

CONSOLIDATED FINANCIAL STATEMENTS TOGETHER
WITH REPORT OF INDEPENDENT CERTIFIED PUBLIC
ACCOUNTANTS

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

December 31, 2003 and 2002

CONTENTS

	<u>Page</u>
Report of Independent Certified Public Accountants	1
Consolidated Financial Statements:	
Consolidated Statements of Financial Position as of December 31, 2003 and 2002	2
Consolidated Statements of Activities for the years ended December 31, 2003 and 2002	3
Consolidated Statements of Cash Flows for the years ended December 31, 2003 and 2002	4
Notes to Consolidated Financial Statements	5-17

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, 2003 and 2002, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Domestic and Foreign Missionary Society of the Protestant Episcopal Church in the United States of America and Affiliates as of December 31, 2003 and 2002, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

New York, New York
April 23, 2004

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, 2003 and 2002
(Dollar amounts in thousands)

	<u>ASSETS</u>	<u>2003</u>	<u>2002</u>
Assets:			
Current assets-			
Cash and cash equivalents		\$ 9,150	\$ 9,837
Accounts receivable:			
Diocesan commitments receivable, net		804	514
Loans receivable, net (Notes D and J)		1,497	3,296
Government grants		1,003	2,348
Other receivables		1,551	1,195
Investments (Note C) - funds held for the benefit of others		15,480	-
Inventory, net		308	309
Prepaid expenses and other		319	348
Total current assets		<u>30,112</u>	<u>17,847</u>
Investments (Note C):			
DFMS-controlled funds		257,649	214,459
Funds held for the benefit of others		62,885	67,514
Total investments		<u>320,534</u>	<u>281,973</u>
Property and equipment, net (Note E)		27,838	28,920
Loans receivable - noncurrent, net (Notes D and J)		3,335	2,672
Other assets		144	214
Beneficial interest in outside trusts		7,907	7,061
Total assets		<u>\$ 389,870</u>	<u>\$ 338,687</u>
	<u>LIABILITIES AND NET ASSETS</u>		
Liabilities:			
Current liabilities:			
Accounts payable and accrued expenses		\$ 7,606	\$ 6,121
Mortgage payable (Note F)		75	71
Grants payable		4,167	4,324
Funds held for the benefit of others		15,480	-
Total current liabilities		<u>27,328</u>	<u>10,516</u>
Mortgage payable, net of current installments (Note F)		2,104	2,176
Accrued post-retirement benefits other than pensions (Note H)		9,279	9,277
Funds held for the benefit of others		41,157	49,474
Funds held in a trustee relationship		22,227	18,504
Total liabilities		<u>102,095</u>	<u>89,947</u>
Contingencies (Note K)			
Net assets:			
Unrestricted:			
Available for general operations		73,125	54,826
Executive Council Designated Employee Benefit Program		3,243	3,243
Executive Council Designated Principal and Appreciation		67,730	59,401
Invested in property and equipment (Note E)		27,838	28,920
Total unrestricted		<u>171,936</u>	<u>146,390</u>
Temporarily restricted (Note I)		83,830	70,880
Permanently restricted		32,009	31,470
Total net assets		<u>287,775</u>	<u>248,740</u>
Total liabilities and net assets		<u>\$ 389,870</u>	<u>\$ 338,687</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, 2003 and 2002
(Dollar amounts in thousands)

