

**THE EPISCOPAL CHURCH IN THE
DIOCESE OF CALIFORNIA**

DECEMBER 31, 2021

INDEPENDENT AUDITORS' REPORT AND
FINANCIAL STATEMENTS

The Episcopal Church in the Diocese of California

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A Century Strong

Independent Auditors' Report

EXECUTIVE COUNCIL
THE EPISCOPAL CHURCH IN THE
DIOCESE OF CALIFORNIA
San Francisco, California

Opinion

We have audited the financial statements of **THE EPISCOPAL CHURCH IN THE DIOCESE OF CALIFORNIA (the Diocese)** which comprise the statement of financial position as of December 31, 2021, the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Diocese as of December 31, 2021, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Diocese and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Diocese's ability to continue as a going concern for one year from the date of this report.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Diocese's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Diocese's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited the Diocese's 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 24, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Hood & Strong LLP

San Francisco, California
January 26, 2023

The Episcopal Church in the Diocese of California

Statement of Financial Position

December 31, 2021 (with comparative totals for 2020)

	2021						2020
	Operating	Custodial	Endowment	Deferred Gifts	Capital Campaign	Total All Funds	Total
Assets:							
Cash and cash equivalents	\$ 4,397,896		\$ 1,710,646		\$ 4,233,951	\$ 10,342,493	\$ 7,231,503
Receivables, net	1,912,510				5,853,886	7,766,396	11,008,424
Investments at fair value			33,329,183			33,329,183	29,202,796
Charitable remainder trusts at fair value				\$ 14,745,688		14,745,688	14,248,935
Notes receivable	1,794,118					1,794,118	1,882,919
Notes receivable held for investment, net	195,409					195,409	225,488
Equity interests in real property	43,949		160,000			203,949	3,381,449
Property and equipment, net	4,147,322					4,147,322	4,186,350
Due (to) from other funds	(762,311)	\$ 491,197	910,029		(638,915)	-	-
Total assets	\$ 11,728,893	\$ 491,197	\$ 36,109,858	\$ 14,745,688	\$ 9,448,922	\$ 72,524,558	\$ 71,367,864
Liabilities and Net Assets							
Liabilities:							
Accounts payable and accrued expenses	\$ 1,692,822				\$ 1,251,529	\$ 2,944,351	\$ 5,130,249
Deferred revenue	11,002					11,002	34,535
Line of credit	1,794,118					1,794,118	1,882,919
Paycheck Protection Program Loan							472,594
Funds held in trusts for beneficiaries				\$ 11,409,312		11,409,312	11,270,883
Total liabilities	3,497,942	-		11,409,312	1,251,529	16,158,783	18,791,180
Net Assets:							
Without Donor Restrictions	8,230,951					8,230,951	7,109,473
With Donor Restrictions:							
Restricted for Time or Purpose		\$ 491,197	\$ 20,953,782	1,810,844	8,197,393	31,453,216	28,511,239
Restricted in Perpetuity			15,156,076	1,525,532		16,681,608	16,955,972
Total With Donor Restrictions		491,197	36,109,858	3,336,376	8,197,393	48,134,824	45,467,211
Total net assets	8,230,951	491,197	36,109,858	3,336,376	8,197,393	56,365,775	52,576,684
Total liabilities and net assets	\$ 11,728,893	\$ 491,197	\$ 36,109,858	\$ 14,745,688	\$ 9,448,922	\$ 72,524,558	\$ 71,367,864

See accompanying notes to the financial statements.

The Episcopal Church in the Diocese of California

Statement of Activities

Year Ended December 31, 2021 (with comparative totals for 2020)

