

THE EPISCOPAL DIOCESE OF WEST TEXAS
CONSOLIDATING FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
with
INDEPENDENT AUDITORS' REPORT

THE EPISCOPAL DIOCESE OF WEST TEXAS

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INDEPENDENT AUDITORS' REPORT

The Finance Committee
The Episcopal Diocese of West Texas
San Antonio, Texas

We have audited the accompanying consolidating statements of financial position of The Episcopal Diocese of West Texas as of December 31, 2010 and 2009, and the related consolidating statements of activities and cash flows for the years then ended. These consolidating financial statements are the responsibility of The Episcopal Diocese of West Texas' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidating financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidating financial statements. An audit also includes 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 financial statements referred to above present fairly, in all material respects, the financial position of The Episcopal Diocese of West Texas as of December 31, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Oroian, Guest & Little, P.C.

A Professional Corporation

May 4, 2011

THE EPISCOPAL DIOCESE OF WEST TEXAS
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2010

ASSETS	Budget Fund	Episcopal Church Corporation	Episcopal Church Foundation	Interfund Eliminations	TOTAL 2010
Cash and cash equivalents	\$ 1,350,322	\$ 414,236	\$ 7,473,674	\$ -	\$ 9,238,232
Investments	-	702	36,356,390	-	36,357,092
Accounts receivable	236,045	38,304	3,916	-	278,265
Prepaid expenses	216,759	-	-	-	216,759
Notes receivable, net of allowance of \$664,999	-	835,131	-	-	835,131
Equity interest in Christ Chapel	-	375,000	-	-	375,000
Property and equipment, net	-	10,109,177	1,140,000	-	11,249,177
Assets held in trust	-	-	787,898	-	787,898
Contributions receivable from remainder trusts	-	771,911	-	-	771,911
Beneficial interest in perpetual trusts	-	2,065,679	-	-	2,065,679
Interfund receivable	1,279,127	16,668,249	-	(17,947,376)	-
TOTAL	\$ 3,082,253	\$ 31,278,389	\$ 45,761,878	\$ (17,947,376)	\$ 62,175,144
LIABILITIES AND NET ASSETS					
LIABILITIES:					
Accounts payable	\$ 28,515	\$ 8	\$ -	\$ -	\$ 28,523
Accrued liabilities	87,422	-	-	-	87,422
Deferred revenue	61,168	4,547	-	-	65,715
Funds held for third parties	18,905	-	22,455,740	-	22,474,645
Liability under unitrusts	-	-	550,674	-	550,674
Interfund payable	38,536	207,334	17,701,506	(17,947,376)	-
	234,546	211,889	40,707,920	(17,947,376)	23,206,979
NET ASSETS:					
Unrestricted	2,244,809	24,320,886	86,949	-	26,652,644
Temporarily restricted	602,898	3,328,052	3,593,469	-	7,524,419
Permanently restricted	-	3,417,562	1,373,540	-	4,791,102
	2,847,707	31,066,500	5,053,958	-	38,968,165
TOTAL	\$ 3,082,253	\$ 31,278,389	\$ 45,761,878	\$ (17,947,376)	\$ 62,175,144

See notes to consolidating financial statements

THE EPISCOPAL DIOCESE OF WEST TEXAS
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2009

ASSETS	Budget Fund	Episcopal Church Corporation	Episcopal Church Foundation	Interfund Eliminations	TOTAL 2009
Cash and cash equivalents	\$ 1,167,456	\$ 473,157	\$ 7,800,189	\$ -	\$ 9,440,802
Investments	-	412	30,046,217	-	30,046,629
Accounts receivable	186,671	10,021	3,916	-	200,608
Prepaid expenses	192,277	-	-	-	192,277
Notes receivable, net of allowance of \$664,999	-	900,592	-	-	900,592
Equity interest in Christ Chapel	-	760,677	-	-	760,677
Property and equipment, net	-	10,409,677	1,140,000	-	11,549,677
Assets held in trust	-	-	738,006	-	738,006
Contributions receivable from remainder trusts	-	497,978	-	-	497,978
Beneficial interest in perpetual trusts	-	1,914,988	-	-	1,914,988
Interfund receivable	1,076,185	15,232,331	3,750	(16,312,266)	-
TOTAL	\$ 2,622,589	\$ 30,199,833	\$ 39,732,078	\$ (16,312,266)	\$ 56,242,234
LIABILITIES AND NET ASSETS					
LIABILITIES:					
Accounts payable	\$ 40,682	\$ 50,298	\$ -	\$ -	\$ 90,980
Accrued liabilities	73,654	-	-	-	73,654
Deferred revenue	80,202	-	-	-	80,202
Funds held for third parties	20,945	-	18,699,016	-	18,719,961
Liability under unitrusts	-	-	410,474	-	410,474
Interfund payable	51,717	166,443	16,094,106	(16,312,266)	-
	267,200	216,741	35,203,596	(16,312,266)	19,375,271
NET ASSETS:					
Unrestricted	1,870,800	24,015,857	64,740	-	25,951,397
Temporarily restricted	484,589	2,700,364	3,190,202	-	6,375,155
Permanently restricted	-	3,266,871	1,273,540	-	4,540,411
	2,355,389	29,983,092	4,528,482	-	36,866,963
TOTAL	\$ 2,622,589	\$ 30,199,833	\$ 39,732,078	\$ (16,312,266)	\$ 56,242,234

