CONSOLIDATED FINANCIAL STATEMENTS AND OMB CIRCULAR A-133
SUPPLEMENTARY INFORMATION TOGETHER WITH
REPORTS 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, 2009 and 2008

C O N T E N T S

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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, 2009 and 2008, 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 2%, respectively, and 7% and 7% respectively, of the related consolidated totals as of December 31, 2009 and 2008. These statements were audited by other auditors whose report has 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated 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 consolidated 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 Society as of December 31, 2009 and 2008, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 27, 2010, on our consideration of the Society's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Society's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements of the Society as of and for the years ended December 31, 2009 and 2008, taken as a whole. The accompanying schedule of expenditures of federal awards for the year ended December 31, 2009 is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations,* and is not a required part of the basic 2009 consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic 2009consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic 2009 consolidated financial statements taken as a whole.

Grant Thornton LLP

New York, New York
May 27, 2010

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, 2009 and 2008
(Dollar amounts in thousands)

ASSETS	**2009**	2008
Current assets:		
Cash and cash equivalents	**$ 10,385**	$ 11,052
Receivables:		
Diocesan commitments receivable, net (Note B)	**3,265**	1,311
Loans receivable, net (Note E)	**1,377**	580
Government grants	**1,438**	1,215
Other receivables, net (Note D)	**7,202**	9,113
Collateral received under securities loan agreement (Note C)	**20,295**	61,780
Inventory, net (Note B)	**138**	138
Prepaid expenses and other	**424**	301
Total current assets	**44,524**	85,490
Investments (Note C):		
DFMS-controlled funds	**238,104**	205,851
Funds held for the benefit of others	**76,773**	66,612
Total investments	**314,877**	272,463
Property and equipment, net (Note F)	**61,217**	53,774
Loans receivable - noncurrent, net (Note E)	**3,882**	4,253
Other assets	**170**	170
Beneficial interest in outside trusts (Note B)	**7,076**	6,026
Total assets	**$ 431,746**	$ 422,176
LIABILITIES AND NET ASSETS		
Liabilities:		
Current liabilities:		
Accounts payable and accrued expenses	**$ 11,817**	$ 8,624
Payable under securities loan agreement (Note C)	**20,295**	61,780
Grants payable	**1,500**	1,017
Mortgage payable (Note G)	**71**	106
Accrued postretirement benefits other than pensions (Note I)	**697**	609
Total current liabilities	**34,380**	72,136
Notes payable (Note G)	**46,788**	37,500
Mortgage payable, net of current installments (Note G)	**2,557**	1,590
Accrued postretirement benefits other than pensions, net of current portion (Note I)	**9,521**	8,623
Annuities payable	**465**	397
Funds held for the benefit of others	**55,686**	48,585
Funds held in a trustee relationship	**21,087**	18,027
Total liabilities	**170,484**	186,858
Contingencies (Note M)		
Net assets (Note K):		
Unrestricted:		
Available for general operations	**30,840**	43,409
Executive Council Designated Employee Benefit Program	**2,926**	3,180
Executive Council Designated Principal and Appreciation	**85,580**	79,106
Invested in property and equipment	**37,045**	21,601
Total unrestricted	**156,391**	147,296
Temporarily restricted (Note J)	**74,737**	58,800
Permanently restricted	**30,134**	29,222
Total net assets	**261,262**	235,318
Total liabilities and net assets	**$ 431,746**	$ 422,176

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

CONSOLIDATED STATEMENTS OF ACTIVITIES

For the years ended December 31, 2009 and 2008
(Dollar amounts in thousands)

	2009				2008			
	Unrestricted	Temporarily Restricted	Permanently Restricted	**Total**	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other support:								
Diocesan commitments (Note L)	$ 30,216	$ -	$ -	**$ 30,216**	$ 30,390	$ -	$ -	$ 30,390
Contributions and bequests	688	2,700	-	**3,388**	431	3,799	31	4,261
Contributed services	932	-	-	**932**	1,015	-	-	1,015
Investment return designated for current operations (Note C)	9,296	1,970	-	**11,266**	9,851	1,966	-	11,817
Other investment income	920	225	-	**1,145**	1,609	289	-	1,898
Government revenue	11,388	-	-	**11,388**	9,491	-	-	9,491
Fees, sales and other	4,486	-	-	**4,486**	4,751	(3)	-	4,748
Episcopal Relief and Development (Note N)	-	19,499	(1)	**19,498**	-	18,263	-	18,263
Net assets released from restrictions	24,555	(24,555)	-	**-**	36,543	(36,543)	-	-
Revenue from the Episcopal Church in Micronesia	6,250	-	(69)	**6,181**	6,921	-	(35)	6,886
Total revenues and other support	88,731	(161)	(70)	**88,500**	101,002	(12,229)	(4)	88,769
Expenses:								
Program services-								
Canonical and missional programs	48,164	-	-	**48,164**	47,740	-	-	47,740
General convention	4,296	-	-	**4,296**	2,309	-	-	2,309
Grant-related activities and other	5,961	-	-	**5,961**	7,481	-	-	7,481
Episcopal Relief and Development (Note N)	16,770	-	-	**16,770**	25,571	-	-	25,571
Expenses from the Episcopal Church in Micronesia	7,450	-	-	**7,450**	7,582	-	-	7,582
Total program services	82,641	-	-	**82,641**	90,683	-	-	90,683
Supporting services-								
Fundraising	2,178	-	-	**2,178**	2,743	-	-	2,743
General and administrative	11,085	-	-	**11,085**	10,586	-	-	10,586
Total supporting services	13,263	-	-	**13,263**	13,329	-	-	13,329
Total expenses	95,904	-	-	**95,904**	104,012	-	-	104,012
Changes in net assets from operations	(7,173)	(161)	(70)	**(7,404)**	(3,010)	(12,229)	(4)	(15,243)
Nonoperating activities:								
Investment return (loss) (Note C)	23,829	18,293	-	**42,122**	(40,403)	(48,200)	-	(88,603)
Less: Other investment income (loss)	(1,268)	225	(982)	**(2,025)**	1,609	289	2,343	4,241
Net investment (loss) gain - trust fund	25,097	18,068	982	**44,147**	(42,012)	(48,489)	(2,343)	(92,844)
Less: Investment return designated for current operations (Note C)	9,296	1,970	-	**11,266**	(9,851)	(1,966)	-	(11,817)
Total nonoperating activities	15,801	16,098	982	**32,881**	(51,863)	(50,455)	(2,343)	(104,661)
Changes in net assets	8,628	15,937	912	**25,477**	(54,873)	(62,684)	(2,347)	(119,904)
Postretirement related charges other than net periodic pension cost (Note I)	467	-	-	467	295	-	-	295
Changes in net assets	9,095	15,937	912	**25,944**	(54,578)	(62,684)	(2,347)	(119,609)
Net assets, beginning of year	147,296	58,800	29,222	**235,318**	201,874	121,484	31,569	354,927
Net assets, end of year	$ 156,391	$ 74,737	$ 30,134	**$ 261,262**	$ 147,296	$ 58,800	$ 29,222	$ 235,318

