

THE EPISCOPAL CHURCH IN THE  
DIOCESE OF CALIFORNIA

DECEMBER 31, 2013

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INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

# The Episcopal Church in the Diocese of California

## Independent Auditors' Report and Financial Statements

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## **Independent Auditors' Report**

THE BOARD OF DIRECTORS  
THE EPISCOPAL CHURCH IN THE  
DIOCESE OF CALIFORNIA  
San Francisco, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of **THE EPISCOPAL CHURCH IN THE DIOCESE OF CALIFORNIA (the Diocese)** which comprise the statement of financial position as of December 31, 2013, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Episcopal Church in the Diocese of California as of December 31, 2013, and the changes in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

### **Report on Summarized Comparative Information**

We have previously audited the Diocese's December 31, 2012 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated June 28, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Hood & Strong LLP*

San Francisco, California  
June 25, 2014

# The Episcopal Church in the Diocese of California

## Statement of Financial Position

December 31, 2013 (with comparative totals for 2012)

	2013					2012 Total
	Operating	Custodial and Unexpended Income	Endowment and Trust	Deferred Gifts	Total All Funds	
<b>Assets:</b>						
Cash and cash equivalents	\$ 2,166,161		\$ 767,327		\$ 2,933,488	\$ 2,357,218
Receivables, net	2,325,929				2,325,929	2,432,892
Investments			18,441,250	\$ 19,266,619	37,707,869	35,354,505
Notes receivable	2,779,896				2,779,896	2,803,307
Notes receivable held for investment, net		2,300			2,300	2,300
Equity interests in real property	43,949	100,000	1,087,500		1,231,449	1,231,449
Property and equipment, net	4,495,881				4,495,881	4,504,708
Due to/from other funds	(1,312,281)	459,567	852,811	(97)		
<b>Total assets</b>	<b>\$ 10,499,535</b>	<b>\$ 561,867</b>	<b>\$ 21,148,888</b>	<b>\$ 19,266,522</b>	<b>\$ 51,476,812</b>	<b>\$ 48,686,379</b>
<b>Liabilities and Net Assets</b>						
<b>Liabilities:</b>						
Accounts payable and accrued expenses	\$ 1,118,798				\$ 1,118,798	\$ 983,501
Deferred revenue	30,057				30,057	53,921
Line of credit	3,061,590				3,061,590	3,129,001
Funds held in trusts for beneficiaries				\$ 15,587,822	15,587,822	14,930,953
<b>Total liabilities</b>	<b>4,210,445</b>			<b>15,587,822</b>	<b>19,798,267</b>	<b>19,097,376</b>
<b>Net Assets:</b>						
Unrestricted	6,289,090		\$ (178,075)		6,111,015	5,700,337
Temporarily restricted		\$ 561,867	12,185,286	695,021	13,442,174	12,425,125
Permanently restricted			9,141,677	2,983,679	12,125,356	11,463,541
<b>Total net assets</b>	<b>6,289,090</b>	<b>561,867</b>	<b>21,148,888</b>	<b>3,678,700</b>	<b>31,678,545</b>	<b>29,589,003</b>
<b>Total liabilities and net assets</b>	<b>\$ 10,499,535</b>	<b>\$ 561,867</b>	<b>\$ 21,148,888</b>	<b>\$ 19,266,522</b>	<b>\$ 51,476,812</b>	<b>\$ 48,686,379</b>

The accompanying notes are an integral part of this statement.

# The Episcopal Church in the Diocese of California

## Statement of Activities

Year Ended December 31, 2013 (with comparative totals for 2012)

