

THE EPISCOPAL CHURCH IN THE
DIOCESE OF CALIFORNIA

DECEMBER 31, 2015

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

The Episcopal Church in the Diocese of California

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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, 2015, 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, 2015, and the changes in 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, 2014 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated July 14, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Hood & Strong LLP

San Francisco, California
June 21, 2016

The Episcopal Church in the Diocese of California

Statement of Financial Position

December 31, 2015 (with comparative totals for 2014)

	2015						2014
	Operating	Custodial	Endowment	Deferred Gifts	Capital Campaign	Total All Funds	Total
Assets:							
Cash and cash equivalents	\$ 2,307,881		\$ 175,975			\$ 2,483,856	\$ 2,628,604
Receivables, net	1,764,891					1,764,891	1,865,215
Investments			18,493,748	\$ 14,122,474		32,616,222	33,979,558
Notes receivable	3,445,685					3,445,685	3,429,281
Notes receivable held for investment, net	260,446	\$ 2,300				262,746	312,209
Equity interests in real property	43,949		1,087,500			1,131,449	1,231,449
Property and equipment, net	4,439,437					4,439,437	4,499,279
Due to/from other funds	(1,307,427)	646,492	818,806	(97)	\$ (157,774)		
Total assets	\$ 10,954,862	\$ 648,792	\$ 20,576,029	\$ 14,122,377	\$ (157,774)	\$ 46,144,286	\$ 47,945,595
Liabilities and Net Assets							
Liabilities:							
Accounts payable and accrued expenses	\$ 1,147,648					\$ 1,147,648	\$ 1,031,178
Deferred revenue	16,940					16,940	20,560
Line of credit	3,445,685					3,445,685	3,477,975
Funds held in trusts for beneficiaries				\$ 10,406,769		10,406,769	11,625,536
Total liabilities	4,610,273			10,406,769	-	15,017,042	16,155,249
Net Assets:							
Unrestricted	6,344,589		(898,341)		(157,774)	5,288,474	5,937,681
Temporarily restricted		648,792	12,109,376	616,719		13,374,887	13,411,430
Permanently restricted			9,364,994	3,098,889		12,463,883	12,441,235
Total net assets	6,344,589	648,792	20,576,029	3,715,608	(157,774)	31,127,244	31,790,346
Total liabilities and net assets	\$ 10,954,862	\$ 648,792	\$ 20,576,029	\$ 14,122,377	\$ (157,774)	\$ 46,144,286	\$ 47,945,595

See accompanying notes to the financial statements.

The Episcopal Church in the Diocese of California

Statement of Activities

Year Ended December 31, 2015 (with comparative totals for 2014)

