

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

***CONSOLIDATED FINANCIAL STATEMENTS***

***DECEMBER 31, 2014***

***WITH SUMMARIZED FINANCIAL INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2013  
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 - 5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7 - 25
Supplementary Information	
Consolidating Statement of Financial Position	26 - 27
Consolidating Statement of Activities	28 - 29

## 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, 2014, and the related consolidated statements of activities 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 9 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 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, 2014, 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 2013 consolidated financial statements, and we expressed a qualified audit opinion on those audited consolidated financial statements in our report dated September 4, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013 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, 2014 AND 2013**

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

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2014 AND 2013**

***ASSETS***

	<u>2014</u>	<u>2013</u>
<b>Assets</b>		
Cash	\$ 880,507	\$ 786,643
Accounts receivable, net	2,709	24,565
Distribution receivable	350,429	326,654
Bequest receivable	-	48,525
Prepaid expenses	18,380	32,577
Note receivable	315,869	-
Interest in net assets of the Trustees for the Diocese of Western Massachusetts	29,509,817	29,191,976
Cash value of life insurance	<u>453,231</u>	<u>432,018</u>
Assets, less property and equipment	<u>31,530,942</u>	<u>30,842,958</u>
 <b>Property and equipment used in operations</b>		
Buildings and improvements	2,241,382	2,766,382
Equipment	38,665	61,520
Furniture and fixtures	22,099	21,705
Vehicle	<u>27,621</u>	<u>27,621</u>
	2,329,767	2,877,228
Accumulated depreciation	<u>(94,804)</u>	<u>(110,543)</u>
Property and equipment, net	<u>2,234,963</u>	<u>2,766,685</u>
 <b>Property and equipment to be disposed of by sale</b>	<u>553,020</u>	<u>321,000</u>
 <b>Total assets</b>	 <u>\$ 34,318,925</u>	 <u>\$ 33,930,643</u>

**LIABILITIES AND NET ASSETS**

	<u>2014</u>	<u>2013</u>
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 18,016	\$ 19,387
Refundable advances	25,000	-
Agency obligations	152,456	164,203
Amounts held on behalf of others	28,696	58,031
Line of credit	150,000	200,000
Long term debt	10,583	17,321
Retirement benefit obligations	156,722	66,426
Other postretirement benefit obligations	<u>1,909,182</u>	<u>1,908,909</u>
<b>Total liabilities</b>	<u>2,450,655</u>	<u>2,434,277</u>
 <b>Net assets</b>		
Unrestricted	2,304,657	2,207,371
Unrestricted - board designated	8,611,716	8,457,742
Temporarily restricted	16,858,557	16,755,647
Permanently restricted	<u>4,093,340</u>	<u>4,075,606</u>
<b>Total net assets</b>	<u>31,868,270</u>	<u>31,496,366</u>
 <b>Total liabilities and net assets</b>	 <u>\$ 34,318,925</u>	 <u>\$ 33,930,643</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, 2014  
WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED 2013**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2014 Total</u>	<u>2013 Total</u>
<b>Support and revenues</b>					
Common ministry	\$ 1,098,620	\$ -	\$ -	\$ 1,098,620	\$ 1,087,042
Other income	78,373	-	-	78,373	242,924
Net assets released from restrictions	43,223	(43,223)	-	-	-
	<u>1,220,216</u>	<u>(43,223)</u>	<u>-</u>	<u>1,176,993</u>	<u>1,329,966</u>
<b>Operating expenses</b>					
Administrative and finance	438,983	-	-	438,983	427,308
Campus ministries	-	-	-	-	70,845
Congregational development	507,422	-	-	507,422	457,237
Diocesan agency	173,773	-	-	173,773	158,051
Episcopal oversight	564,087	-	-	564,087	513,614
Leadership development and clergy support	329,981	-	-	329,981	311,544
Wider church	414,073	-	-	414,073	355,523
Springfield community together	-	-	-	-	132,070
Episcopal missions activity	43,300	-	-	43,300	42,792
Total operating expenses	<u>2,471,619</u>	<u>-</u>	<u>-</u>	<u>2,471,619</u>	<u>2,468,984</u>
<b>Excess of expenses over support and revenues</b>	<u>(1,251,403)</u>	<u>(43,223)</u>	<u>-</u>	<u>(1,294,626)</u>	<u>(1,139,018)</u>

