CONSOLIDATED FINANCIAL STATEMENTS
TOGETHER WITH REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

THE DOMESTIC AND FOREIGN MISSIONARY
SOCIETY OF THE PROTESTANT EPISCOPAL
CHURCH IN THE UNITED STATES OF AMERICA
AND AFFILIATES

As of December 31, 2002 and 2001
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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Executive Council of
The Domestic and Foreign Missionary Society
of the Protestant Episcopal Church in the
United States of America and Affiliates:

We have audited the accompanying consolidated statement of financial position of The Domestic and Foreign Missionary Society of the Protestant Episcopal Church in the United States of America and Affiliates (the “Society”) as of December 31, 2002, and the related consolidated statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Society’s management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Society as of and for the year ended December 31, 2001 were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those financial statements in their report dated April 24, 2002.

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 the 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Domestic and Foreign Missionary Society of the Protestant Episcopal Church in the United States of America and Affiliates as of December 31, 2002, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

New York, New York
April 22, 2003
The Domestic and Foreign Missionary Society of the Protestant Episcopal Church in the United States of America and Affiliates

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of December 31, 2002 and 2001
(Dollar amounts in thousands)

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$9,837</td>
<td>$13,977</td>
</tr>
<tr>
<td>Accounts receivable:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Diocesan covenants receivable, net</td>
<td>514</td>
<td>699</td>
</tr>
<tr>
<td>Loans receivable, net (Note D)</td>
<td>3,296</td>
<td>1,208</td>
</tr>
<tr>
<td>Government grants</td>
<td>2,348</td>
<td>980</td>
</tr>
<tr>
<td>Other receivables</td>
<td>1,195</td>
<td>1,474</td>
</tr>
<tr>
<td>Inventory, net</td>
<td>309</td>
<td>309</td>
</tr>
<tr>
<td>Prepaid expenses and other</td>
<td>348</td>
<td>176</td>
</tr>
<tr>
<td>Total current assets</td>
<td>17,847</td>
<td>18,823</td>
</tr>
<tr>
<td>Investments (Note C):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>DFMS funds</td>
<td>214,459</td>
<td>262,336</td>
</tr>
<tr>
<td>Funds held for the benefit of others</td>
<td>67,514</td>
<td>75,506</td>
</tr>
<tr>
<td>Total investments</td>
<td>281,973</td>
<td>337,842</td>
</tr>
<tr>
<td>Property and equipment, net (Note E)</td>
<td>28,920</td>
<td>29,571</td>
</tr>
<tr>
<td>Loans receivable – noncurrent, net (Note D)</td>
<td>2,672</td>
<td>4,363</td>
</tr>
<tr>
<td>Other assets</td>
<td>214</td>
<td>134</td>
</tr>
<tr>
<td>Beneficial interests in outside trusts</td>
<td>7,061</td>
<td>8,218</td>
</tr>
<tr>
<td>Total assets</td>
<td>$338,687</td>
<td>$398,951</td>
</tr>
</tbody>
</table>

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The Domestic and Foreign Missionary Society of the Protestant Episcopal Church
in the United States of America and Affiliates

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (continued)

As of December 31, 2002 and 2001
(Dollar amounts in thousands)

<table>
<thead>
<tr>
<th>LIABILITIES AND NET ASSETS</th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current liabilities-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts and accrued expenses payable</td>
<td>$ 6,121</td>
<td>$ 5,780</td>
</tr>
<tr>
<td>Mortgage payable (Note F)</td>
<td>71</td>
<td>42</td>
</tr>
<tr>
<td>Grants payable</td>
<td>4,324</td>
<td>4,053</td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>10,516</td>
<td>9,875</td>
</tr>
</tbody>
</table>

| Mortgage payable, net of current installments (Note F) | 2,176 | 2,260 |
| Accrued post-retirement benefits other than pensions (Note H) | 9,277 | 9,201 |
| Funds held for the benefit of others                    | 49,474 | 52,784 |
| Funds held in a trustee relationship                    | 18,504 | 23,251 |
| Total liabilities                                      | 89,947 | 97,371 |

Contingencies (Note K)

| Net assets:                                      |        |        |
| Unrestricted-                                    |        |        |
| Available for general operations                 | 54,826 | 72,602 |
| Executive Council Designated Employee Benefit Program (Note G) | 3,243 | 3,243 |
| Executive Council Designated Principal and Appreciation | 59,401 | 65,487 |
| Invested in property and equipment               | 28,920 | 29,571 |
| Total unrestricted                               | 146,390 | 170,903 |

| Temporarily restricted                           | 70,880 | 97,817 |
| Permanently restricted                           | 31,470 | 32,860 |
| Total net assets                                 | 248,740 | 301,580 |

