

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, 2005 and 2004

CONTENTS

	<u>Page</u>
Report of Independent Certified Public Accountants	1
Consolidated Financial Statements:	
Consolidated Statements of Financial Position as of December 31, 2005 and 2004	2
Consolidated Statements of Activities for the years ended December 31, 2005 and 2004	3
Consolidated Statements of Cash Flows for the years ended December 31, 2005 and 2004	4
Notes to Consolidated Financial Statements	5-18

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, 2005 and 2004, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of the St. John's School, which statements reflect total assets and revenues constituting 3% and 6%, respectively, of the related consolidated totals as of December 31, 2005 and 2004. These statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for St. John's School, is based solely on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America as established by the Auditing Standards Board of the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Society's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated 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, 2005 and 2004, and the consolidated changes in their net assets and their consolidated cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note M to the accompanying consolidated financial statements, during 2005, the Society's management determined that certain previously reported net assets relating to St. John's School had not been properly classified. Accordingly, the Society's net asset balances have been reclassified at January 1, 2004.

Grant Thornton LLP

New York, New York
April 28, 2006

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, 2005 and 2004
(Dollar amounts in thousands)

	<u>ASSETS</u>	<u>2005</u>	<u>2004</u>
Assets:			
Current assets-			
Cash and cash equivalents		\$ 47,925	\$ 12,177
Accounts receivable:			
Diocesan commitments receivable, net (Note B)		1,283	1,185
Loans receivable, net (Notes D and J)		173	797
Government grants		248	662
Other receivables		1,738	1,895
Inventory, net		246	307
Prepaid expenses and other		330	304
Total current assets		<u>51,943</u>	<u>17,327</u>
Investments (Note C):			
DFMS-controlled funds		268,839	271,645
Funds held for the benefit of others		74,848	65,808
Total investments		<u>343,687</u>	<u>337,453</u>
Property and equipment, net (Note E)		47,923	29,526
Loans receivable - noncurrent, net (Notes D and J)		4,892	3,437
Other assets		156	150
Beneficial interest in outside trusts		7,727	8,169
Total assets		<u>\$ 456,328</u>	<u>\$ 396,062</u>
	<u>LIABILITIES AND NET ASSETS</u>		
Liabilities:			
Current liabilities:			
Accounts payable and accrued expenses		\$ 9,524	\$ 9,176
Mortgage payable (Note F)		105	78
Grants payable		1,917	3,205
Total current liabilities		<u>11,546</u>	<u>12,459</u>
Mortgage payable, net of current installments (Note F)		1,910	2,025
Notes payable (Note F)		27,000	-
Accrued post-retirement benefits other than pensions (Note H)		9,580	9,405
Funds held for the benefit of others		51,267	42,522
Funds held in a trustee relationship		24,097	23,793
Total liabilities		<u>125,400</u>	<u>90,204</u>
Contingencies (Note K)			
Net assets:			
Unrestricted:			
Available for general operations		75,469	74,158
Executive Council Designated Employee Benefit Program		3,180	3,243
Executive Council Designated Principal and Appreciation		80,691	78,252
Invested in property and equipment (Note E)		24,085	25,150
Total unrestricted		<u>183,425</u>	<u>180,803</u>
Temporarily restricted (Note I)		117,114	94,504
Permanently restricted		30,389	30,551
Total net assets		<u>330,928</u>	<u>305,858</u>
Total liabilities and net assets		<u>\$ 456,328</u>	<u>\$ 396,062</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, 2005 and 2004
(Dollar amounts in thousands)

