



REPORT OF INDEPENDENT AUDITORS AND  
FINANCIAL STATEMENTS

THE EPISCOPAL DIOCESE  
OF SAN DIEGO

December 31, 2017 and 2016

## Table of Contents

---

	PAGE
<b>Report of Independent Auditors</b>	1-2
<b>Financial Statements</b>	
Statements of financial position	3
Statements of activities	4-5
Statements of cash flows	6
Notes to financial statements	7-27

## **Report of Independent Auditors**

The Board of Directors  
The Episcopal Diocese of San Diego

### **Report on the Financial Statements**

We have audited the accompanying financial statements of The Episcopal Diocese of San Diego, which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 Diocese of San Diego as of December 31, 2017 and 2016, and the change in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Moss Adams LLP

San Diego, California  
June 21, 2018

**The Episcopal Diocese of San Diego**  
**Statements of Financial Position**

		December 31,	
		2017	2016
<b>ASSETS</b>			
Cash		\$ 479,734	\$ 800,751
Investments		6,756,293	5,696,996
Accounts receivable		907	80,327
Contributions receivable, net		136,912	191,141
Prepaid expenses and deposits		37,138	32,821
Notes receivable, net		5,756,873	5,668,447
Charitable remainder unitrusts		230,766	210,904
Pooled income fund		8,638	8,664
Property and equipment, net		2,902,221	3,029,351
Property for Missions and Parishes		1,132,566	1,205,213
Beneficial interests in endowment funds		518,547	504,263
	Total assets	\$ 17,960,595	\$ 17,428,878
<b>LIABILITIES AND NET ASSETS</b>			
Accounts payable and accrued expenses		\$ 85,178	\$ 127,341
Other liabilities		147,270	57,891
Notes payable		223,979	252,523
	Total liabilities	456,427	437,755
Commitments and Contingencies (Notes 14 and 16)			
Net Assets			
Unrestricted:			
Undesignated		10,470,835	11,440,730
Board designated		1,022,147	228,721
Board designated endowment		1,800,318	1,609,300
	Total unrestricted net assets	13,293,300	13,278,751
Temporarily restricted		1,397,553	1,108,462
Permanently restricted		2,813,315	2,603,910
	Total net assets	17,504,168	16,991,123
	Total liabilities and net assets	\$ 17,960,595	\$ 17,428,878

# The Episcopal Diocese of San Diego

## Statement of Activities

	Year Ended December 31, 2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>SUPPORT AND REVENUE</b>				
Common Life Share (Mission giving)	\$ 1,646,275	\$ -	\$ -	\$ 1,646,275
Contributions	120,464	249,645	147,482	517,591
Investment income	403,922	372,148	83,847	859,917
Other income	42,101	-	-	42,101
Conferences and convention	82,640	-	-	82,640
Special events	8,620	-	-	8,620
Net assets released from restriction	354,626	(332,702)	(21,924)	-
Total support and revenue	<u>2,658,648</u>	<u>289,091</u>	<u>209,405</u>	<u>3,157,144</u>
<b>SUPPORTING SERVICES</b>				
Management and administration:				
Personnel	1,014,133	-	-	1,014,133
Facilities management	143,959	-	-	143,959
Other	650,544	-	-	650,544
Program and ministry	454,542	-	-	454,542
Mission and parish support	352,457	-	-	352,457
Special events and fundraising	11,409	-	-	11,409
Conferences and conventions	25,055	-	-	25,055
Total supporting services	<u>2,652,099</u>	<u>-</u>	<u>-</u>	<u>2,652,099</u>
<b>CHANGE IN NET ASSETS BEFORE OTHER GAINS</b>				
	<u>6,549</u>	<u>289,091</u>	<u>209,405</u>	<u>505,045</u>
<b>OTHER GAINS</b>				
Gain on sale of fixed assets	8,000	-	-	8,000
Total other gains	<u>8,000</u>	<u>-</u>	<u>-</u>	<u>8,000</u>
<b>CHANGE IN NET ASSETS</b>	<u>14,549</u>	<u>289,091</u>	<u>209,405</u>	<u>513,045</u>
<b>NET ASSETS</b>				
Beginning of year	<u>13,278,751</u>	<u>1,108,462</u>	<u>2,603,910</u>	<u>16,991,123</u>
End of year	<u>\$ 13,293,300</u>	<u>\$ 1,397,553</u>	<u>\$ 2,813,315</u>	<u>\$ 17,504,168</u>

## The Episcopal Diocese of San Diego Statement of Activities

	Year Ended December 31, 2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>SUPPORT AND REVENUE</b>				
Common Life Share (Mission giving)	\$ 1,589,807	\$ -	\$ -	\$ 1,589,807
Contributions	16,767	214,048	200,267	431,082
Investment income	353,193	149,982	40,161	543,336
Other income	58,907	-	-	58,907
Conferences and convention	82,565	-	-	82,565
Special events	4,600	-	-	4,600
Net assets released from restriction	397,993	(393,490)	(4,503)	-
Total support and revenue	<u>2,503,832</u>	<u>(29,460)</u>	<u>235,925</u>	<u>2,710,297</u>
<b>SUPPORTING SERVICES</b>				
Management and administration:				
Personnel	985,006	-	-	985,006
Facilities management	267,072	-	-	267,072
Other	354,934	-	-	354,934
Program and ministry	419,302	-	-	419,302
Mission and parish support	337,604	-	-	337,604
Special events and fundraising	12,628	-	-	12,628
Conferences and conventions	37,092	-	-	37,092
Total supporting services	<u>2,413,638</u>	<u>-</u>	<u>-</u>	<u>2,413,638</u>
<b>CHANGE IN NET ASSETS BEFORE OTHER</b>				
GAINS (LOSSES)	<u>90,194</u>	<u>(29,460)</u>	<u>235,925</u>	<u>296,659</u>
<b>OTHER GAINS (LOSSES)</b>				
Gain on sale of property	613,145	-	-	613,145
Loss on impairment of investment in property	(211,598)	-	-	(211,598)
Total other gains (losses)	<u>401,547</u>	<u>-</u>	<u>-</u>	<u>401,547</u>
<b>CHANGE IN NET ASSETS</b>	491,741	(29,460)	235,925	698,206
<b>NET ASSETS</b>				
Beginning of year	<u>12,787,010</u>	<u>1,137,922</u>	<u>2,367,985</u>	<u>16,292,917</u>
End of year	<u>\$ 13,278,751</u>	<u>\$ 1,108,462</u>	<u>\$ 2,603,910</u>	<u>\$ 16,991,123</u>

