



CONVENTION OF THE PROTESTANT  
EPISCOPAL CHURCH OF THE  
DIOCESE OF MARYLAND

FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION

DECEMBER 31, 2009 AND 2008

## TABLE OF CONTENTS

	<u>Page Numbers</u>
Independent Auditor's Report.....	1
Statements of Financial Position .....	2
Statements of Activities .....	3-4
Statements of Cash Flows .....	5-6
Notes to Financial Statements .....	7-16
Supplementary Information:	
Independent Auditor's Report on Supplementary Information .....	17
Combining Statements of Financial Position by Internal Fund .....	18-19
Combining Statements of Activities by Internal Fund .....	20-21

To the Officers and Board of Directors  
Convention of the Protestant Episcopal Church Of The  
Diocese of Maryland

Independent Auditor's Report

We have audited the accompanying statements of financial position of Convention of the Protestant Episcopal Church of the Diocese of Maryland as of December 31, 2009 and 2008, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Diocese's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Convention of the Protestant Episcopal Church of the Diocese of Maryland as of December 31, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Gross, Mendelsohn & Associates, P.A.*

Baltimore, Maryland  
March 25, 2010

18th Floor  
36 South Charles Street  
Baltimore, MD 21201-3172

410.685.5512  
800.899.4623  
fax 410.752.5042  
[www.gma-cpa.com](http://www.gma-cpa.com)

**CONVENTION OF THE PROTESTANT EPISCOPAL CHURCH OF THE DIOCESE OF MARYLAND**  
**Statements of Financial Position**  
**December 31, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 842,864	\$ 1,516,261
Pledges receivable	272,877	146,935
Accounts receivable	70,940	78,568
Investments	14,326,826	11,161,263
Loans receivable	2,373,034	2,316,730
Prepaid expenses and deposits	33,457	64,797
Investments restricted to long-term investment	9,503,231	9,248,772
Property, net of accumulated depreciation	<u>10,989,306</u>	<u>11,265,022</u>
<b>Total Assets</b>	<b><u>\$ 38,412,535</u></b>	<b><u>\$ 35,798,348</u></b>
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 559,221	\$ 533,587
Note payable	896,761	974,931
Custodial funds held for congregations	<u>2,806,597</u>	<u>2,455,466</u>
Total Liabilities	<u>4,262,579</u>	<u>3,963,984</u>
<b>Commitments (Note 11)</b>		
<b>Net Assets</b>		
Unrestricted	14,708,031	14,807,440
Temporarily restricted	11,570,191	9,155,190
Permanently restricted	<u>7,871,734</u>	<u>7,871,734</u>
Total Net Assets	<u>34,149,956</u>	<u>31,834,364</u>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 38,412,535</u></b>	<b><u>\$ 35,798,348</u></b>

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

**CONVENTION OF THE PROTESTANT EPISCOPAL CHURCH  
OF THE DIOCESE OF MARYLAND**  
Statements of Activities  
Years ended December 31, 2009 and 2008

	2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Support and Revenue</b>				
Contributions and bequests	\$ 3,671,334	\$ 166,502	\$ -0-	\$ 3,837,836
Claggett conference fees	859,212	-0-	-0-	859,212
Investment income (loss)	266,313	2,944,625	-0-	3,210,938
Interest on loans	-0-	73,677	-0-	73,677
Loss on disposal of property	(9,539)	-0-	-0-	(9,539)
Miscellaneous income	61,472	-0-	-0-	61,472
Net assets released from restrictions	769,803	(769,803)	-0-	-0-
Total Support and Revenue	<u>5,618,595</u>	<u>2,415,001</u>	<u>-0-</u>	<u>8,033,596</u>
<b>Expenses</b>				
Program Services:				
Claggett Conference Center	957,161	-0-	-0-	957,161
Nation and World	564,597	-0-	-0-	564,597
Ordained Ministry	539,799	-0-	-0-	539,799
Lay Ministry	306,281	-0-	-0-	306,281
Congregational Development	436,440	-0-	-0-	436,440
Social Ministry	146,126	-0-	-0-	146,126
Total Program Services	<u>2,950,404</u>	<u>-0-</u>	<u>-0-</u>	<u>2,950,404</u>
Support Services:				
Management, Finance and the Episcopal Offices	2,748,125	-0-	-0-	2,748,125
Fundraising	19,475	-0-	-0-	19,475
Total Support Services	<u>2,767,600</u>	<u>-0-</u>	<u>-0-</u>	<u>2,767,600</u>
Total Expenses	<u>5,718,004</u>	<u>-0-</u>	<u>-0-</u>	<u>5,718,004</u>
<b>Change in Net Assets</b>	<b>(99,409)</b>	<b>2,415,001</b>	<b>-0-</b>	<b>2,315,592</b>
<b>Net Assets at Beginning of Year</b>	<u>14,807,440</u>	<u>9,155,190</u>	<u>7,871,734</u>	<u>31,834,364</u>
<b>Net Assets at End of Year</b>	<u>\$ 14,708,031</u>	<u>\$ 11,570,191</u>	<u>\$ 7,871,734</u>	<u>\$ 34,149,956</u>