(Continued)

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 (Continued)  
FOR THE YEAR ENDED DECEMBER 31, 2014  
WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED 2013**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2014 Total</u>	<u>2013 Total</u>
<b>Change in net assets of the Trustees for the Diocese of Western Massachusetts</b>					
Investment activity, net of release of restrictions	\$ 1,472,657	\$ 146,133	\$ 17,734	\$ 1,636,524	\$ 3,732,132
<b>Change in net assets before other changes</b>	221,254	102,910	17,734	341,898	2,593,114
<b>Other changes</b>					
Gain (loss) on sale of assets	16,109	-	-	16,109	148,997
Adjustment of property to net realizable value	-	-	-	-	(54,000)
Transfer of property and equipment	130,202	-	-	130,202	(82,672)
Adjustment to employee benefit obligations	(116,305)	-	-	(116,305)	-
Other income (loss)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>42,000</u>
<b>Change in net assets</b>	251,260	102,910	17,734	371,904	2,647,439
<b>Net assets, beginning of year</b>	<u>10,665,113</u>	<u>16,755,647</u>	<u>4,075,606</u>	<u>31,496,366</u>	<u>28,848,927</u>
<b>Net assets, end of year</b>	<u>\$ 10,916,373</u>	<u>\$ 16,858,557</u>	<u>\$ 4,093,340</u>	<u>\$ 31,868,270</u>	<u>\$ 31,496,366</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, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
<b>Cash flows from operating activities</b>		
Net change in net assets	\$ 371,904	\$ 2,647,439
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Bad debt recovery	(3,938)	-
Depreciation	16,558	20,427
(Gain) loss on sale of property and equipment	(16,109)	(148,997)
Transfer of property to (from) parish or mission	(380,000)	82,672
Adjustment of assets to net realizable value	-	54,000
Actuarial loss on employee benefit obligations	116,305	-
Change in net assets of the Trustees	(1,632,524)	(4,369,839)
Changes in operating assets and liabilities:		
Accounts receivable	25,794	29,957
Distribution receivable	(23,775)	(20,415)
Bequest receivable	48,525	(48,525)
Prepaid expenses	14,197	(25,052)
Cash value of life insurance	(5,077)	(6,903)
Accounts payable and accrued expenses	(1,371)	(32,784)
Refundable advances	25,000	-
Agency obligations	(11,747)	(1,990)
Amounts held on behalf of others	(29,335)	14,245
Retirement benefit obligations	(25,736)	(25,296)
Net cash used by operating activities	<u>(1,511,329)</u>	<u>(1,831,061)</u>
<b>Cash flows from investing activities</b>		
Purchase of property and equipment and development costs	(19,332)	(108,365)
Proceeds on sale of property and equipment	373,585	655,000
Repayments on note receivable	9,131	-
Increase in cash value of life insurance	(16,136)	(13,831)
Proceeds from cash value of life insurance	-	34,600
Net cash provided by investing activities	<u>347,248</u>	<u>567,404</u>
<b>Cash flows from financing activities</b>		
Payments on long term debt	(6,738)	(42,155)
Line of credit, net	(50,000)	25,000
Proceeds from interest in net assets of the Trustees	1,314,683	1,234,060
Net cash provided by financing activities	<u>1,257,945</u>	<u>1,216,905</u>
Net increase (decrease) in cash	93,864	(46,752)
Cash, beginning of year	786,643	833,395
Cash, end of year	<u>\$ 880,507</u>	<u>\$ 786,643</u>
<b>Supplemental disclosure of cash flow information</b>		
Cash paid during the year for interest	\$ 3,395	\$ 4,196
Sale of building financed through note receivable	325,000	-

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, 2014 AND 2013**

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

#### **Basis of presentation**

The accompanying 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, 2014 AND 2013**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

**Net assets**

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

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

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

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

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

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

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

**Support and revenue**

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

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



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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

**Support and revenue (continued)**

Contributions of cash and other assets are presented as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions. Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues in the unrestricted net asset class.

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

**Donated materials and services**

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

Donated services are recorded as contributions when those services create or enhance non-financial assets or require specialized skills provided by individuals possessing those skills and which would be typically purchased if not provided by donation. No amounts have been reflected in the accompanying 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 year ended December 31, 2014. The allowance for doubtful accounts totaled \$3,938 at December 31, 2013.

