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

As of December 31, 2002 and 2001

CONTENTS

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 statement 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, 2002, and the related consolidated statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Society as of and for the year ended December 31, 2001 were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those financial statements in their report dated April 24, 2002.

We conducted our audit 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 audit provides 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, 2002, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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April 22, 2003

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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, 2002 and 2001
(Dollar amounts in thousands)

ASSETS	2002	2001
Assets:		
Current assets-		
Cash and cash equivalents	$ 9,837	$ 13,977
Accounts receivable-		
Diocesan covenants receivable, net	514	699
Loans receivable, net (Note D)	3,296	1,208
Government grants	2,348	980
Other receivables	1,195	1,474
	7,353	4,361
Inventory, net	309	309
Prepaid expenses and other	348	176
Total current assets	17,847	18,823
Investments (Note C)-		
DFMS funds	214,459	262,336
Funds held for the benefit of others	67,514	75,506
	281,973	337,842
Property and equipment, net (Note E)	28,920	29,571
Loans receivable – noncurrent, net (Note D)	2,672	4,363
Other assets	214	134
Beneficial interests in outside trusts	7,061	8,218
Total assets	$ 338,687	$ 398,951

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (continued)

As of December 31, 2002 and 2001
(Dollar amounts in thousands)

LIABILITIES AND NET ASSETS	2002	2001
Liabilities:		
Current liabilities-		
Accounts and accrued expenses payable	$ 6,121	$ 5,780
Mortgage payable (Note F)	71	42
Grants payable	4,324	4,053
Total current liabilities	10,516	9,875
Mortgage payable, net of current installments (Note F)	2,176	2,260
Accrued post-retirement benefits other than pensions (Note H)	9,277	9,201
Funds held for the benefit of others	49,474	52,784
Funds held in a trustee relationship	18,504	23,251
Total liabilities	89,947	97,371
Contingencies (Note K)		
Net assets:		
Unrestricted-		
Available for general operations	54,826	72,602
Executive Council Designated Employee Benefit Program (Note G)	3,243	3,243
Executive Council Designated Principal and Appreciation	59,401	65,487
Invested in property and equipment	28,920	29,571
Total unrestricted	146,390	170,903
Temporarily restricted	70,880	97,817
Permanently restricted	31,470	32,860
Total net assets	248,740	301,580
Total liabilities and net assets	$ 338,687	$ 398,951

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, 2002 and 2001
(Dollar amounts in thousands)

	2002				2001			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other support:								
Diocesan commitments	$ 30,156	$ -	$ -	$ 30,156	$ 29,028	$ -	$ -	$ 29,028
Contributions, bequests and grants	73	3,288	-	3,361	108	3,061	125	3,294
Investment return designated for current operations (Note C)	9,909	1,963	-	11,872	9,079	1,942	-	11,021
Other investment income	1,251	105	-	1,356	2,618	197	-	2,815
Government revenue, fees, sales and other	7,757	27	-	7,784	7,788	8	-	7,796
Episcopal Relief and Development	-	4,152	2	4,154	-	11,095	2	11,097
Net assets released from restrictions-	-	-	-	-	-	-	-	-
Satisfaction of program restrictions	13,561	(13,561)	-	-	18,385	(18,385)	-	-
Revenue from the Episcopal Church Micronesia	6,179	-	(298)	5,881	5,633	-	3	5,636
Total revenues and other support	68,886	(4,026)	(296)	64,564	72,639	(2,082)	130	70,687
Expenses:								
Program services-								
Canonical and missional programs	37,641	-	-	37,641	36,063	-	-	36,063
General convention	1,955	-	-	1,955	1,765	-	-	1,765
Grant-related activities and other	5,958	-	-	5,958	6,586	-	-	6,586
Episcopal Relief and Development	11,141	-	-	11,141	12,770	-	-	12,770
Expenses from the Episcopal Church Micronesia	6,756	-	-	6,756	6,462	-	-	6,462
Total program services	63,451	-	-	63,451	63,646	-	-	63,646
General and administrative	7,448	-	-	7,448	7,400	-	-	7,400
Total expenses	70,899	-	-	70,899	71,046	-	-	71,046
Change in net assets from operations	(2,013)	(4,026)	(296)	(6,335)	1,593	(2,082)	130	(359)
Non-operating activities:								
Investment return	(11,340)	(20,843)	-	(32,183)	(1,755)	(12,020)	-	(13,775)
Less - other investment income	1,251	105	1,094	2,450	2,618	197	855	3,670
Net investment loss -- trust fund	(12,591)	(20,948)	(1,094)	(34,633)	(4,373)	(12,217)	(855)	(17,445)
Investment return designated for current operations	(9,909)	(1,963)	-	(11,872)	(9,079)	(1,942)	-	(11,021)
Total non-operating activities	(22,500)	(22,911)	(1,094)	(46,505)	(13,452)	(14,159)	(855)	(28,466)
Change in net assets	(24,513)	(26,937)	(1,390)	(52,840)	(11,859)	(16,241)	(725)	(28,825)
Net assets, beginning of year	170,903	97,817	32,860	301,580	182,762	114,058	33,585	330,405
Net assets, end of year	$ 146,390	$ 70,880	$ 31,470	$ 248,740	$ 170,903	$ 97,817	$ 32,860	$ 301,580