	2003			2002			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other support:							
Diocesan commitments (Note J)	\$ 31,295	\$ -	\$ -	\$ 30,156	\$ -	\$ -	\$ 30,156
Contributions, bequests and grants	5,136	3,314	-	73	3,288	-	3,361
Investment return designated for current operations (Note C)	8,262	1,756	-	9,909	1,963	-	11,872
Other investment income	810	81	-	1,251	105	-	1,356
Government revenue, fees, sales and other	8,042	(3)	-	7,757	27	-	7,784
Episcopal Relief and Development	-	7,791	-	-	4,152	2	4,154
Net assets released from restrictions - satisfaction of program restrictions	18,336	(18,336)	-	13,561	(13,561)	-	-
Revenue from the Episcopal Church in Micronesia	6,247	-	(272)	6,172	-	(298)	5,881
Total revenues and other support	<u>78,128</u>	<u>(5,397)</u>	<u>(272)</u>	<u>68,886</u>	<u>(4,026)</u>	<u>(296)</u>	<u>64,564</u>
Expenses:							
Program services-							
Canonical and missional programs	37,219	-	-	37,641	-	-	37,641
General convention	3,502	-	-	1,955	-	-	1,955
Grant-related activities and other	6,445	-	-	5,958	-	-	5,958
Episcopal Relief and Development	7,951	-	-	11,141	-	-	11,141
Expenses from the Episcopal Church in Micronesia	6,580	-	-	6,756	-	-	6,756
Total program services	61,497	-	-	63,451	-	-	63,451
General and administrative	9,088	-	-	7,448	-	-	7,448
Total expenses	<u>70,585</u>	<u>-</u>	<u>-</u>	<u>70,899</u>	<u>-</u>	<u>-</u>	<u>70,899</u>
Change in net assets from operations	7,543	(5,397)	(272)	(2,013)	(4,026)	(296)	(6,335)
Non-operating activities:							
Investment return	27,075	20,184	-	(11,340)	(20,843)	-	(32,183)
Less: other investment income (loss)	810	81	(811)	1,251	105	1,094	2,450
Net investment gain (loss) - trust fund	26,265	20,103	811	(12,591)	(20,948)	(1,094)	(34,633)
Investment return designated for current operations	(8,262)	(1,756)	-	(9,909)	(1,963)	-	(11,872)
Total non-operating activities	<u>18,003</u>	<u>18,347</u>	<u>811</u>	<u>(22,500)</u>	<u>(22,911)</u>	<u>(1,094)</u>	<u>(46,505)</u>
Change in net assets	25,546	12,950	539	(24,513)	(26,937)	(1,390)	(52,840)
Net assets, beginning of year	146,390	70,880	31,470	170,903	97,817	32,860	301,580
Net assets, end of year	<u>171,936</u>	<u>83,830</u>	<u>32,009</u>	<u>146,390</u>	<u>70,880</u>	<u>31,470</u>	<u>248,740</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 CASH FLOWS

For the years ended December 31, 2003 and 2002
(Dollar amounts in thousands)

	<u>2003</u>	<u>2002</u>
Cash flows from operating activities:		
Change in net assets	\$ 39,035	\$ (52,840)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Non-cash items:		
Depreciation	1,408	1,481
Provision for bad debts	<u>1,003</u>	<u>360</u>
Total non-cash adjustments	<u>2,411</u>	<u>1,841</u>
Change in working capital:		
Increase in diocesan commitments receivable	(1,290)	(175)
Decrease (increase) in loans receivable	1,136	(397)
Decrease (increase) in government grants receivable	1,345	(1,368)
(Increase) decrease in other receivables	(356)	279
Decrease (increase) in inventory, prepaid expenses and other	30	(172)
Decrease (increase) in other assets	70	(81)
Increase in accounts payable and accrued expenses	1,485	341
Increase (decrease) in grants payable	<u>(157)</u>	<u>271</u>
Total change in working capital accounts	<u>2,263</u>	<u>(1,302)</u>
Change in investments:		
Net realized and unrealized (gains) losses on investments	<u>(44,795)</u>	<u>38,662</u>
Total change in investments	<u>(44,795)</u>	<u>38,662</u>
Other changes:		
Change in beneficial interests in outside trusts	(811)	1,094
Increase in accrued post-retirement benefits other than pensions	2	76
Permanently restricted contributions	-	(2)
Total other changes	<u>(809)</u>	<u>1,168</u>
Total change in working capital accounts and other	<u>(40,930)</u>	<u>40,369</u>
Net cash used in operating activities	<u>(1,895)</u>	<u>(12,471)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(326)	(830)
Proceeds from sales of investments	2,873	11,341
Purchases of investments	<u>(1,271)</u>	<u>(2,127)</u>
Net cash provided by investing activities	<u>1,276</u>	<u>8,384</u>
Cash flows from financing activities:		
Permanently restricted contributions	-	2
Principal payments on mortgage loan	<u>(68)</u>	<u>(55)</u>
Net cash used in financing activities	<u>(68)</u>	<u>(53)</u>
Net decrease in cash and cash equivalents	<u>(687)</u>	<u>(4,140)</u>
Cash and cash equivalents, beginning of year	<u>9,837</u>	<u>13,977</u>
Cash and cash equivalents, end of year	<u>\$ 9,150</u>	<u>\$ 9,837</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest during the year	<u>\$ 148</u>	<u>\$ 162</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, 2003 and 2002
(Dollar amounts in thousands)

