

THE EPISCOPAL BISHOP OF CALIFORNIA,
A CORPORATION SOLE

DECEMBER 31, 2006

INDEPENDENT AUDITORS' REPORT

FINANCIAL STATEMENTS,

AND

SUPPLEMENTAL INFORMATION

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

**Independent Auditors' Report
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, 2006 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.

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, 2006, 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.

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 audits 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.

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We have also audited the adjustment described in Note 10 that was applied to restate the 2005 financial statements to correct an error. In our opinion, such adjustment is appropriate and has been properly applied. We were not engaged to audit, review or apply any procedures to the 2005 financial statements of the Corporation other than with respect to the adjustment and, accordingly, we do not express an opinion or any other form of assurance on the 2005 financial statements taken as a whole.

Hood & Strong LLP

August 29, 2007

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

Statement of Financial Position

December 31, 2006

Assets

Cash and Cash Equivalents	\$ 32,701
Receivables , related party:	
Unitrust funds	245,231
Investments in a pooled endowment fund	4,942,520
Diocese short term loan	215,205
Investment in Securities	335,545
Notes Receivable , net	3,083,136
Equity Interests in Real Property	109,429
Property	15,496,681
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Total assets	\$ 24,460,448

Liabilities and Net Assets

Liabilities:

Accounts payable and accrued expenses	\$ 50,000
Line of credit and other notes payable	3,420,549
Notes payable-related party	18,683
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Total liabilities	3,489,232

Net Assets:

Unrestricted	16,403,768
Temporarily restricted	507,724
Permanently restricted	4,059,724
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Total net assets	20,971,216
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Total liabilities and net assets	\$ 24,460,448

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

Statement of Activities

Year Ended December 31, 2006

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue:				
Investment income	\$ 34,232			\$ 34,232
Net unrealized gain on investment in securities	10,810			10,810
Income from pooled endowment	339,823			339,823
Gifts, grants and other		\$ 49,596	\$ 3,972	53,568
Total support and revenue	384,865	49,596	3,972	438,433
Expenses:				
Interest	28,387			28,387
Other expenses	15,968			15,968
Total expenses	44,355			44,355
Change in Net Assets	340,510	49,596	3,972	394,078
Net Assets, beginning of year	16,171,845	268,660	4,136,633	20,577,138
Prior Period Adjustment	(108,587)	189,468	(80,881)	-
Net Assets, beginning of year, as restated	16,063,258	458,128	4,055,752	20,577,138
Net Assets, end of year	\$ 16,403,768	\$ 507,724	\$ 4,059,724	\$ 20,971,216

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

Statement of Cash Flows

Year Ended December 31, 2006

Cash Flows from Operating Activities:

Change in net assets	\$ 394,078
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Net unrealized gain on investment in securities	(10,815)
Increase in value of pooled endowment fund assets	(339,822)
Change in value of charitable remainder trusts	(31,766)

Net cash provided by operating activities 11,675

Cash Flows from Investing Activities:

Proceeds from sales of investments	796
Loan to Episcopal Diocese	(215,205)

Net cash used by investing activities (214,409)

Net Decrease in Cash and Cash Equivalents (202,734)

Cash and Cash Equivalents, beginning of year 235,435

Cash and Cash Equivalents, end of year \$ 32,701

Supplemental Information:

Cash paid for interest	\$ 28,387
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Noncash Investing and Financing Activities:

Third party borrowings on LOC	\$ 1,097,400
Third party payment on LOC	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

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS No. 117, the Corporation 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 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, 2006 represents future distributions of trust funds from the Diocese, which is recorded at the net present value of those distributions. Another portion represents a short term loan made to the Diocese. The balance of the receivable represents the amount of an endowment fund which is due from the Diocese as described in Note 8.

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 \$3,104,660.

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, 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.

Note 3 - Unconsolidated Information (Unaudited):

The Bishop oversees the operations of mission churches. As stated in Note 1, the financial statements do not include certain assets, liabilities and operating activities of mission churches. The following is approximate summarized, unaudited financial data of the mission churches for the year ended December 31, 2006 that are not included in the accompanying financial statements:

Total assets	\$ 1,318,172
Total revenue	\$ 1,936,170
Total expense	\$ 1,912,483
Net gain	\$ 23,687

All mission church properties and related debt are included in the accompanying financial statements.