**Distribution receivable**

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

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

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

The Diocese recognizes its interest in the net assets of the Trustees in accordance with 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 interest of the Episcopal Church within the Diocese of Western Massachusetts.

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

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

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

UPMIFA allows prudent appropriation of the total return on donor restricted endowment funds taking into consideration the Diocese's long and short-term needs, present and anticipated financial requirements, expected future total return on its investments, price level trends and general economic conditions. Under the applicable spending policy, each quarter up to 5% of the average of the fair value of donor restricted endowment funds at the end of the previous twelve quarters, multiplied by 25%, is appropriated to support current operations. This policy is designed to preserve the value of donor restricted endowment funds in real terms (after inflation) and provide a predictable flow of funds to support operations. Although not required by state law, the same spending policy is followed for the quasi-endowment funds. Appreciation utilized under this policy was approximately \$1,315,000 and \$1,234,000 for the years ended December 31, 2014 and 2013, respectively.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

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

The investments held by the Trustees for the benefit of the Diocese are exposed to various risks, such as interest rate, market and credit risk. Due to the level of uncertainty related to changes in interest rates, market volatility and credit risks, it is at least reasonably possible that changes in these risks could materially affect the fair value of investments and related activity reported on the 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, 2014 and 2013 totaled \$16,558 and \$20,427, 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.

**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.

**Liquidity information**

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

**Reclassifications**

Certain items in the consolidated financial statements for the year ended December 31, 2013 have been reclassified to conform to the 2014 presentation. There was no change to the December 31, 2013 change in net assets as a result of these reclassifications.



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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

**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 activities. 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.
- Campus Ministries oversees ministry to college aged people and young adults. This activity was transferred during 2013 to the parish level with support from the Canons to the Ordinary of the Diocese.
- 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.
- Episcopal Oversight 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.
- Leadership Development and Clergy Support oversees and performs the hiring function of ordained people, and focuses on leadership development and training for clergy. Funding is available for group trainings as well as continuing education.
- Wider Church is the designation for support and collaboration of ministries outside the Diocese. Included is the Diocese support for the Episcopal Church, the Mass Council of Churches, and various ministries and programs around the globe.
- Springfield Community Together was created in response to the 2011 tornado in Springfield, Massachusetts. The Diocese served as fiscal agent for the FEMA designated Long Term Recovery program. The work of this program ended in 2013.
- 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.

**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, 2014 and 2013.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

**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.

**Summarized financial information for 2013**

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, 2013, from which the summarized information was derived.

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

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

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

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**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, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board designated funds	\$ 8,611,716	\$ -	\$ -	\$ 8,611,716
Donor restricted purpose funds	-	415,574	-	415,574
Donor restricted endowment funds	-	16,389,187	4,093,340	20,482,527
Interest in the net assets of the Trustees	<u>\$ 8,611,716</u>	<u>\$ 16,804,761</u>	<u>\$ 4,093,340</u>	<u>\$ 29,509,817</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, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Interest in the net assets of the Trustees, January 1, 2014	\$ 8,457,742	\$ 16,658,628	\$ 4,075,606	\$ 29,191,976
Investment results	445,804	1,084,346	-	1,530,150
Spending policy distributions	(378,847)	(935,836)	-	(1,314,683)
Transfers	87,017	1,623	17,734	106,374
Other	-	(4,000)	-	(4,000)
Interest in the net assets of the Trustees, December 31, 2014	<u>\$ 8,611,716</u>	<u>\$ 16,804,761</u>	<u>\$ 4,093,340</u>	<u>\$ 29,509,817</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, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Unrealized gains (losses)	\$ (748,160)	\$ (1,814,648)	\$ -	\$ (2,562,808)
Realized gains	1,045,053	2,536,980	-	3,582,033
Interest and dividends, net	148,911	362,014	-	510,925
Transfers	87,017	1,623	17,734	106,374
Release of restrictions on spending policy distributions	939,836	(939,836)	-	-
Change in net assets	<u>\$ 1,472,657</u>	<u>\$ 146,133</u>	<u>\$ 17,734</u>	<u>\$ 1,636,524</u>

