

THE EPISCOPAL BISHOP OF CALIFORNIA,
A CORPORATION SOLE

DECEMBER 31, 2007

INDEPENDENT AUDITORS' REPORT

FINANCIAL STATEMENTS,

AND

SUPPLEMENTAL INFORMATION

**The Episcopal Bishop of California,
A Corporation Sole**

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and Financial Statements**

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Independent Auditors' Report

THE EPISCOPAL BISHOP OF CALIFORNIA,
A CORPORATION SOLE
San Francisco, California

We have audited the accompanying statement of financial position of **THE EPISCOPAL BISHOP OF CALIFORNIA, A CORPORATION SOLE (the Corporation)** as of December 31, 2007 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year's summarized comparative information has been derived from the Corporation's 2006 financial statements and, in our report dated August 29, 2007, we expressed an unqualified opinion on these financial statements.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Episcopal Bishop of California has elected not to include certain consolidated information pertaining to missions, as disclosed in Note 3. The Episcopal Bishop of California has also elected not to depreciate real property as disclosed in Note 5. In our opinion, inclusion of this information is essential to conform with the accounting principles generally accepted in the United States of America. The effects on financial statements of the preceding practices are not reasonably determinable.

In our opinion, except for the matters discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of The Episcopal Bishop of California, A Corporation Sole as of December 31, 2007, and the changes in its net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental information on pages 14 and 15 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hood & Strong LLP

May 28, 2008

**The Episcopal Bishop of California,
A Corporation Sole**

Statement of Financial Position

<i>December 31,</i>	2007	2006
Assets		
Cash and Cash Equivalents	\$ 252,826	\$ 32,701
Receivables , related party:		
Unitrust funds	185,270	245,231
Investments in a pooled endowment fund	4,902,553	4,942,520
Diocese short term loan		215,205
Investment in Securities		335,545
Notes Receivable , net	2,451,932	3,083,136
Equity Interests in Real Property	73,949	109,429
Property	15,496,681	15,496,681
Total assets	\$ 23,363,211	\$ 24,460,448
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 50,000	\$ 50,000
Line of credit and other notes payable	2,463,148	3,420,549
Notes payable-related party	10,308	18,683
Total liabilities	2,523,456	3,489,232
Net Assets:		
Unrestricted	16,313,868	16,403,768
Temporarily restricted	494,134	507,724
Permanently restricted	4,031,753	4,059,724
Total net assets	20,839,755	20,971,216
Total liabilities and net assets	\$ 23,363,211	\$ 24,460,448

**The Episcopal Bishop of California,
A Corporation Sole**

Statement of Activities

Years Ended December 31, 2007 (with comparative totals for 2006)

	2007			Total	2006 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Support and Revenue:					
Investment income	\$ 4,936			\$ 4,936	\$ 34,232
Net unrealized (loss) gain on investment in securities	(32,972)			(32,972)	10,810
(Loss) income from pooled endowment	(39,968)			(39,968)	339,823
Gifts, grants and other		(13,590)		(13,590)	53,568
Total support and revenue	(68,004)	(13,590)		(81,594)	438,433
Expenses:					
Interest	4,447			4,447	28,387
Transfer related parties			27,971		
Other expenses	17,449			17,449	15,968
Total expenses	21,896		27,971	49,867	44,355
Change in Net Assets	(89,900)	(13,590)	(27,971)	(131,461)	394,078
Net Assets, beginning of year	16,403,768	507,724	4,059,724	20,971,216	20,577,138
Net Assets, end of year	\$ 16,313,868	\$ 494,134	\$ 4,031,753	\$ 20,839,755	\$ 20,971,216

