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COURAGEOUS LOVE

THE EPISCOPAL DIOCESE OF SAN DIEGO

FINANCIAL STATEMENTS

DECEMBER 31, 2020 and 2019



Leaf & Cole, LLP
Certified Public Accountants
A Partnership of Professional Corporations

**THE EPISCOPAL DIOCESE OF SAN DIEGO
FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

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Independent Auditor's Report

To 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, 2020 and 2019, and the related statements of activities, functional expenses 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.

Auditor's 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 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.

To the Board of Directors
The Episcopal Diocese of San Diego

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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, 2020 and 2019, and the changes 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.

Leaf & Cole LLP

San Diego, California
October 18, 2021

THE EPISCOPAL DIOCESE OF SAN DIEGO
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2020 AND 2019

ASSETS

	<u>2020</u>	<u>2019</u>
<u>Assets:</u> (Notes 2 and 4 to 12)		
Cash and cash equivalents	\$ 1,004,057	\$ 1,646,334
Accounts receivable	54,784	6,684
Investments	7,140,847	6,523,450
Contributions receivable, net	-	32,017
Prepaid expenses and deposits	58,126	32,814
Notes receivable, net	5,843,998	5,250,002
Charitable remainder unitrusts	177,186	170,035
Pooled income fund	9,455	8,824
Property and equipment, net	2,675,285	2,745,353
Property for Missions and Parishes	987,036	961,536
Beneficial interests in endowment funds	584,744	529,898
	<u>584,744</u>	<u>529,898</u>
TOTAL ASSETS	\$ <u>18,535,518</u>	\$ <u>17,906,947</u>

LIABILITIES AND NET ASSETS

<u>Liabilities:</u> (Note 2)		
Accounts payable and accrued expenses	\$ 202,596	\$ 128,083
Other liabilities	40,392	56,987
Total Liabilities	<u>242,988</u>	<u>185,070</u>
<u>Commitments and Contingency</u> (Note 16)		
<u>Net Assets:</u> (Notes 2, 13, 14 and 15)		
Without Donor Restrictions:		
Undesignated	9,567,070	9,975,703
Board designated funds	1,991,948	1,374,462
Board designated endowment	2,214,528	2,044,153
Total Without Donor Restrictions	<u>13,773,546</u>	<u>13,394,318</u>
With Donor Restrictions:		
Purpose restrictions	1,659,316	1,498,503
Time restrictions	21,596	54,191
Perpetual in nature	2,838,072	2,774,865
Total With Donor Restrictions	<u>4,518,984</u>	<u>4,327,559</u>
Total Net Assets	<u>18,292,530</u>	<u>17,721,877</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>18,535,518</u>	\$ <u>17,906,947</u>

The accompanying notes are an integral part of the financial statements.

THE EPISCOPAL DIOCESE OF SAN DIEGO
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<u>Revenue and Support:</u>						
Mission giving	\$ 1,640,425	\$ -	\$ 1,640,425	\$ 1,658,162	\$ -	\$ 1,658,162
Contributions	616,312	263,266	879,578	209,518	42,122	251,640
Conferences and conventions	38,663	-	38,663	55,709	-	55,709
Other Income	33,289	-	33,289	28,565	5,616	34,181
Net assets released from restrictions, net of transfers	459,421	(459,421)	-	84,902	(84,902)	-
Total Revenue and Support	<u>2,788,110</u>	<u>(196,155)</u>	<u>2,591,955</u>	<u>2,036,856</u>	<u>(37,164)</u>	<u>1,999,692</u>
<u>Expenses:</u>						
Program Expenses:						
Clergy and Congregation Support	1,050,596	-	1,050,596	567,257	-	567,257
Bishop's Office and Episcopal Church Center	589,891	-	589,891	861,721	-	861,721
Diocesan Programs and Ministries	413,216	-	413,216	495,313	-	495,313
Church Beyond the Diocese	358,749	-	358,749	355,740	-	355,740
Total Program Expenses	<u>2,412,452</u>	<u>-</u>	<u>2,412,452</u>	<u>2,280,031</u>	<u>-</u>	<u>2,280,031</u>
Supporting Services:						
Administration and governance	462,962	-	462,962	454,634	-	454,634
Fundraising	67,991	-	67,991	117,343	-	117,343
Total Supporting Services	<u>530,953</u>	<u>-</u>	<u>530,953</u>	<u>571,977</u>	<u>-</u>	<u>571,977</u>
Total Expenses	<u>2,943,405</u>	<u>-</u>	<u>2,943,405</u>	<u>2,852,008</u>	<u>-</u>	<u>2,852,008</u>
Change in Net Assets Before Other Loss	<u>(155,295)</u>	<u>(196,155)</u>	<u>(351,450)</u>	<u>(815,152)</u>	<u>(37,164)</u>	<u>(852,316)</u>
<u>Other Income:</u>						
Investment income, net	440,212	387,580	827,792	657,176	603,313	1,260,489
Gain on sale of property	94,311	-	94,311	119,411	-	119,411
Total Other Income	<u>534,523</u>	<u>387,580</u>	<u>922,103</u>	<u>776,587</u>	<u>603,313</u>	<u>1,379,900</u>
Change in Net Assets	379,228	191,425	570,653	(38,565)	566,149	527,584
Net Assets at Beginning of Year	<u>13,394,318</u>	<u>4,327,559</u>	<u>17,721,877</u>	<u>13,432,883</u>	<u>3,761,410</u>	<u>17,194,293</u>
NET ASSETS AT END OF YEAR	<u>\$ 13,773,546</u>	<u>\$ 4,518,984</u>	<u>\$ 18,292,530</u>	<u>\$ 13,394,318</u>	<u>\$ 4,327,559</u>	<u>\$ 17,721,877</u>

The accompanying notes are an integral part of the financial statements.

