



CONVENTION OF THE PROTESTANT
EPISCOPAL CHURCH OF THE
DIOCESE OF MARYLAND

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

DECEMBER 31, 2010 AND 2009

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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, 2010 and 2009, 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 audits.

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, 2010 and 2009, 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 31, 2011

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

410.685.5512
800.899.4623
fax 410.752.5042
www.gma-cpa.com

**CONVENTION OF THE PROTESTANT EPISCOPAL CHURCH
OF THE DIOCESE OF MARYLAND
Statements of Financial Position
December 31, 2010 and 2009**

| | <u>2010</u> | <u>2009</u> |
|--|----------------------|----------------------|
| Assets | | |
| Cash and cash equivalents | \$ 1,424,212 | \$ 842,864 |
| Certificates of deposit | 150,463 | -0- |
| Pledges receivable | 1,218,881 | 272,877 |
| Accounts receivable | 48,617 | 70,940 |
| Investments | 15,535,084 | 13,660,242 |
| Loans receivable | 2,037,767 | 2,373,034 |
| Prepaid expenses and deposits | 37,400 | 33,457 |
| Other receivables | 5,639 | -0- |
| Investments restricted to long-term investment | 10,656,570 | 10,169,815 |
| Property, net of accumulated depreciation | 10,860,425 | 10,989,306 |
| Total Assets | \$ 41,975,058 | \$ 38,412,535 |
| Liabilities | | |
| Accounts payable and accrued expenses | \$ 585,062 | \$ 559,221 |
| Note payable | 814,193 | 896,761 |
| Custodial funds held for congregations | 2,947,460 | 2,806,597 |
| Total Liabilities | 4,346,715 | 4,262,579 |
| Commitments (Note 11) | | |
| Net Assets | | |
| Unrestricted | 14,437,654 | 14,708,031 |
| Temporarily restricted | 15,318,955 | 11,570,191 |
| Permanently restricted | 7,871,734 | 7,871,734 |
| Total Net Assets | 37,628,343 | 34,149,956 |
| Total Liabilities and Net Assets | \$ 41,975,058 | \$ 38,412,535 |

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, 2010 and 2009

| | 2010 | | | |
|--|----------------------|---------------------------|---------------------------|----------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Support and Revenue | | | | |
| Contributions and bequests | \$ 3,897,025 | \$ 1,217,535 | \$ -0- | \$ 5,114,560 |
| Claggett conference fees | 950,138 | -0- | -0- | 950,138 |
| Investment income | 257,036 | 2,862,061 | -0- | 3,119,097 |
| Interest on loans | -0- | 90,178 | -0- | 90,178 |
| Loss on disposal of property | -0- | -0- | -0- | -0- |
| Miscellaneous income | 119,811 | -0- | -0- | 119,811 |
| Net assets released from restrictions | 421,010 | (421,010) | -0- | -0- |
| Total Support and Revenue | 5,645,020 | 3,748,764 | -0- | 9,393,784 |
| Expenses | | | | |
| Program Services: | | | | |
| Claggett Conference Center | 1,059,919 | -0- | -0- | 1,059,919 |
| Nation and World | 579,632 | -0- | -0- | 579,632 |
| Ordained Ministry | 467,776 | -0- | -0- | 467,776 |
| Lay Ministry | 270,726 | -0- | -0- | 270,726 |
| Congregational Development | 409,207 | -0- | -0- | 409,207 |
| Social Ministry | 180,095 | -0- | -0- | 180,095 |
| Total Program Services | 2,967,355 | -0- | -0- | 2,967,355 |
| Support Services: | | | | |
| Management, Finance and the Episcopal Offices | 2,926,164 | -0- | -0- | 2,926,164 |
| Fundraising | 21,878 | -0- | -0- | 21,878 |
| Total Support Services | 2,948,042 | -0- | -0- | 2,948,042 |
| Total Expenses | 5,915,397 | -0- | -0- | 5,915,397 |
| Change in Net Assets | (270,377) | 3,748,764 | -0- | 3,478,387 |
| Net Assets at Beginning of Year | 14,708,031 | 11,570,191 | 7,871,734 | 34,149,956 |
| Net Assets at End of Year | \$ 14,437,654 | \$ 15,318,955 | \$ 7,871,734 | \$ 37,628,343 |

