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COURAGEOUS LOVE

THE EPISCOPAL DIOCESE OF SAN DIEGO

FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020



Leaf & Cole, LLP

Certified Public Accountants

A Partnership of Professional Corporations

**THE EPISCOPAL DIOCESE OF SAN DIEGO
FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

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Independent Auditor's Report

To the Board of Directors
The Episcopal Diocese of San Diego

Opinion

We have audited the accompanying financial statements of the Episcopal Diocese of San Diego (a nonprofit organization), which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2021 and 2020, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Episcopal Diocese of San Diego, and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Episcopal Diocese of San Diego's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Episcopal Diocese of San Diego's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Episcopal Diocese of San Diego's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Leaf & Cole LLP

San Diego, California
September 10, 2022

THE EPISCOPAL DIOCESE OF SAN DIEGO
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2021 AND 2020

ASSETS

	<u>2021</u>	<u>2020</u>
<u>Assets:</u> (Notes 2 and 4 to 11)		
Cash and cash equivalents	\$ 908,758	\$ 1,004,057
Accounts receivable	90,956	54,784
Investments	8,170,626	7,140,847
Prepaid expenses and deposits	87,322	58,126
Notes receivable	5,771,132	5,843,998
Charitable remainder unitrusts	195,460	177,186
Pooled income fund	9,715	9,455
Property and equipment, net	2,597,540	2,675,285
Property for Missions and Parishes	987,036	987,036
Beneficial interests in endowment funds	622,603	584,744
	<u>19,441,148</u>	<u>18,535,518</u>
TOTAL ASSETS	\$ 19,441,148	\$ 18,535,518

LIABILITIES AND NET ASSETS

<u>Liabilities:</u> (Note 2)		
Accounts payable and accrued expenses	\$ 150,063	\$ 202,596
Other liabilities	87,457	40,392
Total Liabilities	<u>237,520</u>	<u>242,988</u>
<u>Commitments and Contingency</u> (Note 15)		
<u>Net Assets:</u> (Notes 2, 12, 13 and 14)		
Without Donor Restrictions:		
Undesignated	10,741,769	9,567,070
Board designated funds	1,015,144	1,991,948
Board designated endowment	2,469,261	2,214,528
Total Net Assets Without Donor Restrictions	<u>14,226,174</u>	<u>13,773,546</u>
With Donor Restrictions:		
Purpose restrictions	2,046,304	1,659,316
Time restrictions	21,269	21,596
Perpetual in nature	2,909,881	2,838,072
Total Net Assets With Donor Restrictions	<u>4,977,454</u>	<u>4,518,984</u>
Total Net Assets	<u>19,203,628</u>	<u>18,292,530</u>
TOTAL LIABILITIES AND NET ASSETS	\$ 19,441,148	\$ 18,535,518

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, 2021 AND 2020

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<u>Revenue and Support:</u>						
Mission giving	\$ 1,747,952	\$ -	\$ 1,747,952	\$ 1,640,425	\$ -	\$ 1,640,425
Contributions	554,962	158,426	713,388	616,312	263,266	879,578
Other Income	54,890	-	54,890	33,289	-	33,289
Conferences and conventions	25,372	-	25,372	38,663	-	38,663
Net assets released from restrictions, net of transfers	207,269	(207,269)	-	459,421	(459,421)	-
Total Revenue and Support	<u>2,590,445</u>	<u>(48,843)</u>	<u>2,541,602</u>	<u>2,788,110</u>	<u>(196,155)</u>	<u>2,591,955</u>
<u>Expenses:</u>						
Program Expenses:						
Episcopate and Bishop's Office	811,027	-	811,027	972,798	-	972,798
Stewardship	487,156	-	487,156	488,617	-	488,617
Leadership and Congregational Development	478,610	-	478,610	96,278	-	96,278
Evangelism, Discipleship and Service	393,191	-	393,191	966,246	-	966,246
Total Program Expenses	<u>2,169,984</u>	<u>-</u>	<u>2,169,984</u>	<u>2,523,939</u>	<u>-</u>	<u>2,523,939</u>
Supporting Services:						
Administration and governance	543,489	-	543,489	419,466	-	419,466
Fundraising	61,514	-	61,514	-	-	-
Total Supporting Services	<u>605,003</u>	<u>-</u>	<u>605,003</u>	<u>419,466</u>	<u>-</u>	<u>419,466</u>
Total Expenses	<u>2,774,987</u>	<u>-</u>	<u>2,774,987</u>	<u>2,943,405</u>	<u>-</u>	<u>2,943,405</u>
Change in Net Assets Before Other Loss	<u>(184,542)</u>	<u>(48,843)</u>	<u>(233,385)</u>	<u>(155,295)</u>	<u>(196,155)</u>	<u>(351,450)</u>
<u>Other Income:</u>						
Investment income, net	637,170	507,313	1,144,483	440,212	387,580	827,792
Gain on sale of property	-	-	-	94,311	-	94,311
Total Other Income	<u>637,170</u>	<u>507,313</u>	<u>1,144,483</u>	<u>534,523</u>	<u>387,580</u>	<u>922,103</u>
Change in Net Assets	452,628	458,470	911,098	379,228	191,425	570,653
Net Assets at Beginning 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>
NET ASSETS AT END OF YEAR	<u>\$ 14,226,174</u>	<u>\$ 4,977,454</u>	<u>\$ 19,203,628</u>	<u>\$ 13,773,546</u>	<u>\$ 4,518,984</u>	<u>\$ 18,292,530</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, 2021**

