

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

Financial Statements
and
Supplementary Information

December 31, 2010

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, 2010 and 2009, and the related statements of activities and cash flows for the year ended December 31, 2010. These financial statements are the responsibility of the Diocese's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Diocese's 2009 financial statements in our report dated December 15, 2011, we expressed an unqualified opinion on that report

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Administrative Offices of the Diocese of New Jersey as of December 31, 2010 and 2009, and the changes in its net assets and its cash flows for the year ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Diocese of New Jersey taken as a whole. The accompanying information on pages 18 through 23 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.

Mercadien, P.C.
Certified Public Accountants

February 29, 2012

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ADMINISTRATIVE OFFICES OF THE DIOCESE OF NEW JERSEY

STATEMENT OF FINANCIAL POSITION

December 31, 2010
(With Comparative Totals for December 31, 2009)

	2010	2009 *
ASSETS		
Cash and cash equivalents	\$ 3,391,176	\$ 2,694,211
Cash - restricted	90,412	68,603
Investments in shares of Diocesan Investment Trust (Notes A and D) (439,360 and 431,837 shares @ \$42.57 and \$39.23 per share, respectively)	18,703,556	16,941,539
Other investments	1,943,901	1,746,741
Diocesan fair share contributions receivable, net of allowance for doubtful accounts of \$153,536 (2010) and \$137,778 (2009) (Note E)	218,361	240,097
Loans receivable, net of allowance for doubtful accounts of \$200,203 (2010 and 2009) (Note F)	699,738	745,427
Mortgage receivable, net of discount of \$290,528 (Note G)	377,887	-
Dental, health and life insurance premiums receivable, net of allowance for doubtful accounts of \$5,873 (2010) and \$5,070 (2009)	5,628	4,991
Bequests receivable	601,514	604,084
Other receivables and prepaid expenses	83,275	87,908
Deposit	32,000	-
Equity interest in real estate	72,000	72,000
Property and equipment (Note H)	106,688	237,287
Total Assets	<u>\$26,326,136</u>	<u>\$23,442,888</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 318,105	\$ 374,332
Notes payable	16,877	22,113
Accrued post-retirement benefit obligation (Note K)	5,857,696	4,994,429
Other liabilities	35,926	24,894
Total Liabilities	<u>6,228,604</u>	<u>5,415,768</u>
Net Assets		
Unrestricted	(3,995,230)	(4,971,069)
Temporarily restricted (Note L)	16,847,179	15,752,606
Permanently restricted (Note L)	7,245,583	7,245,583
Total Net Assets	<u>20,097,532</u>	<u>18,027,120</u>
Total Liabilities and Net Assets	<u>\$26,326,136</u>	<u>\$23,442,888</u>

* Reclassified to conform with the current year presentation

ADMINISTRATIVE OFFICES OF THE DIOCESE OF NEW JERSEY

STATEMENT OF ACTIVITIES

Year Ended December 31, 2010

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

	2010			2009 *
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenues				
Fair share contributions	\$ 2,764,800	\$ -	\$ -	\$ 2,764,800
Bequests (Note N)	-	-	-	130,127
Other contributions	9,762	-	-	8,525
Dividends	534,617	404,398	-	939,015
Interest income	40,650	-	-	45,452
Interest income - parish loans	22,351	-	-	23,185
Property sales (Note I)	1,413,000	-	-	-
Write off of equipment (Note H)	(90,628)	-	-	-
Other revenues	24,710	-	-	37,797
Net assets released from restrictions (Note L)	37,392	(37,392)	-	-
Total Support and Revenues	4,756,654	367,006	-	5,123,660
Expenses				
Program services				
Allocation of the Tithe	2,860,954	-	-	2,860,954
ECUSA Tithe (TEC)	623,295	-	-	669,305
Direct Support for Congregations	375,171	-	-	410,409
Congregational Development	176,120	-	-	223,374
Our Ministry Together	144,724	-	-	190,898
Interest	3,179	-	-	-
Depreciation	39,971	-	-	26,061
Bad debts	168,428	-	-	318,406
Grants and scholarships	37,792	-	-	230,093
Building inspections - Special funds	-	-	-	2,485
Total Expenses	4,429,634	-	-	4,942,533
Change in net assets before investment return	327,020	367,006	-	694,026
Unrealized gains on investments	932,417	727,567	-	1,659,984
Change in net assets from continuing operations	1,259,437	1,094,573	-	2,354,010
Post-retirement related changes other than net periodic costs	(283,598)	-	-	(869,218)
Change in net assets	975,839	1,094,573	-	2,070,412
Net assets, beginning of year	(4,971,069)	15,752,606	7,245,583	17,720,929
Net assets, end of year	\$ (3,995,230)	\$ 16,847,179	\$ 7,245,583	\$ 18,027,120