**THE EPISCOPAL DIOCESE OF SAN DIEGO
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2020**

	Program Expenses					Supporting Services			
	Clergy and Congregation Support	Bishop's Office and Episcopal Church Center	Diocesan Programs and Ministries	Church Beyond the Diocese	Total Program Expenses	Administration and Governance	Fundraising	Total Supporting Services	Total
<u>Salaries and Related Expenses:</u>									
Salaries and wages	\$ 240,522	\$ 291,043	\$ 215,447	\$ 22,984	\$ 769,996	\$ 109,838	\$ 38,596	\$ 148,434	\$ 918,430
Payroll taxes	10,430	10,210	8,718	1,099	30,457	5,742	1,845	7,587	38,044
Employee benefits	52,891	72,306	42,128	6,365	173,690	37,425	11,167	48,592	222,282
Total Salaries and Related Expenses	<u>303,843</u>	<u>373,559</u>	<u>266,293</u>	<u>30,448</u>	<u>974,143</u>	<u>153,005</u>	<u>51,608</u>	<u>204,613</u>	<u>1,178,756</u>
<u>Nonsalary Related Expenses:</u>									
Communications	-	4,048	-	-	4,048	9,442	-	9,442	13,490
Congregational services	549,332	-	86,093	22,800	658,225	-	-	-	658,225
Contract services	47,745	24,561	30,805	-	103,111	252,597	3,992	256,589	359,700
Copying, printing and postage	-	11,866	-	-	11,866	-	2,739	2,739	14,605
Depreciation	-	100,385	14,852	-	115,237	-	-	-	115,237
Insurance	4,195	9,742	250	-	14,187	8,189	-	8,189	22,376
Miscellaneous	107,948	-	-	503	108,451	5,642	-	5,642	114,093
Property expenses	10,932	35,536	1,917	-	48,385	-	-	-	48,385
Supplies	3,755	9,780	3,328	-	16,863	8,377	5,989	14,366	31,229
TEC/Province VIII Assessment	-	-	-	301,556	301,556	-	-	-	301,556
Telephone and IT	-	9,697	498	-	10,195	12,783	3,663	16,446	26,641
Travel	22,846	10,717	9,180	3,442	46,185	12,927	-	12,927	59,112
Total Nonsalary Related Expenses	<u>746,753</u>	<u>216,332</u>	<u>146,923</u>	<u>328,301</u>	<u>1,438,309</u>	<u>309,957</u>	<u>16,383</u>	<u>326,340</u>	<u>1,764,649</u>
Total Expenses	<u>\$ 1,050,596</u>	<u>\$ 589,891</u>	<u>\$ 413,216</u>	<u>\$ 358,749</u>	<u>\$ 2,412,452</u>	<u>\$ 462,962</u>	<u>\$ 67,991</u>	<u>\$ 530,953</u>	<u>\$ 2,943,405</u>

The accompanying notes are an integral part of the financial statements.

**THE EPISCOPAL DIOCESE OF SAN DIEGO
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Program Expenses					Supporting Services			
	Bishop's Office and Episcopal Church Center	Clergy and Congregation Support	Diocesan Programs and Ministries	Church Beyond the Diocese	Total Program Expenses	Administration and Governance	Fundraising	Total Supporting Services	Total
<u>Salaries and Related Expenses:</u>									
Salaries and wages	\$ 320,532	\$ 162,950	\$ 170,594	\$ 26,714	\$ 680,790	\$ 127,383	\$ 35,644	\$ 163,027	\$ 843,817
Payroll taxes	9,466	5,185	5,048	1,053	20,752	5,020	1,404	6,424	27,176
Employee benefits	66,203	47,531	40,024	4,865	158,623	31,063	11,631	42,694	201,317
Total Salaries and Related Expenses	<u>396,201</u>	<u>215,666</u>	<u>215,666</u>	<u>32,632</u>	<u>860,165</u>	<u>163,466</u>	<u>48,679</u>	<u>212,145</u>	<u>1,072,310</u>
<u>Nonsalary Related Expenses:</u>									
Communications	4,124	-	-	-	4,124	9,238	3,028	12,266	16,390
Congregational services	601	268,082	114,039	6,575	389,297	-	-	-	389,297
Contract services	77,355	43,734	37,129	-	158,218	206,606	14,773	221,379	379,597
Copying, printing and postage	35,175	-	20	-	35,195	26	12,876	12,902	48,097
Depreciation	94,634	-	28,472	-	123,106	4,595	-	4,595	127,701
Insurance	8,778	1,014	3,789	1,300	14,881	10,904	-	10,904	25,785
Miscellaneous	1,706	-	23,200	-	24,906	9,273	28,285	37,558	62,464
Property expenses	77,774	11,289	4,126	-	93,189	-	-	-	93,189
Supplies	41,682	1,305	20,858	-	63,845	11,749	4,119	15,868	79,713
TEC/Province VIII Assessment	-	-	-	307,419	307,419	-	-	-	307,419
Telephone and IT	9,744	-	333	-	10,077	8,371	1,016	9,387	19,464
Travel	113,947	26,167	47,681	7,814	195,609	30,406	4,567	34,973	230,582
Total Nonsalary Related Expenses	<u>465,520</u>	<u>351,591</u>	<u>279,647</u>	<u>323,108</u>	<u>1,419,866</u>	<u>291,168</u>	<u>68,664</u>	<u>359,832</u>	<u>1,779,698</u>
Total Expenses	<u>\$ 861,721</u>	<u>\$ 567,257</u>	<u>\$ 495,313</u>	<u>\$ 355,740</u>	<u>\$ 2,280,031</u>	<u>\$ 454,634</u>	<u>\$ 117,343</u>	<u>\$ 571,977</u>	<u>\$ 2,852,008</u>

The accompanying notes are an integral part of the financial statements.