See notes to consolidating financial statements

THE EPISCOPAL DIOCESE OF WEST TEXAS
CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>Budget Fund</u>	<u>Episcopal Church Corporation</u>	<u>Episcopal Church Foundation</u>	<u>TOTAL 2010</u>
Cash flows from operating activities:				
Increase in net assets	\$ 492,318	\$ 1,083,408	\$ 525,476	\$ 2,101,202
Adjustments to reconcile the change in net assets to net cash provided by (used in) operating activities:				
Depreciation	-	639,806	-	639,806
Contributions restricted for long-term purposes	-	(483,190)	(100,000)	(583,190)
Interest income restricted for long-term purposes	-	(570)	-	(570)
Gain on permanently-restricted perpetual trust	-	(150,691)	-	(150,691)
Noncash donation of securities	-	-	(38,580)	(38,580)
Reinvested dividends	-	-	(1,208,310)	(1,208,310)
Unrealized gain on investments	-	(290)	(3,016,058)	(3,016,348)
Net realized loss on investments	-	-	70,169	70,169
Net loss on sale of fixed assets	-	13,990	-	13,990
Changes in assets and liabilities:				
Accounts receivable	(49,374)	(28,283)	-	(77,657)
Prepaid expenses	(24,482)	-	-	(24,482)
Perpetual and remainder trusts	-	(424,624)	(49,892)	(474,516)
Accounts payable	(12,167)	(50,290)	-	(62,457)
Accrued liabilities	13,768	-	-	13,768
Deferred revenue	(19,034)	4,547	-	(14,487)
Funds held for third parties	(2,040)	-	3,756,724	3,754,684
Liabilities under Unitrusts	-	-	140,200	140,200
Interfund receivable	(202,942)	(1,435,918)	3,750	(1,635,110)
Interfund payable	(13,181)	40,891	1,607,400	1,635,110
Net cash provided by (used in) operating activities	<u>182,866</u>	<u>(791,214)</u>	<u>1,690,879</u>	<u>1,082,531</u>
Cash flows from investing activities:				
Purchase of investments	-	-	(4,645,098)	(4,645,098)
Proceeds from sale of investments	-	365,256	2,527,704	2,892,960
Purchase of property and equipment	-	(379,875)	-	(379,875)
Proceeds from sale of property and equipment	-	47,000	-	47,000
Repayment of notes receivable	-	135,598	-	135,598
Advances on notes receivable	-	(70,137)	-	(70,137)
Net cash provided by (used in) investing activities	<u>-</u>	<u>97,842</u>	<u>(2,117,394)</u>	<u>(2,019,552)</u>
Cash flows from financing activities:				
Contributions restricted for long-term purposes	-	483,190	100,000	583,190
Interest income restricted for long-term purposes	-	570	-	570
Gain on permanently-restricted perpetual trusts	-	150,691	-	150,691
Net cash provided by financing activities	<u>-</u>	<u>634,451</u>	<u>100,000</u>	<u>734,451</u>
Net increase (decrease) in cash and cash equivalents	182,866	(58,921)	(326,515)	(202,570)
Cash and cash equivalents at beginning of year	<u>1,167,456</u>	<u>473,157</u>	<u>7,800,189</u>	<u>9,440,802</u>
Cash and cash equivalents at end of year	<u>\$1,350,322</u>	<u>\$ 414,236</u>	<u>\$ 7,473,674</u>	<u>\$ 9,238,232</u>
Supplemental disclosure of cash flow information:				
Cash paid during the year for interest	\$ -	\$ -	\$ -	\$ -

See notes to consolidating financial statements

THE EPISCOPAL DIOCESE OF WEST TEXAS
CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2009