* Reclassified to conform with the current year presentation

ADMINISTRATIVE OFFICES OF THE DIOCESE OF NEW JERSEY

STATEMENT OF CASH FLOWS

Year Ended December 31, 2010
(With Comparative Totals for the Year Ended December 31, 2009)

	<u>2010</u>	<u>2009 *</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 2,070,412	\$ 306,191
Adjustments		
Unrealized gain on investments	(1,659,984)	(2,180,973)
Property sales	(1,413,000)	-
Write off of equipment	90,628	-
Depreciation	39,971	26,061
Bad debt expense	168,428	318,406
Changes in assets and liabilities		
Cash - restricted	(21,809)	55,494
Diocesan fair share contributions receivable	(146,692)	(330)
Loans receivable	45,689	(92,867)
Dental, health and life insurance premiums receivable	(637)	7,549
Bequests receivable	2,570	(155,213)
Other receivables and prepaid expenses	4,633	(35,953)
Deposit	(32,000)	-
Accounts payable and accrued expenses	(56,227)	6,483
Deferred revenue	-	(3,414)
Accrued post-retirement benefit obligation	863,267	1,295,755
Other liabilities	11,032	(12,189)
Net cash used in operating activities	<u>(33,719)</u>	<u>(465,000)</u>
Cash Flows from Investing Activities		
Purchases of equipment	-	(29,309)
Proceeds from sale of property	1,413,000	-
Diocesan investment trust redemption	106,341	331,596
Diocesan investment trust dividends reinvested	(411,908)	(275,250)
Purchases of other investments, net	6,374	-
Proceeds from property mortgaged	(379,749)	-
Receipt of mortgage payments	1,862	-
Net cash provided by investing activities	<u>735,920</u>	<u>27,037</u>
Cash Flows from Financing Activities		
Proceeds from borrowing	-	22,113
Repayment of borrowings	(5,236)	-
Net cash (used in) provided by financing activities	<u>(5,236)</u>	<u>22,113</u>
Net increase (decrease) in cash and cash equivalents	696,965	(415,850)
Cash and cash equivalents, beginning of year	2,694,211	3,110,061
Cash and cash equivalents, end of year	<u>\$ 3,391,176</u>	<u>\$ 2,694,211</u>
Supplemental Schedule of Non-Cash Investing and Financing Activities		
Issuance of mortgage	<u>\$ 379,749</u>	<u>\$ -</u>

* Reclassified to conform with the current year presentation

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.

Investments in Shares of Diocesan Investment Trust

The Diocese carries investments in the Diocesan Investment Trust ("DIT"), 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 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.

ADMINISTRATIVE OFFICES OF THE DIOCESE OF NEW JERSEY

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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

Real property is 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.

ADMINISTRATIVE OFFICES OF THE DIOCESE OF NEW JERSEY

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment (Continued)

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, 2010, and has determined that there is no liability for uncertain tax positions at December 31, 2010.

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, 2009, from which the summarized information was derived.

