

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

**DECEMBER 31, 2020**

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INDEPENDENT AUDITORS' REPORT AND  
FINANCIAL STATEMENTS

# The Episcopal Church in the Diocese of California

## Independent Auditors' Report and Financial Statements

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## **Independent Auditors' Report**

EXECUTIVE COUNCIL  
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, 2020, 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.

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, 2020, 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, 2019 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated January 27, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Hood & Strong LLP*

San Francisco, California  
January 24, 2022

# The Episcopal Church in the Diocese of California

## Statement of Financial Position

*December 31, 2020 (with comparative totals for 2019)*

	2020						2019
	Operating	Custodial	Endowment	Deferred Gifts	Capital Campaign	Total All Funds	Total
<b>Assets:</b>							
Cash and cash equivalents	\$ 2,538,966		\$ 845,567		\$ 3,846,970	\$ 7,231,503	\$ 4,302,005
Receivables, net	2,259,169				8,749,255	11,008,424	13,143,948
Investments			29,202,796			29,202,796	24,352,325
Charitable remainder trusts				\$ 14,248,935		14,248,935	15,127,862
Notes receivable	1,882,919					1,882,919	1,551,993
Notes receivable held for investment, net	223,188	\$ 2,300				225,488	209,081
Equity interests in real property	43,949		3,337,500			3,381,449	3,381,449
Property and equipment, net	4,186,350					4,186,350	4,228,179
Due to (from) other funds	585,111	164,852	52,689	(90,097)	(712,555)	-	-
<b>Total assets</b>	<b>\$ 11,719,652</b>	<b>\$ 167,152</b>	<b>\$ 33,438,552</b>	<b>\$ 14,158,838</b>	<b>\$ 11,883,670</b>	<b>\$ 71,367,864</b>	<b>\$ 66,296,842</b>
<b>Liabilities and Net Assets</b>							
<b>Liabilities:</b>							
Accounts payable and accrued expenses	\$ 2,220,131				\$ 2,910,118	\$ 5,130,249	\$ 4,759,084
Deferred revenue	34,535					34,535	34,744
Line of credit	1,882,919					1,882,919	1,551,993
Paycheck Protection Program Loan	472,594					472,594	
Funds held in trusts for beneficiaries				\$ 11,270,883		11,270,883	12,402,241
<b>Total liabilities</b>	<b>4,610,179</b>			<b>11,270,883</b>	<b>2,910,118</b>	<b>18,791,180</b>	<b>18,748,062</b>
<b>Net Assets:</b>							
Without Donor Restrictions	7,109,473					7,109,473	6,260,989
With Donor Restrictions:							
Restricted for Time or Purpose		\$ 167,152	\$ 18,533,028	837,507	8,973,552	28,511,239	25,350,326
Restricted in Perpetuity			14,905,524	2,050,448		16,955,972	15,937,465
<b>Total With Donor Restrictions</b>		<b>167,152</b>	<b>33,438,552</b>	<b>2,887,955</b>	<b>8,973,552</b>	<b>45,467,211</b>	<b>41,287,791</b>
<b>Total net assets</b>	<b>7,109,473</b>	<b>167,152</b>	<b>33,438,552</b>	<b>2,887,955</b>	<b>8,973,552</b>	<b>52,576,684</b>	<b>47,548,780</b>
<b>Total liabilities and net assets</b>	<b>\$ 11,719,652</b>	<b>\$ 167,152</b>	<b>\$ 33,438,552</b>	<b>\$ 14,158,838</b>	<b>\$ 11,883,670</b>	<b>\$ 71,367,864</b>	<b>\$ 66,296,842</b>

See accompanying notes to the financial statements.

# The Episcopal Church in the Diocese of California

## Statement of Activities

Year Ended December 31, 2020 (with comparative totals for 2019)

