

**THE EPISCOPAL CHURCH  
IN THE DIOCESE OF EL CAMINO REAL**

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED  
DECEMBER 31, 2017

AND INDEPENDENT AUDITORS' REPORT

**THE EPISCOPAL CHURCH  
IN THE DIOCESE OF EL CAMINO REAL**

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**THE EPISCOPAL CHURCH  
IN THE DIOCESE OF EL CAMINO REAL**

Officers and Others

The Rt. Rev. Mary Gray-Reeves	President
Mr. Joe Head	Vice President
The Rev. Maly Hughes	Secretary
Mrs. Joanna Shreve	Treasurer
The Rev. Canon Brian Nordwick	Diocesan Administration & Asst Secretary/Treasurer
Ms. Nancy Cohen	Chancellor
Ms. Lisa Gonzalez	Standing Committee Liaison
Mr. Frank Snow	Recording Secretary
The Rev. Canon Jesús Reyes	Congregational Development
Mr. Richard O. Mueller	Finance Committee Chair

Board of Trustees

	<u>Term Expires</u>
Ms. Lynn Enns	2017
Mr. Joe Head	2017
The Rev. Linda McConnell	2017
The Rev. Sid Symington	2017
Mr. Michael Coffin	2018
Mr. George Lockwood	2018
The Rev. Brian Palmer	2018
Mr. Skip Parks	2018
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Dr. Cristine Mincheff	2019
The Rev. Bob Ott	2019
Mr. Brian Raney	2019



## HAYASHI | WAYLAND

### INDEPENDENT AUDITORS' REPORT

**To the Board of Trustees  
The Episcopal Church  
in the Diocese of El Camino Real  
Monterey, California**

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

We have audited the accompanying consolidated financial statements of *The Episcopal Church in the Dioceses of El Camino Real* (a nonprofit corporation), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

#### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.



### **Basis for Qualified Opinion**

As more fully described in Note 1 to the consolidated financial statements, the Diocese has not provided for the recognition of depreciation over the estimated useful lives of its buildings. Accounting principles generally accepted in the United States of America require recognition of depreciation over the estimated useful lives of buildings. The effects on the accompanying consolidated financial statements of the failure to recognize depreciation for its buildings have not been determined.

### **Qualified Opinion**

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of *The Episcopal Church in the Diocese of El Camino Real* as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Report on Summarized Comparative Information**

We have previously audited *The Episcopal Church in the Diocese of El Camino Real's* 2016 consolidated financial statements, and we expressed a qualified opinion on those audited consolidated financial statements in our report dated June 13, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

### **Other Matter**

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The schedule of Budgeted Revenues and Expenses – Operating and Nonoperating Basis is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

May 15, 2018

*Hayashi Wayland, LLP*



**THE EPISCOPAL CHURCH  
IN THE DIOCESE OF EL CAMINO REAL**  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2017  
(WITH SUMMARIZED TOTALS FOR DECEMBER 31, 2016)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2017 Total</u>	<u>2016 Total</u>
<b>ASSETS</b>					
<b>CURRENT ASSETS:</b>					
Cash and cash equivalents	\$ 540,004	\$ 202,974	\$ –	\$ 742,978	\$ 877,933
Fair share receivable	60,483	–	–	60,483	33,524
Parish receivables	5,315	–	–	5,315	14,911
Prepaid expenses	<u>26,806</u>	<u>–</u>	<u>–</u>	<u>26,806</u>	<u>24,244</u>
Total current assets	<u>632,608</u>	<u>202,974</u>	<u>–</u>	<u>835,582</u>	<u>950,612</u>
PROPERTY – NET	<u>2,902,980</u>	<u>–</u>	<u>–</u>	<u>2,902,980</u>	<u>2,885,794</u>
<b>OTHER ASSETS:</b>					
Pledges receivable – net	–	98,316	–	98,316	–
Notes receivable – net	73,973	–	–	73,973	97,662
Investments	<u>6,430,198</u>	<u>1,086,122</u>	<u>515,546</u>	<u>8,031,866</u>	<u>6,868,816</u>
Total other assets	<u>6,504,171</u>	<u>1,184,438</u>	<u>515,546</u>	<u>8,204,155</u>	<u>6,966,478</u>
<b>TOTAL ASSETS</b>	<u>\$10,039,759</u>	<u>\$ 1,387,412</u>	<u>\$ 515,546</u>	<u>\$11,942,717</u>	<u>\$10,802,884</u>