	<u>Budget Fund</u>	<u>Episcopal Church Corporation</u>	<u>Episcopal Church Foundation</u>	<u>TOTAL 2009</u>
Cash flows from operating activities:				
Increase in net assets	\$ 90,666	\$ 2,383,171	\$ 1,057,107	\$ 3,530,944
Adjustments to reconcile the change in net assets to net cash provided by (used in) operating activities:				
Depreciation	-	616,628	-	616,628
Contributions restricted for long-term purposes	-	(265,278)	(521,093)	(786,371)
Interest income restricted for long-term purposes	-	(7,307)	-	(7,307)
Gain on permanently-restricted perpetual trust	-	(327,395)	-	(327,395)
Noncash donation of securities	-	-	(12,718)	(12,718)
Bad debt	-	50,000	-	50,000
Reinvested dividends	-	-	(836,561)	(836,561)
Unrealized loss (gain) on investments	-	57	(5,193,902)	(5,193,845)
Net realized gain on investments	-	-	(237,593)	(237,593)
Net loss on sale of fixed assets	-	2,427	-	2,427
Changes in assets and liabilities:				
Accounts receivable	(48,655)	(5,120)	-	(53,775)
Prepaid expenses	(25,356)	-	-	(25,356)
Perpetual and remainder trusts	-	(535,644)	(113,271)	(648,915)
Accounts payable	(31,046)	50,290	-	19,244
Accrued liabilities	22,223	-	-	22,223
Deferred revenue	(5,462)	(40)	-	(5,502)
Funds held for third parties	6,413	-	6,125,055	6,131,468
Liabilities under Unitrusts	-	-	(27,725)	(27,725)
Interfund receivable	(205,797)	(2,019,572)	(3,750)	(2,229,119)
Interfund payable	(50,717)	6,899	2,272,937	2,229,119
Net cash (used in) provided by operating activities	(247,731)	(50,884)	2,508,486	2,209,871
Cash flows from investing activities:				
Purchase of investments	-	-	(3,945,558)	(3,945,558)
Proceeds from sale of investments	-	-	2,546,944	2,546,944
Purchase of property and equipment	-	(438,530)	-	(438,530)
Proceeds from sale of property and equipment	-	50,202	-	50,202
Repayment of notes receivable	-	104,955	-	104,955
Advances on notes receivable	-	(204,746)	-	(204,746)
Net cash used in investing activities	-	(488,119)	(1,398,614)	(1,886,733)
Cash flows from financing activities:				
Contributions restricted for long-term purposes	-	265,278	521,093	786,371
Interest income restricted for long-term purposes	-	7,307	-	7,307
Gain on permanently-restricted perpetual trust	-	327,395	-	327,395
Net cash provided by financing activities	-	599,980	521,093	1,121,073
Net (decrease) increase in cash and cash equivalents	(247,731)	60,977	1,630,965	1,444,211
Cash and cash equivalents at beginning of year	1,415,187	412,180	6,169,224	7,996,591
Cash and cash equivalents at end of year	<u>\$ 1,167,456</u>	<u>\$ 473,157</u>	<u>\$ 7,800,189</u>	<u>\$ 9,440,802</u>
Supplemental disclosure of cash flow information:				
Cash paid during the year for interest	\$ -	\$ -	\$ -	\$ -

See notes to consolidating financial statements

THE EPISCOPAL DIOCESE OF WEST TEXAS
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

The Episcopal Diocese of West Texas (the Diocese) is the governing body of the Episcopal churches in south and central Texas in an area that covers 60 counties. Programs of the organization include the support of mission churches, foreign ministries and assistance to social charities. Additionally, the Diocese operates the 76-acre Camp Capers retreat center located in Waring, Texas and the Mustang Island Conference Center located in Corpus Christi, Texas.

Basis of Accounting

The consolidating financial statements are presented under the accrual basis, reflecting revenues as they are earned and expenses as incurred, regardless of when cash is received or disbursed. The consolidating financial statements include the financial position, the results of operation and cash flows of the Budget Fund, which represents the operating accounts of the Diocese, the Episcopal Church Corporation of the Diocese of West Texas, and the Episcopal Church Foundation in West Texas. The significant intercompany transactions and balances have been eliminated in consolidation.

Financial Statement Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-For-Profit Organizations." Under SFAS No. 117, the Diocese is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily-restricted net assets and permanently-restricted net assets.

Estimates

The preparation of consolidating financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

The Diocese considers cash on hand, cash in banks and all highly-liquid investments with an original maturity of three months or less to be cash equivalents. Cash held for permanently-restricted net assets amounted to \$9,380 and \$213,537 as of December 31, 2010 and 2009, respectively.

Property and Equipment

Acquisitions of property and equipment in excess of \$1,000 are capitalized. Fixed assets are recorded at cost if purchased or fair value if contributed; and are depreciated using the straight-line method. Buildings are depreciated over 30 to 40 years; furniture, fixtures and equipment are depreciated over 5 to 10 years; and automobiles and other such vehicles are depreciated over 5 years. Land, fine art and construction in progress are not depreciated. Repairs and maintenance are expensed as incurred.

THE EPISCOPAL DIOCESE OF WEST TEXAS
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Donated Materials And Contributed Services

Donated property, marketable securities, and other non-cash donations are recorded as contributions at their estimated market value at the date of donation.

The Diocese receives a substantial amount of services donated by those interested in the Diocese's programs. The kinds of services provided generally involve the contribution of time to organize and administer programs. Because of the difficulty in assigning values for such services, these items are generally not reflected in the accompanying consolidating financial statements.

