

CONSOLIDATED FINANCIAL STATEMENTS AND OMB CIRCULAR A-133
SUPPLEMENTARY INFORMATION TOGETHER WITH
REPORTS 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, 2007 and 2006

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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 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, 2007 and 2006, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Society as of December 31, 2007 and 2006, and the consolidated changes in their net assets and their consolidated cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2008, on our consideration of the Society's internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements of the Society as of and for the years ended December 31, 2007 and 2006, taken as a whole. The accompanying schedule of expenditures of federal awards for the year ended December 31, 2007 is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

Grant Thornton LLP

New York, New York
August 31, 2008

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, 2007 and 2006
(Dollar amounts in thousands)

	<u>ASSETS</u>	<u>2007</u>	<u>2006</u>
Assets:			
Current assets:			
Cash and cash equivalents		\$ 17,145	\$ 24,434
Accounts receivable:			
Diocesan commitments receivable, net (Note B)		1,037	1,890
Loans receivable, net (Notes D and J)		1,521	251
Government grants		1,496	110
Other receivables		6,308	7,013
Prepaid expenses and other		<u>773</u>	<u>482</u>
Total current assets		<u>28,280</u>	<u>34,180</u>
Investments (Note C):			
DFMS-controlled funds		315,216	304,438
Funds held for the benefit of others		<u>89,304</u>	<u>81,565</u>
Total investments		<u>404,520</u>	<u>386,003</u>
Property and equipment, net (Note E)		55,766	56,906
Loans receivable - noncurrent, net (Notes D and J)		4,144	6,063
Other assets		169	163
Beneficial interest in outside trusts		<u>8,541</u>	<u>8,425</u>
Total assets		<u>\$ 501,420</u>	<u>\$ 491,740</u>
	<u>LIABILITIES AND NET ASSETS</u>		
Liabilities:			
Current liabilities:			
Accounts payable and accrued expenses		\$ 7,228	\$ 7,486
Mortgage payable (Note F)		106	105
Grants payable		1,469	1,579
Accrued postretirement benefits other than pensions (Note H)		<u>603</u>	<u>-</u>
Total current liabilities		<u>9,406</u>	<u>9,170</u>
Mortgage payable, net of current installments (Note F)		1,699	1,810
Notes payable (Note F)		37,500	37,500
Accrued postretirement benefits other than pensions, net of current (Note H)		8,014	9,667
Funds held for the benefit of others		61,525	55,258
Funds held in a trustee relationship		<u>28,349</u>	<u>26,829</u>
Total liabilities		<u>146,493</u>	<u>140,234</u>
Contingencies (Note K)			
Net assets:			
Unrestricted:			
Available for general operations		81,526	78,368
Executive Council Designated Employee Benefit Program		3,180	3,180
Executive Council Designated Principal and Appreciation		93,575	88,774
Invested in property and equipment (Note E)		<u>23,593</u>	<u>24,818</u>
Total unrestricted		201,874	195,140
Temporarily restricted (Note I)		121,484	125,269
Permanently restricted		<u>31,569</u>	<u>31,097</u>
Total net assets		<u>354,927</u>	<u>351,506</u>
Total liabilities and net assets		<u>\$ 501,420</u>	<u>\$ 491,740</u>

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, 2007 and 2006
(Dollar amounts in thousands)

