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

December 31, 2004 and 2003

CONTENTS

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 statements 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, 2004 and 2003, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America as established by the Auditing Standards Board of the American Institute of Certified Public Accountants. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Society's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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.

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, 2004 and 2003, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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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

As of December 31, 2004 and 2003
(Dollar amounts in thousands)

ASSETS	2004	2003
Assets:		
Current assets-		
Cash and cash equivalents	$ 12,177	$ 9,150
Accounts receivable:		
Diocesan commitments receivable, net (Note B)	1,185	804
Loans receivable, net (Notes D and J)	797	1,497
Government grants	662	1,003
Other receivables	1,895	1,551
Investments - funds held for the benefit of others (Note C)	-	15,480
Inventory, net	307	308
Prepaid expenses and other	304	319
Total current assets	17,327	30,112
Investments (Note C):		
DFMS-controlled funds	271,645	257,649
Funds held for the benefit of others	65,808	62,885
Total investments	337,453	320,534
Property and equipment, net (Note E)	29,526	27,838
Loans receivable - noncurrent, net (Notes D and J)	3,437	3,335
Other assets	150	144
Beneficial interest in outside trusts	8,169	7,907
Total assets	$ 396,062	$ 389,870
LIABILITIES AND NET ASSETS		
Liabilities:		
Current liabilities:		
Accounts payable and accrued expenses	$ 9,176	$ 7,606
Mortgage payable (Note F)	78	75
Grants payable	3,205	4,167
Funds held for the benefit of others	-	15,480
Total current liabilities	12,459	27,328
Mortgage payable, net of current installments (Note F)	2,025	2,104
Accrued post-retirement benefits other than pensions (Note H)	9,405	9,279
Funds held for the benefit of others	42,522	41,157
Funds held in a trustee relationship	23,793	22,227
Total liabilities	90,204	102,095
Contingencies (Note K)		
Net assets:		
Unrestricted:		
Available for general operations	69,717	73,125
Executive Council Designated Employee Benefit Program	3,243	3,243
Executive Council Designated Principal and Appreciation	78,252	67,730
Invested in property and equipment (Note E)	29,526	27,838
Total unrestricted	180,738	171,936
Temporarily restricted (Note I)	93,140	83,830
Permanently restricted	31,980	32,009
Total net assets	305,858	287,775
Total liabilities and net assets	$ 396,062	$ 389,870

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

CONSOLIDATED STATEMENTS OF ACTIVITIES

For the years ended December 31, 2004 and 2003
(Dollar amounts in thousands)

	2004				2003			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other support:								
Diocesan commitments (Note J)	$ 27,979	$ -	$ -	$ 27,979	$ 31,295	$ -	$ -	$ 31,295
Contributions, bequests and grants	483	4,610	-	5,093	5,136	3,314	-	8,450
Investment return designated for current operations (Note C)	9,624	1,913	-	11,537	8,262	1,756	-	10,018
Other investment income	468	122	-	590	810	81	-	891
Government revenue	5,800	-	-	5,800	4,419	-	-	4,419
Fees, sales and other	2,409	2	-	2,411	3,623	(3)	-	3,620
Episcopal Relief and Development	-	9,977	2	9,979	-	7,791	-	7,791
Net assets released from restrictions - satisfaction of program restrictions	14,350	(14,350)		-	18,336	(18,336)	-	-
Revenue from the Episcopal Church in Micronesia	6,890		(287)	6,603	6,247	-	(272)	5,975
Total revenues and other support	68,003	2,274	(285)	69,992	78,128	(5,397)	(272)	72,459
Expenses:								
Program services-								
Canonical and missional programs	32,003	-	-	32,003	33,104	-	-	33,104
Government expenses	5,732	-	-	5,732	4,115	-	-	4,115
General convention	1,481	-	-	1,481	3,302	-	-	3,302
Grant-related activities and other	6,225	-	-	6,225	6,445	-	-	6,445
Episcopal Relief and Development	7,684	-	-	7,684	7,951	-	-	7,951
Expenses from the Episcopal Church in Micronesia	7,026	-	-	7,026	6,580	-	-	6,580
Total program services	60,151	-	-	60,151	61,497	-	-	61,497
General and administrative	6,490	-	-	6,490	9,088	-	-	9,088
Total expenses	66,641	-	-	66,641	70,585	-	-	70,585
Change in net assets from operations	1,362	2,274	(285)	3,351	7,543	(5,397)	(272)	1,874
Non-operating activities:								
Investment return	17,532	9,071	-	26,603	27,075	20,184	-	47,259
Less: other investment income (loss)	468	122	(256)	334	810	81	(811)	80
Net investment gain (loss) - trust fund	17,064	8,949	256	26,269	26,265	20,103	811	47,179
Less: Investment return designated for current operations	9,624	1,913	-	11,537	(8,262)	(1,756)	-	(10,018)
Total nonoperating activities	7,440	7,036	256	14,732	18,003	18,347	811	37,161
Change in net assets	8,802	9,310	(29)	18,083	25,546	12,950	539	39,035
Net assets, beginning of year	171,936	83,830	32,009	287,775	146,390	70,880	31,470	248,740
Net assets, end of year	$ 180,738	$ 93,140	$ 31,980	$ 305,858	$ 171,936	$ 83,830	$ 32,009	$ 287,775