**2008**

<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>	<b>Increase (Decrease)</b>
\$ 3,764,402	\$ 90,233	\$ -0-	\$ 3,854,635	(16,799)
899,993	-0-	-0-	899,993	(40,781)
(501,864)	(5,536,670)	-0-	(6,038,534)	9,249,472
-0-	105,585	-0-	105,585	(31,908)
-0-	-0-	-0-	-0-	(9,539)
70,155	-0-	-0-	70,155	(8,683)
901,925	(901,925)	-0-	-0-	-0-
<u>5,134,611</u>	<u>(6,242,777)</u>	<u>-0-</u>	<u>(1,108,166)</u>	<u>9,141,762</u>
994,788	-0-	-0-	994,788	(37,627)
582,830	-0-	-0-	582,830	(18,233)
484,166	-0-	-0-	484,166	55,633
345,205	-0-	-0-	345,205	(38,924)
367,494	-0-	-0-	367,494	68,946
187,726	-0-	-0-	187,726	(41,600)
<u>2,962,209</u>	<u>-0-</u>	<u>-0-</u>	<u>2,962,209</u>	<u>(11,805)</u>
2,673,626	-0-	-0-	2,673,626	74,499
11,655	-0-	-0-	11,655	7,820
<u>2,685,281</u>	<u>-0-</u>	<u>-0-</u>	<u>2,685,281</u>	<u>82,319</u>
5,647,490	-0-	-0-	5,647,490	70,514
(512,879)	(6,242,777)	-0-	(6,755,656)	9,071,248
<u>15,320,319</u>	<u>15,397,967</u>	<u>7,871,734</u>	<u>38,590,020</u>	<u>(6,755,656)</u>
<u>\$14,807,440</u>	<u>\$ 9,155,190</u>	<u>\$ 7,871,734</u>	<u>\$31,834,364</u>	<u>\$2,315,592</u>

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

**CONVENTION OF THE PROTESTANT EPISCOPAL CHURCH  
OF THE DIOCESE OF MARYLAND**  
**Statements of Cash Flows**  
**Years ended December 31, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
<b>Cash Flows From Operating Activities</b>		
Change in net assets	\$ 2,315,592	\$ (6,755,656)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Provision for uncollectible receivables	43,081	105,050
Net (gain) loss on investments	(2,776,244)	6,416,806
Depreciation	470,664	457,615
Loss on disposal of property	9,539	-0-
Changes in operating assets and liabilities:		
Pledges receivable	(163,817)	73,003
Accounts receivable	7,628	3,388
Accrued interest and other receivables	-0-	102,468
Prepaid expenses and deposits	31,340	(25,543)
Accounts payable and accrued expenses	25,634	(267,736)
Net Cash Provided by (Used in) Operating Activities	<u>(36,583)</u>	<u>109,395</u>
<b>Cash Flows From Investing Activities</b>		
Purchase of investments	(5,797,862)	(10,477,653)
Proceeds from sale of investments	5,505,216	10,368,200
Loans made to churches	(273,795)	(303,000)
Principals collections on loan receivables	212,284	789,389
Proceeds from disposal of property	3,050	-0-
Purchase of property and equipment	(207,537)	(303,267)
Net Cash Provided by (Used in) Investing Activities	<u>(558,644)</u>	<u>73,669</u>
<b>Cash Flows From Financing Activities</b>		
Principal payments on note payable	<u>(78,170)</u>	<u>(28,612)</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(673,397)</b>	<b>154,452</b>
<b>Cash and Cash Equivalents at Beginning of Year</b>	<u>1,516,261</u>	<u>1,361,809</u>
<b>Cash and Cash Equivalents at End of Year</b>	<u><u>\$ 842,864</u></u>	<u><u>\$ 1,516,261</u></u>

