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, 2011 and 2010

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

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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 (collectively, the "Society") as of December 31, 2011 and 2010, 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 7%, respectively, and 3% and 3%, respectively, of the related consolidated totals as of December 31, 2011 and 2010. 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 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Society's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Society as of December 31, 2011 and 2010, 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 July 29, 2012 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 considered in assessing 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, 2011 and 2010, taken as a whole. The accompanying schedule of expenditures of federal awards for the year ended December 31, 2011 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 2011 consolidated financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic 2011 consolidated financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the basic consolidated financial statements or to the basic consolidated financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic 2011 consolidated financial statements taken as a whole.

Grant Thornton LLP

New York, New York
July 29, 2012

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, 2011 and 2010
(Dollar amounts in thousands)

ASSETS	**2011**	**2010**
Cash and cash equivalents	$ 22,436	$ 16,405
Receivables:		
Diocesan commitments receivable, net (Note 2)	1,009	2,261
Loans receivable, net (Note 5)	4,379	4,706
Government grants	2,300	3,282
Other receivables, net (Note 4)	3,669	5,620
Collateral received under securities loan agreement (Note 3)	943	5,510
Prepaid expenses and other assets	686	889
Investments (Note 3):		
DFMS-controlled funds	239,044	257,767
Funds held for the benefit of others	80,393	83,235
Property and equipment, net (Note 6)	56,065	58,984
Beneficial interest in outside trusts (Note 2)	7,026	7,654
Total assets	$ 417,950	$ 446,313
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	$ 7,790	$ 7,316
Payable under securities loan agreement (Note 3)	943	5,510
Grants payable	569	719
Notes payable (Note 7)	43,463	44,975
Mortgage payable (Note 7)	2,482	2,558
Accrued postretirement benefits other than pensions (Note 9)	13,178	11,107
Annuities payable	474	512
Funds held for the benefit of others	59,117	60,011
Funds held in a trustee relationship	21,276	23,224
Total liabilities	149,292	155,932
Contingencies (Note 13)		
NET ASSETS (Note 11)		
Unrestricted	119,121	123,259
Temporarily restricted (Note 10)	119,328	136,419
Permanently restricted	30,209	30,703
Total net assets	268,658	290,381
Total liabilities and net assets	$ 417,950	$ 446,313

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, 2011 and 2010

(Dollar amounts in thousands)

	2011				2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND OTHER SUPPORT								
Diocesan commitments (Note 12)	$ 25,718	$ -	$ -	$ 25,718	$ 27,056	$ -	$ -	$ 27,056
Contributions and bequests	150	2,451	50	2,651	823	2,200	38	3,061
Contributed services	540	-	-	540	455	-	-	455
Investment return designated for current operations (Note 3)	9,588	2,155	-	11,743	9,657	2,143	-	11,800
Other investment income	689	93	-	782	839	110	-	949
Government revenue	14,484	-	-	14,484	15,836	-	-	15,836
Fees, sales and other	2,276	5	-	2,281	3,556	-	-	3,556
Episcopal Relief & Development (Note 14)	-	18,319	-	18,319	-	32,232	-	32,232
Net assets released from restrictions	27,234	(27,234)	-	-	29,012	(29,012)	-	-
Revenue from the Episcopal Church in Micronesia	6,492	-	46	6,538	6,189	-	-	6,189
Total revenues and other support	87,171	(4,211)	96	83,056	93,423	7,673	38	101,134
EXPENSES								
Program services-								
Canonical and missional programs	41,351	-	-	41,351	43,533	-	-	43,533
General convention	2,147	-	-	2,147	1,832	-	-	1,832
Grant-related activities and other	4,825	-	-	4,825	5,394	-	-	5,394
Episcopal Relief & Development (Note 14)	18,448	-	-	18,448	21,629	-	-	21,629
Expenses from the Episcopal Church in Micronesia	6,810	-	-	6,810	7,842	-	-	7,842
Total program services	73,581	-	-	73,581	80,230	-	-	80,230
Supporting services-								
Fundraising	1,906	-	-	1,906	2,067	-	-	2,067
General and administrative	9,864	-	-	9,864	8,879	-	-	8,879
Total supporting services	11,770	-	-	11,770	10,946	-	-	10,946
Total expenses	85,351	-	-	85,351	91,176	-	-	91,176
Changes in net assets from operations	1,820	(4,211)	96	(2,295)	2,247	7,673	38	9,958
NONOPERATING ACTIVITIES								
Investment return (loss) (Note 3)	5,974	(10,632)	-	(4,658)	15,274	15,810	-	31,084
Less: Other investment income	(689)	(93)	(590)	(1,372)	(839)	(110)	531	(418)
Net investment income (loss) - trust fund	5,285	(10,725)	(590)	(6,030)	14,435	15,700	531	30,666
Less: Investment return designated for current operations (Note 3)	(9,588)	(2,155)	-	(11,743)	(9,657)	(2,143)	-	(11,800)
Total nonoperating activities	(4,303)	(12,880)	(590)	(17,773)	4,778	13,557	531	18,866
Changes in net assets, before pension activities	(2,483)	(17,091)	(494)	(20,068)	7,025	21,230	569	28,824
	-							
Postretirement related activities other than net periodic pension cost (Note 9)	(1,655)	-	-	(1,655)	295	-	-	295
Changes in net assets	(4,138)	(17,091)	(494)	(21,723)	7,320	21,230	569	29,119
Reclassification of net assets due to change in law (Note 11)	-	-	-	-	(40,452)	40,452	-	-
Net assets, beginning of year	123,259	136,419	30,703	290,381	156,391	74,737	30,134	261,262
Net assets, end of year	$ 119,121	$ 119,328	$ 30,209	$ 268,658	$ 123,259	$ 136,419	$ 30,703	$ 290,381