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2004 and 2003
(Dollar amounts in thousands)

	2004	2003
Cash flows from operating activities:		
Change in net assets	$ 18,083	$ 39,035
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Non-cash items:		
Depreciation	1,351	1,408
Provision for bad debts	368	1,003
Total non-cash adjustments	1,719	2,411
Change in working capital:		
Increase in diocesan commitments receivable	(381)	(1,290)
Decrease in loans receivable	700	1,136
Decrease in government grants receivable	341	1,345
Increase in other receivables	(344)	(356)
Decrease in inventory, prepaid expenses and other	16	30
(Increase) decrease in other assets	(6)	70
Increase in accounts payable and accrued expenses	1,570	1,485
Decrease in grants payable	(962)	(157)
Total change in working capital accounts	934	2,263
Change in investments:		
Net realized and unrealized gains on investments	(23,892)	(44,795)
Total change in investments	(23,892)	(44,795)
Other changes:		
Change in beneficial interests in outside trusts	(262)	(811)
Increase in accrued post-retirement benefits other than pensions	155	2
Permanently restricted contributions	(2)	-
Total other changes	(109)	(809)
Total change in working capital accounts and other	(21,348)	(40,930)
Net cash used in operating activities	(3,265)	(1,895)
Cash flows from investing activities:		
Purchases of property and equipment	(3,039)	(326)
Proceeds from sales of investments	9,529	2,873
Purchases of investments	(124)	(1,271)
Net cash provided by investing activities	6,366	1,276
Cash flows from financing activities:		
Permanently restricted contributions	2	-
Principal payments on mortgage loan	(76)	(68)
Net cash used in financing activities	(74)	(68)
Net increase (decrease) in cash and cash equivalents	3,027	(687)
Cash and cash equivalents, beginning of year	9,150	9,837
Cash and cash equivalents, end of year	$ 12,177	$ 9,150
Supplemental disclosure of cash flow information:		
Cash paid for interest during the year	$ 141	$ 148

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003
(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.

Prior to 2002, Episcopal Relief and Development ("ERD") was reported as a program within the Society's financial statements. In February 2002, the Executive Council approved the incorporation of ERD 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 intercompany transactions are eliminated upon consolidation. These entities and programs are collectively known as the "Society".

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

The Society has been classified by the Internal Revenue Service as a not-for-profit organization 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.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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, revenues and expenses are 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 the consolidated statements of financial position and the amounts of change in each of those classes of net assets are displayed in the consolidated statements of activities.

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, are available to carry out the Society's operations. Unrestricted net assets also include those net assets that are restricted 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 and removed 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 consolidated statements of activities as net assets released from restriction.

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

2. *Cash and Cash Equivalents*

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

3. *Diocesan Commitments 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 uncollectible accounts was approximately $1,400 and $2,000 at December 31, 2004 and 2003, respectively.

4. *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 consolidated 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.

NOTE B (continued)

5. *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.

6. *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.

7. *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 consolidated statements of activities as a change in beneficial interest in outside trusts.

8. *Grants Payable*

The awarding of grants is reflected in the consolidated 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.

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 and as assets held in the investment accounts. The income from these investments is not included in the accompanying consolidated statements of activities.

NOTE B (continued)

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 specific third-party beneficiaries.

11. *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 by management 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.

12. *Fair Value of Financial Instruments*

The Society estimates that the fair value of all financial instruments does not differ materially from carrying values as presented in the accompanying consolidated statements of financial position.

13. *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosures of contingencies at the date of the financial statements and revenues and expenses recognized during the reporting period. 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.