	2005		2004	
	Unrestricted	Temporarily Restricted	Temporarily Restricted	Permanently Restricted
Revenues and other support:				
Diocesan commitments (Note J)	\$ 29,100	\$ -	\$ 29,100	\$ -
Contributions, bequests and grants	2,318	2,916	483	4,610
Investment return designated for current operations (Note C)	11,309	1,997	9,624	1,913
Other investment income	851	90	468	122
Government revenue	5,603	-	5,603	5,800
Fees, sales and other	2,271	1	2,272	2,409
Episcopal Relief and Development	-	38,095	-	2
Net assets released from restrictions - satisfaction of program restrictions	21,719	(21,719)	-	9,977
Revenue from the Episcopal Church in Micronesia	6,649	(1,363)	6,890	(14,350)
Total revenues and other support	<u>79,820</u>	<u>20,017</u>	<u>100,126</u>	<u>(287)</u>
			<u>68,003</u>	<u>(285)</u>
			<u>2,274</u>	<u>-</u>
			<u>27,979</u>	<u>27,979</u>
			<u>483</u>	<u>5,093</u>
			<u>9,624</u>	<u>11,537</u>
			<u>468</u>	<u>590</u>
			<u>5,800</u>	<u>5,800</u>
			<u>2,409</u>	<u>2,411</u>
			<u>-</u>	<u>9,979</u>
			<u>14,350</u>	<u>-</u>
			<u>6,890</u>	<u>6,603</u>
			<u>68,003</u>	<u>69,992</u>
			<u>36,810</u>	<u>32,003</u>
			<u>5,801</u>	<u>5,732</u>
			<u>1,975</u>	<u>1,481</u>
			<u>5,761</u>	<u>6,225</u>
			<u>13,185</u>	<u>5,433</u>
			<u>6,921</u>	<u>7,026</u>
			<u>70,453</u>	<u>57,900</u>
Expenses:				
Program services-				
Canonical and missional programs	36,810	-	36,810	-
Government expenses	5,801	-	5,801	-
General convention	1,975	-	1,975	-
Grant-related activities and other	5,761	-	5,761	-
Episcopal Relief and Development	13,185	-	13,185	-
Expenses from the Episcopal Church in Micronesia	6,921	-	6,921	-
Total program services	<u>70,453</u>	<u>-</u>	<u>70,453</u>	<u>-</u>
Supporting services-				
Fundraising	1,753	-	1,753	-
General and administrative	7,835	-	7,835	-
Total supporting services	9,588	-	9,588	-
Total expenses	<u>80,041</u>	<u>-</u>	<u>80,041</u>	<u>-</u>
Change in net assets from operations	(221)	20,017	1,362	(285)
Non-operating activities:				
Investment return	15,003	4,680	17,532	9,071
Less: Other investment income (loss)	851	90	468	122
Net investment gain (loss) - trust fund	14,152	4,590	17,064	8,949
Less: Investment return designated for current operations	(11,309)	(1,997)	(9,624)	(1,913)
Total nonoperating activities	2,843	2,593	7,440	7,036
Change in net assets	2,622	(162)	8,802	(29)
Net assets, beginning of year	180,803	94,504	171,936	83,830
Adjustments to opening net assets (Note M)	-	-	65	1,364
Net assets, end of year	<u>\$ 183,425</u>	<u>\$ 117,114</u>	<u>\$ 180,803</u>	<u>\$ 94,504</u>
			<u>30,551</u>	<u>32,009</u>
			<u>30,389</u>	<u>(1,429)</u>
			<u>305,858</u>	<u>303,858</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, 2005 and 2004
(Dollar amounts in thousands)