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 of December 31, 2011 and 2010
(Dollar amounts in thousands)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	$ (21,723)	$ 29,119
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Noncash items:		
Depreciation	2,654	2,998
Loss on disposal of equipment	302	-
Change in allowance for uncollectible amounts	1,715	1,733
Amortization of discount to present value receivables	(228)	(28)
Total noncash adjustments	4,443	4,703
Change in working capital:		
Increase in diocesan commitments receivable	(244)	(789)
Decrease in loans receivable	363	608
Decrease (increase) in government grants receivable	982	(1,844)
Decrease in other receivables	1,924	1,395
Decrease in prepaid expenses and other assets	203	63
Increase (decrease) in accounts payable and accrued expenses	474	(4,501)
Decrease in grants payable	(150)	(781)
Total change in working capital accounts	3,552	(5,849)
Change in investments:		
Net realized and unrealized losses (gains) on investments	8,607	(29,401)
Total change in investments	8,607	(29,401)
Other changes:		
Change in value of beneficial interest in outside trusts	590	(531)
Increase in accrued postretirement benefits other than pensions	2,071	889
Permanently restricted contributions	(96)	38
Total other changes	2,565	396
Total change in working capital accounts and other	14,724	(34,854)
Net cash used in operating activities	(2,556)	(1,032)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(37)	(765)
Proceeds from sales of investments	303,637	622,524
Purchases of investments	(293,521)	(612,786)
Net cash provided by investing activities	10,079	8,973
CASH FLOWS FROM FINANCING ACTIVITIES		
Permanently restricted contributions	96	(38)
Borrowings under line of credit	(1,512)	(1,813)
Principal payments on mortgage loan	(76)	(70)
Net cash used in financing activities	(1,492)	(1,921)
Net increase in cash and cash equivalents	6,031	6,020
Cash and cash equivalents, beginning of year	16,405	10,385
Cash and cash equivalents, end of year	$ 22,436	$ 16,405
Supplemental disclosure of cash flow information:		
Cash paid for interest during the year	$ 1,693	$ 930

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

1. 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 and 15 other countries. 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.

DFMS 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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.

(Dollar amounts in thousands)

Temporarily restricted net assets are comprised primarily of funds designated for disaster relief and other specific diocesan programs of 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, the income from which is intended to support the operations of the Society.

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 is likely due to the failure of a financial institution the Society utilizes. Management also believes that its market risk is mitigated by an adequate diversification of its investments.