	2013					2012 Total
	Operating	Custodial and Unexpended Income	Endowment and Trust	Deferred Gifts	Total All Funds	
<b>Support and Revenue:</b>						
Parish and mission assessments	\$ 3,195,231				\$ 3,195,231	\$ 3,109,516
Gifts, grants and other	409,359	\$ 521,588	\$ 171,360		1,102,307	934,624
Change in value				\$ 387,209	387,209	383,054
Investment income, net	855		2,393,660		2,394,515	2,161,157
<b>Total support and revenue</b>	<b>3,605,445</b>	<b>521,588</b>	<b>2,565,020</b>	<b>387,209</b>	<b>7,079,262</b>	<b>6,588,351</b>
<b>Expenses:</b>						
Episcopate	533,331				533,331	582,871
Diocesan communications	216,263				216,263	157,227
Congregational development	572,974				572,974	494,839
Youth, young adult, and camps	264,616				264,616	280,637
Ministry development	160,066				160,066	160,282
Multicultural and other ministries	57,477				57,477	66,789
Development & planned giving	187,816				187,816	210,724
National church & international support	717,053				717,053	711,000
Finance	491,368				491,368	507,426
Administration & support staff	741,258				741,258	889,635
<b>Total expenses</b>	<b>3,942,222</b>				<b>3,942,222</b>	<b>4,061,430</b>
<b>Changes in Net Assets Before</b>						
<b>Transfers &amp; Reclasses</b>	(336,777)	521,588	2,565,020	387,209	3,137,040	2,526,921
Interfund Transfers						
Transfers from Endowment to Custodial Fund		118,698	(118,698)			
Transfers from Endowment to Operating Fund	803,316		(803,316)			
Transfers from Custodial Funds to Operating Fund	741,863	(741,863)				
Payments to beneficiaries:						
Payments to endowment beneficiaries	(305,635)				(305,635)	(385,585)
Payments to custodial fund beneficiaries	(741,863)				(741,863)	(341,694)
Reclassification of restricted fund to endowment	(224,467)		224,467			
<b>Change in Net Assets</b>	<b>(63,563)</b>	<b>(101,577)</b>	<b>1,867,473</b>	<b>387,209</b>	<b>2,089,542</b>	<b>1,799,642</b>
<b>Net Assets, beginning of year</b>	<b>\$ 6,352,653</b>	<b>\$ 663,444</b>	<b>\$ 19,281,415</b>	<b>\$ 3,291,491</b>	<b>29,589,003</b>	<b>27,789,361</b>
<b>Net Assets, end of year</b>	<b>\$ 6,289,090</b>	<b>\$ 561,867</b>	<b>\$ 21,148,888</b>	<b>\$ 3,678,700</b>	<b>\$ 31,678,545</b>	<b>\$ 29,589,003</b>
<b>Fund Balances by Classification</b>						
<b>Net Assets, beginning of year</b>						
Unrestricted Net Assets	\$ 6,352,653		\$ (652,316)		\$ 5,700,337	\$ 5,197,135
Temporarily Restricted Net Assets		\$ 663,444	11,150,091	\$ 611,590	12,425,125	11,517,153
Permanently Restricted Net Assets			8,783,640	2,679,901	11,463,541	11,075,073
<b>Net Assets, beginning of year</b>	<b>\$ 6,352,653</b>	<b>\$ 663,444</b>	<b>\$ 19,281,415</b>	<b>\$ 3,291,491</b>	<b>\$ 29,589,003</b>	<b>\$ 27,789,361</b>
<b>Changes in Net Assets:</b>						
Unrestricted Net Assets	\$ (63,563)		\$ 474,241		\$ 410,678	\$ 503,202
Temporarily Restricted Net Assets		\$ (101,577)	1,035,195	\$ 83,431	1,017,049	907,972
Permanently Restricted Net Assets			358,037	303,778	661,815	388,468
<b>Changes in Net Assets</b>	<b>\$ (63,563)</b>	<b>\$ (101,577)</b>	<b>\$ 1,867,473</b>	<b>\$ 387,209</b>	<b>\$ 2,089,542</b>	<b>1,799,642</b>
<b>Net Assets, end of year</b>						
Unrestricted Net Assets	\$ 6,289,090		\$ (178,075)		\$ 6,111,015	\$ 5,700,337
Temporarily Restricted Net Assets		\$ 561,867	12,185,286	\$ 695,021	13,442,174	12,425,125
Permanently Restricted Net Assets			9,141,677	2,983,679	12,125,356	11,463,541
<b>Net Assets, end of year</b>	<b>\$ 6,289,090</b>	<b>\$ 561,867</b>	<b>\$ 21,148,888</b>	<b>\$ 3,678,700</b>	<b>\$ 31,678,545</b>	<b>\$ 29,589,003</b>

The accompanying notes are an integral part of this statement.