	2021						2020	
	Operating	Custodial	Endowment	Deferred Gifts	Capital Campaign	Total All Funds	Total	
Support and Revenue:								
Parish and mission assessments	\$ 3,466,340					\$ 3,466,340	\$ 3,530,004	
Gifts, Fees, and other income	1,127,051	\$ 630,700	\$ 1,652,946		\$ 220,258	3,630,955	2,441,707	
Change in value of charitable remainder trusts				\$ 358,324		358,324	162,432	
Investment income, net	850,698	109,682	2,023,886		(580)	2,983,686	5,958,328	
Total support and revenue	5,444,089	740,382	3,676,832	358,324	219,678	10,439,305	12,092,471	
Expenses:								
Program services	2,908,405					2,908,405	2,496,508	
General and administrative	1,578,749					1,578,749	1,526,794	
Fundraising	220,132					220,132	113,733	
Total expenses	4,707,286					4,707,286	4,137,035	
Changes in Net Assets Before Transfers & Reclasses								
	736,803	740,382	3,676,832	358,324	219,678	5,732,019	7,955,436	
Interfund Transfers:								
Transfers from Operating Fund to Deferred Gifts Fund	(90,097)			90,097		-	-	
Transfers from Operating Fund to Custodial Funds	(89,195)	89,195				-	-	
Transfers from Custodial Funds to Operating Fund						-	-	
Payments to beneficiaries:								
Payments to endowment beneficiaries			(1,005,526)			(1,005,526)	(1,021,407)	
Payments to custodial fund beneficiaries						-	(979,719)	
Payments to Capital Campaign fund beneficiaries					(937,402)	(937,402)	(504,526)	
Payments of Capital Campaign Expenses								
Release from restrictions:								
Release restricted custodial funds to Operating fund	505,532	(505,532)				-	(421,880)	
Release restricted Capital Campaign funds to Operating fund	58,435				(58,435)	-	-	
Change in Net Assets	1,121,478	324,045	2,671,306	448,421	(776,159)	3,789,091	5,027,904	
Net Assets, beginning of year	7,109,473	167,152	33,438,552	2,887,955	8,973,552	52,576,684	47,548,780	
Net Assets, end of year	\$ 8,230,951	\$ 491,197	\$ 36,109,858	\$ 3,336,376	\$ 8,197,393	\$ 56,365,775	\$ 52,576,684	
Fund Balances by Classification								
Net Assets, beginning of year:								
Without Donor Restrictions	\$ 7,109,473					\$ 7,109,473	\$ 6,260,989	
Restricted for Time or Purpose		\$ 167,152	\$ 18,533,028	\$ 837,507	\$ 8,973,552	28,511,239	25,127,160	
Restricted in Perpetuity			14,905,524	2,050,448		16,955,972	16,160,631	
Net Assets, beginning of year	7,109,473	167,152	33,438,552	2,887,955	8,973,552	52,576,684	47,548,780	
Changes in Net Assets:								
Without Donor Restrictions	1,121,478					1,121,478	848,484	
With Donor Restrictions:								
Restricted for Time or Purpose		324,045	2,420,754	973,337	(776,159)	2,941,977	1,043,455	
Restricted in Perpetuity			250,552	(524,916)		(274,364)	3,135,965	
Changes in Net Assets	1,121,478	324,045	2,671,306	448,421	(776,159)	3,789,091	5,027,904	
Net Assets, end of year:								
Without Donor Restrictions	8,230,951					8,230,951	7,109,473	
With Donor Restrictions:								
Restricted for Time or Purpose		491,197	20,953,782	1,810,844	8,197,393	31,453,216	28,511,239	
Restricted in Perpetuity			15,156,076	1,525,532		16,681,608	16,955,972	
Net Assets, end of year	\$ 8,230,951	\$ 491,197	\$ 36,109,858	\$ 3,336,376	\$ 8,197,393	\$ 56,365,775	\$ 52,576,684	

See accompanying notes to the financial statements.

The Episcopal Church in the Diocese of California

Statement of Functional Expenses

Year Ended December 31, 2021 (with comparative totals for December 31, 2020)

	2021				2020
	Program Services	Management	Fundraising Services	Total	Total
Salaries	\$ 757,992	\$ 550,687	\$ 175,565	\$ 1,484,244	\$ 1,387,355
Employee benefits	265,077	170,313	44,567	479,957	560,322
Diocese assessment	601,549			601,549	585,590
Direct support of congregations	249,145			249,145	468,622
Legal fees		105,923		105,923	167,477
Direct support of diocese	171,165			171,165	185,802
Audit and insurance		146,351		146,351	150,649
Other	863,477	605,475		1,468,952	631,218
Total expenses	\$ 2,908,405	\$ 1,578,749	\$ 220,132	\$ 4,707,286	\$ 4,137,035

See accompanying notes to financial statements.

