

**ADMINISTRATIVE OFFICES OF THE  
DIOCESE OF NEW JERSEY**

Financial Statements  
and  
Supplementary Information

December 31, 2009

# **ADMINISTRATIVE OFFICES OF THE DIOCESE OF NEW JERSEY**

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## INDEPENDENT AUDITORS' REPORT

To the Audit Committee of the Diocese of New Jersey  
Administrative Offices of the Diocese of New Jersey

We have audited the accompanying statement of financial position of Administrative Offices of the Diocese of New Jersey (the "Diocese") as of December 31, 2009 and 2008, and the related statements of activities and cash flows for the year ended December 31, 2009. These financial statements are the responsibility of the Diocese's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Diocese's 2008 financial statements, as restated for the prior period adjustment discussed in Note P.

In our report dated April 22, 2010, we expressed our opinion that, except for the Diocese's failure to record a future unfunded obligation on post retirement benefits, the financial statements presented fairly, in all material respects, the financial position of the Diocese as of December 31, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Diocese as of December 31, 2009 and 2008, and the changes in its net assets and its cash flows for the year ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

As described in Note P to the financial statements, the 2008 financial statements have been restated for an error in the accounting for post retirement benefit obligations.

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## INDEPENDENT AUDITORS' REPORT (CONTINUED)

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Diocese taken as a whole. The accompanying information on pages 19 through 24 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for that portion marked "unaudited," on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Mercaderes, PC*  
*Certified Public Accountants*

December 15, 2011



# ADMINISTRATIVE OFFICES OF THE DIOCESE OF NEW JERSEY

## STATEMENT OF FINANCIAL POSITION

December 31, 2009  
(With Comparative Totals for December 31, 2008)

	<u>2009</u>	<u>2008*</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,694,211	\$ 3,110,061
Cash - restricted	68,603	124,097
Investments in shares of Diocesan Investment Trust (Notes A and D) (431,837 and 430,275 shares @ \$39.23 and \$35.05 per share, respectively)	16,941,539	15,081,149
Other investments	1,746,741	1,482,504
Diocesan fair share contributions receivable, net of allowance for doubtful accounts of \$137,778 (2009) and \$704,553 (2008) (Note E)	240,097	558,172
Loans receivable, net of allowance for doubtful accounts of \$200,203 (2009 and 2008) (Note F)	745,427	652,560
Dental, health, and life insurance premiums receivable, net of allowance for doubtful accounts of \$5,070 (2009) and \$47,425 (2008)	4,991	12,540
Bequests receivable	604,084	448,871
Other receivables and prepaid expenses	212,054	176,101
Equity interest in real estate	72,000	72,000
Property and equipment (Note G)	237,287	234,039
<b>Total Assets</b>	<b><u>\$23,567,034</u></b>	<b><u>\$21,952,094</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 374,332	\$ 367,848
Deferred revenue	-	3,414
Notes payable	22,113	-
Accrued post-retirement benefit obligation (Note I)	4,994,429	3,698,674
Other liabilities	149,040	161,229
<b>Total Liabilities</b>	<b><u>5,539,914</u></b>	<b><u>4,231,165</u></b>
<b>Net Assets</b>		
Unrestricted	(4,971,069)	(4,390,101)
Temporarily restricted (Note J)	15,752,606	14,865,447
Permanently restricted (Note J)	7,245,583	7,245,583
<b>Total Net Assets</b>	<b><u>18,027,120</u></b>	<b><u>17,720,929</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$23,567,034</u></b>	<b><u>\$21,952,094</u></b>

\*Restated, see Note A.

# ADMINISTRATIVE OFFICES OF THE DIOCESE OF NEW JERSEY

## STATEMENT OF ACTIVITIES

Year Ended December 31, 2009  
(With Comparative Totals for the Year Ended December 31, 2008)

	2009				2008*
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
<b>Support and revenues</b>					
Fair share contributions	\$ 2,738,695	\$ -	\$ -	\$ 2,738,695	\$ 3,038,095
Bequests (Note L)	87,236	42,891	-	130,127	182,115
Other contributions	3,416	-	-	3,416	1,588
Dividends	577,404	410,378	-	987,782	913,862
Interest income	15,967	-	-	15,967	151,809
Interest income - parish loans	23,185	-	-	23,185	19,480
Other revenues	37,797	-	-	37,797	49,811
Net assets released from restrictions (Note I)	230,093	(230,093)	-	-	-
<b>Total Support and Revenues</b>	<b>3,713,793</b>	<b>223,176</b>	<b>-</b>	<b>3,936,969</b>	<b>4,356,760</b>
<b>Expenses</b>					
Program services					
Allocation of the Tithe	2,871,502	-	-	2,871,502	2,864,438
ECUSA Tithe (TEC)	669,305	-	-	669,305	638,487
Direct Support for Congregations	410,409	-	-	410,409	842,549
Congregational Development	223,374	-	-	223,374	230,909
Our Ministry Together	190,898	-	-	190,898	183,879
Depreciation	26,061	-	-	26,061	41,540
Bad debts	318,406	-	-	318,406	268,285
Grants and scholarships	230,093	-	-	230,093	64,525
Building inspections - Special funds	2,485	-	-	2,485	9,299
<b>Total Expenses</b>	<b>4,942,533</b>	<b>-</b>	<b>-</b>	<b>4,942,533</b>	<b>5,143,911</b>
Change in net assets before investment return	(1,228,740)	223,176	-	(1,005,564)	(787,151)
Unrealized and realized gain (loss) in investments	1,516,990	663,983	-	2,180,973	(7,503,436)
Change in net assets from continuing operations	288,250	887,159	-	1,175,409	(8,290,587)
Post-retirement related changes other than net periodic costs	(869,218)	-	-	(869,218)	401,947
Change in net assets	(580,968)	887,159	-	306,191	(7,888,640)
Net assets, beginning of year, previously stated	(2,385,388)	12,673,440	7,245,583	17,533,635	24,250,810
Prior Period Adjustment (Note P)	(901,215)	2,259,974	-	1,358,759	1,358,759
Restatement of 2008 (Note P)	(1,103,498)	(67,967)	-	(1,171,465)	-
Net assets, beginning of year, restated	(4,390,101)	14,865,447	7,245,583	17,720,929	25,609,569
Net assets, end of year	\$ (4,971,069)	\$ 15,752,606	\$ 7,245,583	\$ 18,027,120	\$ 17,720,929