# The Episcopal Church in the Diocese of California

## Statement of Cash Flows

<i>Year Ended December 31, 2013 (with comparative totals for 2012)</i>	2013	2012
<b>Cash Flows from Operating Activities:</b>		
Changes in net assets	\$ 2,089,542	\$ 1,799,642
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	79,845	78,919
Net realized and unrealized gain on investments	(2,211,853)	(1,336,927)
(Gain) loss on disposal of fixed assets	(558)	1,646
Change in charitable remainder unitrusts	(387,306)	(383,053)
Increase (decrease) in operating assets and liabilities:		
Receivables	106,964	(649,979)
Accounts payable and accrued expenses	135,297	158,543
Accounts payable, related party	-	(340,519)
Deferred revenue	(23,864)	40,956
<b>Net cash used by operating activities</b>	<b>(211,933)</b>	<b>(630,772)</b>
<b>Cash Flows from Investing Activities:</b>		
Purchases of investments	(808,914)	(551,331)
Proceeds from sale of investments	1,711,577	119,880
Purchases of property and equipment	(70,460)	(387,174)
Borrowings from line of credit - net	(44,000)	234,194
<b>Net cash provided (used) by investing activities</b>	<b>788,203</b>	<b>(584,431)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>576,270</b>	<b>(1,215,203)</b>
<b>Cash and Cash Equivalents, beginning of year</b>	<b>2,357,218</b>	<b>3,572,421</b>
<b>Cash and Cash Equivalents, end of year</b>	<b>\$ 2,933,488</b>	<b>\$ 2,357,218</b>

The accompanying notes are an integral part of this statement.

# The Episcopal Church in the Diocese of California

## Notes to Financial Statements

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### Note 1 - Summary of Significant Accounting Policies:

a. Organization

The Episcopal Church in the Diocese of California (the Diocese) is a nonprofit entity that administratively supports Episcopal congregations and ancillary institutions throughout the San Francisco Bay Area in the State of California. The Diocese is governed by the Executive Council which is the legal board of directors of the Diocesan Corporation.

b. Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles, and accordingly, reflect all significant receivables, payables, and other liabilities, including deferred revenue. The principles of “fund accounting” are utilized in order to provide a more detailed accountability for the funds entrusted to the Diocese.

c. Basis of Presentation

Financial statement presentation follows the recommendations of the Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*. Under ASC 958, the Diocese is required to report information regarding its financial position and activities according to three classes of net assets:

*Unrestricted Net Assets.* The portion of net assets that is neither temporarily restricted nor permanently restricted by donor-imposed stipulations.

*Temporarily Restricted Net Assets.* The portion of net assets whose use by the organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Diocese.

*Permanently Restricted Net Assets.* The portion of net assets whose use by the organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Diocese.

d. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, cash and cash equivalents include time deposits and all highly liquid debt instruments with original maturities of three months or less.

e. Receivables

Receivables are amounts due to the Diocese from congregations within the Diocese of California and represent assessments, reimbursable expenses, and other receivables. The Diocese records bad debts using the allowance method.



# The Episcopal Church in the Diocese of California

## Notes to Financial Statements

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f. Fair Value Measurements

The Diocese carries certain assets and liabilities at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Diocese classifies its financial assets and liabilities according to three levels, and maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value.

Level 1 – Quoted market prices (unadjusted) in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date.

Level 2 – Observable inputs other than quoted prices included within Level 1 for the asset or liability, either directly or indirectly.

Level 3 – Unobservable inputs for the asset or liability that are not corroborated by market data.

g. Notes Receivable Held for Investment

Notes receivable held for investment consists of notes to several churches. The notes bear interest at prime rates and are due through 2016. The notes are secured by property or unsecured and are recorded net of an allowance related to interest accruals.

h. Equity Interest in Real Property

Equity interest in real property consists of property owned by the Diocese, and amounts funded by the Diocese for the purchase of property by related parties. The Diocese has an equity interest in the property for the amount of the purchase price funded by the Diocese. This interest is recorded at cost.

i. Property and Equipment

Purchased property and equipment is recorded at cost. Donated property is valued at fair value at time of donation. Depreciation is provided on a straight-line basis over the estimated useful lives (five to thirty years) of the related assets. Maintenance and repairs are charged to expense as incurred. Significant betterments and renewals are capitalized. The Diocese has elected not to depreciate its real property and has determined that the effect on the financial statements is not material as of December 31, 2013.

j. Deferred Revenue

Deferred revenue consists of assessments, payroll, and benefits received from parishes in advance of the period to which they relate.

k. Recognition of Support and Revenue

Current year parish and mission assessments have been prepared on the accrual basis of accounting.