	Program Expenses					Supporting Services			
	Episcopate and Bishop's Office	Stewardship	Leadership and Congregational Development	Evangelism, Discipleship and Service	Total Program Expenses	Administration and Governance	Fundraising	Total Supporting Services	Total
Salaries and Related Expenses:									
Salaries and wages	\$ 285,179	\$ 104,354	\$ 99,978	\$ 194,372	\$ 683,883	\$ 113,723	\$ 46,902	\$ 160,625	\$ 844,508
Payroll taxes	11,200	6,641	-	16,562	34,403	5,429	-	5,429	39,832
Employee benefits	88,260	16,401	37,615	33,481	175,757	28,698	9,366	38,064	213,821
Total Salaries and Related Expenses	<u>384,639</u>	<u>127,396</u>	<u>137,593</u>	<u>244,415</u>	<u>894,043</u>	<u>147,850</u>	<u>56,268</u>	<u>204,118</u>	<u>1,098,161</u>
Nonsalary Related Expenses:									
Contract services	140,066	5,643	8,768	5,201	159,678	319,501	-	319,501	479,179
Copying, printing and postage	8,745	-	-	1,430	10,175	-	4,606	4,606	14,781
Depreciation	120,070	-	-	-	120,070	-	-	-	120,070
Facility and equipment	2,390	-	27	5,303	7,720	63,112	-	63,112	70,832
Grants and other support	56,174	340,293	316,891	100,161	813,519	-	-	-	813,519
Insurance	9,415	-	-	3,419	12,834	11,637	-	11,637	24,471
Other expenses	20,768	-	1,000	900	22,668	-	640	640	23,308
Supplies	18,252	12,007	791	5,942	36,992	-	-	-	36,992
Telephone and IT	35,527	1,323	200	13,098	50,148	1,389	-	1,389	51,537
Travel and meeting	14,981	494	13,340	13,322	42,137	-	-	-	42,137
Total Nonsalary Related Expenses	<u>426,388</u>	<u>359,760</u>	<u>341,017</u>	<u>148,776</u>	<u>1,275,941</u>	<u>395,639</u>	<u>5,246</u>	<u>400,885</u>	<u>1,676,826</u>
Total Expenses	<u>\$ 811,027</u>	<u>\$ 487,156</u>	<u>\$ 478,610</u>	<u>\$ 393,191</u>	<u>\$ 2,169,984</u>	<u>\$ 543,489</u>	<u>\$ 61,514</u>	<u>\$ 605,003</u>	<u>\$ 2,774,987</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			
	Episcopate and Bishop's Office	Stewardship	Leadership and Congregational Development	Evangelism, Discipleship and Service	Total Program Expenses	Administration and Governance	Fundraising	Total Supporting Services	Total
<u>Salaries and Related Expenses:</u>									
Salaries and wages	\$ 314,679	\$ 121,051	\$ 27,380	\$ 289,601	\$ 752,711	\$ 139,910	\$ -	\$ 139,910	\$ 892,621
Payroll taxes	33,253	-	-	-	33,253	4,790	-	4,790	38,043
Employee benefits	99,068	33,504	33,044	41,363	206,979	38,402	-	38,402	245,381
Total Salaries and Related Expenses	<u>447,000</u>	<u>154,555</u>	<u>60,424</u>	<u>330,964</u>	<u>992,943</u>	<u>183,102</u>	<u>-</u>	<u>183,102</u>	<u>1,176,045</u>
<u>Nonsalary Related Expenses:</u>									
Contract services	91,147	12,148	6,258	58,037	167,590	191,316	-	191,316	358,906
Copying, printing and postage	13,480	-	-	1,125	14,605	-	-	-	14,605
Depreciation	115,237	-	-	-	115,237	-	-	-	115,237