THE EPISCOPAL DIOCESE OF SAN DIEGO
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
<u>Cash Flows From Operating Activities:</u>		
Change in net assets	\$ 570,653	\$ 527,584
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	115,237	127,701
Net realized and unrealized gain on investments	(231,179)	(392,918)
Gain on sale of property, net	(94,311)	(119,411)
Change in value of charitable remainder unitrust	(7,151)	(17,405)
Change in value of pooled income fund	(631)	(976)
Endowment contributions	-	(200)
Endowment investment income	(86,639)	(94,960)
Endowment distributions	23,433	12,705
(Increase) Decrease in:		
Accounts receivable	(48,100)	530
Prepaid expenses and deposits	(25,312)	(8,888)
Contributions receivable, net	32,017	26,330
Increase (Decrease) in:		
Accounts payable and accrued expenses	74,513	42,838
Net Cash Provided by Operating Activities	<u>322,530</u>	<u>102,930</u>
<u>Cash Flows From Investing Activities:</u>		
Purchase of investments, net	(386,218)	(521,814)
Advances of notes receivable	(600,000)	(26,500)
Repayments of notes receivable	100,315	182,379
Proceeds from sale of property	-	316,542
Purchases of property and equipment	(45,169)	(33,454)
Payments for other assets	(25,500)	(20,000)
Change in beneficial interest in endowment funds	(54,846)	(63,211)
Net Cash Used in Investing Activities	<u>(1,011,418)</u>	<u>(166,058)</u>
<u>Cash Flows From Financing Activities:</u>		
Payments of other liabilities	(16,595)	(3,337)
Payments on notes payable	-	(75,363)
Endowment contributions	-	200
Endowment investment income	86,639	94,960
Endowment distributions	(23,433)	(12,705)
Net Cash Provided by Financing Activities	<u>46,611</u>	<u>3,755</u>
Net Decrease in Cash and Cash Equivalents	(642,277)	(59,373)
Cash and Cash Equivalents at Beginning of Year	<u>1,646,334</u>	<u>1,705,707</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 1,004,057</u></u>	<u><u>\$ 1,646,334</u></u>
<u>Supplemental Disclosure of Cash Flow Information:</u>		
Interest paid	<u><u>\$ -</u></u>	<u><u>\$ 2,164</u></u>

The accompanying notes are an integral part of the financial statements.

**THE EPISCOPAL DIOCESE OF SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

Note 1 - Organization:

The Episcopal Diocese of San Diego (the “Diocese”) was organized in December 1973, as a nonprofit corporation, to acquire, hold, manage and administer property and funds of the Diocese and its constituents, parishes, missions and congregations. The Diocese conducts ministerial programs of its own through the office of the bishop, support to individual congregations and clergy members, administrative support for diocesan programs and ministries at the congregational level, and support of the wider Church beyond the diocese. The Episcopal churches under its jurisdiction are located throughout San Diego and Imperial Counties, California and in a portion of Riverside County, California, and Yuma County, Arizona. The Diocese is subject to the Constitution and Canons of the Episcopal Church and the Constitution and Canons of The Episcopal Diocese of San Diego.

The Diocese provided the following program services:

Bishop’s Office and Episcopal Church Center

The office of the Bishop is physically located at the Episcopal Church Center (ECC). The majority of the Bishop’s staff operates from this building and handles such areas as communication, finance, investments, property, governance, development, diocesan-wide program administration and other support staff for the Bishop. The upkeep of the ECC is included in this area and the ECC is host to various diocesan and community groups. These groups provide meals and services to the homeless and disadvantaged, weekly Episcopal worship services, and a non-Episcopal congregation.

Clergy and Congregation Support

The Diocese provides direct support to its clergy and congregations. Clergy programs include support for retirees, educational and wellness activities, mentoring and sabbatical activities. Congregations are supported through grants and loans for operations, as well as property and new initiatives.

Diocesan Programs and Ministries

The Diocese provides support for programs and ministries that affect more than one congregation. These include youth and prison ministries, formation of lay members, discernment for those considering the ordained priesthood as well as their formal education and ecumenical relations.

Church Beyond the Diocese

As part of The Episcopal Church (TEC), the Diocese contributes financially to the ministries of the wider church. Similarly, it belongs to Province VIII of TEC and sends contributions to that body as well. Support is provided for the Bishop’s participation in various activities associated with TEC and the Anglican Communion.

THE EPISCOPAL DIOCESE OF SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

Note 2 - Significant Accounting Policies:

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, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes thereon are classified and reported as follows:

- Net Assets Without Donor Restrictions - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions a board-designated endowment.
- Net Assets With Donor Restrictions - Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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 statement of financial position.

THE EPISCOPAL DIOCESE OF SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

Note 2 - Significant Accounting Policies: (Continued)

Fair Value Measurements

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.
- Level 3 inputs are unobservable inputs for the investment.

The Diocese's statements 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 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.
- Investments held at Episcopal Church Foundation 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, Episcopal Church Foundation, since these funds are valued by the fund manager and are not traded in an active market.
- Beneficial interest 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 and the life expectancy of the donor.
- Beneficial interests in endowment funds are considered Level 3 assets and are reported at fair value based the fair value of the underlying assets as provided by the fund manager.

Allowance for Doubtful Accounts

Bad debts are recognized on the allowance method based on historical experience and management's evaluation of outstanding accounts receivable and contributions receivable. Management believes that all accounts receivable were fully collectible; therefore, no allowance for doubtful accounts receivable was recorded at December 31, 2020 and 2019. The allowance for doubtful contributions receivable totaled \$-0- and \$15,115 at December 31, 2020 and 2019, respectively.

THE EPISCOPAL DIOCESE OF SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

Note 2 - Significant Accounting Policies: (Continued)

Notes Receivable

The Diocese has made loans to various parishes and missions for the acquisition, expansion or repair of real property. 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 allowance for doubtful notes receivable totaled \$-0- and \$94,311 at December 31, 2020 and 2019, respectively.