	2015					2014	
	Operating	Custodial	Endowment	Deferred Gifts	Capital Campaign	Total All Funds	Total
Support and Revenue:							
Parish and mission assessments	\$ 3,247,525					\$ 3,247,525	\$ 3,244,207
Gifts, grants and other	436,510	\$ 1,517,132	\$ 230,930		\$ 35,000	2,219,572	2,044,455
Change in value of charitable remainder trusts				\$ 9,762		9,762	27,146
Investment income, net	44,460		(317,569)			(273,109)	276,367
Total support and revenue	3,728,495	1,517,132	(86,639)	9,762	35,000	5,203,750	5,592,175
Expenses:							
Episcopate	533,149					533,149	586,843
Diocesan communications	146,526					146,526	150,229
Congregational development	655,150					655,150	647,462
Youth, young adult, and camps	279,681					279,681	300,971
Ministry development	184,115					184,115	172,703
Multicultural and other ministries	54,748					54,748	59,582
Development & planned giving	294,308					294,308	297,767
National church & international support	703,926					703,926	717,065
Finance	364,988					364,988	336,093
Administration & support staff	1,029,950					1,029,950	961,781
Capital Campaign					192,774	192,774	-
Total expenses	4,246,541				192,774	4,439,315	4,230,496
Changes in Net Assets Before Transfers & Reclasses							
	(518,046)	1,517,132	(86,639)	9,762	(157,774)	764,435	1,361,679
Interfund Transfers							
Transfers from Endowment to Custodial Fund		122,266	(122,266)			-	-
Transfers from Endowment to Operating Fund	867,061		(867,061)			-	-
Transfers from Custodial Funds to Operating Fund	1,102,847	(1,102,847)				-	-
Payments to beneficiaries:							
Payments to endowment beneficiaries	(324,690)					(324,690)	(304,458)
Payments to custodial fund beneficiaries	(1,102,847)					(1,102,847)	(945,420)
Reclassification of unrestricted and restricted fund to endowment		(573,047)	573,047			-	-
Change in Net Assets	24,325	(36,496)	(502,919)	9,762	(157,774)	(663,102)	111,801
Net Assets, beginning of year	6,320,264	685,288	21,078,948	3,705,846		31,790,346	31,678,545
Net Assets, end of year	\$ 6,344,589	\$ 648,792	\$ 20,576,029	\$ 3,715,608	\$ (157,774)	\$ 31,127,244	\$ 31,790,346
Fund Balances by Classification							
Net Assets, beginning of year							
Unrestricted Net Assets	\$ 6,320,264		\$ (382,583)			\$ 5,937,681	\$ 6,111,015
Temporarily Restricted Net Assets		\$ 685,288	12,126,890	\$ 599,252		13,411,430	13,442,174
Permanently Restricted Net Assets			9,334,641	3,106,594		12,441,235	12,125,356
Net Assets, beginning of year	6,320,264	685,288	21,078,948	3,705,846	-	31,790,346	31,678,545
Changes in Net Assets:							
Unrestricted Net Assets	24,325		(515,758)		\$ (157,774)	(649,207)	(173,334)
Temporarily Restricted Net Assets		(36,496)	(17,514)	17,467		(36,543)	(30,744)
Permanently Restricted Net Assets			30,353	(7,705)		22,648	315,879
Changes in Net Assets	24,325	(36,496)	(502,919)	9,762	(157,774)	(663,102)	111,801
Net Assets, end of year							
Unrestricted Net Assets	6,344,589	-	(898,341)	-	(157,774)	5,288,474	5,937,681
Temporarily Restricted Net Assets	-	648,792	12,109,376	616,719	-	13,374,887	13,411,430
Permanently Restricted Net Assets	-	-	9,364,994	3,098,889	-	12,463,883	12,441,235
Net Assets, end of year	\$ 6,344,589	\$ 648,792	\$ 20,576,029	\$ 3,715,608	\$ (157,774)	\$ 31,127,244	\$ 31,790,346

See accompanying notes to the financial statements.

The Episcopal Church in the Diocese of California

Statement of Cash Flows

<i>Year Ended December 31, 2015 (with comparative totals for 2014)</i>	2015	2014
Cash Flows from Operating Activities:		
Changes in net assets	\$ (663,102)	\$ 111,801
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	76,828	80,232
Net realized and unrealized gain on investments	534,404	(137,724)
Stock contribution	(29,547)	
Loss (gain) on disposal of fixed assets	719	808
Change in value of charitable remainder trusts	(9,762)	(27,146)
Increase (decrease) in operating assets and liabilities:		
Receivables	100,324	460,714
Notes receivable	49,463	(309,909)
Accounts payable and accrued expenses	116,470	(87,620)
Deferred revenue	(3,620)	(9,497)
Net cash provided by operating activities	172,177	81,659
Cash Flows from Investing Activities:		
Purchases of investments	(2,792,312)	(1,524,334)
Proceeds from sale of investments	1,753,974	322,447
Proceeds from capital gains distributions	787,812	1,132,782
Purchases of property and equipment	(17,705)	(84,438)
Net cash used in investing activities	(268,231)	(153,543)
Cash Flows from Financing Activities:		
Borrowings from line of credit - net	(48,694)	(233,000)
Net cash used in financing activities	(48,694)	(233,000)
Net Decrease in Cash and Cash Equivalents	(144,748)	(304,884)
Cash and Cash Equivalents, beginning of year	2,628,604	2,933,488
Cash and Cash Equivalents, end of year	\$ 2,483,856	\$ 2,628,604

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. Organization

The Episcopal Church in the Diocese of California (the Diocese) is a nonprofit corporation that administratively supports Episcopal congregations and affiliated 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 accounting for the monies entrusted to the Diocese.

c. Basis of Presentation

Financial statement presentation follows the recommendations of the Accounting Standards Codification (ASC) 958-205-05, *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.