	<u>2009</u>	<u>2008</u>
--	-------------	-------------

**Supplemental Disclosure of Cash Information:**

Cash payments for interest

	<u>\$ 51,162</u>	<u>\$ 55,578</u>
--	------------------	------------------

**Supplemental Disclosure of Non-Cash Investing  
and Financing Activities**

Refinancing of short-term borrowing with a term loan

	<u>\$ -0-</u>	<u>\$ 1,000,000</u>
--	---------------	---------------------

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

CONVENTION OF THE PROTESTANT EPISCOPAL CHURCH  
OF THE DIOCESE OF MARYLAND  
Notes to Financial Statements  
December 31, 2009 and 2008

**Note 1: Summary of Significant Accounting Policies**

The Mission of the Convention of the Protestant Episcopal Church of the Diocese of Maryland (the Diocese) is to carry forward God's reconciling work through Jesus Christ as they build up the Body of Christ, strengthen one another for Christ's mission and strive for justice and peace within the Church and the world within Maryland. The major forms of support come from contributions and bequests from the congregations.

The major programs of the Diocese are as follows:

Claggett Conference Center: The Bishop Claggett Center is a farm and conference center located in Frederick, Maryland. The Center is available to church, school and special interest groups for the purpose of spiritual growth, recreation and education.

Nation and World: Nation and World expenditures encompass the Diocesan involvement in the work of the Episcopal Church beyond the Diocese of Maryland.

Ordained Ministry: Ordained Ministry expenditures encompass expenses related to the theological education and the support of clergy.

Lay Ministry: Lay Ministry expenditures encompass expenses related to Christian education and programs that support Lay leadership development.

Congregation Development: Congregation Development expenditures encompass grants and other support for individual congregations, which are significantly funded by the Diocese.

Social Ministry: Social Ministry expenditures encompass grants to congregations for outreach programs.

The accounting and reporting policies of the Diocese conform to accounting principles generally accepted in the United States of America. Following is a description of the most significant of those policies:

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Basis of Presentation: The Diocese reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

CONVENTION OF THE PROTESTANT EPISCOPAL CHURCH  
OF THE DIOCESE OF MARYLAND  
Notes to Financial Statements  
December 31, 2009 and 2008

**Note 1: Summary of Significant Accounting Policies (Continued)**

Unrestricted net assets are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Temporarily restricted net assets result from contributions whose use is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the organization pursuant to those stipulations. Net assets may be temporarily restricted for various purposes, such as use in the future period or use for specified purposes.

Permanently restricted net assets result from contributions whose use is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by the organization's actions.

Cash and Cash Equivalents: The Diocese classifies certain investments which are readily convertible to cash and which have a maturity of three months or less when purchased as cash equivalents. Cash and cash for investment purposes are not considered cash and cash equivalents for cash flow purposes.

Pledges Receivable: Unconditional promises to give in a future period are discounted to their net present value at the time the revenue is recorded. A provision is made for uncollectible pledges based on anticipated collection losses. Estimated losses are generally determined from historical collection experience and a review of outstanding pledges receivable. Pledges receivable are written off by management when, in their determination, all appropriate collection efforts have been taken.

Investments: Investments are carried at fair value based on quoted market prices and unrealized gains and losses are included in investment income on the statements of activities. Realized gains and losses on sales of investments are computed on a specific identification basis and are recorded on the date of the transaction.

All the congregations' and the Diocese's investment portfolios are maintained on a pooled "mutual fund" accounting basis with total earnings and investment expenses allocated to each account on a pro-rata basis. Investments restricted to long-term investment consist of permanently restricted investments and temporarily restricted investments for property acquisitions.

Property and Depreciation: Property acquired prior to 1950 is stated at independently appraised values. Property acquired after 1950 is stated at cost or, if donated, at the approximate fair value at the date of donation. Subsequent to 1950 several congregation properties have been deeded to the Diocese and these properties are carried based on parochial reports or insurable values at that time. The original basis of assets valued at other than cost amounted to \$4,739,631 at December 31, 2009 and 2008. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Expenditures for maintenance and routine repairs are charged to expense as incurred; expenditures for improvements and major repairs that materially extend the useful lives of assets are capitalized.