The Episcopal Church in the Diocese of California

Statement of Cash Flows

<i>Year Ended December 31, 2020 (with comparative totals for 2019)</i>	2021	2020
Cash Flows from Operating Activities:		
Changes in net assets	\$ 3,789,091	\$ 5,027,904
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Forgiveness of Paycheck Protection Program loan	(472,594)	
Depreciation	48,085	49,361
Net realized and unrealized (gain) loss on investments	(2,220,094)	(3,946,512)
Change in value of charitable remainder trusts	(358,324)	(162,432)
Increase (decrease) in operating assets and liabilities:		
Receivables	3,242,028	2,135,524
Notes receivable	118,880	(347,333)
Accounts payable and accrued expenses	(2,185,898)	371,165
Deferred revenue	(23,533)	(209)
Net cash provided by operating activities	1,937,641	3,127,468
Cash Flows from Investing Activities:		
Purchases of investments	(3,693,885)	(2,084,304)
Proceeds from sale of investments	1,787,592	1,090,346
Purchases of property and equipment	(9,057)	(7,532)
Proceeds from sale of real estate property	3,177,500	
Net cash provided (used) in investing activities	1,262,150	(1,001,490)
Cash Flows from Financing Activities:		
Proceeds from Paycheck Protection Program		472,594
Net (borrowings) proceeds on line of credit	(88,801)	330,926
Net cash (used) provided by in financing activities	(88,801)	803,520
Net Change in Cash and Cash Equivalents	3,110,990	2,929,498
Cash and Cash Equivalents, beginning of year	7,231,503	4,302,005
Cash and Cash Equivalents, end of year	\$ 10,342,493	\$ 7,231,503

See accompanying notes to the financial statements.

The Episcopal Church in the Diocese of California

Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies:

a. Diocese

The Episcopal Church in the Diocese of California (the Diocese) is a nonprofit corporation that administers and supports Episcopal congregations and affiliated institutions throughout the San Francisco Bay Area in the State of California. The Diocese is governed by its Executive Council, which is the legal governing body of the diocesan corporation.

b. Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), and, accordingly, reflect all significant receivables, payables, and other liabilities, including deferred revenue. The principles of fund accounting are utilized to provide a more detailed accounting for the monies entrusted to the Diocese.

c. Basis of Presentation

Net Assets Without Donor Restrictions

Net assets without donor restrictions represent the portion of net assets that is not subject to time or donor-imposed restrictions and may be expended for any purpose in performing the objectives of the Diocese. Net assets without donor restrictions may be designated for specific uses by management or the Executive Council.

Net Assets With Donor Restrictions

Net assets with donor restrictions represents the portion of net assets comprising contributions which are scheduled to be received in the future, purpose-restricted grants for which variance power was not given to the Diocese and the portion of donor-restricted endowment funds that are not restricted in perpetuity. Net assets with donor restrictions also include the portion of net assets consisting of contributions to endowment funds where the donor indicated that a portion of the fund be retained in perpetuity.

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.

The Episcopal Church in the Diocese of California

Notes to Financial Statements

e. Receivables

Receivables represent amounts due to the Diocese from congregations for assessments and for payroll and benefits advances, capital campaign pledges, reimbursable expenses, and other receivables. The Diocese records bad debts using the allowance method.

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 from the sale of 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 using three levels and maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value.

Level 1 – Unadjusted quoted market prices 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 comprises notes due from several churches. The notes bear interest at the prime rate and are due through 2022. The notes may be unsecured or secured by property and are recorded net of an allowance for doubtful accounts.

h. Equity Interests in Real Property

Equity interests in real property represent amounts funded by the Diocese for the purchase of property contributed by donors. The Diocese has an equity interest in such property for the portion of the purchase price funded by the Diocese. This interest is recorded at cost if purchased, or fair value at the date of donation if donated. 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, 2021.