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Change in net assets	\$ 25,070	\$ 18,083
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Non-cash items:		
Depreciation	1,444	1,351
Provision for bad debts	<u>364</u>	<u>368</u>
Total non-cash adjustments	<u>1,808</u>	<u>1,719</u>
Change in working capital:		
Increase in diocesan commitments receivable	(462)	(381)
(Increase) decrease in loans receivable	(831)	700
Decrease in government grants receivable	414	341
Decrease (increase) in other receivables	157	(344)
Decrease in inventory, prepaid expenses and other	35	16
Increase in other assets	(6)	(6)
Increase in accounts payable and accrued expenses	348	1,570
Decrease in grants payable	<u>(1,288)</u>	<u>(962)</u>
Total change in working capital accounts	<u>(1,633)</u>	<u>934</u>
Change in investments:		
Net realized and unrealized gains on investments	<u>(13,476)</u>	<u>(23,892)</u>
Total change in investments	<u>(13,476)</u>	<u>(23,892)</u>
Other changes:		
Change in beneficial interests in outside trusts	442	(262)
Increase in accrued post-retirement benefits other than pensions	175	155
Permanently restricted contributions	<u>(1)</u>	<u>(2)</u>
Total other changes	<u>616</u>	<u>(109)</u>
Total change in working capital accounts and other	<u>(12,685)</u>	<u>(21,348)</u>
Net cash provided by (used in) operating activities	<u>12,385</u>	<u>(3,265)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(19,841)	(3,039)
Proceeds from sales of investments	17,222	9,529
Purchases of investments	<u>(931)</u>	<u>(124)</u>
Net cash (used in) provided by investing activities	<u>(3,550)</u>	<u>6,366</u>
Cash flows from financing activities:		
Permanently restricted contributions	1	2
Borrowing under line of credit	27,000	-
Principal payments on mortgage loan	<u>(88)</u>	<u>(76)</u>
Net cash provided by (used in) financing activities	<u>26,913</u>	<u>(74)</u>
Net increase in cash and cash equivalents	35,748	3,027
Cash and cash equivalents, beginning of year	<u>12,177</u>	<u>9,150</u>
Cash and cash equivalents, end of year	<u>\$ 47,925</u>	<u>\$ 12,177</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest during the year	<u>\$ 135</u>	<u>\$ 141</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, 2005 and 2004
(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.

In February 2002, the Executive Council approved the incorporation of Episcopal Relief and Development (“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 accordance with the Memorandum of Understanding between the Executive Council of the Episcopal Church and ERD.

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

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

The Society has been classified by the Internal Revenue Service as a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Therefore, no provision for income taxes has been made in the accompanying consolidated financial statements.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Basis of Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Accordingly, the classification of the Society’s net assets and its support, revenues and expenses are based on the existence or absence of donor-imposed restrictions. The amounts for each of three classes of net assets, permanently restricted, temporarily restricted and unrestricted, are displayed in the consolidated statements of financial position and the amounts of change in each of those classes of net assets are displayed in the consolidated statements of activities.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 2005 and 2004
(Dollar amounts in thousands)

NOTE B (continued)

Net assets consist of the following:

Unrestricted – Net assets that are neither permanently nor temporarily restricted by donor-imposed stipulations and, therefore, are available to carry out the Society's operations. Unrestricted net assets also include those net assets that are restricted as to their use by action of the Executive Council.

Temporarily Restricted – Net assets resulting from contributions and other inflows of assets whose use by the Society is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Society pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions. Temporarily restricted net assets are comprised primarily of funds designated for disaster relief and other specific diocesan programs at the Society.

Permanently Restricted – Net assets resulting from contributions and other inflows of assets whose use by the Society is limited in perpetuity by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of the Society. Permanently restricted net assets are comprised primarily of funds designated by the donor to be held in perpetuity for the purpose of supporting the operations of the Society.

2. *Cash and Cash Equivalents*

The Society considers all highly liquid investments with original maturities of less than three months to be cash or cash equivalents. Cash and cash equivalents include funds held for others of \$516 and \$507 at December 31, 2005.

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 \$300 and \$1,400 at December 31, 2005 and 2004, 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, 2005 and 2004
(Dollar amounts in thousands)

NOTE B (continued)

4. *Investments*

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

5. *Inventory*

Inventory is recorded at the lower of cost or market and is accounted for using the average cost method. Such inventory consists primarily of program-related literature and other materials. The allowance for obsolescence was approximately \$15 and \$2 at December 31, 2005 and 2004, respectively.

6. *Property and Equipment*

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

7. *Beneficial Interest in Outside Trusts*

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 2005 and 2004
(Dollar amounts in thousands)

NOTE B (continued)

8. Grants Payable

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

9. Funds Held for the Benefit of Others

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

10. Funds Held in a Trustee Relationship

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

11. Contributed Goods and Services

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.

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, 2005 and 2004
(Dollar amounts in thousands)

NOTE B (continued)

13. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosures of contingencies at the date of the financial statements and revenues and expenses recognized during the reporting period. It is the Society's policy to provide a specific reserve against loans and other amounts receivable which are deemed to have had an impairment in value. Actual results may differ from these estimates.