	2007			2006				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other support:								
Diocesan commitments (Note J)	\$ 29,232	\$ -	\$ -	\$ 29,232	\$ 28,604	\$ -	\$ -	\$ 28,604
Contributions, bequests and grants	129	3,062	395	3,586	486	3,676	10	4,172
Contributed services	1,136	-	-	1,136	-	-	-	-
Investment return designated for current operations (Note C)	9,711	2,157	-	11,868	9,680	2,261	-	11,941
Other investment income	2,273	172	-	2,445	1,465	142	-	1,607
Government revenue	6,687	-	-	6,687	5,497	-	-	5,497
Fees, sales and other	4,863	-	-	4,863	4,545	-	-	4,545
Episcopal Relief and Development (Note L)	-	19,255	1	19,256	-	20,721	1	20,722
Net assets released from restrictions	36,422	(36,422)	-	-	32,919	(32,919)	-	-
Revenue from the Episcopal Church in Micronesia	6,672	-	7	6,679	6,312	-	10	6,322
Total revenues and other support	97,125	(11,716)	403	85,752	83,508	(6,119)	21	83,410
Expenses:								
Program services-								
Canonical and missional programs	36,864	-	-	36,864	35,958	-	-	35,958
Government expenses	8,516	-	-	8,516	6,527	-	-	6,527
General convention	1,593	-	-	1,593	3,440	-	-	3,440
Grant-related activities and other	6,911	-	-	6,911	7,168	-	-	7,168
Episcopal Relief and Development (Note L)	24,834	-	-	24,834	19,380	-	-	19,380
Expenses from the Episcopal Church in Micronesia	7,171	-	-	7,171	7,318	-	-	7,318
Total program services	85,889	-	-	85,889	79,791	-	-	79,791
Supporting services-								
Fundraising	2,685	-	-	2,685	1,784	-	-	1,784
General and administrative	11,624	-	-	11,624	10,988	-	-	10,988
Total supporting services	14,309	-	-	14,309	12,772	-	-	12,772
Total expenses	100,198	-	-	100,198	92,563	-	-	92,563
Change in net assets from operations	(3,073)	(11,716)	403	(14,446)	(3,055)	(6,119)	21	(9,153)
Nonoperating activities:								
Investment return (Note C)	20,413	10,320	69	30,802	25,915	16,677	-	42,592
Less: Other investment income (expense)	(2,273)	(172)	-	(2,445)	(1,465)	(142)	687	(920)
Net investment gain - trust fund	18,140	10,148	69	28,357	24,450	16,535	687	41,672
Less: Investment return designated for current operations	(9,711)	(2,157)	-	(11,868)	(9,680)	(2,261)	-	(11,941)
Total nonoperating activities	8,429	7,921	69	16,489	14,770	14,274	687	29,731
Change in net assets	5,356	(3,785)	472	2,043	11,715	8,155	708	20,578
Cumulative effect of change in accounting principle (Note H)	1,378	-	-	1,378	-	-	-	-
Change in net assets	6,734	(3,785)	472	3,421	11,715	8,155	708	20,578
Net assets, beginning of year	195,140	125,269	31,097	351,506	183,425	117,114	30,389	330,928
Net assets, end of year	201,874	121,484	31,569	354,927	195,140	125,269	31,097	351,506

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, 2007 and 2006
(Dollar amounts in thousands)

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Change in net assets	\$ 2,043	\$ 20,578
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Noncash items:		
Cumulative effect of change in accounting principle	1,378	-
Depreciation	2,763	2,002
Bad debt expense	<u>81</u>	<u>360</u>
Total noncash adjustments	<u>4,222</u>	<u>2,362</u>
Change in working capital:		
Decrease (increase) in diocesan commitments receivable	772	(967)
Decrease (increase) in loans receivable	649	(1,249)
(Increase) decrease in government grants receivable	(1,386)	138
(Increase) decrease in other receivables	705	(5,275)
Decrease in inventory, prepaid expenses and other	(291)	94
Increase in other assets	(6)	(6)
Decrease in accounts payable and accrued expenses	(258)	(2,038)
Decrease in grants payable	<u>(110)</u>	<u>(338)</u>
Total change in working capital accounts	<u>75</u>	<u>(9,641)</u>
Change in investments:		
Net realized and unrealized gains on investments	<u>(25,043)</u>	<u>(37,762)</u>
Total change in investments	<u>(25,043)</u>	<u>(37,762)</u>
Other changes:		
Change in beneficial interests in outside trusts	(116)	(687)
Increase in accrued postretirement benefits other than pensions	(1,050)	87
Permanently restricted contributions	<u>(395)</u>	<u>(11)</u>
Total other changes	<u>(1,561)</u>	<u>(611)</u>
Total change in working capital accounts and other	<u>(22,307)</u>	<u>(45,652)</u>
Net cash used in operating activities	<u>(20,264)</u>	<u>(25,074)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(1,623)	(10,985)
Proceeds from sales of investments	15,482	2,163
Purchases of investments	<u>(1,168)</u>	<u>(6)</u>
Net cash provided by (used in) investing activities	<u>12,691</u>	<u>(8,828)</u>
Cash flows from financing activities:		
Permanently restricted contributions	395	11
Borrowing under notes payable	-	10,500
Principal payments on mortgage loan	<u>(111)</u>	<u>(100)</u>
Net cash provided by financing activities	<u>284</u>	<u>10,411</u>
Net decrease in cash and cash equivalents	<u>(7,289)</u>	<u>(23,491)</u>
Cash and cash equivalents, beginning of year	<u>24,434</u>	<u>47,925</u>
Cash and cash equivalents, end of year	<u>\$ 17,145</u>	<u>\$ 24,434</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest during the year	<u>\$ 2,316</u>	<u>\$ 116</u>

