

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

THE DIOCESAN COUNCIL, INC.

**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 Diocesan Council, Inc.
Wilmington, Delaware

We have audited the accompanying statement of assets, liabilities and fund balances of the Diocesan Council, Inc. (the "Council") as of December 31, 2010 and the related statement of support, revenue, expenses and changes in fund balances for the years then ended. These financial statements are the responsibility of the Council'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 Council's December 31, 2009 financial statements and, accordingly, such information should be read in conjunction with the Council's financial statements for the year ended December 31, 2009, from which the summarized information was derived.

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.

As described in Note A, the Council's policy is to prepare its 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 Council has elected not to provide for depreciation and not to prepare a statement of cash flows. The effects of these departures on the Council's 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 Diocesan Council, Inc. as of December 31, 2010, and the support, revenue, expenses, and changes in fund balances for the years then ended, on the basis of accounting described in Note A.

As discussed in Note H to the financial statements, certain errors resulting in an understatement of previously reported net assets for the year ended December 31, 2008 were discovered by Council's management during the current year. Accordingly, the 2009 financial statements have been restated and an adjustment has been made to retained earnings as of January 1, 2009 to correct the errors.


Cameron & Rossiter
Certified Public Accountants

June 22, 2011

**THE PROTESTANT EPISCOPAL CHURCH
OF THE DIOCESE OF DELAWARE
THE DIOCESAN COUNCIL, INC.
STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCES**

DECEMBER 31, 2010 WITH COMPARATIVE TOTALS FOR 2009

	Operating Fund	Special Fund	Property Fund	Bishop's Discretionary Fund	Memorial House		Camp Arrowhead		Total All Funds	
					Operating	Restricted	Operating	Restricted	2010	2009
										(Restated)
ASSETS										
Cash	\$ 101,778	\$ 221,380	\$ -	\$ 96,655	\$ 31,948	\$ -	\$ 4,719	\$ 3,988	\$ 460,468	\$ 270,598
Investments	-	403,899	609,950	-	6,499	1,402,672	-	348,617	2,771,637	2,677,391
Accounts receivable	69,463	-	-	-	5,386	-	2,165	-	77,014	117,854
Acceptances receivable	21,669	-	-	-	-	-	-	-	21,669	33,730
Prepaid expenses	4,311	-	-	-	120	-	13,655	-	18,086	23,575
Land, buildings, and equipment	-	-	6,638,777	-	-	-	-	-	6,638,777	6,634,098
Total Assets	<u>\$ 197,221</u>	<u>\$ 625,279</u>	<u>\$ 7,248,727</u>	<u>\$ 96,655</u>	<u>\$ 43,953</u>	<u>\$ 1,402,672</u>	<u>\$ 20,539</u>	<u>\$ 352,605</u>	<u>\$ 9,987,651</u>	<u>\$ 9,757,246</u>
LIABILITIES										
Accounts payable	\$ 28,099	\$ -	\$ -	\$ -	\$ 34,835	\$ -	\$ 26,760	\$ -	\$ 89,694	\$ 93,789
Loans payable	-	-	93,458	-	-	-	-	-	93,458	101,858
Grant payable	-	-	168,000	-	-	-	-	-	168,000	168,000
Accumulated benefit obligation	814,746	-	-	-	-	-	-	-	814,746	628,141
Interfund payable (receivable)	(1,045)	1,045	-	-	30,000	(30,000)	(3,123)	3,123	-	-
Total Liabilities	841,800	1,045	261,458	-	64,835	(30,000)	23,637	3,123	1,165,898	991,788
FUND BALANCES										
Unrestricted										
Undesignated	(644,579)	-	-	-	(20,882)	-	(3,098)	-	(668,559)	(491,928)
New work	-	-	-	-	-	-	-	-	-	-
Net investment property	-	-	6,545,319	-	-	-	-	-	6,545,319	6,532,240
Total Unrestricted	(644,579)	-	6,545,319	-	(20,882)	-	(3,098)	-	5,876,760	6,040,312
Restricted	-	-	441,950	96,655	-	1,432,672	-	349,482	2,320,759	2,725,146
Total Fund Balances	(644,579)	624,234	6,987,269	96,655	(20,882)	1,432,672	(3,098)	349,482	8,821,753	8,765,458
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 197,221</u>	<u>\$ 625,279</u>	<u>\$ 7,248,727</u>	<u>\$ 96,655</u>	<u>\$ 43,953</u>	<u>\$ 1,402,672</u>	<u>\$ 20,539</u>	<u>\$ 352,605</u>	<u>\$ 9,987,651</u>	<u>\$ 9,757,246</u>