**The Episcopal Bishop of California,
A Corporation Sole**

Statement of Cash Flows

<i>Years Ended December 31,</i>	2007	2006
Cash Flows from Operating Activities:		
Change in net assets	\$ (131,461)	\$ 394,078
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net unrealized loss (gain) on investment in securities	32,972	(10,815)
Decrease (increase) in value of pooled endowment fund assets	39,968	(339,822)
Loss of equity interests in real properties	35,480	
Change in value of charitable remainder trusts	59,961	(31,766)
Net cash provided by operating activities	36,920	11,675
Cash Flows from Investing Activities:		
Proceeds from sales of investments	302,573	796
Loan to Episcopal Diocese	215,205	(215,205)
Net cash provided (used) by investing activities	517,778	(214,409)
Cash Flows from Financing Activities:		
Payments on line of credit	(334,573)	
Net cash used by investing activities	(334,573)	
Net Increase (Decrease) in Cash and Cash Equivalents	220,125	(202,734)
Cash and Cash Equivalents, beginning of year	32,701	235,435
Cash and Cash Equivalents, end of year	\$ 252,826	\$ 32,701
Supplemental Information:		
Cash paid for interest	\$ 4,447	\$ 28,387
Noncash Investing and Financing Activities:		
Third party borrowings on LOC	\$ 772,719	\$ 1,097,400
Third party payment on LOC	1,403,923	1,300,340

The Episcopal Bishop of California, A Corporation Sole

Notes to Financial Statements

Note 1 - Nature of Operations:

The Episcopal Bishop of California, a Corporation Sole (the Corporation), is the legal owner of encumbered and certain other properties used by mission churches, any chartered organizations and certain parishes of the Episcopal Church in the Diocese of California (the Diocese) throughout the San Francisco Bay Area in the State of California. These properties and the related debt and corresponding receivables are reflected as assets and liabilities of the Corporation in the accompanying financial statements. The accompanying financial statements do not include certain assets, liabilities and operating activities of these entities (See Note 3). Although the obligations are those of the Corporation, the specific entities make the principal and interest payments on the debt. The Corporation Sole income is derived primarily from investment, endowment performance and transfers from the Diocese. The Corporation does not have any additional assets other than land and buildings to satisfy the debt obligations. The debt obligations are unsecured.

Note 2 - Summary of Significant Accounting Policies:

a. Basis of Accounting

The accompanying financial statements have been substantially prepared on the accrual basis of accounting, and accordingly, reflect all significant receivables, payables, and other liabilities.

b. Basis of Presentation

The Corporation reports information regarding its financial position and activities according to the existence or absence of donor-imposed restrictions. This has been accomplished by classification of balances and transactions into 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 organization.

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 organization.

**The Episcopal Bishop of California,
A Corporation Sole**

Notes to Financial Statements

c. Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Corporation considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

d. Receivables, Related Party

The Corporation engages in transactions with the Diocese, a related party. A portion of the related party receivable at December 31, 2007 represents future distributions of trust funds from the Diocese, which is recorded at the net present value of those distributions. The balance of the receivable represents the amount of an endowment fund which is due from the Diocese as described in Note 7.

e. Investment in Securities

Securities are carried at fair value, with realized and unrealized gains and losses reflected in the statement of activities. The fair value of investments is based on quoted market price and subject to market fluctuations.

f. Notes Receivable

The Corporation has incurred debt on behalf of various parishes and missions. As such, the Corporation records the outstanding amount of debt as a liability, as well as a corresponding receivable. The total amount of debt incurred as the maximum potential amount of future payments is \$2,463,148 and \$3,104,660 for the years ended December 31, 2007 and 2006, respectively.

As certain receivables are deemed uncollectible, management establishes an allowance for those receivables. The Corporation has an allowance for uncollectible notes receivable totaling \$100,000 at December 31, 2007 and 2006.

g. Property

Property purchased or constructed is recorded at cost as a capital addition. Property reverted to the Corporation is recorded at insured value. Properties acquired prior to 1960 are stated at fair market value as of December 31, 1959.

The Episcopal Bishop of California, A Corporation Sole

Notes to Financial Statements

h. Recognition of Support and Revenue

Gifts and grants are recognized when the donor makes an unconditional promise to give to the Corporation. Gifts and grants that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the gifts and grants are recognized. All other 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 restricted net assets is recorded as an increase or decrease in unrestricted net assets unless specifically restricted as temporary or permanent by the donor.

i. Income Taxes

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

j. 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 amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

k. Prior Year Summarized Comparative Information

The financial statements include certain prior year summarized information in total but not by net asset class. Accordingly, such information should be read in conjunction with the Corporation's financial statements for the year ended December 31, 2006, from which the summarized information was derived.

Note 3 - Unconsolidated Information (Unaudited):

The Bishop oversees the operations of mission churches. All mission church properties and property-related debt are included in the accompanying financial statements. As stated in Note 1, the financial statements do not include certain other assets, liabilities and operating activities of the mission churches. The following is an approximate summary of the unaudited financial data of the mission churches for the years ended December 31, 2007 and 2006 that are not included in the accompanying financial statements.