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, 2007 and 2006
(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.

DFMS’s consolidated financial statements include the activities of Episcopal Relief and Development (“ERD”), a separate 501(c)(3) not-for-profit corporation, Episcopal Church Women, United Thank Offering and all other direct agencies of DFMS, 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.

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, 2007 and 2006
(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, 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 restrictions. Temporarily restricted net assets are comprised primarily of funds designated for disaster relief and other specific diocesan programs at the Society.

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. Permanently restricted net assets are comprised primarily of funds designated by the donor to be held in perpetuity for the purpose of supporting the operations 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, except for those included within the investment portfolio which are considered to be for long-term investment purposes.

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 \$326 and \$317 at December 31, 2007 and 2006, 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, 2007 and 2006
(Dollar amounts in thousands)

NOTE B (continued)

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 consolidated financial statements.

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 and is included within other assets in the accompanying consolidated financial statements. The allowance for obsolescence was \$6 and \$8 at December 31, 2007 and 2006, respectively.

6. *Property and Equipment*

The Society's investment in property and equipment consists of its New York headquarters and the school and missional churches of Micronesia ("Guam"). 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.

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, 2007 and 2006
(Dollar amounts in thousands)

NOTE B (continued)

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 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 but reflected as a change in the value of such assets and liabilities.

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*

Contributed services are valued at their estimated fair market value and are recognized as revenue and expenses in the accompanying consolidated statements of activities. Contributed legal services for the years ended December 31, 2007 and 2006 totaled \$1,136 and \$0, respectively, as this was the first year such pro bono services were received from outside legal counsel.

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.

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, 2007 and 2006
(Dollar amounts in thousands)

NOTE B (continued)

13. New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements." SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurement. SFAS No. 157 applies to financial statements issued for fiscal years beginning after November 15, 2007. The impact for the Society, if any, of the adoption of SFAS No. 157 is under consideration for the fiscal year ended December 31, 2008.

14. 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.

NOTE C - INVESTMENTS

At December 31, 2007, the total investments of approximately \$405,000 consisted of \$363,000 in trust fund assets, \$12,000 in unit-trust and pooled income funds, \$24,000 in medium-term investments, \$3,000 in St. John's School (Guam) investments and \$3,000 in certificates of deposit with minority-controlled banks. At December 31, 2006, the total investments of approximately \$386,000 consisted of \$342,000 in trust fund endowment assets, \$12,000 in unit-trust and pooled income funds, \$26,000 in medium-term investments, \$3,000 in St. John's School (Guam) investments and \$3,000 in certificates of deposit with minority-controlled banks.

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, 2007 and 2006
(Dollar amounts in thousands)

NOTE C (continued)

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

	Market Value		Cost	
	2007	2006	2007	2006
Common stock	<u>\$ 263,400</u>	<u>\$ 273,241</u>	<u>\$ 220,225</u>	<u>\$ 221,285</u>
Bonds:				
Corporate	50,380	34,675	50,873	34,282
Government	47,296	52,541	46,241	52,278
Other, primarily mutual bond funds	<u>5,036</u>	<u>8,473</u>	<u>5,315</u>	<u>8,472</u>
Total bonds	<u>102,712</u>	<u>95,689</u>	<u>102,429</u>	<u>95,032</u>
Mutual funds (primarily common stock and bonds)	6,505	7,327	6,532	7,496
Certificates of deposit	2,600	2,600	2,600	2,600
Other, primarily money market and other cash equivalents	8,726	7,146	8,726	7,146
Alternative investments	<u>20,577</u>	<u>-</u>	<u>20,338</u>	<u>-</u>
Total investments	<u>404,520</u>	<u>386,003</u>	<u>360,850</u>	<u>333,559</u>
Funds held for others	<u>(89,304)</u>	<u>(81,565)</u>	<u>(81,236)</u>	<u>(73,043)</u>
Total DFMS-controlled funds	<u>\$ 315,216</u>	<u>\$ 304,438</u>	<u>\$ 279,614</u>	<u>\$ 260,516</u>

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.