	2020						2019	
	Operating	Custodial	Endowment	Deferred Gifts	Capital Campaign	Total All Funds	Total	
<b>Support and Revenue:</b>								
Parish and mission assessments	\$ 3,530,004					\$ 3,530,004	\$ 3,496,297	
Gifts, Fees, and other income	1,054,168	\$ 243,864	\$ 882,388		\$ 261,287	2,441,707	4,037,612	
Change in value of charitable remainder trusts				\$ 162,432		162,432	422,657	
Investment income, net	805,683	107,556	5,046,531		(1,442)	5,958,328	4,159,017	
<b>Total support and revenue</b>	<b>5,389,855</b>	<b>351,420</b>	<b>5,928,919</b>	<b>162,432</b>	<b>259,845</b>	<b>12,092,471</b>	<b>12,115,583</b>	
<b>Expenses:</b>								
Episcopate	399,768					399,768	517,823	
Diocesan communications	116,824					116,824	184,226	
Congregational development	392,796					392,796	713,008	
Youth, young adult, and camps	74,083					74,083	151,509	
Ministry development	174,659					174,659	165,509	
Multicultural and other ministries	191,607					191,607	192,715	
Development & planned giving	40,200					40,200	178,886	
National church & international support	585,590					585,590	568,251	
Finance	206,057					206,057	408,423	
Administration & support staff	1,955,451					1,955,451	1,528,401	
<b>Total expenses</b>	<b>4,137,035</b>					<b>4,137,035</b>	<b>4,608,751</b>	
<b>Changes in Net Assets Before Transfers &amp; Reclasses</b>	<b>1,252,820</b>	<b>351,420</b>	<b>5,928,919</b>	<b>162,432</b>	<b>259,845</b>	<b>7,955,436</b>	<b>7,506,832</b>	
Interfund Transfers:								
Transfers from Endowment to Custodial Fund						-	-	
Transfers from Endowment to Operating Fund						-	-	
Transfers from Custodial Funds to Operating Fund	575,383	(575,383)				-	-	
Transfers from Endowment to Operating						-	(34,497)	
Payments to beneficiaries:								
Payments to endowment beneficiaries			(1,021,407)			(1,021,407)	(281,481)	
Payments to custodial fund beneficiaries	(979,719)					(979,719)	(606,959)	
Payments to Capital Campaign fund beneficiaries					(504,526)	(504,526)	(30,000)	
Release restricted Capital Campaign funds to Operating fund	421,880					-	-	
Payments of Capital Campaign Expenses	(421,880)					(421,880)	(531,353)	
<b>Change in Net Assets</b>	<b>848,484</b>	<b>(223,963)</b>	<b>4,907,512</b>	<b>162,432</b>	<b>(666,561)</b>	<b>5,027,904</b>	<b>6,022,542</b>	
<b>Net Assets, beginning of year</b>	<b>6,260,989</b>	<b>391,115</b>	<b>28,531,040</b>	<b>2,725,523</b>	<b>9,640,113</b>	<b>47,548,780</b>	<b>41,526,238</b>	
<b>Net Assets, end of year</b>	<b>\$ 7,109,473</b>	<b>\$ 167,152</b>	<b>\$ 33,438,552</b>	<b>\$ 2,887,955</b>	<b>\$ 8,973,552</b>	<b>\$ 52,576,684</b>	<b>\$ 47,548,780</b>	
<b>Fund Balances by Classification</b>								
<b>Net Assets, beginning of year:</b>								
Without Donor Restrictions	\$ 6,260,989					\$ 6,260,989	\$ 6,444,664	
Restricted for Time or Purpose		\$ 391,115	\$ 14,391,057	\$ 704,875	\$ 9,640,113	25,127,160	22,022,408	
Restricted in Perpetuity			14,139,983	2,020,648		16,160,631	13,059,166	
<b>Net Assets, beginning of year</b>	<b>6,260,989</b>	<b>391,115</b>	<b>28,531,040</b>	<b>2,725,523</b>	<b>9,640,113</b>	<b>47,548,780</b>	<b>41,526,238</b>	
<b>Changes in Net Assets:</b>								
Without Donor Restrictions	848,484					848,484	(183,675)	
With Donor Restrictions:								
Restricted for Time or Purpose		(223,963)	1,891,971	42,008	(666,561)	1,043,455	3,546,368	
Restricted in Perpetuity			3,015,541	120,424		3,135,965	2,659,849	
<b>Changes in Net Assets</b>	<b>848,484</b>	<b>(223,963)</b>	<b>4,907,512</b>	<b>162,432</b>	<b>(666,561)</b>	<b>5,027,904</b>	<b>6,022,542</b>	
<b>Net Assets, end of year:</b>								
Without Donor Restrictions	7,109,473					7,109,473	6,260,989	
With Donor Restrictions:								
Restricted for Time or Purpose		167,152	18,533,028	837,507	8,973,552	28,511,239	25,350,326	
Restricted in Perpetuity			14,905,524	2,050,448		16,955,972	15,937,462	
<b>Net Assets With Donor Restrictions</b>		<b>167,152</b>	<b>33,438,552</b>	<b>2,887,955</b>	<b>8,973,552</b>	<b>45,467,211</b>	<b>41,287,791</b>	
<b>Net Assets, end of year</b>	<b>\$ 7,109,473</b>	<b>\$ 167,152</b>	<b>\$ 33,438,552</b>	<b>\$ 2,887,955</b>	<b>\$ 8,973,552</b>	<b>\$ 52,576,684</b>	<b>\$ 47,548,780</b>	