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

**THE PROTESTANT EPISCOPAL CHURCH
OF THE DIOCESE OF DELAWARE
THE DIOCESAN COUNCIL, INC.
STATEMENT OF SUPPORT, REVENUE, EXPENSES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2010 WITH COMPARATIVE TOTALS FOR 2009**

	Operating Fund	Special Fund	Property Fund	Bishop's Discretionary Fund	Memorial House		Camp Arrowhead		Total All Funds	
					Operating	Restricted	Operating	Restricted	2010	2009 (Restated)
Acceptances	\$ 934,632	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 934,632	\$ 948,640
Winter conferences	-	-	-	-	125,698	-	150,714	-	276,412	284,602
Summer family program	-	-	-	-	101,974	-	-	-	101,974	95,079
Summer campfering	-	-	-	-	-	-	443,588	-	443,588	419,979
Store sales	-	-	-	-	-	-	38,715	-	38,715	35,737
Income from contracted services	113,849	-	-	-	-	-	-	-	113,849	112,393
Contributions	15,032	-	-	42,777	-	-	3,964	24,143	85,916	65,824
Investment income	1,783	20,246	31,494	3	19	73,882	741	16,672	144,840	146,727
Unrealized gain	-	14,522	24,506	-	-	35,156	-	13,173	87,357	278,648
Realized gain	-	-	18,907	-	-	19,976	-	-	38,883	-
Grants and support	-	-	-	40,000	-	-	-	-	40,000	68,400
Trust funds:										
Support of ministries	329,028	-	-	-	-	-	-	-	329,028	359,240
Administrative	125,475	-	-	-	-	-	-	-	125,475	125,106
Other income	16,000	4,000	-	-	-	-	-	-	20,000	23,250
TOTAL REVENUE AND OTHER SUPPORT	1,535,799	38,768	74,907	82,780	227,691	129,014	637,722	53,988	2,780,669	2,963,625
Episcopal function	390,322	-	-	-	-	-	-	-	390,322	386,337
National church	232,290	-	-	-	-	-	-	-	232,290	272,723
Common work	308,691	34,423	12,400	60,129	287,507	-	718,776	4,942	1,426,868	1,411,149
Administrative function	683,294	-	-	-	-	-	-	-	683,294	353,282
TOTAL EXPENSES	1,614,597	34,423	12,400	60,129	287,507	-	718,776	4,942	2,732,774	2,423,491
Excess (deficiency) of revenue and other support over expenses	(78,798)	4,345	62,507	22,651	(59,816)	129,014	(81,054)	49,046	47,895	540,134

Continued

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

**THE PROTESTANT EPISCOPAL CHURCH
OF THE DIOCESE OF DELAWARE
THE DIOCESAN COUNCIL, INC.
STATEMENT OF SUPPORT, REVENUE, EXPENSES AND CHANGES IN FUND BALANCES (CONTINUED)**

FOR THE YEAR ENDED DECEMBER 31, 2010, WITH COMPARATIVE TOTALS FOR 2009

	Operating Fund	Special Fund	Property Fund	Bishop's Discretionary Fund	Memorial House		Camp Arrowhead		Total All Funds	
					Operating	Restricted	Operating	Restricted	2010	2009 (Restated)
Excess (deficiency) of revenue and other support over expenses										
FORWARDED:	\$ (78,798)	\$ 4,345	\$ 62,507	\$ 22,651	\$ (59,816)	\$ 129,014	\$ (81,054)	\$ 49,046	\$ 47,895	\$ 540,134
Other changes in fund balances										
Interfund transfers	(102,589)	133,779	(14,229)	-	70,487	(78,066)	81,320	(90,702)	-	-
Payment of debt by Trustees	-	-	8,400	-	-	-	-	-	8,400	8,400
FUND BALANCES										
Beginning of year (as restated)	<u>(463,192)</u>	<u>486,110</u>	<u>6,930,591</u>	<u>74,004</u>	<u>(31,553)</u>	<u>1,381,724</u>	<u>(3,364)</u>	<u>391,138</u>	<u>8,765,458</u>	<u>8,216,924</u>
End of year	<u>\$ (644,579)</u>	<u>\$ 624,234</u>	<u>\$ 6,987,269</u>	<u>\$ 96,655</u>	<u>\$ (20,882)</u>	<u>\$ 1,432,672</u>	<u>\$ (3,098)</u>	<u>\$ 349,482</u>	<u>\$ 8,821,753</u>	<u>\$ 8,765,458</u>