Restricted and Unrestricted Revenue and Support

Contributions received are recorded as unrestricted, temporarily-restricted, or permanently-restricted support, depending on the existence and/or nature of any donor-designated restrictions.

Revenues are reported as increases in unrestricted net assets unless the use of the assets received is limited by donor-imposed restrictions. Restricted support is reported as an increase in temporarily or permanently-restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished) temporarily-restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions.

Absent explicit donor stipulations about the length of time long-lived assets must be maintained, the Diocese reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Subsequent Events

Management has considered subsequent events through May 4, 2011, which is the date the financial statements have been available to be issued.

Income Taxes

The Diocese is a non-profit organization and is exempt from federal income tax under Internal Revenue Code Section 501(c)(3). In addition, the Diocese qualifies for the charitable contribution deduction under Section 509(a)(2).

The Diocese also qualifies as a religious order in accordance with IRS Sections 501-514, 4940-4947, and 6033. This makes the Diocese exempt from filing federal Form 990, Return of Organizations Exempt from Income Tax.

THE EPISCOPAL DIOCESE OF WEST TEXAS
 NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
 DECEMBER 31, 2010 AND 2009

Note 2 - CASH AND CASH EQUIVALENTS

Cash and cash equivalents consisted of the following at December 31, 2010:

	<u>Budget Fund</u>	<u>Episcopal Church Corporation</u>	<u>Episcopal Church Foundation</u>
Cash on hand	\$ 2,050	\$ -	\$ -
Cash in banks	521,089	73,116	62,843
Cash in money markets	<u>827,183</u>	<u>341,120</u>	<u>7,410,831</u>
	<u>\$ 1,350,322</u>	<u>\$ 414,236</u>	<u>\$ 7,473,674</u>

Note 3 - INVESTMENTS

Investments are stated at market value, based on the quoted market prices for those or similar investments. A provision for unrealized gains or losses is made in each year to adjust to the appropriate market value. Realized and unrealized gains or losses are determined by comparison of cost to proceeds or market, respectively. Cost is determined by historical purchase price or, in the case of donated investments, the fair market value of those investments at the date of the gift.

A summary of investments held at each fund at December 31, 2010 and 2009, is as follows:

	<u>2010</u>		<u>2009</u>	
	<u>Cost</u>	<u>Market Value</u>	<u>Cost</u>	<u>Market Value</u>
Episcopal Church Corporation	\$ 329	\$ 702	\$ 329	\$ 412
Episcopal Church Foundation	<u>35,392,528</u>	<u>36,356,390</u>	<u>32,098,413</u>	<u>30,046,217</u>
	<u>\$35,392,857</u>	<u>\$36,357,092</u>	<u>\$32,098,742</u>	<u>\$30,046,629</u>

Investments are comprised of the following:

	<u>2010</u>		<u>2009</u>	
	<u>Cost</u>	<u>Market Value</u>	<u>Cost</u>	<u>Market Value</u>
Mutual funds:				
Equities	\$23,199,653	\$23,916,819	\$21,908,922	\$19,577,473
Fixed income	<u>12,193,204</u>	<u>12,440,273</u>	<u>10,189,820</u>	<u>10,469,156</u>
	<u>\$35,392,857</u>	<u>\$36,357,092</u>	<u>\$32,098,742</u>	<u>\$30,046,629</u>

THE EPISCOPAL DIOCESE OF WEST TEXAS
 NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
 DECEMBER 31, 2010 AND 2009

Note 4 - RESTRICTED USE OF CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and investments restricted permanently or for use for long-term purposes are as follows at December 31, 2010:

	<u>Budget Fund</u>	<u>Episcopal Church Corporation</u>	<u>Episcopal Church Foundation</u>
Cash and cash equivalents	\$ -	\$ 11,231	\$ 1,039,011
Investments	<u>-</u>	<u>-</u>	<u>2,660,778</u>
	<u>\$ -</u>	<u>\$ 11,231</u>	<u>\$ 3,699,789</u>

Cash and investments restricted permanently or for use for long-term purposes are as follows at December 31, 2009:

	<u>Budget Fund</u>	<u>Episcopal Church Corporation</u>	<u>Episcopal Church Foundation</u>
Cash and cash equivalents	\$ -	\$ 11,231	\$ 1,106,525
Investments	<u>-</u>	<u>-</u>	<u>2,358,161</u>
	<u>\$ -</u>	<u>\$ 11,231</u>	<u>\$ 3,464,686</u>

Note 5 - NOTES RECEIVABLE - RELATED PARTY

Notes receivable at December 31, 2010 and 2009 consisted of the following:

	<u>2010</u>	<u>2009</u>
Churches	\$ 1,500,130	\$ 1,562,609
Individuals	<u>-</u>	<u>2,982</u>
	1,500,130	1,565,591
Less allowance for doubtful accounts	<u>664,999</u>	<u>664,999</u>
	<u>\$ 835,131</u>	<u>\$ 900,592</u>

Notes receivable consist principally of amounts advanced to Diocese churches for capital improvements. Management periodically reviews past due notes receivable for collectability and based on the financial condition and outlook of each church, adjusts the allowance for losses if the collectability of the note receivable is deemed to be remote. It is the policy of the Diocese to maintain records of past due notes receivable and to indefinitely maintain them in the allowance until the obligor is able to repay the debt. Interest is not accrued on loans that are past due one month or more.