Total liabilities and net assets                  | $338,687 | $398,951 |

The accompanying notes are an integral part of these consolidated financial statements.
## CONSOLIDATED STATEMENTS OF ACTIVITIES

For the years ended December 31, 2002 and 2001

(Dollar amounts in thousands)

<table>
<thead>
<tr>
<th>Revenues and other support:</th>
<th>2000</th>
<th></th>
<th>2001</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Unrestricted</td>
<td>Temporarily Restricted</td>
<td>Permanently Restricted</td>
<td>Total</td>
<td>Unrestricted</td>
</tr>
<tr>
<td>Diocesan commitments</td>
<td>$ 30,156</td>
<td>-</td>
<td>-</td>
<td>$ 30,156</td>
<td>$ 29,028</td>
</tr>
<tr>
<td>Contributions, bequests and grants</td>
<td>73</td>
<td>3,288</td>
<td>-</td>
<td>3,361</td>
<td>108</td>
</tr>
<tr>
<td>Investment return designated for current operations (Note C)</td>
<td>9,909</td>
<td>1,063</td>
<td>-</td>
<td>11,872</td>
<td>9,079</td>
</tr>
<tr>
<td>Other investment income</td>
<td>1,251</td>
<td>105</td>
<td>-</td>
<td>1,356</td>
<td>2,618</td>
</tr>
<tr>
<td>Government revenue, fees, sales and other</td>
<td>7,757</td>
<td>27</td>
<td>-</td>
<td>7,784</td>
<td>7,788</td>
</tr>
<tr>
<td>Episcopal Relief and Development</td>
<td>-</td>
<td>4,152</td>
<td>2</td>
<td>4,154</td>
<td>-</td>
</tr>
<tr>
<td>Net assets released from restrictions</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Satisfaction of program restrictions</td>
<td>13,561</td>
<td>(13,561)</td>
<td>-</td>
<td>-</td>
<td>18,385</td>
</tr>
<tr>
<td>Revenue from the Episcopal Church Missions (Note D)</td>
<td>6,172</td>
<td>-</td>
<td>(299)</td>
<td>5,873</td>
<td>5,633</td>
</tr>
<tr>
<td>Total revenues and other support</td>
<td>68,288</td>
<td>(3,028)</td>
<td>(299)</td>
<td>64,556</td>
<td>72,659</td>
</tr>
<tr>
<td>Expenses:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Program services:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Canonical and missionary programs</td>
<td>37,641</td>
<td>-</td>
<td>-</td>
<td>37,641</td>
<td>36,063</td>
</tr>
<tr>
<td>General convention</td>
<td>1,055</td>
<td>-</td>
<td>-</td>
<td>1,055</td>
<td>1,765</td>
</tr>
<tr>
<td>Grant-related activities and other</td>
<td>5,958</td>
<td>-</td>
<td>-</td>
<td>5,958</td>
<td>6,586</td>
</tr>
<tr>
<td>Episcopal Relief and Development</td>
<td>11,141</td>
<td>-</td>
<td>-</td>
<td>11,141</td>
<td>12,770</td>
</tr>
<tr>
<td>Expenses from the Episcopal Church Missions</td>
<td>6,756</td>
<td>-</td>
<td>-</td>
<td>6,756</td>
<td>6,462</td>
</tr>
<tr>
<td>Total program services</td>
<td>63,451</td>
<td>-</td>
<td>-</td>
<td>63,451</td>
<td>63,646</td>
</tr>
<tr>
<td>General and administrative</td>
<td>7,448</td>
<td>-</td>
<td>-</td>
<td>7,448</td>
<td>7,400</td>
</tr>
<tr>
<td>Total expenses</td>
<td>20,699</td>
<td>-</td>
<td>-</td>
<td>20,699</td>
<td>71,946</td>
</tr>
<tr>
<td>Change in net assets from operations</td>
<td>(2,013)</td>
<td>(4,026)</td>
<td>(296)</td>
<td>(6,335)</td>
<td>1,593</td>
</tr>
<tr>
<td>Non-operating activities:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment return</td>
<td>(11,340)</td>
<td>(20,845)</td>
<td>-</td>
<td>(32,185)</td>
<td>(31,755)</td>
</tr>
<tr>
<td>Less - other investment income</td>
<td>1,251</td>
<td>105</td>
<td>1,094</td>
<td>2,450</td>
<td>2,450</td>
</tr>
<tr>
<td>Net investment loss - trust fund</td>
<td>(12,509)</td>
<td>(20,950)</td>
<td>(1,094)</td>
<td>(34,633)</td>
<td>(34,372)</td>
</tr>
<tr>
<td>Investment return designated for current operations</td>
<td>(9,009)</td>
<td>(2,962)</td>
<td>-</td>
<td>(11,972)</td>
<td>(9,079)</td>
</tr>
<tr>
<td>Total non-operating activities</td>
<td>(22,509)</td>
<td>(23,911)</td>
<td>(1,094)</td>
<td>(46,605)</td>
<td>(43,452)</td>
</tr>
<tr>
<td>Change in net assets</td>
<td>(24,513)</td>
<td>(26,937)</td>
<td>(1,390)</td>
<td>(52,840)</td>
<td>(41,859)</td>
</tr>
<tr>
<td>Net assets, beginning of year</td>
<td>170,503</td>
<td>97,817</td>
<td>32,860</td>
<td>301,180</td>
<td>182,762</td>
</tr>
<tr>
<td>Net assets, end of year</td>
<td>$ 146,360</td>
<td>$ 70,880</td>
<td>$ 31,470</td>
<td>$ 248,710</td>
<td>$ 170,963</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these consolidated financial statements.
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2002 and 2001
(Dollar amounts in thousands)