The Episcopal Church in the Diocese of California

Notes to Financial Statements

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.

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 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

Notes receivable held for investment consists of notes to several churches. The notes bear interest at the prime rate and are due through 2019. The notes are secured by property or unsecured and are recorded net of an allowance related to interest accruals.

h. Equity Interests in Real Property

Equity interests in real property comprises properties 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 (three 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, 2015.

The Episcopal Church in the Diocese of California

Notes to Financial Statements

j. Deferred Revenue

Deferred revenue consists of assessments, payroll, and benefits received from congregations 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.

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) for accounting for uncertainty in income taxes. As of December 31, 2015, 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 as well as reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

The Episcopal Church in the Diocese of California

Notes to Financial Statements

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, 2014, from which the summarized information was derived.

Certain items as reported for December 31, 2014 have been reclassified to conform with the December 31, 2015 financial statement presentation. Such classification had no effect on the Diocese's financial position or activities.

o. Subsequent Events

The Diocese has reviewed the changes in net assets for the period of time from December 31, 2015 through June 21, 2016, 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, other than those included in note 2.e. below.

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 80 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 employs a planned giving officer as a resource to its congregations and institutions, and also 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 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.

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 permanently restricted funds falls below the historical value, the deficiency is reflected as unrestricted net assets. At the end of 2015, this deficiency increased to \$898,341. 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 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' 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 permanently restricted net assets and temporarily restricted net assets 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, formally known as the Expanding Horizons Campaign, which began its silent phase in the fall of 2015. In addition to raising money to support diocesan needs and initiatives, the Expanding Horizons Campaign also features a collaborative phase with congregations of the Diocese. In the collaborative phase, which began in the second quarter of 2016, congregations may elect to utilize the support and resources of diocesan development staff and the outside campaign consultants, whose fees are paid by the Diocese, to conduct their own capital campaigns on a revenue sharing basis with the Diocese.

In 2015 the Diocese incurred fees for a capital campaign feasibility study, which was subsequently accepted by the Executive Council of the Diocese, and for the initial staffing and quiet phase of the campaign.

In the first quarter of 2016, the Diocese announced two major commitments to the campaign, a \$10 million pledge payable over ten years beginning in 2017, and a \$500,000 pledge payable over five years.

The Episcopal Church in the Diocese of California

Notes to Financial Statements

Note 3 - Receivables:

Receivables consist of the following at December 31, 2015 and 2014:

	2015	2014
Assessments	\$ 125,247	\$ 152,003
Reimbursable expenses of related entities, net of allowance	1,487,194	1,554,559
Other receivables	152,450	158,653
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	\$ 1,764,891	\$ 1,865,215

Note 4 - Investments:

The fair value of investments at December 31, 2015 and 2014 is as follows:

	2015	2014
Mutual funds	\$ 2,201,489	\$ 1,388,556
Stock	29,548	
TIFF Multi-Asset Fund	16,262,711	17,259,523
Charitable trusts	14,122,474	15,331,479
	<hr/>	<hr/>
	\$ 32,616,222	\$ 33,979,558

Investment income for the years ended December 31, 2015 and 2014 consists of the following:

Interest and dividends, net of management fees	\$ 262,320	\$ 138,643
Realized gains	855,708	1,134,892
Unrealized (losses) gains	(1,391,137)	(997,168)
	<hr/>	<hr/>
	\$ (273,109)	\$ 276,367

Investment income is included in:

Unrestricted net assets	\$ (471,298)	\$ (204,508)
Temporarily restricted net assets	198,189	480,875
	<hr/>	<hr/>
	\$ (273,109)	\$ 276,367

The Episcopal Church in the Diocese of California

Notes to Financial Statements

Investment Securities

The fair value of investment securities is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the instrument.

