,936	
Rent	18,773	13,092	8,452	-	8,422	21,968	-	-	3,346	12,709	86,762	85,631	
Repairs and maintenance	8,135	4,977	3,214	-	3,202	4,474	3,880	-	1,272	4,832	33,986	47,692	
Speaker fees and honorariums	1,000	2,850	-	-	5,320	-	-	-	250	-	9,420	10,250	
Telephone	2,662	2,544	524	-	1,713	729	-	-	207	788	9,167	8,274	
Travels and meals	26,603	21,081	-	-	10,496	16,295	51	-	11,379	4,508	90,413	66,846	
Utilities	-	-	-	-	-	3,082	197	-	-	-	3,279	24,977	
Total operating expenses	\$ 634,948	\$ 527,419	\$ 217,231	\$ 264,381	\$ 254,196	\$ 785,068	\$ 17,300	\$ 24,669	\$ 245,256	\$ 343,017	\$ 3,313,485	\$ 2,991,602	

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, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Change in net assets	\$ (3,094,315)	\$ 2,559,785
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	14,889	16,147
(Gain) loss on sale of property and equipment	(78,924)	(433,340)
Adjustment of assets to net realizable value	-	425,000
Gain on employee benefit obligations	-	(98,044)
Change in net assets of the Trustees	1,196,770	(3,999,346)
Unrealized and realized (gains) losses from investments	5,199	(3,366)
Changes in operating assets and liabilities:		
Receivables	21,292	(9,821)
Prepaid expenses	(35,629)	3,202
Due from parishes	23,251	(55,839)
Accounts payable and accrued expenses	(22,694)	(4,610)
Refundable advances	(30,000)	(5,827)
Deferred revenue	11,500	-
Agency obligations	(843)	(9,670)
Amounts held on behalf of others	(17,915)	(5,028)
Retirement benefit obligations	-	(9,187)
Net cash used by operating activities	<u>(2,007,419)</u>	<u>(1,629,944)</u>
Cash flows from investing activities		
Purchase of property and equipment and development costs	(17,052)	(21,425)
Proceeds on sale of property and equipment	78,924	545,000
Cash provided on note receivable	(15,631)	-
Repayments on note receivable	11,970	11,415
Purchase of investments held by EDWMA	-	(2,282)
Proceeds from sale of investments held by EDWMA	<u>225,202</u>	<u>-</u>
Net cash provided by investing activities	<u>283,413</u>	<u>532,708</u>
Cash flows from financing activities		
Line of credit, net	5,000	275,000
Proceeds from/transfers to interest in net assets of the Trustees, net	<u>1,542,007</u>	<u>830,671</u>
Net cash provided by financing activities	<u>1,547,007</u>	<u>1,105,671</u>
Net increase (decrease) in cash	(176,999)	8,435
Cash, beginning of year	<u>904,940</u>	<u>896,505</u>
Cash, end of year	<u>\$ 727,941</u>	<u>\$ 904,940</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ 5,016	\$ 6,579

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, 2018 AND 2017**

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, 2018 AND 2017**

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, 2018 AND 2017**

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, 2018 and 2017.

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").

Investments held and managed by EDWMA

In accordance with FASB ASC, *Investments – Debt and Equity Securities*, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair value in the statement of financial position. Unrealized gains and losses are included in the change in net assets. The basis for determining the fair value of investments is the readily determinable sales price or current exchange rate of the investments based on prices or quotations for over-the-counter markets.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Investments held and managed by EDWMA (continued)

Net appreciation (declines) in the fair value of investments, which consists of both the realized gains and losses and the unrealized appreciation (decline) of those investments, is reported in the statement of activities. Interest and dividend income is accrued as earned. All security transactions are recorded on a trade date basis. Gains and losses on investments are generally reported as increases or decreases in net assets without donor restrictions unless explicit donor stipulations or law restrict their use.

The Diocese has some exposure to investment risks, including interest rate, market, and credit risk. Due to the level of risk exposure, it is possible that near-term valuation changes for investment securities may occur to an extent that could materially affect the amounts reported in the accompanying consolidated financial statements.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

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

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 \$1,489,000 and \$1,476,000 for the years ended December 31, 2018 and 2017, 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.

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, 2018 and 2017 totaled \$14,889 and \$16,147, 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.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

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.
- 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.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

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, 2018 and 2017.

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.

Reclassifications

Certain items in the consolidated financial statements for the year ended December 31, 2017 have been reclassified to conform to the 2018 presentation. There was no change to the December 31, 2017 change in net assets as a result of these reclassifications.