\*Restated, see Note A. Reclassified to conform with the current year presentation.



# ADMINISTRATIVE OFFICES OF THE DIOCESE OF NEW JERSEY

## STATEMENT OF CASH FLOWS

Year Ended December 31, 2009  
(With Comparative Totals for the Year Ended December 31, 2008)

	<u>2009</u>	<u>2008*</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 306,191	\$ (7,888,640)
Adjustments		
Unrealized and realized (gain) loss on investments	(2,180,973)	7,503,436
Depreciation	26,061	41,540
Bad debt expense	318,406	268,285
Changes in assets and liabilities		
Cash - restricted	55,494	-
Diocesan fair share contributions receivable	(330)	(119,086)
Loans receivable	(92,867)	77,974
Dental, health and life insurance premiums receivable	7,549	15,770
Bequests receivable	(155,213)	-
Other receivables and prepaid expenses	(35,953)	14,505
Accounts payable and accrued expenses	6,483	15,678
Deferred revenue	(3,414)	(2,823)
Accrued post-retirement benefit obligation	1,295,755	11,558
Other liabilities	<u>(12,189)</u>	<u>(105,308)</u>
Net cash used in operating activities	<u>(465,000)</u>	<u>(167,111)</u>
Cash Flows from Investing Activities		
Purchases of equipment	(29,309)	(32,712)
Diocesan investment trust purchases, net	331,596	(7,485)
Diocesan investment trust dividends reinvested	<u>(275,250)</u>	<u>(189,121)</u>
Net cash provided by (used in) investing activities	<u>27,037</u>	<u>(229,318)</u>
Cash Flows from Financing Activities		
Proceeds from borrowing	22,113	-
Repayment of borrowings	<u>-</u>	<u>(5,321)</u>
Net cash provided by (used in) financing activities	<u>22,113</u>	<u>(5,321)</u>
Net decrease in cash and cash equivalents	(415,850)	(401,750)
Cash and cash equivalents, beginning of year	<u>3,110,061</u>	<u>3,511,811</u>
Cash and cash equivalents, end of year	<u>\$ 2,694,211</u>	<u>\$ 3,110,061</u>

\*Restated, see Note A.

# **ADMINISTRATIVE OFFICES OF THE DIOCESE OF NEW JERSEY**

## **NOTES TO FINANCIAL STATEMENTS**

### **A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Nature of Organization**

The Administrative Offices of the Diocese of New Jersey (the "Diocese") is an administrative division of the Episcopal church covering parishes and missions in central and southern New Jersey.

#### **Basis of Accounting**

The financial statements of the Diocese have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

#### **Basis of Presentation**

Financial statement presentation follows GAAP. Under which, the Diocese is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

#### **FASB Accounting Standards Codification**

Effective for financial statements issued for interim and annual periods ending after September 15, 2009, the Financial Accounting Standards Board ("FASB") issued a new standard known as The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, which became the source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities. As a result of this new standard, the FASB will not issue new standards in the form of Statements but instead will issue Accounting Standards Updates. This new standard also modified the GAAP hierarchy to include only two levels of GAAP: authoritative and non-authoritative. The Diocese adopted the disclosure and hierarchy requirements of this standard for the year ended December 31, 2009.

#### **Investments in Shares of Diocesan Investment Trust**

The Diocese carries investments in the Diocesan Investment Trust, which consists of money market funds, common stocks and mutual funds with readily determinable fair values, at their fair values in the statement of financial position. Dividends and unrealized gains and losses are included in the change in net assets in the accompanying statement of activities.

The Diocese adopted fair value measurements in accordance with GAAP, which defines fair value, establishes a framework for measuring fair value in accordance with GAAP and expands disclosures about fair value measurements. Fair value is defined under GAAP as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the investment in an orderly transaction between market participants on the measurement date. The Diocese will value investments using quoted market prices in active markets for identical investments to the extent possible (Level 1). To the extent that such market prices are not available, the Diocese will next attempt to value such investments using observable measurement criteria, including quoted market prices of similar



# ADMINISTRATIVE OFFICES OF THE DIOCESE OF NEW JERSEY

## NOTES TO FINANCIAL STATEMENTS

### A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **Investments in Shares of Diocesan Investment Trust (Continued)**

investments in active markets and other corroborated factors (Level 2). In the event that quoted market prices in active markets and other observable measurement criteria are not available, the Diocese will develop measurement criteria based on the best information available (Level 3). An investment categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurements.