2009

| Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Increase (Decrease) |
|---------------------|---------------------------|---------------------------|---------------------|------------------------|
| \$ 3,671,334 | \$ 166,502 | \$ -0- | \$ 3,837,836 | 1,276,724 |
| 859,212 | -0- | -0- | 859,212 | 90,926 |
| 266,313 | 2,944,625 | -0- | 3,210,938 | (91,841) |
| -0- | 73,677 | -0- | 73,677 | 16,501 |
| (9,539) | -0- | -0- | (9,539) | 9,539 |
| 61,472 | -0- | -0- | 61,472 | 58,339 |
| 769,803 | (769,803) | -0- | -0- | -0- |
| 5,618,595 | 2,415,001 | -0- | 8,033,596 | 1,360,188 |
| 957,161 | -0- | -0- | 957,161 | 102,758 |
| 564,597 | -0- | -0- | 564,597 | 15,035 |
| 539,799 | -0- | -0- | 539,799 | (72,023) |
| 306,281 | -0- | -0- | 306,281 | (35,555) |
| 436,440 | -0- | -0- | 436,440 | (27,233) |
| 146,126 | -0- | -0- | 146,126 | 33,969 |
| 2,950,404 | -0- | -0- | 2,950,404 | 16,951 |
| 2,748,125 | -0- | -0- | 2,748,125 | 178,039 |
| 19,475 | -0- | -0- | 19,475 | 2,403 |
| 2,767,600 | -0- | -0- | 2,767,600 | 180,442 |
| 5,718,004 | -0- | -0- | 5,718,004 | 197,393 |
| (99,409) | 2,415,001 | -0- | 2,315,592 | 1,162,795 |
| 14,807,440 | 9,155,190 | 7,871,734 | 31,834,364 | 2,315,592 |
| \$14,708,031 | \$11,570,191 | \$ 7,871,734 | \$34,149,956 | \$3,478,387 |

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, 2010 and 2009

| | <u>2010</u> | <u>2009</u> |
|---|----------------------------|--------------------------|
| Cash Flows From Operating Activities | | |
| Change in net assets | \$ 3,478,387 | \$ 2,315,592 |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Provision for uncollectible receivables | 25,000 | 43,081 |
| Net gain on investments | (2,822,263) | (2,761,576) |
| Depreciation | 483,684 | 470,664 |
| Loss on disposal of property | -0- | 9,539 |
| Changes in operating assets and liabilities: | | |
| Pledges receivable | (971,004) | (163,817) |
| Accounts receivable | 22,323 | 7,628 |
| Prepaid expenses and deposits | (3,943) | 31,340 |
| Other receivables | (5,639) | -0- |
| Accounts payable and accrued expenses | 25,841 | 25,634 |
| Net Cash Provided by (Used in) Operating Activities | <u>232,386</u> | <u>(21,915)</u> |
| Cash Flows From Investing Activities | | |
| Purchase of investments | (5,870,236) | (5,812,530) |
| Proceeds from sale of investments | 6,471,765 | 5,505,216 |
| Change in certificates of deposit | (150,463) | -0- |
| Loans made to churches | (62,026) | (273,795) |
| Principal collections on loans receivable | 397,293 | 212,284 |
| Proceeds from disposal of property | -0- | 3,050 |
| Purchase of property | (354,803) | (207,537) |
| Net Cash Provided by (Used in) Investing Activities | <u>431,530</u> | <u>(573,312)</u> |
| Cash Flows From Financing Activities | | |
| Principal payments on note payable | (82,568) | (78,170) |
| Net Increase (Decrease) in Cash and Cash Equivalents | 581,348 | (673,397) |
| Cash and Cash Equivalents at Beginning of Year | 842,864 | 1,516,261 |
| Cash and Cash Equivalents at End of Year | <u>\$ 1,424,212</u> | <u>\$ 842,864</u> |
| Supplemental Disclosure of Cash Information | | |
| Interest paid | <u>\$ 46,745</u> | <u>\$ 51,162</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, 2010 and 2009

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.