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, 2002 and 2001
(Dollar amounts in thousands)

	2002	2001
Cash flows from operating activities:		
Change in net assets	$ (52,840)	$ (28,825)
Adjustments to reconcile change in net assets to net cash used in operating activities-		
Non-cash items-		
Depreciation	1,481	1,478
Provision for bad debts	360	360
Total non-cash adjustments	1,841	1,838
Change in working capital-		
Increase in Diocesan covenants receivable	(175)	(436)
(Decrease) increase in loans receivable	(397)	1,292
Increase in government grants receivable	(1,368)	(161)
Increase (decrease) in other receivables	279	(156)
Increase in inventory	-	59
(Increase) decrease in prepaid expenses and other	(172)	82
Increase in other assets	(81)	(7)
Increase (decrease) in accounts and accrued expenses payable	341	(1,351)
Increase (decrease) in grants payable	271	(392)
Total change in working capital accounts	(1,302)	(1,070)
Change in investments-		
Net realized and unrealized depreciation in fair value of investments	38,662	20,655
Total change in investments	38,662	20,655
Other changes-		
Change in beneficial interests in outside trusts	1,094	855
(Decrease) increase in accrued post-retirement benefits other than pensions	76	43
Permanently restricted contributions	(2)	(130)
Total other changes	1,168	768
Total change in working capital accounts	40,369	22,191
Net cash used in operating activities	(12,471)	(6,634)
Cash flows from investing activities:		
Purchases of property and equipment	(830)	(576)
Proceeds from sales of investments	11,341	10,291
Purchases of investments, net	(2,127)	(6)
Net cash provided by investing activities	8,384	9,709
Cash flows from financing activities:		
Permanently restricted contributions	2	130
Principal payments on mortgage loan	(55)	(42)
Net cash (used in) provided by financing activities	(53)	88
Net (decrease) increase in cash and cash equivalents	(4,140)	3,163
Cash and cash equivalents, beginning of year	13,977	10,814
Cash and cash equivalents, end of year	$ 9,837	$ 13,977
Supplemental disclosure of cash flow information:		
Cash paid for interest during the year	$ 162	$ 175

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001
(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"), previously reported as a program under DFMS, 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 inter-company transactions are eliminated upon consolidation. These entities 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

The significant accounting policies employed by the Society are described below:

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 statements of financial position and the amounts of change in each of those classes of net assets are displayed in statements of activities.