Facility and equipment	7,927	-	-	13,821	21,748	30,649	-	30,649	52,397
Grants and other support	120,493	310,306	5,000	523,982	959,781	-	-	-	959,781
Insurance	8,189	-	-	4,415	12,604	9,773	-	9,773	22,377
Other expenses	113,099	-	3,225	805	117,129	-	-	-	117,129
Supplies	8,762	9,560	2,499	10,408	31,229	-	-	-	31,229
Telephone and IT	25,140	498	-	5,819	31,457	4,626	-	4,626	36,083
Travel and meeting	22,324	1,550	18,872	16,870	59,616	-	-	-	59,616
Total Nonsalary Related Expenses	<u>525,798</u>	<u>334,062</u>	<u>35,854</u>	<u>635,282</u>	<u>1,530,996</u>	<u>236,364</u>	<u>-</u>	<u>236,364</u>	<u>1,767,360</u>
Total Expenses	<u>\$ 972,798</u>	<u>\$ 488,617</u>	<u>\$ 96,278</u>	<u>\$ 966,246</u>	<u>\$ 2,523,939</u>	<u>\$ 419,466</u>	<u>\$ -</u>	<u>\$ 419,466</u>	<u>\$ 2,943,405</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, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
<u>Cash Flows From Operating Activities:</u>		
Change in net assets	\$ 911,098	\$ 570,653
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	120,070	115,237
Net realized and unrealized gain on investments	(480,696)	(231,179)
Gain on sale of property, net	-	(94,311)
Change in value of charitable remainder unitrust	(18,274)	(7,151)
Change in value of pooled income fund	(260)	(631)
Endowment contributions	(15,087)	-
Endowment investment income	(79,446)	(86,639)
Endowment distributions	22,724	23,433
(Increase) Decrease in:		
Accounts receivable	(36,172)	(48,100)
Prepaid expenses and deposits	(29,196)	(25,312)
Contributions receivable, net	-	32,017
Increase (Decrease) in:		
Accounts payable and accrued expenses	(52,533)	74,513
Net Cash Provided by Operating Activities	<u>342,228</u>	<u>322,530</u>
<u>Cash Flows From Investing Activities:</u>		
Purchase of investments, net	(549,083)	(386,218)
Advances of notes receivable	(114,000)	(600,000)
Repayments of notes receivable	186,866	100,315
Purchases of property and equipment	(42,325)	(45,169)
Payments for other assets	-	(25,500)
Change in beneficial interest in endowment funds	(37,859)	(54,846)
Net Cash Used in Investing Activities	<u>(556,401)</u>	<u>(1,011,418)</u>
<u>Cash Flows From Financing Activities:</u>		
Proceeds from (payments) of other liabilities	47,065	(16,595)
Endowment contributions	15,087	-
Endowment investment income	79,446	86,639
Endowment distributions	(22,724)	(23,433)
Net Cash Provided by Financing Activities	<u>118,874</u>	<u>46,611</u>
Net Decrease in Cash and Cash Equivalents	(95,299)	(642,277)
Cash and Cash Equivalents at Beginning of Year	<u>1,004,057</u>	<u>1,646,334</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 908,758</u></u>	<u><u>\$ 1,004,057</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, 2021 AND 2020