Capitalization and Depreciation

The Dioceses capitalizes all expenditures in excess of \$5,000 for property and equipment at cost, while donations of property and equipment are recorded at their estimated fair values. Such donations are reported as support without donor restrictions 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 support with donor restrictions. Absent donor stipulations regarding how those 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 net assets with donor restrictions to net assets without donor restrictions at that time. Property and equipment is depreciated using the straight-line method over the estimated useful asset lives as follows:

Buildings and improvements	7 - 30 years
Equipment	3 - 7 years
Vehicles	5 - 7 years

Depreciation totaled \$115,237 and \$127,701 for the years ended December 31, 2020 and 2019, respectively.

Maintenance and repairs are charged to operations as incurred. Upon sale or disposition of property or equipment, the asset account is reduced by the cost and the accumulated depreciation account is reduced by the depreciation taken prior to the sale. Any resultant gain or loss is then recorded as income or expense.

Impairment of Real Estate

The Diocese reviews its investment in real estate 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 real estate to the estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of real estate exceeds the fair value of such property. There was no impairment loss recognized in 2020 and 2019.

Compensated Absences

Accumulated unpaid vacation totaling \$42,811 and \$24,748 at December 31, 2020 and 2019, respectively, is accrued when incurred and included in accounts payable and accrued expenses.

THE EPISCOPAL DIOCESE OF SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

Note 2 - 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 net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions. Contributions to be received in future periods are discounted at an appropriate discount rate. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

Conference and Convention

Conference and convention income is recognized as revenue in the month the event occurs.

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 \$163,150 and \$123,278 for the years ended December 31, 2020 and 2019, respectively.

Functional Allocation of Expenses

The statement of functional expenses present expenses by function and natural classification. Expenses directly attributable to a specific functional area are reported as expenses of those functional areas. A portion of expenses that benefit multiple functional areas have been allocated between programs and supporting services based on a cost allocation plan that allocates costs primarily based on the proportion of full-time employee equivalents of a program or supporting service versus the total Diocese full-time employee equivalents.

Income Taxes

The Diocese has been designated as a tax-exempt entity by the Internal Revenue Service except to the extent of the unrelated business taxable income as defined under IRC Sections 511 through 515 and the California Franchise Tax Board under Sections 501(c)(3) and 23701(d), respectively. The Diocese had no unrelated business income; accordingly, no tax provision or benefit has been recorded in the financial statements. The Diocese believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

THE EPISCOPAL DIOCESE OF SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
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Note 2 - Significant Accounting Policies: (Continued)

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 and cash equivalents.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Diocese considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Subsequent Events

The Diocese's management has evaluated subsequent events and transactions for potential recognition or disclosure through October 18, 2021, which is the date the financial statements were available for issuance, and concluded that there were no events or transactions that needed to be disclosed.

THE EPISCOPAL DIOCESE OF SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

Note 3 - Liquidity and Availability:

The Diocese regularly monitors the availability of resources required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Diocese considers investment income without donor restrictions, appropriated earnings from donor-restricted endowments and board-designated endowments, contributions without donor restrictions and contributions with donor restrictions for use in current programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Diocese considers all expenditures related to its ongoing activities as well as the conduct of services undertaken to support those activities to be general expenditures.

The table below presents financial assets available for general expenditures within one year at December 31:

	<u>2020</u>	<u>2019</u>
Financial assets at year-end:		
Cash and cash equivalents	\$ 1,004,057	\$ 1,646,334
Accounts receivable	54,784	6,684
Investments	7,140,847	6,523,450
Contributions receivable, net	-	32,017
Total financial assets	<u>8,199,688</u>	<u>8,208,485</u>
Less assets unavailable for general expenditures:		
Cash and investments held for board-designated purposes	(4,206,476)	(3,418,615)
Cash and investments held for donor-specified purposes	(1,659,316)	(1,498,503)
Contributions receivable, net	-	(32,017)
Custodial funds	(29,274)	(29,274)
Donor-restricted endowment funds	<u>(2,253,328)</u>	<u>(2,244,967)</u>
Total financial assets not available to be used within one year	<u>(8,148,394)</u>	<u>(7,223,376)</u>
Financial assets available for general expenditures within one year	<u>\$ 51,294</u>	<u>\$ 985,109</u>

In addition to financial assets available to meet general expenditures over the next 12 months, the Diocese operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures.

The Diocese's governing board has designated a portion of its unrestricted resources for various purposes as described in Note 13. These amounts are not expected to be used within one year for general expenditures and have been included as a reduction in assets available for general expenditures in the table above. These may be spent at the discretion of the Board of Directors.

The Diocese's governing board has designated a portion of its unrestricted resources for endowment purposes. These funds are invested for long-term appreciation and current income but remain available and may be spent at the discretion of the Board of Directors. Appropriations of board-designated endowment fund earnings are made at the discretion of the Board of Directors.

Endowment funds consist of donor-restricted endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Appropriations of endowment fund earnings are made in accordance with the spending policy as described in Note 15. Donor-restricted endowment funds that must be held in perpetuity are not available for general expenditure.

THE EPISCOPAL DIOCESE OF SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

Note 4 - Fair Value Measurements:

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

	2020			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2020
Mutual and exchange traded funds	\$ 5,996,247	\$ -	\$ -	\$ 5,996,247
Episcopal Church Foundation	-	1,144,600	-	1,144,600
Charitable remainder unitrusts (Note 8)	-	-	177,186	177,186
Pooled income fund (Note 9)	-	-	9,455	9,455
Beneficial interests in endowment funds (Note 12)	-	-	584,744	584,744
	<u>\$ 5,996,247</u>	<u>\$ 1,144,600</u>	<u>\$ 771,385</u>	<u>\$ 7,912,232</u>
	2019			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2019
Mutual and exchange traded funds	\$ 5,463,191	\$ -	\$ -	\$ 5,463,191
Episcopal Church Foundation	-	1,060,259	-	1,060,259
Charitable remainder unitrusts (Note 8)	-	-	170,035	170,035
Pooled income fund (Note 9)	-	-	8,824	8,824
Beneficial interests in endowment funds (Note 12)	-	-	529,898	529,898
	<u>\$ 5,463,191</u>	<u>\$ 1,060,259</u>	<u>\$ 708,757</u>	<u>\$ 7,232,207</u>

The reconciliation for financial instruments measured at fair value on a recurring basis as significant unobservable inputs (Level 3) are included in the Notes as indicated above.