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, 2009 and 2008
(Dollar amounts in thousands)

	2009	2008
Cash flows from operating activities:		
Changes in net assets	**$ 25,944**	$ (119,609)
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Noncash items:		
Depreciation	**2,919**	2,953
Bad debt expense	**(63)**	176
Total noncash adjustments	**2,856**	3,129
Change in working capital:		
Increase in diocesan commitments receivable	**(1,954)**	(274)
(Decrease) increase in loans receivable	**(426)**	832
(Increase) decrease in government grants receivable	**(223)**	280
Decrease (increase) in other receivables	**1,974**	(2,882)
(Increase) decrease in inventory, prepaid expenses and other	**(123)**	332
Increase in other assets	**-**	(1)
Increase in accounts payable and accrued expenses	**3,193**	1,396
Increase (decrease) in grants payable	**483**	(452)
Total change in working capital accounts	**2,924**	(769)
Change in investments:		
Net realized and unrealized (gains) losses on investments	**(40,064)**	101,810
Total change in investments	**(40,064)**	101,810
Other changes:		
Change in value of beneficial interests in outside trusts	**(982)**	2,343
Increase in accrued postretirement benefits other than pensions	**986**	615
Permanently restricted contributions	**1**	(31)
Total other changes	**5**	2,927
Total change in working capital accounts and other	**(34,279)**	107,097
Net cash used in operating activities	**(8,335)**	(12,512)
Cash flows from investing activities:		
Purchases of property and equipment	**(10,362)**	(961)
Proceeds from sales of investments	**379,721**	885,870
Purchases of investments	**(371,910)**	(878,413)
Net cash (used in) provided by investing activities	**(2,551)**	6,496
Cash flows from financing activities:		
Permanently restricted contributions	**(1)**	31
Borrowing under line of credit	**9,288**	-
Proceeds from mortgage loan	**932**	-
Principal payments on mortgage loan	**-**	(108)
Net cash provided by (used in) financing activities	**10,219**	(77)
Net decrease in cash and cash equivalents	**(667)**	(6,093)
Cash and cash equivalents, beginning of year	**11,052**	17,145
Cash and cash equivalents, end of year	**$ 10,385**	$ 11,052
Supplemental disclosure of cash flow information:		
Cash paid for interest during the year	**$ 1,287**	$ 1,962

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008
(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.

DFMS's consolidated financial statements include the activities of Episcopal Relief & Development ("ERD"), a separate 501(c)(3) not-for-profit corporation, 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 using 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 the three classes of net assets, permanently restricted, temporarily restricted and unrestricted, are displayed in the consolidated statement of financial position and the changes in each of those classes of net assets are displayed in the consolidated statement 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, 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 statement 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 restricted by donors to be held in perpetuity for the purpose of supporting the operations of the Society.

2. *Concentration of Credit Risk*

Financial instruments that potentially subject the Society to concentrations of credit and market risk consist principally of cash and cash equivalents on deposit with financial institutions, which from time to time may exceed the Federal Deposit Insurance Corporation limit, and investments. Management does not believe that a significant risk of loss due to the failure of a financial institution the Society utilizes is likely. Management also believes that its market risk is mitigated by an adequate diversification of its investments.

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 economic conditions. The allowance for uncollectible accounts was $106 and $290 at December 31, 2009 and 2008, respectively.

NOTE B (continued)

4. *Investments*

Investments include those that belong to the Society as well as those held on behalf of others. They consist of both marketable and non-marketable securities, stated at quoted market values or values provided by the respective fund manager or general partner. 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 accompanying consolidated financial statements.

5. *Fair Value Measurements*

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. As required by U.S. Generally Accepted Accounting Principles for fair value measurement, the Society uses a fair value hierarchy that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available.

Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the transparency of inputs as follows:

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the measurement date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.

