

**THE TRUSTEES OF THE PROTESTANT  
EPISCOPAL CHURCH  
OF THE DIOCESE OF DELAWARE**

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT**

**DECEMBER 31, 2010 AND 2009**

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Certified Public Accountants & Advisors  
*Advancing Tradition*

Independent Auditor's Report

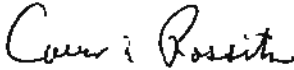
To the Trustees of the Protestant Episcopal Church  
of the Diocese of Delaware  
Wilmington, Delaware

We have audited the accompanying statements of assets, liabilities and fund balances of the Trustees of the Protestant Episcopal Church of the Diocese of Delaware (the "Trustees") as of December 31, 2010 and 2009 and the related statements of support, revenue, expenses and changes in fund balances for the years then ended. These financial statements are the responsibility of the Trustees' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

As described in Note A, the Trustees' policy is to prepare their financial statements in accordance with the provisions of the General Convention of the Episcopal Church, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Those provisions require that buildings, improvements, and equipment be depreciated. They also require that a statement of cash flows be prepared at least annually. The Trustees have elected not to provide for depreciation and not to prepare a statement of cash flows. The effects of these departures on the Trustees' financial position have not been determined.

In our opinion, except for the effect of not depreciating fixed assets and not preparing a statement of cash flows as discussed in the previous paragraph, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and fund balances of the Trustees of the Protestant Episcopal Church of the Diocese of Delaware as of December 31, 2010 and 2009, and the support, revenue, expenses, and changes in fund balances for the years then ended, on the basis of accounting described in Note A.

  
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Certified Public Accountants

June 22, 2011

**THE TRUSTEES OF THE PROTESTANT EPISCOPAL CHURCH  
OF THE DIOCESE OF DELAWARE  
STATEMENTS OF ASSETS, LIABILITIES AND FUND BALANCES  
DECEMBER 31, 2010 AND 2009**

	2010			2009		
	Advance and Development Fund	Trustees' Funds	Total	Advance and Development Fund	Trustees' Funds	Total
<b>ASSETS</b>						
Cash	\$ 63,609	\$ 43,749	\$ 107,358	\$ 23,795	\$ 6,600	\$ 30,395
Investments	1,467,299	20,382,812	21,850,111	1,485,659	19,344,972	20,830,631
Accounts receivable	-	120	120	-	2,652	2,652
Interest receivable	11,702	-	11,702	11,346	-	11,346
Prepaid insurance	-	-	-	-	2,165	2,165
Loans/mortgage receivable	760,476	19,451	779,927	757,128	19,451	776,579
Grant receivable	168,000	-	168,000	168,000	-	168,000
Land, buildings and fixtures	-	2,088,610	2,088,610	-	2,088,610	2,088,610
<b>TOTAL ASSETS</b>	<b>\$ 2,471,086</b>	<b>\$ 22,534,742</b>	<b>\$ 25,005,828</b>	<b>\$ 2,445,928</b>	<b>\$ 21,464,450</b>	<b>\$ 23,910,378</b>
<b>LIABILITIES</b>						
Accounts payable	\$ -	\$ 4,613	\$ 4,613	\$ -	\$ 2,375	\$ 2,375
Loan payable	-	700,000	700,000	-	700,000	700,000
<b>Total Liabilities</b>	<b>-</b>	<b>704,613</b>	<b>704,613</b>	<b>-</b>	<b>702,375</b>	<b>702,375</b>
<b>FUND BALANCES</b>						
Undesignated	-	12,891,892	12,891,892	-	12,204,350	12,204,350
Designated	2,471,086	7,549,627	10,020,713	2,445,928	7,169,115	9,615,043
Net investment in property	-	1,388,610	1,388,610	-	1,388,610	1,388,610
<b>Total Fund Balances</b>	<b>2,471,086</b>	<b>21,830,129</b>	<b>24,301,215</b>	<b>2,445,928</b>	<b>20,762,075</b>	<b>23,208,003</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 2,471,086</b>	<b>\$ 22,534,742</b>	<b>\$ 25,005,828</b>	<b>\$ 2,445,928</b>	<b>\$ 21,464,450</b>	<b>\$ 23,910,378</b>

The accompanying notes are an integral part of the financial statements.