Diocesan Commitments Receivable

The Society provides for an allowance for uncollectible receivables based on an assessment of various factors, including historical collection experience and current economic conditions. The allowance for uncollectible accounts was $3,395 and $1,722 at December 31, 2011 and 2010, respectively. Diocesan commitment receivables at December 31, 2011 and 2010 are as follows:

	2011	2010
Amounts expected to be collected:		
Within one year	$ 1,755	$ 3,507
Between one and five years	2,332	312
Greater than five years	317	341
Total Diocesan commitments	4,404	4,160
Allowance for uncollectible receivables	(3,395)	(1,722)
Present value discount	-	(177)
Diocesan commitments receivable, net	$ 1,009	$ 2,261

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 pertaining to the Society have been reflected on the accompanying consolidated statements of activities. Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility changes. 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 on the accompanying consolidated financial statements.

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 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. Also included in Level 2 are investments measured using a NAV per share, or its equivalent, that may be redeemed at that NAV at the date of the statement of financial position or in the near term, which the Society has generally considered to be within 90 days.

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. Also included in Level 3 are investments measured using a NAV per share, or its equivalent, that can never be redeemed at the NAV or for which redemption at NAV is uncertain due to lockup periods or other investment restrictions.

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 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.

In January 2010, the FASB issued additional fair value guidance that required additional disclosures. This guidance requires entities to disclose transfers of assets in and out of Levels 1 and 2 of the fair value hierarchy and the reasons for those transfers. The standard was effective for the Society's fiscal 2011 consolidated financial statements. In addition, the guidance requires separate presentation of purchases and sales in the Level 3 asset reconciliation; this will be effective for the Society's fiscal 2012 consolidated financial statements. The adoption of this guidance is not expected to have a material impact on the Society's consolidated financial statements.

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.

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

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.

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.

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 are 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 fair 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.

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. The useful lives assigned to furniture and equipment and building improvements range from 5 to 30 years.

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 on the consolidated statement of activities based on changes in the market values of the trusts' underlying investments. Pursuant to certain of the trust arrangements, the earnings are initially paid to the Society however, are distributable to other beneficiaries. A liability has been recorded for such amounts. The Society's beneficial interest in outside trusts is classified as Level 3 within the FASB fair value hierarchy as of December 31, 2011 and 2010.

(Dollar amounts in thousands)

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, 2011 and 2010:

	2011	2010
Balance, beginning of the year	$ 7,654	$ 7,076
Change in value of amounts due to beneficiaries	(38)	47
Unrealized gains (losses)	(590)	531
Balance, end of the year	$ 7,026	$ 7,654

Grants Payable

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

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 on the consolidated statement of activities but reflected as a change in value of related assets and liabilities.

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 payable to specific third-party beneficiaries. Amounts held on behalf of others are reflected as liabilities.

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 gift. Contributions to be received after one year are discounted using an appropriate credit adjusted discount rate which corresponds 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.

Contributed Services

Contributed services are valued at their estimated fair value and are recognized as revenues and expenses on the consolidated statement of activities in the period received. Contributed legal services for the years ended December 31, 2011 and 2010 totaled $632 and $455, respectively.

Income Taxes

The Society follows guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This standard provides that the tax effects from an uncertain tax position can be recognized in the consolidated financial statements only if the position is "more-likely-than-not" to be sustained if the position were to be challenged by a taxing authority. The standard also provides guidance on measurement, classification, interest and penalties, and disclosure and had no impact on the accompanying consolidated financial statements. The tax years ended 2008, 2009 and 2010 are still open to audit for both federal and state purposes. The Society has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions.

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-exchange traded alternative investments, postretirement benefit obligations, and the useful lives assigned to fixed assets. Actual results may differ from these estimates.

Reclassifications

Certain reclassifications have been made to the prior year consolidated financial statements to conform to the current year's presentation. Such reclassifications did not change total assets, liabilities, revenues, expenses or changes in net assets as reflected in the 2010 consolidated financial statements.

Subsequent Events

The Society evaluated its December 31, 2011 consolidated financial statements for subsequent events through June 29, 2012, the date the consolidated financial statements were available to be issued.