Level 2 - Pricing inputs other than quoted prices in active markets, which are either directly or indirectly observable as of the measurement date. The nature of these securities include investments for which quoted prices are available but traded less frequently and investments that are fair valued using other securities, the parameters of which can be directly observed.

NOTE B (continued)

Level 3 - Securities that have little to no pricing observability as of the measurement date. These securities are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the entity. The Society considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the Society's perceived risk of that instrument.

6. *Cash and Cash Equivalents*

The Society considers all highly liquid investments with original maturities of less than three months from the date of purchase to be cash and cash equivalents, except for those cash equivalents which are included in the Society's investment portfolio which are considered to be for long-term investment purposes.

7. *Valuation of Investments*

Investments whose values are based on quoted market prices in active markets, and are therefore classified within Level 1, include actively traded equities, certain U.S. government and sovereign obligations, and certain money market securities. The Society does not adjust the quoted price for such instruments, even in situations where the Society holds a large position and a sale could reasonably impact the quoted price.

NOTE B (continued)

Investments that trade in markets that are not considered to be active, but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within Level 2. These include certain U.S. government and sovereign obligations not included in Level 1, most government agency securities, investment-grade corporate bonds, certain mortgage products, certain bank loans and bridge loans, less liquid listed equities, state, municipal and provincial obligations, most physical commodities and certain loan commitments. As Level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

Investments classified within Level 3 have significant unobservable inputs, as they trade infrequently or not at all. Level 3 investments include private equity and real estate investments, certain bank loans and bridge loans, less liquid corporate debt securities (including distressed debt instruments), collateralized debt obligations, and less liquid mortgage securities (backed by either commercial or residential real estate). When observable prices are not available for these securities, the Society uses one or more valuation techniques (e.g., the market approach, the income approach or the cost approach) for which sufficient and reliable data is available. Within Level 3, the use of the market approach generally consists of using comparable market transactions, while the use of the income approach generally consists of the net present value of estimated future cash flows, adjusted as appropriate for liquidity, credit, market and/or other risk factors.

The inputs used by the Society in estimating the value of Level 3 investments include the original transaction price, recent transactions for the same or similar instruments, completed or pending third-party transactions in the underlying investment or comparable issuers, subsequent rounds of financing, recapitalizations and other transactions across the capital structure, offerings in the equity or debt capital markets, and changes in financial ratios or cash flows. Level 3 investments may also be adjusted to reflect illiquidity and/or non-transferability, with the amount of such discount estimated by the Society in the absence of market information. The fair value measurement of Level 3 investments does not include transaction costs that may have been capitalized as part of the security's cost basis. Assumptions used by the Society in valuing such assets, due to the lack of observable inputs, may significantly impact the resulting fair value and therefore the Society's changes in net assets.

(Dollar amounts in thousands)

NOTE B (continued)

8. *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 $7 at December 31, 2009 and 2008, respectively.

9. *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. Property and equipment costing greater than $1.5 and with useful lives greater than one year are capitalized.

10. *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. The fair value of these outside trust assets is recognized as a component of permanently restricted net assets. The beneficial interest in outside trust is adjusted each year and the change in value is recognized in the consolidated statement of activities based on changes in the market values of the trusts' underlying investments. A liability has been established for amounts payable to life tenants under such arrangements. The Society's beneficial interest in outside trusts is classified as Level 3 within the FASB's fair value hierarchy as of December 31, 2009 and 2008.

The following table summarizes the changes in fair value associated with the Society's beneficial interest in outside trusts for the years ended December 31, 2009 and 2008:

	2009	2008
Balance as of beginning of the year	**$ 6,026**	$ 8,541
Change in value of amounts due to beneficiaries	**68**	(172)
Unrealized gains (losses)	**982**	(2,343)
Balance as of end of the year	**$ 7,076**	$ 6,026

NOTE B (continued)

11. *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.

12. *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 investment accounts. The income derived from these investments is not included in the accompanying consolidated statement of activities but reflected as a change in value of such assets and liabilities.

13. *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.

14. *Contributions*

Contributions, including unconditional promises to give (pledges), are reported as revenues in the period received or pledged. Contributions of assets, other than cash, are recorded at their estimated fair value at the date of the gift. Contributions to be received after one year are discounted using an appropriate credit adjusted discount rate which articulates with the collection period of the respective pledge. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution and nature of fundraising activity.

15. *Contributed Services*

Contributed services are valued at their estimated fair market value and are recognized as revenue and expenses in the consolidated statement of activities in the period received. Contributed legal services for the years ended December 31, 2009 and 2008 totaled $932 and $1,015, respectively.

NOTE B (continued)

16. *Fair Value of Financial Instruments*

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

17. *Income Taxes*

The income taxes topic number 740, "Income Taxes" of the FASB Accounting Standards Codification ("Codification") establishes criterion that an individual tax position has to meet for some or all the benefits of that position to be recognized in an entity's financial statements. On initial application, this criterion will be applied to all tax positions for which the statute of limitations remains open. Only tax positions that meet the "more-likely-than-not" recognition threshold at the adoption date will be recognized or continue to be recognized. The Society adopted this standard on January 1, 2009, and it did not have a material impact on the Society's consolidated financial statements. The Society has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; determine its filing and tax obligations in jurisdictions for which it has nexus; and to review other matters that may be considered tax positions.

18. *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 disclosure of contingencies at the date of the financial statements and revenues and expenses recognized during the reporting period. The most significant of which pertain to the determination of specific reserves against loans and other accounts receivable, the valuation of non-marketable alternative investments, postretirement benefit obligations, and the useful lives assigned to fixed assets. Actual results may differ from these estimates.