<table>
<thead>
<tr>
<th>Cash flows from operating activities:</th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in net assets</td>
<td>$ (52,840)</td>
<td>$ (28,825)</td>
</tr>
<tr>
<td>Adjustments to reconcile change in net assets to net cash used in operating activities-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-cash items-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>1,481</td>
<td>1,478</td>
</tr>
<tr>
<td>Provision for bad debts</td>
<td>360</td>
<td>360</td>
</tr>
<tr>
<td>Total non-cash adjustments</td>
<td>1,841</td>
<td>1,838</td>
</tr>
<tr>
<td>Change in working capital-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase in Diocesan covenants receivable</td>
<td>(175)</td>
<td>(436)</td>
</tr>
<tr>
<td>(Decrease) increase in loans receivable</td>
<td>(397)</td>
<td>1,292</td>
</tr>
<tr>
<td>Increase in government grants receivable</td>
<td>(1,568)</td>
<td>(161)</td>
</tr>
<tr>
<td>Increase (decrease) in other receivables</td>
<td>279</td>
<td>(156)</td>
</tr>
<tr>
<td>Increase in inventory</td>
<td>-</td>
<td>59</td>
</tr>
<tr>
<td>(Increase) decrease in prepaid expenses and other</td>
<td>(172)</td>
<td>82</td>
</tr>
<tr>
<td>Increase in other assets</td>
<td>(81)</td>
<td>(7)</td>
</tr>
<tr>
<td>Increase (decrease) in accounts and accrued expenses payable</td>
<td>341</td>
<td>(1,351)</td>
</tr>
<tr>
<td>Increase (decrease) in grants payable</td>
<td>271</td>
<td>(392)</td>
</tr>
<tr>
<td>Total change in working capital accounts</td>
<td>(1,302)</td>
<td>(1,070)</td>
</tr>
<tr>
<td>Change in investments-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net realized and unrealized depreciation in fair value of investments</td>
<td>38,662</td>
<td>20,655</td>
</tr>
<tr>
<td>Total change in investments</td>
<td>38,662</td>
<td>20,655</td>
</tr>
<tr>
<td>Other changes-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in beneficial interests in outside trusts</td>
<td>1,094</td>
<td>855</td>
</tr>
<tr>
<td>(Decrease) increase in accrued post-retirement benefits other than pensions</td>
<td>76</td>
<td>43</td>
</tr>
<tr>
<td>Permanently restricted contributions</td>
<td>(2)</td>
<td>(130)</td>
</tr>
<tr>
<td>Total other changes</td>
<td>1,168</td>
<td>768</td>
</tr>
<tr>
<td>Total change in working capital accounts</td>
<td>40,369</td>
<td>22,219</td>
</tr>
<tr>
<td>Net cash used in operating activities</td>
<td>(12,471)</td>
<td>(6,634)</td>
</tr>
</tbody>
</table>