**The Episcopal Bishop of California,
A Corporation Sole**

Notes to Financial Statements

	2007	2006
Total assets	\$ 1,495,981	\$ 1,318,172
Total revenue	\$ 1,934,771	\$ 1,936,170
Total expense	\$ 1,916,330	\$ 1,912,483
Net gain (loss)	\$ 18,441	\$ (23,687)

Note 4 - Property:

Property consists of the following at December 31, 2007 and 2006:

Parishes and missions	\$ 10,530,716
Other properties	4,965,965
	\$ 15,496,681

Certain properties are collateral for notes payable, as described in Note 6.

SFAS No. 93, Recognition of Depreciation by Not-for-Profit Organizations, requires all nonprofit organizations to depreciate long-lived tangible assets. The Corporation Sole has elected not to depreciate their missions and parishes and has determined that effect on the financial statements is not reasonably determinable.

Note 5 - Line of Credit:

Line of credit and other notes payable consist of the following at December 31, 2007 and 2006:

	2007	2006
Line of credit agreement with Union Bank of California under which the Corporation may borrow up to \$10,500,000; bearing interest at the prime rate (8.50% at 12/31/07; 8.25% at 12/31/06); interest payable monthly; principal due on October 2, 2009; unsecured.	\$ 2,463,148	\$ 3,420,549

Total principal payments due to Union Bank on the line of credit are \$2,463,148 with a maturity date of October 2, 2009. This is debt incurred by the Corporation on behalf of various parishes and missions. The Line of Credit of up to \$10,500,000 with Union Bank of California is renewed annually on September 30th for a guaranteed one-year term beyond the current term.

**The Episcopal Bishop of California,
A Corporation Sole**

Notes to Financial Statements

Note 6 - Net Assets:

Temporarily restricted net assets are available for the following purposes as of December 31, 2007 and 2006:

	2007	2006
Bishop's bed fund	\$ 170,728	\$ 184,318
Bishop Block memorial fund	38,618	38,618
Selena Ellis fund	20,000	20,000
Welty fund	25,726	25,726
Charitable remainder trusts	185,270	217,262
Other	8,210	21,800
	\$ 494,134	\$ 507,724

There were no net assets released from restriction for the year ended December 31, 2007 and 2006.

Permanently restricted net assets are as follows as of December 31, 2007 and 2006:

	2007	2006
Christy fund	\$ 3,917,684	3,917,684
Welty fund	31,579	31,579
Prophets fund	38,261	38,261
George Maxwell trust	28,534	28,534
Charitable remainder trusts		27,969
Other	15,695	15,697
	\$ 4,031,753	\$4,059,724

**The Episcopal Bishop of California,
A Corporation Sole**

Notes to Financial Statements

Note 7 - Related Party Transactions:

The Corporation and the Diocese are related parties in that the Bishop administers and oversees the operations of the Diocese and the parishes within the Diocese of California.

Receivable from Episcopal Church in the Diocese of California (Diocese)

The Diocese maintains \$4,902,553 in its pooled endowment fund for the Corporation. The Corporation shares on gains and losses in the endowment fund based on their percentage of the total balance.

Another related party receivable at December 31, 2007 is an amount due to the Corporation from the Diocese in the amount of \$185,270 representing the assets that will revert to the Corporation under those certain unitrust agreements of which the Diocese is the administrator (Note 2).

Payable to Episcopal Church in the Diocese of California

The Corporation had outstanding borrowings from the Diocese in the amount of \$10,508 at December 31, 2007. The debt is unsecured, matures in 2008 and bears interest at a rate of 6%.

Total principal payments due are as follows:

2008	\$	9,524
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Note 8 - Concentrations of Credit Risk:

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

The Corporation invests its cash deposits with finance institutions in demand deposit and money market accounts. These deposits include approximately \$152,826 over the federally insured limits.

Investment in securities represents mutual fund investments diversified in various debt equity instruments, which comprises 100% of the investment portfolio.

The notes receivable consist of notes most of which are secured by property.

Approximately 96% of the receivable from the Episcopal Church in the Diocese of California represents funds held in a pooled endowment fund. The pooled endowment fund invests in various equities and securities.

Property represents parishes, missions, and land in the greater San Francisco Bay Area.