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:

The Episcopate and Bishop’s Office

The Bishop (Episcopate) is the primary apostle, chief priest, and chief pastor of the diocese and responsible for guarding the faith, unity, and discipline of the whole Church. The bishop leads by fostering relationships with people and congregations throughout the diocese, traveling frequently across the region to preach, meet with local congregational leadership, and provide sacramental services. The bishop’s office includes administrative support for program administration for the diocese, information technology costs for the diocesan offices, and costs of governance including diocesan convention.

Stewardship

The Stewardship program group utilizes resources of the diocese to further the ministry and mission of the Church and is primarily administered by the Chief Financial Officer. The costs of this group include contributions to outside organizations (such as the Episcopal Church), maintenance of real estate investments, and the property maintenance of the diocesan Ocean Beach offices.

Leadership and Congregational Development

The Diocese provides support to congregations and clergy in the diocese. Primarily administered through the office of the Canon to the Ordinary, Congregations in Transition (who are between priests) are provided guidance and support as they seek new leadership. The diocese also provides grants to congregations to support mission, operation, and property needs. This program group also records costs of support to clergy leadership through support for the ordination process, pastoral care, retiree benefits, and educational and wellness activities.

Evangelism, Discipleship, and Service

Administered through the office of the Canon for Mission, this program area focuses on outreach and growth. The program group cultivates a sense of mission across congregations in the diocese that focus on developing deeper Christian spirituality for members and assisting members in reaching beyond current membership to spread the Good News of the Gospel. This includes Service and Advocacy programs such as Border and Refugee ministries, Advocacy ministries, and homeless ministries. Other ministries in this program group include Youth Ministry, Campus Ministry, and Armed Forces Ministry.

THE EPISCOPAL DIOCESE OF SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

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, 2021 AND 2020

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 and contributions receivable were fully collectible; therefore, no allowance for doubtful accounts receivable and contributions receivable was recorded at December 31, 2021 and 2020.

THE EPISCOPAL DIOCESE OF SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

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. Management believes that all notes receivable were fully collectible; therefore, no allowance for doubtful notes receivable was recorded at December 31, 2021 and 2020.

Capitalization and Depreciation

The Diocese 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 \$120,070 and \$115,237 for the years ended December 31, 2021 and 2020, 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 2021 and 2020.

Compensated Absences

Accumulated unpaid vacation totaling \$50,158 and \$42,811 at December 31, 2021 and 2020, 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, 2021 AND 2020

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 \$227,888 and \$163,150 for the years ended December 31, 2021 and 2020, 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
DECEMBER 31, 2021 AND 2020

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 September 10, 2022, 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, 2021 AND 2020

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>2021</u>	<u>2020</u>
Financial assets at year-end:		
Cash and cash equivalents	\$ 908,758	\$ 1,004,057
Accounts receivable	90,956	54,784
Investments	8,170,626	7,140,847
Total financial assets	<u>9,170,340</u>	<u>8,199,688</u>
Less assets unavailable for general expenditures:		
Cash and investments held for board-designated purposes	(3,484,405)	(4,206,476)
Cash and investments held for donor-specified purposes	(2,046,304)	(1,659,316)
Custodial funds	(18,274)	(29,274)
Donor-restricted endowment funds	(2,287,278)	(2,253,328)
Total financial assets not available to be used within one year	<u>(7,836,261)</u>	<u>(8,148,394)</u>
Financial assets available for general expenditures within one year	<u>\$ 1,334,079</u>	<u>\$ 51,294</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 12. 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 14. 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, 2021 AND 2020

Note 4 - Fair Value Measurements:

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

	2021			
	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, 2021
Mutual and exchange traded funds	\$ 6,863,630	\$ -	\$ -	\$ 6,863,630
Episcopal Church Foundation	-	1,306,996	-	1,306,996
Charitable remainder unitrusts (Note 7)	-	-	195,460	195,460
Pooled income fund (Note 8)	-	-	9,715	9,715
Beneficial interests in endowment funds (Note 11)	-	-	622,603	622,603
	<u>\$ 6,863,630</u>	<u>\$ 1,306,996</u>	<u>\$ 827,778</u>	<u>\$ 8,998,404</u>
	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 7)	-	-	177,186	177,186
Pooled income fund (Note 8)	-	-	9,455	9,455
Beneficial interests in endowment funds (Note 11)	-	-	584,744	584,744
	<u>\$ 5,996,247</u>	<u>\$ 1,144,600</u>	<u>\$ 771,385</u>	<u>\$ 7,912,232</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, 2021 AND 2020

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:

2021				
<u>Instrument</u>	<u>Fair Value</u>	<u>Principal Valuation Technique</u>	<u>Unobservable Inputs</u>	<u>Significant Input Values</u>
Charitable remainder unitrusts	\$ 195,460	Present value of expected cash flows	Discount rate Payout rate	3.60% 6%-9%
Pooled income fund	\$ 9,715	Present value of expected cash flows	Discount rate	2.74%
Beneficial interest in endowment funds	\$ 622,603	Valuation of underlying assets as provided by fund manager	Base price	N/A
2020				
<u>Instrument</u>	<u>Fair Value</u>	<u>Principal Valuation Technique</u>	<u>Unobservable Inputs</u>	<u>Significant Input Values</u>
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