THE EPISCOPAL DIOCESE OF WEST TEXAS
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

Note 6 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of December 31, 2010 and 2009:

	2010	2009
Land	\$ 2,809,630	\$ 2,809,630
Fine Art	112,811	112,811
Buildings and improvements	13,035,778	12,662,493
Furniture and equipment	1,449,263	1,452,684
Automobiles	197,867	193,973
Land held for resale	1,140,000	1,140,000
Construction in progress	173,452	304,598
	18,918,801	18,676,189
Less accumulated depreciation	7,669,624	7,126,512
Net property and equipment	\$ 11,249,177	\$ 11,549,677

Note 7 - CONTRIBUTIONS RECEIVABLE FROM REMAINDER TRUSTS

The Diocese is the remainder beneficiary of irrevocable charitable trusts for which it is a trustee and also for which a third party is trustee. The Diocese conforms to Statements of Financial Accounting Standards (SFAS) No. 116, "Accounting for Contributions Received and Contributions Made." Under SFAS No. 116, the Diocese recognizes the present value of the contribution at the date of the creation of the instrument. Present value is computed based upon the quoted market prices of the assets in trust reduced by the present value of the future payments to the donor or other beneficiaries based on life expectancy and the applicable federal mid-term discount rate, which at December 31, 2010 was 1.8%. Changes in the value of the split-interest agreements result from revaluations of future benefits due donors and amortization of discounts initially set up to account for future benefits. These changes are reflected in the statement of activities. The interest of the Diocese in the split-interest agreements, net of the donors' interest, is presented as temporarily-restricted assets. Revocable or conditional agreements are not recognized as either contributions or assets.

The assets held in the various trusts consist of cash, bonds, common stocks and mutual funds having an aggregate fair market value of \$2,312,826 and \$2,198,755 at December 31, 2010 and 2009, respectively. At December 31, 2010 and 2009, \$787,898 and \$738,006, respectively, of these assets was reported as assets held in trust, with a corresponding liability to beneficiaries of \$550,674 and \$410,474, respectively. The remaining trust assets reflect trusts held by third party trustees and are reported as the present value of the estimated future distributions to the Diocese which were \$771,911 and \$497,978 at December 31, 2010 and 2009, respectively. In accordance with SFAS No. 116, these amounts are recorded as a contribution receivable.

THE EPISCOPAL DIOCESE OF WEST TEXAS
 NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
 DECEMBER 31, 2010 AND 2009

Note 8 - BENEFICIAL INTEREST IN PERPETUAL TRUST

The Diocese is the income beneficiary of two irrevocable perpetual trusts which are held by third party trustees. Revocable or conditional agreements are not recognized. The Diocese's interest in perpetual trusts is the present value of estimated future cash receipts from the trusts, which is best measured by the fair market value of the trusts' assets. This interest is classified as permanently-restricted net assets.

The assets of these trusts consist of cash, bonds, common stocks and mutual funds. Based upon the fair market value of these assets from quoted market prices at December 31, 2010 and 2009, the beneficial interest is estimated at \$2,065,679 and \$1,914,988, respectively.

Distributions to the Diocese, totaling \$107,348 for 2010 and \$47,384 for 2009, were reported as unrestricted investment income as received.

Note 9 - FUNDS HELD FOR THIRD PARTIES

The Diocese holds and invests funds for the benefit of parishes, the Good Samaritan Center (which is a related party of the Diocese) and other various religious purposes. These investments consist of cash, bonds, stocks and mutual funds and are as follows at December 31, 2010:

	<u>Budget Fund</u>	<u>Episcopal Church Corporation</u>	<u>Episcopal Church Foundation</u>
Churches	\$ -	\$ -	\$ 21,207,096
Good Samaritan Center	-	-	888,976
Other religious purposes	<u>18,905</u>	<u>-</u>	<u>359,668</u>
	<u>\$ 18,905</u>	<u>\$ -</u>	<u>\$ 22,455,740</u>

Funds invested for third parties are as follows at December 31, 2009:

	<u>Budget Fund</u>	<u>Episcopal Church Corporation</u>	<u>Episcopal Church Foundation</u>
Churches	\$ -	\$ -	\$ 17,585,658
Good Samaritan Center	-	-	791,355
Other religious purposes	<u>20,945</u>	<u>-</u>	<u>322,003</u>
	<u>\$ 20,945</u>	<u>\$ -</u>	<u>\$ 18,699,016</u>