#### **Cash and Cash Equivalents**

For the purpose of the statement of cash flows, cash and cash equivalents include unrestricted highly liquid investments with an initial maturity of three months or less. In addition, the statement of cash flows excludes permanently restricted cash.

#### **Public Support and Revenue Recognition**

Contributions, which consist primarily of Diocesan fair share contributions, are recognized when the donor makes a promise to give to the Diocese that is, in substance, unconditional. The asking value of fair share contributions is calculated on a percentage scale of the church's second prior year parochial income. Conditional promises to give are recognized when the conditions on which they are dependent are substantially satisfied.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Endowment contributions and investments are permanently restricted by the donor. Investment earnings available for distribution are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

#### **Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### **Accounts Receivable**

The change in net assets is charged with an allowance for estimated uncollectible accounts for fair share contributions receivable, loans receivable and dental, health and life insurance premiums receivable based on past experience and an analysis of current accounts receivable collectibility. Accounts deemed uncollectible are charged to the allowance in the years they are deemed uncollectible.

# ADMINISTRATIVE OFFICES OF THE DIOCESE OF NEW JERSEY

## NOTES TO FINANCIAL STATEMENTS

### A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Other Postretirement Benefits

The Diocese accounts for its other post-retirement benefits plan as required by GAAP. The guidance requires that the full funding status of defined benefit pension and other post-retirement plans be recognized on the statement of financial position as an asset (for overfunded plans) or as a liability (for underfunded plans). In addition, the measurement of defined benefit plan assets and obligations are made annually as of the statement of financial position date.

#### Property and Equipment

The accounting principles of the Episcopal Church require that real property be carried at cost or, where historical cost records are not available, at appraised value. If no appraisal is available, real property is carried at a nominal value of \$1.00.

Furniture and equipment are recorded at cost. Depreciation of building improvements and for furniture and equipment acquired after December 31, 1999, is provided over the estimated useful lives of the assets using the straight-line method. The estimated useful lives are as follows:

Building improvements	15 years
Furniture and fixtures	10 years
Equipment	5 years
Vehicles	5 years

Repairs and maintenance which do not extend the useful lives of the related assets are expensed as incurred.

#### Income Taxes

The Diocese and its related parishes and missions are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

Management has evaluated the Diocese's tax positions for uncertainties with respect to the financial statements as of and for the year ended December 31, 2009, and has determined that there is no liability for uncertain tax positions at December 31, 2009.

#### Comparative Financial Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Diocese's financial statements for the year ended December 31, 2008, from which the summarized information was derived. See note A regarding restatement of 2008 results.



# ADMINISTRATIVE OFFICES OF THE DIOCESE OF NEW JERSEY

## NOTES TO FINANCIAL STATEMENTS

### A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Endowment Policy

The Diocese presents the net asset classification of donor restricted endowment funds as required by GAAP.

The Diocese's endowed investments consist of money market funds, common stocks and mutual funds. The investments are monitored by an investment committee.

Losses in the market value of donor-restricted endowment funds are required to be offset by reductions in temporarily restricted net assets or unrestricted net assets, or both. The permanently restricted net assets of such endowment funds should always equal their historic dollar value. An endowment fund that has become "underwater" will therefore result in decreases in temporarily restricted or unrestricted net assets, despite the absence of any legal obligation to restore the endowment fund for such losses.

#### Reclassification of Prior Year Balances

Certain amounts reported in the December 31, 2008, financial statements have been reclassified to conform to presentation adopted by the Diocese for the year ended December 31, 2009. The reclassification had no effect on the changes in its net assets.

### B. CONCENTRATION OF RISK

The Diocese maintains cash balances which may exceed federally insured limits. It historically has not experienced any credit-related losses.

The primary source of non-investment revenues is Fair Share Contributions. A significant reduction in this level of support, if it were to occur, could have a significant negative effect on the Diocese's programs and activities. One donor made up 5% of the contributions for the years ended December 31, 2009 and 2008.

### C. BAD DEBT EXPENSE

Bad debt expense is comprised of increases in the allowance for uncollectible pledges, insurance receivables, and loans based on a collection calculation derived by management. The bad debt expense is made up of the following for the year ended December 31, 2009:

Uncollectible pledges	\$ 300,313
Uncollectible insurance receivables	18,093
	<u>\$ 318,406</u>



# ADMINISTRATIVE OFFICES OF THE DIOCESE OF NEW JERSEY

## NOTES TO FINANCIAL STATEMENTS

### D. INVESTMENTS

Investments consist of shares of the Diocesan Investment Trust (the "DIT") and the Diocese's proportion share of investments underlying various trusts of which the Diocese is the beneficiary, equity securities and fixed income securities. The DIT investments are all considered Level 3 inputs since the fair value is based upon underlying investments of the DIT, which are comprised of money market funds, common stocks and mutual funds. Fair value is provided by the DIT based upon the value of each investment within the portfolio.

Investments are stated at fair value and consist primarily of U.S. Treasury obligations, equities and mutual funds. Fair values and unrealized appreciation at December 31, 2009 and 2008, are summarized as follows:

December 31, 2009			
	Level 1	Level 3	Total
Diocesan Investment Trust	-	16,941,539	16,941,539
Equities	1,057,091	-	1,057,091
Fixed Income	689,650	-	689,650
Total	<u>1,746,741</u>	<u>16,941,539</u>	<u>18,688,280</u>

  

December 31, 2008*			
	Level 1	Level 3	Total
Diocesan Investment Trust	-	15,081,149	15,081,149
Equities	871,320	-	871,320
Fixed Income	611,184	-	611,184
Total	<u>1,482,504</u>	<u>15,081,149</u>	<u>16,563,653</u>

\*Restated, see note A.