# The Episcopal Church in the Diocese of California

## Notes to Financial Statements

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Gifts and grants are recognized when the donor makes an unconditional promise to give to the Diocese. Donor-restricted gifts and grants are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Investment income is recognized as revenue when earned. Investment income earned on permanently restricted net assets is recorded as an increase or decrease in temporarily restricted net assets unless specifically restricted as permanent by the donor.

l. Income Taxes

The Diocese is a tax exempt organization under Section 501(c)(3) of the Internal Revenue Code and the related state provisions. Accordingly, no provision for income taxes has been made in these financial statements.

The Diocese follows the guidelines of the Financial Accounting Standards Board (FASB) ASC Topic 740 for accounting for uncertainty in income taxes. As of December 31, 2013, management evaluated the Diocese's tax positions and concluded that the Diocese had maintained its tax exempt status and has taken no uncertain tax positions that require adjustment to the financial statements. Therefore, no provision or liability for income taxes has been included in the financial statements.

m. 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 assumptions that affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

n. Comparative Financial Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with Generally Accepted Accounting Principles. Accordingly, such information should be read in conjunction with the Diocese's financial statements for the year ended December 31, 2012, from which the summarized information was derived.

o. Subsequent Events

The Diocese has reviewed the changes in net assets for the period of time from December 31, 2013 through June 25, 2014, the date the financial statements are available to be issued, and have determined that no adjustments are necessary to the amounts reported in the accompanying financial statements nor have subsequent events occurred, the nature of which would require disclosure.

# The Episcopal Church in the Diocese of California

## Notes to Financial Statements

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### Note 2 - Description of Funds:

a. Operating Fund

This fund is used to account for all expenditures related to unrestricted support and revenue. The Diocese provides programming and staff support to its 79 congregations, numerous ministries, and diocesan institutions such as its university centers, St. Dorothy's Rest, and Bishop's Ranch. The Diocese also pays an apportionment for the support of The Episcopal Church and dedicates a small portion of its revenue to international projects and relief. The Diocese manages both an endowment and a planned giving portfolio, of which congregations and others are the primary beneficiaries. The Diocese also employs a planned giving officer as a resource to its congregations and institutions, and provides a centralized payroll and benefits administration service to its congregations, schools, and institutions.

The Board of Directors of the Diocese has set aside certain donor unrestricted funds for certain designated uses. These funds are included in the operating fund as board designated.

b. Custodial and Unexpended Income Fund

This fund is used to account for gifts and grants designated for specific projects or programs by donors. The fund balance is classified as temporarily restricted on the statement of financial position.

c. Endowment and Trust Fund

This fund is used to account for assets contributed by donors that are subject to various restrictions, both temporary and permanent. The Diocese is responsible for assuring that distributions are made in accordance with the provisions of each trust. When the market value of permanently restricted funds falls below the historical value, the deficiency is reflected as unrestricted net assets. At the end of 2013, this deficiency decreased to \$178,075. The permanently restricted net assets represent the historic value of additions to the endowment, and the temporarily restricted net assets represent appreciation of the endowment and the trust fund balances.

d. Deferred Gifts Fund

This fund is used to account for funds held in trust and administered by the Diocese, the income of which is payable to individual beneficiaries. Income earned but not paid to beneficiaries is treated as a liability, which is included with "Funds Held in Trust for Beneficiaries". Upon the expiration of the income beneficiaries' interest, the principal will be distributed in accordance with the conditions prescribed by the Charitable Remainder Unitrust agreements. Any principal that will ultimately be distributed to third party beneficiaries has been recorded as a liability, "Funds Held in Trust for Beneficiaries." The remainder is distributable to the Diocese and is stated at the estimated present value, which is calculated based on the actuarial life expectancy of the donor or designees. The discount rate used, ranging between 5% and 6.5%, approximates the 30 year U.S. Treasury Bond rate in the year of origination. The fund balances are a combination of permanently restricted net assets and temporarily restricted net assets on the statement of financial position.