Reclassification of Prior Year Balances

Certain amounts reported in the December 31, 2009, financial statements have been reclassified to conform to the presentation adopted by the Diocese for the year ended December 31, 2010.

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.

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, 2010 and 2009.

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 years ended December 31, 2010 and 2009:

	2010	2009
Uncollectible pledges	\$ 168,428	\$ 300,313
Uncollectible insurance receivables	-	18,093
	<u>\$ 168,428</u>	<u>\$ 318,406</u>

D. INVESTMENTS

Investments consist of shares of the DIT, equity securities, fixed income securities and real estate assets. 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.

ADMINISTRATIVE OFFICES OF THE DIOCESE OF NEW JERSEY

NOTES TO FINANCIAL STATEMENTS

D. INVESTMENTS (CONTINUED)

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, 2010 and 2009, are summarized as follows:

	December 31, 2010		
	Level 1	Level 3	Total
Diocesan Investment Trust	\$ -	\$ 18,703,556	\$ 18,703,556
Equities	1,043,464	-	1,043,464
Fixed Income	663,881	-	663,881
Real estate assets	-	236,556	236,556
Total	<u>\$ 1,707,345</u>	<u>\$ 18,940,112</u>	<u>\$ 20,647,457</u>

	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>

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, 2010 and 2009:

	2010	2009
Fair value, beginning of year	\$16,941,539	\$15,081,149
Investment activity		
Reinvested dividends	411,908	275,250
Purchases	-	793
Sales	(106,341)	(215,010)
Realized loss on sales	-	(6,832)
Unrealized gain	1,456,450	1,806,189
Fair value, end of year	<u>\$18,703,556</u>	<u>\$16,941,539</u>

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,	
	2010	2009
Temporarily restricted		
C&R Loan Fund - Shannon Trust	\$ 438,711	\$ 383,212
Eisenhart Fund	2,305,579	2,124,686
Missionary Fund	93,809	86,448
T.A. Conover Memorial Fund	31,800	29,305
Mary C. Bishop Fund	12,218	11,259
Edgar Cummings Sanborn Fund	5,023	4,629
Malcolm Stoney Estate	299,860	261,926
S. Robinson Knight Estate	109,599	95,734
Helen Parkhill Fund	76,778	67,065
Archdeacon Fund	23,300	20,352
Episcopal Residence Fund	98,337	90,622
RB & RW Shepherd Fund	331,281	289,373
Van Duzer Scholarship Fund	86,743	75,770
Mary E.H. Pullan Fund	85,114	74,347
Anna W. Stott Charitable Trust	166,094	153,063
Walter P. Wilson Fund	26,773	23,387
Walter C. Scott Fund	42,465	37,093
Walters Fund Com. Scholarship	99,263	86,706
Bruker Fund	355,885	327,963
Widows and Orphans Fund	674,642	603,260
Eleanor P. Trend Estate	3,831	3,531
Rebecca Wain Shepherd Fund	14,715	13,560
H. Martin Estate	3,235	2,981
Aged & Infirm Clergy Fund	536,939	447,716
Jane O. Turner Fund	1,088,740	957,969
Mary O'Neil Fund	35,619	31,113
Christian Knowledge Society Fund	34,013	31,345
Hunger Task Force	7,448	6,506
Episcopal Fund	235,066	216,623
Elizabeth Fund	343,521	316,569
Endowment Fund TCP	20,850	9,732
Total Temporarily Restricted DIT Funds	<u>7,687,251</u>	<u>6,883,845</u>