The table below sets forth a summary of changes in the fair value of the Diocese's Level 3 investments for the years ended December 31, 2009 and 2008:

	2009	2008*
Fair value, beginning of year	\$15,081,149	\$22,182,755
Investment activity		
Reinvested dividends	275,250	189,121
Purchases	793	71,498
Sales	(215,010)	(12,303)
Realized loss on sales	(6,832)	-
Unrealized gain (loss)	<u>1,806,189</u>	<u>(7,349,922)</u>
Fair value, end of year	<u>\$16,941,539</u>	<u>\$15,081,149</u>

\*Restated, see note A.

# ADMINISTRATIVE OFFICES OF THE DIOCESE OF NEW JERSEY

## NOTES TO FINANCIAL STATEMENTS

### D. INVESTMENTS (CONTINUED)

The investment in the DIT is attributable to the following funds:

	Fair Value	
	December 31,	
	2009	2008*
Temporarily restricted		
C&R Loan Fund - Shannon Trust	\$ 383,212	\$ 322,447
Eisenhart Fund	2,124,686	1,897,816
Missionary Fund	86,448	77,751
T.A. Conover Memorial Fund	29,305	26,182
Mary C. Bishop Fund	11,259	10,059
Edgar Cummings Sanborn Fund	4,629	4,136
Malcolm Stoney Estate	261,926	220,393
S. Robinson Knight Estate	95,734	80,554
Helen Parkhill Fund	67,065	56,431
Archdeacon Fund	20,352	17,125
Episcopal Residence Fund	90,622	80,966
RB & RW Shepherd Fund	289,373	243,488
Van Duzer Scholarship Fund	75,770	68,214
Mary E.H. Pullan Fund	74,347	62,558
Anna W. Stott Charitable Trust*	153,063	136,753
Walter P. Wilson Fund	23,387	19,678
Walter C. Scott Fund	37,093	31,211
Walters Fund Com. Scholarship	86,706	72,957
Braker Fund	327,963	293,018
Widows and Orphans Fund	603,260	538,945
Eleanor P. Trend Estate	3,531	3,155
Rebecca Wain Shepherd Fund	13,560	12,115
H. Martin Estate	2,981	2,664
Aged & Infirm Clergy Fund	447,716	403,643
Jane O. Turner Fund	957,969	834,925
Mary O'Neil Fund	31,113	26,179
Christian Knowledge Society Fund	31,345	28,005
Hunger Task Force	6,506	5,474
Episcopal Fund	216,623	193,542
Elizabeth Fund*	316,569	282,838
Endowment Fund TCP	9,732	8,696
Total Temporarily Restricted DIT Funds	6,883,845	6,061,918

# ADMINISTRATIVE OFFICES OF THE DIOCESE OF NEW JERSEY

## NOTES TO FINANCIAL STATEMENTS

### D. INVESTMENTS (CONTINUED)

	Fair Value	
	December 31,	
	2009	2008*
Permanently restricted		
VIM Endowment Fund	2,747,340	2,454,608
Harriet Procter Matthews Fund	3,494,941	3,122,551
Herbert Stanley Smith Fund	59,159	52,855
Katherine W. Kean Legacy	508,264	454,108
Emma T. Theurer Fund	518,885	436,607
Bishop Knight Memorial Fund	8,709	7,781
Harold E. Pancoast Estate	164,844	147,280
Stevens & Conover Fund	1,451	1,297
Eleanor Merritt Estate	25,460	22,747
Total Permanently Restricted DIT Funds	7,529,053	6,699,834
Unrestricted		
De Voe Fund	71,830	64,177
Mary N. Perce Fund	1,020	911
Church of Our Savior*	4,029	3,390
Plainfield Fund*	308,406	276,199
St. James Fund (Atlantic City)*	1,056,762	1,055,436
St. Andrew's Highlands*	31,527	26,528
Estate of Georgia M.E. Bevan	442,835	372,616
Other Miscellaneous DIT Funds	612,232	520,140
Total Unrestricted DIT Funds	2,528,641	2,319,397
Total Investment in Diocesan Investment Trust	\$ 16,941,539	\$ 15,081,149

\*Restated, see note A.

### E. DIOCESAN FAIR SHARE CONTRIBUTIONS RECEIVABLE

As of December 31, 2009 and 2008, Fair Share Contributions receivable consisted of support from parishes and missions enabling the Diocese to fulfill its mission.

### F. LOANS RECEIVABLE

Loans receivable are from parishes and missions. Interest charged on the loans varies from 0% to 6%. The loans have stated payment terms due from 2006 through 2016. An allowance for doubtful accounts has been established to reserve for a portion of delinquent loans based upon historical collection experience.

Summary of loans receivable:

	December 31,	
	2009	2008
Current portion	\$ 398,721	\$ 414,534
Long-term portion	546,909	438,229
Subtotal	945,630	852,763
Less allowance for doubtful accounts	200,203	200,203
Total	\$ 745,427	\$ 652,560



# ADMINISTRATIVE OFFICES OF THE DIOCESE OF NEW JERSEY

## NOTES TO FINANCIAL STATEMENTS

### F. LOANS RECEIVABLE (CONTINUED)

Total maturities of the loans receivable are as follows:

Year Ending December 31,	
2010	\$ 398,721
2011	65,565
2012	57,102
2013	51,195
2014	51,195
Thereafter	321,852
Total	<u>\$ 945,630</u>

### G. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	December 31,	
	2009	2008
Equipment and fixtures	\$ 416,535	\$ 403,405
Building improvements	106,315	106,315
Vehicles	132,305	104,766
Diocesan (Cathedral) House	1	1
Subtotal	655,156	614,487
Less accumulated depreciation	417,869	380,448
Total property and equipment	<u>\$ 237,287</u>	<u>\$ 234,039</u>

Depreciation expense for 2009 and 2008 amounted to \$26,061 and \$41,540, respectively.