NOTE A - ORGANIZATION AND NATURE OF ACTIVITIES

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

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

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

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

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, revenue and expenses is based on the existence or absence of donor-imposed restrictions. The amounts for each of three classes of net assets, permanently restricted, temporarily restricted and unrestricted, are displayed in 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, 2003 and 2002
(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 restriction.

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

2. *Cash and Cash Equivalents*

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

3. *Diocesan Commitments Receivable*

The Society provides for an allowance for uncollectible receivables based on an assessment of various factors, including historical information and current conditions. The allowance for uncollectible accounts was approximately \$2,000 and \$1,045 at December 31, 2003 and 2002, respectively.

4. *Investments*

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

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, 2003 and 2002
(Dollar amounts in thousands)

NOTE B (continued)

5. *Inventory*

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

6. *Property and Equipment*

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

7. *Beneficial Interest in Outside Trusts*

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

8. *Grants Payable*

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

9. *Funds Held for the Benefit of Others*

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

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, 2003 and 2002
(Dollar amounts in thousands)

NOTE B (continued)

10. Funds Held in a Trustee Relationship

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

11. Contributed Goods and Services

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

12. Fair Value of Financial Instruments

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

13. Income Taxes

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.

14. Use of Estimates

The preparation of the 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.

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, 2003 and 2002
(Dollar amounts in thousands)

NOTE C - INVESTMENTS

The total investments of approximately \$336,000 consist of \$287,000 in trust fund assets, \$13,000 in unit-trust and pooled income funds, \$29,000 in medium-term investments, \$4,000 in St. John's School (Guam) investments and \$3,000 in certificates of deposit with minority-controlled banks.

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

	Market Value		Cost	
	2003	2002	2003	2002
Common stock	<u>\$ 238,744</u>	<u>\$ 149,770</u>	<u>\$ 219,072</u>	<u>\$ 165,926</u>
Bonds:				
Corporate	32,021	40,367	30,935	40,354
Government	41,744	40,248	40,883	38,337
Other, primarily mutual bond funds	<u>8,909</u>	<u>12,147</u>	<u>8,821</u>	<u>12,060</u>
Total bonds	<u>82,674</u>	<u>92,762</u>	<u>80,639</u>	<u>90,751</u>
Mutual funds (primarily common stock and bonds)	8,628	10,385	9,346	12,137
Certificates of deposit	3,278	4,176	3,278	4,176
Other, primarily money market and other cash equivalents	<u>2,690</u>	<u>24,880</u>	<u>2,690</u>	<u>24,878</u>
Total investments	<u>336,014</u>	<u>281,973</u>	<u>315,025</u>	<u>297,868</u>
Funds held for others	<u>(78,365)</u>	<u>(67,514)</u>	<u>(75,004)</u>	<u>(72,115)</u>
Total DFMS-controlled funds	<u>\$ 257,649</u>	<u>\$ 214,459</u>	<u>\$ 240,021</u>	<u>\$ 225,753</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.