**THE EPISCOPAL CHURCH  
IN THE DIOCESE OF EL CAMINO REAL**  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2017  
(WITH SUMMARIZED TOTALS FOR DECEMBER 31, 2016)  
(Continued)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2017 Total</u>	<u>2016 Total</u>
<b>LIABILITIES AND NET ASSETS</b>					
<b>CURRENT LIABILITIES:</b>					
Accounts payable	\$ 2,793	\$ -	\$ -	\$ 2,793	\$ 205
Custodial accounts	<u>29,468</u>	<u>-</u>	<u>-</u>	<u>29,468</u>	<u>48,842</u>
Total current liabilities	<u>32,261</u>	<u>-</u>	<u>-</u>	<u>32,261</u>	<u>49,047</u>
<b>LONG-TERM LIABILITIES –</b>					
Funds held in trust	<u>2,244,473</u>	<u>-</u>	<u>-</u>	<u>2,244,473</u>	<u>1,753,368</u>
<b>NET ASSETS:</b>					
<b>Unrestricted:</b>					
Undesignated	502,007	-	-	502,007	502,112
Designated	4,358,038	-	-	4,358,038	3,963,967
Invested in property	2,902,980	-	-	2,902,980	2,885,794
Temporarily restricted	-	1,387,412	-	1,387,412	1,133,050
Permanently restricted	<u>-</u>	<u>-</u>	<u>515,546</u>	<u>515,546</u>	<u>515,546</u>
Total net assets	<u>7,763,025</u>	<u>1,387,412</u>	<u>515,546</u>	<u>9,665,983</u>	<u>9,000,469</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$10,039,759</u>	<u>\$ 1,387,412</u>	<u>\$ 515,546</u>	<u>\$11,942,717</u>	<u>\$10,802,884</u>

See Notes to Consolidated Financial Statements.

**THE EPISCOPAL CHURCH  
IN THE DIOCESE OF EL CAMINO REAL**  
CONSOLIDATED STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2017  
(WITH SUMMARIZED TOTALS FOR DECEMBER 31, 2016)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2017 Total</u>	<u>2016 Total</u>
<b>OPERATING REVENUES, GAINS AND OTHER SUPPORT:</b>					
Fair share pledges	\$ 1,293,474	\$ —	\$ —	\$ 1,293,474	\$ 1,284,086
Contributions	—	309,480	—	309,480	233,886
Designated revenue	49,457	—	—	49,457	103,402
Fees	685	—	—	685	—
Other revenue	5,760	—	—	5,760	—
Net assets released from restrictions	<u>286,568</u>	<u>(286,568)</u>	<u>—</u>	<u>—</u>	<u>—</u>
 Total operating revenues, gains and other support	 <u>1,635,944</u>	 <u>22,912</u>	 <u>—</u>	 <u>1,658,856</u>	 <u>1,621,374</u>
<b>OPERATING EXPENSES:</b>					
Program services:					
Mission beyond the Diocese	205,149	—	—	205,149	203,427
Department of Missions	183,662	—	—	183,662	187,480
Ministry to congregation and clergy	60,060	—	—	60,060	37,667
Education ministries	10,729	—	—	10,729	16,425
Specialized ministries	120,072	—	—	120,072	164,808
Support services:					
Support to the Missions and ministry	750,818	—	—	750,818	679,771
Office and operating	<u>174,704</u>	<u>—</u>	<u>—</u>	<u>174,704</u>	<u>174,094</u>
 Total operating expenses	 <u>1,505,194</u>	 <u>—</u>	 <u>—</u>	 <u>1,505,194</u>	 <u>1,463,672</u>
 CHANGE IN NET ASSETS FROM OPERATIONS	 <u>\$ 130,750</u>	 <u>\$ 22,912</u>	 <u>\$ —</u>	 <u>\$ 153,662</u>	 <u>\$ 157,702</u>