3. INVESTMENTS

At December 31, 2011, total investments of approximately $319,000 consist of $284,000 in trust fund assets, $9,000 in unit-trust and pooled income funds, $21,000 in medium-term investments, $3,000 in St. John's School (Guam) investments and $2,000 in certificates of deposit with minority-controlled banks. At December 31, 2010, total investments of approximately $341,000 consist of $307,000 in trust fund endowment assets, $9,000 in unit-trust and pooled income funds, $21,000 in medium-term investments, $2,000 in St. John's School (Guam) investments and $2,000 in certificates of deposit with minority-controlled banks.

(Dollar amounts in thousands)

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

	Fair Value		Cost	
	2011	**2010**	**2011**	**2010**
Common stock	$ 153,624	$ 209,333	$ 145,627	$ 175,629
Bonds:				
Corporate	20,838	24,617	22,596	26,250
Government	15,659	14,595	14,896	14,898
Other, primarily mutual bond funds	4,873	2,942	4,635	2,955
Total bonds	41,370	42,154	42,127	44,103
Mutual funds (primarily common stock and bond funds)	27,061	26,932	28,163	25,467
Certificates of deposit	2,100	2,100	2,100	2,100
Other, primarily money market funds and other cash equivalents	30,710	8,288	30,993	8,288
Alternative investments:				
Fund of funds	27,148	17,209	24,914	15,032
Fixed income fund	27,489	34,986	24,038	32,713
Global equity fund	9,935	-	10,000	-
Total alternative investments	64,572	52,195	58,952	47,745
Total investments	319,437	341,002	307,962	303,332
Funds held for the benefit others	(80,393)	(83,235)	(72,634)	(74,880)
Total DFMS-controlled funds	$ 239,044	$ 257,767	$ 235,328	$ 228,452

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 fair values assigned to such 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, the 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.

(Dollar amounts in thousands)

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, 2011 and 2010:

	2011			
	Level 1	**Level 2**	**Level 3**	**Total**
Common stock	$ 152,848	$ 776	$ -	$ 153,624
Bonds:				
Corporate	20,838	-	-	20,838
Government	15,659	-	-	15,659
Other, primarily mutual bond funds	1,995	2,878	-	4,873
Mutual funds (primarily common stock and bonds funds)	21,927	5,134	-	27,061
Certificates of deposit	-	2,100	-	2,100
Other, primarily money market funds and cash equivalents	30,681	29	-	30,710
Alternative investments:				
Fund of funds	-	-	27,148	27,148
Fixed income fund	-	27,489	-	27,489
Global equity fund	-	9,935	-	9,935
Total	$ 243,948	$ 48,341	$ 27,148	$ 319,437

	2010			
	Level 1	**Level 2**	**Level 3**	**Total**
Common stock	$ 208,518	$ 815	$ -	$ 209,333
Bonds:				
Corporate	24,617	-	-	24,617
Government	14,595	-	-	14,595
Other, primarily mutual bond funds	30	2,912	-	2,942
Mutual funds (primarily common stock and bond funds)	21,561	5,371	-	26,932
Certificates of deposit	-	2,100	-	2,100
Other, primarily money market funds and cash equivalents	8,288	-	-	8,288
Alternative investments:				
Fund of funds	-	-	17,209	17,209
Fixed income fund	-	34,986	-	34,986
Total	$ 277,609	$ 46,184	$ 17,209	$ 341,002

(Dollar amounts in thousands)

The following table summarizes the changes in fair value associated with the Society's Level 3 investments for the years ended December 31, 2011 and 2010:

	2011	2010
Balance, beginning of the year	$ 17,209	$ 10,195
Realized gains	65	27
Unrealized (losses) gains	(126)	1,489
Purchases	10,000	5,498
Balance, end of the year	$ 27,148	$ 17,209

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, 2011 and 2010 is reflected as collateral received under securities loan agreement with an off-setting payable in the accompanying consolidated statements of financial position.

The Society uses the Net Asset Value (NAV) per share, or its equivalent to determine the fair value as of the measurement date of all the underlying investments which: (a) do not have a readily determinable fair value and (b) prepare their investees financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. The following table details certain attributes pertaining to the investments reported at fair value using a NAV, or its equivalent, as of December 31, 2011 and 2010.