19. *Reclassifications*

Certain reclassifications have been made to the prior year consolidated financial statements to conform to the current year's presentation.

(Dollar amounts in thousands)

NOTE B (continued)

20. Subsequent Events

The Society evaluated its December 31, 2009 consolidated financial statements for subsequent events through May 27, 2010, the date the consolidated financial statements were available to be issued. The Society is not aware of any subsequent events which would require recognition or disclosure in the accompanying consolidated financial statements.

NOTE C - INVESTMENTS

At December 31, 2009, total investments of approximately $315,000 consisted of $283,000 in trust fund assets, $9,000 in unit-trust and pooled income funds, $18,000 in medium-term investments, $2,000 in St. John's School (Guam) investments and $3,000 in certificates of deposit with minority-controlled banks. At December 31, 2008, total investments of approximately $272,000 consisted of $238,000 in trust fund endowment assets, $9,000 in unit-trust and pooled income funds, $19,000 in medium-term investments, $3,000 in St. John's School (Guam) investments and $3,000 in certificates of deposit with minority-controlled banks.

Investments are carried at fair value and consisted of the following at December 31:

	Fair Value		Cost	
	2009	2008	**2009**	2008
Common stock	**$ 198,486**	$ 156,133	**$ 176,891**	$ 195,226
Bonds:				
Corporate	**25,655**	17,769	**29,970**	27,993
Government	**20,722**	33,984	**20,892**	33,466
Other, primarily mutual bond funds	**2,976**	3,784	**3,067**	5,369
Total bonds	**49,353**	55,537	**53,929**	66,828

(Dollar amounts in thousands)

NOTE C (continued)

	Fair Value		Cost	
	2009	2008	**2009**	2008
Mutual funds (primarily common stock and bonds)	**$ 23,525**	$ 17,910	**$ 22,650**	$ 24,614
Certificates of deposit	**2,200**	2,500	**2,200**	2,500
Other, primarily money market and other cash equivalents	**7,375**	8,416	**7,374**	8,414
Real estate	**284**	284	**284**	284
Alternative investments	**33,654**	31,683	**33,715**	31,159
Total investments	**314,877**	272,463	**297,043**	329,025
Funds held for the benefit others	**(76,773)**	(66,612)	**(73,376)**	(79,042)
Total DFMS-controlled funds	**$ 238,104**	$ 205,851	**$ 223,667**	$ 249,983

Since alternative investments may not be readily marketable, the estimated fair value assigned to such interests is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed. The values assigned to these holdings do not necessarily represent amounts which might ultimately be realized upon sale or other disposition since such amounts depend on future circumstances and cannot reasonably be determined until the actual liquidation occurs. Because of the inherent uncertainty of such valuations, those estimated fair values may differ significantly from the values that would have been used had a ready market for such investments existed and the differences could be material.

The following table prioritizes the inputs used to measure the fair value of the Society's investments within the fair value hierarchy at December 31, 2009 and 2008:

	2009			
	Level 1	Level 2	Level 3	**Total**
Common stock	$ 198,486	$ -	$ -	**$ 198,486**
Bonds:				
Corporate	25,655	-	-	**25,655**
Government	20,722	-	-	**20,722**
Other, primarily mutual bond funds	2,976	-	-	**2,976**

(Dollar amounts in thousands)

NOTE C (continued)

	2009			
	Level 1	Level 2	Level 3	**Total**
Mutual funds (primarily common stock and bonds)	$ 23,525	$ -	$ -	**$ 23,525**
Certificates of deposit	-	2,200	-	**2,200**
Other, primarily money market and other cash equivalents	7,375	-	-	**7,375**
Alternative investments:				
Fund of funds	-	-	9,911	**9,911**
Fixed income funds	-	23,473	-	**23,743**
Real estate	-	-	284	**284**
Total	$ 278,739	$ 25,943	$ 10,195	**$ 314,877**

	2008			
	Level 1	Level 2	Level 3	Total
Common stock	$ 156,133	$ -	$ -	$ 156,133
Bonds:				
Corporate	17,769	-	-	17,769
Government	33,984	-	-	33,984
Other, primarily mutual bond funds	3,784	-	-	3,784
Mutual funds (primarily common stock and bonds)	17,910	-	-	17,910
Certificates of deposit	-	2,500	-	2,500
Other, primarily money market and other cash equivalents	8,416	-	-	8,416
Alternative investments:				
Fund of funds	-	-	8,677	8,677
Fixed income funds	-	23,006	-	23,006
Real estate	-	-	284	284
Total	$ 237,996	$ 25,506	$ 8,961	$ 272,463

(Dollar amounts in thousands)

NOTE C (continued)

The following table summarizes the changes in fair value associated with the Society's Level 3 investments for the years ended December 31, 2009 and 2008:

	2009	2008
Balance as of beginning of the year	**$ 8,961**	$ 11,066
Realized gains (losses)	**633**	(2,115)
Unrealized gains	**688**	109
Transfers out of Level 3	**(87)**	(99)
Balance as of end of the year	**$ 10,195**	$ 8,961

The Society lends certain equities and bonds included in its investment portfolio to brokerage firms. In return for the securities loaned, the Society receives cash or securities as collateral in amounts at least equal to the fair value of the securities loaned. The Society retains all rights of ownership to the securities loaned and receives all interest and dividend income. The related collateral received under this arrangement at December 31, 2009 and 2008 is reflected as collateral received under securities loan agreement with an off-setting payable in the accompanying consolidated statements of financial position.