ADMINISTRATIVE OFFICES OF THE DIOCESE OF NEW JERSEY

NOTES TO FINANCIAL STATEMENTS

D. INVESTMENTS (CONTINUED)

	Fair Value	
	December 31,	
	2010	2009
Permanently restricted		
VIM Endowment Fund	2,981,245	2,747,340
Harriet Procter Matthews Fund	3,789,185	3,494,941
Herbert Stanley Smith Fund	64,196	59,159
Katherine W. Kean Legacy	551,537	508,264
Emma T. Theurer Fund	594,033	518,885
Bishop Knight Memorial Fund	9,451	8,709
Harold E. Pancoast Estate	178,879	164,844
Stevens & Conover Fund	1,575	1,451
Eleanor Merritt Estate	27,628	25,460
Total Permanently Restricted DIT Funds	<u>8,197,729</u>	<u>7,529,053</u>
Unrestricted		
De Voe Fund	77,946	71,830
Mary N. Perce Fund	1,107	1,020
Church of Our Savior	4,613	4,029
Plainfield Fund	335,271	308,406
St. James Fund (Atlantic City)	1,176,980	1,056,762
St. Andrew's Highlands	36,093	31,527
Estate of Georgia M.E. Bevan	506,969	442,835
Alfred Jones Bequest	500,714	437,371
Other Miscellaneous DIT Funds	178,883	174,861
Total Unrestricted DIT Funds	<u>2,818,576</u>	<u>2,528,641</u>
Total Investment in Diocesan Investment Trust	<u>\$18,703,556</u>	<u>\$16,941,539</u>

E. DIOCESAN FAIR SHARE CONTRIBUTIONS RECEIVABLE

As of December 31, 2010 and 2009, 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,	
	2010	2009
Current portion	\$ 159,632	\$ 398,721
Long-term portion	<u>740,309</u>	<u>546,909</u>
Subtotal	899,941	945,630
Less allowance for doubtful accounts	<u>200,203</u>	<u>200,203</u>
Total	<u>\$ 699,738</u>	<u>\$ 745,427</u>

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,	
2011	\$ 159,632
2012	61,033
2013	51,247
2014	53,132
2015	54,039
Thereafter	<u>520,858</u>
Total	<u>\$ 899,941</u>

G. MORTGAGE RECEIVABLE

The Diocese issued a fifteen year, zero percent \$670,277 mortgage on the St. Georges Episcopal Church in Helmetta, New Jersey on November 23, 2010. For GAAP, the mortgage receivable is recorded at net present value since the mortgage was issued without interest. The net present value of the mortgage is \$379,678 using a fifteen year rate of 3.77%. As of December 31, 2010, the balance receivable on the mortgage was \$668,415 with a net present value discount of \$290,528 being amortized over the term of the mortgage.

Total maturities of mortgages receivable for the year ending December 31, 2010, are as follows:

2011	\$ 20,481
2012	22,343
2013	22,343
2014	22,343
2015	22,343
Thereafter	<u>558,562</u>
Subtotal	668,415
Less: discount for present value	<u>290,528</u>
Total	<u>\$ 377,887</u>

H. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	December 31,	
	2010	2009
Equipment and fixtures	\$ 325,907	\$ 416,535
Building improvements	106,315	106,315
Vehicles	132,305	132,305
Diocesan (Cathedral) House	<u>1</u>	<u>1</u>
Subtotal	564,528	655,156
Less accumulated depreciation	<u>457,840</u>	<u>417,869</u>
Total property and equipment	<u>\$ 106,688</u>	<u>\$ 237,287</u>

Depreciation expense for 2010 and 2009 amounted to \$39,971 and \$26,061, respectively. During 2010, the Diocese retired equipment with a carrying value of \$90,628 that is no longer in service. The equipment written off is presented on the Statement of Activities.

ADMINISTRATIVE OFFICES OF THE DIOCESE OF NEW JERSEY

NOTES TO FINANCIAL STATEMENTS

I. PROPERTY SALES

The Diocese's Trustees of Church Property is deeded property that has been transferred from a congregation generally due to a disbanded congregation or financial difficulties. The Diocese will either sell the property or transfer the property to another congregation. During the year ended December 31, 2010, the Diocese recorded property sales of \$1,413,000 associated with the sale of properties that were deeded to them.