THE EPISCOPAL DIOCESE OF SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

Note 4 - Fair Value Measurements: (Continued)

The following table represents the Diocese's Level 3 financial instruments, the valuation techniques used to measure the fair value of those financial instruments, and the significant unobservable inputs and the range of values for those inputs for the year ended December 31:

2020				
Instrument	Fair Value	Principal Valuation Technique	Unobservable Inputs	Significant Input Values
Charitable remainder unitrusts	\$ 177,186	Present value of expected cash flows	Discount rate Payout rate	3.60% 6%-9%
Pooled income fund	\$ 9,455	Present value of expected cash flows	Discount rate	3.01%
Beneficial interest in endowment funds	\$ 584,744	Valuation of underlying assets as provided by fund manager	Base price	N/A
2019				
Instrument	Fair Value	Principal Valuation Technique	Unobservable Inputs	Significant Input Values
Charitable remainder unitrusts	\$ 170,035	Present value of expected cash flows	Discount rate Payout rate	3.60% 6%-9%
Pooled income fund	\$ 8,824	Present value of expected cash flows	Discount rate	3.01%
Beneficial interest in endowment funds	\$ 529,898	Valuation of underlying assets as provided by fund manager	Base price	N/A

Note 5 - Investments:

Investments consist of the following at December 31:

	2020	2019
Mutual and exchange traded funds	\$ 5,996,247	\$ 5,463,191
Episcopal Church Foundation	1,144,600	1,060,259
Total Investments	<u>\$ 7,140,847</u>	<u>\$ 6,523,450</u>

The investments held at Episcopal Church Foundation are held in an investment pool, which is structured for long-term, total return consisting of 45% domestic equities, 29% international equities, 24% fixed income, 1% real estate funds and 1% cash and cash equivalents.

THE EPISCOPAL DIOCESE OF SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

Note 5 - Investments: (Continued)

The following schedule summarizes the investment income and its classification in the statements of activities for the years ended December 31:

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Realized and unrealized gains on investments	\$ 231,179	\$ 353,105	\$ 584,284
Interest and dividend income	96,480	56,376	152,856
Investment fees	(21,432)	(21,901)	(43,333)
Interest income on notes receivable	133,985	-	133,985
Net Investment Income	<u>\$ 440,212</u>	<u>\$ 387,580</u>	<u>\$ 827,792</u>

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Realized and unrealized gains on investments	\$ 392,918	\$ 553,085	\$ 946,003
Interest and dividend income	113,702	71,774	185,476
Investment fees	(17,078)	(21,546)	(38,624)
Interest income on notes receivable	167,634	-	167,634
Net Investment Income	<u>\$ 657,176</u>	<u>\$ 603,313</u>	<u>\$ 1,260,489</u>

Note 6 - Contributions Receivable:

Contributions receivable consist of the following at December 31:

	2020	2019
Current:		
Receivables due in less than one year	\$ -	\$ 43,132
Less: Allowance for doubtful accounts	-	(15,115)
Total Current, Net	<u>-</u>	<u>28,017</u>
Noncurrent:		
Receivables due in one to five years	-	4,000
Total Noncurrent, Net	<u>-</u>	<u>4,000</u>
Contributions Receivable, Net	<u>\$ -</u>	<u>\$ 32,017</u>

The contributions receivable have been discounted to their present value using a discount rate of 5% at December 31, 2019.

THE EPISCOPAL DIOCESE OF SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

Note 7 - Notes Receivable:

Notes receivable consist of the following at December 31:

	<u>2020</u>	<u>2019</u>
Susan Snook and Thomas Snook, original principal of \$600,000, due upon the earlier of a “repayment event” as defined in the shared appreciation loan agreement or December 1, 2050, secured by deed of trust.	\$ 600,000	\$ -
E. Oros (Santa Rosa), original principal \$70,000 interest at 5% per annum; principal and interest payable in monthly installments of \$1,353 beginning December 2017; due November 2022.	28,223	42,908
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
Clergy note receivable, original principal of \$9,642; interest at 4% per annum; principal and interest payable in monthly installments of \$178 from January 2015 through March 2022; secured.	1,870	1,983
<u>From Episcopal Churches</u>		
St. Thomas, Temecula, original principal of \$3,071,000; refinanced in 2016 to an interest rate of 5% per annum; principal and interest payable in monthly installments of \$10,355 through September 2023; secured by a deed of trust.	1,828,314	1,831,039
St. John’s, Chula Vista, original principal of \$399,841; amended and restated in December 2017; principal of \$1,287,164; interest at 5%, principal and interest payable in monthly installments of \$11,905 through January 2030; secured by deed of trust.	1,078,582	1,129,604
St. Thomas, Temecula, Secondary Note, original principal of \$551,212; non-interest bearing; due September 2023.	878,777	848,778
St. Timothy’s, San Diego, original principal of \$688,209; non-interest bearing; due July 2026.	688,209	688,209
St. Timothy’s, San Diego, original principal of \$700,000; refinanced in 2016 to an interest rate of 5% per annum; principal and interest payable in monthly installments of \$5,661 through September 2026.	341,525	388,488
St. Mark’s, original principal of \$353,000; interest at 5.5% per annum; principal and interest payable in monthly installments of \$1,775 (modified on March 1, 2019 to \$200 and no interest through October 31, 2020) through September 2025; secured by a deed of trust.	290,642	294,692