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 of the related assets, generally three to thirty years. Maintenance and repairs are charged to expense as incurred. Significant betterments and renewals are capitalized.

The Episcopal Church in the Diocese of California

Notes to Financial Statements

j. Deferred Revenue

Deferred revenue is comprised of assessment payments and payroll and benefits reimbursements from congregations in advance of the period to which they relate.

k. Recognition of Support and Revenue

Parish and mission assessments are prepared annually and recorded when the assessments are due or ratably over the period for which they are due.

Gifts and grants are recognized at fair value when the donor makes an unconditional promise to give to the Diocese. Donor-restricted gifts and grants are reported as increases in net assets restricted for time or purpose or net assets restricted in perpetuity, depending on the nature of the restrictions. When a restriction expires, net assets restricted for time or purpose are reclassified to net assets without restrictions.

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

l. Income Taxes

The Diocese is a tax-exempt corporation 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.

As of December 31, 2021, management evaluated the Diocese's tax positions and concluded that the Diocese had maintained its tax-exempt status and had taken no uncertain tax positions that require adjustment to the financial statements.

m. Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, 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 U. S. GAAP. Accordingly, such information should be read in conjunction with the Diocese's financial statements for the year ended December 31, 2020, from which the summarized information was derived.

Certain items as reported for December 31, 2020 have been reclassified to conform with the December 31, 2021 financial statement presentation.

The Episcopal Church in the Diocese of California

Notes to Financial Statements

o. Functional Allocation of Expenses

The costs of providing various programs and activities have been summarized on a functional basis in the accompanying Statement of Activities and Changes in Net Assets. Accordingly, costs have been allocated among the programs and supporting services that are benefited based on direct costs and salaries and related costs have been allocated by management using time spent in each functional area.

p. Subsequent Events

The Diocese evaluated subsequent events with respect to the financial statements for the year ended December 31, 2021 through January 26, 2023, the date these financial statements were available to be issued. There were no material subsequent events, except as described in Note 6 that required recognition or additional disclosure in these consolidated financial statements.

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 seventy-five congregations, numerous ministries, and various diocesan institutions such as its university centers, St. Dorothy's Rest, and Bishop's Ranch. The Diocese manages both an endowment and a planned giving portfolio, of which congregations and others are the primary beneficiaries. The Diocese provides a centralized payroll and benefits administration service to its congregations, schools, and institutions. The Diocese also pays an apportionment for the support of The Episcopal Church.

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

b. Custodial 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 net assets restricted for time or purpose on the Statement of Financial Position.

The Episcopal Church in the Diocese of California

Notes to Financial Statements

c. Endowment 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 net assets with donor restrictions in perpetuity funds falls below the historical value, the deficiency is reflected as net assets with donor restrictions. At the end of 2021, there was no deficiency with an original corpus of \$20,436,902. Net assets with donor restrictions in perpetuity represent the historic value of additions to the endowment, and the net assets with donor restrictions represent appreciation (depreciation) of the endowment fund balances.

d. Deferred Gifts Fund

This fund is used to account for funds held in trust and administered by the Diocese, the income from 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’ interests, the principal will be distributed in accordance with the conditions prescribed by the deferred gift agreements. Any principal that will ultimately be distributed to third party beneficiaries has been recorded as a liability, “Funds Held in Trusts 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 rates used, ranging between 5% and 6.5%, approximate the 30-year U.S. Treasury Bond rate in the year of origination. The fund balances are a combination of net assets restricted in perpetuity and net assets restricted for time or purpose on the Statement of Financial Position.

e. Capital Campaign Fund

This fund is used to account for the receipts and expenses of the diocesan capital campaign, known as the Expanding Horizons Campaign, which ran from 2015 to 2019. In addition to raising money to support diocesan needs and initiatives, the Expanding Horizons Campaign also featured a collaborative phase with congregations of the Diocese. In the collaborative phase congregations could elect to utilize the support and resources of diocesan development staff and campaign consultants, whose fees were paid by the Diocese, to conduct their own capital campaigns on a revenue sharing basis with the Diocese.