**THE TRUSTEES OF THE PROTESTANT EPISCOPAL CHURCH  
OF THE DIOCESE OF DELAWARE  
STATEMENTS OF SUPPORT, REVENUE, EXPENSES  
AND CHANGES IN FUND BALANCES  
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

	2010			2009		
	Advance and Development Fund	Trustees' Funds	Total	Advance and Development Fund	Trustees' Funds	Total
<b>REVENUE AND OTHER SUPPORT</b>						
Investment income	\$ 103,379	\$ 1,034,019	\$ 1,137,398	\$ 105,458	\$ 1,065,932	\$ 1,171,390
Unrealized gain	63,199	788,048	851,247	159,646	2,041,757	2,201,403
Realized loss	(3,611)	(2,113)	(5,724)	-	(3,478)	(3,478)
Administrative fee income	-	20,410	20,410	-	18,571	18,571
Contributions/grants	-	407	407	-	19,525	19,525
Trust income	-	24,400	24,400	-	27,175	27,175
Total revenue and other support	<u>162,967</u>	<u>1,865,171</u>	<u>2,028,138</u>	<u>265,104</u>	<u>3,169,482</u>	<u>3,434,586</u>
<b>EXPENSES</b>						
Administrative	47,950	788,717	836,667	47,314	866,239	913,553
Grants	89,859	-	89,859	17,018	-	17,018
Total expenses	<u>137,809</u>	<u>788,717</u>	<u>926,526</u>	<u>64,332</u>	<u>866,239</u>	<u>930,571</u>
Excess of revenue and other support over expenses	25,158	1,076,454	1,101,612	200,772	2,303,243	2,504,015
<b>FUND BALANCES</b>						
Beginning of year	2,445,928	20,762,075	23,208,003	2,245,156	18,467,232	20,712,388
Payment of debt for Council	-	(8,400)	(8,400)	-	(8,400)	(8,400)
<b>END OF YEAR</b>	<u>\$ 2,471,086</u>	<u>\$ 21,830,129</u>	<u>\$ 24,301,215</u>	<u>\$ 2,445,928</u>	<u>\$ 20,762,075</u>	<u>\$ 23,208,003</u>

The accompanying notes are an integral part of the financial statements.

**THE TRUSTEES OF THE PROTESTANT EPISCOPAL CHURCH  
OF THE DIOCESE OF DELAWARE  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009**

**NOTE A – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Trustees of the Protestant Episcopal Church of the Diocese of Delaware is a not-for-profit Corporation of the State of Delaware. The purpose of the Organization is to advance the religious and educational work of the Episcopal Church by serving as the custodian and trustee of the property and funds and as the fiscal agent of the Protestant Episcopal Church of the Diocese of Delaware and by providing financial, custodial, trust, and investment services and advice for the Diocese and all of its institutions and by fulfilling such duties as are authorized and required by the Convention of the Diocese and to aid, support, and maintain the Bishop of the Diocese, ministers and missionaries of the Episcopal Church and to further religious, charitable, benevolent, and educational objects generally, and in furtherance of said objects to minister and serve the needs of the young, the aged, the sick, the disabled, and the poor, and to improve the spiritual, physical, mental, and moral condition of humanity.

**1. Method of Accounting**

The financial statements are prepared in accordance with the provisions of the General Convention of the Episcopal Church. These practices differ in certain respects, which may be material, from accounting principles generally accepted in the United States of America. The significant differences from accounting principles generally accepted in the United States of America are as follows:

- a. The Organization does not record contributions in accordance with Statement of Financial Accounting Standards No. 116, "Accounting for Contributions Made and Contributions Received" (FASB ASC 958-605). ASC 958-605 requires that the Organization record contributions received as unrestricted, temporarily restricted, or permanently restricted depending on the existence and/or nature of any donor restrictions. Contributions are recorded on the cash basis.
- b. The Organization does not prepare its financial statements in accordance with Statement of Financial Accounting Standards No. 117, "Financial Statements of Not-For-Profit Organizations" (FASB ASC 958-205). ASC 958-205 requires that the Organization report information regarding financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets.