Congregational Development: Congregational 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, 2010 and 2009

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 equivalents designated and held for investment purposes are included in investments and 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 reported at fair value in the statements of financial position. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Realized 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.

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 at the time of acquisition. 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, 2010 and 2009. 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, 2010 and 2009

Note 1: Summary of Significant Accounting Policies (Continued)

Income Taxes: The Diocese is a not-for-profit corporation exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code. Income that is not related to exempt purposes, less applicable deductions, is subject to federal and state income taxes. The Diocese had no unrelated business income for the years ended December 31, 2010 and 2009. Accordingly, no provision for income taxes is reflected in these financial statements. The Diocese federal exempt organization income tax returns, if applicable, are subject to examination by the IRS, generally for three years after they are filed.

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 31, 2011, the date the financial statements were available to be issued. During the period from January 1, 2011 to March 31, 2011, the Diocese did not have any material recognizable subsequent events.

Note 2: Pledges Receivable

Pledges receivable as of December 31, 2010 and 2009 consists of the following unconditional promises to give:

| | 2010 | 2009 |
|-------------------------------------|---------------------|-------------------|
| Pledges receivable | \$ 1,273,881 | \$ 272,877 |
| Present value discount at 3% | (30,000) | -0- |
| Allowance for uncollectible pledges | (25,000) | -0- |
| Net Unconditional Promises to Give | <u>\$ 1,218,881</u> | <u>\$ 272,877</u> |

Anticipated receipts from pledges receivable are expected to occur in the following periods:

| | |
|------|---------------------|
| 2011 | \$ 839,915 |
| 2012 | 159,033 |
| 2013 | 132,033 |
| 2014 | 77,700 |
| 2015 | 65,200 |
| | <u>\$ 1,273,881</u> |

CONVENTION OF THE PROTESTANT EPISCOPAL CHURCH
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Notes to Financial Statements
December 31, 2010 and 2009

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, 2010 and 2009 was \$1,785,917 and \$2,131,282, respectively. The Diocese also made other loans at various interest rates ranging from 0% to 5.27% to other organizations with outstanding balances of \$251,850 and \$241,752 at December 31, 2010 and 2009, respectively, and which mature at various dates through June 2016.

Principal collections on loans receivables at December 31, 2010 are due as follows:

| | Middendorf | Other | Total |
|------------|---------------------|-------------------|---------------------|
| 2011 | \$ 150,289 | \$ 61,918 | \$ 212,207 |
| 2012 | 159,158 | 55,040 | 214,198 |
| 2013 | 543,933 | 39,802 | 583,735 |
| 2014 | 224,737 | 41,048 | 265,785 |
| 2015 | 194,952 | 36,097 | 231,049 |
| Thereafter | 512,848 | 17,945 | 530,793 |
| | <u>\$ 1,785,917</u> | <u>\$ 251,850</u> | <u>\$ 2,037,767</u> |

Note 4: Investments

Investments consist of the following at December 31, 2010 and 2009:

| | 2010 | | 2009 | |
|-----------------------------|----------------------|----------------------|----------------------|----------------------|
| | Cost | Fair Value | Cost | Fair Value |
| Cash and cash equivalents | \$ 1,271,808 | \$ 1,271,808 | \$ 2,616,659 | \$ 2,616,659 |
| Common stocks | 6,103,739 | 8,521,064 | 5,189,811 | 6,314,449 |
| Equity mutual funds | 9,295,200 | 9,926,906 | 8,087,939 | 7,398,626 |
| Obligations of the U.S. | | | | |
| Government and its agencies | 3,444,423 | 3,616,542 | 3,755,196 | 4,004,276 |
| Corporate bonds | 1,561,157 | 1,678,259 | 1,932,340 | 2,040,860 |
| Fixed income funds | 898,319 | 1,044,147 | 1,335,450 | 1,455,187 |
| Municipal obligations | 135,554 | 132,928 | -0- | -0- |
| | <u>\$ 22,710,200</u> | <u>\$ 26,191,654</u> | <u>\$ 22,917,395</u> | <u>\$ 23,830,057</u> |

CONVENTION OF THE PROTESTANT EPISCOPAL CHURCH
 OF THE DIOCESE OF MARYLAND
 Notes to Financial Statements
 December 31, 2010 and 2009