J. NOTES PAYABLE

Notes payable consist of the following:

	December 31,	
	2010	2009
Note payable Honda Financial, due monthly at \$498, which includes interest at 3.90%, collateralized by an automobile, due December 26, 2013.	\$ 16,877	\$ 22,113

Total maturities of notes payable are as follows:

Year Ending December 31,	
2011	\$ 5,416
2012	5,632
2013	5,829
Total	\$ 16,877

K. POST-RETIREMENT BENEFITS OTHER THAN PENSIONS

The Diocese provides post-retirement benefits other than pensions to former employees who meet certain criteria and recognizes 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, 2010 and 2009, was as follows:

	2010	2009
Service cost	\$ 95,543	\$ 75,563
Interest cost	250,657	228,170
Amortization of prior service cost	526,537	418,990
	\$ 872,737	\$ 722,723

Benefits paid for the years ended December 31, 2010 and 2009, were \$293,068 and \$296,186, respectively.

ADMINISTRATIVE OFFICES OF THE DIOCESE OF NEW JERSEY

NOTES TO FINANCIAL STATEMENTS

K. POST-RETIREMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

The actuarial present value of benefit obligations and the amount recognized in the statement of financial position as of December 31, 2010 and 2009, are as follows:

	<u>2010</u>	<u>2009</u>
Fair value of plan assets at December 31		
Funded (unfunded) status	\$ (5,857,696)	\$ (4,994,429)
Unrecognized prior service cost	4,145,570	3,774,038
Unrecognized net loss	<u>292,415</u>	<u>380,349</u>
Accrued post-retirement benefit obligation	<u>\$ (1,419,711)</u>	<u>\$ (840,042)</u>
Change in accumulated post-retirement benefit obligation		
Accumulated post-retirement benefit obligation, beginning of year	\$ 4,994,429	\$ 3,698,674
Service cost	95,543	75,563
Interest cost	250,657	228,170
Actuarial (gain) loss	(87,934)	363,306
Plan amendments	898,069	924,902
Benefits paid	<u>(293,068)</u>	<u>(296,186)</u>
Accumulated post-retirement benefit obligation, end of year	<u>\$ 5,857,696</u>	<u>\$ 4,994,429</u>
Weighted-average assumptions as of December 31		
Discount rate	5.50 %	6.25 %
Expected return on plan assets - unfunded	N/A	N/A

L. RESTRICTIONS ON NET ASSETS

Temporarily Restricted Net Assets

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

	<u>December 31,</u>	<u>December 31,</u>
	<u>2010</u>	<u>2009</u>
For the support of Diocesan programs	<u>\$16,847,179</u>	<u>\$15,752,606</u>

Net assets were released from donor restrictions as follows:

	<u>Year Ended December 31,</u>	<u>Year Ended December 31,</u>
	<u>2010</u>	<u>2009</u>
Purpose restriction accomplished		
Expense incurred to satisfy donor restrictions	<u>\$ 37,392</u>	<u>\$ 230,093</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.

ADMINISTRATIVE OFFICES OF THE DIOCESE OF NEW JERSEY

NOTES TO FINANCIAL STATEMENTS

M. PENSION PLAN

During the years ended December 31, 2010 and 2009, 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, 2010 and 2009, pension expense amounted to \$157,259 and \$182,449, respectively.

N. BEQUESTS

There were no bequests for the year ended December 31, 2010. Bequests consisted of the following for the year ended December 31, 2009:

Metzger Trust	\$ 87,115
Louis Dreyling Charitable Trust	122
Nelson. D. W. Pumyea	21,727
Harry J Westney Trust	<u>21,163</u>
Total	<u>\$ 130,127</u>

O. 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, 2010 and 2009, amounted to \$623,295 and \$669,305, respectively.

P. ENDOWMENT POLICY

Endowment Description and Interpretation of Relevant Law

The Diocese's endowment consists of 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"). UPMIFA 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.