**THE EPISCOPAL CHURCH  
IN THE DIOCESE OF EL CAMINO REAL**  
CONSOLIDATED STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2017  
(WITH SUMMARIZED TOTALS FOR DECEMBER 31, 2016)  
(Continued)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2017 Total</u>	<u>2016 Total</u>
NON-OPERATING REVENUES, (EXPENSES) AND OTHER CHANGES:					
Rents	\$ 19,073	\$ —	\$ —	\$ 19,073	\$ 39,111
Investment income	588,718	231,450	—	820,168	342,901
Investment expenses	(33,462)	—	—	(33,462)	(33,345)
Rental expenses	(1,134)	—	—	(1,134)	(8,151)
Miscellaneous expenses and fees	(22,188)	—	—	(22,188)	(5)
Fund expenses	(270,605)	—	—	(270,605)	(302,343)
Gain (loss) on disposal of assets	—	—	—	—	153,504
Total non-operating revenues, (expenses) and other changes	<u>280,402</u>	<u>231,450</u>	<u>—</u>	<u>511,852</u>	<u>191,672</u>
CHANGE IN NET ASSETS	411,152	254,362	—	665,514	349,374
NET ASSETS, BEGINNING OF YEAR	<u>7,351,873</u>	<u>1,133,050</u>	<u>515,546</u>	<u>9,000,469</u>	<u>8,651,095</u>
NET ASSETS, END OF YEAR	<u>\$ 7,763,025</u>	<u>\$ 1,387,412</u>	<u>\$ 515,546</u>	<u>\$ 9,665,983</u>	<u>\$ 9,000,469</u>

See Notes to Consolidated Financial Statements.

**THE EPISCOPAL CHURCH  
IN THE DIOCESE OF EL CAMINO REAL**  
CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2017  
(WITH SUMMARIZED TOTALS FOR DECEMBER 31, 2016)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2017 Total</u>	<u>2016 Total</u>
<b>CASH FLOWS FROM</b>					
<b>OPERATING ACTIVITIES:</b>					
Change in net assets	\$ 411,152	\$ 254,362	\$ —	\$ 665,514	\$ 349,374
Adjustments to reconcile change in net assets to net cash provided (used) by operations:					
Depreciation	26,054	—	—	26,054	27,566
Gain on sale of assets	—	—	—	—	(153,504)
Realized/unrealized (gain) loss on investments	(578,837)	(228,760)	—	(807,597)	(329,519)
Allowance for pledges receivable	—	5,375	—	5,375	(5,000)
Discount on pledges receivable	—	5,649	—	5,649	(2,737)
(Increase) decrease in:					
Fair share receivable	(26,959)	—	—	(26,959)	8,499
Parish receivables	9,596	—	—	9,596	7,622
Prepaid expenses	(2,562)	—	—	(2,562)	4,876
Pledges receivable	—	(109,340)	—	(109,340)	47,111
Increase (decrease) in:					
Accounts payable	2,588	—	—	2,588	(5,305)
Accrued expenses	—	—	—	—	(38)
Custodial accounts	(19,374)	—	—	(19,374)	20,291
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>(178,342)</u>	<u>(72,714)</u>	<u>—</u>	<u>(251,056)</u>	<u>(30,764)</u>
<b>CASH FLOWS FROM</b>					
<b>INVESTING ACTIVITIES:</b>					
Purchase of property	(43,241)	—	—	(43,241)	(31,728)
Proceeds from sale of property	—	—	—	—	836,506
Proceeds from sale of investments	287,313	36,194	—	323,507	584,274
Purchases of investments	(574,855)	(104,104)	—	(678,959)	(1,487,362)
Proceeds from repayment of notes	23,689	—	—	23,689	3,558
Increase in funds held in trust	491,105	—	—	491,105	405,278
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<u>\$ 184,011</u>	<u>\$ (67,910)</u>	<u>\$ —</u>	<u>\$ 116,101</u>	<u>\$ 310,526</u>

**THE EPISCOPAL CHURCH  
IN THE DIOCESE OF EL CAMINO REAL**  
CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2017  
(WITH SUMMARIZED TOTALS FOR DECEMBER 31, 2016)  
(Continued)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2017 Total</u>	<u>2016 Total</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ 5,669	\$ (140,624)	\$ —	\$ (134,955)	\$ 279,762
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>534,335</u>	<u>343,598</u>	<u>—</u>	<u>877,933</u>	<u>598,171</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 540,004</u>	<u>\$ 202,974</u>	<u>\$ —</u>	<u>\$ 742,978</u>	<u>\$ 877,933</u>

See Notes to Consolidated Financial Statements.