### H. NOTES PAYABLE

Notes payable consist of the following as of December 31, 2009:

Note payable Honda Financial, due monthly at \$498, which includes interest at 3.90%, collateralized by an automobile, due December 26, 2013.	<u>\$ 22,113</u>
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Total maturities of notes payable are as follows:

Year Ending December 31,	
2010	\$ 5,210
2011	5,416
2012	5,632
2013	5,855
Total	<u>\$ 22,113</u>

# ADMINISTRATIVE OFFICES OF THE DIOCESE OF NEW JERSEY

## NOTES TO FINANCIAL STATEMENTS

### I. POST-RETIREMENT BENEFITS OTHER THAN PENSIONS

The Diocese provides post-retirement benefits other than pensions to former employees who meet certain criteria and recognizes in accordance with GAAP the cost of such benefits over the employees' period of service. The post-retirement benefit plan is unfunded.

The periodic post-retirement benefit cost for the years ended December 31, 2009 and 2008, was as follows:

	2009	2008
Service cost	\$ 75,563	\$ 77,658
Interest cost	228,170	221,482
Amortization of prior service cost	418,990	418,990
	<u>\$ 722,723</u>	<u>\$ 718,130</u>

Benefits paid for the years ended December 31, 2009 and 2008, were \$296,186 and \$304,625, respectively.

The actuarial present value of benefit obligations and the amount recognized in the statement of financial position as of December 31, 2009 and 2008, are as follows:

	2009	2008
Fair value of plan assets at December 31		
Funded (unfunded) status	\$ (4,994,429)	\$ (3,698,674)
Unrecognized prior service cost	3,774,038	3,268,126
Unrecognized net loss	380,349	17,043
Accrued post-retirement benefit obligation	<u>\$ (840,042)</u>	<u>\$ (413,505)</u>
Change in accumulated post-retirement benefit obligation		
Accumulated post-retirement benefit obligation, beginning of year	\$ 3,698,674	\$ 3,687,116
Service cost	75,563	77,658
Interest cost	228,170	221,482
Actuarial loss	363,306	17,043
Plan amendments	924,902	-
Benefits paid	<u>(296,186)</u>	<u>(304,625)</u>
Accumulated post-retirement benefit obligation, end of year	<u>\$ 4,994,429</u>	<u>\$ 3,698,674</u>
Weighted-average assumptions as of December 31		
Discount rate	6.25 %	6.25 %
Expected return on plan assets - unfunded	N/A	N/A

# ADMINISTRATIVE OFFICES OF THE DIOCESE OF NEW JERSEY

## NOTES TO FINANCIAL STATEMENTS

### J. RESTRICTIONS ON NET ASSETS

#### Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or periods:

	December 31,	
	2009	2008
For the support of Diocesan programs	<u>\$15,752,606</u>	<u>\$14,865,447</u>

Net assets were released from donor restrictions as follows:

	Year Ended December 31,	
	2009	2008
Purpose restriction accomplished		
Expense incurred to satisfy donor restrictions	<u>\$ 230,093</u>	<u>\$ 64,525</u>

#### Permanently Restricted Net Assets

Permanently restricted net assets are endowment funds restricted in perpetuity to continue the purpose of the Diocese. Income generated by these assets can be used for support of Diocesan programs.

### K. PENSION PLAN

During the years ended December 31, 2009 and 2008, the Diocese maintained two defined contribution plans covering clergy and lay employees. Clergy were covered under the multi-employer Church Pension Plan Fund (Title 1 Canon 8 of the Episcopal Church). Contributions to the plan were calculated at 18% of each cleric's annual compensation package. Lay employees were covered under a defined contribution plan, with contributions calculated at 14% of eligible salaries. For the years ended December 31, 2009 and 2008, pension expense amounted to \$182,449 and \$180,706, respectively.

### L. BEQUESTS

Bequests consist of the following:

	Year Ended December 31,	
	2009	2008
Metzger Trust	\$ 87,115	\$ -
Louis Dreyling Charitable Trust	122	156,115
Nelson. D. W. Pumyea	21,727	22,000
Edwards Trust	-	4,000
Harry J Westney Trust	21,163	-
Total	<u>\$ 130,127</u>	<u>\$ 182,115</u>

### M. RELATED PARTY

The Diocese and the DIT are related through a common board (committee) member.

The Diocese is a member of the National Church. Support to the National Church during the years ended December 31, 2009 and 2008, amounted to \$669,305 and \$638,487, respectively.



# ADMINISTRATIVE OFFICES OF THE DIOCESE OF NEW JERSEY

## NOTES TO FINANCIAL STATEMENTS

### N. ENDOWMENT POLICY

#### *Endowment Description and Interpretation of Relevant Law*

The Diocese's endowment consists of approximately nine individual funds established for a variety of purposes. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

In June 2009, the State of New Jersey enacted a version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), which replaced the prior Uniform Management of Institutional Funds Act ("UMIFA"). The new act permits or allows the Diocese the powers to manage and invest the institutional funds in good faith and with the care an ordinarily prudent person, in a like position, would exercise under similar circumstances. Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor-restricted assets until appropriated for expenditure by the Diocesan Council. As a result of this interpretation, the Diocese has not changed the way permanently restricted net assets are classified. The remaining portion of the donor-restricted endowment funds that are not classified in permanently restricted net assets are classified as temporarily restricted net assets until those amounts are appropriated for expenditure.