CONVENTION OF THE PROTESTANT EPISCOPAL CHURCH  
 OF THE DIOCESE OF MARYLAND  
 Notes to Financial Statements  
 December 31, 2009 and 2008

**Note 1: Summary of Significant Accounting Policies (Continued)**

Income Taxes: The Diocese is a not-for-profit corporation exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation.

Functional Allocation of Expenses: The costs of providing various programs and other activities have been summarized on a functional basis in the Statements of Activities. Accordingly, costs have been allocated among the programs and supporting services benefited.

Subsequent Events: In preparing these financial statements, the Diocese has evaluated events and transactions for potential recognition or disclosure through March 25, 2010, the date the financial statements were available to be issued. During the period from January 1, 2010 to March 25, 2010, the Diocese did not have any material recognizable subsequent events.

**Note 2: Pledges Receivable**

Pledges receivable as of December 31, 2009 and 2008 consists of the following unconditional promises to give:

	2009	2008
Pledges receivable	\$ 272,877	\$ 149,055
Less unamortized discount	-0-	(2,120)
	<u>\$ 272,877</u>	<u>\$ 146,935</u>
Amounts due in:		
Less than one year	\$ 272,877	\$ 132,251
One to five years	-0-	16,804
	<u>\$ 272,877</u>	<u>\$ 149,055</u>

**CONVENTION OF THE PROTESTANT EPISCOPAL CHURCH  
OF THE DIOCESE OF MARYLAND  
Notes to Financial Statements  
December 31, 2009 and 2008**

**Note 3: Loans Receivable**

The Diocese makes unsecured loans to churches in Maryland with interest at 4% through its Middendorf Loan Program. The balance of these loans at December 31, 2009 and 2008 was \$2,131,282 and \$2,073,049, respectively. The Diocese also made other loans at various interest rates ranging from 0% to 5.27% to other organizations with outstanding balances of \$241,752 and \$243,681 at December 31, 2009 and 2008, respectively, and which mature at various dates through June 2016.

Principal collections on loans receivables at December 31, 2009 are due as follows:

	Middendorf	Other	Total
2010	\$ 164,162	\$ 41,210	\$ 205,372
2011	171,563	37,122	208,685
2012	356,921	46,559	403,480
2013	170,873	31,000	201,873
2014	565,440	32,963	598,403
Thereafter	702,323	52,898	755,221
	<u>\$ 2,131,282</u>	<u>\$ 241,752</u>	<u>\$ 2,373,034</u>

**Note 4: Investments**

Investments consist of the following at December 31, 2009 and 2008:

	2009		2008	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents	\$ 2,616,659	\$ 2,616,659	\$ 3,824,503	\$ 3,824,503
Obligations of the U.S. Government and its agencies	3,755,196	3,944,732	4,407,919	4,569,748
Corporate bonds	1,932,340	2,040,860	1,837,000	1,571,447
Common stock equity mutual funds	14,613,200	15,227,806	14,193,646	10,444,337
	<u>\$ 22,917,395</u>	<u>\$ 23,830,057</u>	<u>\$ 24,263,068</u>	<u>\$ 20,410,035</u>

CONVENTION OF THE PROTESTANT EPISCOPAL CHURCH  
OF THE DIOCESE OF MARYLAND  
Notes to Financial Statements  
December 31, 2009 and 2008

**Note 4: Investments (Continued)**

Investments are allocated on the Statements of Financial Position as follows as of December 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Investments	\$ 14,326,826	\$ 11,161,263
Investments restricted to long-term investment	9,503,231	9,248,772
	<u>\$ 23,830,057</u>	<u>\$ 20,410,035</u>

Included in the investment portfolio of the Diocese as of December 31, 2009 and 2008 are custodial funds belonging to congregations in the amount of \$2,806,599 and \$2,455,466, respectively.