# The Episcopal Diocese of San Diego

## Statements of Cash Flows

	Years Ended December 31,	
	2017	2016
<b>OPERATING ACTIVITIES</b>		
Change in net assets	\$ 513,045	\$ 698,206
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	122,307	132,425
Bad debt	87,593	1,424
Realized and unrealized gain on investments	(636,031)	(377,282)
Change in beneficial interest in endowment funds	(14,284)	(21,457)
Change in discount on contributions receivable	1,634	(10,363)
Loss on impairment of investment in property	-	211,598
Gain on sale of investment in property for missions and parishes	(8,000)	(613,145)
Change in value of charitable remainder unitrusts	(19,862)	(30,976)
Change in value of pooled income fund	26	(2,517)
Permanently restricted contributions	(147,482)	(200,267)
Permanently restricted investment gain	(83,847)	(40,161)
Permanently restricted distributions	21,924	4,503
(Increase) decrease in operating assets:		
Accounts receivable	79,420	8,662
Contributions receivable	52,595	221,011
Prepaid expenses and deposits	(4,317)	(13,925)
(Decrease) increase in operating liabilities:		
Accounts payable and accrued expenses	(42,163)	22,210
Other liabilities	89,379	1,181
Net cash provided by (used in) operating activities	<u>11,937</u>	<u>(8,873)</u>
<b>INVESTING ACTIVITIES</b>		
Purchases of investments	(1,456,782)	(1,319,878)
Sales of investments	1,033,516	880,855
Advances of notes receivable	(887,323)	(23,924)
Payments received for notes receivable	781,304	254,761
Proceeds from sale of property and equipment	16,499	-
Proceeds from sale of investment in property for missions and parishes	30,000	2,612,786
Costs incurred for property for missions and parishes	(19,353)	(2,836)
Purchases of property and equipment	(11,676)	(22,076)
Net cash (used in) provided by investing activities	<u>(513,815)</u>	<u>2,379,688</u>
<b>FINANCING ACTIVITIES</b>		
Payments on notes payable	(28,544)	(2,542,023)
Permanently restricted contributions	147,482	200,267
Permanently restricted investment gain	83,847	40,161
Permanently restricted distributions	(21,924)	(4,503)
Net cash provided by (used in) financing activities	<u>180,861</u>	<u>(2,306,098)</u>
(DECREASE) INCREASE IN CASH	(321,017)	64,717
<b>CASH</b>		
Beginning of year	<u>800,751</u>	<u>736,034</u>
End of year	<u>\$ 479,734</u>	<u>\$ 800,751</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Interest paid	<u>\$ 7,486</u>	<u>\$ 8,175</u>
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES</b>		
Sale of investment in property for missions and parishes through note receivable	<u>\$ 70,000</u>	<u>\$ -</u>



# The Episcopal Diocese of San Diego

## Notes to Financial Statements

---

### **Note 1 – Nature of Organization and Summary of Significant Accounting Policies**

The Episcopal Diocese of San Diego (the “Diocese”) was organized in December 1973, as a nonprofit corporation, to acquire, hold, manage, and administer the ministry, property, and funds of the Diocese and its constituents, parishes, missions, and congregations. The Diocese provides administrative services to the Episcopal Churches throughout San Diego and Imperial Counties, California and in a portion of Riverside County, California, and Yuma County, Arizona as set forth in the Constitution and Canons of the Diocese. The Diocese is subject to the canons of The Episcopal Church and the Constitutions and the Canons of The Episcopal Diocese of San Diego.

**Tax exempt status** – The Diocese has been designated as a tax-exempt entity by the Internal Revenue Service except to the extent of unrelated business taxable income as defined under IRC Sections 511 through 515 and the California Franchise Tax Board under Sections 501(c)(3) and 23701d, respectively. Accordingly, no tax provision has been recorded in the financial statements.

The Diocese had no unrecognized tax benefits at December 31, 2017 and 2016, and had no uncertain tax positions. The Diocese is required to report unrelated business income, if any.

**Method of accounting** – The financial statements of the Diocese have been prepared on the accrual basis of accounting which is in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and, accordingly, reflect all significant receivables, payables, and other liabilities.

**Financial statement presentation** – Net assets are classified as unrestricted, temporarily restricted, and permanently restricted based upon the following criteria:

*Unrestricted net assets* – Net assets not subject to donor imposed stipulations.

*Temporarily restricted net assets* – Net assets subject to donor imposed stipulations that will be met by actions of the Diocese and/or the passage of time. When a donor stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

*Permanently restricted net assets* – Net assets subject to donor imposed stipulations requiring that they be maintained permanently by the Diocese. The income from these assets is available for either general operations or specific programs as specified by the donor.

**Use of estimates** – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions related to the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may materially differ from those estimates.

# The Episcopal Diocese of San Diego

## Notes to Financial Statements

---

### Note 1 – Nature of Organization and Summary of Significant Accounting Policies (continued)

#### Revenue Recognition:

*Common Life Share (Mission giving)* – Annually, churches within the Diocese make a promise to give to the Diocese per Canon 4.2.03 of The Episcopal Diocese of San Diego. Per the canon, the pledge is to be paid in 12 equal installments. The Diocese recognizes the revenue for Common Life Share (Mission giving) on a monthly basis.

*Contributions* – Contributions are recognized when the donor makes a promise to give to the Diocese that is in substance, unconditional. Contributions 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 contributions are recognized. All other donor-restricted contributions 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. Contributions to be received in future periods are recorded as contributions receivable and are recorded at fair value using an appropriate discount rate. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

*Conferences and convention* – Conference and convention income is recognized as income in the month of the event.

**Cash and cash equivalents** – The Diocese considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

**Concentration of credit risk** – The Diocese maintains its cash and investments in bank deposit accounts and brokerage accounts which, at times, may exceed federally insured limits. The Diocese has not experienced any losses in such accounts. The Diocese believes it is not exposed to any significant credit risk on cash.