**THE EPISCOPAL CHURCH  
IN THE DIOCESE OF EL CAMINO REAL**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2017

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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Activities** – The Episcopal Church in the Diocese of El Camino Real (the Diocese) was formed in June 1980 from the southern portion of the Diocese of California. The Diocese is comprised of various parishes, parochial mission congregations, organized Diocesan missions, Bishop’s congregations, institutions, and agencies in San Luis Obispo, Monterey, San Benito, Santa Cruz and Santa Clara counties. The Diocese is dedicated to spreading the Gospel through the establishment, development and promotion of all aspects of church ministry on the Central California Coast.

A foundation was established in 1999 known as The El Camino Real Foundation. The purpose of the Foundation is the advancement of religion, specifically to further the goals and objectives of the Episcopal Diocese of El Camino Real and the Episcopal Church. The account balances related to the Foundation are included in these financial statements.

**Basis of Accounting** – The Diocese’s accounts are maintained primarily on the accrual basis. No depreciation is recorded on buildings in accordance with practices established by the Episcopal Church in the United States. Such practices are not in conformity with accounting principles generally accepted in the United States of America. The net assets, revenues, gains, and other support and expenses and other changes in the accompanying financial statements are classified based on the existence or absence of donor-imposed restrictions. Accordingly, for reporting purposes, net assets of the Diocese and changes therein are classified as follows:

- **Unrestricted Net Assets** – Net assets that are not subject to donor-imposed stipulations. This includes certain amounts designated by the Board for various purposes.
- **Temporarily Restricted Net Assets** – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Diocese and/or the passage of time.
- **Permanently Restricted Net Assets** – Net assets subject to donor-imposed restrictions that they be maintained permanently by the Diocese. Generally, the donors of these assets permit the Diocese to use all or a part of the income earned on related investments for general or specific purposes.

**Recognition of Donor Restrictions** – Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as “net assets released from restrictions.”

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Fair Value Measurements** – The Diocese applies Generally Accepted Accounting Principles (GAAP) for fair value measurements of financial assets and liabilities. GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value should be based on assumptions that market participants would use, including a consideration of non-performance risk.

Management assesses the inputs used to measure fair value using a three-tier hierarchy based on the extent to which inputs used in measuring fair value are observable in the market.

- Level 1 inputs are quoted market prices for identical instruments in an active market that the entity has the ability to access and are the most observable.
- Level 2 inputs include quoted market prices for similar assets and observable inputs such as interest rates, currency exchange rates, commodity rates, and yield curves.
- Level 3 inputs are not observable in the market and include management’s judgments about the assumptions market participants would use in pricing the asset or liability.

The fair value of the Diocese’s short-term financial instruments, including cash and cash equivalents, receivables and payables, approximate their individual carrying amounts due to the relatively short period of time between their origination and expected realization.

**Cash and Cash Equivalents** – For purposes of the statement of cash flows the Diocese considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents, except for money market funds held in investment accounts.

**Receivables** – Receivables are recorded using the allowance method and are presented net of the allowance for uncollectibility. At December 31, 2017, the allowance is estimated to be \$25,375 for notes and pledges receivable.

**Unconditional Promises to Give** – Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected over periods in excess of one year are discounted at an appropriate discount commensurate with the risk involved. Amortization of the discount is recorded as additional contributions revenue.

**Investments** – Investments in marketable securities with readily determinable fair values are reported at fair value based on quoted market prices in active markets (all level 1 inputs). Investment income or loss (including gains and losses on investments, interest and dividends) is included in the statement of activities as an increase or decrease in unrestricted net assets unless the income or loss is restricted by donor or law.

**Property–net** – Property purchased or constructed is recorded at cost. Donated property is recorded at fair market value on the date received. Properties transferred from the Diocese of California were recorded at values stated by the Diocese of California at the time of the transfer. Properties transferred from former parishes are recorded at fair market value based on appraisals at the date of transfer. When a mission reaches parish status, the property is

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

transferred from the Diocese to the parish and the property and net asset are removed from the Diocese's books. The Diocese capitalizes property with a value of \$2,500 and a useful life of more than one year. Depreciation of equipment and furnishings are computed using the straight-line method over the estimated useful lives of the assets ranging from five to ten years. No depreciation is provided on buildings in accordance with practices established by the Episcopal Church in the United States.

**Custodial Accounts** – Monies belonging to various missions and or parishes are on deposit with the Diocese in its cash and investment accounts. This is done in order to accommodate smaller missions without checking accounts.

**Income Taxes** – The Diocese is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, and from state franchise tax under California Revenue and Taxation Code 23701(d).