14. Reclassification

Certain reclassifications were made to the 2004 financial statement amounts to conform to the 2005 presentation.

NOTE C - INVESTMENTS

At December 31, 2005, the total investments of approximately \$344,000 consisted of \$298,000 in trust fund endowment assets, \$13,000 in unit-trust and pooled income funds, \$27,000 in medium-term investments, \$3,000 in St. John's School (Guam) investments and \$3,000 in certificates of deposit with minority-controlled banks. At December 31, 2004, the total investments of approximately \$337,000 consisted of \$289,000 in trust fund assets, \$13,000 in unit-trust and pooled income funds, \$28,000 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	
	2005	2004	2005	2004
Common stock	<u>\$ 239,925</u>	<u>\$ 237,659</u>	<u>\$ 208,444</u>	<u>\$ 207,004</u>
Bonds:				
Corporate	34,197	26,519	34,112	25,783
Government	42,714	44,336	42,279	43,465
Other, primarily mutual bond funds	<u>9,046</u>	<u>8,078</u>	<u>9,101</u>	<u>7,908</u>
Total bonds	<u>85,957</u>	<u>78,933</u>	<u>85,492</u>	<u>77,156</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, 2005 and 2004
(Dollar amounts in thousands)

NOTE C (continued)

	Market Value		Cost	
	2005	2004	2005	2004
Mutual funds (primarily common stock and bonds)	\$ 7,037	\$ 8,817	\$ 7,523	\$ 9,129
Certificates of deposit	2,600	2,700	2,600	2,700
Other, primarily money market and other cash equivalents	<u>8,168</u>	<u>9,344</u>	<u>8,156</u>	<u>9,343</u>
Total investments	343,687	337,453	312,215	305,332
Funds held for others	<u>(74,848)</u>	<u>(65,808)</u>	<u>(70,095)</u>	<u>(62,200)</u>
Total DFMS-controlled funds	<u>\$ 268,839</u>	<u>\$ 271,645</u>	<u>\$ 242,120</u>	<u>\$ 243,132</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 5.5%) of a five-year moving average market value of the portfolio. Any return in excess of this percentage is reinvested to protect the real dollar value of these funds against the effects of inflation.

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

	2005	2004
Interest and dividends	\$ 7,787	\$ 4,277
Realized and unrealized gains	<u>13,476</u>	<u>23,892</u>
Total investment income	21,263	28,169
Less: ERD investment income	<u>(1,580)</u>	<u>(1,566)</u>
Investment return	<u>\$ 19,683</u>	<u>\$ 26,603</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, 2005 and 2004
(Dollar amounts in thousands)

NOTE D - LOANS RECEIVABLE, NET

Loans receivable are comprised of the following at December 31:

	<u>2005</u>	<u>2004</u>
Construction loans to dioceses and missionary districts	\$ 989	\$ 915
Economic justice and community investment loans	4,549	3,588
Programmatic loans (community development banks)	-	491
Residential loans to employees	<u>48</u>	<u>63</u>
	5,586	5,057
Reserve for uncollectible accounts	<u>(521)</u>	<u>(823)</u>
	5,065	4,234
Less: Current portion	<u>(173)</u>	<u>(797)</u>
Long-term loans receivable	<u>\$ 4,892</u>	<u>\$ 3,437</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.

NOTE E - PROPERTY AND EQUIPMENT, NET

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

	<u>2005</u>	<u>2004</u>	<u>Useful Lives</u>
Land	\$ 7,635	\$ 7,635	-
Buildings and improvements	36,727	36,782	30
Other equipment and furnishings	6,755	6,409	5
Building renovations in progress	<u>21,823</u>	<u>2,273</u>	-
	72,940	53,099	
Less: Accumulated depreciation	<u>(25,017)</u>	<u>(23,573)</u>	
Property and equipment, net	<u>\$ 47,923</u>	<u>\$ 29,526</u>	

Depreciation expense amounted to \$1,444 and \$1,351 for the years ended December 31, 2005 and 2004, 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, 2005 and 2004
(Dollar amounts in thousands)

NOTE F - MORTGAGE PAYABLE

1. Property

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

Principal payments due under the mortgage for the years ended subsequent to December 31, 2005 are as follows:

2006	\$ 105
2007	111
2008	<u>1,799</u>
Total payments due	<u>\$ 2,015</u>

Interest expense amounted to \$135 and \$141 for the years ended December 31, 2005 and 2004, respectively.