Note 4: Investments (Continued)

Investments are allocated on the Statements of Financial Position as follows as of December 31, 2010 and 2009:

| | <u>2010</u> | <u>2009</u> |
|--|----------------------|----------------------|
| Investments | \$ 15,535,084 | \$ 13,660,242 |
| Investments restricted to long-term investment | <u>10,656,570</u> | <u>10,169,815</u> |
| | <u>\$ 26,191,654</u> | <u>\$ 23,830,057</u> |

Included in the investment portfolio of the Diocese as of December 31, 2010 and 2009 are custodial funds belonging to congregations in the amount of \$2,947,460 and \$2,806,597, respectively.

Investment income for the years ended December 31, 2010 and 2009 consists of the following:

| | <u>2010</u> | <u>2009</u> |
|------------------------|---------------------|---------------------|
| Interest and dividends | \$ 433,910 | \$ 541,610 |
| Net gains | 2,822,263 | 2,761,576 |
| Investment fees | <u>(137,076)</u> | <u>(92,248)</u> |
| Investment income | <u>\$ 3,119,097</u> | <u>\$ 3,210,938</u> |

Note 5: Property

Property consists of the following at December 31, 2010 and 2009:

| | <u>2010</u> | <u>2009</u> |
|------------------------------------|----------------------|----------------------|
| Land | \$ 1,197,936 | \$ 1,197,936 |
| Building and building improvements | 18,077,115 | 17,798,510 |
| Furniture and equipment | <u>591,572</u> | <u>515,374</u> |
| | 19,866,623 | 19,511,820 |
| Less: accumulated depreciation | <u>9,006,198</u> | <u>8,522,514</u> |
| Net property | <u>\$ 10,860,425</u> | <u>\$ 10,989,306</u> |

Depreciation expense for the years ended December 31, 2010 and 2009 was \$483,684 and \$470,664, respectively.

**CONVENTION OF THE PROTESTANT EPISCOPAL CHURCH
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Notes to Financial Statements
December 31, 2010 and 2009**

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 Manufacturers and Traders Trust Company (M&T Bank) all of which accrue interest at the 30 day LIBOR rate plus 0.85% (1.111% at December 31, 2010). 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 investment accounts held with M&T Bank. There was no outstanding balance on these notes at December 31, 2010 and 2009.

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 with a balloon payment due in August 2011. The outstanding balance on this note as of December 31, 2010 and 2009 was \$814,193 and \$896,761, respectively.

Interest expense for the years ended December 31, 2010 and 2009 was \$46,745 and \$51,162, respectively.

Note 8: Temporarily and Permanently Restricted Net Assets

The Financial Accounting Standards Board (FASB) issued guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). This guidance also requires additional disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

The State of Maryland enacted UPMIFA effective April 14, 2009, the provisions of which apply to endowment funds existing on or established after that date. In accordance with the Maryland Uniform Prudent Management of Institutional Funds Act (MUPMIFA), the Diocese preserves the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary (when a donor expresses intent clearly in a written gift instrument, the Act requires that the charity follow the donor's instructions). The Diocese classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The Diocese considers permanently restricted net assets to be endowment funds. In accordance with MUPMIFA, the Diocese considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Diocese, and (7) the Diocese's investment policies.

CONVENTION OF THE PROTESTANT EPISCOPAL CHURCH
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Notes to Financial Statements
December 31, 2010 and 2009

Note 8: Temporarily and Permanently Restricted Net Assets (Continued)

Investment Return Objectives, Risk Parameters, Strategies and Spending Policy

Diocese funds are invested with due diligence for stability, growth and adequate diversification to achieve the Diocese's goals. In fulfilling the responsibilities of monitoring Diocese funds, the investment committee avails themselves to advisors proficient in the area of banking and finance. These advisors are consulted when necessary to secure Diocese funds in safe and equitable investments. Although a formal allocation of income, gains or losses is not accounted for as to the donor restricted portion of the fund, all income is released from restriction and supplemented by the income from the board designated portion of the fund to cover all expenditures of the fund.