Investment income consists of the following at December 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Interest and dividends	\$ 541,610	\$ 481,910
Net gains (losses)	2,761,576	(6,416,806)
Investment fees	(92,248)	(103,638)
	<u>\$ 3,210,938</u>	<u>\$ (6,038,534)</u>

**Note 5: Property**

Property consists of the following at December 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Land	\$ 1,197,936	\$ 1,197,936
Building and building improvements	17,798,510	17,700,451
Furniture and equipment	515,374	706,310
	<u>19,511,820</u>	<u>19,604,697</u>
Less: accumulated depreciation	<u>8,522,514</u>	<u>8,339,675</u>
Net property	<u>\$ 10,989,306</u>	<u>\$ 11,265,022</u>

Depreciation expense for the years ended December 31, 2009 and 2008 was \$470,664 and \$457,615, respectively.

**CONVENTION OF THE PROTESTANT EPISCOPAL CHURCH  
OF THE DIOCESE OF MARYLAND  
Notes to Financial Statements  
December 31, 2009 and 2008**

**Note 6: Lines of Credit**

In July 2008, the Diocese obtained a \$3,000,000, a \$900,000 and a \$100,000 revolving note from M&T Bank all of which accrue interest at the 30 day LIBOR rate plus 0.85% (1.0801% at December 31, 2009). Included in the \$900,000 note is a \$200,000 letter of credit. The purpose of these notes is to provide working capital and overdraft protection to the Diocese. The notes are due and payable on demand. The notes are collateralized by the Diocese's securities accounts held with M&T Bank. The balance on these notes was \$-0- at December 31, 2009 and 2008.

The Diocese maintained a letter of credit with a bank in the amount of \$102,231 as collateral for a public works project. This project was completed during 2008 at which time the letter of credit was closed.

**Note 7: Note Payable**

In July 2008, the Diocese borrowed \$1,000,000 from M&T Bank, the proceeds of which were used to refinance existing debt. The note is collateralized by the Diocese's investment accounts held with M&T Bank and contains certain reporting and financial covenants. The note is being amortized over a 10 year period at a fixed interest rate of 5.41% and is payable in monthly installments of principal and interest totaling \$10,808 and a balloon payment in August 2011. The outstanding balance on this note as of December 31, 2009 and 2008 was \$896,761 and \$974,931, respectively.

The aggregate annual maturities of the note payable subsequent to December 31, 2009 are as follows:

2010	\$ 83,145
2011	<u>813,616</u>
	<u>\$ 896,761</u>

Interest expense for the years ended December 31, 2009 and 2008 was \$51,162 and \$55,578, respectively.

CONVENTION OF THE PROTESTANT EPISCOPAL CHURCH  
OF THE DIOCESE OF MARYLAND  
Notes to Financial Statements  
December 31, 2009 and 2008

**Note 8: Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets as of December 31, 2009 and 2008 are restricted for the following purposes:

	<u>2009</u>	<u>2008</u>
Ordained Ministry	\$ 1,855,525	\$ 1,464,998
Theological Education	1,729,337	1,302,379
Congregational Development	794,070	561,575
Social Ministry	242,891	169,828
Lay Ministry	636,463	435,218
Benefit of congregations	1,825,398	1,227,350
Other (primarily acquisitions and capital campaign)	927,305	672,844
Claggett Conference Center Middendorf	35,035	-0-
	<u>3,524,167</u>	<u>3,320,998</u>
	<u>\$ 11,570,191</u>	<u>\$ 9,155,190</u>

Permanently restricted net assets at December 31, 2009 and 2008 were restricted to investment in perpetuity, the income from which is expendable to principally support the following:

	<u>2009</u>	<u>2008</u>
Ordained Ministry	\$ 5,344,480	\$ 5,344,480
Theological Education	1,352,795	1,352,795
Congregational Development	402,208	402,208
Social Ministry	69,890	69,890
Lay Ministry	100,998	100,998
Benefit of congregations	378,012	378,012
Property acquisitions	223,351	223,351
	<u>\$ 7,871,734</u>	<u>\$ 7,871,734</u>

**CONVENTION OF THE PROTESTANT EPISCOPAL CHURCH  
OF THE DIOCESE OF MARYLAND  
Notes to Financial Statements  
December 31, 2009 and 2008**

**Note 9: Net Assets Released from Restrictions**

Net assets were released from donor restrictions during 2009 and 2008, by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows:

	<u>2009</u>	<u>2008</u>
Ordained Ministry	\$ 325,003	\$ 337,562
Theological Education	200,716	224,409
Congregational Development	42,425	34,464
Social Ministry	99,533	78,167
Lay Ministry	8,506	10,466
Claggett Conference Center	18,131	-0-
Other	75,489	216,857
	<u>\$ 769,803</u>	<u>\$ 901,925</u>