Since alternative investments may not be readily marketable, the estimated fair value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed. The values assigned to these holdings do not necessarily represent amounts which might ultimately be realized upon sale or other disposition since such amounts depend on future circumstances and cannot reasonably be determined until the actual liquidation occurs. Because of the inherent uncertainty of such valuations, those estimated fair values may differ significantly from the values that would have been used had a ready market for such investments existed and the differences could be material. Alternative investments at December 31, 2007 consisted of investments in convertible debt securities of approximately \$9,800 and investments in a fund of funds of approximately \$10,800.

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, 2007 and 2006
(Dollar amounts in thousands)

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 DFMS trust funds at a percentage (currently 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.

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

	<u>2007</u>	<u>2006</u>
Interest and dividends	\$ 8,095	\$ 8,415
Realized and unrealized gains	<u>25,043</u>	<u>37,762</u>
Total investment income	<u>33,138</u>	46,177
Less: ERD investment income	<u>(2,336)</u>	<u>(3,585)</u>
Investment return	<u>\$ 30,802</u>	<u>\$ 42,592</u>

NOTE D - LOANS RECEIVABLE, NET

Loans receivable were comprised of the following at December 31:

	<u>2007</u>	<u>2006</u>
Construction loans to dioceses and missionary districts	\$ 938	\$ 970
Economic justice and community investment loans	5,250	5,850
Residential loans to employees	<u>26</u>	<u>42</u>
	6,214	6,862
Reserve for uncollectible accounts	<u>(549)</u>	<u>(548)</u>
	5,665	6,314
Less: Current portion	<u>(1,521)</u>	<u>(251)</u>
Long-term loans receivable	<u>\$ 4,144</u>	<u>\$ 6,063</u>

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.

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, 2007 and 2006
(Dollar amounts in thousands)

NOTE E - PROPERTY AND EQUIPMENT, NET

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

	<u>2007</u>	<u>2006</u>	<u>Useful Lives</u>
Land	\$ 7,503	\$ 7,503	-
Buildings and improvements	68,979	66,846	10-30
Other equipment and furnishings	8,667	8,717	5
Building renovations in progress	<u>-</u>	<u>460</u>	-
	85,149	83,526	
Less: Accumulated depreciation	<u>(29,383)</u>	<u>(26,620)</u>	
Property and equipment, net	<u>\$ 55,766</u>	<u>\$ 56,906</u>	

Depreciation expense amounted to \$2,763 and \$2,002 for the years ended December 31, 2007 and 2006, respectively.

The Society entered into contracts totaling an estimated \$31,800 for renovation of the Society's headquarters offices in New York City, which also included asbestos abatement. In January 2006, the renovation budget was amended by the Executive Council not to exceed \$34,000. Through December 31, 2007, the Society has incurred \$34,340.

NOTE F - MORTGAGE AND NOTES 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%. Mortgage payable amounted to \$1,805 and \$1,915 for the years ended December 31, 2007 and 2006, respectively. The mortgage was scheduled to mature in February 2008 but the note was refinanced on March 15, 2008 in the amount of \$1,715. Monthly installments under the refinancing include interest at 5.82%, adjusted every three years.

The Domestic and Foreign Missionary Society of the Protestant Episcopal Church
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 2007 and 2006
(Dollar amounts in thousands)

NOTE F (continued)

Interest expense amounted to \$111 and \$116 for the years ended December 31, 2007 and 2006, respectively.

2. *Line of Credit*

In December 2005, 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, 2007 and 2006, \$37,500 and \$37,500, respectively, was outstanding under this line of credit and is reflected on the accompanying consolidated statements of financial position as notes payable. 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 (4.69% at December 31, 2007).