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

**THE PROTESTANT EPISCOPAL CHURCH
OF THE DIOCESE OF DELAWARE
THE DIOCESAN COUNCIL, INC.
DECEMBER 31, 2010 AND 2009
NOTES TO FINANCIAL STATEMENTS**

**NOTE A – LINE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES**

The Diocesan Council, Inc. (the “Council”) is a not-for-profit organization incorporated in the State of Delaware. The purpose of the Council is to have charge of the unification, development and prosecution of the missionary work, church extension, religious education, and Christian social service of the Protestant Episcopal Church of the Diocese of Delaware, and such other matters as may be committed to it by the Convention of the Diocese.

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 Council 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 Council 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 Council has elected not to record depreciation on capital purchases and not to present a statement of cash flows. The Council does 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.

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NOTES TO FINANCIAL STATEMENTS**

**NOTE A – LINE OF BUSINESS 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 Council, the accounts of the Council 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.

The Operating Fund represents the portion of expendable funds that are available for the support of the Council's general operations and approved by Diocesan Convention.

The Special Fund represents funds reserved for specific ministries.

The Property Fund represents funds restricted for property acquisitions.

The Bishop's Discretionary Fund is utilized to account for special projects conducted by the Bishop.

Memorial House is the Diocesan Conference Center located in Rehoboth Beach, Delaware.

Camp Arrowhead is a 145-acre summer camp and conference center on Rehoboth Bay, Delaware.

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 the accrual basis.

4. Income Taxes

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

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NOTES TO FINANCIAL STATEMENTS**

**NOTE A – LINE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (CONTINUED)**

5. Accounts and Acceptances Receivable

Accounts and acceptances receivable are recorded at net realizable value. The Council uses 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. Prior Year Financial Statements

The financial statements include certain prior-year summarized comparative information in total but not by fund. Such information does not include sufficient detail to constitute a presentation in conformity with the provisions of the General Convention of the Episcopal Church. Accordingly, such information should be read in conjunction with the Council's financial statements for the year ended December 31, 2009, from which the summarized information was derived.

8. Subsequent Events

Council has evaluated subsequent events through June 22, 2011, the date the financial statements were available to be issued. As further discussed in Note E, 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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NOTES TO FINANCIAL STATEMENTS**

NOTE B – INVESTMENTS

Investments are composed of the following as of December 31:

<u>2010</u>	<u>Cost</u>	<u>Market</u>
Money market accounts	\$ 58,870	\$ 58,870
Master Fund A Units	<u>1,631,202</u>	<u>2,712,767</u>
Total	<u>\$ 1,690,072</u>	<u>\$ 2,771,637</u>
<u>2009</u>	<u>Cost</u>	<u>Market</u>
Money market accounts	\$ 115,204	\$ 115,204
Master Fund A Units	<u>1,565,697</u>	<u>2,562,187</u>
Total	<u>\$ 1,680,901</u>	<u>\$ 2,677,391</u>

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 C – PENSION PLAN

The lay employees and the clergy of the Diocesan Council, Inc. are participants in separate pension plans. The Episcopal Church Lay Employees Retirement Plan covers the lay employees and the Church Pension Fund covers the clergy. Both plans are defined benefit plans. Lay employees are eligible for participation upon completion of one year or 1,000 hours of service. Employer contributions to the plan are funded based on 9% of the participants' compensation. The plan provides for full vesting after five years of service. Clergy are eligible for participation and are fully-vested immediately, and contributions are funded based on 18% of the participants' compensation. Pension plan contributions were \$79,892 and \$79,837 for the years ended December 31, 2010 and 2009, respectively.

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NOTES TO FINANCIAL STATEMENTS**

NOTE D – LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment are carried at cost where cost figures are available. Where unavailable, appraised values at December 31, 1978 have been used.