Concentrations of credit risk exist with respect to receivables since a significant portion is due from parishes, missions, and congregations located within the Diocese.

**Receivables** – Receivables are recorded net of an allowance for doubtful accounts. The allowance is based on historical experience and management's evaluation of outstanding accounts receivable. Management determined no allowance was necessary for accounts receivable as of December 31, 2017 and 2016. See Note 4 for contributions receivable.

**Notes receivable** – The Diocese has made loans to various parishes and missions, which are considered related parties, for the acquisition, expansion or repair of real property. They have also made loans to provide working capital. These loans are partially collateralized by the real property. Bad debts are recognized on the allowance method based on historical experience and management's evaluation of outstanding notes receivable.

## The Episcopal Diocese of San Diego Notes to Financial Statements

---

### Note 1 – Nature of Organization and Summary of Significant Accounting Policies (continued)

The Diocese holds title to certain land and buildings for missions and parishes (Note 9) and is trustee for the title of other properties for missions and parishes (Note 15). In addition, according to Episcopal Canon, the property, consisting of land and buildings, is considered to be collateral on the notes should the missions and parishes close down and default on the note receivable. This Canon is legally binding and has been upheld in previous court rulings. Management believes the assets held by the Diocese, or where Diocese is the trustee, acts as security for the notes receivable from these missions and parishes.

**Fair value of financial instruments** – Fair value accounting standards define fair value, establish a framework for measuring fair value, outline a fair value hierarchy based on inputs used to measure fair value and enhance disclosure requirements for fair value measurements. The fair value hierarchy distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Level 1 or 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

**Level 1** – Inputs are quoted prices in active markets for identical investments that the investment manager has the ability to access at the measurement date;

**Level 2** – Inputs are inputs other than quoted prices included within Level 1 that are observable for the investment, either directly or indirectly; and

**Level 3** – Inputs are unobservable input for the investment.

The Diocese's statement of financial position includes the following financial instruments that are required to be measured at fair value on a recurring basis:

- Investments in mutual and exchange traded funds, with the exception of reinsurance-related securities, and common stock are considered Level 1 assets and are reported at fair value based on quoted prices in active markets for identical assets at the measurement date. Reinsurance-related securities are considered Level 2 assets due to redemption restrictions which may require the Diocese to wait up to 90 days to fully liquidate.
- Investments in certificates of deposit are considered Level 2 assets and are reported at fair value based on current yields of similar instruments with comparable durations considering the creditworthiness of the issuer.
- Investments held at The Episcopal Church Foundation ("ECF") are considered Level 2 assets and are reported at fair value based on the fair value of the underlying assets in the funds as reported by the fund manager, ECF.
- Beneficial interests in split interest agreements (charitable remainder unitrusts and pooled income fund) are considered Level 3 assets and are reported at fair value based on management's assumptions about the expected investment return on the underlying trust assets, an applicable discount rate, ranging from 2 to 3 percent, and the life expectancy of the donor, according to Internal Revenue Service mortality tables.
- Beneficial interests in endowment funds are considered Level 3 assets and are reported at fair value based the fair value of the underlying assets which approximates the future discounted cash flows.

# The Episcopal Diocese of San Diego

## Notes to Financial Statements

---

### Note 1 – Nature of Organization and Summary of Significant Accounting Policies (continued)

The Chief Financial Officer and Diocesan Treasurer, under the oversight of the Investment Committee, reviews and evaluates the values provided by ECF quarterly and agrees with the valuation methods used.

**Risks and uncertainties** – The Diocese invests in various types of investment securities which are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the statements of financial position.

**Charitable remainder unitrusts** – The Diocese is the beneficiary of two charitable remainder unitrusts. A charitable remainder unitrust ("CRUT") is an irrevocable trust that distributes a fixed percentage of the value of its assets to another beneficiary and at the expiration of a specified time, the remaining balance of the assets held in the CRUT are to be distributed to the Diocese. The beneficial interest in the CRUT is recorded at fair value and based on the present value of future benefits expected to be received from the CRUT.

**Property and equipment** – The Diocese capitalizes all expenditures in excess of \$1,000 for property and equipment at cost, while donations of property and equipment are recorded at their estimated fair values. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long these donated assets must be maintained, the Diocese reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Diocese reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment is depreciated using the straight-line method over the estimated useful asset lives as follows:

Buildings and improvements	27.5 to 30 years
Equipment	3 to 7 years
Vehicles	5 years

**Impairment of long-lived assets** – The Diocese reviews its long-lived assets, including its property for missions and parishes, for impairment whenever events and changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to the estimated proceeds from the eventual disposition of the asset. If the asset is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the asset exceeds the fair value of such property. There was no impairment recorded in 2017. An impairment of \$211,598 was recorded in 2016 related to the Santa Rosa Del Mar property (See Note 9).

## The Episcopal Diocese of San Diego Notes to Financial Statements

---

### Note 1 – Nature of Organization and Summary of Significant Accounting Policies (continued)

**Donated services** – The Diocese utilizes the services of many volunteers throughout the year. This contribution of services by the volunteers is not recognized in the financial statements unless the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. The donated services totaled approximately \$185,000 and \$99,000 for the years ended December 31, 2017 and 2016, respectively.

**Functional allocation of expenses** – Expenses by function have been allocated among supporting services classifications on the basis of internal records and estimates made by the Diocese's management.

**Reclassifications** – Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements. There was no impact to net assets or change in net assets.

**Recent accounting pronouncements** – In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statement for Not-for-Profit Entities*. This guidance revises the not-for-profit reporting model and requires expenses to be disclosed by both functional and natural classification, reduces the net asset classifications to two (with and without donor restrictions), and requires new disclosures on liquidity. The guidance is effective for fiscal years beginning after December 15, 2017. Management is currently evaluating the impact this will have on the Diocese's future financial statements.

## The Episcopal Diocese of San Diego

### Notes to Financial Statements

#### Note 2 – Investments

Investments are recorded at fair value. Investment income or loss (including interest and realized and unrealized gains and losses) is included in unrestricted revenues unless restricted by donor or law. Donated investments are initially recorded at fair value at the date of gift.