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 three-year moving average market value of the portfolio. Any return in excess of this percentage is reinvested to protect the real dollar value of these funds against the effects of inflation.

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, 2003 and 2002
(Dollar amounts in thousands)

NOTE C (continued)

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

	<u>2003</u>	<u>2002</u>
Interest and dividends	\$ 4,958	\$ 4,998
Realized and unrealized gain (loss)	<u>44,795</u>	<u>(38,662)</u>
Total investment income (loss)	49,753	(33,664)
Less: ERD investment income	<u>2,494</u>	<u>(1,481)</u>
Investment return	<u>\$ 47,259</u>	<u>\$(32,183)</u>

NOTE D - LOANS RECEIVABLE, NET

Loans receivable are comprised of the following at December 31:

	<u>2003</u>	<u>2002</u>
Construction loans to dioceses and missionary districts	\$ 1,208	\$ 3,174
Economic justice and community investment loans	3,099	2,097
Programmatic loans (community development banks)	1,223	1,373
Residential loans to employees	<u>238</u>	<u>262</u>
	5,768	6,906
Reserve for uncollectible accounts	<u>(936)</u>	<u>(938)</u>
	4,832	5,968
Less: Current portion	<u>1,497</u>	<u>3,296</u>
Long-term loan receivables	<u>\$ 3,335</u>	<u>\$ 2,672</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, 2003 and 2002
(Dollar amounts in thousands)

NOTE E - PROPERTY AND EQUIPMENT, NET

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

	<u>2003</u>	<u>2002</u>	<u>Useful Lives</u>
Land	\$ 7,635	\$ 7,736	-
Buildings and improvements	36,607	36,461	30
Other equipment and furnishings	<u>5,818</u>	<u>5,537</u>	5
	50,060	49,734	
Less: Accumulated depreciation	<u>(22,222)</u>	<u>(20,814)</u>	
Property and equipment, net	<u>\$ 27,838</u>	<u>\$ 28,920</u>	

Depreciation expense amounted to \$1,408 and \$1,481 for the years ended December 31, 2003 and 2002, respectively. In December 2003, management obtained an appraisal of certain Guam properties indicating that there had been a decline in the fair market value of the properties as of that date. The decrease in the fair market value of the Guam properties in Micronesia has been deemed to be temporary. In accordance with the FASB's Statement of Financial Accounting Standards No. 144, "*Accounting for the Impairment or Disposal of Long-Lived Assets*," the Society has not recognized a direct write down of carrying value in the consolidated statements of activities.

NOTE F - MORTGAGE PAYABLE

1. *Property*

In June 1998, the St. John's School (the "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 will be adjusted in February 2005 to a rate equal to the Federal Home Loan three-year fixed rate in effect for those dates plus 1.75%. The full balance of unpaid principal and accrued interest is due and payable in February 2008.

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, 2003 and 2002
(Dollar amounts in thousands)

NOTE F (continued)

Principal payments due under the mortgage for the years ended subsequent to December 31, 2003 are as follows:

2004	\$	75
2005		78
2006		82
2007		86
2008		<u>1,858</u>
Total payments due	\$	<u>2,179</u>

Interest expense amounted to \$148 and \$162 for the years ended December 31, 2003 and 2002, respectively.

2. *Line of Credit*

In March 2001, DFMS obtained a \$50,000 unsecured line of credit from Allied Irish, PLC to be used primarily to support Episcopal dioceses and other affiliated entities in their building and construction projects. As of December 31, 2003, no borrowings were outstanding under this line of credit. The line of credit bore interest at the bank's cost of funds plus .5% and expired on February 25, 2004.

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 \$705 and \$666 for the years ended December 31, 2003 and 2002, 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, 2003 and 2002
(Dollar amounts in thousands)

NOTE G (continued)

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 \$685 and \$660 for the years ended December 31, 2003 and 2002, 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 \$40 and \$42 for the years ended December 31, 2003 and 2002, respectively.