Note 5 - Investments:

Investments consist of the following at December 31:

	<u>2021</u>	<u>2020</u>
Mutual and exchange traded funds	\$ 6,863,630	\$ 5,996,247
Episcopal Church Foundation	<u>1,306,996</u>	<u>1,144,600</u>
Total Investments	<u>\$ 8,170,626</u>	<u>\$ 7,140,847</u>

The investments held at Episcopal Church Foundation are held in an investment pool, which is structured for long-term, total return consisting of 36% domestic equities, 31% international equities, 21% fixed income, 8% real estate funds, and 4% cash and cash equivalents.

THE EPISCOPAL DIOCESE OF SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

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:

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Realized and unrealized gains on investments	\$ 480,696	\$ 420,197	\$ 900,893
Interest and dividend income	114,034	115,772	229,806
Investment fees	(23,220)	(28,656)	(51,876)
Interest income on notes receivable	65,660	-	65,660
Net Investment Income	<u>\$ 637,170</u>	<u>\$ 507,313</u>	<u>\$ 1,144,483</u>

	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>

**THE EPISCOPAL DIOCESE OF SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

Note 6 - Notes Receivable:

Notes receivable consist of the following at December 31:

	<u>2021</u>	<u>2020</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	\$ 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.	11,213	28,223
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. Paid in full subsequent to year-end.	613	1,870

From Episcopal Churches

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. Subsequent to year end, the promissory note was refinanced to an interest rate of 1% increasing by 1% annually to a maximum of 5%; principal and interest payable in monthly installments ranging from \$1,250 to \$4,296 through June 2037.	1,822,828	1,828,314
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.	987,587	1,078,582
St. Thomas, Temecula, Secondary Note, original principal of \$551,212; non-interest bearing; due September 2023.	888,778	878,777
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.	289,487	341,525

(Continued)

THE EPISCOPAL DIOCESE OF SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

Note 6 - Notes Receivable: (Continued)

	<u>2021</u>	<u>2020</u>
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.	\$ 281,642	\$ 290,642
St. Mark's, San Diego, bridge loan, original principal of \$50,000, interest at 5%, due December 31, 2022.	50,000	-
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.	83,775	87,375
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. Subsequent to year end, the promissory note was amended to extend the maturity date to May 1, 2024.	13,000	20,481
St. Stephen's Meniffee, original principal of \$54,000, non-interest bearing, due October 5, 2026.	54,000	-
Total Notes Receivable	\$ <u>5,771,132</u>	\$ <u>5,843,998</u>

Note 7 - 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 \$353,110 and \$331,986 at December 31, 2021 and 2020, respectively, have been discounted to their present values of the remainder interest using a discount rate of 3.60% at each of the years ended December 31, 2021 and 2020. The activity of the charitable remainder unitrusts consisted of the following for the years ended December 31:

	<u>2021</u>	<u>2020</u>
Balance at Beginning of Year	\$ 177,186	\$ 170,035
Change in discount and fair value	18,274	7,151
Balance at End of Year	\$ <u>195,460</u>	\$ <u>177,186</u>

THE EPISCOPAL DIOCESE OF SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

Note 8 - 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 2.74% and 3.01% at the years ended December 31, 2021 and 2020, respectively. The activity of the pooled income fund consisted of the following for the years ended December 31:

	<u>2021</u>	<u>2020</u>
Balance at Beginning of Year	\$ 9,455	\$ 8,824
Change in discount and fair value	260	631
Balance at End of Year	<u>\$ 9,715</u>	<u>\$ 9,455</u>

Note 9 - Property and Equipment:

Property and equipment consist of the following at December 31:

	<u>2021</u>	<u>2020</u>
Land	\$ 680,678	\$ 680,678
Buildings and improvements	2,847,927	2,805,602
Equipment	89,993	89,993
Vehicles	152,142	152,142
Subtotal	<u>3,770,740</u>	<u>3,728,415</u>
Less: Accumulated depreciation	<u>(1,173,200)</u>	<u>(1,053,130)</u>
Property and Equipment, Net	<u>\$ 2,597,540</u>	<u>\$ 2,675,285</u>