**The Episcopal Bishop of California,
A Corporation Sole**

Notes to Financial Statements

Note 9 - Asset Retirement Obligation:

The Corporation owns significant amounts of property as detailed in Note 5. Financial Accounting Standards Board Interpretation No. 47 (FIN 47), *Accounting for Conditional Asset Retirement Obligations* requires an entity to recognize a liability for the fair value of conditional asset retirement obligations if the fair value of the liability can be reasonably estimated. Based on the information available for the Corporation's property, the Corporation was unable to estimate the amount of its asset retirement obligation, if any.

**The Episcopal Bishop of California,
A Corporation Sole**

**Property and Loans Payable with Corresponding Receivable
(see Independent Auditors' Report on Supplemental Information)**

December 31, 2007

	Property (at cost)	Line of Credit and Other Notes Payable	Corresponding Receivable	Source
Missions:				
Antioch, St. George	\$ 146,565			
Belmont, Good Shepherd	39,500			
Bolinas, St. Aidan's	10,000			
Brentwood, St. Alban's	16,000			
Daly City, Holy Child and St. Martin	114,000			
Half Moon Bay, Holy Family	578,479			
Oakland, St. Cuthbert's	245,510			
Pacifica, St. Edmund's	121,357			
Pinole, Christ the Lord				
Pinole, Church of Christ the Lord	206,790			
San Bruno, St. Andrew's	1,479,000			
San Francisco, Christ Church	25,000			
San Francisco, Holy Innocent	73,177			
San Francisco, St. Cyprians	1,087,917			
San Lorenzo, St. Christopher's	108,500		\$ 33,476	A
San Rafael, Redeemer	393,099			
South San Francisco, St. Elizabeth's	82,640			
Total missions	4,727,534		33,476	
Parishes:				
Belvedere, St. Stephen's		\$ 245,134	245,134	A
Castro Valley, Holy Cross	2,017,558			
Clayton Valley, St. John's	214,029			
Crockett, St. Mark's	26,500			
Danville, St. Timothy's	962,325			
Foster City, St. Ambrose	927,367			
Fremont, St. Anne's	135,686			
Fremont, St. James				
Lafayette, St. Anselm's	179,170	207,300	207,300	A
Livermore, St. Bartholomew's	263,901			
Oakland, St. Augustine's		10,308	10,308	A
Orinda, St. Stephens		471,000	471,000	A
Palo Alto, St. Mark's				
Pleasant Hill, Resurrection	403,380	375,000	375,000	A
Pleasanton, St. Clare's	124,858	610,683	610,683	A
Ross, St. John's				
San Francisco, St. Aidan's	548,408	66,000	66,000	A

**The Episcopal Bishop of California,
A Corporation Sole**

**Property and Loans Payable with Corresponding Receivable
(see Independent Auditors' Report on Supplemental Information)**

December 31, 2007

	Property (at cost)	Line of Credit and Other Notes Payable	Corresponding Receivable	Source
San Francisco, St. Gregory's				
San Francisco, St. Mary the Virgin				
San Rafael, Nativity		9,625	9,625	A
Berkeley, All Souls		19,902	19,902	A
Belmont, Good Shepherd		72,810	72,810	A
Albany, St. Alban's		39,036	39,036	A
Concord, St. Michael and All Angels		62,963	62,963	A
Total parishes	5,803,182	2,189,761	2,189,761	
Total parish and missions	10,530,716	2,189,761	2,223,237	
Other Properties:				
Berkeley Canterbury				
Berkeley Emergency Food and Housing		186,195	186,195	A
Bishop Ranch Furia Properties	501,758			
Brentwood	1,214,278			
Clausen House				
Community of St. Francis	69,500			
El Rancho del Obispo	2,394,632			
Episcopal Charities				
Episcopal Community Services				
Episcopal High School				
Family Link	341,936			
Ohloff House		97,500	97,500	A
Less allowance			(100,000)	B
Society of St. Francis	51,500			
St. Dorothy's Rest	392,361			
Friends of Creation Spirituality, Inc.			45,000	A
United Religions Initiative				
The Episcopal Bishop of California				
Total other properties	4,965,965	283,695	228,695	
Total	\$ 15,496,681	\$ 2,473,456	\$ 2,451,932	

Note - Source of Credit and Notes Payable:

A Union Bank

B Episcopal Church in the Diocese of California