

**DIOCESE OF NEW JERSEY BISHOP'S
DISCRETIONARY FUND**

Financial Statements and
Supplementary Information

December 31, 2011

DIOCESE OF NEW JERSEY BISHOP'S DISCRETIONARY FUND

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INDEPENDENT AUDITORS' REPORT

To the Audit Committee of
Diocese of New Jersey Bishop's Discretionary Fund

We have audited the accompanying statement of financial position of Diocese of New Jersey Bishop's Discretionary Fund (the "Fund") as of December 31, 2011, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Fund'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 Fund's December 31, 2010, financial statements and, in our report dated September 18, 2012, we expressed an unqualified opinion on those financial statements.

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 Diocese of New Jersey Bishop's Discretionary Fund as of December 31, 2011, 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.

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

Mercadien, P.C.
Certified Public Accountants

September 18, 2012

- AN INDEPENDENTLY OWNED MEMBER,
MCGLADREY ALLIANCE
- AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
- NEW JERSEY SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS
- NEW YORK SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS
- PENNSYLVANIA INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
- AICPA'S PRIVATE COMPANIES PRACTICE
SECTION
- AICPA'S CENTER FOR AUDIT QUALITY
- REGISTERED WITH THE PCAOB

DIOCESE OF NEW JERSEY BISHOP'S DISCRETIONARY FUND

STATEMENT OF FINANCIAL POSITION

December 31, 2011

With Comparative Totals for December 31, 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
Cash	\$ 51,190	\$ 45,946
Diocesan Investment Trust (3,918.81 shares at \$41.38 and \$42.57 per share, respectively)	162,160	166,824
Dividends receivable - related party	<u>4,594</u>	<u>13,579</u>
Total Assets	<u>\$ 217,944</u>	<u>\$ 226,349</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable - related party	\$ 12,989	\$ 23,900
Accrued expenses	<u>7,700</u>	<u>5,700</u>
Total liabilities	<u>20,689</u>	<u>29,600</u>
Net Assets		
Unrestricted	35,095	29,925
Temporarily restricted	<u>162,160</u>	<u>166,824</u>
Total Net Assets	<u>197,255</u>	<u>196,749</u>
Total Liabilities and Net Assets	<u>\$ 217,944</u>	<u>\$ 226,349</u>

DIOCESE OF NEW JERSEY BISHOP'S DISCRETIONARY FUND

STATEMENT OF ACTIVITIES

December 31, 2011

(With Comparative Totals for December 31, 2010)

	2011			2010
	Unrestricted	Temporarily Restricted	Total	Total
Revenues and support				
Visitations and offerings	\$ 21,766	\$ -	\$ 21,766	\$ 18,562
Investment return	-	3,691	3,691	23,239
Net assets released from restrictions	8,355	(8,355)	-	-
Total revenues and support	30,121	(4,664)	25,457	41,801
Expenses				
Contributions and gifts	11,541	-	11,541	7,068
Donations	8,900	-	8,900	15,047
Other expenses	4,510	-	4,510	6,701
Total expenses	24,951	-	24,951	28,816
Change in net assets	5,170	(4,664)	506	12,985
Net assets, beginning of year	29,925	166,824	196,749	183,764
Net assets, end of year	<u>\$ 35,095</u>	<u>\$ 162,160</u>	<u>\$ 197,255</u>	<u>\$ 196,749</u>

DIOCESE OF NEW JERSEY BISHOP'S DISCRETIONARY FUND**STATEMENT OF CASH FLOWS**

December 31, 2011

(With Comparative Totals for December 31, 2010)

	<u>2011</u>	<u>2010</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 506	\$ 12,985
Adjustments		
Unrealized loss (gain) on investments in Diocesan Investment Trust	4,664	(13,089)
Increase (decrease) in cash from		
Dividends receivable - related party	8,985	(10,150)
Accounts payable - related party	(10,911)	300
Accrued expenses	<u>2,000</u>	<u>5,700</u>
Net cash from operating activities	5,244	(4,254)
Cash, beginning of year	<u>45,946</u>	<u>50,200</u>
Cash, end of year	<u>\$ 51,190</u>	<u>\$ 45,946</u>

DIOCESE OF NEW JERSEY BISHOP'S DISCRETIONARY FUND

NOTES TO FINANCIAL STATEMENTS

A. NATURE OF ORGANIZATION

Revenues of the Bishop's Discretionary Fund (the "Fund"), are derived primarily from the following sources:

Visitations and Offerings - receipts from plate offerings and contributions from parishes and missions in connection with visitations and services by the Bishop.

Contributions - receipts from organizations and individuals, including the Bishop, other than visitations and offerings.

Temporarily Restricted Investment Return - subject to donor restrictions.