The Diocesan Council had interpreted UPMIFA to require standard care that is reasonable and prudent over its endowed funds. The Diocese currently classifies permanently restricted net assets at the original value of gifts donated to the permanent endowment. The remaining portion of the endowment fund is classified as temporarily restricted net assets if donor-restricted in purpose or unrestricted net assets if no specific purpose had been designated.

Previously, the Diocese classified all earnings on endowed funds (including dividends, interest, realized and unrealized gains and losses), which were not deemed to have been spent for the purpose for which the earnings were accumulated, as part of the permanent endowment fund. In 2008, the Diocese transferred the accumulated unspent earnings on the endowment to temporarily restricted net assets.

From time to time, the fair value of assets associated with the endowment funds may fall below the value of the initial and subsequent donor giving amounts (underwater). When underwater endowment funds exist, they are classified as a reduction of unrestricted net assets to the extent that accumulated temporarily restricted net assets are insufficient to absorb the loss. The restoration of these funds shall be made with net appreciation in subsequent years, and classified as increases in unrestricted net assets.

The Diocese receives contributions to establish nonexpendable endowment funds. Earnings, such as interest and dividends, from the endowment are expendable but restricted in use as stipulated by the donor. As required by GAAP, the change in market value of the invested funds is charged to temporarily restricted or unrestricted net assets.

# ADMINISTRATIVE OFFICES OF THE DIOCESE OF NEW JERSEY

## NOTES TO FINANCIAL STATEMENTS

### N. ENDOWMENT POLICY (CONTINUED)

#### *Endowment Spending Policy*

It has been the policy of the Diocese to utilize interest and dividends on the endowment as stipulated by the donor. In cases where the donor has not specified the purpose of the endowment, interest and dividends are utilized to support Diocesan programs.

#### *Endowment Investment Policy*

The philosophy of the Diocese has been to ensure that assets are protected, through conservative management and investment. This philosophy is aimed primarily at the preservation and safety of principal, with long term reasonable growth. The endowment investments are to be invested in the DIT, achieving the investment goals of the Diocese.

Accumulated earnings from the permanently restricted net assets of the endowment funds have been reduced because of the requirements under the provisions of GAAP and will be restored from future gains for that reduction. For the year ended December 31, 2008, the statement of activities reflected a transfer of net assets of \$3,058,296 from permanently restricted net assets to temporarily restricted net assets to reclassify all accumulated earnings on the endowment as of January 1, 2008. The remaining permanently restricted net assets represent the original value of the donor gifts.

Changes in Endowment Net Assets for the Year Ended December 31, 2009:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 123,027	\$ 7,245,583	\$ 7,368,610
Investment return			
Investment income	410,378	-	410,378
Net realized and unrealized gains	-	-	-
Total investment return	410,378	-	410,378
Endowment net assets, end of year	<u>\$ 533,405</u>	<u>\$ 7,245,583</u>	<u>\$ 7,778,988</u>

### O. SUBSEQUENT EVENTS

In accordance with GAAP, management has evaluated subsequent events that occurred after the statement of financial position date but before December 15, 2011, the date the financial statements were available to be issued. Management has determined there are no disclosures required.



# ADMINISTRATIVE OFFICES OF THE DIOCESE OF NEW JERSEY

## NOTES TO FINANCIAL STATEMENTS

### P. PRIOR PERIOD ADJUSTMENT AND RESTATEMENT FOR 2008

Net assets at the beginning of 2008 have been adjusted by \$1,358,759 to correct for an understatement of cash of \$165,100 and an understatement of investments of \$4,440,283 for various investment funds and trusts for which the Diocese is the ultimate beneficiary, to correct for an overstatement of deposits of \$8,379, to correct for an understatement of bequests of \$448,871 and to record accrued post-retirement benefit obligations of \$3,687,116 as of January 1, 2008. The 2008 statement of activities was restated to reflect dividend income of \$16,946 and an investment loss of \$804,095 associated with the aforementioned investments, distributions of investment funds of \$372,759 and additional retired clergy health insurance expense of \$413,505 offset by post-retirement changes to net assets other than net periodic costs of \$401,947 for the year ended December 31, 2008. The table below sets forth a summary of the restatements that were made to the net assets as of January 1, 2009:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets, beginning of year, previously stated	\$ (2,385,388)	\$ 12,673,440	\$ 7,245,583	\$ 17,533,635
Understatement of cash	41,002	124,098	-	165,100
Understatement of investment funds	2,753,278	1,687,005	-	4,440,283
Overstatement of deposit	(8,379)	-	-	(8,379)
Understatement of bequests	-	448,871	-	448,871
Understatement of post-retirement benefit obligation	(3,687,116)	-	-	(3,687,116)
Understatement of dividend income	16,946	-	-	16,946
Understatement of investment loss on investment funds	(736,128)	(67,967)	-	(804,095)
Understatement of distribution of investment funds	(372,759)	-	-	(372,759)
Understatement of post-retirement benefit expenses	(11,557)	-	-	(11,557)
Total restatements	<u>(2,004,713)</u>	<u>2,192,007</u>	<u>-</u>	<u>187,294</u>
Net assets, beginning of year, as restated	<u>(4,390,101)</u>	<u>14,865,447</u>	<u>7,245,583</u>	<u>17,720,929</u>