14. *Reclassification*

Certain 2003 balances have been reclassified to conform to the 2004 presentation.

(Dollar amounts in thousands)

NOTE C - INVESTMENTS

At December 31, 2004, the total investments of approximately $337,000 consisted of $290,000 in trust fund assets, $13,000 in unit-trust and pooled income funds, $27,000 in medium-term investments, $4,000 in St. John's School (Guam) investments and $3,000 in certificates of deposit with minority-controlled banks. At December 31, 2003, the total investments of approximately $336,000 consisted of $287,000 in trust fund endowment assets, $13,000 in unit-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.

Investments are carried at market value and consist of the following at December 31:

	Market Value		Cost	
	2004	2003	2004	2003
Common stock	**$ 237,659**	$ 238,744	$ 207,004	$ 219,072
Bonds:				
Corporate	**26,519**	32,021	25,783	30,935
Government	**44,336**	41,744	43,465	40,883
Other, primarily mutual bond funds	**8,078**	8,909	7,908	8,821
Total bonds	**78,933**	82,674	77,156	80,639
Mutual funds (primarily common stock and bonds)	**8,817**	8,628	9,129	9,346
Certificates of deposit	**2,700**	3,278	2,700	3,278
Other, primarily money market and other cash equivalents	**9,344**	2,690	9,343	2,690
Total investments	**337,453**	336,014	305,332	315,025
Funds held for others	**(65,808)**	(78,365)	(62,200)	(75,004)
Total DFMS-controlled funds	**$ 271,645**	$ 257,649	$ 243,132	$ 240,021

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.

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 DFMS trust funds at a percentage (currently 5.5%) of a five-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.

(Dollar amounts in thousands)

NOTE C (continued)

During fiscal 2004, approximately $15,480 of investments held for the benefit of others was transferred to the beneficiary diocese.

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

	2004	2003
Interest and dividends	$ 4,277	$ 4,958
Realized and unrealized gains	23,892	44,795
Total investment income	28,169	49,753
Less: ERD investment income	(1,566)	(2,494)
Investment return	$ 26,603	$ 47,259

NOTE D - LOANS RECEIVABLE, NET

Loans receivable are comprised of the following at December 31:

	2004	2003
Construction loans to dioceses and missionary districts	$ 915	$ 1,208
Economic justice and community investment loans	3,588	3,099
Programmatic loans (community development banks)	491	1,223
Residential loans to employees	63	238
	5,057	5,768
Reserve for uncollectible accounts	(823)	(936)
	4,234	4,832
Less: Current portion	(797)	(1,497)
Long-term loan receivables	$ 3,437	$ 3,335

Such loans bear interest in varying amounts ranging from 0.9% to 8.0% and are payable as installment loans or on demand. These loans are generally unsecured.

(Dollar amounts in thousands)

NOTE E - PROPERTY AND EQUIPMENT, NET

Property and equipment consist of the following as of December 31:

	2004	2003	Useful Lives
Land	**$ 7,635**	$ 7,635	-
Buildings and improvements	**36,782**	36,607	30
Other equipment and furnishings	**6,409**	5,818	5
Building renovations	**2,273**	-	
	53,099	50,060	
Less: Accumulated depreciation	**(23,573)**	(22,222)	
Property and equipment, net	**$ 29,526**	$ 27,838	

Depreciation expense amounted to $1,351 and $1,408 for the years ended December 31, 2004 and 2003, respectively.

NOTE F - MORTGAGE PAYABLE

1. *Property*

In June 1998, the St. John's School obtained a loan from DFMS to rebuild school properties destroyed by a typhoon in 1997. In February 1999, the School repaid this loan by obtaining a $2,400 mortgage (secured by the underlying property owned by DFMS) which carried an interest rate of 7.60% per annum through February 2002. The interest rate was adjusted in February 2002 to 6.5% and was adjusted in February 2005 to 5.7%, which is a rate equal to the Federal Home Loan three-year fixed rate in effect for those dates plus 1.75%. The full balance of unpaid principal and accrued interest is due and payable in February 2008.

Principal payments due under the mortgage for the years ended subsequent to December 31, 2004 are as follows:

2005	$ 78
2006	82
2007	86
2008	1,857
Total payments due	$ 2,103

NOTE F (continued)

Interest expense amounted to $141 and $148 for the years ended December 31, 2004 and 2003, respectively.