Neither the National Episcopal Church nor the Diocese of New Jersey has issued canons or guidelines regarding the administration of the Fund. However, the Episcopal Church's guidelines for parish churches' administration of discretionary funds included in the Manual of Business Methods in Church Affairs issued in 1995 are referenced for guidance in administering expenditures from the Fund as follows:

The traditional uses of clergy discretionary funds are to relieve the poor of the parish church and the larger parish community. Payments for food, rent, utilities, medical bills, and the like for persons in need are always appropriate uses of the fund.

Clergy may also use the fund for expenses related to the exercise of ministry not otherwise provided for in the church budget, provided such an understanding is agreed to in general by the vestry. Attendance at conferences, purchase of books and journals, entertainment of individuals directly related to the church's ministry, and membership in groups that are related to the exercise of ministry are examples of appropriate discretionary use in these circumstances. However, discretionary funds should not be used to sustain the ongoing operations of the church.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of the Fund 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.

The Fund 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. The Fund has no permanently restricted net assets.

DIOCESE OF NEW JERSEY BISHOP'S DISCRETIONARY FUND

NOTES TO FINANCIAL STATEMENTS

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in Shares of Diocesan Investment Trust

The Fund 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.

Fair Value Measurements

Valuation techniques used to measure fair value prioritized into the following hierarchy:

Level 1 - Determined using quoted market prices in active markets for identical assets and liabilities.

Level 2 - Determined using quoted market prices in active markets for similar assets and liabilities, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant inputs are observable in the market for substantially the full term of the assets or liabilities.

Level 3 - Determined using inputs that are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The market for assets and liabilities using Level 3 measures is typically inactive.

Public Support and Revenue Recognition

Contributions, visitations and offerings are recognized when the donor makes a promise to give to the Fund that is, in substance, unconditional.

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 restricted net assets. 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.

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.

Income Taxes

The Fund is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

The Fund is required to evaluate and measure the cost/benefit of uncertain tax positions related to its exempt status under new accounting guidance. Management has evaluated its tax positions for uncertainties with respect to the financial statements as of and for the year ended December 31, 2011 and has determined that there is no liability for uncertain tax positions at December 31, 2011.

DIOCESE OF NEW JERSEY BISHOP'S DISCRETIONARY FUND

NOTES TO FINANCIAL STATEMENTS

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

Management has evaluated subsequent events that occurred after the statement of financial position but before September 18, 2012, the date the financial statements were available to be issued. No items were determined by management to require disclosure.

C. DIOCESAN INVESTMENT TRUST

Investments are shares of the Diocesan Investment Trust (the "DIT"). These investments are all considered Level 2 inputs since the fair value is based upon underlying investments, and funds of the DIT, which are comprised of money market funds, common stocks and mutual funds. Fair value is provided by the DIT based upon underlying valuation of each fund within the portfolio.

The table below sets forth a summary of changes in the fair value of the Fund's Level 2 investments for the years ended December 31, 2011 and 2010:

	2011	2010
Fair value, beginning of year	\$ 166,824	\$ 153,735
Investment activity		
Unrealized (loss) gain	(4,664)	13,089
Fair value, end of year	<u>\$ 162,160</u>	<u>\$ 166,824</u>

Investments in the Diocesan Investment Trust are stated at fair value. Fair values and unrealized gains for the years ended December 31, 2011 and 2010, are summarized as follows:

	Fair Value	
	December 31	
	2011	2010
Edward Baker Fund	\$ 16,893	\$ 17,379
Mrs. J. Conover Fund	21,970	22,602
Estate of Elizabeth Ink	23,535	24,212
Merrit Memorial Fund	10,355	10,652
Hanford Smith Fund	4,594	4,726
Louisa Vought Fund	35,940	36,974
Bishop Discretionary Funds	48,873	50,279
	<u>\$ 162,160</u>	<u>\$ 166,824</u>

The following schedule summarizes the investment return for the years ended December 31, 2011 and 2010, and its classification in the statement of activities:

	2011	2010
Dividend Income	\$ 8,355	\$ 10,150
Unrealized (loss) gain	(4,664)	13,089
Total investment return	<u>\$ 3,691</u>	<u>\$ 23,239</u>

DIOCESE OF NEW JERSEY BISHOP'S DISCRETIONARY FUND

NOTES TO FINANCIAL STATEMENTS

D. RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are available for the purposes of the Fund as described in the Nature of Organization disclosure in Note A.

Temporarily restricted net assets are comprised of the following:

	December 31,	
	2011	2010
Fair value of shares in Diocesan Investment Trust	<u>\$ 162,160</u>	<u>\$ 166,824</u>

Net assets were released from donor restrictions as follows:

	December 31,	
	2011	2010
Purpose restriction accomplished		
Expenses incurred to satisfy donor restrictions	<u>\$ 8,355</u>	<u>\$ 10,150</u>

E. DONATED SERVICES

The Fund receives a significant amount of donated services from the Diocese of New Jersey (the "Diocese"), which assist in the maintenance of the Fund's finances. No amounts have been recognized in the statement of activities, because the criteria for recognition under GAAP have not been satisfied.