| Cash flows from investing activities: | | |
| Purchases of property and equipment | (830) | (576) |
| Proceeds from sales of investments  | 11,341 | 10,291 |
| Purchases of investments, net       | (2,127) | (6) |
| Net cash provided by investing activities | 8,384 | 9,709 |

| Cash flows from financing activities: | | |
| Permanently restricted contributions | 2 | 130 |
| Principal payments on mortgage loan | (55) | (42) |
| Net cash (used in) provided by financing activities | (53) | 88 |
| Net (decrease) increase in cash and cash equivalents | (4,140) | 3,163 |

| Cash and cash equivalents, beginning of year | | |
| Cash and cash equivalents, end of year | $ 9,837 | $ 13,977 |

| Supplemental disclosure of cash flow information: | | |
| Cash paid for interest during the year | $ 162 | $ 175 |

The accompanying notes are an integral part of these consolidated financial statements.
The Domestic and Foreign Missionary Society of the Protestant Episcopal Church in the United States of America and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001
(Dollar amounts in thousands)

NOTE A - ORGANIZATION AND NATURE OF ACTIVITIES

The Domestic and Foreign Missionary Society of the Protestant Episcopal Church in the United States of America ("DFMS") is the corporate organization charged with the legal and financial responsibilities for the operations of the Episcopal Church in the United States. It does not, however, operate or otherwise control individual dioceses. The General Convention is the legislative body of the Episcopal Church and meets in convention once every three years. Between conventions, the Executive Council of the General Convention is charged with the responsibility of implementing the programs and policies adopted by the General Convention.

In February 2002, the Executive Council approved the incorporation of Episcopal Relief and Development ("ERD"), previously reported as a program under DFMS, as a separate 501(c)(3) not-for-profit corporation. As a result of this action, the net assets, revenues, and expenses of ERD were transferred to a separately incorporated 501(c)(3) corporation in 2002 in accordance with the Memorandum of Understanding between the Executive Council of the Episcopal Church and ERD.

The Society’s consolidated financial statements include the activities of ERD, Episcopal Church Women, United Thank Offering and all other direct agencies of the Society, as well as missional church and school activities in Micronesia (Guam). All inter-company transactions are eliminated upon consolidation. These entities are collectively known as the "Society".

A significant amount of the Society’s support comes from amounts provided by dioceses.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies employed by the Society are described below:

1. Basis of Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Accordingly, the classification of the Society’s net assets and its support, revenue and expenses is based on the existence or absence of donor-imposed restrictions. The amounts for each of three classes of net assets, permanently restricted, temporarily restricted and unrestricted are displayed in statements of financial position and the amounts of change in each of those classes of net assets are displayed in statements of activities.
The Domestic and Foreign Missionary Society of the Protestant Episcopal Church in the United States of America and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 2002 and 2001
(Dollar amounts in thousands)

NOTE B (continued)

Net assets consist of the following:

**Unrestricted** – Net assets that are neither permanently nor temporarily restricted by donor-imposed stipulations and, therefore, available to carry out the Society’s operations. Unrestricted net assets also include those net assets that are designated as to their use by action of the Executive Council.

**Temporarily Restricted** – Net assets resulting from contributions and other inflows of assets whose use by the Society is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled by actions of the Society pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities.

**Permanently Restricted** – Net assets resulting from contributions and other inflows of assets whose use by the Society is limited by donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled by actions of the Society.

2. **Cash and Cash Equivalents**

The Society considers all highly liquid investments with maturities of less than three months to be cash or cash equivalents.

3. **Investments**

Investments, which include those that belong to the Society as well as those held on behalf of others, are stated at quoted market values. The realized and unrealized gains or losses on investments belonging to the Society have been reflected in the accompanying statements of activities. Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the financial statements.
The Domestic and Foreign Missionary Society of the Protestant Episcopal Church in the United States of America and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 2002 and 2001
(Dollar amounts in thousands)

NOTE B (continued)

4. **Inventory**

   Inventory is recorded at the lower of cost or market and is accounted for using the average cost method. Such inventory consists primarily of program-related literature and other materials.

5. **Property and Equipment**

   The Society’s investment in property and equipment represents its New York headquarters and the school and missional churches of Micronesia. Property and equipment, with the exception of land, are depreciated using the straight-line method over the estimated service lives of the respective assets.