(Continued)

THE EPISCOPAL DIOCESE OF SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

Note 7 - Notes Receivable: (Continued)

	<u>2020</u>	<u>2019</u>
St. Columba's, Santee, original principal of \$145,000; interest at 4.15% per annum; principal and interest payable in monthly installments of \$968 through September 2024.	\$ 87,375	\$ 88,610
St. John's, Indio, original principal of \$26,500; interest at 5.00% per annum; principal and interest payable in monthly installments of \$500 through September 2022	20,481	25,326
Total Notes Receivable	5,843,998	5,344,313
Less: Allowance for doubtful notes receivable	-	(94,311)
Notes Receivable, Net	<u>\$ 5,843,998</u>	<u>\$ 5,250,002</u>

Note 8 - Charitable Remainder Unitrusts:

The Diocese has been named as the remainder beneficiary of charitable remainder unitrusts (the "Trusts") 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 assets held in the Trusts totaling \$331,986 and \$327,460 at December 31, 2020 and 2019, respectively, have been discounted to their present values of the remainder interest using discount rate of 3.60% at each of the years ended December 31, 2020 and 2019. The activity of the charitable remainder unitrusts consisted of the following for the years ended December 31:

	<u>2020</u>	<u>2019</u>
Balance at Beginning of Year	\$ 170,035	\$ 152,630
Change in discount and fair value	7,151	17,405
Balance at End of Year	<u>\$ 177,186</u>	<u>\$ 170,035</u>

Note 9 - Pooled Income Fund:

The Diocese's Pooled Income Fund is held in a Trust 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 3.01% at each of the years ended December 31, 2020 and 2019. The activity of the pooled income fund consisted of the following for the years ended December 31:

	<u>2020</u>	<u>2019</u>
Balance at Beginning of Year	\$ 8,824	\$ 7,848
Change in discount and fair value	631	976
Balance at End of Year	<u>\$ 9,455</u>	<u>\$ 8,824</u>

THE EPISCOPAL DIOCESE OF SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
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Note 10 - Property and Equipment:

Property and equipment consist of the following at December 31:

	<u>2020</u>	<u>2019</u>
Land	\$ 680,678	\$ 680,678
Buildings and improvements	2,805,602	2,760,433
Equipment	89,993	89,993
Vehicles	152,142	152,142
Subtotal	<u>3,728,415</u>	<u>3,683,246</u>
Less: Accumulated depreciation	<u>(1,053,130)</u>	<u>(937,893)</u>
Property and Equipment, Net	<u>\$ 2,675,285</u>	<u>\$ 2,745,353</u>

Note 11 - 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:

	<u>2020</u>	<u>2019</u>
St. Timothy's, San Diego - Land, building and construction costs, net of notes receivable	\$ 469,577	\$ 469,577
Grace Church, San Marcos - Land	185,378	185,378
St. Albans, El Cajon - Land	105,014	105,014
St. Luke's, San Diego - Improvements	82,427	80,928
St. Andrew's By-The-Lake, Lake Elsinore - Vicarage	70,378	70,378
St. Hugh of Lincoln, Idyllwild - Improvements	30,000	20,000
St. Stephen's, Menifee - Improvements	21,402	21,402
St. Columba, Santee - construction costs	14,000	-
St. Mary's, Ramona - Improvements	8,860	8,859
Total Property for Missions and Parishes	<u>\$ 987,036</u>	<u>\$ 961,536</u>

Note 12 - 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:

	<u>2020</u>	<u>2019</u>
Balance at Beginning of Year	\$ 529,898	\$ 466,687
Distributions to the Diocese	(23,433)	(12,705)
Investment income	78,279	75,916
Balance at End of Year	<u>\$ 584,744</u>	<u>\$ 529,898</u>

THE EPISCOPAL DIOCESE OF SAN DIEGO
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DECEMBER 31, 2020 AND 2019

Note 13 - Board-Designated Funds:

The Diocese's governing board has designated a portion of its resources without donor restrictions for various purposes as follows at December 31:

	<u>2020</u>	<u>2019</u>
Operating Reserve	\$ 669,006	\$ 589,840
Bishop's Housing	646,000	646,000
Missional Opportunities	344,412	-
COVID-19	173,796	-
Embracing the Flock	64,075	-
Property Reserve	59,550	61,550
ECC Replacement Reserve	22,010	59,680
St. David's Truth & Rec. Work	13,099	13,099
Imperial County Ministry	-	2,211
Holy Cross Lease Support	-	2,082
Total Board-Designated Funds	<u>\$ 1,991,948</u>	<u>\$ 1,374,462</u>

Note 14 - Net Assets With Donor Restrictions:

Net assets with donor restrictions consist of the following at December 31:

	<u>2020</u>	<u>2019</u>
Subject to Expenditure for Specified Purpose:		
Unappropriated Endowment Earnings:		
Episcopate	\$ 552,656	\$ 528,114
Miller	390,206	300,861
Capital campaign for clergy mentoring or parish loans	135,417	102,627
White-Perkins	51,354	70,248
Clergy mentoring	34,260	26,491
Bishop Gooden	24,703	23,551
Gutsch	18,770	15,852
Missionary	11,775	11,041
Roddis	10,871	8,633
Parish loan program	10,350	8,137
Alice Manning	3,409	3,242
Crosby-Miller	2,884	2,745
Total Unappropriated Endowment Earnings	<u>1,246,655</u>	<u>1,101,542</u>

(Continued)

THE EPISCOPAL DIOCESE OF SAN DIEGO
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Note 14 - Net Assets With Donor Restrictions: (Continued)