The Episcopal Church in the Diocese of California

Notes to Financial Statements

Note 3 - Receivables:

Receivables consisted of the following at December 31, 2021:

Assessments	\$ 63,895
Reimbursable expenses of related entities, net of allowance	1,605,513
Capital Campaign	5,853,886
Other receivables	243,102
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	\$ 7,766,396

At December 31, 2021, pledges receivable for the Capital Campaign were due as follows:

Current	\$ 1,738,004
Two to Five Years	4,942,764
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	6,680,768
Less discounts to net present value	(741,518)
Less bad debt	(85,364)
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Total	\$ 5,853,886

In 2016, the Diocese announced two major commitments to its Expanding Horizons capital campaign, the first being a \$10 million pledge payable over ten years beginning in 2017 and a second \$500,000 pledge payable over five years. In 2016, 2017 and 2018, a group of congregations successfully completed capital campaigns working with diocesan staff and campaign consultants. The Expanding Horizons Campaign began its distribution phase in early 2020. Contributions to be received after one year are discounted at a rate of 4.5%.

The Episcopal Church in the Diocese of California

Notes to Financial Statements

Note 4 - Investments and Charitable Remainder Trusts:

The fair values of investments and charitable remainder trusts at December 31, 2021 was as follows:

Mutual funds	\$ 362,212
DFMS Trust Fund	32,966,971
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Total investments	33,329,183
Charitable remainder trusts	14,745,688
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	\$ 48,074,871

Net investment income for the year ended December 31, 2021 consisted of the following:

Interest and dividends, net of management fees	\$ 1,205,481
Net realized and unrealized gains	2,220,094
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	\$ 3,425,575

All net investment income is restricted for time or purpose.

Investment Securities

In late 2016 the Executive Council of the Diocese, upon recommendation of its Investment committee, approved moving the diocesan endowment funds from The Investment Fund for Foundations (“TIFF”) to the Endowment Portfolio of the Domestic and Foreign Missionary Society of the Protestant Episcopal Church in the United States of America (“DFMS”), which is the business operations arm of The Episcopal Church. Transfer of the endowment funds to DFMS was completed on December 28, 2016.

The DFMS Endowment portfolio comprises more than one thousand trust funds and is managed by approximately fifteen external investment managers. These funds are maintained in a common investment portfolio and are overseen by the Office of the Treasurer of The Episcopal Church under the direction of its Investment Committee. Co-investors such as the Diocese and other Episcopal entities participate in all returns on a pro rata basis and are not charged entry, exit, or management fees by DFMS. At December 31, 2021, DFMS was invested approximately 37% in domestic equities, 31% in international equities, 13.5% in fixed income, 15% in alternative investments, and 3.5% in real estate.

The Episcopal Church in the Diocese of California

Notes to Financial Statements

The table below presents investment assets at fair value as of December 31, 2021.

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Investments:			
Mutual Funds:			
US Equity Fund	\$ 362,212		\$ 362,212
DFMS Trust Fund		\$ 32,966,971	32,966,971
	362,212	32,966,971	33,329,183
Charitable Remainder Trusts:			
Cash & Equivalents		363,528	363,528
Domestic REIT		1,619,605	1,619,605
International REIT		705,422	705,422
Non-U.S. Bond Fund		502,161	502,161
Non-U.S. Equity Fund		3,320,653	3,320,653
U.S. Bond Funds		2,683,588	2,683,588
U.S. Equity Fund		5,221,068	5,221,068
Domestic Stock		19,533	19,533
U.S. Treasury Notes/Bonds		310,130	310,130
		14,745,688	14,745,688
Total assets measured at fair value	\$ 362,212	\$ 47,712,659	\$ 48,074,871

There were no investments measured at Level 3.

Note 5 - Charitable Remainder Trusts:

The Diocese is the trustee for various charitable remainder unitrusts and charitable remainder annuity trusts. These investments represent gifts received subject to certain restrictions on the distribution of income and the assets of the trusts.