ADMINISTRATIVE OFFICES OF THE DIOCESE OF NEW JERSEY

NOTES TO FINANCIAL STATEMENTS

P. ENDOWMENT POLICY (CONTINUED)

Endowment Description and Interpretation of Relevant Law (Continued)

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.

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.

ADMINISTRATIVE OFFICES OF THE DIOCESE OF NEW JERSEY

NOTES TO FINANCIAL STATEMENTS

P. ENDOWMENT POLICY (CONTINUED)

Changes in Endowment Net Assets for the Year Ended December 31, 2010 and 2009:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 1, 2009	\$ 123,027	\$ 7,245,583	\$ 7,368,610
Investment return			
Investment income	410,378	-	410,378
Unrealized gains	283,470	-	283,470
Total investment return	693,848	-	693,848
Endowment net assets, December 31, 2009	816,875	7,245,583	8,062,458
Investment return			
Investment income	404,398	-	404,398
Unrealized gains	668,676	-	668,676
Total investment return	1,073,074	-	1,073,074
Endowment net assets, December 31, 2010	\$ 1,889,949	\$ 7,245,583	\$ 9,135,532

Q. SUBSEQUENT EVENTS

Management has evaluated subsequent events that occurred after the statement of financial position date but before February 29, 2012, the date the financial statements were available to be issued. Management has determined there are no disclosures required for any subsequent events.

SUPPLEMENTARY INFORMATION

ADMINISTRATIVE OFFICES OF THE DIOCESE OF NEW JERSEY

SCHEDULE OF EXPENSES COMPARED TO BUDGET

Year Ended December 31, 2010

	Budget (Unaudited)	Actual	Under (over)
Allocation of the Tithe			
Social & Ethic Ministry			
Migrant Ministry	\$ 2,000	\$ 350	\$ 1,650
Anti-Racism	25,000	25,000	-
Hispanic Commission	6,000	4,255	1,745
The Episcopacy			
The Bishop of New Jersey			
Salary & Housing	190,720	190,720	-
Social Security	14,590	14,590	-
Continuing Education	2,500	1,091	1,409
Professional Allowance	7,000	7,606	(606)
Transportation	10,000	4,188	5,812
Visiting Bishops	10,000	-	10,000
The Assistant Bishop of New Jersey			
Salary & Housing	41,678	44,356	(2,678)
Social Security	3,061	3,061	-
Continuing Education	1,500	59	1,441
Professional Allowance	1,800	-	1,800
Transportation	1,800	467	1,333
The Staff			
The Canon to the Ordinary			
Salary & Housing	107,496	107,085	411
Social Security	7,885	7,885	-
Continuing Education	2,500	-	2,500
Professional Allowance	2,500	2,068	432
Transportation	5,000	1,236	3,764
The Chief Financial Officer			
Salary	85,866	56,184	29,682
Social Security	6,569	10,491	(3,922)
Continuing Education	2,500	-	2,500
Professional Allowance	1,500	204	1,296
Youth Director			
Salary	82,522	83,006	(484)
Social Security	6,313	6,313	-
Professional Allowance	3,800	2,139	1,661
Transportation	3,500	2,530	970
Communications Officer	48,443	52,076	(3,633)
Administrative Staff	478,838	478,138	700
Retired Clergy Chaplain	200	-	200
Health Insurance	193,000	164,293	28,707
Dental Insurance	14,800	14,606	194
Life Insurance	4,000	2,336	1,664

ADMINISTRATIVE OFFICES OF THE DIOCESE OF NEW JERSEY

SCHEDULE OF EXPENSES COMPARED TO BUDGET (CONTINUED)