THE EPISCOPAL DIOCESE OF WEST TEXAS
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Note 10 - RESTRICTIONS ON NET ASSETS

Temporarily-restricted net assets are available for the following purposes as of December 31, 2010:

	<u>Budget Fund</u>	<u>Episcopal Church Corporation</u>	<u>Episcopal Church Foundation</u>
Outreach, missions and development	\$ 137,576	\$ 1,555,336	\$ 1,140,000
Education	3,401	548,773	1,424,521
Pastoral programs	430,940	332,051	693,596
Facilities maintenance	30,981	119,981	98,128
Time restrictions	<u>-</u>	<u>771,911</u>	<u>237,224</u>
	<u>\$ 602,898</u>	<u>\$ 3,328,052</u>	<u>\$ 3,593,469</u>

Temporarily-restricted net assets are available for the following purposes as of December 31, 2009:

	<u>Budget Fund</u>	<u>Episcopal Church Corporation</u>	<u>Episcopal Church Foundation</u>
Outreach, missions and development	\$ 98,137	\$ 1,328,062	\$ 1,140,000
Education	6,878	495,981	1,275,077
Pastoral programs	332,543	305,186	331,912
Facilities maintenance	47,031	73,157	115,681
Time restrictions	<u>-</u>	<u>497,978</u>	<u>327,532</u>
	<u>\$ 484,589</u>	<u>\$ 2,700,364</u>	<u>\$ 3,190,202</u>

Temporarily-restricted net assets released from donor restrictions by incurring expenditures satisfying the purpose of donors are as follows for the year ended December 31, 2010:

	<u>Budget Fund</u>	<u>Episcopal Church Corporation</u>	<u>Episcopal Church Foundation</u>
Outreach, missions and development	\$ 538,064	\$ 92,168	\$ -
Education	105,670	26,551	88,642
Pastoral programs	178,690	131,257	100,891
Facilities maintenance	<u>21,212</u>	<u>245,815</u>	<u>19,361</u>
	<u>\$ 843,636</u>	<u>\$ 495,791</u>	<u>\$ 200,394</u>

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Note 10 - RESTRICTIONS ON NET ASSETS (continued)

Temporarily-restricted net assets released from donor restrictions by incurring expenditures satisfying the purpose of donors are as follows for the year ended December 31, 2009:

	<u>Budget Fund</u>	<u>Episcopal Church Corporation</u>	<u>Episcopal Church Foundation</u>
Outreach, missions and development	\$ 513,752	\$ 361,579	\$ -
Education	49,102	-	75,420
Pastoral programs	247,975	160,333	23,620
Facilities maintenance	<u>5,755</u>	<u>66,324</u>	<u>24,621</u>
	<u>\$ 816,584</u>	<u>\$ 588,236</u>	<u>\$ 123,661</u>

Permanently-restricted net asset amounts and restrictions as of December 31, 2010 are as follows:

	<u>Budget Fund</u>	<u>Episcopal Church Corporation</u>	<u>Episcopal Church Foundation</u>
Education	\$ -	\$ 383,500	\$ 501,875
Facilities maintenance	-	668,089	-
Pastoral programs	-	75,291	871,665
Capital assets	-	225,003	-
Time restrictions	<u>-</u>	<u>2,065,679</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ 3,417,562</u>	<u>\$ 1,373,540</u>

Permanently-restricted net asset amounts and restrictions as of December 31, 2009 are as follows:

	<u>Budget Fund</u>	<u>Episcopal Church Corporation</u>	<u>Episcopal Church Foundation</u>
Education	\$ -	\$ 383,500	\$ 501,875
Facilities maintenance	-	668,089	-
Pastoral programs	-	75,291	771,665
Capital assets	-	225,003	-
Time restrictions	<u>-</u>	<u>1,914,988</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ 3,266,871</u>	<u>\$ 1,273,540</u>

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Note 11 - DESIGNATIONS ON UNRESTRICTED NET ASSETS

Designated unrestricted net assets available at December 31, 2010 and 2009 are as follows:

	2010	2009
Designated unrestricted:		
Budget Fund	\$ 1,780,884	\$ 1,449,247
Episcopal Church Corporation	10,282,368	9,818,309
Episcopal Church Foundation	500	500
	<u>\$ 12,063,752</u>	<u>\$ 11,268,056</u>

Note 12 - RELATED PARTY TRANSACTIONS

The Diocese is a related party to all congregations and schools under its authority, the Good Samaritan Center of San Antonio and Texas Military Institute. These entities receive extensive support from the Diocese and the congregations contribute apportionments to help pay for the management of the Diocese. Support received from the congregations is shown as apportionments on these consolidating financial statements and totaled \$3,557,896 and \$3,573,456 for the years ended December 31, 2010 and 2009, respectively. Additionally, endowments and contributions as reported on the statements of activities included amounts donated by Churches within the Diocese of \$82,968 and \$92,009 for the years ended December 31, 2010 and 2009, respectively.