**Note 10: Retirement Plan**

The Diocese contributes to a Multi-Employer Defined Benefit Plan which is administered by the Church Pension Fund of the National Episcopal Church and covers all salaried employees. The Diocese's policy is to expense amounts required to be funded by the Plan administrator. Pension expense was \$38,826 and \$90,479 for the years ended December 31, 2009 and 2008, respectively. Information regarding accumulated plan benefits and plan net assets available for benefits relating to the Diocese's employees is not available because the Plan administrator does not provide the information for the Diocese's portion of the Plan.

The Diocese has a Defined Contribution Retirement Plan which covers substantially all employees. Participants must have attained age 21, worked 1,000 hours during the previous year and have 12 months of service at the Diocese. The Diocese contributes 5% of the salary of all participants to the Plan. In addition, the Diocese matches 100% of employee contributions up to 4% of their salaries. Total contributions to the Plans were \$107,026 and \$103,473 for the years ended December 31, 2009 and 2008, respectively.

**Note 11: Operating Leases**

The Diocese leases various equipment under operating leases which expire through 2014. Rent expense for the equipment for the years ended December 31, 2009 and 2008 was \$28,526 and \$26,693, respectively.

CONVENTION OF THE PROTESTANT EPISCOPAL CHURCH  
OF THE DIOCESE OF MARYLAND  
Notes to Financial Statements  
December 31, 2009 and 2008

**Note 11: Operating Leases (Continued)**

As of December 31, 2009, future scheduled rental payments, summarized by year, are as follows:

2010	\$	26,772
2011		19,626
2012		14,521
2013		13,354
2014		1,592
		<hr/>
	\$	75,865
		<hr/> <hr/>

**Note 12: Fair Value Measurement**

During the year ended December 31, 2009, the Diocese adopted Financial Accounting Standards Board's revised accounting standard for fair value measurement. This statement establishes a framework for measuring fair value and expands disclosures about fair value measurements. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB guidance are described below:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.
- Level 2: Observable inputs to the valuation methodology, other than Level 1 inputs, such as:
  - Quoted prices for similar assets or liabilities in active markets;
  - Quoted prices for identical or similar assets or liabilities in inactive markets;
  - Inputs other than quoted prices that are observable for the asset or liability;
  - Inputs that are observable for the asset or liability or that can be corroborated by observable market data for substantially the full term of the asset or liability.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

In determining fair value, the Diocese utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. In determining the appropriate levels, the Diocese performs a detailed analysis of the assets and liabilities that are subject to fair value measurements.

CONVENTION OF THE PROTESTANT EPISCOPAL CHURCH  
OF THE DIOCESE OF MARYLAND  
Notes to Financial Statements  
December 31, 2009 and 2008

**Note 12: Fair Value Measurement (Continued)**

The table below presents the balances of assets measured at fair value by level within the hierarchy.

	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 2,616,659	\$ 2,616,659	\$ -0-	-0-
Obligations of the U.S. Government and its agencies	3,944,732	3,944,732	-0-	-0-
Corporate bonds	2,040,860	2,040,860	-0-	-0-
Common stock equity mutual funds	15,227,806	15,227,806	-0-	-0-
	<u>\$ 23,830,057</u>	<u>\$ 23,830,057</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

**Note 13: Other Matters**

Uninsured Balances: The Diocese maintains its cash balances in eight financial institutions. These balances are insured by the Federal Deposit Insurance Corporation up to a total of \$250,000 in each institution through December 31, 2013. Periodically during the year, the Diocese's cash balances have exceeded federally insured limits. Management does not believe the Diocese is subject to significant credit risk related to cash balances.

Financial Risk: The Diocese's investment portfolio is a professionally managed portfolio that contains common shares and bonds of publicly traded companies, United States Government obligations, and mutual funds. Such investments are exposed to various investment risks such as interest rate, market and credit risks. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term could materially affect investment balances and the amounts reported in the financial statements.