The charitable remainder unitrusts provide payments to the donor or other beneficiaries for their lifetime or a set period of years based on a fixed percentage of between 5% to 7% of the trust principal as it is revalued annually. The charitable remainder annuity trusts provide a fixed annual dollar payment to the donor or other beneficiaries. Upon the expiration of a trust, its remaining principal is distributed to the charitable organization designated by the donor, typically a congregation or institution of the Diocese or the Diocese itself.

The Episcopal Church in the Diocese of California

Notes to Financial Statements

The Diocese records the investments at fair value when the trust is established. The estimated liability of future payments to beneficiaries as of the gift receipt date is based upon the annual payment multiplied by the beneficiary's life expectancy discounted at of 5% to 6.5% and is classified as funds held in trust for the beneficiary.

The investments in charitable remainder unitrusts consisted of the following at December 31, 2021:

Charitable remainder trust investments (See Note 4)	\$ 14,745,688
Less funds held in trust for beneficiaries	(11,409,312)
	<hr/>
	\$ 3,336,376

The change in value in charitable remainder trusts, before transfers of \$90,097, was \$448,421 for the year ended December 31, 2021.

Note 6 - Equity Interests in Real Property:

Equity interests in real property, which are recorded at cost if purchased, or fair value if donated, comprise the following at December 31, 2021:

24% equity interest in real property owned by Bayani Rico	\$ 43,949
31% equity interest in real property owned by the Culmers	160,000
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	\$ 203,949

The Episcopal Church in the Diocese of California

Notes to Financial Statements

Note 7 - Property and Equipment:

At December 31, 2021, property and equipment comprised the following:

Diocesan House	\$ 1,071,447
S. F. Campus Center partial interest	30,000
Computers/servers	56,436
Other furniture and equipment	156,458
Automobile	42,481
Hearst Avenue, Berkeley	649,669
Bishop's residence	1,112,605
Bishop's residence improvements	434,458
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	3,553,554
Less accumulated depreciation	(1,222,445)
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	2,331,109
Land	1,816,213
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	\$ 4,147,322

Depreciation expense for the year ended December 31, 2021 was \$48,085.

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 (3.25% at December 31, 2021). The line of credit is subject to renewal every two years, and the next renewal date is October 3, 2022.

The credit agreement requires the Diocese to meet certain financial covenants. As of December 31, 2021, the Diocese was in compliance with all such provisions of the agreement.

The Episcopal Church in the Diocese of California

Notes to Financial Statements

Total principal outstanding on the line of credit was \$1,794,118 at December 31, 2021. This debt is incurred by the Diocese on behalf of various congregations and ministries as follows:

	Line of Credit and Other Notes Payable	Corresponding Receivable
Congregations:		
Transfiguration, San Mateo	\$ 498,166	\$ 498,166
St. Michael and All Angels, Concord	59,100	59,100
St. Paul's, Oakland	506,422	506,422
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Total congregations	1,063,688	1,063,688
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Other:		
St. Dorothy's Rest	730,430	730,430
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Total	\$ 1,794,118	\$ 1,794,118

Note 9 - Endowments:

The Diocese's endowment comprises over 120 individual funds established to support 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 U.S. 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.

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 net assets with donor restrictions in perpetuity as (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 net assets with donor restrictions in perpetuity is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Diocese in a manner consistent with the standard of prudence prescribed by State Prudent Management of Institutional Funds Act (SPMIFA).

The Episcopal Church in the Diocese of California

Notes to Financial Statements

In accordance with SPMIFA, the Diocese 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 Diocese 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 Diocese, (7) the investment policies of the Diocese.

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. Deficiencies of this nature that are reported in net assets with donor restrictions were \$187,773 for the year ended December 31, 2021.