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

Notes to Financial Statements

Note 4 - Investment in Securities:

Investment in securities at December 31, 2006 is as follows:

Eaton Vance Income Fund of Boston:	
Fair value - quoted market price	\$ 335,545
Cost	487,818
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Cumulative fair value adjustment	\$ (152,273)

Investment activity included in the changes in unrestricted net assets for the year ended December 31, 2006 is as follows:

Interest and dividends	\$ 34,232
Net unrealized gain on investment in securities	10,810
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	\$ 45,042

Note 5 - Property:

Property consists of the following at December 31, 2006:

Parishes and missions	\$ 10,530,716
Other properties	4,965,965
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	\$ 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.

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

Notes to Financial Statements

Note 6 - Line of Credit:

Line of credit and other notes payable consist of the following at December 31, 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 (8.25% at 12/31/06); interest payable monthly; principal due on October 2, 2008; unsecured. \$ 3,420,549

Total principal payments due to Union Bank on the line of credit are \$3,420,549 with a maturity date of October 2, 2008. Of this amount, \$334,572 is debt incurred by the Corporation for its benefit and \$3,085,977 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.

Note 7 - Net Assets:

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

Bishop's bed fund	\$ 184,318
Bishop Block memorial fund	38,618
Selena Ellis fund	20,000
Welty fund	25,726
Charitable remainder trusts	217,262
Other	21,800
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	\$ 507,724

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

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

Notes to Financial Statements

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

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

Note 8 - 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 \$4,942,520 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, 2006 is an amount due to the Corporation from the Diocese in the amount of \$245,231 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 \$18,683 at December 31, 2006. The debt is unsecured, matures in 2008 and bears interest at a rate of 6%.

Total principal payments due are as follows:

2007	\$ 9,159
2008	9,524
	\$ 18,683

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

Notes to Financial Statements

Dependence on Diocese

The Corporation is financially dependent on the Diocese due to the fact that they have no significant assets other than investments, endowment, and buildings and land to satisfy their debt obligations.

Note 9 - 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 \$32,701 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 91% 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.

Note 10 - Prior Period Adjustment:

During the year ended December 31, 2006, it was determined that certain net assets related to the Corporation's interest in charitable remainder trusts were not properly stated with respect to net asset classifications. An adjustments to properly reflect net assets as of December 31, 2005 has been recorded. That adjustment increased temporarily restricted net assets by \$189,468 and decreased unrestricted and permanently restricted net assets by \$108,587 and \$80,881, respectively. The adjustments had no impact on the total change in net assets for 2005.

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

Notes to Financial Statements

Note 11 - 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, 2006

	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		\$ 268,827	268,827	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		3,655	3,655	A
Lafayette, St. Anselm's	179,170	250,000	250,000	A
Livermore, St. Bartholomew's	263,901			
Oakland, St. Augustine's		18,683	18,683	B
Orinda, St. Stephens		371,000	371,000	A
Palo Alto, St. Mark's		65,000	65,000	A
Pleasant Hill, Resurrection	403,380	415,000	415,000	A
Pleasanton, St. Clare's	124,858			
Ross, St. John's		1,020,000	1,020,000	A
San Francisco, St. Aidan's	548,408	72,000	72,000	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, 2006

	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		48,125	48,125	A
Berkely, All Souls		37,436	37,436	A
Belmont, Good Shepherd		81,430	81,430	A
Concord, St. Michael and All Angels		39,963	39,963	A
Total parishes	5,803,182	2,691,119	2,691,119	A
Total parish and missions	10,530,716	2,691,119	2,724,595	A
Other Properties:				
Berkeley Canterbury				
Berkeley Emergency Food and Housing		199,207	199,207	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		86,834	86,834	A
Episcopal Community Services				
Episcopal High School				
Family Link	341,936			
Ohloff House		127,500	127,500	A
Less allowance			(100,000)	
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		334,572		A
Total other properties	4,965,965	748,113	358,541	A
Total	\$ 15,496,681	\$ 3,439,232	\$ 3,083,136	

Note - Source of Credit and Notes Payable:

- A Union Bank
- B Episcopal Church in the Diocese of California