Investments consist of the following at December 31:

	2017	2016
Mutual and exchange traded funds	\$ 5,273,487	\$ 4,351,894
Funds held at Episcopal Church Foundation	1,031,420	987,782
Cash and cash equivalents	443,532	339,297
Certificates of deposit	-	18,023
Common stock	7,854	-
Total	<u>\$ 6,756,293</u>	<u>\$ 5,696,996</u>

The investments held at ECF are held in an investment pool, which is structured for long-term, total return consisting of 40 percent domestic equities, 30 percent international equities, 24 percent fixed income, 5 percent real estate funds, and 1 percent cash and cash equivalents. ECF reports the fair value of the amounts due to the Diocese on a regular basis. The Diocese did not grant variance power over the investments to ECF. Distributions can be made at any time from the funds. There are no commitments to make future investments to ECF and there are no restrictions on the redemption of funds invested at ECF.

The following schedules summarize the investment return and its classification in the statements of activities for the years ended December 31, 2017 and 2016:

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Gain on investments	\$ 165,363	\$ 301,426	\$ 67,913	\$ 534,702
Interest and dividend income	76,760	70,722	15,934	163,416
Interest income on notes receivable	161,799	-	-	161,799
Net investment income	<u>\$ 403,922</u>	<u>\$ 372,148</u>	<u>\$ 83,847</u>	<u>\$ 859,917</u>
	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Gain on investments	\$ 214,199	\$ 121,085	\$ 32,423	\$ 367,707
Interest and dividend income	68,050	28,897	7,738	104,685
Interest income on notes receivable	70,944	-	-	70,944
Net investment income	<u>\$ 353,193</u>	<u>\$ 149,982</u>	<u>\$ 40,161</u>	<u>\$ 543,336</u>

For the years ended December 31, 2017 and 2016, gain on investments included realized and unrealized gains (losses).

## The Episcopal Diocese of San Diego Notes to Financial Statements

### Note 3 – Fair Value Measurements

The following table summarizes assets measured at fair value by classification within the fair value hierarchy at December 31, 2017:

	Fair Value Measurements				2017 Total
	Level 1	Level 2	Level 3	Assets Held at Net Asset Value (or Equivalent)	
Mutual and exchange traded funds:					
Bond funds	\$ 1,640,856	\$ -	\$ -	\$ -	\$ 1,640,856
U.S. large cap funds	1,372,563	-	-	-	1,372,563
Foreign stock funds	891,745	-	-	-	891,745
U.S. small-medium cap funds	531,620	-	-	-	531,620
Foreign bond funds	390,085	-	-	-	390,085
Real estate funds	301,391	-	-	-	301,391
Reinsurance-related securities	-	145,227	-	-	145,227
Domestic common stock	7,854	-	-	-	7,854
Investment funds held at Episcopal Church Foundation	-	1,031,420	-	-	1,031,420
Total investments	5,136,114	1,176,647	-	-	6,312,761
Charitable remainder unitrusts (Note 6)	-	-	230,766	-	230,766
Pooled income fund (Note 7)	-	-	8,638	-	8,638
Beneficial interests in endowment funds (Note 10)	-	-	518,547	-	518,547
<b>Total</b>	<b>\$ 5,136,114</b>	<b>\$ 1,176,647</b>	<b>\$ 757,951</b>	<b>\$ -</b>	<b>\$ 7,070,712</b>

# The Episcopal Diocese of San Diego

## Notes to Financial Statements

### Note 3 – Fair Value Measurements (continued)

The following table summarizes assets measured at fair value by classification within the fair value hierarchy at December 31, 2016:

	Fair Value Measurements				2016 Total
	Level 1	Level 2	Level 3	Assets Held at Net Asset Value (or Equivalent)	
Mutual and exchange traded funds:					
U.S. large cap funds	\$ 1,217,353	\$ -	\$ -	\$ -	\$ 1,217,353
Bond funds	1,130,137	-	-	-	1,130,137
Foreign stock funds	701,007	-	-	-	701,007
U.S. small-medium cap funds	539,790	-	-	-	539,790
Foreign bond funds	386,108	-	-	-	386,108
Real estate funds	251,791	-	-	-	251,791
Reinsurance-related securities	-	125,708	-	-	125,708
Certificates of deposit	-	18,023	-	-	18,023
Investment funds held at Episcopal					
Church Foundation	-	987,782	-	-	987,782
Total investments	4,226,186	1,131,513	-	-	5,357,699
Charitable remainder unitrusts (Note 6)	-	-	210,904	-	210,904
Pooled income fund (Note 7)	-	-	8,664	-	8,664
Beneficial interests in endowment funds (Note 10)	-	-	504,263	-	504,263
Total	\$ 4,226,186	\$ 1,131,513	\$ 723,831	\$ -	\$ 6,081,530



**The Episcopal Diocese of San Diego**  
**Notes to Financial Statements**

---

**Note 4 – Contributions Receivable**

Contributions receivable consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
Current:		
Receivables - Bishop's Campaign	\$ 6,100	\$ 17,238
Receivables - Capital Campaign	63,935	153,024
Receivables - Farewell Initiative	22,833	-
Less: allowance for doubtful accounts	<u>(4,643)</u>	<u>(14,688)</u>
Total current, net	<u>88,225</u>	<u>155,574</u>
Noncurrent:		
Receivables due in one to five years - Bishop's Campaign	5,240	6,702
Receivables due in one to five years - Capital Campaign	20,623	57,903
Receivables due in one to five years - Farewell Initiative	40,988	-
Less: discounts to present value	(3,812)	(2,178)
Less: allowance for doubtful accounts	<u>(14,352)</u>	<u>(26,860)</u>
Total noncurrent, net	<u>48,687</u>	<u>35,567</u>
Total contributions receivable, net	<u>\$ 136,912</u>	<u>\$ 191,141</u>

The contributions receivable has been discounted to their present value using a discount rate of 5 percent at December 31, 2017 and 2016.