2. Line of Credit

In December 2005, DFMS obtained a \$50 million line of credit, secured by DFMS's investment in unrestricted marketable securities, from the Bank of New York to be used primarily for working capital and other business purposes. As of December 31, 2005, \$27,000 was outstanding under this line of credit and is reflected on the accompanying consolidated statement of financial position as a note payable. The line of credit bears interest at rates based on the Prime Rate or the Eurodollar Rate of various maturities selected by DFMS at the time of each borrowing (4.75% at December 31, 2005).

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, 2005 and 2004
(Dollar amounts in thousands)

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 \$736 and \$722 for the years ended December 31, 2005 and 2004, respectively.

DFMS is a participant in a separate pension plan administered by the Church Pension Fund (an independent organization) that provides pension benefits to all ordained clergy of the Episcopal Church, including those who hold positions within DFMS. Pension expense for this plan recognized in the accompanying consolidated financial statements amounted to \$912 and \$748 for the years ended December 31, 2005 and 2004, 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 \$37 and \$39 for the years ended December 31, 2005 and 2004, respectively.

The St. John's School maintains a defined contribution pension plan. This plan covers all eligible employees of the St. John's School. Benefits under this plan are provided by fixed-dollar annuities issued by the Teachers Insurance and Annuity Association and by variable annuities offered by its companion organization, the College Retirement Equities Fund. The St. John's School contributes 5% of the gross base pay of its employees. After 10 years of employment, the St. John's School will increase its contribution by a graduated percentage rate (7%-17%) depending on the number of years of employment. Pension expense for this plan recognized in the accompanying consolidated financial statements amounted to \$182 and \$238 for the years ended December 31, 2005 and 2004, 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, 2005 and 2004
(Dollar amounts in thousands)

NOTE H - ACCRUED POST-RETIREMENT BENEFITS OTHER THAN PENSIONS

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

The following tables set forth the status of the plans and the components of net periodic benefit cost as of December 31, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Change in benefit obligation:		
Benefit obligation, beginning of year	\$ 7,131	\$ 9,337
Service cost	326	304
Interest cost	425	399
Actuarial gain	(552)	(2,555)
Benefits paid	<u>(415)</u>	<u>(354)</u>
Benefit obligation, end of year	<u>\$ 6,915</u>	<u>\$ 7,131</u>
Components of accrued benefit cost:		
Funded status	\$ (6,915)	\$ (7,131)
Unrecognized actuarial net gain	<u>(2,665)</u>	<u>(2,274)</u>
Accrued benefit cost	<u>\$ (9,580)</u>	<u>\$ (9,405)</u>
Components of net periodic benefit cost:		
Service cost	\$ 326	\$ 304
Interest cost	425	399
Amortization of gain	<u>(161)</u>	<u>(354)</u>
Net periodic benefit cost for fiscal year 1/1/2005 to 12/31/2005	<u>\$ 590</u>	<u>\$ 349</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, 2005 and 2004
(Dollar amounts in thousands)

NOTE H (continued)

The discount rates used in determining the accumulated post-retirement benefit obligations was 6% for both the years ended December 31, 2005 and 2004. The assumed medical care cost trend rate used was 8.5% 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, 2005 by \$864 and increase the aggregate of the service cost and interest cost by \$117. 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, 2005 by \$721 and decrease the aggregate of the service cost and interest cost by \$95.

On December 8, 2003, legislation reforming Medicare and introducing the Medicare Part D prescription drug program was signed into law. During fiscal 2005, the Society's actuaries have reflected the impact of this legislation in their calculations which are immaterial.