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, available to carry out the Society's operations. Unrestricted net assets also include those net assets that are designated 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 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 statements of activities.

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 with the passage of time nor can be fulfilled by actions of the Society.

2. *Cash and Cash Equivalents*

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

3. *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 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.

NOTE B (continued)

4. *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.

5. *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.

6. *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 statement of activities as a change in beneficial interest in outside trusts.

7. *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.

8. *Diocesan Covenants 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 uncollectable accounts was approximately $1,045 and $731 at December 31, 2002 and 2001, respectively.

NOTE B (continued)

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.

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 other specific third-party beneficiaries.

11. *Use of Estimates*

Accounting principles generally accepted in the United States of America require the use of estimates and assumptions that affect the amounts reported by the Society. 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.

12. *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 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.

13. *Fair Value of Financial Instruments*

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 2002 and 2001
(Dollar amounts in thousands)

NOTE B (continued)

14. Income Taxes

The Society is 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.

15. Reclassifications

Certain line items in the 2001 consolidated financial statements have been reclassified to conform to the 2002 presentation.

NOTE C - INVESTMENTS

Investments are carried at market value and are comprised of the following:

	Market Value		Cost	
	2002	2001	2002	2001
Common stock	$ 149,770	$ 201,084	$ 165,926	$ 190,564
Bonds:				
Corporate	40,367	43,099	40,354	42,278
Government	40,248	47,729	38,337	46,918
Other, primarily mutual bond funds	12,147	10,186	12,060	10,071
Total bonds	92,762	101,014	90,751	99,267
Mutual funds (mostly common stock and bonds)	10,385	8,132	12,137	9,590
Certificates of deposit	4,176	4,339	4,176	4,337
Other, primarily money market and other cash equivalents	24,880	23,273	24,878	23,268
Total investments	$ 281,973	$ 337,842	$ 297,868	$ 327,026

The Society's investments of approximately $282,000 consist of $233,000 in trust fund endowment assets, $13,000 in uni-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.

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.

(Dollar amounts in thousands)

NOTE C (continued)

The Society follows the "Total Return Approach" to investments whereby it applies a prudent portion of the realized and unrealized returns on investments to meet current designated and undesignated expenditures. Total return consists of two elements: yield and appreciation. Based on the Society's long-term investment strategy, the Executive Council sets the payout rate on the investments 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.

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

	2002	2001
Interest and dividends	$ 4,998	$ 6,393
Net realized and unrealized depreciation in fair value of investments	(38,662)	(20,655)
	(33,664)	(14,262)
Less- ERD investment income	1,481	487
Investment return	$ (32,183)	$ (13,775)

NOTE D - LOANS RECEIVABLE

Loans receivable are comprised of the following at December 31:

	2002	2001
Construction loans to dioceses and missionary districts	$ 3,174	$ 3,058
Economic justice and community investment loans	2,097	1,778
Programmatic loans (community development banks)	1,373	1,373
Residential loans to employees	262	311
	6,906	6,520
Reserve for uncollectible accounts	(938)	(949)
	5,968	5,571
Less- Current portion	3,296	1,208
Long-term loans receivable	$ 2,672	$ 4,363

Such loans bear interest in varying amounts ranging from 1.0% to 8.0% and are payable as installment loans or on demand. These loans are generally unsecured.

(Dollar amounts in thousands)

NOTE E - PROPERTY AND EQUIPMENT, NET

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

	2002	2001	Useful Lives
Land	$ 7,736	$ 7,736	-
Buildings and improvements	36,461	36,074	30
Other equipment and furnishings	5,537	5,094	5
	49,734	48,904	
Less- Accumulated depreciation	(20,814)	(19,333)	
Property and equipment, net	$ 28,920	$ 29,571	

Depreciation expense amounted to $1,481 and $1,478 for the years ended December 31, 2002 and 2001, respectively.