The composition of the collateral received under the securities loan agreement at December 31, 2009 and 2008 is as follows:

	2009	2008
Asset backed securities	**$ 4,595**	$ 5,750
Bank notes	**5,254**	10,762
Certificates of deposit	**-**	17,784
Corporate debt	**10,446**	27,484
Total	**$ 20,295**	$ 61,780

The collateral detailed above is classified as Level 2 within the FASB's fair value hierarchy as of December 31, 2009 and 2008.

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 (5% in 2009 and 2008) 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

(Dollar amounts in thousands)

NOTE C (continued)

inflation. In February 2008, however, to support the work of dioceses in reorganization, the Executive Council decided to distribute up to $500 in excess of amounts appropriated under the spending policy. In addition, the Executive Council approved in October 2008 up to an additional $700 in 2009 from nine trust funds for the same purposes.

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

	2009	2008
Interest and dividends	**$ 4,912**	$ 6,896
Realized and unrealized gains (losses)	**40,064**	(101,810)
Total investment (loss) income	**44,976**	(94,914)
Less: ERD investment (income) loss	**(2,854)**	6,311
Investment (loss) return	**$ 42,122**	$ (88,603)

NOTE D - RECEIVABLES

Other receivables consisted of the following at December 31, 2009 and 2008:

	2009	2008
Contributions receivable, net	**$ 5,428**	$ 7,587
Other receivables, net	**1,774**	1,526
Total other receivables	**$ 7,202**	$ 9,113

Contributions receivable, which are recorded at the present value of their expected future cash flows, consisted of the following at December 31, 2009 and 2008:

	2009	2008
Amounts expected to be collected:		
Within one year	**$ 2,260**	$ 3,868
In one to four years	**3,343**	3,935
Total contributions receivable	**5,603**	7,803
Less: Allowance for uncollectible pledges	**(14)**	(77)
Present value discount (rates ranging from 1.50% to 6%)	**(161)**	(139)
Contributions receivables, net	**$ 5,428**	$ 7,587

(Dollar amounts in thousands)

NOTE E - LOANS RECEIVABLE, NET

Loans receivable, net, consisted of the following at December 31 2009 and 2008:

	2009	2008
Construction loans to dioceses and missionary districts	$ 814	$ 620
Economic justice and community investment loans	5,000	4,750
Residential loans to employees	12	21
	5,826	5,391
Less: Allowance for uncollectible accounts	(567)	(558)
	5,259	4,833
Less: Current portion	(1,377)	(580)
Long-term loans receivable, net	$ 3,882	$ 4,253

Such loans bear interest at varying rates ranging from 0.9% to 8.0% and are payable as installments or on demand. These loans are unsecured. No new residential loans have been extended to employees since 1998. The remaining loans outstanding were made during fiscal 1994 and 1995.

NOTE F - PROPERTY AND EQUIPMENT, NET

Property and equipment, net, consisted of the following at December 31 2009 and 2008:

	2009	2008	Useful Lives
Land	$ 17,195	$ 7,503	-
Buildings and improvements	67,088	66,570	10-30
Other equipment and furnishings	5,079	4,927	5
	89,362	79,000	
Less: Accumulated depreciation	(28,145)	(25,226)	
Property and equipment, net	$ 61,217	$ 53,774	

Depreciation expense amounted to $2,919 and $2,953 for the years ended December 31, 2009 and 2008, respectively.

NOTE F (continued)

The increase in the Society's land assets during 2009 is primarily due to the purchase of land in Austin, Texas, authorized by the Society's Executive Council, at an approximate cost of $9.5 million, plus related closing costs, for the potential future development of a building to house the Archives and the Mission Research Center.

NOTE G - MORTGAGE AND NOTES PAYABLE

1. *Property*

   Mortgage payable on the St. John's School property amounted to $2,628 and $1,696 as of December 31, 2009 and 2008, respectively. The interest rate of 6% is adjusted every three years on March 11 to 3% over the Federal Home Loan rate. The note is collateralized by a third-party mortgage on real and leasehold property, and matures in March 2019.

   Interest expense amounted to $1,287 and $1,851 for the years ended December 31, 2009 and 2008, respectively.

2. *Line of Credit*

   In December 2004, DFMS obtained a $50 million line of credit (facility) from the Bank of New York, secured by DFMS's investment in unrestricted marketable securities, at amounts described below, to be used primarily for working capital and other business purposes, including providing funding to renovate DFMS's corporate office. The line of credit may be drawn and repaid at any time during the revolver period. The interest rate assigned to amounts borrowed under the facility is chosen by DFMS based on the Prime Rate or the Eurodollar Rate of various maturities then in effect. For the years ended December 31, 2009 and 2008, the interest rates assigned to each borrowing tranche ranged from 1.44% to 2.63% and 2.00% to 2.38%, respectively.

   In December 2007, the 2004 facility was extended to December 2010 with the same terms. If not extended or renegotiated at that time, all borrowings convert to a four year term loan with principal and interest payments due quarterly, assuming a 10 year amortization period. At the end of the four year maturity period, December 2014, the balance due, including all accrued interest, is payable in full.

NOTE G (continued)

The facility is collateralized by unrestricted investments held by DFMS. The collateral that must be maintained versus loan principal outstanding varies according to the type of collateral on deposit as follows.

a. Cash, cash equivalents and Government securities - 1.11 times the borrowed amount;
b. Fixed income other than U.S. Government securities - 1.33 times the borrowed amount; or
c. Equity securities valued at more than $10 per share - 1.33 times the borrowed amount.