See accompanying notes to the 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>	2020	2019
<b>Cash Flows from Operating Activities:</b>		
Changes in net assets	\$ 5,027,904	\$ 6,022,542
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	49,361	48,049
Contribution of real estate		(2,250,000)
Net realized and unrealized (gain) loss on investments	(3,946,512)	(3,101,472)
Change in value of charitable remainder trusts	(162,432)	(422,657)
Changes in operating assets and liabilities:		
Receivables	2,135,524	1,392,672
Notes receivable	(347,333)	(99,031)
Accounts payable and accrued expenses	371,165	(736,050)
Deferred revenue	(209)	17,995
<b>Net cash provided by operating activities</b>	<b>3,127,468</b>	<b>872,048</b>
<b>Cash Flows from Investing Activities:</b>		
Purchases of investments	(2,084,304)	(1,293,536)
Proceeds from sale of investments	1,090,346	792,254
Purchases of property and equipment	(7,532)	(12,250)
<b>Net cash used in investing activities</b>	<b>(1,001,490)</b>	<b>(513,532)</b>
<b>Cash Flows from Financing Activities:</b>		
Proceeds from Paycheck Protection Program	472,594	
Net proceeds (borrowings) on line of credit	330,926	(780,071)
<b>Net cash provided (used) in financing activities</b>	<b>803,520</b>	<b>(780,071)</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>2,929,498</b>	<b>(421,555)</b>
<b>Cash and Cash Equivalents, beginning of year</b>	<b>4,302,005</b>	<b>4,723,560</b>
<b>Cash and Cash Equivalents, end of year</b>	<b>\$ 7,231,503</b>	<b>\$ 4,302,005</b>
<b>Non-cash Transactions:</b>		
Contribution of equity interest in real estate		\$ 2,250,000

See accompanying notes to the financial statements.

# The Episcopal Church in the Diocese of California

## Notes to Financial Statements

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### 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 Executive Council of the diocesan corporation.

b. Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted in the United States of America (U.S. GAAP), and, accordingly, reflect all significant receivables, accounting principles, 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 represents 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 objective of the Diocese. Net assets without donor restrictions may be designated for use 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

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

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

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

g. Notes Receivable held for Investment

Notes receivable held for investment comprises notes to several churches. The notes bear interest at the prime rate and are due through 2021. The notes are secured by property or unsecured 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 by related parties or 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 if donated.

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, 2020.

# The Episcopal Church in the Diocese of California

## Notes to Financial Statements

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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

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

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.

The Diocese follows the guidelines of the Financial Accounting Standards Board (FASB) for accounting for uncertainty in income taxes. As of December 31, 2020, 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 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.

# The Episcopal Church in the Diocese of California

## Notes to Financial Statements

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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, 2019, from which the summarized information was derived.

Certain items as reported for December 31, 2019 have been reclassified to conform with the December 31, 2020 financial statement presentation.

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. Recent Accounting Pronouncements

*Adopted*

In June 2018, the FASB issued Accounting Standards Update (ASU) 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies and improves current guidance about whether a transfer of assets, or the reduction, settlement or cancellation of liabilities, is a contribution or an exchange transaction. It provides a framework for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction. The ASU was adopted as of January 1, 2019 as it relates to contributions received, but it did not have a significant impact on the Episcopal Diocese financial statements.

q. Subsequent Events

The Diocese evaluated subsequent events with respect to the financial statements for the year ended December 31, 2020 through January 24, 2022, 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.

# The Episcopal Church in the Diocese of California

## Notes to Financial Statements

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### Note 2 - Description of Funds:

a. Operating Fund

This fund is used to account for all expenditures related to unrestricted support and revenue. The Diocese provides programming and staff support to 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.

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 2020, there was no deficiency with an original corpus of \$17,936,348. 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.

# The Episcopal Church in the Diocese of California

## Notes to Financial Statements

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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.

**Note 3 - Receivables:**

Receivables consisted of the following at December 31, 2020:

Assessments	\$ 262,931
Reimbursable expenses of related entities, net of allowance	1,874,280
Capital Campaign	8,749,256
Other receivables	121,957
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	\$ 11,008,424

# The Episcopal Church in the Diocese of California

## Notes to Financial Statements

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At December 31, 2020, pledges receivable for the Capital Campaign are due as follows:

Current	\$ 2,555,358
Two to Five Years	6,484,848
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	9,040,206
Less: discounts to net present value	(205,586)
Less: bad debt	(85,364)
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Total	\$ 8,749,256

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%.