6. **Beneficial Interest in Outside Trusts**

   From time to time, certain donors have established trusts with third party administrators, typically banks or other Episcopal entities, that call for the income earned on these gifts to be paid to the Society and/or other beneficiaries and the principal to be invested in perpetuity. Historically, the income received from these outside trusts has been recorded as either temporarily restricted or unrestricted based upon the donors’ imposed stipulations. Accounting principles generally accepted in the United States of America require that the fair value of these outside trust assets be recognized as permanently restricted net assets. The recorded value is changed each year and recognized in the statement of activities as a change in beneficial interest in outside trusts.

7. **Grants Payable**

   The awarding of grants is reflected in the financial statements at the time they are approved by the appropriate board. Grants represent unconditional promises to give that are expected to be paid within one year.

8. **Diocesan Covenants Receivable**

   The Society provides for an allowance for uncollectible receivables based on an assessment of various factors, including historical information and current conditions. The allowance for uncollectable accounts was approximately $1,045 and $731 at December 31, 2002 and 2001, respectively.
The Domestic and Foreign Missionary Society of the Protestant Episcopal Church in the United States of America and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 2002 and 2001
(Dollar amounts in thousands)

NOTE B (continued)

9. Funds Held for the Benefit of Others

In the ordinary course of business, the Society sometimes acts as a custodian for funds owned by others and for which no benefit of income or principal is received. In these cases, the balances are treated as liabilities rather than included in the Society’s net assets. The income from these investments is not included in the accompanying consolidated statements of activities.

10. Funds Held in a Trustee Relationship

Funds held in a trustee relationship are funds held in a fiduciary relationship by the Society, as trustee, where the original principal is invested permanently and the income is used in support of other specific third-party beneficiaries.

11. Use of Estimates

Accounting principles generally accepted in the United States of America require the use of estimates and assumptions that affect the amounts reported by the Society. It is the Society’s policy to provide a specific reserve against loans and other amounts receivable which are deemed to have had an impairment in value. Actual results may differ from these estimates.

12. Contributed Goods and Services

The Society benefits from contributed goods and services. Contributed goods have not been reflected in the accompanying consolidated financial statements since they are deemed to be immaterial. Contributed services are received by the Society but have not been recorded in the accompanying consolidated financial statements since they do not meet the criteria for recognition.

13. Fair Value of Financial Instruments

The Society estimates that the fair value of all financial instruments does not differ materially from their carrying values as displayed in the accompanying consolidated statements of financial position.
NOTE B (continued)

14. Income Taxes

The Society is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Therefore, no provision for income taxes has been made in the accompanying consolidated financial statements.

15. Reclassifications

Certain line items in the 2001 consolidated financial statements have been reclassified to conform to the 2002 presentation.

NOTE C - INVESTMENTS

Investments are carried at market value and are comprised of the following:

<table>
<thead>
<tr>
<th></th>
<th>Market Value</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common stock</td>
<td>$149,770</td>
<td>$201,084</td>
</tr>
<tr>
<td>Bonds:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate</td>
<td>40,367</td>
<td>43,099</td>
</tr>
<tr>
<td>Government</td>
<td>40,248</td>
<td>47,729</td>
</tr>
<tr>
<td>Other, primarily mutual bond funds</td>
<td>12,147</td>
<td>10,186</td>
</tr>
<tr>
<td>Total bonds</td>
<td>92,762</td>
<td>101,014</td>
</tr>
<tr>
<td>Mutual funds (mostly common stock and bonds)</td>
<td>10,385</td>
<td>8,132</td>
</tr>
<tr>
<td>Certificates of deposit</td>
<td>4,176</td>
<td>4,339</td>
</tr>
<tr>
<td>Other, primarily money market and other cash equivalents</td>
<td>24,880</td>
<td>23,273</td>
</tr>
<tr>
<td>Total investments</td>
<td>$281,973</td>
<td>$337,842</td>
</tr>
</tbody>
</table>

The Society's investments of approximately $282,000 consist of $233,000 in trust fund endowment assets, $13,000 in uni-trust and pooled income funds, $29,000 in medium-term investments, $4,000 in St. John's School (Guam) investments and $3,000 in certificates of deposit with minority-controlled banks.

Subject to donor restrictions and consistent with the provisions of the Uniform Management of Institutional Funds Act, earnings on temporarily and permanently restricted net assets are available for the operations of the Society unless otherwise restricted by the donor.
NOTE C (continued)

The Society follows the “Total Return Approach” to investments whereby it applies a prudent portion of the realized and unrealized returns on investments to meet current designated and undesignated expenditures. Total return consists of two elements: yield and appreciation. Based on the Society’s long-term investment strategy, the Executive Council sets the payout rate on the investments at a percentage (currently 5%) of a three-year moving average market value of the portfolio. Any return in excess of this percentage is reinvested to protect the real dollar value of these funds against the effects of inflation.