The Society has pledged a combination of investments which exceed the collateral requirements detailed above. From time to time, DFMS has repaid nominal amounts of principal on the amounts borrowed.

At December 31, 2009 and 2008, $46,788 and $37,500 was outstanding under this line of credit, respectively, and is reflected on the accompanying consolidated statements of financial position as notes payable. Interest expense amounted to $1,629 and $1,250 for the years ended December 31, 2009 and 2008, respectively.

The facility includes standard affirmative and negative covenants usual and customary for facilities of this type, including remaining an ongoing business, quarterly financial reporting, limitations on additional indebtedness, and no assignment of collateral.

NOTE H - 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 $721 and $829 for the years ended December 31, 2009 and 2008, 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 $925 and $843 for the years ended December 31, 2009 and 2008, respectively.

(Dollar amounts in thousands)

NOTE H (continued)

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 $15 and $20 for the years ended December 31, 2009 and 2008, 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 $185 and $188 for the years ended December 31, 2009 and 2008, respectively.

NOTE I - POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

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

The following tables set forth the status of the plans and the components of net periodic benefit cost at December 31, 2009 and 2008:

	2009	2008
Change in benefit obligation:		
Benefit obligation, beginning of year	**$ 9,232**	$ 8,617
Service cost	**461**	400
Interest cost	**555**	531
Curtailment	**(192)**	-
Actuarial loss	**690**	284
Benefits paid	**(528)**	(600)
Benefit obligation, end of year	**$ 10,218**	$ 9,232

(Dollar amounts in thousands)

NOTE I (continued)

	2009	2008
Components of accrued benefit cost:		
Funded status	$ (10,218)	$ (9,232)
Unrecognized net prior service cost	112	181
Unrecognized actuarial net gain	(549)	(1,264)
Accrued benefit cost	$ (10,655)	$ (10,315)
Components of net periodic benefit cost:		
Service cost	$ 461	$ 400
Interest cost	555	531
Amortization of actuarially gain	(24)	(66)
Amortization of unrecognized prior service costs	55	55
Net periodic benefit cost for fiscal year	$ 1,047	$ 920
Changes in assets and benefit obligations recognized in unrestricted net assets:		
Net loss actuarially	$ 690	$ 284
Amortization of unrecognized gain	24	66
Amortization of unrecognized prior service cost	(55)	(55)
Curtailment	(192)	-
Total change recognized in unrestricted net assets	$ 467	$ 295
Total recognized in net periodic benefit cost and unrestricted net assets	$ 1,514	$ 1,215

The discount rates used in determining the accumulated postretirement benefit obligations were 5.75% and 6.15% for the years ended December 31, 2009 and 2008, respectively. The assumed medical care cost trend rate used was 5.9% for the current year, decreasing gradually in future years to 4.4% by fiscal year 2064 and remaining at that level thereafter. Increasing the assumed medical care cost trend rate by 1% would increase the accumulated postretirement benefit obligation as of December 31, 2009 by $1,261 and increase the aggregate of the service cost and interest cost by $171. Decreasing the assumed medical care cost trend rate by 1% would decrease the accumulated postretirement benefit obligation as of December 31, 2009 by $1,054 and decrease the aggregate of the service cost and interest cost by $139.

(Dollar amounts in thousands)

NOTE I (continued)

The following benefit payments are expected to be paid as follows:

2010	$ 697
2011	645
2012	642
2013	647
2014	632
2015-2019	3,135
Total	$ 6,398

NOTE J - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were held for the following purposes at December 31, 2009 and 2008:

	2009	2008
Program-specific trust funds	**$ 30,198**	$ 25,092
Endowment earnings for domestic and foreign mission programs	**16,492**	7,348
Guam - School Scholarships	**2,704**	1,324
Episcopal Relief & Development	**19,619**	19,518
United Thank Offering and Episcopal Church Women Fund	**1,432**	1,462
Various other program funds	**4,292**	4,056
Total temporarily restricted net assets	**$ 74,737**	$ 58,800

NOTE K - ENDOWMENT FUND

The Uniform Management of Institutional Funds Acts ("UMIFA") as enacted by the State of New York in 1978 applies to all the institutional funds of the Society unless the donor has specifically directed otherwise. The Executive Council of the Society interprets UMIFA as requiring the preservation of the "historic dollar value" of the original gift as of the gift date for donor-restricted endowment funds in the absence of explicit donor stipulations to the contrary. As a result of such interpretation, the Society classifies as permanently restricted net assets the original value of donor-restricted endowment funds, the original value of subsequent gifts to donor-restricted endowment funds and the value of accumulations to such funds made in accordance with the applicable gift.

NOTE K (continued)

The remaining portion of the donor-restricted endowment fund not classified in permanently restricted net assets is classified either as unrestricted or temporarily restricted net assets, depending on the intent of each endowment fund until those amounts are appropriated for expenditure by the Society in a manner consistent with the uses, benefits, purposes and duration for which the endowment is established and the standard of prudence prescribed by UMIFA.

The Society appropriates for distribution each year an amount approved by its Executive Committee under its spending rate of its endowment fund's average fair value over twelve rolling quarters. In establishing this policy, the Society considers the long-term expected return on its endowment. Accordingly, over the long term, the Society expects the current spending policy to grow at a pace at least equal to inflation. This is consistent with the Society's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

The Society has adopted investment policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Society must hold in perpetuity or for a donor-specified period(s). Under this policy, as approved by the Executive Council, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of appropriate benchmarks without putting the assets at imprudent risk.