NOTE F - MORTGAGE PAYABLE

1. *Property*

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

Principal payments due under the mortgage for the years ended subsequent to December 31, 2002 are as follows:

2003	$ 71
2004	75
2005	78
2006	82
2007	86
2008 and thereafter	1,855
Total payments due	$ 2,247

NOTE F (continued)

Interest expense amounted to $162 and $175 for the years ended December 31, 2002 and 2001, 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, 2002, no borrowings were outstanding under this line of credit. The line of credit bears interest at the bank's cost of funds plus .5% and expires on February 26, 2003. This line was subsequently extended to February 25, 2004 under the same terms and conditions.

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 $666 and $614 for the years ended December 31, 2002 and 2001, 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 $660 and $623 for the years ended December 31, 2002 and 2001, 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 $42 and $44 for the years ended December 31, 2002 and 2001, respectively.

(Dollar amounts in thousands)

NOTE G (continued)

The St. John's School (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 $229 and $222 for the years ended December 31, 2002 and 2001, respectively.

NOTE H - 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 following tables set forth the status of the plans as of December 31, 2002 and 2001:

	2002	2001
Change in benefit obligation:		
Benefit obligation, beginning of year	$ 7,536	$ 7,522
Service cost	240	208
Interest cost	500	490
Actuarial (gain) loss	(90)	(174)
Benefits paid	(504)	(510)
Benefit obligation, end of year	$ 7,682	$ 7,536
Components of accrued benefit cost:		
Funded status	$ (7,682)	$ (7,536)
Unrecognized actuarial net gain	(1,595)	(1,665)
Accrued benefit cost	$ (9,277)	$ (9,201)

(Dollar amounts in thousands)

NOTE H (continued)

The net periodic post-retirement benefit cost for the years ended December 31, 2002 and 2001 includes the following components:

	2002	2001
Service cost of benefits earned	$ 240	$ 208
Interest cost on accumulated post-retirement benefit obligation	500	490
Amortization of unrecognized actuarial gain	(90)	(251)
Net periodic post-retirement benefit cost	$ 650	$ 447

The discount rate used in determining the accumulated post-retirement benefit obligation was 6.5% for the years ended December 31, 2002 and 2001, respectively. The assumed medical care cost trend rate used was 8.0% for the current year, decreasing gradually in the future years to 5.5% by fiscal year 2007 and remaining at that level thereafter. The assumed dental care cost trend rate used was 6.5% for the current year, decreasing gradually to 5.0% by fiscal 2007 and remaining at that level thereafter. Increasing the assumed medical and dental care cost trend rate by 1% in each year would increase the accumulated post-retirement benefit obligation as of December 31, 2002 by $980 and increase the aggregate of the service cost and interest cost by $104. Decreasing the assumed medical and dental care cost trend rate by 1% in each year would decrease the accumulated post-retirement benefit obligation as of December 31, 2002 by $930 and decrease the aggregate of the service cost and interest cost by $97.

NOTE I - TEMPORARILY RESTRICTED NET ASSETS

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

	2002	2001
Net earnings from endowment funds restricted as to use	$ 35,309	$ 50,834
Funds held in a trustee relationship	26,657	34,793
Episcopal Relief and Development	1,757	5,713
United Thank Offering and Episcopal Church Women Fund	3,317	3,019
Various program funds	3,840	3,458
Total temporarily restricted net assets	$ 70,880	$ 97,817

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 or 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 $30,000 and $29,000 for the years ended December 31, 2002 and 2001, respectively. In addition, DFMS receives a significant portion of non-governmental fees from related parties as well, which totaled approximately $3,000 for the years ended December 31, 2002 and 2001. DFMS expended approximately $34,000 and $36,000, respectively, for the years ended December 31, 2002 and 2001, 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, 2002 and 2001, approximately $3,000 represent loans made 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, 2002 and 2001, there were $3,276 and $3,885, respectively, of refugee loans outstanding.

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 accompanying consolidated financial statements.