Investment return is comprised of the following for the years ended December 31:

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest and dividends</td>
<td>$4,998</td>
<td>$6,393</td>
</tr>
<tr>
<td>Net realized and unrealized depreciation in fair value of investments</td>
<td>(38,662)</td>
<td>(20,655)</td>
</tr>
<tr>
<td></td>
<td>(33,664)</td>
<td>(14,262)</td>
</tr>
<tr>
<td>Less- ERD investment income</td>
<td>1,481</td>
<td>487</td>
</tr>
<tr>
<td>Investment return</td>
<td>$32,182</td>
<td>$(13,775)</td>
</tr>
</tbody>
</table>

NOTE D - LOANS RECEIVABLE

Loans receivable are comprised of the following at December 31:

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction loans to dioceses and missionary districts</td>
<td>$3,174</td>
<td>$3,058</td>
</tr>
<tr>
<td>Economic justice and community investment loans</td>
<td>2,097</td>
<td>1,778</td>
</tr>
<tr>
<td>Programmatic loans (community development banks)</td>
<td>1,373</td>
<td>1,373</td>
</tr>
<tr>
<td>Residential loans to employees</td>
<td>262</td>
<td>311</td>
</tr>
<tr>
<td></td>
<td>6,906</td>
<td>6,520</td>
</tr>
<tr>
<td>Reserve for uncollectible accounts</td>
<td>(938)</td>
<td>(949)</td>
</tr>
<tr>
<td></td>
<td>5,968</td>
<td>5,571</td>
</tr>
<tr>
<td>Less- Current portion</td>
<td>3,296</td>
<td>1,208</td>
</tr>
<tr>
<td>Long-term loans receivable</td>
<td>$2,672</td>
<td>$4,363</td>
</tr>
</tbody>
</table>

Such loans bear interest in varying amounts ranging from 1.0% to 8.0% and are payable as installment loans or on demand. These loans are generally unsecured.
The Domestic and Foreign Missionary Society of the Protestant Episcopal Church
in the United States of America and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 2002 and 2001
(Dollar amounts in thousands)

NOTE E - PROPERTY AND EQUIPMENT, NET

Property and equipment, net is comprised of the following as of December 31:

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2001</th>
<th>Useful Lives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>$ 7,736</td>
<td>$ 7,736</td>
<td>-</td>
</tr>
<tr>
<td>Buildings and improvements</td>
<td>36,461</td>
<td>36,074</td>
<td>30</td>
</tr>
<tr>
<td>Other equipment and furnishings</td>
<td>5,537</td>
<td>5,094</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>49,734</td>
<td>48,904</td>
<td></td>
</tr>
<tr>
<td>Less- Accumulated depreciation</td>
<td>(20,814)</td>
<td>(19,333)</td>
<td></td>
</tr>
<tr>
<td>Property and equipment, net</td>
<td>$ 28,920</td>
<td>$ 29,571</td>
<td></td>
</tr>
</tbody>
</table>

Depreciation expense amounted to $1,481 and $1,478 for the years ended December 31, 2002 and 2001, respectively.

NOTE F - MORTGAGE PAYABLE

1. Property

In June 1998, the St. John’s School (Guam) obtained a loan from DFMS to rebuild the school properties destroyed by a typhoon in 1997. In February 1999, the St. John’s School obtained a $2,400 mortgage from a bank (secured by the underlying property owned by DFMS) which carried an interest rate of 7.60% per through February 2002. The interest rate was adjusted in February 2002 to an interest rate of 6.5% per year and will be adjusted in February 2005 to a rate equal to the Federal Home Loan three-year fixed rate in effect for that date plus 1.75%. The full balance of unpaid principal and accrued interest is due and payable in 2008.