**Contributed Services** – Contributed services are not recorded unless such services create or enhance nonfinancial assets or require specialized skills and are so essential that they would be purchased if not provided by donation.

**Advertising** – Advertising costs are expensed as incurred.

**Functional Allocation of Expenses** – The costs of providing program services and other activities have been presented on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**Use of Estimates** – The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported. Actual results could differ from those estimates.

**Operating Activities** – The Diocese defines certain program and support services activities as operating activities. The revenues from those activities are recognized as operating income.

**Summarized Totals** – The financial statements include prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with financial statements for the year ended December 31, 2016 from which the summarized information was derived.

**Reclassification** – Certain reclassifications have been made to the prior summarized comparative financial statements to conform with the current year presentation.

**Subsequent Events** – Subsequent events have been evaluated through May 15, 2018, which is the date the financial statements were available to be issued.

**NOTE 2. CONCENTRATIONS OF RISK**

The Diocese maintains its cash in bank deposit accounts at various financial institutions. The balances, at times, exceed federally insured limits. At December 31, 2017, the Diocese's balances exceeded federally insured limits by \$374,056.

The Diocese's investments are exposed to various risks, such as fluctuations in the market and credit risk. 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 future and that such changes could materially affect the amounts reported in the statement of activities.

**NOTE 3. PROPERTY – NET**

As of December 31, 2017 property – net was as follows:

Mission churches	\$ 1,134,008
Mission vicarages	112,847
Sargent House	1,488,500
Equitable interests – Bishop's Ranch, Healdsburg	86,496
Equipment and furnishings	<u>197,361</u>
Total	3,019,212
Less accumulated depreciation	<u>116,232</u>
Property – net	<u>\$ 2,902,980</u>

Depreciation for the year ended December 31, 2017 was \$26,054.

**NOTE 4. PLEDGES RECEIVABLE – NET**

Pledges receivable consist of unconditional promises to give contributions for the Bishop's Annual Appeal. The pledges have been discounted at a discount rate of 5%.

Pledges receivable at December 31, 2017 are as follows:

Receivable in less than one year	\$ 91,090
Receivable in one to two years	<u>18,250</u>
Total pledges	109,340
Less:	
Allowance for uncollectible pledges	(5,375)
Discount to present value	<u>(5,649)</u>
Pledges receivable – net	<u>\$ 98,316</u>

**NOTE 5. NOTES RECEIVABLE**

St. Philip's, Scotts Valley, receivable in monthly installments of \$529 including interest at 3.5%.  
The note matures in November 2032.

\$ 73,973

In addition, the Diocese holds a note receivable in the amount of \$20,000 due from the Church Investment Group, Inc., with interest at 0.25% above the prime rate as listed in the Wall Street Journal on the last day of the first quarter of each year. The note was due on May 5, 2015, however no payments have been made. The Diocese still intends to collect the note, but at this time has offset the note with an allowance of \$20,000.

**NOTE 6. INVESTMENTS**

Investments were composed of the following at December 31, 2017:

	<u>Cost</u>	<u>Fair Market Value</u>	<u>Unrealized Gain (Loss)</u>
Money funds	\$ 180,513	\$ 180,513	\$ -
Stocks	3,153,490	5,270,284	2,116,794
Corporate bonds	999,242	1,208,855	209,613
Government bonds	497,352	545,731	48,379
Mortgage/asset backed securities	<u>829,258</u>	<u>826,483</u>	<u>(2,775)</u>
Total	<u>\$ 5,659,855</u>	<u>\$ 8,031,866</u>	<u>\$ 2,372,011</u>

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended December 31, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Interest/dividend income	\$ 9,881	\$ 2,690	\$ -	\$ 12,571
Net realized/unrealized gain (loss) on investments	<u>578,837</u>	<u>228,760</u>	<u>-</u>	<u>807,597</u>
Total investment income	<u>\$ 588,718</u>	<u>\$ 231,450</u>	<u>\$ -</u>	<u>\$ 820,168</u>

The Board of Trustees organized The Diocesan Investment Trust in 1991 as a common fund for pooled-investing. Diocesan funds established for the benefit of any mission are invested in the trust as well as other funds as determined by the Trustees. Parishes and institutions of the Diocese may also invest in the trust in accordance with the rules and regulations of the Trustees. Of the \$8,031,866 of investments, \$2,244,473 are funds held in trust for Parishes. Investment returns are allocated monthly to the custodial investors based on the relationship of the market value of each account to the total market value of all accounts, adjusted for additions to or deductions from those accounts. The custodial funds had a gain of \$294,978 for the year, contributions of \$268,003 and \$71,876 was distributed.