Note 10 - 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>2021</u>	<u>2020</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	82,427
St. Andrew's By-The-Lake, Lake Elsinore - Vicarage	70,378	70,378
St. Hugh of Lincoln, Idyllwild - Improvements	30,000	30,000
St. Stephen's, Menifee - Improvements	21,402	21,402
St. Columba, Santee - construction costs	14,000	14,000
St. Mary's, Ramona - Improvements	8,860	8,860
Total Property for Missions and Parishes	<u>\$ 987,036</u>	<u>\$ 987,036</u>

THE EPISCOPAL DIOCESE OF SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

Note 11 - 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>2021</u>	<u>2020</u>
Balance at Beginning of Year	\$ 584,744	\$ 529,898
Distributions to the Diocese	(8,896)	(23,433)
Investment income	46,755	78,279
Balance at End of Year	<u>\$ 622,603</u>	<u>\$ 584,744</u>

Note 12 – 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>2021</u>	<u>2020</u>
Coachella Valley fund	\$ 209,392	\$ -
Missional Opportunities	194,095	344,412
COVID-19	166,261	173,796
Courageous love fund	130,000	-
Operating Reserve	80,396	669,006
Property Reserve	64,550	59,550
ECC Replacement Reserve	44,510	22,010
Bishop's Housing	42,841	646,000
Evangelism fund	40,000	-
Technology fund	30,000	-
St. David's Truth & Rec.Work	13,099	13,099
Embracing the Flock	-	64,075
Total Board Designated Funds	<u>\$ 1,015,144</u>	<u>\$ 1,991,948</u>

THE EPISCOPAL DIOCESE OF SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

Note 13 - Net Assets With Donor Restrictions:

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

	<u>2021</u>	<u>2020</u>
Subject to Expenditure for Specified Purpose:		
Unappropriated Endowment Earnings:		
Episcopate	\$ 609,883	\$ 552,656
Miller	546,775	390,206
Capital campaign for clergy mentoring or parish loans	200,324	135,417
White-Perkins	71,389	51,354
Clergy mentoring	55,279	34,260
Bishop Gooden	27,390	24,703
Gutsch	25,594	18,770
Missionary	13,483	11,775
Roddis	14,903	10,871
Parish loan program	15,013	10,350
Alice Manning	3,791	3,409
Crosby-Miller	3,215	2,884
Total Unappropriated Endowment Earnings	<u>1,587,039</u>	<u>1,246,655</u>
Subject to Expenditure for Specified Purpose:		
Purpose restricted funds:		
Good News Festival	102,041	-
All Saints Cemetery	78,521	68,280
Howe Donation for Clergy Mentorship	78,521	68,280
Bishop's Pastoral Needs Fund	41,028	53,016
For Such a Time as This	25,059	46,374
Campus Ministries	15,000	15,000
North County Mobile Showers Ministry	14,941	17,104
Farewell Initiative	13,689	20,962
Youth Ministries	12,218	12,218
Episcopal Church Center Ministries	12,022	12,022
Sabbatical Fund for Clergy Sabbaticals	10,800	10,800
Courageous love	10,000	-
Mobile Showers Ministry	7,838	9,280
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
EFM Scholarships	1,275	-
Prison Ministries	1,180	1,180
Martha Burton Music Fund	1,136	1,136
Graves Memorial for Trinity Chapel Carillon	922	922
Jesus Revival Ministry	-	42,064
Happening Support	-	949
Total Purpose Restricted Funds	<u>459,265</u>	<u>412,661</u>
Total Subject to Expenditure For Specified Purpose	<u>2,046,304</u>	<u>1,659,316</u>

(Continued)

THE EPISCOPAL DIOCESE OF SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

Note 13 - Net Assets With Donor Restrictions: (Continued)

	<u>2021</u>	<u>2020</u>
Subject to the Passage of Time:		
Daly charitable remainder unitrust	\$ 11,554	\$ 12,141
Pooled income fund	9,715	9,455
Total Subject to the Passage of Time	<u>21,269</u>	<u>21,596</u>
Perpetual in Nature:		
Endowments (Note 14)	<u>2,909,881</u>	<u>2,838,072</u>
Total Net Assets with Donor Restrictions	<u>\$ 4,977,454</u>	<u>\$ 4,518,984</u>

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>2021</u>	<u>2020</u>
Purpose Restrictions Accomplished:		
Endowment earnings	\$ 86,908	\$ 166,052
Congregational revitalization	43,013	13,211
Outreach	34,824	125,460
Bishops discretionary - assistance to congregation	23,313	21,311
Other, net of transfers	10,414	67,054
Shower of Blessings	8,797	12,394
School of ministry	-	13,637
Youth ministries	-	8,285
Time Restrictions Fulfilled:		
Contributions receivable, net	-	32,017
Total Net Assets Released from Restrictions	<u>\$ 207,269</u>	<u>\$ 459,421</u>

Note 14 - 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 regard 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; 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 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.