F. RELATED PARTY

The Fund is affiliated with the Diocese as described in Note E. The Diocese receives dividend income on behalf of the Fund and remits payments to the Fund for the dividend income from time to time. In addition, the Diocese pays certain expenses on behalf of the Fund. As of December 31, 2011 and 2010, the Fund had dividends receivable from the Diocese of \$4,594 and \$13,579, respectively. Included in accounts payable - related party is \$12,989 and \$23,900 as of December 31, 2011 and 2010, respectively, for contributions, gifts and other expenses paid on behalf of the Fund.

SUPPLEMENTARY INFORMATION

DIOCESE OF NEW JERSEY BISHOP'S DISCRETIONARY FUND

SCHEDULE OF VISITATIONS AND OFFERINGS

Year Ended December 31, 2011

Advent Church	Cape May	\$	127
All Saints Church	Bay Head		386
Ascension Church	Gloucester		162
Calvary Church	Flemington		156
Christ Church	Magnolia		536
Christ Church	New Brunswick		1,431
Christ Church	South Vineland		236
Diocese of New Jersey	Trenton		200
Grace Church	Merchantville		153
Holy Spirit Church	Tuckerton		250
Holy Trinity Church	South River		316
San Jose Church	Elizabeth		300
St. Andrew's Church	Mt. Holly		366
St. Andrew's Church	New Providence		195
St. David's Church	Cranbury		300
St. Elizabeth's Church	Elizabeth		312
St. James Church	Bradley Beach		415
St. James's Church	Edison		141
St. James's Church	Long Branch		565
St. John's Church	New Brunswick		150
St. John's Church	Somerville		1,206
St. Luke's Church	Woodstown		344
St. Mark's Church	Plainfield		500
St. Mark's Church	Williamstown		44
St. Martin's Church	Bridgewater		4,500
St. Mary's Church	Keyport		100
St. Mary's Church	Pleasantville		150
St. Matthew's Church	Pennington		717
St. Michael's Church	Wall		172
St. Peter's Church	Perth Amboy		901
St. Raphael's Church	Brick		250
Trinity Church	Asbury Park		840
Trinity Church	Cranford		500
Trinity Church	Moorestown		568
Trinity Church	Red Bank		150
Trinity Church	Woodbridge		298
Donations	various		3,829
		\$	<u>21,766</u>

DIOCESE OF NEW JERSEY BISHOP'S DISCRETIONARY FUND

SCHEDULE OF VISITATIONS AND OFFERINGS

Year Ended December 31, 2010

Christ Church	Palmyra	\$	200
Christ Church	Shrewsbury		276
Christ Church	Riverton		265
Christ Episcopal Church	Toms River		441
Christ Episcopal Church	Middletown		340
Christ the King	Willingboro		150
Church of St. John the Evangelist	Chews Landing		170
Church of the Good Sheppard	Pitman		100
Good Shepherd	Rahway		275
Grace Episcopal Church	Pemberton		295
Holy Cross	Perth Amboy		160
Holy Innocents Church	Beach Haven		1,500
Holy Spirit Church	Bellmawr		104
Holy Trinity Church	Collingswood		374
St. Augustine's Church	Atlantic City		250
St. Andre's Church	Camden		225
St. Elisabeth's Church	Ortley Beach		325
St. George's Episcopal Church	Rumson		398
St. John's Church	Bernardsville		853
St. John's Church	Linden		250
St. John's Church	Little Silver		154
St. John's Episcopal Church by the Sea	Avalon		2,000
St. Luke's Episcopal Church	Gladstone		200
St. Mark's Church	Keansburg		120
St. Mark's & All Saint's Church	Galloway		642
St. Martin's	Bridgewater		1,243
St. Mary's By-The-Sea Episcopal Church	Pt. Pleasant Beach		200
St. Mary's Church	Burlington		300
St. Mary's Church	Stone Harbor		352
St. Paul's Episcopal Church	Barnegat		424
St. Paul's Episcopal Church	Freehold		471
St. Peter's Episcopal Church	Perth Amboy		350
St. Peter's Episcopal Church	Trenton		300
St. Barnabas	Monmouth Junction		131
St. Simon's Church	Mantoloking		1,000
St. Stephen's Church	Beverly		317
St. Thomas	Pittstown		201
St. Uriel's	Sea Girt		250
Trinity Church	Delran		125
Trinity Church	Matawan		325
Trinity Church	Rocky Hill		200
Trinity Church	Vincentown		258
Trinity Church	Vineland		177
Trinity Episcopal Church	Red Bank		281
Donations	various		1,590
		\$	<u>18,562</u>

The accompanying notes are an integral part of this schedule.