## The Episcopal Diocese of San Diego

### Notes to Financial Statements

---

#### Note 5 – Notes Receivable

Notes receivable consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
Andrew Anderson, original principal of \$100,000; interest at 4 percent per annum; payable in annual installments of \$10,500; secured by an interest in a limited partnership	\$ 10,615	\$ 20,396
Alternatives to Domestic Violence, original principal of \$5,959; amended in 2016 to increase by \$1,424; non-interest bearing; monthly installments of \$300; unsecured	4,676	6,716
Clergy note receivable, original principal of \$9,642; interest at 4 percent per annum; principal and interest payable in monthly installments of \$178 from January 2015 through December 2019; unsecured	3,604	5,381
Episcopal Community Services, original principal of \$51,151; interest at 4.8 percent; principal and interest payable on or before March 1, 2018; unsecured	1,299	7,509
James and Teresa Mathes, original principal of \$646,000; paid in full during 2017	-	646,000
	<u>20,194</u>	<u>686,002</u>

#### From Episcopal Churches

St. Thomas, Temecula, original principal of \$3,071,000; refinanced in 2016 to an interest rate of 5 percent per annum; principal and interest payable in monthly installments of \$10,355 through September 2023; secured by a deed of trust	1,893,170	1,921,985
St. John's, Chula Vista, original principal of \$399,841; amended and restated in December 2017; principal of \$1,287,164; interest at 5 percent, principal and interest payable in monthly installments of \$11,905 through January 2030; secured by deed of trust	1,287,164	399,841
St. Thomas, Temecula, Secondary Note, original principal of \$551,212; non-interest bearing; due December 2020	848,778	848,778
St. Timothy's, San Diego, original principal of \$688,209; non-interest bearing; due July 2026	688,209	688,209

(continued)

**The Episcopal Diocese of San Diego**  
**Notes to Financial Statements**

**Note 5 – Notes Receivable (continued)**

	2017	2016
<i>(continued from above)</i>		
St. Timothy's, San Diego, original principal of \$700,000; refinanced in 2016 to an interest rate of 5 percent per annum; principal and interest payable in monthly installments of \$5,661 through September 2026	\$ 480,627	\$ 523,360
St. Mark's, original principal of \$353,000; interest at 5.5 percent per annum; principal and interest payable in monthly installments of \$1,755 through September 2025; secured by a deed of trust	297,692	300,800
St. Columba's, Santee, original principal of \$101,136; non-interest bearing; payments are made as funds are available through pledges made for this purpose	90,125	90,305
St. Anthony Of-The-Desert, Desert Hot Springs, original principal of \$130,000; interest at 4.15 percent per annum; principal and interest payable in monthly installments of \$869 through September 2024; collateralized by property (Note 11)	89,635	89,635
E. Oros (Santa Rosa), original principal \$70,000 interest at 5 percent per annum; principal and interest payable in monthly installments of \$1,353 beginning December 2017; due November 2022	68,997	-
St. Columba's, Santee, original principal of \$145,000; interest at 4.15 percent per annum; principal and interest payable in monthly installments of \$968 through September 2024 (Note 11)	68,186	76,742
St. Stephen's, Menifee, original principal \$45,495; interest at 4 percent per annum; principal and interest payable in monthly installments of \$838; due April 2020 (Note 11)	9,335	31,326
Christ The King, original principal of \$22,500; interest at 4 percent; principal and interest payable in monthly installments of \$675, due February 2019	9,072	16,518
St. Stephen's, Menifee, original principal of \$12,500; paid in full during 2017 (Note 11)	-	1,662
	<u>5,830,990</u>	<u>4,989,161</u>
Total notes receivable	5,851,184	5,675,163
Less: allowance for doubtful notes receivable	<u>(94,311)</u>	<u>(6,716)</u>
Total notes receivable, net	<u>\$ 5,756,873</u>	<u>\$ 5,668,447</u>

# The Episcopal Diocese of San Diego

## Notes to Financial Statements

---

### Note 6 – Charitable Remainder Unitrusts

The Diocese has been named as the remainder beneficiary of charitable remainder unitrusts which are reported at fair value. These trusts are established and funded by the donors and provide for a distribution annually to the donors during their lifetimes. Upon the death of the donors, the remaining value of the trusts will be distributed to the Diocese subject to donor restrictions. The charitable remainder unitrusts amounts have been discounted to their present values of the remainder interest using discount rates ranging between ranging between 2 and 3 percent at December 31, 2017 and 2016.

The activity of the charitable remainder unitrusts consisted of the following for the years ended December 31, 2017 and 2016:

Balance, January 1, 2016	\$ 179,928
Change in discount and fair value	<u>30,976</u>
Balance, December 31, 2016	210,904
Change in discount and fair value	<u>19,862</u>
Balance, December 31, 2017	<u><u>\$ 230,766</u></u>

### Note 7 – Pooled Income Fund

The Diocese's pooled income fund is administered by Union Bank as the Trustee. Assets donated to the trust by donors provide income to the donors for the remainder of the donor's life. Upon the death of the donors, the assets are transferred to the Diocese subject to the donor's restrictions, if any. The pooled income fund amounts have been discounted to their present value of remainder interest using a discount rate of 2.6 percent and 2.45 percent at December 31, 2017 and 2016, respectively. The activity of the pooled income fund consisted of the following for the years ended December 31, 2017 and 2016:

Balance, January 1, 2016	\$ 6,147
Change in discount and fair value	<u>2,517</u>
Balance, December 31, 2016	8,664
Change in discount and fair value	<u>(26)</u>
Balance, December 31, 2017	<u><u>\$ 8,638</u></u>

## The Episcopal Diocese of San Diego Notes to Financial Statements

### Note 8 – Property and Equipment

Property and equipment consist of the following at December 31:

	2017	2016
Land	\$ 680,678	\$ 680,678
Buildings and improvements	2,766,732	2,766,732
Equipment	130,839	118,156
Vehicles	54,652	89,665
Total	3,632,901	3,655,231
Less: accumulated depreciation	(730,680)	(625,880)
Total property and equipment	\$ 2,902,221	\$ 3,029,351

### Note 9 – Property for Missions and Parishes

Property for Missions and Parishes consists of advanced construction costs and land and buildings acquired by the Diocese for the benefit of the Episcopal Churches within the Diocese and consist of the following at December 31:

	2017	2016
St. Timothy's, San Diego - Land, building and construction costs, net of notes receivable	\$ 469,577	\$ 469,577
St. Stephen's, Menifee - Vicarage	189,521	189,521
Grace Church, San Marcos - Land	185,378	185,378
St. Albans, El Cajon - Land	105,014	105,014
St. Lukes, San Diego - Improvements	80,928	61,575
St. Andrew's By-The-Lake, Lake Elsinore - Vicarage	70,378	70,378
St. Stephen's, Menifee - Improvements	21,402	21,402
St. Mary's, Ramona - Improvements	8,859	8,859
All Saints, Brawley - Improvements	1,509	1,509
Santa Rosa Del Mar, Desert Shores - Land and building	-	92,000
Total property for Missions and Parishes	\$ 1,132,566	\$ 1,205,213

In January 2016, the Diocese listed the Santa Rosa Del Mar, Desert Shores property for sale. As of December 31, 2016, Santa Rosa Del Mar had not sold and an impairment of \$211,598 was recorded to bring the net realizable value to \$92,000 which was management's estimate of the fair value of this property as of December 31, 2016 based on a valuation performed by a third party. Santa Rosa Del Mar was sold in November 2017 for \$100,000. The Diocese entered into a note receivable with the buyer for \$70,000 at 5% interest for 5 years.