2. *Line of Credit*

In December 2004, DFMS obtained a $50 million line of credit, secured by DFMS's investment in unrestricted marketable securities, from the Bank of New York to be used primarily for working capital and other business purposes. As of December 31, 2004, no borrowings were outstanding under this line of credit. The line of credit bears interest at rates based on the Prime Rate or the Eurodollar Rate of various maturities selected by DFMS at the time of each borrowing.

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 $722 and $705 for the years ended December 31, 2004 and 2003, 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 $748 and $685 for the years ended December 31, 2004 and 2003, 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 $39 and $40 for the years ended December 31, 2004 and 2003, respectively.

(Dollar amounts in thousands)

NOTE G (continued)

The St. John's School maintains a defined contribution pension plan. This plan covers all eligible employees of the St. John's 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 St. John's School contributes 5% of the gross base pay of its employees. After 10 years of employment, the St. John's 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 $238 and $222 for the years ended December 31, 2004 and 2003, respectively.

NOTE H - ACCRUED 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 (non-contributory) benefits to both lay and clergy personnel.

The following tables set forth the status of the plans as of December 31, 2004 and 2003:

	2004	2003
Change in benefit obligation:		
Benefit obligation, beginning of year	**$ 9,337**	$ 7,682
Service cost	**304**	221
Interest cost	**399**	468
Actuarial (gain) loss	**(2,555)**	1,547
Benefits paid	**(354)**	(581)
Benefit obligation, end of year	**$ 7,131**	$ 9,337
Components of accrued benefit cost:		
Funded status	**$ (7,131)**	$ (9,337)
Unrecognized actuarial net (gain) loss	**(2,274)**	58
Accrued benefit cost	**$ (9,405)**	$ (9,279)

(Dollar amounts in thousands)

NOTE H (continued)

The discount rates used in determining the accumulated post-retirement benefit obligations were 6% and 6.25% for the years ended December 31, 2004 and 2003, respectively. The assumed medical care cost trend rate used was 10.3% for the current year, decreasing gradually in the future years to 5.0% by fiscal year 2013 and remaining at that level thereafter. Increasing the assumed medical care cost trend rate by 1% in each year would increase the accumulated post-retirement benefit obligation as of December 31, 2004 by $793 and increase the aggregate of the service cost and interest cost by $115. Decreasing the assumed medical care cost trend rate by 1% in each year would decrease the accumulated post-retirement benefit obligation as of December 31, 2004 by $662 and decrease the aggregate of the service cost and interest cost by $93.

On December 8, 2003, legislation reforming Medicare and introducing the Medicare Part D prescription drug program was signed into law. In accordance with the FASB Staff Position Paper issued January 12, 2004, the Society has elected to defer any impact of this new legislation in the accumulated post-retirement benefit obligation or net periodic post-retirement benefit cost. Specific authoritative guidance on accounting for the federal subsidy for plans that provide prescription drug benefits is pending and that guidance, when issued, could require a change to previously reported information.

The following benefit payments are expected to be paid:

2005	$ 385
2006	384
2007	402
2008	431
2009	446
Years 2010-2014	2,648
Total	$ 4,696

(Dollar amounts in thousands)

NOTE I - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets include the following as of December 31, 2004 and 2003:

	2004	2003
Net cumulative earnings from endowment funds restricted as to use	**$ 48,352**	$ 44,263
Program specific fund	**34,878**	32,581
Episcopal Relief and Development	**3,568**	303
United Thank Offering and Episcopal Church Women Fund	**2,943**	3,022
Various program funds	**3,399**	3,661
Total temporarily restricted net assets	**$ 93,140**	$ 83,830

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 and the 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 $28,000 and $31,000 for the years ended December 31, 2004 and 2003, respectively. In addition, DFMS receives a significant portion of non-governmental fees from related parties as well, which totaled approximately $2,400 and $3,600 for the years ended December 31, 2004 and 2003, respectively. DFMS expended approximately $30,000 and $31,000 for the years ended December 31, 2004 and 2003, respectively, 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, 2004 and 2003, approximately $1,000 and $1,200, respectively, represent loans to related entities which bear interest at rates ranging from 3.0% to 8.0% per annum.

NOTE K - CONTINGENCIES

1. *Building Renovation*

During 2004, the Society entered into contracts totaling an estimated $29.9 million for asbestos abatement and renovation of the Society's headquarters offices in New York City. Through December 31, 2004 the Society has incurred $2.3 million of the total contract amount.

2. *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.

3. *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, 2004 and 2003, there were $3,060 and $2,629, respectively, of refugee loans outstanding.

4. *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 consolidated financial statements.