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**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, 2013:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board designated funds	\$ 8,457,742	\$ -	\$ -	\$ 8,457,742
Donor restricted purpose funds	-	407,716	-	407,716
Donor restricted endowment funds	-	16,250,912	4,075,606	20,326,518
Interest in the net assets of the Trustees	<u>\$ 8,457,742</u>	<u>\$ 16,658,628</u>	<u>\$ 4,075,606</u>	<u>\$ 29,191,976</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, 2013:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Interest in the net assets of the Trustees, January 1, 2013	\$ 7,161,759	\$ 14,818,832	\$ 4,075,606	\$ 26,056,197
Investment results	1,073,535	2,744,698	-	3,818,233
Spending policy distributions	(345,716)	(888,344)	-	(1,234,060)
Transfers	490,230	-	-	490,230
Other	77,934	(16,558)	-	61,376
Interest in the net assets of the Trustees, December 31, 2013	<u>\$ 8,457,742</u>	<u>\$ 16,658,628</u>	<u>\$ 4,075,606</u>	<u>\$ 29,191,976</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, 2013:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Unrealized gains	\$ 779,665	\$ 1,987,147	\$ -	\$ 2,766,812
Realized gains	210,464	546,904	-	757,368
Interest and dividends, net	83,406	210,647	-	294,053
Other	(69,543)	(16,558)	-	(86,101)
Release of restrictions on spending policy distributions	888,344	(888,344)	-	-
Change in net assets	<u>\$ 1,892,336</u>	<u>\$ 1,839,796</u>	<u>\$ -</u>	<u>\$ 3,732,132</u>



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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

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

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

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the historic dollar value of the original gift ("historic gift value"). In accordance with accounting principles generally accepted in the United States of America, the historic gift value of donor restricted endowments funds is classified as permanently restricted and cannot be reduced for any excess losses. Any excess losses shall reduce temporarily restricted net assets to the extent there is net appreciation on the related funds. Any remaining excess losses shall reduce unrestricted net assets. There were no funds underwater as of December 31, 2014 and 2013.

Approximately 48% 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 (52%) 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 50% 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. NOTE RECEIVABLE:**

The Diocese granted a note receivable to the buyer (an outside party) of a mission property held for resale in the amount of \$325,000 (secured by the property).

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.

Total

	<u>2014</u>	<u>2013</u>
	\$ 315,869	\$ -
	<u>\$ 315,869</u>	<u>\$ -</u>

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**4. NOTE RECEIVABLE: (CONTINUED)**

Future maturities of the note receivable are as follows:

<u>For the Year Ending December 31</u>	
2015	\$ 9,536
2016	10,667
2017	11,415
2018	11,970
2019	12,551
Thereafter	259,730
Total	<u>\$ 315,869</u>

The note receivable is stated at the unpaid principal balance. No allowance was deemed necessary by management as of December 31, 2014.

**5. CASH VALUE OF LIFE INSURANCE:**

The Diocese is the owner and beneficiary of life insurance policies. The cash surrender values of these policies have been reflected on the consolidated statement of financial position under assets and totaled \$453,231 and \$432,018 for the years ended December 31, 2014 and 2013, respectively. There were no outstanding loans on these policies for the years ended December 31, 2014 and 2013.

**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>2014</u>	<u>2013</u>
Buildings and improvements		
Buildings reported at management's estimated value	\$ 2,125,000	\$ 2,650,000
Buildings reported at cost	50,000	50,000
Building improvements reported at cost	<u>66,382</u>	<u>66,382</u>
Total buildings and improvements	2,241,382	2,766,382
Equipment	38,665	61,520
Furniture and fixtures	22,099	21,705
Vehicle	<u>27,621</u>	<u>27,621</u>
	2,329,767	2,877,228
Accumulated depreciation	<u>94,804</u>	<u>110,543</u>
Property and equipment used in operations, net	<u>\$ 2,234,963</u>	<u>\$ 2,766,685</u>

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**6. PROPERTY AND EQUIPMENT: (CONTINUED)**

Buildings reported at management's estimated value consisted of the following at December 31, 2014:

**Mission Churches**

Ashfield (St. John's)	Lenox (St. Helena's)	Pittsfield (St. Martin's)
Blackinton (St. Andrew's)	Millville (St. John's)	Springfield (St. Luke's)
Lanesboro (St. Luke's)	Otis (St. Paul's)	

South Barre (Christ Church) was sold during the year ended December 31, 2013.