Changes in endowment net assets during the years ended December 31, 2010 and 2009 are as follows:

| | 2010 | 2009 |
|---|--------------|--------------|
| Endowment net assets, beginning of year | \$ 7,871,734 | \$ 7,871,734 |
| Interest and dividends | 130,409 | 178,909 |
| Net gains | 848,213 | 912,226 |
| Investment fees | (41,197) | (30,472) |
| Expenditures | (937,425) | (1,060,663) |
| Endowment net assets, end of year | \$ 7,871,734 | \$ 7,871,734 |

Temporarily restricted net assets as of December 31, 2010 and 2009 are restricted for the following purposes:

| | 2010 | 2009 |
|---|---------------|---------------|
| Ordained Ministry | \$ 2,419,382 | \$ 1,855,525 |
| Theological Education | 2,308,718 | 1,729,337 |
| Congregational Development | 1,012,137 | 794,070 |
| Social Ministry | 191,854 | 242,891 |
| Lay Ministry | 849,698 | 636,463 |
| Benefit of congregations | 2,438,414 | 1,825,398 |
| Other (primarily acquisitions and capital campaign) | 1,236,215 | 927,305 |
| Claggett Conference Center | 1,073,263 | 35,035 |
| Middendorf Loan Program | 3,789,274 | 3,524,167 |
| | \$ 15,318,955 | \$ 11,570,191 |

CONVENTION OF THE PROTESTANT EPISCOPAL CHURCH
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Notes to Financial Statements
December 31, 2010 and 2009

Note 8: Temporarily and Permanently Restricted Net Assets (Continued)

Permanently restricted net assets at December 31, 2010 and 2009 were restricted to be held in perpetuity, the income from which is expendable to principally support the following:

| | 2010 | 2009 |
|----------------------------|--------------|--------------|
| 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 |
| | \$ 7,871,734 | \$ 7,871,734 |

Note 9: Net Assets Released from Restrictions

Net assets were released from donor restrictions during 2010 and 2009, by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows:

| | 2010 | 2009 |
|----------------------------|------------|------------|
| Ordained Ministry | \$ 57,801 | \$ 325,003 |
| Theological Education | -0- | 200,716 |
| Congregational Development | 53,694 | 42,425 |
| Social Ministry | 192,403 | 99,533 |
| Lay Ministry | -0- | 8,506 |
| Benefits of Congregations | 39,929 | -0- |
| Claggett Conference Center | 67,764 | 18,131 |
| Other | 9,419 | 75,489 |
| | \$ 421,010 | \$ 769,803 |

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Notes to Financial Statements
December 31, 2010 and 2009

Note 10: Retirement Plans

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 \$41,221 and \$38,826 for the years ended December 31, 2010 and 2009, 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 \$158,487 and \$107,026 for the years ended December 31, 2010 and 2009, 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, 2010 and 2009 was \$23,664 and \$28,526, respectively.

As of December 31, 2010, future minimum rental payments, summarized by year, are as follows:

| | |
|------|------------------|
| 2011 | \$ 19,626 |
| 2012 | 14,521 |
| 2013 | 13,354 |
| 2014 | <u>1,592</u> |
| | <u>\$ 49,093</u> |

Note 12: Fair Value Measurement

The Financial Accounting Standards Board's fair value measurement standard establishes a framework for measuring fair value. 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).

CONVENTION OF THE PROTESTANT EPISCOPAL CHURCH
OF THE DIOCESE OF MARYLAND
Notes to Financial Statements
December 31, 2010 and 2009

Note 12: Fair Value Measurement (Continued)

The three levels of the fair value hierarchy are as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2: Inputs to the valuation methodology include:

- 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 derived principally from or corroborated by observable market data by correlation or other means

If the assets or liability has a specified (contractual) term, the Level 2 input must be observable 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.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

In determining the appropriate levels, the Diocese performs a detailed analysis of the assets and liabilities that are subject to fair value measurements. Level 1 fair value is based on quoted market prices of identical assets. Level 2 fair value is based on matrix pricing. Matrix prices are based on quoted prices for securities with similar coupons, ratings and maturities, rather than on specific bids and offers for the designated security. Matrix pricing involves interpolating among values for similar instruments arranged in a matrix format.