## **SUPPLEMENTARY INFORMATION**

# ADMINISTRATIVE OFFICES OF THE DIOCESE OF NEW JERSEY

## SCHEDULE OF EXPENSES COMPARED TO BUDGET

Year Ended December 31, 2009

	Budget (Unaudited)	Actual	Under (over)
Allocation of the Tithe			
Social & Ethic Ministry			
Environmental Committee	600	501	99
Migrant Ministry	4,000	550	3,450
Anti-Racism	40,000	28,334	11,666
Hispanic Commission	8,000	6,836	1,164
The Episcopacy			
The Bishop of New Jersey			
Salary & Housing	190,720	190,720	-
Social Security	14,590	14,590	-
Continuing Education	2,500	2,500	-
Professional Allowance	11,000	6,667	4,333
Transportation	7,000	3,948	3,052
Visiting Bishops	4,000	-	4,000
The Assistant Bishop of New Jersey			
Salary & Housing	125,160	125,646	(486)
Social Security	9,180	9,180	-
Continuing Education	2,500	2,500	-
Professional Allowance	5,000	3,010	1,990
Transportation	5,000	2,357	2,643
The Staff			
The Canon to the Ordinary			
Salary & Housing	107,496	107,810	(314)
Social Security	7,885	7,885	-
Continuing Education	2,500	2,270	230
Professional Allowance	4,800	2,320	2,480
Transportation	4,200	1,251	2,949
The Chief Financial Officer			
Salary	85,866	85,866	-
Social Security	6,298	6,316	(18)
Continuing Education	2,500	2,500	-
Professional Allowance	1,500	1,500	-
The Canon for Ministry Development			
Salary	83,354	41,044	42,310
Social Security	6,114	3,821	2,293
Continuing Education	2,000	2,000	-
Professional Allowance	2,500	726	1,774
Youth Director			
Salary	82,522	82,522	-
Social Security	6,053	5,914	139
Professional Allowance	4,000	3,455	545
Transportation	3,200	3,682	(482)
Communications Officer	26,913	33,842	(6,929)
Administrative Staff	569,333	536,671	32,662
Retired Clergy Chaplain	200	-	200
Health Insurance	186,422	194,499	(8,077)
Dental Insurance	13,651	14,660	(1,009)
Life Insurance	4,000	3,881	119

# ADMINISTRATIVE OFFICES OF THE DIOCESE OF NEW JERSEY

## SCHEDULE OF EXPENSES COMPARED TO BUDGET (CONTINUED)

Year Ended December 31, 2009

	Budget (Unaudited)	Actual	Under (over)
Disability	2,300	2,042	258
Pensions	193,571	182,449	11,122
Finance			
Insurance & Bonding	48,000	58,230	(10,230)
Audit and legal	26,000	35,521	(9,521)
Facilities			
Property Maintenance	25,000	25,374	(374)
Utilities	36,000	30,291	5,709
Capital Improvements	15,000	-	15,000
Equipment and Furniture	81,864	77,469	4,395
Telephone	10,000	8,505	1,495
Office Supplies	19,000	12,197	6,803
Printing & Postage	20,000	15,457	4,543
Meeting Expenses	1,000	68	932
General Management	24,000	15,863	8,137
Hospitality	23,000	19,723	3,277
General Obligations			
Retired Clergy Fund	26,000	16,520	9,480
Retired Clergy Health Ins.	230,000	653,044	(423,044)
Widows/Orphans Health Ins.	90,000	73,363	16,637
Widows/Orphans Fund	14,000	17,942	(3,942)
Gatherings of the Church			
Within the Diocese			
Diocesan Convention	40,000	24,317	15,683
Clergy Conference	3,200	(94)	3,294
Lay Leader Conferences	2,500	(750)	3,250
In the Larger Church			
Lambeth	1,000	1,000	-
House of Bishops	4,500	1,758	2,742
General Convention & ECW Triennium	13,000	56,280	(43,280)
Province II Meetings	-	3,159	(3,159)
Total Allocation of the Tithe	<u>2,591,492</u>	<u>2,871,502</u>	<u>(280,010)</u>
ECUSA Tithe (TEC)	<u>669,305</u>	<u>669,305</u>	<u>-</u>
Direct Support for Congregations			
Mission Congregations	265,000	259,776	5,224
Trinity Cathedral	<u>150,000</u>	<u>150,633</u>	<u>(633)</u>
Total Direct Support for Congregations	<u>415,000</u>	<u>410,409</u>	<u>4,591</u>