**Property and equipment to be disposed of by sale**

Property and equipment to be disposed of by sale, reported at estimated selling price, consisted of the following:

	<u>2014</u>	<u>2013</u>
Thorndike (St. Mary's)	\$ 173,020	\$ -
Leominster (Chapel of All Saints)	380,000	-
Worcester (St. John's)	-	321,000
Property and equipment to be disposed of by sale	<u>\$ 553,020</u>	<u>\$ 321,000</u>

**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% (2.75% at December 31, 2014 and 2013) but not less than 2.75% per annum. 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 line of credit includes a covenant that certain investments held by the Trustees for the Diocese of Western Massachusetts be unrestricted in an amount not less than \$1,425,000.

The outstanding balance on the line of credit was \$150,000 and \$200,000 at December 31, 2014 and 2013, respectively. The total loans outstanding from parishes and missions guaranteed by the Diocese were approximately \$732,000 and \$396,000 for the years ended December 31, 2014 and 2013, respectively.



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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**8. LONG TERM DEBT:**

As of December 31, long term debt consisted of the following:

	<u>2014</u>	<u>2013</u>
Installment note dated July 10, 2012 in the original amount of \$26,261. The note is payable in 48 monthly installments in the amount of \$582 including principal and interest at 2.99% per annum. The note is secured by a vehicle.		
Current portion	\$ 10,583	\$ 17,321
Long-term portion	(6,767)	(6,568)
	<u>\$ 3,816</u>	<u>\$ 10,753</u>

Future maturities of long term debt are as follows:

<u>For the Year Ending December 31</u>	
2015	\$ 6,767
2016	3,816
Total	<u>\$ 10,583</u>

**9. 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 \$51,300 and \$53,100 for the years ended December 31, 2014 and 2013, 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 \$62,400 and \$65,700 for the years ended December 31, 2014 and 2013, 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 ADMINISTRATIVE OFFICES OF THE EPISCOPAL DIOCESE  
OF WESTERN MASSACHUSETTS AND AFFILIATE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**9. 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.

**Supplemental retirement arrangements**

The Diocese has entered into supplemental retirement arrangements with a former employee that provides for fixed benefits, increased each year based on the Consumer Price Index, over his life. Supplemental retirement benefits totaled approximately \$29,700 and \$29,300 for the years ended December 31, 2014 and 2013, respectively.

The former employee has a survivor benefit, whereby two-thirds of his benefit will be provided to his spouse should he pre-decease her. The Diocese is the owner and beneficiary of three life insurance policies on the former employee. The cash surrender values of these policies have been reflected on the consolidated statement of financial position under assets and are not included as part of the funded status of the retirement arrangement below. Cash surrender value on the life insurance policies totaled \$453,231 and \$432,018 as of December 31, 2014 and 2013, respectively.

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

Retirement benefit obligations based on actuarial assumptions at December 31, 2014 totaled \$156,722. The change in funded status for the year ended December 31, 2014 was recognized through the consolidated statement of activities and totaled \$116,032. Retirement benefits paid subsequent to December 31, 2014 and through the next actuarial assumption to be calculated as of December 31, 2019 will be reflected as reductions to the obligation.

**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, 2014 and 2013 totaled approximately \$82,700 and \$91,700, respectively.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**9. 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:

<u>For the Year Ending December 31</u>	
2015	\$ 99,726
2016	103,940
2017	115,742
2018	119,005
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%.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**9. RETIREMENT AND OTHER POSTRETIREMENT BENEFITS: (CONTINUED)**

**Other postretirement benefits (continued)**

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.

**10. TEMPORARILY RESTRICTED NET ASSETS:**

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

	<u>2014</u>	<u>2013</u>
Religious and charitable purposes	\$ 15,089,875	\$ 14,991,486
Other purposes	1,102,998	1,124,945
Aged clergy	384,535	381,658
Scholarships	281,149	257,558
	<u>\$ 16,858,557</u>	<u>\$ 16,755,647</u>

Other purposes include, but are not limited to, temporarily restricted net assets for clergy salaries, relief for widows and orphans, assistance for children and missionary work. Temporarily restricted net assets consist of an interest in the net assets of the Trustees, 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). Other temporarily restricted net assets were released from donor restriction by incurring expenses satisfying the purpose and totaled \$43,223 for the year ended December 31, 2014.

