THE DIOCESE OF SOUTHWEST FLORIDA, INC.

Consolidated Financial Statements
and Supplementary Information

December 31, 2011 and 2010
(With Independent Auditors' Report Thereon)

THE DIOCESE OF SOUTHWEST FLORIDA, INC.

Index

MHM®

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Independent Auditors' Report

To the Diocesan Council
Diocese of Southwest Florida, Inc.:

We have audited the accompanying consolidated statements of financial position of the Diocese of Southwest Florida, Inc. (the "Diocese") (a nonprofit organization) as of December 31, 2011 and 2010, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Diocese's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Diocese of Southwest Florida, Inc. as of December 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic 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 financial statements or to the 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 financial statements as a whole.

Mayer Hoffman McCann P.C.

August 17, 2012
Clearwater, Florida

THE DIOCESE OF SOUTHWEST FLORIDA, INC.

Consolidated Statements of Financial Position

December 31, 2011 and 2010

Assets		**2011**	**2010 (restated)**
Cash	$	2,076,164	1,069,891
Investments		6,301,119	7,822,651
Apportionments and notes receivable, net		544,331	252,012
Accounts receivable		3,761	8,984
Loans receivable		2,521,338	2,176,957
Mortgage note receivable		1,403,093	1,403,093
Other assets		29,728	22,363
Beneficial interest in trust		658,262	701,266
Land, buildings, and equipment, net		3,366,908	3,103,277
Property held for sale, net		499,576	499,576
Total assets	$	17,404,280	17,060,070
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	435,001	182,344
Deposits		173,640	216,507
Notes payable		370,945	1,095,594
Total liabilities		979,586	1,494,445
Net assets unrestricted:			
Undesignated		3,426,154	3,483,073
Designated		4,464,254	4,541,151
Land, buildings, and equipment		2,995,963	2,007,683
Total unrestricted net assets		10,886,371	10,031,907
Temporarily restricted		3,173,868	3,166,433
Permanently restricted		2,364,455	2,367,285
Total net assets		16,424,694	15,565,625
Total liabilities and net assets	$	17,404,280	17,060,070

THE DIOCESE OF SOUTHWEST FLORIDA, INC.

Consolidated Statements of Activities

For the Year Ended December 31, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, gains, and other support:				
Diocesan apportionments	$ 3,248,660	-	-	3,248,660
Investment return	237,185	117,807	141	355,133
Contributions and bequests	39,001	60,644	40,033	139,678
Dayspring operations	1,279,779	19,179	-	1,298,958
Change in value of beneficial interest in trust	-	-	(43,004)	(43,004)
Interest income from loans to Churches	76,415	-	-	76,415
Recovery of bad debt	185,023	-	-	185,023
Other income	67,894	-	-	67,894
Total revenue and gains	5,133,957	197,630	(2,830)	5,328,757
Net assets released from restrictions	190,195	(190,195)	-	-
Total revenue, gains and other support	5,324,152	7,435	(2,830)	5,328,757
Expenses:				
Congregational	560,375	-	-	560,375
Ministry	802,899	-	-	802,899
Administrative	1,496,812	-	-	1,496,812
Dayspring	1,539,645	-	-	1,539,645
Depreciation	34,118	-	-	34,118
Loss on disposal of assets	2,527	-	-	2,527
Interest	33,312	-	-	33,312
Total expenses	4,469,688	-	-	4,469,688
Change in net assets	854,464	7,435	(2,830)	859,069
Net assets at beginning of year, as restated	10,031,907	3,166,433	2,367,285	15,565,625
Net assets at end of year	$ 10,886,371	3,173,868	2,364,455	16,424,694

THE DIOCESE OF SOUTHWEST FLORIDA, INC.

Consolidated Statement of Activities

For the Year Ended December 31, 2010
(restated)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, gains, and other support:				
Diocesan apportionments	$ 3,156,136	-	-	3,156,136
Investment return	338,443	367,741	143	706,327
Contributions and bequests	54,086	-	32,890	86,976
Dayspring operations	1,295,889	114,364	-	1,410,253
Change in value of beneficial interest in trust	-	-	42,863	42,863
Interest income from loans to Churches	112,350	-	-	112,350
Other income	71,746	-	-	71,746
Total revenue and gains	5,028,650	482,105	75,896	5,586,651
Net assets released from restrictions	203,716	(203,716)	-	-
Total revenue, gains and other support	5,232,366	278,389	75,896	5,586,651
Expenses:				
Congregational	419,282	-	-	419,282
Ministry	1,017,105	-	-	1,017,105
Administrative	1,767,504	-	-	1,767,504
Dayspring	1,559,485	-	-	1,559,485
Depreciation	53,305	-	-	53,305
Loss on disposal of assets	444,428	-	-	444,428
Interest	44,108	-	-	44,108
Total expenses	5,305,217	-	-	5,305,217
Change in net assets	(72,851)	278,389	75,896	281,434
Net assets at beginning of year, as restated	10,104,758	2,888,044	2,291,389	15,284,191
Net assets at end of year, as restated	$ 10,031,907	3,166,433	2,367,285	15,565,625

THE DIOCESE OF SOUTHWEST FLORIDA, INC.