2011

Type	Strategy	NAV in Funds	# of Funds	Remaining Life	$ Amount of Unfunded Commitments	Timing to Drawdown Commitments	Redemption Terms
Fund of funds	Commodities, equity, and interest rate-driven focused commingled funds.	$ 27,148	1	N/A	N/A	N/A	Subject to 95 days with prior written notice.
Fixed income fund	Global investment grade fixed income.	12,483	1	N/A	N/A	N/A	Any business day of the month, up to 10 business days notice depending on the size of the withdrawal.
Fixed income fund	Global equity and fixed income funds in market neutral strategies.	2,530	1	N/A	N/A	N/A	Subject to 2 days with written notification.
Fixed income fund	U.S. government and corporate fixed income.	12,476	6	N/A	N/A	N/A	Subject to 2 days with written notification.
Global equity fund	Large and mid-capitalization equities in emerging economies.	9,935	1	N/A	N/A	N/A	Monthly as of the last day of any month upon 10 days' prior written notice.
Total		$ 64,572	10		$ -		

(Dollar amounts in thousands)

2010

Type	Strategy	NAV in Funds	# of Funds	Remaining Life	$ Amount of Unfunded Commitments	Timing to Drawdown Commitments	Redemption Terms
Fund of funds	Commodities, equity, and interest rate-driven focused commingled funds.	$ 17,209	1	N/A	N/A	N/A	Subject to 95 days with prior written notice.
Fixed income fund	Global investment grade fixed income.	11,646	1	N/A	N/A	N/A	Any business day of the month, up to 10 business days notice depending on the size of the withdrawal.
Fixed income fund	Global equity and fixed income funds in market neutral strategies.	11,043	1	N/A	N/A	N/A	Subject to 2 days with written notification.
Fixed income fund	U.S. government and corporate fixed income.	12,297	6	N/A	N/A	N/A	Subject to 2 days with written notification.
Total		$ 52,195	9		$ -		

The composition of the collateral received under the securities loan agreement at December 31, 2011 and 2010 is as follows:

	2011	2010
Asset backed securities	$ 201	$ 445
Bank notes	510	457
Corporate debt	232	4,608
Total	$ 943	$ 5,510

The collateral detailed above is classified as Level 2 within the FASB's fair value hierarchy as of December 31, 2011 and 2010.

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 (5.5% in 2011 and 5.5% in 2010) of a five-year moving average market value of the portfolio. Any return in excess of this percentage is reinvested to protect the real dollar value of these funds against the effects of inflation.

(Dollar amounts in thousands)

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

	2011	2010
Interest and dividends	$ 3,673	$ 3,794
Realized and unrealized (losses) gains	(8,607)	29,401
Total investment (loss) income	(4,934)	33,195
Less: ERD investment income*	276	(2,111)
Investment (loss) return	$ (4,658)	$ 31,084

*Amounts presented above pertaining to ERD investment income are included in Episcopal Relief & Development revenues and other support in the accompanying consolidated statements of activities.

4. OTHER RECEIVABLES, NET

Other receivables consist of the following at December 31, 2011 and 2010:

	2011	2010
Contributions receivable, net	$ 2,031	$ 3,782
Other receivables	1,638	1,838
Total other receivables	$ 3,669	$ 5,620

Contributions receivable, which are recorded at the present value of their expected future cash flows, consist of the following at December 31, 2011 and 2010:

	2011	2010
Amounts expected to be collected:		
Within one year	$ 1,757	$ 1,911
In one to four years	443	2,013
Total contributions receivable	2,200	3,924
Allowance for uncollectible pledges	(158)	(80)
Present value discount (rates ranging from 1.50% to 6.00%)	(11)	(62)
Contributions receivables, net	$ 2,031	$ 3,782

(Dollar amounts in thousands)

5. LOANS RECEIVABLE, NET

Loans receivable, net, consist of the following at December 31 2011 and 2010:

	2011	2010
Construction loans to dioceses and missionary districts	$ 312	$ 406
Economic justice and community investment loans	3,033	3,850
Loans to Dioceses in distress	1,500	950
Residential loans to employees	10	12
	4,855	5,218
Allowance for uncollectible accounts	(476)	(512)
	$ 4,379	$ 4,706

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.