**11. PERMANENTLY RESTRICTED NET ASSETS:**

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

	<u>2014</u>	<u>2013</u>
Religious and charitable purposes	\$ 2,499,471	\$ 2,489,435
Other purposes	125,703	118,005
Aged clergy	134,731	134,731
Scholarships	1,333,435	1,333,435
	<u>\$ 4,093,340</u>	<u>\$ 4,075,606</u>

Other purposes include, but are not limited to, permanently restricted net assets for clergy salaries, relief for widows and orphans, assistance for children and missionary work. Permanently restricted net assets consist of an interest in the net assets of the Trustees (see Note 3).



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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**12. OPERATING LEASES:**

The Diocese leases office equipment under operating leases which expire in 2018. The leases provide for monthly payments totaling approximately \$750. Total lease expense under office equipment leases was approximately \$10,500 and \$12,500 for the years ended December 31, 2014 and 2013, respectively.

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

<u>For the Year Ending December 31</u>	
2015	\$ 8,988
2016	6,258
2017	4,308
2018	718
Total	\$ <u>20,272</u>

**13. CONCENTRATIONS OF CREDIT RISK:**

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

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

**14. FAIR VALUE MEASUREMENTS:**

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

<u>Assets at December 31, 2014</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Interest in the net assets of the Trustees	\$ 29,509,817	\$ -	\$ -	\$ 29,509,817
Long-lived assets held and used	2,125,000	-	-	2,125,000
Long-lived assets held for sale	553,020	-	-	553,020
	\$ <u>32,187,837</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>32,187,837</u>

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**14. FAIR VALUE MEASUREMENTS: (CONTINUED)**

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

<u>Assets at December 31, 2013</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Interest in the net assets of the Trustees	\$ 29,191,976	\$ -	\$ -	\$ 29,191,976
Long-lived assets held and used	2,650,000	-	-	2,650,000
Long-lived assets held for sale	321,000	-	-	321,000
	<u>\$ 32,162,976</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 32,162,976</u>

**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 50% 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.

Long-lived assets held for sale with a carrying amount of \$375,000 were written down to their fair value of \$321,000 (including costs to sell), resulting in a loss of \$54,000, which was included in other changes in unrestricted net assets on the consolidated statement of activities for the year ended December 31, 2013.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**14. FAIR VALUE MEASUREMENTS: (CONTINUED)**

The following schedule reconciles fair value measurements using significant unobservable inputs (Level 3) for the years ended December 31, 2014 and 2013:

	<u>Total</u>	<u>Interest in the net assets of the Trustees</u>	<u>Long-lived assets held and used</u>	<u>Long-lived assets held for sale</u>
<b>Balance, December 31, 2012</b>	\$ 29,206,197	\$ 26,056,197	\$ 2,650,000	\$ 500,000
Realized income (loss)	906,365	757,368	-	148,997
Unrealized income (loss)	2,766,812	2,766,812	-	-
Purchases, issuances, settlements	(662,398)	(388,401)	-	(273,997)
Write-down in value	(54,000)	-	-	(54,000)
<b>Balance, December 31, 2013</b>	32,162,976	29,191,976	2,650,000	321,000
Realized income (loss)	3,598,142	3,582,033	-	16,109
Unrealized income (loss)	(2,562,808)	(2,562,808)	-	-
Purchases, issuances and settlements	(1,390,473)	(701,384)	-	(689,089)
Transfers	380,000	-	(525,000)	905,000
<b>Balance, December 31, 2014</b>	<u>\$ 32,187,837</u>	<u>\$ 29,509,817</u>	<u>\$ 2,125,000</u>	<u>\$ 553,020</u>

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

December 31, 2014	\$ 1,782,835	\$ 1,636,524	\$ -	\$ 146,311
December 31, 2013	\$ 3,744,457	\$ 3,732,132	\$ -	\$ 12,325

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

**15. CONDITIONAL GRANTS:**

During the fiscal year 2014, the Diocese received a conditional promise of \$100,000, due in \$25,000 increments. The first payment was received in advance of the conditions being met (incurring expenses in accordance with the grant agreement); 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 donor conditions are met.