The table below presents the balances of assets as of December 31, 2010 measured at fair value on a recurring basis by level within the hierarchy.

| | Total | Level 1 | Level 2 | Level 3 |
|-----------------------------|----------------------|----------------------|---------------------|---------------|
| Cash and cash equivalents | \$ 1,271,808 | \$ 1,271,808 | \$ -0- | \$ -0- |
| Common stocks | 8,521,064 | 8,521,064 | -0- | -0- |
| Equity mutual funds | 9,926,906 | 9,926,906 | -0- | -0- |
| Obligations of the U.S. | | | | |
| Government and its agencies | 3,616,542 | 247,363 | 3,369,179 | -0- |
| Corporate bonds | 1,678,259 | 369,217 | 1,309,042 | -0- |
| Fixed income funds | 1,044,147 | 1,044,147 | -0- | -0- |
| Municipal obligations | 132,928 | 4,915 | 128,013 | -0- |
| | <u>\$ 26,191,654</u> | <u>\$ 21,385,420</u> | <u>\$ 4,806,234</u> | <u>\$ -0-</u> |

CONVENTION OF THE PROTESTANT EPISCOPAL CHURCH
OF THE DIOCESE OF MARYLAND
Notes to Financial Statements
December 31, 2010 and 2009

Note 12: Fair Value Measurement (Continued)

The table below presents the balances of assets as of December 31, 2009 measured at fair value on a recurring basis by level within the hierarchy.

| | Total | Level 1 | Level 2 | Level 3 |
|-----------------------------|----------------------|----------------------|---------------------|---------------|
| Cash and cash equivalents | \$ 2,616,659 | \$ 2,616,659 | \$ -0- | \$ -0- |
| Common stocks | 6,314,449 | 6,314,449 | -0- | -0- |
| Equity mutual funds | 7,398,626 | 7,398,626 | -0- | -0- |
| Obligations of the U.S. | | | | |
| Government and its agencies | 4,004,276 | -0- | 4,004,276 | -0- |
| Corporate bonds | 2,040,860 | -0- | 2,040,860 | -0- |
| Fixed income funds | 1,455,187 | 1,455,187 | -0- | -0- |
| | <u>\$ 23,830,057</u> | <u>\$ 17,784,921</u> | <u>\$ 6,045,136</u> | <u>\$ -0-</u> |

Note 13: Other Matters

Uninsured Balances: The Diocese maintains its cash balances at various financial institutions. Periodically during the year, the Diocese's cash balances may exceed federally insured limits. The Diocese has not experienced any losses in such accounts and believes it is not exposed to significant risk on 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, municipal 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, 2010 AND 2009

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 as of and for the years ended December 31, 2010 and 2009, 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 31, 2011

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

410.685.5512
800.899.4623
fax 410.752.5042
www.gma-cpa.com

**CONVENTION OF THE PROTESTANT EPISCOPAL CHURCH
OF THE DIOCESE OF MARYLAND**
Combining Statements of Financial Position By Internal Fund
December 31, 2010 and 2009

| | 2010 | | | |
|--|----------------------|------------------------------|-------------------------|----------------------|
| | Episcopal Diocese | Bishop Claggett Center | Middendorf Loan Fund | Total |
| Assets | | | | |
| Cash and cash equivalents | \$ 437,492 | \$ 531,778 | \$ 454,942 | \$ 1,424,212 |
| Certificates of deposit | -0- | 150,463 | -0- | 150,463 |
| Pledges receivable | 305,281 | 913,600 | -0- | 1,218,881 |
| Accounts receivable | 13,424 | 35,193 | -0- | 48,617 |
| Due (to)/ from affiliates | (699,385) | 699,590 | (205) | -0- |
| Investments | 13,986,464 | -0- | 1,548,620 | 15,535,084 |
| Loans receivable | 251,850 | -0- | 1,785,917 | 2,037,767 |
| Prepaid expenses and deposits | 33,942 | 3,458 | -0- | 37,400 |
| Other receivables | 5,639 | -0- | -0- | 5,639 |
| Investments restricted to long-term investment | 10,656,570 | -0- | -0- | 10,656,570 |
| Property, net of accumulated depreciation | 10,512,873 | 347,552 | -0- | 10,860,425 |
| Total Assets | \$ 35,504,150 | \$ 2,681,634 | \$ 3,789,274 | \$ 41,975,058 |
| Liabilities | | | | |
| Accounts payable and accrued expenses | \$ 445,453 | \$ 139,609 | \$ -0- | \$ 585,062 |
| Note payable | 814,193 | -0- | -0- | 814,193 |
| Custodial funds held for congregations | 2,947,460 | -0- | -0- | 2,947,460 |
| Total Liabilities | 4,207,106 | 139,609 | -0- | 4,346,715 |
| Net Assets | 31,297,044 | 2,542,025 | 3,789,274 | 37,628,343 |
| Total Liabilities and Net Assets | \$ 35,504,150 | \$ 2,681,634 | \$ 3,789,274 | \$ 41,975,058 |