# The Episcopal Church in the Diocese of California

## Notes to Financial Statements

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### Note 3 - Receivables:

Receivables consist of the following at December 31, 2013 and 2012:

	2013	2012
Assessments	\$ 145,759	\$ 241,384
Reimbursable expenses from related entities, net of allowance	1,716,250	1,812,172
Other receivables	463,420	379,336
	<hr/>	<hr/>
	\$ 2,325,929	\$ 2,432,892

### Note 4 - Investments:

The fair value of investments at December 31, 2013 and 2012 is as follows:

	2013	2012
Mutual funds	\$ 18,441,250	\$ 17,132,061
Charitable trusts	19,266,619	18,222,444
	<hr/>	<hr/>
	\$ 37,707,869	\$ 35,354,505

Investment income for the years ended December 31, 2013 and 2012 consists of the following:

Interest and dividends, net of management fees	\$ 182,104	\$ 316,347
Realized gains and losses	1,712,132	252,781
Unrealized gains and losses	500,279	1,592,028
	<hr/>	<hr/>
	\$ 2,394,515	\$ 2,161,156

Investment income is included in:

Unrestricted net assets	\$ 475,096	\$ 508,546
Temporarily restricted net assets	1,919,419	1,652,610
	<hr/>	<hr/>
	\$ 2,394,515	\$ 2,161,156

# The Episcopal Church in the Diocese of California

## Notes to Financial Statements

The table below presents the balances of assets measured at fair value at December 31, 2013 on a recurring basis:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
Investments:			
Mutual Funds:			
Intermediate Duration			
Institutional	\$17,914,348	\$17,914,348	
Exchange traded funds	304,110	304,110	
Emerging Markets Fund	222,792	222,792	
Charitable Trusts:			
Cash & Equivalents	487,355		\$ 487,355
Domestic REIT	1,473,339		1,473,339
Emerging Markets Stocks	609,700		609,700
High Quality Bond Funds	1,766,335		1,766,335
High Quality Bonds	248,859		248,859
High Yield Bond Funds	402,320		402,320
International Bond Funds	1,018,182		1,018,182
International REIT	932,470		932,470
International Stocks	2,569,701		2,569,701
International Small Co.			
Stocks	442,948		442,948
Investment Grade Bond			
Funds	2,335,233		2,335,233
Large Co. Stocks	5,538,358		5,538,358
Small Co. Stocks	1,441,819		1,441,819
Total assets measured at fair value	<u>\$37,707,869</u>	<u>\$18,441,250</u>	<u>\$19,266,619</u>

There are no investments measured at level 3.

### *Financial Investments not Measured at Fair Value*

Some of the Diocese's financial instruments are not measured at fair value on a recurring basis but nevertheless are recorded at amounts that approximate fair value due to their liquid or short-term nature. Such assets and liabilities include: Cash and cash equivalents, receivables, other investments, notes receivable, equity interest in real property, payables, deferred revenue and line of credit.

# The Episcopal Church in the Diocese of California

## Notes to Financial Statements

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### Note 5 - Charitable Remainder Unitrusts:

The Diocese is the trustee for various charitable remainder unitrusts, which have been invested. These investments represent gifts received subject to certain restrictions on the distribution of income and the assets of the unitrust. The unitrust agreements specify the beneficiaries of the income and the assets.

The charitable remainder unitrust agreements provide for annuity payments to donors of 5% to 10%. The Diocese records this investment at fair market value. The estimated liability is based upon the annuity payments and donor life expectancy using a discount rate of 5% to 6.5% (as of gift receipt date) and is classified as funds held in trust for beneficiary.

The investments in charitable remainder unitrusts consist of the following at December 31, 2013 and 2012:

	2013	2012
Funds (See Note 4)	\$ 19,266,521	\$ 18,222,444
Less funds held in trust for beneficiaries	(15,587,822)	(14,930,953)
	<u>\$ 3,678,699</u>	<u>\$ 3,291,491</u>

The contribution revenue and changes in value of charitable remainder trusts recognized under such agreements for the year ended December 31, 2013 and 2012 are the following:

	2013	2012
Change in value	\$ 387,209	\$ 383,054
Net change in unitrusts	<u>\$ 387,209</u>	<u>\$ 383,054</u>

# The Episcopal Church in the Diocese of California

## Notes to Financial Statements

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### Note 6 - Equity Interests in Real Property:

Equity interests in real property, which are recorded at cost, consist of the following at December 31, 2013 and 2012:

	2013	2012
24% equity interest in real property owned by Bayani Rico	\$ 43,949	\$ 43,949
31% equity interest in real property owned by the Culmers	160,000	160,000
22% equity interest in real property owned by Sue Thompson	100,000	100,000
50% equity interest in real property owned by the former Bishop	927,500	927,500
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	\$ 1,231,449	\$ 1,231,449

### Note 7 - Property and Equipment:

At December 31, 2013 and 2012, property and equipment consisted of the following:

	2013	2012
Diocesan House	\$ 1,071,447	\$ 1,071,447
S. F. Campus Center partial interest	30,000	30,000
Computers/server	60,549	104,036
Other furniture and equipment	114,334	95,884
Automobile	27,108	27,108
Hearst Street, Berkeley	649,669	649,669
Bishop's Residence	1,112,605	1,112,605
Bishop's Residence Improvements	434,458	405,850
	<hr/>	<hr/>
	3,500,170	3,496,599
Less accumulated depreciation	(820,502)	(808,104)
	<hr/>	<hr/>
	2,679,668	2,688,495
Land	1,816,213	1,816,213
	<hr/>	<hr/>
	\$ 4,495,881	\$ 4,504,708

Depreciation expense for the years ended December 31, 2013 and 2012 was \$79,845 and \$78,919, respectively.

# The Episcopal Church in the Diocese of California

## Notes to Financial Statements

### Note 8 - Line of Credit:

The Diocese has an unsecured line of credit agreement with Union Bank of California under which the Diocese may borrow up to \$9,500,000 at the prime rate (currently 3.25%). Interest is payable monthly and principal is due on October 1, 2016.

Total principal payments due to Union Bank on the line of credit are \$3,061,590 at December 31, 2013. This debt is incurred by the Diocese on behalf of various congregations and ministries as follows:

<i>December 31, 2013</i>	Line of Credit and Other Notes Payable	Corresponding Receivable
<b>Parishes:</b>		
St. Clare's, Pleasanton	\$ 565,248	\$ 565,248
Christ Church, Los Altos	401,875	401,875
St. Mark's, Berkeley	248,355	248,355
St. Michael and All Angels, Concord	59,100	59,100
All Saints, San Leandro	28,938	28,938
Church of the Resurrection, Pleasant Hill	13,466	13,466
<b>Total parishes</b>	<b>1,316,982</b>	<b>1,316,982</b>
<b>Other:</b>		
Berkeley Emergency Food and Housing	114,194	114,194
Episcopal Community Services	450,000	450,000
Episcopal Diocese	281,694	
St. Dorothy's Rest	898,720	898,720
<b>Total other</b>	<b>1,744,608</b>	<b>1,462,914</b>
<b>Total</b>	<b>\$ 3,061,590</b>	<b>\$ 2,779,896</b>



# The Episcopal Church in the Diocese of California

## Notes to Financial Statements

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### Note 9 - Endowment Funds:

The Diocese's endowment comprises 105 individual funds established to fund general operations of the Diocese or specific congregations and programs in the Diocese. The endowment includes donor-restricted endowment funds and funds designated by the Executive Council to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Executive Council to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

In 2008, the Diocese implemented ASC 958-205 *Reporting Endowment Funds* which was effective for fiscal years ending after December 15, 2008. The state of California adopted a version of the Uniform Prudent Management of Institutional Funds Act as its State Prudent Management of Institutional Funds Act (SPMIFA) which is applicable to funds established on or after January 1, 2009 and funds established prior to January 1, 2009 only with respect to actions taken after January 1, 2009.

SPMIFA moves away from the concept of corpus with its "historical dollar value" in an endowment. Charities are encouraged to develop spending policies that are responsive to short term fluctuations in the value of the fund, preserve the value of the fund for future use, and honor the charitable purpose of the fund. The Diocese will continue to balance the endurance of its funds and the needs of the community in its spending policy and practices.

#### *Interpretation of Relevant Law*

The Diocese considers the fair value of its endowment funds to be the value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

The Diocese classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction 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 in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by SPMIFA.

In accordance with SPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purposes of the organization and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the organization, (7) the investment policies of the organization.