Summarized financial information for 2017

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, 2017, 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 ADMINISTRATIVE OFFICES OF THE EPISCOPAL DIOCESE
OF WESTERN MASSACHUSETTS AND AFFILIATE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

**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 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 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>

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

**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, 2017:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board designated funds	\$ 10,341,147	\$ -	\$ 10,341,147
Donor-restricted purpose funds	-	452,092	452,092
Donor-restricted endowment funds			
Amounts required to be maintained in perpetuity by donor	-	4,093,340	4,093,340
Accumulated investment gains	-	18,174,787	18,174,787
Total	<u>\$ 10,341,147</u>	<u>\$ 22,720,219</u>	<u>\$ 33,061,366</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, 2017:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Interest in the net assets of the Trustees, January 1, 2017	\$ 8,890,528	\$ 21,002,163	\$ 29,892,691
Investment results	1,224,900	2,774,446	3,999,346
Spending policy distributions	(419,383)	(1,056,390)	(1,475,773)
Transfers / other activity	645,102	-	645,102
Interest in the net assets of the Trustees, December 31, 2017	<u>\$ 10,341,147</u>	<u>\$ 22,720,219</u>	<u>\$ 33,061,366</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, 2017:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Unrealized gains (losses)	\$ 1,140,113	\$ 2,574,892	\$ 3,715,005
Realized gains (losses)	(3,275)	964	(2,311)
Interest and dividends, net	88,062	198,590	286,652
Other	(865)	865	-
Release of restrictions	1,056,390	(1,056,390)	-
Change in net assets	<u>\$ 2,280,425</u>	<u>\$ 1,718,921</u>	<u>\$ 3,999,346</u>

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

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

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, 2018 and 2017.

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. INVESTMENTS HELD AND MANAGED BY EDWMA:

The Board, as the governing authority, is responsible for oversight of the Diocese investments, establishment and implementation of an investment policy, including the establishment of investment guidelines and the selection of investment managers. Investments authorized by the Board include marketable equity, fixed income securities, and other types of investments. Unrealized gains and losses result from changes in the fair value of investments. Realized gains and losses from the sale of investments are computed based on the difference between the proceeds received and the carrying value of the asset. Realized gains and losses resulting from sales or maturities of individual equity or debt securities are calculated on a specific identification basis.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

4. INVESTMENTS HELD AND MANAGED BY EDWMA: (CONTINUED)

There were no investments held and managed by EDWMA as of December 31, 2018.

The following summarizes the investments held and managed by EDWMA as of December 31, 2017:

	<u>Cost or Contributed Value</u>	<u>Fair Value</u>	<u>Cumulative Unrealized Gain (Loss)</u>
Certificate of deposit	\$ 110,973	\$ 110,973	\$ -
Mutual funds - multi-sector fixed income	119,200	119,428	228
Total investments	<u>\$ 230,173</u>	<u>\$ 230,401</u>	<u>\$ 228</u>

Investment return is summarized as follows for the years ended December 31:

	<u>2018</u>	<u>2017</u>
Interest and dividend income, net of fees	\$ 4,287	\$ 6,497
Net realized gains (losses)	(4,971)	-
Net unrealized gains (losses)	(228)	3,366
Total investment income (loss)	<u>\$ (912)</u>	<u>\$ 9,863</u>

5. NOTES RECEIVABLE:

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

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.

	<u>2018</u>	<u>2017</u>
	\$ 272,061	\$ 284,031

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.

Total notes receivable

Less current portion

Notes receivable, less current portion

15,631	-
<u>287,692</u>	<u>284,031</u>
<u>(17,542)</u>	<u>(11,970)</u>
<u>\$ 270,150</u>	<u>\$ 272,061</u>

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

5. NOTES RECEIVABLE: (CONTINUED)

Future maturities of the notes receivable are as follows:

<u>For the Year Ending December 31</u>	
2019	\$ 17,542
2020	18,032
2021	16,405
2022	13,562
2023	14,399
Thereafter	207,752
Total	<u>\$ 287,692</u>

The notes receivable are stated at the unpaid principal balances. No allowance was deemed necessary by management as of December 31, 2018 and 2017.