As of December 31, 2015, a substantial portion of the Diocese's investments are deposited in a no-load mutual fund, The Investment Fund for Foundation's (TIFF) Multi Asset Fund (MAF). The MAF investments are valued using their net asset value. At December 31, 2015, the Multi-Asset Fund was invested approximately 61.9% in publicly traded common stocks, 17.7% in private investment funds, and 20.4% in fixed income assets of varying kinds. The fund's performance objective is to achieve a total return (price appreciation plus dividends and interest income) net of expenses that, over a majority of market cycles, exceeds inflation, as measured by the Consumer Price Index, plus 5% per annum.

The table below presents the assets at fair value as of December 31, 2015 on a recurring basis.

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
Investments:			
Stocks:			
Stocks	\$ 29,548	\$ 29,548	
Mutual Funds:			
Institutional	1,974,212	1,974,212	
Emerging Markets Fund	227,276	227,276	
TIFF Multi-Asset Fund	16,262,711		\$ 16,262,711
Charitable Trusts:			
Cash & Equivalents	301,130		301,130
Domestic REIT	1,276,073		1,276,073
Emerging Markets Stocks	430,288		430,288
High Quality Bond Funds	1,412,723		1,412,723
High Quality Bonds	223,412		223,412
High Yield Bond Funds	239,942		239,942
International Bond Funds	654,239		654,239
International REIT	716,550		716,550
International Stocks	1,819,237		1,819,237
International Small Co. Stocks	338,862		338,862
Investment Grade Bond Funds	1,585,152		1,585,152
Large Co. Stocks	4,069,892		4,069,892
Small Co. Stocks	1,054,975		1,054,975
Total assets measured at fair value	\$ 32,616,222	\$ 2,231,036	\$ 30,385,186

The Episcopal Church in the Diocese of California

Notes to Financial Statements

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 interests in real property, payables, deferred revenue and line of credit.

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 the trusts, their 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 Diocese records the investments at fair market value. The estimated liability of future payments to beneficiaries is based upon the annual payment multiplied by the beneficiary's 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 the beneficiary.

The investments in charitable remainder unitrusts consist of the following at December 31, 2015 and 2014:

	2015	2014
Funds (See Note 4)	\$ 14,122,474	\$ 15,331,479
Due to other funds	(97)	(97)
Less funds held in trust for beneficiaries	(10,406,769)	(11,625,536)
	<u>\$ 3,715,608</u>	<u>\$ 3,705,846</u>

Change in value represents the net effect of contributions, distributions, and change in market value of investments under such agreements and for the years ended December 31, 2015 and 2014 is \$9,762 and \$27,146, respectively.

The Episcopal Church in the Diocese of California

Notes to Financial Statements

Note 6 - Equity Interests in Real Property:

Equity interests in real property, which are recorded at cost, comprise the following at December 31, 2015 and 2014:

	2015	2014
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
50% equity interest in real property owned by the former Bishop	927,500	927,500
	<hr/>	<hr/>
	\$1,131,449	\$ 1,231,449

Note 7 - Property and Equipment:

At December 31, 2015 and 2014, property and equipment comprised the following:

	2015	2014
Diocesan House	\$ 1,071,447	\$ 1,071,447
S. F. Campus Center partial interest	30,000	30,000
Computers/servers	70,432	70,601
Other furniture and equipment	134,520	123,491
Automobile	42,481	42,481
Hearst Street, Berkeley	649,669	649,669
Bishop's residence	1,112,605	1,112,605
Bishop's residence improvements	434,458	434,458
	<hr/>	<hr/>
	3,545,612	3,534,752
Less accumulated depreciation	(922,388)	(851,686)
	<hr/>	<hr/>
	2,623,224	2,683,066
Land	1,816,213	1,816,213
	<hr/>	<hr/>
	\$ 4,439,437	\$ 4,499,279

Depreciation expense for the years ended December 31, 2015 and 2014 was \$76,828 and \$80,232, 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%). The line of credit is subject to renewal every two years, and the next renewal date is October 1, 2018.

The credit agreement requires the Diocese to meet certain financial covenants. As of December 31, 2015, the Diocese was in compliance with all such provisions of the agreement.