# The Episcopal Diocese of San Diego

## Notes to Financial Statements

---

### Note 10 – Beneficial Interests in Endowment Funds

The Diocese has beneficial interests in endowment funds held by The Episcopal Diocese of California (Fowler Fund) and Wells Fargo (Keating Fund). The beneficial interests in endowment funds are invested in portfolios of equity and debt securities which are structured for long-term total return.

The activity of the beneficial interests in endowment funds consisted of the following for the years ended December 31, 2017 and 2016:

Balance, January 1, 2016	\$ 482,806
Distributions to the Diocese	(4,503)
Investment income	<u>25,960</u>
Balance, December 31, 2016	504,263
Distributions to the Diocese	(21,924)
Investment income	<u>36,208</u>
Balance, December 31, 2017	<u><u>\$ 518,547</u></u>

In December 2015, the Diocese was notified that they are the named as a beneficiary in a charitable gift annuity agreement held by ECF. The assets are held in an account with State Street Bank and Trust, and the account was funded by the donor. The agreement provides for a distribution annually to the donor during his lifetime and upon his death, 90 percent of the remaining value of the assets will be distributed to the Diocese subject to donor restrictions. The Diocese does not have enough information to determine the fair value of these assets as of December 31, 2017 and 2016 and accordingly, has not recorded this beneficial interest in their financial statements.

### Note 11 – Notes Payable

Notes payable consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
For 26054 Mantle Drive, Menifee, CA, formerly St. Stephen's Vicarage, note payable to bank; interest at 4.45 percent; payable in monthly installments of \$1,301, including interest and principal; due April 1, 2024; secured by a deed of trust (Note 5)	\$ 87,278	\$ 98,669
For the benefit of St. Anthony of the Desert, Desert Hot Springs, note payable to bank; interest at 4.15 percent; due in monthly installments of \$973, including principal and interest, through September 2024; secured by a deed of trust (Note 5)	68,515	77,112
For the benefit of St. Columba's, Santee, note payable to bank; interest at 4.15 percent; due in monthly installments of \$968, including principal and interest, through September 2024; secured by a deed of trust (Note 5)	<u>68,186</u>	<u>76,742</u>
Total notes payable	<u><u>\$ 223,979</u></u>	<u><u>\$ 252,523</u></u>

**The Episcopal Diocese of San Diego**  
**Notes to Financial Statements**

---

**Note 11 – Notes Payable (continued)**

The future principal payments on the notes payable are as follows:

Years ending December 31,	
2018	\$ 29,348
2019	30,601
2020	31,908
2021	33,271
2022	34,691
Thereafter	<u>64,160</u>
Total	<u><u>\$ 223,979</u></u>

# The Episcopal Diocese of San Diego

## Notes to Financial Statements

### Note 12 – Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at December 31:

	2017	2016
Contributions receivable:		
Capital campaign	\$ 72,318	\$ 172,399
Farewell Initiative	57,644	-
Bishop campaign	6,950	18,742
Total	<u>136,912</u>	<u>191,141</u>
Unappropriated endowment earnings:		
Episcopate Endowment	506,516	449,578
Miller Endowment for Clergy Pension and Assistance	163,881	54,044
White-Perkins for Missions	65,721	35,303
Capital Campaign for Clergy Mentoring or Parish Loans	55,910	9,683
Bishop Gooden for Diocesan Missionary Work	22,537	19,865
Clergy Mentoring for Funding Curates	14,738	3,756
Gutsch Endowment to Provide Seminarian Support	13,288	6,507
Roddis Endowment	12,056	6,871
Missionary Endowment for Diocesan Missionary Work	10,395	8,694
Capital Campaign to be used for Clergy Mentoring or Parish Loans	4,784	1,001
Alice Manning Income for Upkeep of Manning Grave	3,093	2,709
Crosby-Miller to Support St. Matthews and St. Andrews by the Lake	2,626	2,299
Total	<u>875,545</u>	<u>600,310</u>
Unappropriated endowment earnings:		
Daly charitable remainder unitrust	<u>23,682</u>	<u>28,418</u>
Purpose restricted funds:		
Congregational Revitalization Fund	88,200	86,771
Howe Donation for Clergy Mentorship	56,523	50,000
All Saints Cemetary	56,523	-
Bishop's Pastoral Needs Fund	56,041	64,353
Farewell Initiative	17,353	-
Sabbatical Fund for Clergy Sabbaticals	10,800	7,400
School for Ministry	10,776	5,958
Pooled Income Fund	8,638	8,664
Episcopal Church Center Ministries	8,206	5,810
Church Organ Purchase	7,559	7,559
School for Ministry Scholarship Fund	6,592	4,950
Fowler Memorial Scholarship	5,785	5,785
Nicholson Memorial for Maintenance of Trinity Chapel Organ	5,688	5,688
Martha Burton Music Fund	5,636	6,613
Fowler Youth Renewal Scholarships	3,886	3,886
Happening Support	3,223	4,747
Mobile Showers Ministry	2,902	583
Disaster Relief	1,960	1,960
Deaf Ministries	1,564	1,564
Mission to Seafarers	1,500	1,000
Graves Memorial for Trinity Chapel Carillon	922	922
Carroll Center	846	13,529
Clergy Enrichment	291	851
Total	<u>361,414</u>	<u>288,593</u>
Total temporarily restricted net assets	<u>\$ 1,397,553</u>	<u>\$ 1,108,462</u>



## The Episcopal Diocese of San Diego Notes to Financial Statements

---

### Note 12 – Temporarily Restricted Net Assets (continued)

Net assets totaling \$332,700 and \$393,490 were released from endowment earnings and donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors for the years ended December 31, 2017 and 2016, respectively.