THE EPISCOPAL DIOCESE OF SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

Note 14 - Endowment Net Assets: (Continued)

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 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, 2021 and 2020.

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

THE EPISCOPAL DIOCESE OF SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

Note 14 - Endowment Net Assets: (Continued)

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% 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:

	2021			
	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	\$ -	\$ 609,883	\$ 50,108	\$ 659,991
White-Perkins for Missions	-	71,389	231,643	303,032
Miller Endowment for Clergy Pension and Assistance	-	546,775	1,175,499	1,722,274
Capital Campaign	-	200,324	400,145	600,469
Bishop Gooden for Diocesan Missionary Work	-	27,390	3,590	30,980
Missionary Endowment for Diocesan Missionary Work	-	13,483	6,235	19,718
Clergy Mentoring for Funding of Curates	-	55,279	299,195	354,474
Roddis Endowment	-	14,903	38,634	53,537
Gutsch Endowment for Seminarian Support	-	25,594	53,000	78,594
Alice Manning Income for Upkeep of Manning Grave	-	3,791	665	4,456
Crosby-Miller Fund to Support St. Mathews and St. Andrews by the Lake Capital campaign for Clergy Mentoring or Parish Loans	-	3,215	564	3,779
Parish Loan Fund Corpus and Earning Available for Loans	-	15,013	28,000	43,013
<u>Held by Others:</u>				
Keating Fund for Church Extension Work	-	-	496,534	496,534
Fowler Fund to be used at Bishop and Board Direction	-	-	126,069	126,069
Total Donor-Restricted Endowment Funds	<u>-</u>	<u>1,587,039</u>	<u>2,909,881</u>	<u>4,496,920</u>
<u>Board-Designated Endowment Funds:</u>				
Diocesan Endowment Fund to Support Diocese	1,930,070	-	-	1,930,070
Mary Bill Fund to Support Missionary Expansion and Evangelism	328,830	-	-	328,830
Future Missions Endowment	210,361	-	-	210,361
Total Board-Designated Endowment Funds	<u>2,469,261</u>	<u>-</u>	<u>-</u>	<u>2,469,261</u>
Total Donor-Restricted Endowment Funds and Board-Designated Endowment Funds	<u>\$ 2,469,261</u>	<u>\$ 1,587,039</u>	<u>\$ 2,909,881</u>	<u>\$ 6,966,181</u>

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Note 14 - Endowment Net Assets: (Continued)

	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>

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, 2019	\$ 2,044,153	1,101,542	2,774,865	\$ 5,920,560
Investment return	(29,874)	(144,664)	(21,388)	(195,926)
Appropriation of endowment assets for expenditure	200,249	289,777	84,595	574,621
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>
Contribution	-	-	15,087	15,087
Investment return	291,573	418,396	65,618	775,587
Appropriation of endowment assets for expenditure	(36,840)	(78,012)	(8,896)	(123,748)
Endowment Net Assets at December 31, 2021	<u>\$ 2,469,261</u>	<u>\$ 1,587,039</u>	<u>\$ 2,909,881</u>	<u>\$ 6,966,181</u>

THE EPISCOPAL DIOCESE OF SAN DIEGO
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Note 15 - 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 \$15,764 and \$31,792 to the 403(b) plan for the years ended December 31, 2021 and 2020, 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, 2021, 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 \$13,901,084,000 and the actuarial present value of accumulated plan benefit obligations of \$6,636,310,000. As a result, the plan’s funding position is a net surplus of \$7,264,774,000. Contributions are mandated as 18% of all clergy compensation.

The Diocese contributed \$66,189 and \$78,806 for clergy pensions for the years ended December 31, 2021 and 2020, respectively.

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Note 15 - 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>2021</u>	<u>2020</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 \$0- and \$337,400 as revenue for the years ended December 31, 2021 and 2020, respectively, due to loan forgiveness of the PPP loan being granted on May 3, 2021.

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.