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 \$738 and \$820 for the years ended December 31, 2007 and 2006, 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 \$818 and \$903 for the years ended December 31, 2007 and 2006, 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 \$21 and \$25 for the years ended December 31, 2007 and 2006, 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, 2007 and 2006
(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 \$196 and \$182 for the years ended December 31, 2007 and 2006, respectively.

NOTE H - ACCRUED POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

DFMS sponsors postretirement 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.

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." SFAS No. 158 required the Society to recognize the funded status of its pension plan ("Plan") in its 2007 financial statements. The following table details the incremental effect of applying the recognition provisions of SFAS No. 158 during fiscal 2007:

	Before Adoption of SFAS No. 158	SFAS No. 158 Adjustments	After Adoption of SFAS No. 158
Accrued benefit liability	<u>\$9,995</u>	<u>\$(1,378)</u>	<u>\$8,617</u>

The Domestic and Foreign Missionary Society of the Protestant Episcopal Church
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 2007 and 2006
(Dollar amounts in thousands)

NOTE H (continued)

The following tables set forth the status of the plans and the components of net periodic benefit cost as of December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Change in benefit obligation:		
Benefit obligation, beginning of year	\$ 7,821	\$ 6,915
Service cost	363	313
Amendments	-	291
Interest cost	497	421
Actuarial loss (gain)	466	296
Benefits paid	<u>(530)</u>	<u>(415)</u>
Benefit obligation, end of year	<u>\$ 8,617</u>	<u>\$ 7,821</u>
Components of accrued benefit cost:		
Funded status	\$ (8,617)	\$ (7,821)
Unrecognized net prior service cost	236	291
Unrecognized actuarial net gain	<u>(1,614)</u>	<u>(2,137)</u>
Accrued benefit cost	<u>\$ (9,995)</u>	<u>\$ (9,667)</u>
Components of net periodic benefit cost:		
Service cost	\$ 363	\$ 313
Interest cost	498	421
Amortization of gain	(57)	(180)
Amortization of unrecognized prior service costs	<u>55</u>	<u>-</u>
Net periodic benefit cost for fiscal year	<u>\$ 859</u>	<u>\$ 554</u>
Adoption of SFAS No. 158	<u>\$ (1,378)</u>	<u>\$ -</u>
Total recognized in unrestricted net assets	<u>\$ (1,378)</u>	<u>\$ -</u>

The discount rates used in determining the accumulated postretirement benefit obligations were 6.3% and 6% for the years ended December 31, 2007 and 2006, respectively. The assumed medical care cost trend rate used was 7.6% 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 postretirement benefit obligation as of December 31, 2007 by \$1,109 and increase the aggregate of the service cost and interest cost by \$147. Decreasing the assumed medical care cost trend rate by 1% in each year would decrease the accumulated postretirement benefit obligation as of December 31, 2007 by \$925 and decrease the aggregate of the service cost and interest cost by \$120.

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, 2007 and 2006
(Dollar amounts in thousands)

NOTE H (continued)

The following benefit payments are expected to be paid:

2008	\$ 603
2009	573
2010	591
2011	608
2012	638
Years 2013-2017	<u>3,348</u>
Total	<u>\$ 6,361</u>

NOTE I - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets included the following as of December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Net cumulative earnings from endowment funds restricted as to use	\$ 59,924	\$ 56,430
Program-specific trust funds	42,138	39,823
Guam - School Scholarships	1,424	1,149
Episcopal Relief and Development	11,480	21,373
United Thank Offering and Episcopal Church Women Fund	2,556	2,649
Various other program funds	<u>3,962</u>	<u>3,845</u>
Total temporarily restricted net assets	<u>\$ 121,484</u>	<u>\$ 125,269</u>

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, 2007 and 2006
(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 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 \$29,000 per annum for the years ended December 31, 2007 and 2006, respectively. In addition, DFMS receives a significant portion of nongovernmental fees from related parties as well, which totaled approximately \$3,700 and \$3,600 for the years ended December 31, 2007 and 2006, respectively. DFMS expended approximately \$54,000 and \$47,000 for the years ended December 31, 2007 and 2006, 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, 2007 and 2006, approximately \$1,000 represent loans 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. In the opinion of management, audit adjustments, if any, are not expected to have a material effect on the financial position or changes in net assets of the Society.