6. 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>2018</u>	<u>2017</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	<u>88,578</u>	<u>75,388</u>
Total buildings and improvements	888,578	875,388
Equipment	53,416	49,554
Furniture and fixtures	22,099	22,099
Vehicle	<u>31,155</u>	<u>31,155</u>
	995,248	978,196
Accumulated depreciation	<u>(127,706)</u>	<u>(112,817)</u>
Property and equipment used in operations, net	<u>\$ 867,542</u>	<u>\$ 865,379</u>

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

6. PROPERTY AND EQUIPMENT: (CONTINUED)

Buildings reported at management's estimated value consisted of the following at December 31, 2018:

Mission Churches

Ashfield (St. John's)	Lenox (St. Helena's)
Blackinton (St. Andrew's)	Millville (St. John's)
Lanesboro (St. Luke's)	

The change in buildings reported at management's estimated value (write-downs and transfers) for the year ended December 31, 2017 totaled \$425,000.

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, 2018:

Mission Churches

Otis (St. Paul's)	North Grafton (St. Andrew's)
-------------------	------------------------------

The Diocese plans to donate the Otis property to the local historical society and therefore the property has no net realizable value. The Diocese is acting as an agent on behalf of the merged parish for the North Grafton property and as such, no net realizable value has been recorded on the Diocese's consolidated financial statements.

7. 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% (5.00% and 4.00% at December 31, 2018 and 2017, 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 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.

The outstanding balance on the line of credit was \$280,000 and \$275,000 as of December 31, 2018 and 2017, respectively. The total loans outstanding from parishes and missions guaranteed by the Diocese were approximately \$215,000 and \$545,000 for the years ended December 31, 2018 and 2017, respectively.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

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 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.

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 \$56,000 and \$53,200 for the years ended December 31, 2018 and 2017, 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 \$126,700 and \$105,600 for the years ended December 31, 2018 and 2017, 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.

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

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, 2018 and 2017 totaled approximately \$57,700 and \$64,500, respectively.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

8. RETIREMENT AND OTHER POSTRETIREMENT BENEFITS: (CONTINUED)

Other postretirement benefits (continued)

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, 2014 (the most recently completed actuarial analysis) totaled \$1,909,182. The change in funded status for the year ended December 31, 2014 and the previous actuarial analysis as of December 31, 2009 was recognized through the statement of activities and totaled \$273.

Expected annual benefit payments per the report are as follows:

For the Year Ending December 31

2019	\$ 122,045
2020 – 2024	695,950

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	5.00% per annum (previously 6.00%)
Healthcare trend rates	5.00% per annum (previously 6.00%)
General inflation assumption	2.50% per annum
Compensation increases	3.00% per annum
Average remaining service	7.75 years at December 31, 2014

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 \$1,909,182 to \$2,486,268 or by 30.2% and the corresponding annual service cost would increase from \$98,760 to \$162,639 or by 64.7%. 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 \$1,909,182 to \$1,653,743 or by 13.4% and the corresponding annual service cost would decrease from \$98,760 to \$75,323 or by 23.7%.

Under the Patient Protection and Affordable Care Act (PPACA), an excise tax will be imposed for tax years beginning after December 31, 2017 for high cost employer sponsored health coverage. The law specifies a 40% excise tax to be paid by the provider of such coverage. As more regulatory guidance becomes available, the calculation of the excise tax liability will evolve.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

9. NET ASSETS WITH DONOR RESTRICTIONS:

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

	<u>2018</u>	<u>2017</u>
Time and purpose restricted		
Religious and charitable purposes	\$ 14,996,098	\$ 16,590,598
Other purposes	1,114,018	1,217,001
Aged clergy	381,881	428,964
Scholarships	288,222	433,634
Domestic disaster relief fund	5,596	-
	<u>\$ 16,785,815</u>	<u>\$ 18,670,197</u>
Perpetual in nature		
Religious and charitable purposes	\$ 2,499,471	\$ 2,499,471
Other purposes	124,204	125,703
Aged clergy	134,730	134,731
Scholarships	1,333,435	1,333,435
	<u>\$ 4,091,840</u>	<u>\$ 4,093,340</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).

10. 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 \$5,600 and \$7,500 for the years ended December 31, 2018 and 2017, respectively.