The Diocese provided direct support to the mission congregations of the Diocese, which approximated \$689,923 and \$645,724 for the years ended December 31, 2010 and 2009, respectively. The Diocese support of the programs of the Good Samaritan Center totaled approximately \$212,447 and \$149,205 for the years ended December 31, 2010 and 2009, respectively. The Diocese support of the programs of Texas Military Institute totaled approximately \$112,395 and \$125,908 for the years ended December 31, 2010 and 2009, respectively. Additionally, at December 31, 2010, \$662,081 of the temporarily restricted funds in the Episcopal Church Foundation are purposed for the benefit of Texas Military Institute.

The Diocese invested \$430,677 and \$330,000 in 2008 and 2007, respectively, to become a 50% owner of Christ Chapel at Texas State University – San Marcos (Christ Chapel). The remaining 50% of this non-profit corporation is owned by the Evangelical Lutheran Church in America. Christ Chapel's assets consisted of real property with an estimated value, based on the agreed price for the property in 2007, of \$1,500,000. Christ Chapel used this property, which is adjacent to the Texas State University in San Marcos, Texas, to provide campus ministries. In September of 2010, Christ Chapel sold this property for \$1,500,000. The sales price consisted of cash of \$750,000 and a note receivable for \$750,000 at 10% interest, payable in 10 annual installments at the first of each year beginning January 1, 2011. A corresponding lease was also entered into whereas Christ Chapel leases the same property for a period of 10 years beginning September 15, 2010. Lease payments consist of \$1 per year in addition to a reduction of the expected annual note payments by \$20,000 per year. The Diocese's interest in half of Christ Chapel's note receivable is reported as "Equity interest in Christ Chapel" on the 2010 statement of financial position. Also, the property's sale resulted in a \$20,421 loss reported as part of the "net loss on sale of assets" shown on the 2010 statement of activities.

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Note 13 - ASSETS HELD FOR THE BENEFIT OF CHURCHES

The Diocese, through the Church Corporation, holds title to real property used by parishes within the Diocese. This real property is not recorded as assets of the Diocese and the historical costs of this property are unknown since the funds raised for construction were raised and managed by the individual parishes. Certain of these properties are encumbered for borrowings used by the parishes in construction. Canon 21 of the Diocesan Canons provides that no real property, consecrated or unconsecrated, of any congregation, institution or other diocesan body shall be alienated or encumbered without the consent of the Church Corporation. Any debt created in such an approved transaction may encumber the property but can in no way become an obligation, direct or otherwise, of the Diocese or the Church Corporation.

Note 14 - INTENTIONS TO GIVE

In connection with the Diocesan Development Campaign, the Diocese had approximately \$4,943,923 and \$5,374,313 in outstanding intentions to give at December 31, 2010 and 2009, respectively. The intentions to give may be rescinded or modified by the donors at any time. As such, the intentions to give do not meet the criteria for revenue recognition under Statement of Financial Accounting Standard No. 116. These intentions to give are recorded as contributions when funds are received.

Note 15 - OPERATING LEASE AGREEMENTS

Effective September 1, 2008, the Diocese began leasing land and building to the Messianic Fellowship Church of Corpus Christi, Inc. at a rate of \$500 per month with a term of one year. This agreement was renewed September 1, 2010 at the same rate and expires September 1, 2011. Rental income received during 2010 and 2009 was \$5,000 and \$5,500, respectively. Future minimum rentals at December 31, 2010 are as follows: 2011 - \$4,000

Effective October 1, 2009, the Diocese entered into a related party operating lease with Texas Military Institute to lease chapel space at a rate of \$250 per worship service event and \$100 per music rehearsal event. This lease automatically renews yearly, may be terminated by either party, and has no stated minimum lease payments. Lease payments made during 2010 and 2009 were \$12,675 and \$2,850, respectively.

Effective April 30, 2008, the Diocese entered into a lease agreement with Documation to lease copier equipment. This agreement calls for base monthly payments of \$1,592 for 63 months. Lease payments made during 2010 and 2009 were \$21,496 and \$18,250, respectively. Future minimum lease payments at December 31, 2010 are as follows: 2011 - \$19,104; 2012 - \$19,104; and 2013 - \$11,144.

Effective November 17, 2010, the Diocese entered into a lease agreement with US Bank to lease copier equipment. This agreement calls for base monthly payments of \$2,275 for 63 months. Lease payments made during 2010 were \$0. Future minimum lease payments at December 31, 2010 are as follows: 2011 - \$27,300; 2012 - \$27,300; 2013 - \$27,300; 2014 - 27,300; 2015 - \$27,300; and 2016 - \$6,825. As part of this agreement, US Bank provided the Diocese with the funds to make payments on the prior copier equipment lease, an amount equal to \$52,600.