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 support the various programs and ministries of the Diocese of California. Endowment assets include those assets of donor-restricted funds that the Diocese 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 expects to provide annual distributions of 4.25% of the market value of the portfolio as calculated on a twelve-quarter 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, 2021 were as follows:

	With Restrictions	With Restrictions in Perpetuity	Total
Endowment Net Assets, December 31, 2020	\$ 18,533,028	\$ 14,905,524	\$ 33,438,552
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Investment Return:			
Income	1,205,480		1,205,480
Net appreciation/ (depreciation)	2,220,800		2,220,800
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<u>Total investment return</u>	<u>3,426,280</u>		<u>3,426,280</u>
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Contributions		250,552	250,552
Appropriations	(1,005,526)		(1,005,526)
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Endowment Net Assets December 31, 2021	\$ 20,953,782	\$ 15,156,076	\$ 36,109,858

Note 10 - Net Assets:

Net assets with donor restrictions for specific purposes at December 31, 2021 were as follows:

	Custodial	Endowment	Deferred Gifts	Capital Campaign	Total
Support Diocese	\$ 232,668	\$ 13,152,871	\$ 1,505,117		\$ 14,890,656
Education		378,152	22,815		400,967
Congregational Support		13,043,952	1,519,494		14,563,446
Congregational Development	(61,995)	2,697,972	288,950		2,924,927
Social Ministry	26,060	3,615,309			3,641,369
Scholarship	294,464	3,221,602			3,516,066
Capital Campaign				\$ 8,197,393	8,197,933
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	\$ 491,197	\$ 36,109,858	\$ 3,336,376	\$ 8,197,393	\$ 48,134,824

Net assets released from donor restrictions by incurring expenses satisfying the purpose of the restriction for the year ended December 31, 2021 were \$536,967.

The Episcopal Church in the Diocese of California

Notes to Financial Statements

Net assets with donor restrictions in perpetuity were invested in perpetuity with the income available to support the programs of the Diocese as of December 31, 2021, as follows:

	Endowment	Deferred Gifts	Total
Support Diocese	\$ 6,559,944	\$ 700,684	\$ 7,260,628
Education	239,012		239,012
Congregational Support	6,587,092	545,380	7,132,472
Congregational Development	581,990		581,990
Social Ministry	565,491	279,468	844,959
Scholarships	622,547		622,547
	<u>\$ 15,156,076</u>	<u>\$ 1,525,532</u>	<u>\$ 16,681,608</u>

Note 11 - Liquidity and Availability:

The Diocese relies upon contributions and pledges to conduct its operations.

The following reflects the Diocese's financial assets as of the date of the Statement of Financial Position, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the date of the Statement of Financial Position. Amounts not available include amounts set aside for the Diocese's lending program.

Financial assets, at year end:	
Cash and cash equivalents	\$ 10,342,493
Receivables, net	7,766,396
Investments	33,329,183
Total financial assets	51,438,072
Less those unavailable for general expenditures within one year, due to:	
Restricted by donor with time or purpose restrictions	(31,453,216)
Restricted by donor in perpetuity	(16,681,608)
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 3,303,248</u>

In addition, contributions and program revenue received throughout the year can be utilized to fund general expenditures.

The Episcopal Church in the Diocese of California

Notes to Financial Statements

Note 12 - Retirement Plans:

The Diocese provides a defined contribution pension plan for lay employees. The Diocese contributes between 5% and 9% of lay employee compensation depending upon the employee contribution. The 2021 contribution by the Diocese to the defined contribution pension plan approximated \$56,573.

The Diocese also provides pension benefits for its clergy employees through the Church Pension Plan. The plan is a defined benefit pension plan funded by assessments charged at 18% of pensionable compensation, as defined by the plan. In 2021 the Diocese contributed approximately \$123,746, to the clergy defined benefit pension plan.

Note 13 - Concentrations of Credit Risk:

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

The Diocese invests its cash deposits with two financial institutions. Periodically, throughout the year, the Diocese has maintained balances in operating and money market accounts higher than federally insured limits.

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

The Diocese bills and collects assessment revenue from the various congregations. Assessment revenues represented 50% of all non-investment and contribution revenue the Diocese received in 2021.

Note 14 - Diocesan Expenses:

The table below presents expenses by department for 2021.

Episcopate	\$ 405,902
Diocesan communications	133,025
Congregational development	267,551
Youth, young adult, and camps	70,791
Ministry Development	981,820
Multicultural and other ministries	173,865
Development and planned giving	122,673
National church and international support	601,100
Finance	228,808
Administration and support staff	1,721,751
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Total	\$ 4,707,286