Land, buildings, and equipment include the following as of December 31:

LAND AND BUILDINGS	2010	2009 (Restated)
All Saints	\$ 229,250	\$ 229,250
Christ Church	203,300	203,300
St. John-the-Baptist	387,800	387,800
St. Martha's	247,700	247,700
St. Martins-in-the-Field	181,300	181,300
St. Nicholas	247,065	247,065
St. Stephen's	426,400	426,400
Camp Arrowhead	2,449,607	2,386,225
Diocesan Office	200,000	200,000
Memorial House	1,222,804	1,215,225
St. Mark's	70,000	70,000
St. Michael's Day Nursery	6,800	6,800
St. Thomas' Vicarage	-	63,200
Good Shepherd Rectory	295,568	295,568
	<u>6,167,594</u>	<u>6,159,833</u>
EQUIPMENT		
Camp Arrowhead	166,279	169,361
Diocesan Office	124,612	124,612
Memorial House	180,292	180,292
	<u>471,183</u>	<u>474,265</u>
	<u>\$ 6,638,777</u>	<u>\$ 6,634,098</u>

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

As mentioned in Note H, the equipment balance was adjusted for the correction of an error discovered in 2010.

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NOTES TO FINANCIAL STATEMENTS**

NOTE E – LOANS AND GRANT PAYABLE

The Council's obligations under loans payable consist of the following at December 31:

	<u>2010</u>	<u>2009</u>
Good Shepherd Church - installments of \$700 per month of principal plus interest of 2.5%, starting January 2006, payable to the Trustees of the Protestant Episcopal Church of the Diocese of Delaware	<u>\$ 93,458</u>	<u>\$ 101,858</u>

In addition to the Good Shepherd loan payable, a grant payable of \$168,000 to the Trustees of the Protestant Episcopal Church of the Diocese of Delaware (the "Trustees") was outstanding as of December 31, 2010 and 2009 for the purchase of a building and land in Bear, Delaware. The grant is expected to be paid to the Trustees upon Good Shepherd attaining church status, thus becoming a separate entity from the Diocesan Council, Inc.

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 paid at \$700 per month until the grant payable has fully been satisfied.

NOTE F – FINANCIAL INSTRUMENTS

Financial instruments that potentially subject the Council 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 subjected to the Council's investment policies.

The Diocesan Council, Inc. maintains 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, balances exceed this amount. The Council considers the possibility of incurring a loss remote.

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NOTE G – POST-RETIREMENT BENEFITS OTHER THAN PENSION

The Council provides post-retirement medical coverage for retired clergy and their spouses and lay employees over age 65 or before age 65 if disabled. The coverage is supplemental to Medicare Parts A and B.

This policy of providing such benefits is subject to change, at any time, in accordance with Canon 23 of the Diocese of Delaware. This policy is currently under study by the Trustees and Diocesan Council.

Based on the existing policy adopted by the Diocesan Council, in accordance with Canon 23 of the Diocese of Delaware, the Council's accumulated post-retirement benefit obligation (APBO) for current retirees and spouses as of December 31, 2010 and 2009 was estimated at \$814,746 and \$628,141, respectively. The weighted average discount rate used in the calculation of the APBO was 7.0%. The healthcare cost gross trend rates assume a 5% rate of increase for 2010 and 2009. If the health care cost trend rates were increased by 1% for each year, the accumulated post-retirement benefit obligation as of December 31, 2010 and 2009 would increase by \$29,456 and \$19,520, respectively. The Council's post-retirement benefit obligation is not funded. The amounts of accumulated benefit obligation of \$814,746 and \$628,141 and the amounts of the 1% increase in health care costs of \$29,456 and \$19,520 set forth herein are based on the assumption that the existing policy to provide such benefits is not changed by the Diocesan Council. The existing policy was adopted by the Council as an extraordinary benefit and not as an entitlement under contract.

The accumulated post-retirement benefit obligation for medical benefits for clergy, lay employees and their respective spouses who could be eligible and receive this benefit in the future cannot be reasonably estimated; accordingly, no liability has been accrued by management in these financial statements.

NOTE H – PRIOR YEAR ADJUSTMENT

The Council's financial statements as of December 31, 2009 were restated to correct an error in recording fixed assets additions for vehicles purchased in a prior year. Unrestricted net assets as of January 1, 2009 was been increased by \$3,815 to correct the error. In addition, equipment as of January 1, 2009 increased by \$3,815 to correct this error.