### Note 13 – Endowment Net Assets

The Diocese's endowment funds consist of 14 individual funds established for a variety of purposes. Net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions. The Diocese manages 12 of the funds, with the remaining funds held and managed by The Episcopal Diocese of California and Wells Fargo.

In regards to the funds held and managed by the Diocese, the Board of Directors of the Diocese has interpreted the enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Diocese classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts donated to the permanent endowment, and (3) 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 Diocese in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Diocese considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Diocese and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Diocese
- The investment policies of the Diocese

From time to time, as a result of market declines, the fair value of the assets associated with individual donor-restricted endowment funds may fall below the historical cost value of such funds. As of December 31, 2017 and 2016, all funds were above their historical cost value.

The Diocese has adopted investment and spending policies for endowment funds that:

- Protect the invested assets
- Preserve spending capacity of the fund income
- Maintain a diversified portfolio of assets that meet investment return objectives while keeping risk at a moderate level
- Comply with applicable laws

## The Episcopal Diocese of San Diego

### Notes to Financial Statements

---

#### Note 13 – Endowment Net Assets (continued)

The Diocese's endowment funds are invested in debt and other securities that are structured to satisfy its long-term rate-of-return objectives. The Diocese relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

The Diocese's spending policy is to disburse funds available to meet donor restrictions and the current program needs of the Diocese up to 5 percent of the average of 12 quarters prior, annually. In 2017 and 2016, 4 percent and 5 percent, respectively, was disbursed from endowments managed by the Diocese with the exception of the Clergy Mentoring for Funding of Curates, the Parish Loan Corpus and Earnings Available for Loans, and Capital Campaign to be used for Clergy Mentoring or Parish Loans which did not have sufficient earnings to disburse funds during 2017 and 2016.

The Fowler Fund is held by The Episcopal Diocese of California ("EDC") and the Keating Fund is held by Wells Fargo. EDC and Wells Fargo manage these funds in accordance with UPMIFA. The investment objectives are to maintain the purchasing power (real value) of the endowment funds. However, from time to time, the fair value of the assets in the endowment fund may fall below the level that the donors require the Diocese to retain as a fund of perpetual duration. The Diocese classifies the endowment funds held by others as:

- The original value of gifts donated to the fund.
- The original value of subsequent gifts donated to the fund.
- Investment income and realized and unrealized gains and loss on investments.
- Distributions from the fund in accordance with the spending policy.

EDC and Wells Fargo have adopted investment and spending policies for endowment funds that:

- Protect the invested assets.
- Preserve spending capacity of the fund income.
- Maintain a diversified portfolio of assets that meet investment return objectives while keeping risk at a level commensurate with that of the median fund in comparable foundation.
- Comply with applicable laws.

The endowment funds held by EDC and Wells Fargo are invested in debt and equity securities that are structured for long-term total return. To provide diversification and to moderate risk, the investments are divided into carefully defined asset classes.

EDC's spending policy is to disburse 5 percent annually, 4.25 percent to the Diocese, and 0.75 percent is retained at EDC as a fee. Wells Fargo distributes annual earnings upon the request of the Diocese up to the maximum allowed by Wells Fargo.

## The Episcopal Diocese of San Diego Notes to Financial Statements

### Note 13 – Endowment Net Assets (continued)

Endowment composition by type of fund at December 31:

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Donor-Restricted Endowment Funds:</b>				
Managed by Diocese:				
Miller Endowment for Clergy Pension and Assistance	\$ -	\$ 163,881	\$ 1,175,499	\$ 1,339,380
Episcopate Endowment	-	506,516	50,108	556,624
White-Perkins for Missions	-	65,721	231,643	297,364
Clergy Mentoring for Funding of Curates	-	14,738	307,785	322,523
Capital Campaign to be used for Clergy Mentoring or Parish Loans	-	55,910	399,045	454,955
Gutsch Endowment to Provide Seminarian Support	-	13,288	53,000	66,288
Roddis Endowment	-	12,056	38,634	50,690
Bishop Gooden for Diocesan Missionary Work	-	22,537	3,590	26,127
Parish Loan Fund Corpus and Earnings Available for Loans	-	4,784	28,000	32,784
Missionary Endowment for Diocesan Missionary Work	-	10,395	6,235	16,630
Alice Manning Income for Upkeep of Manning Grave	-	3,093	665	3,758
Crosby-Miller to Support St. Matthews and St. Andrews by the Lake	-	2,626	564	3,190
Held by Others:				
Keating Fund for Church Extension Work	-	-	427,682	427,682
Fowler Fund to be used at Bishop and Board Direction	-	-	90,865	90,865
Total donor-restricted endowment funds	<u>-</u>	<u>875,545</u>	<u>2,813,315</u>	<u>3,688,860</u>
<b>Board-Designated Endowment Funds:</b>				
Diocesan Endowment Fund to Support Diocese	1,500,696	-	-	1,500,696
Mary Bill Fund to Support Missionary Expansion and Evangelism	255,670	-	-	255,670
Future Missions Endowment	43,952	-	-	43,952
Total board-designated endowment funds	<u>1,800,318</u>	<u>-</u>	<u>-</u>	<u>1,800,318</u>
<b>Total Donor-Restricted Endowment Funds and Board-Designated Endowment Funds</b>	<b><u>\$ 1,800,318</u></b>	<b><u>\$ 875,545</u></b>	<b><u>\$ 2,813,315</u></b>	<b><u>\$ 5,489,178</u></b>
	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Donor-Restricted Endowment Funds:</b>				
Managed by Diocese:				
Miller Endowment for Clergy Pension and Assistance	\$ -	\$ 54,044	\$ 1,175,499	\$ 1,229,543
Episcopate Endowment	-	449,578	50,108	499,686
White-Perkins for Missions	-	35,303	231,643	266,946
Clergy Mentoring for Funding of Curates	-	3,756	261,216	264,972
Capital Campaign to be used for Clergy Mentoring or Parish Loans	-	9,683	272,937	282,620
Gutsch Endowment to Provide Seminarian Support	-	6,507	53,000	59,507
Roddis Endowment	-	6,871	38,634	45,505
Bishop Gooden for Diocesan Missionary Work	-	19,865	3,590	23,455
Parish Loan Fund Corpus and Earnings Available for Loans	-	1,001	28,000	29,001
Missionary Endowment for Diocesan Missionary Work	-	8,694	6,235	14,929
Alice Manning Income for Upkeep of Manning Grave	-	2,709	665	3,374
Crosby-Miller to Support St. Matthews and St. Andrews by the Lake	-	2,299	564	2,863
Held by Others:				
Keating Fund for Church Extension Work	-	-	390,954	390,954
Fowler Fund to be used at Bishop and Board Direction	-	-	90,865	90,865
Total donor-restricted endowment funds	<u>-</u>	<u>600,310</u>	<u>2,603,910</u>	<u>3,204,220</u>
<b>Board-Designated Endowment Funds:</b>				
Diocesan Endowment Fund to Support Diocese	1,377,699	-	-	1,377,699
Mary Bill Fund to Support Missionary Expansion and Evangelism	231,601	-	-	231,601
Total board-designated endowment funds	<u>1,609,300</u>	<u>-</u>	<u>-</u>	<u>1,609,300</u>
<b>Total Donor-Restricted Endowment Funds and Board-Designated Endowment Funds</b>	<b><u>\$ 1,609,300</u></b>	<b><u>\$ 600,310</u></b>	<b><u>\$ 2,603,910</u></b>	<b><u>\$ 4,813,520</u></b>