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

<u>For the Year Ending December 31</u>	
2019	\$ 5,764
2020	5,764
2021	5,764
2022	5,764
2023	2,031
Total	<u>\$ 25,087</u>

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

11. 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, 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>
December 31, 2017				
Investments held and managed by EDWMA	\$ 230,401	\$ 119,428	\$ 110,973	\$ -
Interest in the net assets of the Trustees	33,061,366	-	-	33,061,366
Long-lived assets held and used	750,000	-	-	750,000
	<u>\$ 34,041,767</u>	<u>\$ 119,428</u>	<u>\$ 110,973</u>	<u>\$ 33,811,366</u>

Investments held and managed by EDWMA

Investments in common stocks, equity and bond funds are valued using market prices on active markets (Level 1). Level 1 instrument valuations are obtained from real-time quotes for transactions in active exchange markets involving identical assets. Investments in certificates of deposit are valued using the amount payable on demand at the report date (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 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.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

11. FAIR VALUE MEASUREMENTS: (CONTINUED)

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 following schedule reconciles fair value measurements using significant unobservable inputs (Level 3) for the years ended December 31, 2018 and 2017:

	Total	Interest in the net assets of the Trustees	Long-lived assets held and used	Long-lived assets held for sale
Balance, December 31, 2016	\$ 31,167,691	\$ 29,892,691	\$ 1,175,000	\$ 100,000
Realized income (loss)	(2,311)	(2,311)	-	-
Unrealized income (loss)	3,715,005	3,715,005	-	-
Purchases, issuances, settlements	(644,019)	(544,019)	-	(100,000)
Write-down in value	(425,000)	-	(425,000)	-
Transfers	-	-	-	-
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 and settlements	(1,108,151)	(1,108,151)	-	-
Write-down in value	-	-	-	-
Transfers	-	-	-	-
Balance, December 31, 2018	<u>\$ 31,072,589</u>	<u>\$ 30,322,589</u>	<u>\$ 750,000</u>	<u>\$ -</u>

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

December 31, 2018	\$ (1,196,770)	\$ (1,196,770)	\$ -	\$ -
December 31, 2017	\$ 3,574,346	\$ 3,999,346	\$ (425,000)	\$ -

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

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

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, 2018:

Financial assets at year end:	
Cash	\$ 727,941
Receivables	695,370
Investments	30,322,589
Total financial assets	<u>31,745,900</u>
Less amounts not available to be used within one year:	
Net assets with donor restrictions – time and purpose	16,785,815
Net assets with donor restrictions – perpetual	4,091,840
Board designated endowment funds	9,494,214
Long-term receivables	270,150
	<u>30,642,019</u>
Financial assets available to meet general expenditures over the next twelve months	\$ <u>1,103,881</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 \$9,494,214 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. CONDITIONAL GRANTS:

During 2015, the Diocese received a restricted conditional grant of \$30,000. The payment was received in advance of the conditions being met (incurring expenses in accordance with the grant agreement); was recorded as refundable advance on the consolidated statement of financial position; and is to be recognized as support (other income) on the consolidated statement of activities when donor conditions are met. All amounts were recognized as support during the year ended December 31, 2018.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

14. 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 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 holds and manages investments. Investments are subject to both credit and market risk. Credit risk is the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Market risk is the possibility that fluctuations in the investment market will impact the value of the portfolio. The Diocese has an investment policy and utilizes management oversight, and periodically reviews its investment portfolios to monitor these risks.

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.

15. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through June 6, 2019, which is the date the consolidated financial statements were available to be issued.

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

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2018 AND 2017

**THE ADMINISTRATIVE OFFICES OF THE EPISCOPAL DIOCESE
OF WESTERN MASSACHUSETTS AND AFFILIATE
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2018 WITH SUMMARIZED FINANCIAL INFORMATION FOR 2017**