Although required by the General Convention of the Episcopal Church, the Trustees have elected not to record depreciation on capital purchases and not to present a statement of cash flows. The Trustees do not feel that the lack of depreciation and the statement of cash flows cause the statements presented to be misleading, nor do they believe the omitted information is meaningful. The effect of not depreciating fixed assets and omitting a statement of cash flows has not been determined.

**THE TRUSTEES OF THE PROTESTANT EPISCOPAL CHURCH  
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NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009**

**NOTE A – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES (CONTINUED)**

**2. Fund Accounting**

To ensure observance of limitations and restrictions placed on the use of resources available to the Diocese, the accounts of the Organization are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purposes.

Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group. Fund groups are composed of the following:

**a. The Advance and Development Fund**

The Advance Fund represents resources available to provide loans to the churches and institutions of the Episcopal Diocese of Delaware. The amounts of the loans and the terms of repayment are determined by the Board on an individual case basis. Effective January 1, 1977, the Board determined that all Advance Fund excess income and expenses would be allocated to the Development Fund.

The Development Fund represents resources available to provide grants to the churches and institutions of the Episcopal Diocese of Delaware. The Board approves the amounts and terms of the grants.

**b. The Trustees' Funds**

The Trustees' Funds are consolidated and include the following funds:

The Administrative Expense Fund represents funds to cover administrative expenses for the Trustees of the Protestant Episcopal Church of the Diocese of Delaware.

The Ash Fund represents funds to promote the Gospel of Christ and extend the worship of the Episcopal Church of Delaware.

The Bishop's Missionary Fund represents funds to provide the Bishop with money for general missionary work.

The Bishopstead Maintenance Fund represents funds for the maintenance and operation of the home and guesthouse of the Bishop.

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NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009**

**NOTE A – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES (CONTINUED)**

**b. The Trustees' Funds (Continued)**

The Buckelew Trust Fund represents funds to be used at the discretion of the Bishop and the Trustees of the Protestant Episcopal Church of the Diocese of Delaware.

The Calvary-Herndon Fund for Urban Ministries represents assets transferred, at book value, to the Trustees of the Protestant Episcopal Church of the Diocese of Delaware by the Convention of the Diocese of Delaware on April 25, 1992 following the termination of parish status of Calvary Church. All real property was sold in 1994.

The Clergy Aid Funds represent funds to satisfy the needs of retired or disabled clergy or their widows and clergy's wives and families in times of financial stress.

The Ellason and Molly Laird Downs Real Estate Maintenance Fund represents funds to be used by the Episcopal Diocese of Delaware for the maintenance of Diocesan owned properties.

The Episcopate Endowment Fund represents funds for the Bishop's salary, expenses, and allowances.

The General Diocesan Fund represents funds to be used for Church purposes at the discretion of the Trustees of the Protestant Episcopal Church of the Diocese of Delaware.

The General Diocesan Episcopate Transition Fund represents funds that have been set aside and reinvested. These funds will be used to assist in the transition costs for the eleventh Bishop of the Diocese of Delaware.

The Oberod Fund was started in 2006 and represents distributions from the Estate of Mrs. DuPont Lungler and from the sale of the Oberod Conference and Retreat Center. The use of these funds are at the discretion of the Bishop and Trustees of the Diocese.

The Silliman Fund represents funds to meet extraordinary expenses for clergy and other worthy persons in The Diocese as needed.

The Tatnall Fund represents funds to be used at the Bishop's discretion for theological education, clergy aid, and missionary work.

The Theological Education Fund represents funds for the benefit of theological students.

The Williams Missionary Fund represents funds created under the will of Elizabeth Williams and provides for the income to be distributed as follows: two-thirds to The Diocesan Council, Inc. to

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DECEMBER 31, 2010 AND 2009**

**NOTE A – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES (CONTINUED)**

**b. The Trustees' Funds (Continued)**

be distributed to missionary churches and one-third directly to the choirs of the missionary churches.

The Property Fund represents funds expended for land and buildings.