# ADMINISTRATIVE OFFICES OF THE DIOCESE OF NEW JERSEY

## SCHEDULE OF EXPENSES COMPARED TO BUDGET (CONTINUED)

Year Ended December 31, 2009

	Budget (Unaudited)	Actual	Under (over)
Congregational Development			
Local Program			
Congregational Ministry Grants	5,000	6,230	(1,230)
Regional Ministry Grants	5,000	2,500	2,500
Parish Developments			
Congregational Development Committee	7,500	3,326	4,174
Risk Management Inspections	14,000	17,100	(3,100)
Parish Crisis Response	5,000	6,000	(1,000)
Board of Missions	2,000	2,000	-
Recovery Ministries	5,250	4,283	967
Ministry with Disabled	9,000	7,715	1,285
Building Inspection Program	6,000	3,351	2,649
Congregational Ministries			
Stewardship	1,500	1,715	(215)
Christian Formation	4,935	6,615	(1,680)
Liturgy, Music & Worship	200	463	(263)
Commission on Music	300	-	300
Episcopal Church Visual Arts	2,000	2,000	-
Planned Giving	1,000	-	1,000
Support for New Clergy			
Commission on Ministry	15,000	16,683	(1,683)
Seminary Scholarships	90,000	92,500	(2,500)
COM Internship Program	10,000	11,853	(1,853)
School for Deacons	32,000	18,784	13,216
Support for Active Clergy			
Clergy Support & Development	5,000	3,512	1,488
Fresh Start	2,300	2,544	(244)
Clergy Deployment	4,500	3,200	1,300
Trinity Counseling Service	11,000	11,000	-
Total Congregational Development	<u>\$ 238,485</u>	<u>\$ 223,374</u>	<u>\$ 15,111</u>

# ADMINISTRATIVE OFFICES OF THE DIOCESE OF NEW JERSEY

## SCHEDULE OF EXPENSES COMPARED TO BUDGET (CONTINUED)

Year Ended December 31, 2009

	Budget (Unaudited)	Actual	Under (over)
Our Ministry Together			
Communications			
Diocesan Communications	\$ 2,400	\$ 27	\$ 2,373
Historian/Archivist	20,000	-	20,000
Visioning Process	20,000	15,133	4,867
Youth & Young Adults			
Youth Activities	44,000	35,509	8,491
Young Adult Ministry	2,800	125	2,675
Educational Institutions			
St. Michael's Chapel, Rutgers	12,000	12,000	-
Local Chaplaincies	20,000	16,123	3,877
Community Initiatives			
Prison Ministry	900	765	135
Detention Center	3,300	3,300	-
Urban Ministry	1,500	633	867
Programs & Covenants			
Province II Covenant	8,800	8,800	-
Ecumenism	3,000	2,750	250
Companion Diocese	30,000	30,333	(333)
Millennium Development Goals	18,618	18,618	-
Miscellaneous expenses	-	46,782	(46,782)
Total Our Ministry Together	<u>187,318</u>	<u>190,898</u>	<u>(3,580)</u>
Subtotal	840,803	824,681	16,122
Depreciation Expense	-	26,061	(26,061)
Bad Debts Expense	-	318,406	(318,406)
Building inspections - Special funds	-	2,485	(2,485)
Grants and scholarships	-	230,093	(230,093)
Total Expenses	<u>\$ 840,803</u>	<u>\$ 1,401,726</u>	<u>\$ (560,923)</u>

# ADMINISTRATIVE OFFICES OF THE DIOCESE OF NEW JERSEY

## SCHEDULE OF LOANS RECEIVABLE

December 31, 2009

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
Capital and Revolving Loan Fund			
Beverly Bridge, St. Stephens	\$ 117,769	\$ -	\$ 117,769
Clementon, St. Mary's	2,500	2,084	4,584
Magnolia, Christ's Church	10,000	-	10,000
Palmyra, Christ Church	1,256	-	1,256
Wenonah, Holy Trinity	2,400	63,309	65,709
Williamstown, St. Mark's	2,500	5,643	8,143
Total Capital and Revolving Loan Fund	<u>136,425</u>	<u>71,036</u>	<u>207,461</u>
R. Bowden Shepherd Loan Fund			
Palmyra, Christ Church	609	-	609
Clementon, St. Mary's	2,822	1,316	4,138
Total R. Bowden Shepherd Loan Fund	<u>3,431</u>	<u>1,316</u>	<u>4,747</u>
Venture in Mission Loan Fund			
Fair Haven, Holy Communion	4,651	5,076	9,727
Monmouth Junction, St. Barnabas	-	243,453	243,453
North Wildwood, St. Simeon's	85,600	-	85,600
Pitman, Church of the Good Shepherd	-	80,450	80,450
Plainfield, Grace Church	-	61,005	61,005
Red Bank, St. Thomas	66,671	-	66,671
Scotch Plains, All Saints	-	84,573	84,573
South Amboy, Christ Church	101,943	-	101,943
Total Venture in Mission Loan Fund	<u>258,865</u>	<u>474,557</u>	<u>733,422</u>
Total Loans Receivable	<u>\$ 398,721</u>	<u>\$ 546,909</u>	945,630
Less: Allowance for Doubtful Accounts			200,203
Total Loans Receivable			<u>\$ 745,427</u>



**ADMINISTRATIVE OFFICES OF THE DIOCESE OF NEW JERSEY**

**SCHEDULE OF TEMPORARILY RESTRICTED NET ASSETS**

December 31, 2009

Investments in Diocesan Investment Trust	\$ 6,883,845
Capital and Revolving Loan Fund	474,769
R. Bowden Shepherd Fund	352,615
Venture in Mission Loan Fund	1,709,697
Equity Interest in Real Estate	72,000
Other Funds	<u>6,259,680</u>
Total Temporarily Restricted Net Assets	<u>\$15,752,606</u>

**ADMINISTRATIVE OFFICES OF THE DIOCESE OF NEW JERSEY**

**SCHEDULE OF PERMANENTLY RESTRICTED NET ASSETS**

December 31, 2009

Unrealized gain	\$ (283,470)
Investments in Diocesan Investment Trust	<u>7,529,053</u>
Total Permanently Restricted Net Assets	<u>\$ 7,245,583</u>