	<u>2020</u>	<u>2019</u>
Subject to Expenditure for Specified Purpose: (Continued)		
Purpose restricted funds:		
All Saints Cemetery	\$ 68,280	\$ 62,304
Howe Donation for Clergy Mentorship	68,280	62,304
Bishop's Pastoral Needs Fund	53,016	68,675
For Such a Time as This	46,374	-
Jesus Revival Ministry	42,064	-
Farewell Initiative	20,962	19,127
North County Mobile Showers Ministry	17,104	81,855
Campus Ministries	15,000	-
Youth Ministries	12,218	-
Episcopal Church Center Ministries	12,022	10,980
Sabbatical Fund for Clergy Sabbaticals	10,800	10,800
Mobile Showers Ministry	9,280	15,060
Church Organ Purchase	7,559	7,559
School for Ministry Scholarship	6,592	6,592
Fowler Memorial Scholarship	5,785	5,785
Nicholson Memorial for Maintenance of Trinity Chapel Organ	5,688	5,688
Fowler Youth Renewal Scholarship	3,886	3,886
Mission to Seafarers	2,000	2,000
Deaf Ministries	1,564	1,564
Prison Ministries	1,180	1,180
Martha Burton Music Fund	1,136	1,136
Happening Support	949	2,460
Graves Memorial for Trinity Chapel Carillon	922	922
Congregational Revitalization Fund	-	13,211
School for Ministry	-	10,776
Disaster Relief	-	1,960
Carroll Center	-	846
Clergy Enrichment	-	291
Total Purpose Restricted Funds	<u>412,661</u>	<u>396,961</u>
Total Subject to Expenditure For Specified Purpose	<u>1,659,316</u>	<u>1,498,503</u>
Subject to the Passage of Time:		
Daly charitable remainder unitrust	12,141	13,350
Pooled income fund	9,455	8,824
Contributions receivable, net	-	32,017
Total Subject to the Passage of Time	<u>21,596</u>	<u>54,191</u>
Perpetual in Nature:		
Endowments (Note 15)	<u>2,838,072</u>	<u>2,774,865</u>
Total Net Assets with Donor Restrictions	<u><u>\$ 4,518,984</u></u>	<u><u>\$ 4,327,559</u></u>

THE EPISCOPAL DIOCESE OF SAN DIEGO
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Note 14 - Net Assets With Donor Restrictions: (Continued)

Net assets released from donor restrictions by incurring expenses satisfying the restricted purpose or by the occurrence of the passage of time or other events specified by the donors are as follows for the years ended December 31:

	<u>2020</u>	<u>2019</u>
Purpose Restrictions Accomplished:		
Endowment earnings	\$ 166,052	\$ 25,700
Outreach	125,460	-
Other, net of transfers	67,054	(50,429)
Bishops discretionary - assistance to congregation	21,311	23,801
School of ministry	13,637	-
Congregational revitalization	13,211	55,000
Shower of Blessings	12,394	-
Youth ministries	8,285	-
Music program	-	4,500
Time Restrictions Fulfilled:		
Contributions receivable, net	32,017	26,330
Total Net Assets Released from Restrictions	<u>\$ 459,421</u>	<u>\$ 84,902</u>

Note 15 - Endowment Net Assets:

The Diocese's endowment funds consist of fourteen individual funds established for a variety of purposes. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions. The Diocese manages twelve 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 donor-restricted net assets of a perpetual nature as (1) the original value of gifts donated to the permanent endowment (2) the original value of subsequent gifts donated to the permanent endowment (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 donor-restricted net assets of a perpetual nature is classified as donor-restricted net assets with time restrictions 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

THE EPISCOPAL DIOCESE OF SAN DIEGO
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Note 15 - Endowment Net Assets: (Continued)

The Diocese considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Diocese has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. The Diocese has no underwater endowment funds at December 31, 2020 and 2019.

The Diocese had 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 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 ranging from 4% to 5.5% of the average of 12 quarters prior, annually, subject to available earnings.

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.

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DECEMBER 31, 2020 AND 2019

Note 15 - Endowment Net Assets: (Continued)

EDC's spending policy is to disburse 5% annually, 4.25% to the Episcopal Diocese of San Diego, and .75% 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.

Endowment composition by type of fund at December 31:

	2020			
	Without Donor Restrictions	With Donor Restrictions – Earnings	With Donor Restrictions – Perpetual	Total
<u>Donor-Restricted Endowment Funds:</u>				
<u>Managed by Diocese:</u>				
Episcopate Endowment	\$ -	\$ 552,656	\$ 50,108	\$ 602,764
White-Perkins for Missions	-	51,354	231,643	282,997
Miller Endowment for Clergy Pension and Assistance	-	390,206	1,175,499	1,565,705
Capital Campaign	-	135,417	400,145	535,562
Bishop Gooden for Diocesan Missionary Work	-	24,703	3,590	28,293
Missionary Endowment for Diocesan Missionary Work	-	11,775	6,235	18,010
Clergy Mentoring for Funding of Curates	-	34,260	265,246	299,506
Roddis Endowment	-	10,871	38,634	49,505
Gutsch Endowment for Seminarian Support	-	18,770	53,000	71,770
Alice Manning Income for Upkeep of Manning Grave	-	3,409	665	4,074
Crosby-Miller Fund to Support St. Mathews and St. Andrews by the Lake Capital campaign for Clergy Mentoring or				
Parish Loans	-	2,884	564	3,448
Parish Loan Fund Corpus and Earning Available for Loans	-	10,350	28,000	38,350
<u>Held by Others:</u>				
Keating Fund for Church Extension Work	-	-	465,795	465,795
Fowler Fund to be used at Bishop and Board Direction	-	-	118,948	188,948
Total Donor-Restricted Endowment Funds	<u>-</u>	<u>1,246,655</u>	<u>2,838,072</u>	<u>4,084,727</u>
<u>Board-Designated Endowment Funds:</u>				
Diocesan Endowment Fund to Support Diocese	1,754,425	-	-	1,754,425
Mary Bill Fund to Support Missionary Expansion and Evangelism	298,936	-	-	298,936
Future Missions Endowment	161,167	-	-	161,167
Total Board-Designated Endowment Funds	<u>2,214,528</u>	<u>-</u>	<u>-</u>	<u>2,214,528</u>
Total Donor-Restricted Endowment Funds and Board-Designated Endowment Funds	<u>\$ 2,214,528</u>	<u>\$ 1,246,655</u>	<u>\$ 2,838,072</u>	<u>\$ 6,299,255</u>