2009

| Episcopal Diocese | Bishop Claggett Center | Middendorf Loan Fund | Total |
|------------------------------|---------------------------------------|---------------------------------|----------------------|
| \$ 427,793 | \$ 389,834 | 25,237 | \$ 842,864 |
| 0 | -0- | -0- | -0- |
| 272,877 | -0- | -0- | 272,877 |
| 35,467 | 35,473 | -0- | 70,940 |
| (695,763) | 698,600 | (2,837) | -0- |
| 12,289,466 | -0- | 1,370,776 | 13,660,242 |
| 241,752 | -0- | 2,131,282 | 2,373,034 |
| 26,721 | 6,736 | -0- | 33,457 |
| -0- | -0- | -0- | -0- |
| 10,169,815 | -0- | -0- | 10,169,815 |
| 10,686,272 | 303,034 | -0- | 10,989,306 |
| <hr/> | | | |
| <u>\$33,454,400</u> | <u>\$1,433,677</u> | <u>\$ 3,524,458</u> | <u>\$ 38,412,535</u> |
| <hr/> | | | |
| \$ 419,934 | 138,996 | 291 | \$ 559,221 |
| 896,761 | -0- | -0- | 896,761 |
| 2,806,597 | -0- | -0- | 2,806,597 |
| <hr/> 4,123,292 | <hr/> 138,996 | <hr/> 291 | <hr/> 4,262,579 |
| <hr/> 29,331,108 | <hr/> 1,294,681 | <hr/> 3,524,167 | <hr/> 34,149,956 |
| <hr/> | | | |
| <u>\$33,454,400</u> | <u>\$1,433,677</u> | <u>\$ 3,524,458</u> | <u>\$ 38,412,535</u> |

**CONVENTION OF THE PROTESTANT EPISCOPAL CHURCH
OF THE DIOCESE OF MARYLAND**
Combining Statements of Activities By Internal Fund
Years Ended December 31, 2010 and 2009