The funds are held with State Street Global Investments. Investment fees for the year amount to \$33,462.



**NOTE 7. PENSIONS**

The Diocese contributes on behalf of its eligible employees to two retirement plans: (1) a defined benefit plan for the Bishop and clergy at 18% of compensation, and (2) a defined contribution 403(b) plan for lay employees at 9% of compensation. Contributions made by the Diocese to the plans were \$84,963 for 2017.

**NOTE 8. OPERATING LEASE**

The Diocese and New Cingular Wireless PCS entered into a Site Lease Agreement for certain premises that are a portion of the property located at 68957 Vineyard Canyon Road, San Miguel, California. The term of the Agreement started on September 1, 2013 and has an initial term of sixty (60) months. The agreement will be automatically renewed for up to five (5) additional sixty (60) month terms without further action by New Cingular Wireless PCS, unless New Cingular Wireless, PCS notifies the Diocese in writing of their intention not to renew the Agreement at least sixty (60) days prior to the expiration of the then current extension term. On April 30, 2017 New Cingular Wireless PCS terminated the lease.

Rental revenue recognized for the year ended December 31, 2017 was \$2,273.

The Diocese also leases a residential property located at 1116 Shafer Street, Seaside, California rented on a month to month basis. Rental income recognized for the year ended December 31, 2017 was \$16,800.

**NOTE 9. NET ASSETS**

Designated net assets at December 31, 2017 consist of the following:

Diocesan enhancement	\$ 1,273,835
Mission activity	1,231,520
Bishop Housing Fund	589,750
General purpose	508,717
Sinking	430,213
Seminarian scholarships/Clergy education	308,301
Education	10,974
Rehabilitation ministry	<u>4,728</u>
Total	<u>\$ 4,358,038</u>

Invested in property at December 31, 2017 consist of the following –

Property - net	<u>\$ 2,902,980</u>
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**NOTE 9. NET ASSETS (Continued)**

Temporarily restricted net assets at December 31, 2017 consist of the following:

Discretionary	\$	809,851
Restorative Justice		11,192
Diocesan enhancement		198,651
Endowment:		
Education		38,088
General purpose		69,010
Mission activity		68,790
Rehabilitation ministry		17,196
Seminarian scholarships/clergy education		<u>174,634</u>
Total	\$	<u>1,387,412</u>

During the course of the year, net assets whose use by the Diocese was subject to donor imposed restrictions were fulfilled by actions of the Diocese pursuant to those restrictions. These assets are shown in the statement of activities as net assets released from restrictions. A detail of the net assets released from restrictions for December 31, 2017, is as follows:

Assets released for:		
Discretionary	\$	252,925
Investment fees		11,393
Diocesan enhancement		<u>22,250</u>
Total	\$	<u>286,568</u>

Permanently restricted net assets at December 31, 2017 consist of the following:

Education	\$	54,300
General purpose		100,000
Mission activity		100,000
Rehabilitation ministry		25,000
Seminarian scholarships/Clergy education		<u>236,246</u>
Total	\$	<u>515,546</u>

**NOTE 10. ENDOWMENTS**

The Diocese's endowment consists of approximately 5 individual funds established for education, general purpose, mission activity, rehabilitation ministry and seminarian scholarships/clergy education. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by Generally Accepted Accounting Principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

**NOTE 10. ENDOWMENTS (Continued)**

**Interpretation of Relevant Law:**

The Diocese's Board of Trustees has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Diocese classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the 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:

- (1) The duration and preservation of the fund
- (2) The purposes of the Diocese and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Diocese
- (7) The investment policies of the Diocese

**Spending Policy:**

Distributions from the portfolio will be made in accordance with the Spending Policy which currently requires 4% of the asset value of the Endowment, averaged over the most recent 12 quarters, to be distributed on a pro-rata basis, at least annually, to each of the sub-endowment accounts.

**Investment Policy**

**Investment Objective:**

The overall investment objective is to preserve the purchasing power of the assets for future use as needed and to maximize the return of the portfolio within reasonable and prudent levels of risk. Given the above assumptions and needs, the overall long-term expected return will be 6-8% compounded annually and evaluated over a three to five year business cycle.