### Note 4 - Investments and Charitable Remainder Trusts:

The fair values of investments and charitable remainder trusts at December 31, 2020 is as follows:

Mutual funds	\$ 320,886
DFMS Trust Fund	28,881,910
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Total investments	29,302,796
Charitable remainder trusts	14,248,935
	<hr/>
	\$ 43,451,731

Net investment income for the year ended December 31, 2020 consisted of the following:

Interest and dividends, net of management fees	\$ 1,100,019
Realized gains	213
Unrealized gains (losses)	3,946,299
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	\$ 5,046,531

# The Episcopal Church in the Diocese of California

## Notes to Financial Statements

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Investment income included in:

Net assets restricted for time or purpose	\$ 5,046,531
	<hr/> \$ 5,046,531

### *Investment Securities*

The fair value of investment securities is 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.

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 participate on a pro-rata basis in all returns 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 are not charged entry, exit, or management fees by DFMS. At December 31, 2020, DFMS was invested approximately 37.7% in domestic equities, 29.9% in international equities, 14.5% in fixed income, 13.8% in alternative investments, and 4.1% 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, 2020 on a recurring basis.

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Investments:			
Mutual Funds:			
US Equity Fund	\$ 320,886		\$ 320,886
DFMS Trust Fund		28,881,910	28,881,910
	<u>320,886</u>	<u>28,881,910</u>	<u>29,202,796</u>
Charitable Remainder Trusts:			
Cash & Equivalents		562,895	562,895
Domestic REIT		1,316,075	1,316,075
International REIT		662,330	662,330
Non-U.S. Bond Fund		441,602	441,602
Non-U.S. Equity Fund		3,076,506	3,076,506
U.S. Bond Funds		2,359,218	2,359,218
U.S. Equity Fund		4,771,695	4,771,695
Domestic Stock		21,508	21,508
U.S. Treasury Notes/Bonds		1,037,106	1,037,106
		<u>14,248,935</u>	<u>14,248,935</u>
Total assets measured at fair value	\$ 320,886	\$ 43,130,845	\$ 43,451,731

There are 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.



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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 consisted of the following at December 31, 2020:

Funds (See Note 4)	\$ 14,248,935
Due to other funds	(90,097)
Less funds held in trust for beneficiaries	(11,270,883)
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	\$ 2,887,955

Change in value in charitable remainder trusts represents the net effect of contributions, for the year ended December 31, 2020 was \$162,432.

### 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, 2020:

24% equity interest in real property owned by Bayani Rico	\$ 43,949
31% equity interest in real property owned by the Culmers	160,000
50% equity interest in real property owned by the former Bishop	927,500
100% interest in real property	2,250,000
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	\$ 3,381,449

The 100% interest in real property of \$2,250,000 was donated in 2019. The property was sold at a profit subsequent to year end on January 3, 2021.

# The Episcopal Church in the Diocese of California

## Notes to Financial Statements

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### Note 7 - Property and Equipment:

At December 31, 2020, property and equipment comprised the following:

	2020
Diocesan House	\$ 1,071,447
S. F. Campus Center partial interest	30,000
Computers/servers	47,380
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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	3,544,498
Less accumulated depreciation	(1,174,361)
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	2,370,137
Land	1,816,213
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	\$ 4,186,350

Depreciation expense for the year ended December 31, 2020 was \$49,361.

### 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, 2020). 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, 2020, 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 are \$1,882,919 at December 31, 2020. 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	\$ 498,538	\$ 498,538
St. Michael and All Angels, Concord	59,100	59,100
St. Paul's, Oakland	556,422	556,422
Resurrection, Pleasant Hill	250	250
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Total congregations	1,114,310	1,114,310
Other:		
Berkeley Emergency Food and Housing	36,195	36,195
St. Dorothy's Rest	732,414	732,414
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Total other	768,609	768,609
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Total	\$ 1,882,919	\$ 1,882,919

### 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 Episcopal Church in the Diocese of California

## Notes to Financial Statements

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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).

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. In accordance with U.S. GAAP, deficiencies of this nature that are reported in net assets with donor restrictions were \$0 for the year ended December 31, 2020.

### *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 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.

# The Episcopal Church in the Diocese of California

## Notes to Financial Statements

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### *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.