Year Ended December 31, 2010

	Budget (Unaudited)	Actual	Under (over)
Disability	2,200	1,591	609
Pensions	165,001	157,259	7,742
Workers Compensation	-	268	(268)
Finance			
Insurance & Bonding	56,000	68,795	(12,795)
Audit and legal	26,000	41,062	(15,062)
Fiduciary fees	-	36,018	(36,018)
Facilities			
Property Maintenance	25,000	28,358	(3,358)
Utilities	31,000	26,774	4,226
Capital Improvements	10,000	-	10,000
Equipment and Furniture	88,000	59,759	28,241
Telephone	10,000	8,809	1,191
Office Supplies	14,000	10,926	3,074
Printing & Postage	20,000	9,031	10,969
Meeting Expenses	1,000	-	1,000
General Management	16,000	25,133	(9,133)
Other Management Expenses	-	121,803	(121,803)
Hospitality	18,000	13,650	4,350
General Obligations			
Retired Clergy Fund	19,000	17,484	1,516
Retired Clergy Health Ins.	180,000	820,953	(640,953)
Widows/Orphans Health Ins.	120,000	54,707	65,293
Widows/Orphans Fund	22,000	33,475	(11,475)
Gatherings of the Church			
Within the Diocese			
Diocesan Convention	25,000	23,057	1,943
Clergy Conference	-	(794)	794
Lay Leader Conferences	1,000	126	874
In the Larger Church			
Lambeth	1,000	1,000	-
House of Bishops	3,000	68	2,932
General Convention & ECW Triennium	15,000	15,000	-
Province II Meetings	-	309	(309)
Total Allocation of the Tithe	<u>2,243,082</u>	<u>2,860,954</u>	<u>(617,872)</u>
ECUSA Tithe (TEC)	<u>641,871</u>	<u>623,295</u>	<u>18,576</u>
Direct Support for Congregations			
Mission Congregations	220,000	225,171	(5,171)
Trinity Cathedral	<u>150,000</u>	<u>150,000</u>	<u>-</u>
Total Direct Support for Congregations	<u>370,000</u>	<u>375,171</u>	<u>(5,171)</u>

ADMINISTRATIVE OFFICES OF THE DIOCESE OF NEW JERSEY

SCHEDULE OF EXPENSES COMPARED TO BUDGET (CONTINUED)

Year Ended December 31, 2010

	Budget (Unaudited)	Actual	Under (over)
Congregational Development			
Parish Developments			
Congregational Development Committee	3,000	1,560	1,440
Risk Management Inspections	14,000	18,463	(4,463)
Parish Crisis Response	1,500	-	1,500
Board of Missions	1,000	1,776	(776)
Recovery Ministries	3,675	3,300	375
Ministry with Disabled	5,000	4,589	411
Congregational Ministries			
Stewardship	1,500	2,450	(950)
Christian Formation	3,500	3,369	131
Liturgy, Music & Worship	200	1,220	(1,020)
Commission on Music	-	224	(224)
Episcopal Church Visual Arts	-	(156)	156
Support for New Clergy			
Commission on Ministry	15,000	12,523	2,477
Seminary Scholarships	60,000	80,680	(20,680)
COP Internship Program	7,000	6,387	613
School for Deacons	20,000	24,233	(4,233)
Support for Active Clergy			
Clergy Support & Development	3,500	2,235	1,265
Fresh Start	2,300	2,194	106
Clergy Deployment	3,500	2,823	677
Trinity Counseling Service	8,250	8,250	-
Support for Retired Clergy			
Total Congregational Development	<u>\$ 152,925</u>	<u>\$ 176,120</u>	<u>\$ (23,195)</u>

ADMINISTRATIVE OFFICES OF THE DIOCESE OF NEW JERSEY

SCHEDULE OF EXPENSES COMPARED TO BUDGET (CONTINUED)