**Asset Allocation Limitations:**

The Investment Policy Statement will define the asset allocation policy among various asset classes given the Endowment Fund's objectives, time horizon, constraints, and risk tolerance. Stocks may represent 50% to 70% of the portfolio based on the market value at the time of the purchase. Bonds/money funds will make up the remainder of the portfolio. Assets may be temporarily invested in short-term U. S. treasury/agency obligations and/or money market funds. Cash balances will be kept at a minimum.

**NOTE 10. ENDOWMENTS (Continued)****Risk Tolerance:**

Total investment risk refers to the volatility of the return of total fund assets. It is defined as the unpredictability of investment returns, the chance that actual returns of individual investment are different from expected returns and the possibility that overall portfolio performance does not meet target expectations. The Diocese's Endowment Fund has a conservative to moderate tolerance for risk. As such, it is willing to accept some volatility in the portfolio in order to achieve its return objectives. The Finance Committee/Board of Trustees understands that the actual level of risk, as well as returns, may be higher or lower than the stated risk tolerance and return objective.

**Endowment Net Asset Composition**

Endowment net asset composition as of December 31, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowments	\$ -	\$ 367,718	\$ 515,546	\$ 883,264
Board-designated endowments	<u>1,636,037</u>	<u>-</u>	<u>-</u>	<u>1,636,037</u>
Total funds	<u>\$ 1,636,037</u>	<u>\$ 367,718</u>	<u>\$ 515,546</u>	<u>\$ 2,519,301</u>

**Changes in Endowment Net Assets**

Changes in endowment net assets for the year ended December 31, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance at Beginning of Year	\$ 1,452,634	\$ 231,195	\$ 515,546	\$ 2,199,375
Investment return:				
Investment income	2,638	1,671	-	4,309
Realized gain (loss)	8,758	5,525	-	14,283
Unrealized gain (loss)	<u>214,393</u>	<u>136,055</u>	<u>-</u>	<u>350,448</u>
Total investment return	<u>225,789</u>	<u>143,251</u>	<u>-</u>	<u>369,040</u>
Investment fees	(11,709)	(6,728)	-	(18,437)
Appropriation of endowment assets for expenditure	<u>(30,677)</u>	<u>-</u>	<u>-</u>	<u>(30,677)</u>
Balance at End of Year	<u>\$ 1,636,037</u>	<u>\$ 367,718</u>	<u>\$ 515,546</u>	<u>\$ 2,519,301</u>

**NOTE 11. ECONOMIC DEPENDENCY**

The Diocese is comprised of missions and parishes which are required to pay their monthly fair share to the Diocese. The Diocese is economically dependent upon those fair shares to continue operations. The fair share revenue for the year ended December 31, 2017 was \$1,293,474.

**SUPPLEMENTAL SCHEDULE**

**THE EPISCOPAL CHURCH  
IN THE DIOCESE OF EL CAMINO REAL**  
SCHEDULE OF BUDGETED REVENUES AND EXPENSES –  
OPERATING AND NON-OPERATING BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2017

	BUDGET	ACTUAL	VARIANCE WITH BUDGET
<b>OPERATING REVENUES, GAINS AND OTHER SUPPORT:</b>			
Parish and mission pledges	\$ 1,302,000	\$ 1,293,474	\$ (8,526)
Contributions	–	309,480	309,480
Designated revenue	130,000	49,457	(80,543)
Fees	2,105	685	(1,420)
Other revenue	500	5,760	5,260
	<u>1,434,605</u>	<u>1,658,856</u>	<u>224,251</u>
<b>OPERATING EXPENSES:</b>			
Mission beyond the Diocese:			
Domestic and foreign mission	188,466	197,130	(8,664)
Province VIII Mission Program	500	500	–
Companion Diocese Mission	10,000	6,519	3,481
Seminary support	1,000	1,000	–
Department of Missions:			
Clergy salaries and benefits	190,000	183,662	6,338
Ministry to congregation and clergy:			
Clergy conference	–	(2,074)	2,074
Commission on ministry	12,000	10,720	1,280
Diocesan website	4,800	4,105	695
Webmaster	1,000	–	1,000
Translation	600	1,161	(561)
Convention expenses	–	2,205	(2,205)
Risk management fees	22,500	22,500	–
Development officer	25,000	21,000	4,000
Ordination expenses	–	443	(443)
Education ministries:			
CERT programs	9,800	5,974	3,826
Leadership grants	3,000	513	2,487
Youth program expenses	2,500	(58)	2,558
Youth Ministers program expenses	3,000	3,000	–
Resource Center	1,300	1,300	–
Specialized ministries:			
Higher education grants	39,200	39,200	–
Santa Maria Urban Mission	30,000	30,000	–
Prison Ministries	130,000	50,872	79,128
Support to the Missions and ministry:			
Bishop's compensation and benefits	221,513	220,049	1,464
Executive staff compensation and benefits	320,806	319,672	1,134
Administration staff compensation and benefits	206,620	211,097	(4,477)
	<u>\$ 1,423,605</u>	<u>\$ 1,330,490</u>	<u>\$ 93,115</u>