Total principal payments due to Union Bank on the line of credit are \$3,445,685 at December 31, 2015. This debt is incurred by the Diocese on behalf of various congregations and ministries as follows:

<i>December 31, 2015</i>	Line of Credit and Other Notes Payable	Corresponding Receivable
Congregations:		
St. Clare's, Pleasanton	\$ 490,305	\$ 490,305
Christ Church, Los Altos	250,066	250,066
St. Mark's, Berkeley	79,758	79,758
St. Michael and All Angels, Concord	59,100	59,100
All Saints, San Leandro	27,580	27,580
St. Paul's, Oakland	565,000	565,000
St. John's, Oakland	135,875	135,875
St. Timothy's, Danville	50,000	50,000
Christ Church, Sausalito	250	250
Total congregations	1,657,934	1,657,934
Other:		
Berkeley Emergency Food and Housing	96,195	96,195
Episcopal Community Services	800,000	800,000
St. Dorothy's Rest	891,556	891,556
Total other	1,787,751	1,787,751
Total	\$ 3,445,685	\$ 3,445,685

The Episcopal Church in the Diocese of California

Notes to Financial Statements

Note 9 - Endowments:

The Diocese's endowment comprises 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 accounting principles generally accepted in the United States of America (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 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 State Prudent Management of Institutional Funds Act (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.

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 \$898,341 and \$382,583 as of December 31, 2015 and 2014, respectively.

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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 expects 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.

Net changes in endowment funds for the year ended December 31, 2015 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, December 31, 2014	\$ (382,583)	\$ 12,126,890	\$ 9,334,641	\$ 21,078,948
Investment Return:				
Income		1,073,568		1,073,568
Net depreciation	(515,758)	(875,379)		(1,391,137)
Total investment return	(515,758)	198,189		(317,569)
Contributions		200,000	30,353	230,353
Appropriations		(989,328)		(989,328)
Interfund transfer		573,047		573,047
Other Income		578		578
Endowment Net Assets, December 31, 2015	\$ (898,341)	\$ 12,109,376	\$ 9,364,994	\$ 20,576,029

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Notes to Financial Statements

Note 10 - Net Assets:

Temporarily restricted net assets are restricted for specific purposes as of December 31, 2015:

	Custodial	Endowment	Deferred Gifts	Total
Support Diocese	\$ 166,136	\$ 3,564,516	\$ 469,505	\$ 4,200,157
Education		48,846	17,546	66,392
Congregational Support		3,300,385	122,721	3,423,106
Congregational Development	322,387	1,306,406		1,628,793
Social Ministry	16,434	2,112,773	6,947	2,136,154
Scholarships	143,836	1,776,450		1,920,286
	\$ 648,792	\$ 12,109,376	\$ 616,719	\$ 13,374,887

Net assets were released from donor restrictions by incurring expenses satisfying the purpose of the restriction for the year ended December 31, 2015 and 2014.

Permanently restricted net assets are invested in perpetuity with the income available to support the programs of the Diocese as of December 31, 2015 are as follows:

	Endowment	Deferred Gifts	Total
Support Diocese	\$ 6,393,647	\$ 897,111	\$ 7,290,758
Education	217,197	263,858	481,055
Congregational Support	1,708,523	733,689	2,442,212
Congregational Development	318,951	195,252	514,203
Social Ministry	525,860	1,008,979	1,534,839
Scholarships	200,816		200,816
	\$ 9,364,994	\$ 3,098,889	\$ 12,463,883

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Note 11 - Retirement Plans:

The Diocese funds defined contribution pension plans covering lay employees. The Diocese contributes between 5% and 9% of lay employee compensation depending upon the employee contribution. The 2015 and 2014 contribution by the Diocese to the defined contribution pension plans approximated \$61,326 and \$57,745, respectively.

The Diocese also provides pension benefits for its clergy employees through a national plan. The plan is a defined benefit pension plan funded by assessments charged to the Diocese based on a specified percentage of compensation. In 2015 and 2014, the Diocese contributed approximately \$178,425 and \$160,500 (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 four 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 congregations. Assessment revenues comprised 59% of all non-investment revenue the Diocese received in 2015.