Year Ended December 31, 2010

	Budget (Unaudited)	Actual	Under (over)
Our Ministry Together			
Communications			
Diocesan Communications	\$ 50	\$ 27	\$ 23
Historian/Archivist	15,000	13,533	1,467
Visioning Process	10,000	9,653	347
Youth & Young Adults			
Youth Activities	36,000	37,763	(1,763)
Young Adult Ministry	500	-	500
Educational Institutions			
St. Michael's Chapel, Rutgers	10,000	10,000	-
The Chaplaincy at College of New Jersey	34,462	35,039	(577)
Local Chaplaincies	500	602	(102)
Community Initiatives			
Prison Ministry	900	-	900
Detention Center	3,300	3,300	-
Urban Ministry	1,500	1,119	381
Programs & Covenants			
Province II Covenant	7,441	7,441	-
Ecumenism	3,000	6,825	(3,825)
Companion Diocese	-	113	(113)
Millennium Development Goals	19,135	19,135	-
Miscellaneous expenses	-	174	(174)
Total Our Ministry Together	<u>141,788</u>	<u>144,724</u>	<u>(2,936)</u>
Subtotal	664,713	696,015	(31,302)
Depreciation Expense	-	39,971	(39,971)
Bad Debts Expense	-	168,428	(168,428)
Interest Expense	-	3,179	(3,179)
Grants and scholarships	-	37,792	(37,792)
Total Expenses	<u>\$ 664,713</u>	<u>\$ 945,385</u>	<u>\$ (280,672)</u>

ADMINISTRATIVE OFFICES OF THE DIOCESE OF NEW JERSEY

SCHEDULE OF LOANS RECEIVABLE

December 31, 2010

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
Capital and Revolving Loan Fund			
Beverly Bridge, St. Stephens	\$ 59,269	\$ -	\$ 59,269
Clementon, St. Mary's	2,292	-	2,292
Villas, St. Barbabas-by-the-Bay	2,500	34,375	36,875
Wenonah, Holy Trinity	3,000	59,459	62,459
Williamstown, St. Mark's	8,143	-	8,143
Total Capital and Revolving Loan Fund	<u>75,204</u>	<u>93,834</u>	<u>169,038</u>
R. Bowden Shepherd Loan Fund			
Clementon, St. Mary's	2,143	-	2,143
Villas, St. Barbabas-by-the-Bay	1,744	35,333	37,077
Total R. Bowden Shepherd Loan Fund	<u>3,887</u>	<u>35,333</u>	<u>39,220</u>
Venture in Mission Loan Fund			
Beverly Bridge, St. Stephens	1,716	16,905	18,621
Fair Haven, Holy Communion	5,086	3,397	8,483
Monmouth Junction, St. Barnabas	10,782	223,205	233,987
North Wildwood, St. Simeon's	-	78,938	78,938
Pitman, Church of the Good Shepherd	7,098	64,391	71,489
Plainfield, Grace Church	36,650	8,199	44,849
Red Bank, St. Thomas	6,077	54,756	60,833
Scotch Plains, All Saints	13,132	59,410	72,542
South Amboy, Christ Church	-	101,941	101,941
Total Venture in Mission Loan Fund	<u>80,541</u>	<u>611,142</u>	<u>691,683</u>
Total Loans Receivable	<u>\$ 159,632</u>	<u>\$ 740,309</u>	899,941
Less: Allowance for Doubtful Accounts			200,203
Total Loans Receivable			<u>\$ 699,738</u>

ADMINISTRATIVE OFFICES OF THE DIOCESE OF NEW JERSEY

SCHEDULE OF TEMPORARILY RESTRICTED NET ASSETS

December 31, 2010

Investments in Diocesan Investment Trust	\$ 7,687,251
Capital and Revolving Loan Fund	391,724
R. Bowden Shepherd Fund	358,563
Venture in Mission Loan Fund	1,738,840
Equity Interest in Real Estate	72,000
Other Funds	<u>6,598,801</u>
Total Temporarily Restricted Net Assets	<u>\$16,847,179</u>

ADMINISTRATIVE OFFICES OF THE DIOCESE OF NEW JERSEY

SCHEDULE OF PERMANENTLY RESTRICTED NET ASSETS

December 31, 2010

Unrealized gain	\$ (952,146)
Investments in Diocesan Investment Trust	<u>8,197,729</u>
Total Permanently Restricted Net Assets	<u>\$ 7,245,583</u>