The School maintains a defined contribution pension plan. This plan covers all eligible employees of the School. Benefits under this plan are provided by fixed-dollar annuities issued by the Teachers Insurance and Annuity Association and by variable annuities offered by its companion organization, the College Retirement Equities Fund. The School contributes 5% of the gross base pay of its employees. After 10 years of employment, the School will increase its contribution by a graduated percentage rate (7%-17%) depending on the number of years of employment. Pension expense for this plan recognized in the accompanying consolidated financial statements amounted to \$222 and \$229 for the years ended December 31, 2003 and 2002, respectively.

NOTE H - ACCRUED POST-RETIREMENT BENEFITS OTHER THAN PENSIONS

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

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, 2003 and 2002
(Dollar amounts in thousands)

NOTE H (continued)

The following tables set forth the status of the plans as of December 31, 2003 and 2002:

	<u>2003</u>	<u>2002</u>
Change in benefit obligation:		
Benefit obligation, beginning of year	\$ 7,682	\$ 7,536
Service cost	221	240
Interest cost	468	500
Actuarial loss (gain)	1,547	(90)
Benefits paid	<u>(581)</u>	<u>(504)</u>
Benefit obligation, end of year	<u>\$ 9,337</u>	<u>\$ 7,682</u>
Components of accrued benefit cost:		
Funded status	\$ (9,337)	\$ (7,682)
Unrecognized actuarial net loss (gain)	<u>58</u>	<u>(1,595)</u>
Accrued benefit cost	<u>\$ (9,279)</u>	<u>\$ (9,277)</u>

The discount rates used in determining the accumulated post-retirement benefit obligations were 6.25% and 6.50% for the years ended December 31, 2003 and 2002, respectively. The assumed medical care cost trend rate used was 11.7% for the current year, decreasing gradually in the future years to 5.0% by fiscal year 2013 and remaining at that level thereafter. Increasing the assumed medical care cost trend rate by 1% in each year would increase the accumulated post-retirement benefit obligation as of December 31, 2003 by \$1,019 and increase the aggregate of the service cost and interest cost by \$130. Decreasing the assumed medical care cost trend rate by 1% in each year would decrease the accumulated post-retirement benefit obligation as of December 31, 2003 by \$865 and decrease the aggregate of the service cost and interest cost by \$107.

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, 2003 and 2002
(Dollar amounts in thousands)

NOTE H (continued)

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

The following benefit payments are expected to be paid:

2004	\$	648
2005		657
2006		660
2007		670
2008		680
Years 2009-2013		3,473

NOTE I - TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2003</u>	<u>2002</u>
Net earnings from endowment funds restricted as to use	\$ 44,263	\$ 35,309
Funds held in a trustee relationship	32,581	26,657
Episcopal Relief and Development	303	1,757
United Thank Offering and Episcopal Church Women Fund	3,022	3,317
Various program funds	<u>3,661</u>	<u>3,840</u>
Total temporarily restricted net assets	<u>\$ 83,830</u>	<u>\$ 70,880</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, 2003 and 2002
(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 \$31,000 and \$30,000 for the years ended December 31, 2003 and 2002, respectively. In addition, DFMS receives a significant portion of non-governmental fees from related parties as well, which totaled approximately \$3,600 and \$3,000 for the years ended December 31, 2003 and 2002, respectively. DFMS expended approximately \$31,000 and \$34,000 for the years ended December 31, 2003 and 2002, 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, 2003 and 2002, approximately \$1,200 and \$3,000, respectively, 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. Management expects that no material adjustments would result from such audits.

2. Refugee Loan Receivables and Collections

In connection with its cooperative agreements with the United States Government for refugee resettlement, the Society acts as the collection agent for travel loans made to refugees by the International Organization for Migration. In return for these services, the Society retains 25% of all loan collections as a recovery of its administrative costs incurred. As of December 31, 2003 and 2002, there were \$2,629 and \$3,276, 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, 2003 and 2002
(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.