**16. SUBSEQUENT EVENTS:**

Subsequent events have been evaluated through May 28, 2015, 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**

**THE ADMINISTRATIVE OFFICES OF THE EPISCOPAL DIOCESE OF WESTERN MASSACHUSETTS AND AFFILIATE**  
**CONSOLIDATING STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2014 WITH SUMMARIZED FINANCIAL INFORMATION FOR 2013**

	<b>EDWMA</b>	<b>EMWM</b>	<b>Consolidating</b>	<b>2014 Diocese Total</b>	<b>2013 Diocese Total</b>
<b>ASSETS</b>					
<b>Assets</b>					
Cash	\$ 617,567	\$ 262,940	\$ -	\$ 880,507	\$ 786,643
Accounts receivable, net	2,709	-	-	2,709	24,565
Due to/from affiliate	118,640	(118,640)	-	-	-
Distribution receivable	350,429	-	-	350,429	326,654
Bequest receivable	-	-	-	-	48,525
Prepaid expenses	12,377	6,003	-	18,380	32,577
Note receivable	-	315,869	-	315,869	-
Interest in net assets of the Trustees for the Diocese of Western Massachusetts	29,509,817	-	-	29,509,817	29,191,976
Cash value of life insurance	453,231	-	-	453,231	432,018
Assets, less property and equipment	<u>31,064,770</u>	<u>466,172</u>	<u>-</u>	<u>31,530,942</u>	<u>30,842,958</u>
<b>Property and equipment used in operations</b>					
Buildings and improvements	316,382	1,925,000	-	2,241,382	2,766,382
Equipment	38,665	-	-	38,665	61,520
Furniture and fixtures	22,099	-	-	22,099	21,705
Vehicle	<u>27,621</u>	<u>-</u>	<u>-</u>	<u>27,621</u>	<u>27,621</u>
	404,767	1,925,000	-	2,329,767	2,877,228
Accumulated depreciation	<u>(94,804)</u>	<u>-</u>	<u>-</u>	<u>(94,804)</u>	<u>(110,543)</u>
Property and equipment, net	<u>309,963</u>	<u>1,925,000</u>	<u>-</u>	<u>2,234,963</u>	<u>2,766,685</u>
<b>Property and equipment to be disposed of by sale</b>	<u>-</u>	<u>553,020</u>	<u>-</u>	<u>553,020</u>	<u>321,000</u>
<b>Total assets</b>	<u>\$ 31,374,733</u>	<u>\$ 2,944,192</u>	<u>\$ -</u>	<u>\$ 34,318,925</u>	<u>\$ 33,930,643</u>

(Continued)

**THE ADMINISTRATIVE OFFICES OF THE EPISCOPAL DIOCESE OF WESTERN MASSACHUSETTS AND AFFILIATE**  
**CONSOLIDATING STATEMENT OF FINANCIAL POSITION (Continued)**  
**DECEMBER 31, 2014 WITH SUMMARIZED FINANCIAL INFORMATION FOR 2013**

	<u>EDWMA</u>	<u>EMWM</u>	<u>Consolidating</u>	<u>2014 Diocese Total</u>	<u>2013 Diocese Total</u>
<b>LIABILITIES AND NET ASSETS</b>					
<b>Liabilities</b>					
Accounts payable and accrued expenses	\$ 16,433	\$ 1,583	\$ -	\$ 18,016	\$ 19,387
Refundable advances	25,000	-	-	25,000	-
Agency obligations	152,456	-	-	152,456	164,203
Amounts held on behalf of others	28,696	-	-	28,696	58,031
Line of credit	150,000	-	-	150,000	200,000
Long term debt	10,583	-	-	10,583	17,321
Retirement benefit obligations	156,722	-	-	156,722	66,426
Other postretirement benefit obligations	<u>1,909,182</u>	<u>-</u>	<u>-</u>	<u>1,909,182</u>	<u>1,908,909</u>
<b>Total liabilities</b>	<u>2,449,072</u>	<u>1,583</u>	<u>-</u>	<u>2,450,655</u>	<u>2,434,277</u>
<b>Net assets</b>					
Unrestricted	(637,952)	2,942,609	-	2,304,657	2,207,371
Unrestricted - board designated	8,611,716	-	-	8,611,716	8,457,742
Temporarily restricted	16,858,557	-	-	16,858,557	16,755,647
Permanently restricted	<u>4,093,340</u>	<u>-</u>	<u>-</u>	<u>4,093,340</u>	<u>4,075,606</u>
<b>Total net assets</b>	<u>28,925,661</u>	<u>2,942,609</u>	<u>-</u>	<u>31,868,270</u>	<u>31,496,366</u>
<b>Total liabilities and net assets</b>	<u>\$ 31,374,733</u>	<u>\$ 2,944,192</u>	<u>\$ -</u>	<u>\$ 34,318,925</u>	<u>\$ 33,930,643</u>