	EDWMA	EMWM	Consolidating	2018 Diocese Total	2017 Diocese Total
ASSETS					
Assets					
Cash	\$ 565,732	\$ 162,209	\$ -	\$ 727,941	\$ 904,940
Accounts receivable, net	14,638	-	-	14,638	41,570
Due to/from Affiliate	(80,000)	80,000	-	-	-
Distribution receivable	393,040	-	-	393,040	387,400
Prepaid expenses	50,537	-	-	50,537	14,908
Due from parishes	-	32,588	-	32,588	55,839
Notes receivable	-	287,692	-	287,692	284,031
Investments held and managed by EDWMA	-	-	-	-	230,401
Interest in net assets of the Trustees for the Diocese of Western Massachusetts	30,322,589	-	-	30,322,589	33,061,366
Property and equipment, net	<u>117,542</u>	<u>750,000</u>	<u>-</u>	<u>867,542</u>	<u>865,379</u>
Total assets	<u>\$ 31,384,078</u>	<u>\$ 1,312,489</u>	<u>\$ -</u>	<u>\$ 32,696,567</u>	<u>\$ 35,845,834</u>
LIABILITIES AND NET ASSETS					
Liabilities					
Accounts payable and accrued expenses	\$ 6,603	\$ 1,628	\$ -	\$ 8,231	\$ 30,925
Refundable advances	-	-	-	-	30,000
Deferred revenue	11,500	-	-	11,500	-
Agency obligations	122,909	-	-	122,909	123,752
Amounts held on behalf of others	8,788	-	-	8,788	26,703
Line of credit	280,000	-	-	280,000	275,000
Other postretirement benefit obligations	<u>1,909,182</u>	<u>-</u>	<u>-</u>	<u>1,909,182</u>	<u>1,909,182</u>
Total liabilities	<u>2,338,982</u>	<u>1,628</u>	<u>-</u>	<u>2,340,610</u>	<u>2,395,562</u>
Net assets					
Without donor restrictions					
Unrestricted	(1,326,773)	1,310,861	-	(15,912)	345,588
Unrestricted - board designated	9,494,214	-	-	9,494,214	10,341,147
With donor restrictions					
Time and purpose restricted	16,785,815	-	-	16,785,815	18,670,197
Perpetual in nature	<u>4,091,840</u>	<u>-</u>	<u>-</u>	<u>4,091,840</u>	<u>4,093,340</u>
Total net assets	<u>29,045,096</u>	<u>1,310,861</u>	<u>-</u>	<u>30,355,957</u>	<u>33,450,272</u>
Total liabilities and net assets	<u>\$ 31,384,078</u>	<u>\$ 1,312,489</u>	<u>\$ -</u>	<u>\$ 32,696,567</u>	<u>\$ 35,845,834</u>

**THE ADMINISTRATIVE OFFICES OF THE EPISCOPAL DIOCESE
OF WESTERN MASSACHUSETTS AND AFFILIATE
CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018
WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED 2017**

	EDWMA	EMWM	Consolidating	2018 Diocese Total	2017 Diocese Total
Support and revenues					
Common ministry	\$ 1,124,645	\$ -	\$ -	\$ 1,124,645	\$ 1,109,045
Other income	<u>153,512</u>	<u>63,798</u>	<u>-</u>	<u>217,310</u>	<u>394,415</u>
	<u>1,278,157</u>	<u>63,798</u>	<u>-</u>	<u>1,341,955</u>	<u>1,503,460</u>
Operating expenses					
Program activities					
Bishop's ministry	634,948	-	-	634,948	565,638
Congregational development	527,419	-	-	527,419	506,315
Diocesan agency	217,231	-	-	217,231	191,694
Fanning the Flames	264,381	-	-	264,381	282,762
Leadership development and clergy support	254,196	-	-	254,196	272,771
Mission in the world	<u>785,068</u>	<u>-</u>	<u>-</u>	<u>785,068</u>	<u>625,966</u>
Total program activities	<u>2,683,243</u>	<u>-</u>	<u>-</u>	<u>2,683,243</u>	<u>2,445,146</u>
Supporting services					
Administrative and finance	343,017	-	-	343,017	343,625
Episcopal missions activity	-	17,300	-	17,300	94,689
Fundraising and development	24,669	-	-	24,669	-
Governance	<u>245,256</u>	<u>-</u>	<u>-</u>	<u>245,256</u>	<u>108,142</u>
	<u>612,942</u>	<u>17,300</u>	<u>-</u>	<u>630,242</u>	<u>546,456</u>
Total operating expenses	<u>3,296,185</u>	<u>17,300</u>	<u>-</u>	<u>3,313,485</u>	<u>2,991,602</u>
Change in net assets before other changes	(2,018,028)	46,498	-	(1,971,530)	(1,488,142)
Other changes					
Change in net assets of the Trustees for the Diocese of Western Massachusetts - investment activity net of release of restrictions	(1,196,770)	-	-	(1,196,770)	3,999,346
Investment income, net	(912)	-	-	(912)	9,863
Gain (loss) on sale of assets	-	78,924	-	78,924	433,340
Adjustment of property to net realizable value	-	-	-	-	(425,000)
Transfer of property and equipment	584,374	(588,401)	-	(4,027)	(67,666)
Adjustment to employee benefit obligations	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>98,044</u>
Change in net assets	(2,631,336)	(462,979)	-	(3,094,315)	2,559,785
Net assets, beginning of year	<u>31,676,432</u>	<u>1,773,840</u>	<u>-</u>	<u>33,450,272</u>	<u>30,890,487</u>
Net assets, end of year	<u>\$ 29,045,096</u>	<u>\$ 1,310,861</u>	<u>\$ -</u>	<u>\$ 30,355,957</u>	<u>\$ 33,450,272</u>