6. PROPERTY AND EQUIPMENT, NET

Property and equipment, net, consist of the following at December 31, 2011 and 2010:

	2011	2010
Land	$ 17,519	$ 17,519
Buildings and improvements	67,401	67,364
Equipment and furnishings	4,942	5,244
	89,862	90,127
Accumulated depreciation	(33,797)	(31,143)
Property and equipment, net	$ 56,065	$ 58,984

Depreciation expense amounted to $2,654 and $2,998 for the years ended December 31, 2011 and 2010, respectively.

7. MORTGAGE AND NOTES PAYABLE

Property

A Mortgage payable on the St. John's School property amounted to $2,482 and $2,558 as of December 31, 2011 and 2010, respectively. The interest rate of 6% is adjusted every three years on March 11th 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 $154 and $159 for the years ended December 31, 2011 and 2010, respectively.

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, 2011 and 2010, the interest rates assigned to each borrowing tranche ranged from 0.81% to 1.625% and 0.81% to 1.75%, respectively.

At December 31, 2011 and 2010, $0 and $44,975 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 $142 and $772 for the years ended December 31, 2011 and 2010, respectively.

In early 2011, the Society completed new credit facilities to replace the previous line of credit with the Bank of New York. The new credit facilities are summarized below.

In January 11, 2011, the Society obtained a $37 million term loan secured by DFMS's investment in unrestricted marketable securities, from U.S. Bank, to be used primarily for working capital and other business purposes. The facility is structured as a 5 year loan with a fixed interest rate and annual repayments on a 25 year schedule. Interest is payable monthly; annual principal of $1,480 is payable on each anniversary date through 2016. If not extended or renegotiated, unpaid principal will be due in 2016. At December 31, 2011, $34,123 was outstanding under this loan and is reflected on the accompanying consolidated statements of financial position as notes payable. Interest expense amounted to $1,254 for the year ended December 31, 2011.

Also on January 11, 2011, the Society obtained a one-year $5 million revolving credit facility from U.S. Bank. The facility, which is unsecured, bears interest based on the Eurodollar rate plus 75 basis points. Interest only is payable monthly. At December 31, 2011, there were no drawings against the facility.

On April 5, 2011, the Society obtained a $20 million revolving credit facility, secured by DFMS's investment in unrestricted marketable securities, from Bank of America Merrill Lynch, to be used primarily for working capital and other business purposes. The facility bears interest based on the Eurodollar rate plus 1.0%. Interest is payable monthly. The revolving credit may be drawn and repaid at any time through April 2016. If not extended or renegotiated, unpaid principal will be due in 2016. At December 31, 2011, $9,340 was outstanding under this loan and is reflected on the accompanying consolidated statements of financial position as notes payable. Interest expense amounted to $95 for the year ended December 31, 2011.

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

8. 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 on the accompanying consolidated financial statements amounted to $890 and $874 for the years ended December 31, 2011 and 2010, 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 on the accompanying consolidated financial statements amounted to $694 and $698 for the years ended December 31, 2011 and 2010, 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 $730 and $756 for the years ended December 31, 2011 and 2010, 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 $138 and $160 for the years ended December 31, 2011 and 2010, respectively.

(Dollar amounts in thousands)

9. 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 funded status of the plans and the components of net periodic benefit cost at December 31, 2011 and 2010:

	2011	2010
Change in benefit obligation:		
Benefit obligation, beginning of year	$ 11,107	$ 10,219
Service cost	412	460
Interest cost	570	560
Actuarial loss	1,704	502
Benefits paid	(615)	(634)
Benefit obligation, end of year	$ 13,178	$ 11,107
Components of accrued benefit cost:		
Funded status	$ 13,178	$ 11,107
Unrecognized net prior service cost	(14)	63
Unrecognized actuarial net gain	(1,657)	(47)
Accrued benefit cost	$ 11,507	$ 11,123
Components of net periodic benefit cost:		
Service cost	$ 412	$ 460
Interest cost	570	560
Amortization of unrecognized prior service costs	(49)	(49)
Net periodic benefit cost for fiscal year	$ 933	$ 971
Changes in assets and benefit obligations recognized in unrestricted net assets:		
Net actuarially loss	$ 1,704	$ 502
Amortization of unrecognized prior service cost	49	49
Total change recognized in unrestricted net assets	$ 1,753	$ 551
Total recognized in net periodic benefit cost and unrestricted net assets	$ 2,686	$ 1,522

(Dollar amounts in thousands)

The discount rates used in determining the accumulated postretirement benefit obligations were 4.20% and 5.25% for the years ended December 31, 2011 and 2010, respectively. The assumed medical care cost trend rate used was 6.00% for fiscal year 2011, decreasing gradually in future years to 4.7% by fiscal year 2082 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, 2011 and 2010 by $1,657 and $1,385, respectively, and increase the aggregate of the service cost and interest cost by $182 and $185, respectively. Decreasing the assumed medical care cost trend rate by 1% would decrease the accumulated postretirement benefit obligation as of December 31, 2011 and 2010 by $1,374 and $1,151, respectively, and decrease the aggregate of the service cost and interest cost by $146 and $149, respectively.

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

2012	$	740
2013		730
2014		697
2015		686
2016		662
2017 - 2021		3,356
Total	$	6,871

10. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are held for the following purposes at December 31, 2011 and 2010:

		2011		2010
Program related	$	42,643	$	47,051
Endowment earnings for domestic and foreign mission programs		66,927		80,634
Guam - School Scholarships		3,073		2,745
United Thank Offering and Episcopal Church Women Fund		1,011		1,066
Various other program funds		5,674		4,923
Total temporarily restricted net assets	$	119,328	$	136,419

11. ENDOWMENT FUND

The Society has adopted the provisions of "Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds" of the Accounting Standards Codification. This standard provides guidance on classifying the net assets associated with donor-restricted endowment funds held by organizations subject to the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), passed by the State of New York in September 2010, and also requires additional disclosures about endowments for both donor-restricted funds and board-designated funds.

Under New York State UPMIFA ("NYPMIFA"), the Society classifies as permanently restricted net assets: (a) the original value of gifts donated to its permanent endowment; (b) the original value of subsequent gifts to its permanent endowment; and, the (c) accumulations to its permanent endowment made in accordance with the directions of the applicable donor gift instrument, at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted nets assets until such amounts are appropriated for expenditure by the Society in a manner consistent with the standard of prudence prescribed by NYPMIFA.

In accordance with NYPMIFA, the Society considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: the duration and preservation of the fund, the purpose of the fund, general economic conditions, the possible effect of inflation or deflation, the expected total return from income and the appreciation of investments, other resources of the Society, the investment policies of the Society and, where appropriate, alternatives to spending from donor-restricted endowment funds and the possible effects on the Society.

The Society has a policy of appropriating for distribution each year an Executive Council approved spending rate of its endowment fund's average fair value over five years. In establishing this policy, the Society considered 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 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.

(Dollar amounts in thousands)

With the exception of endowment pledges and split-interest agreements, the following tables summarize endowment net asset composition, by type of fund, as of December 31, 2011 and 2010:

	2011			
Composition of Endowment Net Assets by Type of Fund	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds	$ -	$ 97,095	$ 23,611	$ 120,706
Board-designated endowment funds	48,084	-	-	48,084
Total	$ 48,084	$ 97,095	$ 23,611	$ 168,790
Changes in Endowment Net Assets				
Endowment net assets, beginning of year	$ 48,780	$ 109,456	$ 23,561	$ 181,797
Investment return:				
Investment income	317	-	-	317
Net appreciation (depreciation) (realized and unrealized)	1,729	(6,069)	-	(4,340)
Transfer in	2,166	-	-	2,166
Contributions	47	496	50	593
Appropriation of endowment assets for expenditure	(4,955)	(6,788)	-	(11,743)
Endowment net assets, end of year	$ 48,084	$ 97,095	$ 23,611	$ 168,790