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Note 15 - Endowment Net Assets: (Continued)

2019				
	Without Donor Restrictions	With Donor Restrictions – Earnings	With Donor Restrictions – Perpetual	Total
<u>Donor-Restricted Endowment Funds:</u>				
<u>Managed by Diocese:</u>				
Episcopate Endowment	\$ -	\$ 528,114	\$ 50,108	\$ 578,222
White-Perkins for Missions	-	70,248	231,643	301,891
Miller Endowment for Clergy Pension and Assistance	-	300,861	1,175,499	1,476,360
Capital Campaign	-	102,627	400,145	502,772
Bishop Gooden for Diocesan Missionary Work	-	23,551	3,590	27,141
Missionary Endowment for Diocesan Missionary Work	-	11,041	6,235	17,276
Clergy Mentoring for Funding of Curates	-	26,491	256,884	283,375
Roddis Endowment	-	8,633	38,634	47,267
Gutsch Endowment for Seminarian Support	-	15,852	53,000	68,852
Alice Manning Income for Upkeep of Manning Grave	-	3,242	665	3,907
Crosby-Miller Fund to Support St. Mathews and St. Andrews by the Lake Capital campaign for Clergy Mentoring or Parish Loans	-	2,745	564	3,309
Parish Loan Fund Corpus and Earning Available for Loans	-	8,137	28,000	36,137
<u>Held by Others:</u>				
Keating Fund for Church Extension Work	-	-	425,998	425,998
Fowler Fund to be used at Bishop and Board Direction	-	-	103,900	103,900
Total Donor-Restricted Endowment Funds	<u>-</u>	<u>1,101,542</u>	<u>2,774,865</u>	<u>3,876,407</u>
<u>Board-Designated Endowment Funds:</u>				
Diocesan Endowment Fund to Support Diocese	1,654,174	-	-	1,654,174
Mary Bill Fund to Support Missionary Expansion and Evangelism	281,818	-	-	281,818
Future Missions Endowment	108,161	-	-	108,161
Total Board-Designated Endowment Funds	<u>2,044,153</u>	<u>-</u>	<u>-</u>	<u>2,044,153</u>
Total Donor-Restricted Endowment Funds and Board- Designated Endowment Funds	<u>\$ 2,044,153</u>	<u>\$ 1,101,542</u>	<u>\$ 2,774,865</u>	<u>\$ 5,920,560</u>

Change in endowment net assets for the years ended December 31:

	Without Donor Restrictions	With Donor Restrictions – Earnings	With Donor Restrictions – Perpetual	Total
Endowment Net Assets at December 31, 2018	\$ 1,606,990	\$ 580,729	\$ 2,693,012	\$ 4,880,731
Contribution	-	-	200	200
Investment return	309,739	487,153	94,958	891,850
Transfer	127,424	46,055	-	173,479
Appropriation of endowment assets for expenditure	-	(12,395)	(13,305)	(25,700)
Endowment Net Assets at December 31, 2019	<u>2,044,153</u>	<u>1,101,542</u>	<u>2,774,865</u>	<u>5,920,560</u>
Investment return	200,249	289,777	84,595	574,621
Appropriation of endowment assets for expenditure	(29,874)	(144,664)	(21,388)	(195,926)
Endowment Net Assets at December 31, 2020	<u>\$ 2,214,528</u>	<u>\$ 1,246,655</u>	<u>\$ 2,838,072</u>	<u>\$ 6,299,255</u>

**THE EPISCOPAL DIOCESE OF SAN DIEGO
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Note 16 - Commitments and Contingency:

Retirement Plans

The Diocese participates in the following 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% of compensation. The Diocese contributed \$31,792 and \$27,809 to the 403(b) plan for the years ended December 31, 2020 and 2019, 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, 2020, 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 \$8,823,484,000 and the actuarial present value of accumulated plan benefit obligations of \$7,345,848,000. As a result, the plan’s funding position is a net surplus of \$1,477,636,000. Contributions are mandated as 18% of all clergy compensation.

The Diocese contributed \$78,806 and \$70,885 for clergy pensions for the years ended December 31, 2020 and 2019, respectively.

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Note 16 - Commitments and Contingency: (Continued)

Mission Properties:

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:

	<u>2020</u>	<u>2019</u>
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
	<u>\$ 814,000</u>	<u>\$ 814,000</u>

Payroll Protection Program Loan

In May 2020, the Diocese received a loan totaling \$337,400 from the U.S. Small Business Administration under the CARES Act Paycheck Protection Program ("PPP"). The loan is forgivable to the extent that the Diocese meets the terms and conditions of the PPP. Any portion of the loan that is not forgiven bears interest at 1% and is due in May 2022. The Diocese has recognized \$337,400 as revenue for the year ended December 31, 2020 due to loan forgiveness of the PPP loan being granted subsequent to year end.

Coronavirus Pandemic Contingency

The COVID-19 pandemic, whose effects first became known in January 2020, is having a broad and negative impact on commerce and financial markets around the world. The United States and global markets experienced significant declines in value resulting from uncertainty caused by the pandemic. The Diocese is closely monitoring its investment portfolio and its liquidity and is actively working to minimize the impact of these declines. The extent of the impact of COVID-19 on the Diocese's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and its impacts on the Diocese's missions, parishes, parishioners, donors, employees, and vendors, all of which at present cannot be determined. Accordingly, the extent to which COVID-19 may impact the Diocese's financial position and changes in net assets and cash flows is uncertain and the accompanying financial statements include no adjustments relating to the effects of this pandemic.