**CONVENTION OF THE PROTESTANT EPISCOPAL CHURCH  
OF THE DIOCESE OF MARYLAND**

**SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 2009 AND 2008**

To the Officers and Board of Directors  
Convention of the Protestant Episcopal Church Of The  
Diocese of Maryland

Independent Auditor's Report on Supplementary Information

The basic financial statements of Convention of the Protestant Episcopal Church of the Diocese of Maryland for the years ended December 31, 2009 and 2008, and our report on our audits of those statements, are presented on the preceding pages. Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on the following pages is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Gross, Mendelsohn & Associates, P.A.*

Baltimore, Maryland  
March 25, 2010

18th Floor  
36 South Charles Street  
Baltimore, MD 21201-3172

410.685.5512  
800.899.4623  
fax 410.752.5042  
[www.gma-cpa.com](http://www.gma-cpa.com)

CONVENTION OF THE PROTESTANT EPISCOPAL CHURCH  
OF THE DIOCESE OF MARYLAND  
Combining Statement of Financial Position By Internal Fund  
December 31, 2009 and 2008

	2009			
	Episcopal Diocese	Bishop Claggett Center	Middendorf Loan Fund	Total
<b>Assets</b>				
Cash and cash equivalents	\$ 427,793	\$ 389,834	\$ 25,237	\$ 842,864
Pledges receivable	272,877	-0-	-0-	272,877
Accounts receivable	35,467	35,473	-0-	70,940
Due (to)/ from affiliates	(695,763)	698,600	(2,837)	-0-
Investments	12,956,050	-0-	1,370,776	14,326,826
Loans receivable	241,752	-0-	2,131,282	2,373,034
Prepaid expenses and deposits	26,721	6,736	-0-	33,457
Investments restricted to long-term investment	9,503,231	-0-	-0-	9,503,231
Property, net	10,686,272	303,034	-0-	10,989,306
<b>Total Assets</b>	<b>\$ 33,454,400</b>	<b>\$1,433,677</b>	<b>\$ 3,524,458</b>	<b>\$ 38,412,535</b>
<b>Liabilities</b>				
Accounts payable and accrued expenses	\$ 419,934	\$ 138,996	\$ 291	\$ 559,221
Note payable	896,761	-0-	-0-	896,761
Custodial funds held for congregations	2,806,597	-0-	-0-	2,806,597
Total Liabilities	4,123,292	138,996	291	4,262,579
<b>Net Assets</b>	<b>29,331,108</b>	<b>1,294,681</b>	<b>3,524,167</b>	<b>34,149,956</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 33,454,400</b>	<b>\$1,433,677</b>	<b>\$ 3,524,458</b>	<b>\$ 38,412,535</b>

**2008**

<b>Episcopal Diocese</b>	<b>Bishop Claggett Center</b>	<b>Middendorf Loan Fund</b>	<b>Total</b>
\$ 1,183,055	\$ 333,206	\$ -0-	\$ 1,516,261
146,935	-0-	-0-	146,935
21,957	56,611	-0-	78,568
(1,190,406)	646,429	543,977	-0-
10,457,071	-0-	704,192	11,161,263
243,681	-0-	2,073,049	2,316,730
53,064	11,733	-0-	64,797
9,248,772	-0-	-0-	9,248,772
11,034,227	230,795	-0-	11,265,022
<hr/>			
<b>\$31,198,356</b>	<b>\$1,278,774</b>	<b>\$ 3,321,218</b>	<b>\$ 35,798,348</b>
<hr/>			
\$ 437,482	\$ 95,885	\$ 220	\$ 533,587
974,931	-0-	-0-	974,931
2,455,466	-0-	-0-	2,455,466
3,867,879	95,885	220	3,963,984
<hr/>			
27,330,477	1,182,889	3,320,998	31,834,364
<hr/>			
<b>\$31,198,356</b>	<b>\$1,278,774</b>	<b>\$ 3,321,218</b>	<b>\$ 35,798,348</b>
<hr/>			

**CONVENTION OF THE PROTESTANT EPISCOPAL CHURCH  
OF THE DIOCESE OF MARYLAND**  
Combining Statement of Activities By Internal Fund  
Years ended December 31, 2009 and 2008