| | 2010 | | | | |
|--|----------------------|------------------------------|-------------------------|-----------------|----------------------|
| | Episcopal Diocese | Bishop Claggett Center | Middendorf Loan Fund | Eliminations | Total |
| Support and Revenue | | | | | |
| Contributions and bequests | \$ 3,898,708 | \$ 1,215,852 | \$ -0- | \$ -0- | \$ 5,114,560 |
| Claggett conference fees | -0- | 1,036,750 | -0- | (86,612) | 950,138 |
| Investment income | 2,937,967 | 2,995 | 178,135 | -0- | 3,119,097 |
| Interest on loans | 3,206 | -0- | 86,972 | -0- | 90,178 |
| Loss on disposal of property | -0- | -0- | -0- | -0- | -0- |
| Miscellaneous income | 68,145 | 51,666 | -0- | -0- | 119,811 |
| Total Support and Revenue | <u>6,908,026</u> | <u>2,307,263</u> | <u>265,107</u> | <u>(86,612)</u> | <u>9,393,784</u> |
| Expenses | | | | | |
| Program Services: | | | | | |
| Claggett Conference Center | -0- | 1,059,919 | -0- | -0- | 1,059,919 |
| Nation and World | 579,632 | -0- | -0- | -0- | 579,632 |
| Ordained Ministry | 485,312 | -0- | -0- | (17,536) | 467,776 |
| Lay Ministry | 295,133 | -0- | -0- | (24,407) | 270,726 |
| Congregational Development | 411,457 | -0- | -0- | (2,250) | 409,207 |
| Social Ministry | 217,748 | -0- | -0- | (37,653) | 180,095 |
| Total program services | <u>1,989,282</u> | <u>1,059,919</u> | <u>-0-</u> | <u>(81,846)</u> | <u>2,967,355</u> |
| Support Services: | | | | | |
| Management, Finance and the Episcopal Offices | 2,930,930 | -0- | -0- | (4,766) | 2,926,164 |
| Fundraising | 21,878 | -0- | -0- | -0- | 21,878 |
| Total Support Services | <u>2,952,808</u> | <u>-0-</u> | <u>-0-</u> | <u>(4,766)</u> | <u>2,948,042</u> |
| Total Expenses | <u>4,942,090</u> | <u>1,059,919</u> | <u>-0-</u> | <u>(86,612)</u> | <u>5,915,397</u> |
| Change in Net Assets | 1,965,936 | 1,247,344 | 265,107 | -0- | 3,478,387 |
| Net Assets at Beginning of Year | <u>29,331,108</u> | <u>1,294,681</u> | <u>3,524,167</u> | <u>-0-</u> | <u>34,149,956</u> |
| Net Assets at End of Year | <u>\$ 31,297,044</u> | <u>\$ 2,542,025</u> | <u>\$ 3,789,274</u> | <u>\$ -0-</u> | <u>\$ 37,628,343</u> |

2009

| Episcopal Diocese | Bishop Claggett Center | Middendorf Loan Fund | Eliminations | Total | Increase (Decrease) |
|----------------------|------------------------------|-------------------------|-----------------|----------------------|------------------------|
| \$ 3,728,649 | \$ 109,187 | \$ -0- | \$ -0- | \$ 3,837,836 | \$ 1,276,724 |
| -0- | 956,048 | -0- | (96,836) | 859,212 | 90,926 |
| 3,076,808 | 1,258 | 132,872 | -0- | 3,210,938 | (91,841) |
| 3,380 | -0- | 70,297 | -0- | 73,677 | 16,501 |
| (9,539) | -0- | -0- | -0- | (9,539) | 9,539 |
| 59,012 | 2,460 | -0- | -0- | 61,472 | 58,339 |
| <u>6,858,310</u> | <u>1,068,953</u> | <u>203,169</u> | <u>(96,836)</u> | <u>8,033,596</u> | <u>1,360,188</u> |
| -0- | 957,161 | -0- | -0- | 957,161 | 102,758 |
| 564,597 | -0- | -0- | -0- | 564,597 | 15,035 |
| 554,924 | -0- | -0- | (15,125) | 539,799 | (72,023) |
| 320,451 | -0- | -0- | (14,170) | 306,281 | (35,555) |
| 439,930 | -0- | -0- | (3,490) | 436,440 | (27,233) |
| 193,161 | -0- | -0- | (47,035) | 146,126 | 33,969 |
| <u>2,073,063</u> | <u>957,161</u> | <u>-0-</u> | <u>(79,820)</u> | <u>2,950,404</u> | <u>16,951</u> |
| 2,765,141 | -0- | -0- | (17,016) | 2,748,125 | 178,039 |
| 19,475 | -0- | -0- | -0- | 19,475 | 2,403 |
| <u>2,784,616</u> | <u>-0-</u> | <u>-0-</u> | <u>(17,016)</u> | <u>2,767,600</u> | <u>180,442</u> |
| <u>4,857,679</u> | <u>957,161</u> | <u>-0-</u> | <u>(96,836)</u> | <u>5,718,004</u> | <u>197,393</u> |
| 2,000,631 | 111,792 | 203,169 | -0- | 2,315,592 | 1,162,795 |
| <u>27,330,477</u> | <u>1,182,889</u> | <u>3,320,998</u> | <u>-0-</u> | <u>31,834,364</u> | <u>2,315,592</u> |
| <u>\$ 29,331,108</u> | <u>\$ 1,294,681</u> | <u>\$3,524,167</u> | <u>\$ -0-</u> | <u>\$ 34,149,956</u> | <u>\$ 3,478,387</u> |



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