2. Refugee Loans Receivable 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, 2007 and 2006, there were \$4,504 and \$3,519, respectively, of refugee loans outstanding.

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, 2007 and 2006
(Dollar amounts in thousands)

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 consolidated financial statements.

NOTE L - EPISCOPAL RELIEF AND DEVELOPMENT

The following represents summarized financial information for ERD for the years ended December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Revenue:		
Contributions	\$ 16,919	\$ 17,136
Investments and other	<u>2,337</u>	<u>3,586</u>
Total	<u>\$ 19,256</u>	<u>\$ 20,722</u>
Expenses:		
Program	\$ 24,834	\$ 19,380
Fundraising	2,685	1,784
General and administration	<u>1,473</u>	<u>1,889</u>
Total	<u>\$ 28,992</u>	<u>\$ 23,053</u>

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended December 31, 2007

Federal Grantor/Program Title	Federal CFDA Number	Federal Expenditures
United States Department of State/Bureau for Population, Refugees, and Migration:		
Reception and Placement Cooperative	19.510	<u>\$ 3,216,803</u>
United States Department of Health and Human Services:		
Refugee and Entrant Assistance – Voluntary Agency Programs	93.567	2,220,578
Refugee and Entrant Assistance – Discretionary Grants	93.576	<u>814,471</u>
Total United States Department of Health and Human Services		<u>3,035,049</u>
United States Department of Homeland Security:		
Katrina Aid Today/National Case Management Grant	97.084	<u>1,658,733</u>
United States Agency for International Development/American Schools and Hospitals Abroad:		
Cuttington University Construction Services Contract	98.012	<u>85,495</u>
Total Expenditures of Federal Awards		<u>\$ 7,996,080</u>

The accompanying note to schedule of expenditures of federal awards is an integral part of this schedule.

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

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended December 31, 2007

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Domestic and Foreign Missionary Society of the Protestant Episcopal Church in the United States of America and Affiliates (the "Society") and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Not-for-Profit Organizations*.



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**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT
AUDITING STANDARDS***

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 consolidated financial statements of The Domestic and Foreign Missionary Society of the Protestant Episcopal Church in the United States of America and Affiliates (the "Society") as of and for the year ended December 31, 2007, and have issued our report thereon dated May 31, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Society's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Society's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Society's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Society's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Society's financial statements that is more than inconsequential will not be prevented or detected by the Society's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Society's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Society's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. We noted certain matters that we reported to management of the Society in a separate letter dated May 31, 2008.

This report is intended solely for the information and use of management, the executive council, the audit committee and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Grant Thornton LLP

New York, New York
August 31, 2008



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**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the compliance of The Domestic and Foreign Missionary Society of the Protestant Episcopal Church in the United States of America and Affiliates (the "Society") with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2007. The Society's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Society's management. Our responsibility is to express an opinion on the Society's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Society's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Society's compliance with those requirements.

In our opinion, the Society complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2007.

Internal Control Over Compliance

The management of the Society is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Society's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Society's internal control over compliance.

A control deficiency in the Society's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Society's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Society's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Society's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the executive council, the audit committee, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Grant Thornton LLP

New York, New York
August 18, 2008

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended December 31, 2007

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements:

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(s) identified that are not considered to be material weakness(es)? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards:

Internal control over the major programs:

- Material weakness(es) identified? yes no
- Significant deficiency(s) identified that are not considered to be material weakness(es)? yes none reported

Type of auditors' report issued on compliance for the major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? yes no

Identification of major programs:

<u>Name of Federal Program</u>	<u>Federal CFDA Number</u>
United States Department of Health and Human Services: Refugee and Entrant Assistance - Voluntary Agency Programs	93.567

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as a low-risk auditee? yes no

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

For the year ended December 31, 2007

SECTION II - FINDINGS RELATED TO FINANCIAL STATEMENTS

None noted.

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS – CURRENT
YEAR**

None noted.

**SECTION IV - STATUS OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS –
PRIOR YEAR**

None noted.