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Note 16 - CONCENTRATION OF CREDIT RISK

The Diocese had more than the insured limit of \$250,000 in one financial institution. At December 31, 2010, cash deposits exceeded federally insured limits by \$1,531,831. Management monitors the creditworthiness of the institution, and believes the risk of loss due to credit risk to be remote.

Note 17 - ENDOWMENT

The Diocese's endowment consists of donor-restricted funds established for property maintenance, scholarships, and pastoral programs. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

Management has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the corpus of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations of the contrary. As a result of this interpretation, the Diocese classifies as permanently-restricted net assets the original value of gifts donated to the permanent endowment and the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently-restricted net assets is classified as temporarily-restricted and unrestricted net assets until those amounts are appropriated for expenditure by the Diocese in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Diocese considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: the duration and preservation of the fund, the purposes of the Diocese and the donor-restricted endowment fund, general economic conditions, the possible effect of inflation and deflation, the expected total return from income and the appreciation of investments, other resources of the Diocese, and the investment policies of the Diocese.

Return Objectives and Risk Parameters

The Diocese has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment. Endowment assets include those assets of donor-restricted funds that the Diocese must hold in perpetuity. Under this policy, as approved by management, the endowment assets are invested in a manner that is intended to produce regular investment returns while assuming a reasonable level of investment risk. The Diocese expects its endowment funds, over time, to provide an average total rate of return of approximately 9% annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

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

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Diocese has a policy of regular distributions of approximately 5% from its endowment funds. In establishing this policy, the Diocese considered the long-term expected return on its endowment. Accordingly, over the long term, the Diocese expects the current spending policy to allow its endowment to grow at an average rate of 4% annually, as uses of the endowment typically do not exceed growth of the endowment.

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Note 17 - ENDOWMENT (continued)

Composition and Change of Endowment Assets

For the years ended December 31, 2010 and 2009, the endowment net assets of the Diocese did not consist of unrestricted endowment funds. The changes of donor-restricted endowment assets for the years ended 2010 and 2009 are as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets December 31, 2008	\$ 1,074,392	\$ 1,879,328	\$ 2,953,720
Contributions	-	521,093	521,093
Investment return:			
Investment income	145,637	-	145,637
Net unrealized gain	<u>596,553</u>	<u>-</u>	<u>596,553</u>
Total investment return	742,190	-	742,190
Intercompany transfer	(45,272)	-	(45,272)
Endowment assets released from restrictions	<u>(116,930)</u>	<u>-</u>	<u>(116,930)</u>
Endowment net assets December 31, 2009	1,654,380	2,400,421	4,054,801
Contributions	201	100,000	100,201
Investment return:			
Investment income	126,258	-	126,258
Net unrealized gain	<u>372,729</u>	<u>-</u>	<u>372,729</u>
Total investment return	498,987	-	498,987
Intercompany transfer	(30,040)	-	(30,040)
Endowment assets released from restrictions	<u>(160,254)</u>	<u>-</u>	<u>(160,254)</u>
Endowment net assets December 31, 2010	<u>\$ 1,963,274</u>	<u>\$ 2,500,421</u>	<u>\$ 4,463,695</u>

Note 18 - PENSION PLAN

Lay employees of the Diocese become eligible for a pension plan administered by the Church Pension Group upon completion of at least one year of service and who are twenty-five years of age, provided the employee is hired prior to the age of sixty. Clergy employees of the Diocese become eligible upon ordination. The Diocese helps to fund this plan by sending 9% of eligible Diocesan lay employees and 18% of eligible Diocesan staff clergy salaries to the Church Pension Group. Pension expense for 2010 and 2009 was \$186,570 and \$165,250, respectively.

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Note 19 - PERMANENT FUND ASSET VALUES BELOW DONOR REQUIRED CORPUS

In accordance with Statements of Financial Accounting Standards (SFAS) 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations," losses on investments of a donor-restricted endowment fund should reduce temporarily-restricted net assets to the extent that donor-imposed temporary restrictions on net appreciation of the fund have not been met before the loss occurs and that any remaining loss should reduce unrestricted net assets.

During 2008, the Organization experienced investment losses bringing certain permanently-restricted net asset balances to amounts below original corpus. Amounts necessary to bring permanently-restricted net assets to the donor-imposed corpus were subsequently transferred from unrestricted net assets. These amounts must be repaid from future gains from these restricted funds until the amounts transferred from unrestricted net assets are repaid. During 2009, the Episcopal Church Corporation repaid its arrears and the Episcopal Church Foundation repaid \$12,937 of its arrears, leaving a balance of \$1,646 at December 31, 2009. During 2010, the Episcopal Church Foundation completed repayment of its arrears.