To satisfy its long-term objectives, the Society relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Society targets a diverse asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

In August 2008, the FASB issued new accounting guidance related to the disclosure of endowment funds and addresses the net asset classification of donor-restricted endowment funds for organizations subject to an enacted version of the 2006 Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). A key component of this guidance is a requirement to classify the portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure. Should the State of New York adopt a version of UPMIFA in a future period, the Society will need to interpret the relevant law at that time. In addition, the FASB issued guidance requiring new disclosures about an organization's donor-restricted and board-designated endowment funds. The Society adopted these relevant disclosure requirements as of December 31, 2008, as required.

(Dollar amounts in thousands)

NOTE K (continued)

The following tables represent the composition of the Society's endowment net assets as of December 31, 2009 and 2008 and the changes in the endowment balances for the years then ended:

	2009			
Composition of Endowment Net Assets by Type of Fund	Unrestricted	Temporarily Restricted	Permanently Restricted	**Total**
Donor-restricted endowment funds	$ -	$ 59,885	$ 23,523	**$ 83,408**
Board-designated endowment funds	85,580	-	-	**85,580**
Total	$ 85,580	$ 59,885	$ 23,523	**$ 168,988**
Changes in Endowment Net Assets				
Endowment net assets, beginning of year	$ 79,106	$ 43,094	$ 23,593	**$ 145,793**
Investment return:				
Investment income	193	-	-	**193**
Net appreciation (realized and unrealized)	4,985	18,338	-	**23,323**
Other	-	-	(70)	**(70)**
Contributions	474	518	-	**992**
Appropriation of endowment assets for expenditure	822	(2,065)	-	**(1,243)**
Endowment net assets, end of year	$ 85,580	$ 59,885	$ 23,523	**$ 168,988**

	2008			
Composition of Endowment Net Assets by Type of Fund	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 43,094	$ 23,593	$ 66,687
Board-designated endowment funds	79,106	-	-	79,106
Total	$ 79,106	$ 43,094	$ 23,593	$ 145,793

(Dollar amounts in thousands)

NOTE K (continued)

	2008			
Changes in Endowment Net Assets	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 93,575	$ 102,062	$ 23,563	$ 219,200
Investment return:				
Investment income	3,897	4,251	-	8,148
Net depreciation (realized and unrealized)	(19,251)	(62,636)	-	(81,887)
Contributions	429	1,380	30	1,839
Appropriation of endowment assets for expenditure	456	(1,963)	-	(1,507)
Endowment net assets, end of year	$ 79,106	$ 43,094	$ 23,593	$ 145,793

NOTE L - 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 $30,000 per annum for the years ended December 31, 2009 and 2008, respectively. In addition, DFMS receives a significant portion of nongovernmental fees from related parties as well, which totaled approximately $620 and $488 for the years ended December 31, 2009 and 2008, respectively. DFMS expended approximately $52,000 and $62,000 for the years ended December 31, 2009 and 2008, respectively, in either direct payments/grants to affiliated entities or expenses incurred on behalf of these related parties. Of the total loans receivable reported on the accompanying consolidated statements of financial position at December 31, 2009 and 2008, approximately $1,000 each year represent loans to related entities which bear interest at rates ranging from 3.0% to 8.0% per annum.

(Dollar amounts in thousands)

NOTE M - 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. In the opinion of management, audit adjustments, if any, are not expected to have a material effect on the consolidated financial position or changes in net assets of the Society.

2. *Refugee Loans Receivable 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, 2009 and 2008, there were $10,132 and $6,861, respectively, of refugee loans outstanding. Such amounts are not reflected on the accompanying consolidated financial statements, and the Society does not guarantee the loans.

3. *Litigation*

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

NOTE N - EPISCOPAL RELIEF & DEVELOPMENT

The following represents summarized financial information for ERD for the years ended December 31, 2009 and 2008:

	2009	2008
Revenues:		
Contributions	**$ 16,642**	$ 24,574
Investments and other	**2,856**	(6,311)
Total	**$ 19,498**	$ 18,263

(Dollar amounts in thousands)

NOTE N (continued)

	2009	2008
Expenses:		
Program	**$ 16,770**	$ 25,384
Fundraising	**2,123**	2,743
General and administration	**1,875**	1,579
Total	**$ 20,768**	$ 29,706

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended December 31, 2009

Federal Grantor/Program Title	Federal CFDA Number	**Federal Expenditures**
United States Department of State / Bureau for Population, Refugees, and Migration:		
Reception and Placement Cooperative	19.510	**$ 6,187,032**
United States Department of Health and Human Services:		
Refugee and Entrant Assistance – Voluntary Agency Programs	93.567	**3,544,220**
Refugee and Entrant Assistance – Discretionary Grants	93.576	**577,846**
Total United States Department of Health and Human Services		**4,122,066**
United States Agency for International Development:		
American Schools and Hospitals Abroad - Cuttington University Construction Services Contract	98.012	**174,769**
Foreign Assistance for Programs Overseas	98.001	**549,057**
Total United States Agency for International Development		**723,826**
Total Expenditures of Federal Awards		**$11,032,924**

The accompanying notes to schedule of expenditures of federal awards are an integral part of this schedule.