	2009				
	Episcopal Diocese	Bishop Claggett Center	Middendorf Loan Fund	Eliminations	Total
<b>Support and Revenue</b>					
Contributions and bequests	\$ 3,728,649	\$ 109,187	\$ -0-	\$ -0-	\$ 3,837,836
Claggett conference fees	-0-	956,048	-0-	(96,836)	859,212
Investment income (loss)	3,076,808	1,258	132,872	-0-	3,210,938
Interest on loans	3,380	-0-	70,297	-0-	73,677
Loss on disposal of property	(9,539)	-0-	-0-	-0-	(9,539)
Miscellaneous income	59,012	2,460	-0-	-0-	61,472
Total Support and Revenue	<u>6,858,310</u>	<u>1,068,953</u>	<u>203,169</u>	<u>(96,836)</u>	<u>8,033,596</u>
<b>Expenses</b>					
Program Services:					
Claggett Conference Center	-0-	957,161	-0-	-0-	957,161
Nation and World	564,597	-0-	-0-	-0-	564,597
Ordained Ministry	554,924	-0-	-0-	(15,125)	539,799
Lay Ministry	320,451	-0-	-0-	(14,170)	306,281
Congregational Development	439,930	-0-	-0-	(3,490)	436,440
Social Ministry	193,161	-0-	-0-	(47,035)	146,126
Total program services	<u>2,073,063</u>	<u>957,161</u>	<u>-0-</u>	<u>(79,820)</u>	<u>2,950,404</u>
Support Services:					
Management, Finance and the Episcopal Offices	2,765,141	-0-	-0-	(17,016)	2,748,125
Fundraising	19,475	-0-	-0-	-0-	19,475
Total Support Services	<u>2,784,616</u>	<u>-0-</u>	<u>-0-</u>	<u>(17,016)</u>	<u>2,767,600</u>
Total Expenses	<u>4,857,679</u>	<u>957,161</u>	<u>-0-</u>	<u>(96,836)</u>	<u>5,718,004</u>
<b>Change in Net Assets</b>	<b>2,000,631</b>	<b>111,792</b>	<b>203,169</b>	<b>-0-</b>	<b>2,315,592</b>
<b>Net Assets at Beginning of Year</b>	<u>27,330,477</u>	<u>1,182,889</u>	<u>3,320,998</u>	<u>-0-</u>	<u>31,834,364</u>
<b>Net Assets at End of Year</b>	<u>\$ 29,331,108</u>	<u>\$ 1,294,681</u>	<u>\$ 3,524,167</u>	<u>\$ -0-</u>	<u>\$ 34,149,956</u>

2008

Episcopal Diocese	Bishop Claggett Center	Middendorf Loan Fund	Eliminations	Total	Increase (Decrease)
\$ 3,781,107	\$ 73,528	\$ -0-	\$ -0-	\$ 3,854,635	\$ (16,799)
-0-	964,550	-0-	(64,557)	899,993	(40,781)
(5,959,399)	3,382	(82,517)	-0-	(6,038,534)	9,249,472
7,795	-0-	97,790	-0-	105,585	(31,908)
0	-0-	-0-	-0-	-0-	(9,539)
52,130	18,025	-0-	-0-	70,155	(8,683)
(2,118,367)	1,059,485	15,273	(64,557)	(1,108,166)	9,141,762
-0-	994,788	-0-	-0-	994,788	(37,627)
582,830	-0-	-0-	-0-	582,830	(18,233)
498,376	-0-	-0-	(14,210)	484,166	55,633
352,639	-0-	-0-	(7,434)	345,205	(38,924)
367,494	-0-	-0-	-0-	367,494	68,946
223,778	-0-	-0-	(36,052)	187,726	(41,600)
2,025,117	994,788	-0-	(57,696)	2,962,209	(11,805)
2,680,487	-0-	-0-	(6,861)	2,673,626	74,499
11,655	-0-	-0-	-0-	11,655	7,820
2,692,142	-0-	-0-	(6,861)	2,685,281	82,319
4,717,259	994,788	-0-	(64,557)	5,647,490	70,514
(6,835,626)	64,697	15,273	-0-	(6,755,656)	9,071,248
34,166,103	1,118,192	3,305,725	-0-	38,590,020	(6,755,656)
\$ 27,330,477	\$ 1,182,889	\$ 3,320,998	\$ -0-	\$ 31,834,364	\$ 2,315,592



18th Floor  
36 South Charles Street  
Baltimore, MD 21201-3172

410.685.5512  
800.899.4623  
fax 410.752.5042  
[www.gma-cpa.com](http://www.gma-cpa.com)