# The Episcopal Church in the Diocese of California

## Notes to Financial Statements

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From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or SPMIFA requires the Diocese to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$178,075 and \$652,316 as of December 31, 2013 and 2012, respectively.

### *Return Objectives and Risk Parameters*

The Diocese has adopted investment and spending policies for endowment assets that will ultimately provide a predictable stream of funding to provide support for the various programs and ministries of the Diocese of California. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity as well as board-designated funds. Under this policy, as approved by the Executive Council, the endowment assets are invested in a manner that is intended to realize a competitive rate of return comparable to index benchmarks.

### *Strategies Employed for Achieving Objectives*

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

### *Spending Policy and How the Investment Objectives Relate to Spending Policy*

The Diocese is expecting to provide annual distributions of 5% of the market value of the portfolio as calculated on a 3 year rolling average. The investment managers are required to invest funds so as to ensure that required distributions of income or principal are met.

# The Episcopal Church in the Diocese of California

## Notes to Financial Statements

Net changes in endowment funds for the year ended December 31, 2013 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, December 31, 2012	\$ (652,316)	\$ 11,150,091	\$ 8,783,640	\$ 19,281,415
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Investment Return:				
Income		1,893,381		1,893,381
Net appreciation	474,241	26,038		500,279
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Total investment return	474,241	1,919,419		2,393,660
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Contributions			171,360	171,360
Depreciation of endowment assets		(922,014)		(922,014)
Interfund transfer		37,790	186,677	224,467
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Endowment Net Assets, December 31, 2013	\$ (178,075)	\$ 12,185,286	\$ 9,141,677	\$ 21,148,888

### Note 10 - Net Assets:

Temporarily restricted net assets are restricted for specific purposes as of December 31, 2013:

	Custodial	Endowment	Deferred Gifts	Total
Support Diocese	\$ 228,595	\$ 3,835,888	\$ 509,247	\$ 4,573,730
Education		65,894	51,711	117,605
Congregational Support		2,524,509	123,688	2,648,197
Congregational Development	126,432	1,455,911		1,582,343
Social Ministry	17,592	2,343,915	10,375	2,371,882
Scholarships	189,248	1,959,169		2,148,417
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	\$ 561,867	\$ 12,185,286	\$ 695,021	\$ 13,442,174

Net assets were released from donor restrictions by incurring expenses satisfying the purpose of the restriction for the year ended December 31, 2013 and 2012.

# The Episcopal Church in the Diocese of California

## Notes to Financial Statements

Permanently restricted net assets are invested in perpetuity with the income available to support the programs of the Diocese as of December 31, 2013 are as follows:

	Endowment	Deferred Gifts	Total
Support Diocese	\$ 6,313,773	\$ 873,971	\$ 7,187,744
Education	217,197	357,343	574,540
Congregational Support	1,565,080	693,476	2,258,556
Congregational Development	318,951	189,636	508,587
Social Ministry	525,860	869,253	1,395,113
Scholarships	200,816		200,816
	<u>\$ 9,141,677</u>	<u>\$2,983,679</u>	<u>\$ 12,125,356</u>

### Note 11 - Retirement Plans:

The Diocese funds defined contribution pension plans covering lay employees. The Diocese contributes between 5% and 9% of employee compensation depending upon the employee contribution. The 2013 and 2012 contribution by the Diocese to the defined contribution pension plans approximated \$55,372 and \$54,763, respectively.

The Diocese also provides pension benefits for the clergy through a national plan. The plan is a defined benefit pension plan funded by specific assessments charged to the Diocese based on a specified percentage of compensation. In 2013 and 2012, the Diocese contributed approximately \$129,944 and \$114,706 (18% of compensation), respectively, to the clergy defined benefit pension plan.

### Note 12 - Concentrations of Credit Risk:

The Diocese has identified its financial instruments which are potentially subject to credit risk. These financial instruments consist principally of cash and cash equivalents, investments in securities, and notes receivable held for investment.

The Diocese invests its cash deposits with three financial institutions. Periodically, throughout the year, the Diocese has maintained balances in operation and money market accounts in excess of federally insured limits.

Investments in securities are diversified into various equity instruments and other investment securities in order to limit the concentration of market risk.

The Diocese bills and collects assessment revenue from the various parishes. Assessment revenues comprised 68% of all non investment revenue the Diocese received in 2013.