# The Episcopal Diocese of San Diego

## Notes to Financial Statements

---

### Note 13 – Endowment Net Assets (continued)

Change in endowment net assets for the years ended December 31, 2017 and 2016 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 1, 2016	\$ 1,582,037	\$ 559,080	\$ 2,367,985	\$ 4,509,102
Contributions	-	-	200,267	200,267
Investment return, net	102,036	153,133	40,161	295,330
Appropriation of endowment assets for expenditure	<u>(74,773)</u>	<u>(111,903)</u>	<u>(4,503)</u>	<u>(191,179)</u>
Endowment net assets, December 31, 2016	1,609,300	600,310	2,603,910	4,813,520
Contributions	43,952	-	147,482	191,434
Investment return, net	209,388	363,861	83,847	657,096
Appropriation of endowment assets for expenditure	<u>(62,322)</u>	<u>(88,626)</u>	<u>(21,924)</u>	<u>(172,872)</u>
Endowment net assets, December 31, 2017	<u>\$ 1,800,318</u>	<u>\$ 875,545</u>	<u>\$ 2,813,315</u>	<u>\$ 5,489,178</u>

### Note 14 – Retirement Plans

**403(b) retirement plan** – The Diocese offers eligible lay staff employees the opportunity for participation in a 403(b) retirement plan (the “403(b) plan”). Employees may contribute to the 403(b) plan up to the maximum amount allowed by the Internal Revenue Code. The Diocese contributes 5 percent of employee compensation in addition to a matching contribution of up to 4 percent of compensation. The Diocese contributed \$45,860 and \$47,738 to the 403(b) plan for the years ended December 31, 2017 and 2016, respectively.

**Multi-employer plan (unaudited)** – The clergy of the Diocese participate in the Church Pension Fund of the Episcopal Church USA (the “Plan”), a multi-employer pension plan. The risks of participating in multi-employer plans are different from single-employer plans in the following respects:

- Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers.
- If a participating employer stops contributing to the multi-employer plan, the unfunded obligations of the plan may become the responsibility of the remaining participating employers.
- If the Diocese chooses to stop participating in the multi-employer plan, the Diocese may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The Church Pension Group is the Plan administrator of the Church Pension Fund, a multi-employer pension plan. The Diocese is one of the participating members registered under the Employer Identification Number of 95-2861286. The Plan is a “church plan” within the meaning of Internal Revenue Code section 414(e), and the Plan administrator has never made an election under Internal Revenue Code section 401(d) to be treated as a “non-church plan.” As a result, the Plan is not required to annually certify the funded status of the plan. As of March 31, 2017, the Plan’s fiscal year end, the Plan’s financial statements disclose net assets available for pension benefits after amount designated for assessment deficiency of \$9,287,173,000 and the actuarial present value of accumulated plan benefit obligations of \$6,502,134,000. As a result, the plan’s funding position is a net surplus of \$2,785,039,000. Contributions are mandated as 18 percent of all clergy compensation. The Diocese contributed \$63,798 and \$66,775 for clergy pensions for the years ended December 31, 2017 and 2016, respectively.

## The Episcopal Diocese of San Diego Notes to Financial Statements

---

### Note 15 – Mission Property

The Diocese holds title to certain mission properties as trustee for the missions. These properties are not included in the accompanying financial statements.

The approximate historical cost (unaudited) of these mission properties is as follows at December 31:

	2017	2016
St. Columba's, Santee	\$ 300,000	\$ 300,000
St. Mary's in the Valley, Ramona	300,000	300,000
St. Hugh's, Idyllwild	90,000	90,000
St. Stephen's, Menifee	50,000	50,000
St. Andrew's by-the-Lake, Lake Elsinore	47,000	47,000
All Saints, Brawley	27,000	27,000
St. Anthony of-the-Desert, Desert Hot Springs	25,000	25,000
	<hr/>	<hr/>
Total property for Missions	\$ 839,000	\$ 839,000

### Note 16 – Litigation

Legal claims and lawsuits arise from time to time in the normal course of business. The Diocese's management and legal counsel estimate that the potential claims against the Diocese not covered by insurance, resulting from such litigation would not materially affect the operations or financial condition of the Diocese.

### Note 17 – Subsequent Events

Subsequent events are events or transactions that occur after the statement of financial position date, but before the financial statements are issued. The Diocese recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. The Diocese financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position, but arose after the statement of financial position date and before the financial statements are available to be issued.

The Diocese has evaluated subsequent events through June 21, 2018, which is the date the financial statements were available to be issued.

In a letter dated April 17, 2018, the Diocese of California informed the Diocese that it has reduced the distribution rate for the Fowler fund (see Note 10) in which we maintain a beneficiary interest from 5 percent to 4.25 percent (4.75 percent to 4 percent after administrative fees.)