Net changes in endowment funds for the year ended December 31, 2020 were as follows:

	With Restrictions	With Restrictions in Perpetuity	Total
Endowment Net Assets, December 31, 2019	\$ 14,519,334	\$ 14,011,706	\$ 28,531,040
Investment Return:			
Income	1,100,019		1,100,019
Net appreciation/ (depreciation)	3,946,512		3,946,512
Total investment return	5,046,531		5,046,531
Transfers		1,756	1,756
Contributions		892,062	892,062
Appropriations	(1,032,837)		(1,032,837)
Endowment Net Assets December 31, 2020	\$ 18,533,028	\$ 14,905,524	\$ 33,438,552

# The Episcopal Church in the Diocese of California

## Notes to Financial Statements

### Note 10 - Net Assets:

Net assets with donor restrictions for specific purposes at December 31, 2020 were as follows:

	Custodial	Endowment	Deferred Gifts	Capital Campaign	Total
Support Diocese	\$ 144,631	\$ 5,782,842	\$ 630,896		\$ 6,558,369
Education		116,840	21,044		137,884
Congregational Support		5,402,294	176,577		5,578,871
Congregational Development	(213,973)	1,967,891			1,753,918
Social Ministry	21,702	2,845,648	8,990		2,876,340
Scholarship	214,792	2,417,513			2,632,305
Capital Campaign				\$ 8,973,552	8,973,552
	\$ 167,152	\$ 18,533,028	\$ 837,507	\$ 8,973,552	\$ 28,511,239

Net assets released from donor restrictions by incurring expenses satisfying the purpose of the restriction for the year ended December 31, 2020 were \$1,185,364.

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, 2020, as follows:

	Endowment	Deferred Gifts	Total
Support Diocese	\$ 6,559,944	\$ 973,620	\$ 7,533,564
Education	239,012		239,012
Congregational Support	4,086,538	526,539	4,613,077
Congregational Development	2,831,990	277,824	3,104,814
Social Ministry	565,492	277,465	842,957
Scholarships	622,548		622,548
	\$ 14,905,524	\$ 2,050,448	\$ 16,955,972

# The Episcopal Church in the Diocese of California

## Notes to Financial Statements

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### 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	\$ 7,231,203
Receivables, net	11,008,424
Investments	29,202,796
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Total financial assets	47,442,423
Less those unavailable for general expenditures within one year, due to:	
Restricted by donor with time or purpose restrictions	(28,511,239)
Restricted by donor in perpetuity	(16,955,972)
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Financial assets available to meet cash needs for general expenditures within one year	\$ 1,975,212

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

### 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 2020 contribution by the Diocese to the defined contribution pension plan approximated \$100,289.

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 2020 the Diocese contributed approximately \$142,733 , to the clergy defined benefit pension plan.

# The Episcopal Church in the Diocese of California

## Notes to Financial Statements

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### 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 98% of all non-investment and contribution revenue the Diocese received in 2020.

### Note 14 - Functional Expense:

The table below shows the allocation of expenses for 2020:

	Program	General and Administrative	Development	Total
Salaries	\$ 687,772	\$ 599,766	\$ 99,867	\$ 1,387,355
Benefits	267,728	278,728	13,866	560,322
Diocese Assessment	585,590			585,590
Direct Support of Congregations	288,622	180,000		468,622
Legal Fees		167,477		167,477
Direct Support of Diocese	185,802			185,802
Audit & Insurance		150,649		150,649
Other	481,044	150,174		631,218
<b>Total</b>	<b>\$ 2,496,508</b>	<b>\$ 1,526,794</b>	<b>\$ 113,733</b>	<b>\$ 4,137,035</b>



# The Episcopal Church in the Diocese of California

## Notes to Financial Statements

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### **Note 15 - Pandemic and Market Volatility:**

On March 11, 2020, the World Health Organization publicly characterized COVID-19 as a pandemic. States of emergency have been declared in many federal, state and local jurisdictions and shelter in place orders have been instituted in many cities and states, including California, which impacts general business operations in most industries and sectors.

The Diocese has limited employee travel, postponed and canceled events, and developed contingency plans for operations depending on future developments, including having all staff work remotely during this period.

During 2020, the Diocese applied for and was approved a \$472,594 loan under the Paycheck Protection Program created as part of the relief efforts related to COVID-19 and administered by the Small Business Administration. The loan accrues interest at 1%. The Diocese is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. The loan is uncollateralized and is fully guaranteed by the Federal government. The loan was forgiven in full on March 31, 2021.