**THE EPISCOPAL CHURCH  
IN THE DIOCESE OF EL CAMINO REAL**  
SCHEDULE OF BUDGETED REVENUES AND EXPENSES –  
OPERATING AND NON-OPERATING BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2017  
(Continued)

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH BUDGET</u>
Subtotal forward	\$ 1,423,605	\$ 1,330,490	\$ 93,115
OPERATING EXPENSES (Continued):			
Office and operating:			
Background checks	500	720	(220)
Hospitality and entertainment	8,000	4,689	3,311
Payroll service fees	1,500	536	964
Recruitment/deployment expense	500	–	500
Staff development	3,500	2,097	1,403
Audit services	27,000	29,000	(2,000)
Computer service	19,500	18,727	773
Insurance – property and casualty	13,500	19,030	(5,530)
Insurance – worker’s compensation	5,000	3,969	1,031
Equipment maintenance	3,000	2,417	583
Building maintenance	11,500	12,692	(1,192)
Telephone	10,000	9,255	745
Utilities	8,000	6,882	1,118
Bishop’s auto expense	7,500	4,928	2,572
Office supplies	7,500	7,131	369
Postage	2,500	2,448	52
Printing	3,000	2,479	521
Publications and dues	2,000	1,515	485
Bank service fees	1,000	145	855
Travel expenses	22,000	19,990	2,010
Depreciation	–	26,054	(26,054)
Total operating expenses	<u>1,580,605</u>	<u>1,505,194</u>	<u>75,411</u>
CHANGE IN NET ASSETS FROM OPERATIONS	\$ (146,000)	\$ 153,662	\$ 299,662



**THE EPISCOPAL CHURCH  
IN THE DIOCESE OF EL CAMINO REAL**  
SCHEDULE OF BUDGETED REVENUES AND EXPENSES –  
OPERATING AND NON-OPERATING BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2017  
(Continued)

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH BUDGET</u>
NON-OPERATING REVENUES, (EXPENSES) AND OTHER CHANGES:			
Rents	\$ –	\$ 19,073	\$ 19,073
Investment income	3,000	820,168	817,168
Investment expenses	–	(33,462)	(33,462)
Rental expenses	–	(1,134)	(1,134)
Miscellaneous expenses and fees	–	(22,188)	(22,188)
Fund expenses:			
Scholarships	–	(23,750)	(23,750)
Mission grants	–	(104,740)	(104,740)
Earthquake insurance	–	(10,293)	(10,293)
Salaries and benefits	–	(5,495)	(5,495)
Convention	–	(2,000)	(2,000)
Standing committee	–	(1,350)	(1,350)
Travel	–	(7,676)	(7,676)
Education/training	–	(5,500)	(5,500)
Bishop's discretionary	–	(19,980)	(19,980)
Building R & M	–	(11,509)	(11,509)
Telephone	–	(1,184)	(1,184)
Computer services	–	(1,532)	(1,532)
Professional services	–	(17,905)	(17,905)
Website	–	(6,239)	(6,239)
Software license	–	(7,410)	(7,410)
Development consultant	–	(21,050)	(21,050)
Mailings	–	(6,892)	(6,892)
Miscellaneous	–	(230)	(230)
Membership	–	(3,985)	(3,985)
Printing	–	(8,710)	(8,710)
Meals	–	(2,726)	(2,726)
Bank fees	–	(449)	(449)
Total fund expenses	<u>–</u>	<u>(270,605)</u>	<u>(270,605)</u>
Total non-operating revenues, (expenses) and other changes	<u>3,000</u>	<u>511,852</u>	<u>508,852</u>
CHANGE IN NET ASSETS	<u>\$ (143,000)</u>	<u>\$ 665,514</u>	<u>\$ 808,514</u>