**3. Security Transactions and Related Investment Income**

Security transactions are recorded on the trade date. Investments owned are carried at market value. The difference between cost and market value is reflected as unrealized appreciation (depreciation) on investments. Realized gains (losses) from security transactions are determined for financial reporting purposes on the basis of first-in, first-out. Dividend income is recognized on the ex-dividend date and interest income is recognized on an accrual basis.

**4. Income Taxes**

The Trustees is a not-for-profit entity that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

The Trustees is not a private foundation.

**5. Accounts Receivable**

Accounts receivable are recorded at net realizable value. The Trustees use the specific charge off method to account for bad debts. Management feels that this does not differ materially from the allowance method. There were no bad debts during 2010 and 2009.

**6. Use of Estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**7. Subsequent Events**

The Trustees has evaluated subsequent events through June 22, 2011, the date the financial statements were available to be issued. As further discussed in Note B, Council sold the Good Shepherd Rectory property in March 2011 and used the net proceeds to pay down the loan and grant payable to the Trustees.

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**NOTE B – LOANS/MORTGAGE RECEIVABLE**

Loans receivable bear interest at rates ranging from 2.0% to 5.8% (rate based on specific circumstances of borrower but not to exceed 80% of the true interest rate on twenty year U.S. Government bonds). Interest is payable semi-annually. Loan principal is amortized on a straight-line basis with terms up to twenty years, some with five-year balloon payments. Interest income is recognized over time as it is earned. Loans/Mortgages receivable at December 31 were as follows:

**CHURCHES OF THE EPISCOPAL DIOCESE:**

	<u>Due Date</u>	<u>2010</u>	<u>2009</u>
Bethany Beach – St. Martha’s			
Construction	2017	\$ -	\$ 27,991
Construction - Lighthipe property funds		-	27,069
Brandywine Hundred - St. Alban's	2013	6,643	9,391
Claymont – Church of the Ascension	2019	37,872	43,022
Delmar			
All Saints - HVAC	2016	6,559	7,849
Delaware City - Christ Church - Structural		69,400	-
Georgetown – St. Paul’s Parish Hall	2016	8,812	16,313
Bell Tower Repairs	2017	10,825	-
Hillcrest - Calvary - bathroom renovations	2013	14,402	-
Laurel – Geothermal System	2012	29,932	98,948
Millcreek Hundred			
St. Barnabas’ – New Boiler/Long-term	2015	72,785	86,553
St. Barnabas’ – Building Expansion	2026	100,000	100,000
Middletown – St. Anne's - Church Roof Repairs	2022	80,750	87,526
HVAC, building improvements	2022	25,772	-
Milton			
St. John the Baptist - Property acquisition	2030	82,903	-
St. John the Baptist - Rectory and Parish Hall			
Repairs	2016	50,450	59,150
St. John the Baptist - Property Acquisition	2016	-	2,335
Newark – St. Thomas' Worship Enhancement	2012	-	12,325
Wilmington – Cathedral Church of St. John	2012	4,090	6,872
		<hr/>	<hr/>
Total Churches of the Diocese		601,195	585,344
Diocesan Council, Inc. – Good Shepherd	2026	93,458	101,858
		<hr/>	<hr/>
<b>FORWARDED:</b>		694,653	687,202

**THE TRUSTEES OF THE PROTESTANT EPISCOPAL CHURCH  
OF THE DIOCESE OF DELAWARE  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009**

**NOTE B – LOANS/MORTGAGE RECEIVABLE (CONTINUED)**

	<i>FORWARDED:</i>	694,653	687,202
<b>DIOCESAN ENTITIES ON BEHALF OF CLERGY:</b>			
Immanuel – New Castle - Godden	2025	14,167	15,250
St. James Newport - S. Nelson	2024	13,656	14,676
St. David's Brandywine Hundred - B. Hinton	2029	<u>38,000</u>	<u>40,000</u>
Total Advance and Development Fund		<u>\$ 760,476</u>	<u>\$ 757,128</u>
 <b>LOANS/MORTGAGE RECEIVABLE - OTHER</b>			
		<u>2010</u>	<u>2009</u>
Be Ready Jesus is Coming Apostolic Church, Inc. - due in monthly installments of principal only		<u>\$ 19,451</u>	<u>\$ 19,451</u>
Total Trustees' Funds		<u>19,451</u>	<u>19,451</u>
Total loans/mortgage receivable		<u>\$ 779,927</u>	<u>\$ 776,579</u>

In addition to the Good Shepherd loan receivable, a grant receivable of \$168,000 from the Diocesan Council, Inc. (the "Council") was outstanding as of December 31, 2010 and 2009 for the purchase of a building and land in Bear, Delaware.