Principal payments due under the mortgage for the years ended subsequent to December 31, 2002 are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Payments Due</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>$ 71</td>
</tr>
<tr>
<td>2004</td>
<td>75</td>
</tr>
<tr>
<td>2005</td>
<td>78</td>
</tr>
<tr>
<td>2006</td>
<td>82</td>
</tr>
<tr>
<td>2007</td>
<td>86</td>
</tr>
<tr>
<td>2008 and thereafter</td>
<td>1,855</td>
</tr>
<tr>
<td>Total payments due</td>
<td>$2,247</td>
</tr>
</tbody>
</table>
The Domestic and Foreign Missionary Society of the Protestant Episcopal Church in the United States of America and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 2002 and 2001
(Dollar amounts in thousands)

NOTE F (continued)

Interest expense amounted to $162 and $175 for the years ended December 31, 2002 and 2001, respectively.

2. Line of Credit

In March 2001, DFMS obtained a $50,000 unsecured line of credit from Allied Irish, PLC to be used primarily to support Episcopal dioceses and other affiliated entities in their building and construction projects. As of December 31, 2002, no borrowings were outstanding under this line of credit. The line of credit bears interest at the bank’s cost of funds plus .5% and expires on February 26, 2003. This line was subsequently extended to February 25, 2004 under the same terms and conditions.

NOTE G - PENSION PLANS

DFMS maintains a defined contribution pension plan (the “Plan”) for all eligible lay employees. Under the Plan, DFMS contributes 5% of eligible salaries and DFMS matches employee contributions to the Plan up to 4%. It is the opinion of counsel to the Plan that as a Church Plan, this Plan is exempt from the requirements of the Employee Retirement Income Security Act of 1974 (“ERISA”). Pension expense for this plan recognized in the accompanying consolidated financial statements amounted to $666 and $614 for the years ended December 31, 2002 and 2001, respectively.

DFMS is a participant in a separate pension plan administered by the Church Pension Fund (an independent organization) that provides pension benefits to all ordained clergy of the Episcopal Church, including those who hold positions within DFMS. Pension expense for this plan recognized in the accompanying consolidated financial statements amounted to $660 and $623 for the years ended December 31, 2002 and 2001, respectively.

The Executive Council of DFMS has voluntarily paid pension supplements to employees who retired prior to 1971 and had 20 years of service with DFMS. These benefits are accounted for on a “pay-as-you-go basis.” Pension expense for this “plan” recognized in the accompanying consolidated financial statements amounted to $42 and $44 for the years ended December 31, 2002 and 2001, respectively.
NOTE G (continued)

The St. John's School (the "School") maintains a defined contribution pension plan. This plan covers all eligible employees of the School. Benefits under this plan are provided by fixed-dollar annuities issued by the Teachers Insurance and Annuity Association and by variable annuities offered by its companion organization, the College Retirement Equities Fund. The School contributes 5% of the gross base pay of its employees. After 10 years of employment, the School will increase its contribution by a graduated percentage rate (7%-17%) depending on the number of years of employment. Pension expense for this plan recognized in the accompanying consolidated financial statements amounted to $229 and $222 for the years ended December 31, 2002 and 2001, respectively.

NOTE H - POST-RETIREMENT BENEFITS OTHER THAN PENSIONS

DFMS sponsors post-retirement plans which provide both health care (fully contributory until the retiree reaches age 65) and life insurance (noncontributory) benefits to both lay and clergy personnel.

The following tables set forth the status of the plans as of December 31, 2002 and 2001:

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in benefit obligation:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Benefit obligation, beginning of year</td>
<td>7,536</td>
<td>7,522</td>
</tr>
<tr>
<td>Service cost</td>
<td>240</td>
<td>208</td>
</tr>
<tr>
<td>Interest cost</td>
<td>500</td>
<td>490</td>
</tr>
<tr>
<td>Actuarial (gain) loss</td>
<td>(90)</td>
<td>(174)</td>
</tr>
<tr>
<td>Benefits paid</td>
<td>(504)</td>
<td>(510)</td>
</tr>
<tr>
<td>Benefit obligation, end of year</td>
<td>7,682</td>
<td>7,536</td>
</tr>
</tbody>
</table>

Components of accrued benefit cost:

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Funded status</td>
<td>(7,682)</td>
<td>(7,536)</td>
</tr>
<tr>
<td>Unrecognized actuarial net gain</td>
<td>(1,595)</td>
<td>(1,665)</td>
</tr>
<tr>
<td>Accrued benefit cost</td>
<td>(9,277)</td>
<td>(9,201)</td>
</tr>
</tbody>
</table>
NOTE H (continued)

The net periodic post-retirement benefit cost for the years ended December 31, 2002 and 2001 includes the following components:

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service cost of benefits earned</td>
<td>$ 240</td>
<td>$ 208</td>
</tr>
<tr>
<td>Interest cost on accumulated post-retirement benefit obligation</td>
<td>500</td>
<td>490</td>
</tr>
<tr>
<td>Amortization of unrecognized actuarial gain</td>
<td>(90)</td>
<td>(251)</td>
</tr>
<tr>
<td>Net periodic post-retirement benefit cost</td>
<td>$ 650</td>
<td>$ 447</td>
</tr>
</tbody>
</table>

The discount rate used in determining the accumulated post-retirement benefit obligation was 6.5% for the years ended December 31, 2002 and 2001, respectively. The assumed medical care cost trend rate used was 8.0% for the current year, decreasing gradually in the future years to 5.5% by fiscal year 2007 and remaining at that level thereafter. The assumed dental care cost trend rate used was 6.5% for the current year, decreasing gradually to 5.0% by fiscal 2007 and remaining at that level thereafter. Increasing the assumed medical and dental care cost trend rate by 1% in each year would increase the accumulated post-retirement benefit obligation as of December 31, 2002 by $980 and increase the aggregate of the service cost and interest cost by $104. Decreasing the assumed medical and dental care cost trend rate by 1% in each year would decrease the accumulated post-retirement benefit obligation as of December 31, 2002 by $930 and decrease the aggregate of the service cost and interest cost by $97.

NOTE I - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets include the following as of December 31:

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net earnings from endowment funds restricted as to use</td>
<td>$ 35,309</td>
<td>$ 50,834</td>
</tr>
<tr>
<td>Funds held in a trustee relationship</td>
<td>26,657</td>
<td>34,793</td>
</tr>
<tr>
<td>Episcopal Relief and Development</td>
<td>1,757</td>
<td>5,713</td>
</tr>
<tr>
<td>United Thank Offering and Episcopal Church Women Fund</td>
<td>3,317</td>
<td>3,019</td>
</tr>
<tr>
<td>Various program funds</td>
<td>3,840</td>
<td>3,458</td>
</tr>
<tr>
<td>Total temporarily restricted net assets</td>
<td>$ 70,880</td>
<td>$ 97,817</td>
</tr>
</tbody>
</table>

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The Domestic and Foreign Missionary Society of the Protestant Episcopal Church
in the United States of America and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 2002 and 2001
(Dollar amounts in thousands)

NOTE J - RELATED PARTIES

The Episcopal Church is an unincorporated association governed by the General Convention. It carries
out its administrative, finance and other program activities through DFMS, a New York corporation.
DFMS is governed by the Executive Council whose members are elected by the General Convention or
Provinces. The Executive Council acts as the General Convention between meetings. DFMS engages in
financial transactions with both foreign and domestic entities affiliated with the Episcopal Church and the
Worldwide Anglican Communion. DFMS receives its principal financial support in the form of Diocesan
commitments, which totaled approximately $30,000 and $29,000 for the years ended December 31, 2002
and 2001, respectively. In addition, DFMS receives a significant portion of non-governmental fees from
related parties as well, which totaled approximately $3,000 for the years ended December 31, 2002 and
2001. DFMS expended approximately $34,000 and $36,000, respectively, for the years ended
December 31, 2002 and 2001, in either direct payments/grants to affiliated entities or expenses incurred on
behalf of these related parties. Of the total loans receivable reported in the consolidated statements of
financial position at December 31, 2002 and 2001, approximately $3,000 represent loans made to related
entities, which bear interest at rates ranging from 3.0% to 8.0% per annum.

NOTE K - CONTINGENCIES

1. Government Funding

The Society enters into contracts with agencies of the United States Government under which the
government provides funding for various refugee resettlement activities carried on by the Society in the
United States and in other countries. The expenditures of these funds by the Society and its affiliated
organizations are subject to audit by the federal government. Management expects that no material
adjustments would result from such audits.

2. Refugee Loan Receivables and Collections

In connection with its cooperative agreements with the United States Government for refugee
resettlement, the Society acts as the collection agent for travel loans made to refugees by the
International Organization for Migration. In return for these services, the Society retains 25% of all
loan collections as a recovery of its administrative costs incurred. As of December 31, 2002 and 2001,
there were $3,276 and $3,885, respectively, of refugee loans outstanding.
NOTE K (continued)

3. *Litigation*

The Society is subject to various claims and legal proceedings that arise in the course of ordinary business activities. The Society is not aware of any pending litigation which will have a material adverse effect on the accompanying consolidated financial statements.