The following benefit payments are expected to be paid:

2006	\$ 414
2007	431
2008	443
2009	453
2010	471
Years 2011-2014	<u>2,768</u>
Total	<u>\$ 4,980</u>

NOTE I - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets include the following as of December 31, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Net cumulative earnings from endowment funds restricted as to use	\$ 48,882	\$ 48,352
Program-specific fund	35,295	34,878
Guam – School Scholarships	1,424	1,364
Episcopal Relief and Development	24,692	3,568
United Thank Offering and Episcopal Church Women Fund	3,031	2,943
Various program funds	<u>3,790</u>	<u>3,399</u>
Total temporarily restricted net assets	<u>\$ 117,114</u>	<u>\$ 94,504</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, 2005 and 2004
(Dollar amounts in thousands)

NOTE J - RELATED PARTIES

The Episcopal Church is an unincorporated association governed by the General Convention. It carries out its administrative, finance and other program activities through DFMS, a New York corporation. DFMS is governed by the Executive Council whose members are elected by the General Convention and the Provinces. The Executive Council acts as the General Convention between meetings. DFMS engages in financial transactions with both foreign and domestic entities affiliated with the Episcopal Church and the Worldwide Anglican Communion. DFMS receives its principal financial support in the form of Diocesan commitments, which totaled approximately \$29,000 and \$28,000 for the years ended December 31, 2005 and 2004, respectively. In addition, DFMS receives a significant portion of non-governmental fees from related parties as well, which totaled approximately \$3,000 and \$2,400 for the years ended December 31, 2005 and 2004, respectively. DFMS expended approximately \$39,000 and \$30,000 for the years ended December 31, 2005 and 2004, 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, 2005 and 2004, approximately \$1,000 and \$1,000, respectively, represent loans to related entities which bear interest at rates ranging from 3.0% to 8.0% per annum.

NOTE K - CONTINGENCIES

1. *Building Renovation*

The Society entered into contracts totaling an estimated \$31,800 for asbestos abatement and renovation of the Society's headquarters offices in New York City. In January 2006, the renovation budget was amended by the Executive Council not to exceed \$34,000. Through December 31, 2005, the Society has incurred \$21,800 of the total contract amount and is committed to up to an additional \$12,200 to complete the project.

2. *Government Funding*

The Society enters into contracts with agencies of the United States Government under which the government provides funding for various refugee resettlement activities carried on by the Society in the United States and in other countries. The expenditures of these funds by the Society and its affiliated organizations are subject to audit by the federal government. Management expects that no material adjustments would result from such audits.

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, 2005 and 2004
(Dollar amounts in thousands)

NOTE K (continued)

3. Refugee Loan Receivables and Collections

In connection with its cooperative agreements with the United States Government for refugee resettlement, the Society acts as the collection agent for travel loans made to refugees by the International Organization for Migration. In return for these services, the Society retains 25% of all loan collections as a recovery of its administrative costs incurred. As of December 31, 2005 and 2004, there were \$3,699 and \$3,060, respectively, of refugee loans outstanding.

4. Litigation

The Society is subject to various claims and legal proceedings that arise in the course of ordinary business activities. The Society is not aware of any pending litigation which will have a material adverse effect on the consolidated financial statements.

NOTE L - EPISCOPAL RELIEF AND DEVELOPMENT

The following represents summarized financial information for ERD for the years ended December 31, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Revenue:		
Contributions	\$ 36,520	\$ 9,821
Investments and other	<u>1,576</u>	<u>158</u>
Total	<u>38,096</u>	<u>9,979</u>
Expenses:		
Program	\$ 13,185	\$ 5,433
Fundraising	1,753	1,290
General and administration	<u>1,511</u>	<u>961</u>
Total	<u>\$ 16,449</u>	<u>\$ 7,684</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, 2005 and 2004
(Dollar amounts in thousands)

NOTE M - ADJUSTMENTS TO OPENING NET ASSETS

During fiscal 2005, the Society's management determined that certain prior year net asset balances relating to St. John's School had not properly reflected the activity in the Society's fiscal 2004 audited financial statements from a donor changing the restriction placed on his gift in 2001. Consequently, the Society has reclassified its net asset balances at January 1, 2004.