Donor-restricted endowment funds	$ -	$ 109,456	$ 23,561	$ 133,017
Board-designated endowment funds	48,780	-	-	48,780
Total	$ 48,780	$ 109,456	$ 23,561	$ 181,797
Changes in Endowment Net Assets				
Endowment net assets, beginning of year	$ 85,580	$ 59,885	$ 23,523	$ 168,988
Net asset reclassification based on change in law	(40,452)	40,452	-	-
Endowment net assets after reclassification	45,128	100,337	23,523	168,988
Investment return:				
Investment income	208	-	-	208
Net appreciation (realized and unrealized)	7,509	15,620	-	23,129
Transfer in	634			634
Contributions	280	320	38	638
Appropriation of endowment assets for expenditure	(4,979)	(6,821)	-	(11,800)
Endowment net assets, end of year	$ 48,780	$ 109,456	$ 23,561	$ 181,797

12. 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 $26,000 and $27,000 for the years ended December 31, 2011 and 2010, respectively. In addition, DFMS receives a significant portion of non-governmental fees from related parties as well, which totaled approximately $1,000 and $843 for the years ended December 31, 2011 and 2010, respectively. DFMS expended approximately $51,000 and $53,000 for the years ended December 31, 2011 and 2010, 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, 2011 and 2010, approximately $1,000 each year represent loans to related entities which bear interest at rates ranging from 3.0% to 8.0% per annum.

13. CONTINGENCIES

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.

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, 2011 and 2010, there were $10,841 and $11,404, respectively, of refugee loans outstanding. Such amounts are not reflected on the accompanying consolidated financial statements, and the Society does not guarantee the loans.

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.

(Dollar amounts in thousands)

14. EPISCOPAL RELIEF & DEVELOPMENT

The following represents summarized financial information for ERD for the years ended December 31, 2011 and 2010:

	2011	2010
Revenues:		
Contributions	$ 18,595	$ 31,645
Investment (loss) return	(276)	2,111
Total revenues	$ 18,319	$ 33,756
Expenses:		
Program	$ 18,448	$ 21,629
Fundraising	1,906	2,067
General and administration	1,371	832
Total expenses	$ 21,725	$ 24,528

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, 2011

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	$ 7,702,604
United States Department of Health and Human Services:		
Refugee and Entrant Assistance – Voluntary Agency Programs	93.567	3,585,691
Refugee and Entrant Assistance – Discretionary Grants	93.576	551,469
Total United States Department of Health and Human Services		4,137,160
United States Agency for International Development:		
Foreign Assistance for Programs Overseas	98.001	1,791,214
Total Expenditures of Federal Awards		$ 13,630,978

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

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards for the year ended December 31, 2011 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 (collectively, 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*.

2. SUBRECIPIENTS

Of the federal expenditures presented on the schedule, the Society provided federal awards to subrecepients during the year ended December 31, 2011, 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	$ 6,702,529
United States Department of Health and Human Services:		
Refugee and Entrant Assistance - Voluntary Agency Programs	93.567	3,187,955
Refugee and Entrant Assistance - Discretionary Grants	93.576	488,914
United States Agency for International Development:		
Foreign Assistance for Programs Overseas	98.001	1,309,247

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

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 (collectively, the "Society") as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated July 29, 2012. 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 audits, 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.

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
July 29, 2012

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON COMPLIANCE RELATED TO MAJOR PROGRAMS (OMB CIRCULAR A-133) AND ON INTERNAL CONTROL OVER COMPLIANCE

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 (collectively, 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, 2011. The Society's major federal program is 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 its major federal program 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 its major federal program for the year ended December 31, 2011.

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
August 10, 2012

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 program:		
• 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 program:	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 the major program:

Federal Grantor/Program Title	Federal CFDA Number
United States Department of State/Bureau for Population, Refugees, and Migration: Reception and Placement Cooperative	19.510

Dollar threshold used to distinguish between type A and type B programs:	$408,929	
Auditee qualified as a low-risk auditee?	X yes	__ no

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 Schedule of Prior Year Findings and Questioned Costs

For the year ended December 31, 2011

None noted.