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

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended December 31, 2009

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards for the year ended December 31, 2009 includes the federal grant activity of The Domestic and Foreign Missionary Society of the Protestant Episcopal Church in the United States of America and Affiliates (the "Society") and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Not-for-Profit Organizations.*

NOTE 2 - SUBRECIPIENTS

Of the federal expenditures presented on the schedule, the Society provided federal awards to subrecepients during the year ended December 31, 2009, as follows:

Federal Grantor/Program Title	Federal CFDA number	**Amount Provided to Sub-recipients**
United States Department of State/Bureau for Population, Refugees, and Migration:		
Reception and Placement Cooperative	19.510	**$ 5,242,785**
United States Department of Health and Human Services:		
Refugee and Entrant Assistance - Voluntary Agency Programs	93.567	**2,940,384**
Refugee and Entrant Assistance - Discretionary Grants	93.576	**515,406**
United States Agency for International Development		
American Schools and Hospitals Abroad - Cuttington University Construction Services Contract	98.012	**174,769**
Foreign Assistance for Programs Overseas	98.001	**463,388**

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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 consolidated financial statements of The Domestic and Foreign Missionary Society of the Protestant Episcopal Church in the United States of America and Affiliates (the "Society") as of and for the years ended December 31, 2009 and 2008, and have issued our report thereon dated May 27, 2010. We conducted our audits in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Society's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing an opinion on the consolidated financial statements, 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.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control would not necessarily identify all deficiencies in internal control over financial reporting that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in the Society's internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that were not identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Society's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported to management of the Society in a separate letter dated May 27, 2010.

This report is intended solely for the information and use of management, the executive council, the audit committee, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Grant Thornton LLP

New York, New York
May 27, 2010

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of The Domestic and Foreign Missionary Society of the Protestant Episcopal Church in the United States of America and Affiliates (the "Society") with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2009. The Society's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Society's management. Our responsibility is to express an opinion on the Society's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Society's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Society's compliance with those requirements.

In our opinion, the Society complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2009.

Internal Control Over Compliance

Management of the Society is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Society's internal control over compliance with requirements that could have a direct and material effect on a major federal program as a basis for designing audit procedures for the purpose of expressing an opinion on compliance, but not for the purpose of expressing an opinion of the effectiveness of the Society's internal control over compliance. Accordingly, we express no such opinion.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control would not necessarily identify all deficiencies in internal control over compliance that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in the Society's internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that were not identified.

This report is intended solely for the information and use of management, the executive council, the audit committee, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Grant Thornton LLP

New York, New York
September 22, 2010

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended December 31, 2009

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements:

Type of auditors' report issued:	Unqualified	
Internal control over financial reporting:		
• Material weakness(es) identified?	___ yes	X no
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	__ yes	X none reported
Noncompliance material to financial statements noted?	___ yes	X no

Federal Awards:

Internal control over the major programs:		
• Material weakness(es) identified?	___ yes	X no
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	__ yes	X none reported
Type of auditors' report issued on compliance for the major programs:	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	___ yes	X no

Identification of major programs:

Federal Grantor/Program Title	Federal CFDA Number
United States Department of Health and Human Services: Refugee and Entrant Assistance – Voluntary Agency Programs	93.567
United States Department of Health and Human Services: Refugee and Entrant Assistance – Discretionary Grants	93.576
United States Agency for International Development: Foreign Assistance for Programs Overseas	98.001

Dollar threshold used to distinguish between type A and type B programs:	$330,988	
Auditee qualified as a low-risk auditee?	X yes	__ no

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

For the year ended December 31, 2009

SECTION II - FINDINGS RELATED TO FINANCIAL STATEMENTS

None noted.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None noted.

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

SUMMARY SCHEULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

For the year ended December 31, 2009

Finding No. 2008-01 Significant Deficiency - Monitoring of Finance Activities of Micronesia

Criteria:
The Society should strengthen its monitoring procedures over Micronesia to ensure that Micronesia's standalone financial statements are prepared timely and in accordance with US GAAP to facilitate the preparation of the Society's consolidated financial statements.

Condition, Context and Effect:
There were significant delays in obtaining Micronesia's audited financial statements which are necessary to complete the Society's 2008 consolidation. Micronesia's year-end is June 30th, and they were unable to provide audited financial statements nearly nine months following year-end. The delay in receiving this information led to inefficiencies in completing the Society's consolidation as of and for the year ended December 31, 2008.

Questioned Costs:
None noted.

Recommendation:
We recommend that the Society take a more active monitoring role over the finance function at Micronesia. The Society should obtain items such as monthly financial statements and quarterly reports of the operations to ensure that Micronesia is closing its books on a timely basis and keeping current with daily finance functions. This will help to facilitate a more efficient year-end closing process and the preparation of annual audited financial statements which will aid in the timely completion of the Society's consolidated financial statements.

Views of Responsible Officials and Planned Corrective Actions:
The Society agrees with these observations and recommendations. Accordingly, the Society intends to pursue the following corrective actions:

1. The Society's controller will visit Micronesia after July 2009 to review their accounting practices and procedures and to educate them with respect to the Society's reporting requirements.
2. The Society will actively analyze removing Micronesia and the Episcopal Church in Micronesia from the Society's books, either by establishing a separate entity with under 50% Society control and leasing the properties to that entity or by transferring the properties and activities to the control and oversight of the Diocese of Hawaii.

Fiscal 2009 Update:
During fiscal 2009, several process improvements were effectuated which led to the timely completion of the fiscal 2009 standalone audit of Micronesia.