**THE ADMINISTRATIVE OFFICES OF THE EPISCOPAL DIOCESE OF WESTERN MASSACHUSETTS AND AFFILIATE**  
**CONSOLIDATING STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**  
**WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED 2013**

	<u>EDWMA</u>	<u>EMWM</u>	<u>Consolidating</u>	<u>2014 Diocese Total</u>	<u>2013 Diocese Total</u>
<b>Support and revenues</b>					
Common ministry	\$ 1,098,620	\$ -	\$ -	\$ 1,098,620	\$ 1,087,042
Other income	<u>63,564</u>	<u>14,809</u>	<u>-</u>	<u>78,373</u>	<u>242,924</u>
	<u>1,162,184</u>	<u>14,809</u>	<u>-</u>	<u>1,176,993</u>	<u>1,329,966</u>
<b>Operating expenses</b>					
Administrative and finance	438,983	-	-	438,983	427,308
Campus ministries	-	-	-	-	70,845
Congregational development	507,422	-	-	507,422	457,237
Diocesan agency	173,773	-	-	173,773	158,051
Episcopal oversight	564,087	-	-	564,087	513,614
Leadership development and clergy support	329,981	-	-	329,981	311,544
Wider church	414,073	-	-	414,073	355,523
Springfield community together	-	-	-	-	132,070
Episcopal missions activity	<u>-</u>	<u>43,300</u>	<u>-</u>	<u>43,300</u>	<u>42,792</u>
Total operating expenses	<u>2,428,319</u>	<u>43,300</u>	<u>-</u>	<u>2,471,619</u>	<u>2,468,984</u>
<b>Excess of expenses over support and revenues</b>	<u>(1,266,135)</u>	<u>(28,491)</u>	<u>-</u>	<u>(1,294,626)</u>	<u>(1,139,018)</u>

(Continued)

**THE ADMINISTRATIVE OFFICES OF THE EPISCOPAL DIOCESE OF WESTERN MASSACHUSETTS AND AFFILIATE**  
**CONSOLIDATING STATEMENT OF ACTIVITIES (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**  
**WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED 2013**

	<u>EDWMA</u>	<u>EMWM</u>	<u>Consolidating</u>	<u>2014 Diocese Total</u>	<u>2013 Diocese Total</u>
<b>Change in net assets of the Trustees for the Diocese of Western Massachusetts</b>					
Investment activity, net of release of restrictions	\$ 1,636,524	\$ -	\$ -	\$ 1,636,524	\$ 3,732,132
<b>Change in net assets before other changes</b>	370,389	(28,491)	-	341,898	2,593,114
<b>Other changes</b>					
Gain (loss) on sale of assets	-	16,109	-	16,109	148,997
Adjustment of property to net realizable value	-	-	-	-	(54,000)
Transfer of property and equipment	118,640	11,562	-	130,202	(82,672)
Adjustment to employee benefit obligations	(116,305)	-	-	(116,305)	-
Other income	-	-	-	-	42,000
<b>Change in net assets</b>	372,724	(820)	-	371,904	2,647,439
<b>Net assets, beginning of year</b>	<u>28,552,937</u>	<u>2,943,429</u>	<u>-</u>	<u>31,496,366</u>	<u>28,848,927</u>
<b>Net assets, end of year</b>	<u>\$ 28,925,661</u>	<u>\$ 2,942,609</u>	<u>\$ -</u>	<u>\$ 31,868,270</u>	<u>\$ 31,496,366</u>