In March 2011, Council sold this property and paid the Trustees \$216,273, the net proceeds received from the sale of the property. The net proceeds were first used to repay the balance of the loan as of March 2011; net proceeds available after paying down the loan were used to begin to pay down the grant to the Trustees. After the sale of the property, \$43,127 remained due to the Trustees for the grant. The balance of the grant is expected to be received at \$700 per month until the grant receivable has fully been satisfied.

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**NOTE C – LAND, BUILDING AND FIXTURES**

Land, building and fixtures consisted of the following as of December 31:

	<u>2010</u>	<u>2009</u>
2106 Grant Avenue, Wilmington	\$ 274,283	\$ 274,283
2009 Shallcross Avenue, Wilmington	214,432	214,432
Bishops Portraits	26,632	26,632
Computerization – Bishop	4,800	4,800
29 West Park Place, Newark	755,963	755,963
Lighthipe Parcel	812,500	812,500
	<u>\$ 2,088,610</u>	<u>\$ 2,088,610</u>

In 2007, the Trustees paid \$755,963 to acquire property adjacent to an Episcopal church in Newark, Delaware. The Trustees are holding this property pending the completion of a planning process by the adjacent church to decide how best to use the property. This plan should also include a manner of repayment for the cost of the property to the Trustees.

As mentioned in Note A, the Trustees do not record depreciation expense on fixed assets. It is the policy of the Trustees to capitalize only major improvements or new buildings.

**NOTE D – INVESTMENTS**

Investments were composed of the following as of December 31:

	<u>2010</u>		<u>2009</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Money market accounts	\$ 632,059	\$ 632,059	\$ 641,416	\$ 641,416
Master Fund A Units	15,478,426	21,218,052	14,697,147	20,189,215
Total	<u>\$ 16,110,485</u>	<u>\$ 21,850,111</u>	<u>\$ 15,338,563</u>	<u>\$ 20,830,631</u>

**THE TRUSTEES OF THE PROTESTANT EPISCOPAL CHURCH  
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**NOTE D – INVESTMENTS (CONTINUED)**

Master Fund A units are composed of shares in a fund owned collectively with other entities with affiliation to the Episcopal Church. The Fund itself is composed of various publicly traded debt and equity securities. The Trustees oversee the function of Master Fund A for all Fund unit holders. Units may be liquidated by unit holders on demand without restriction. The market value represents the Trustees' pro-rata share of the combined fair market value of the net assets of Master Fund A.

**NOTE E – LOAN PAYABLE**

In 2007, the Trustees were provided a \$700,000 loan for its purchase of 29 West Park Place in Newark. Payments of interest only are made monthly until maturity and the principal on the loan is due in full at maturity in April 1, 2012 and is secured by the Newark property. The loan bears a variable interest rate of the National Commercial Rate less 25 basis points. The interest rate on December 31, 2010 and 2009 was 3.75% and 3.75%, respectively. Interest expense of \$26,615 and \$26,615 was reported in the accompanying financial statements for the years ended December 31, 2010 and 2009, respectively.

**NOTE F – FINANCIAL INSTRUMENTS**

Financial instruments that potentially subject the Trustees to concentrations of credit risk consist principally of investments. Concentrations of credit risk with respect to investments are limited due to the placement of its investments with professional investment advisors subject to the Trustees' investment policies.

The Trustees maintain operating cash balances in different financial institutions. The Federal Deposit Insurance Corporation insures these balances up to \$250,000. In the normal course of business, the cash balances may exceed this amount. The Trustees consider the possibility of incurring a loss remote.

**NOTE G – CONTRIBUTED SERVICES**

Many volunteers contribute their time to further the goals of the Trustees. While significant, the value of these services is not readily determinable and no amounts have been recorded as revenue to recognize them for financial statement purposes.