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2011 and 2010

		2011	2010
Cash flows from operating activities:			
Change in net assets	$	859,069	281,434
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:			
Depreciation		190,410	195,655
Loss on disposal of assets		2,527	444,428
Realized and unrealized gains on investments		(51,323)	(424,788)
Provision for uncollectible apportionments and notes receivable		(347,483)	365,776
Decrease (increase) in apportionments and notes receivable		55,164	(404,848)
Decrease (increase) in accounts receivable, net		5,223	(4,887)
(Increase) decrease in other assets		(7,365)	6,795
Decrease (increase) in beneficial interest in trust		43,004	(42,863)
Increase (decrease) in accounts payable and accrued expenses		252,657	(58,843)
(Decrease) increase in deposits		(42,867)	16,563
Contributions restricted for endowment		(40,033)	(32,890)
Net cash provided by operating activities		918,983	341,532
Cash flows from investing activities:			
Purchases of investments		(1,062,608)	(600,781)
Proceeds from sale of investments		2,635,463	539,995
Payments received on loans receivable		46,815	597,932
Proceeds disbursed for loans receivable		(391,196)	(185,000)
Purchases of equipment		(456,568)	(107,176)
Net cash provided by investing activities		771,906	244,970
Cash flows from financing activities:			
Contributions restricted for endowment		40,003	32,890
Proceeds from line of credit		702,858	-
Payments on line of credit		(702,858)	-
Principal payments on notes payable		(724,649)	(64,264)
Net cash used in financing activities		(684,646)	(31,374)
Net increase in cash		1,006,243	555,128
Cash at beginning of year		1,069,891	514,763
Cash at end of year	$	2,076,134	1,069,891
Supplemental disclosure of noncash activities:			
Cash paid for interest	$	42,820	62,437

(1) Description of Organization

The Diocese of Southwest Florida, Inc. (the "Episcopal Diocese") is a not-for-profit corporation existing under the laws of the State of Florida. It is one of 108 dioceses of the Protestant Episcopal Church in the U.S.A. (100 domestic and 8 overseas). As such, the Episcopal Diocese is subject to the Constitution and Canons of the National Church, and to the acts of the General Convention, which is held every three years.

The Episcopal Diocese is comprised of twelve counties stretching along the west coast of Florida from Hernando County in the north to Collier County in the south. The Diocese of Southwest Florida, Inc. is divided geographically into seven deaneries: Tampa, Clearwater, St. Petersburg, Manasota, Venice, Fort Myers and Naples.

The consolidated financial statements include the accounts of the administrative offices of the Episcopal Diocese which are fiscally responsible to the Bishop of the Diocese of Southwest Florida, and also include the accounts of the Dayspring Episcopal Conference Center, Diocese of Southwest Florida, Inc. ("Dayspring"). The Episcopal Diocese and Dayspring collectively are referred to as the "Diocese". All significant inter-organization transactions have been eliminated (see Note 2(o)).

Various churches, missions and other religious organizations which operate within the Diocese, but which are primarily responsible to their own governing boards, have not been included in the accompanying consolidated financial statements.

(2) Summary of Significant Accounting Policies and Practices

(a) Basis of Accounting

These financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the Diocese as a whole. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

- Unrestricted net assets – Net assets not subject to donor-imposed stipulations, including contributions that have been designated by the Diocesan Council.

- Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met by actions of the Diocese and/or the passage of time.

- Permanently restricted net assets – Net assets subject to donor-imposed stipulations that the assets be maintained.

(2) Summary of Significant Accounting Policies and Practices - Continued

(a) Basis of Accounting - Continued

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. As contributions with donor-imposed restrictions are expended, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as assets released from restriction.

Contributions, including unconditional promises to give (pledges), are recognized as revenue in the period received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. At December 31, 2011 and 2010, the Diocese had no outstanding pledges or bequests.

(b) Liquidity

Assets are presented in the accompanying consolidated statements of financial position according to their nearness of conversion to cash and liabilities according to the nearness of their maturity and resulting use of cash.

(c) Investments

Investments are carried at fair value based on quoted market prices for similar instruments traded in active markets, quoted prices for identical or similar instruments in markets that are not active and mode-based valuation techniques for which all significant assumptions are observable in the market. Realized and unrealized gains and losses are reflected in the statement of activities.

(d) Beneficial Interest in Trust

The Diocese has a beneficial interest in a perpetual trust, the assets of which are administered by a third party. The Diocese receives distributions of income from the trust and their interest in the trust has been recorded at the fair value of the trust assets based on quoted market prices. The income received from the trust is restricted for the use of home or maintenance for the elderly and support of missions.

Subsequent to December 31, 2011, the trust was terminated and the Diocese was named the beneficiary. During June 2012, the Diocese received $665,000 in relation this trust.

(2) Summary of Significant Accounting Policies and Practices - Continued

(e) Perpetual Charitable Trust

The Diocese is named as an advisor for a perpetual charitable trust. The trust provides distributions to only be used for educational purposes. The Diocese provides advice to the trustees for candidates for the theological education for the Episcopal Priesthood. As a result, the trust assets and related income are not recorded in the Diocese consolidated financial statements.

Subsequent to December 31, 2011, the trust was terminated and the Diocese was named the beneficiary. During June 2012, the Diocese received approximately $425,000 in relation to this trust, which was recorded as a contribution.

(f) Foundation

The Diocese elects four members to the governing board to the Bishop Gray Retirement Foundation, Inc. The Bishop Gray Retirement Foundation, Inc. is a not-for-profit Florida corporation, organized to provide retirement support for the aged under the auspices and control of the Central, Southwest and Southeast Florida Diocese of the Protestant Episcopal Church currently through a "scholarship program" which is intended to help eligible elderly Episcopalians from the three dioceses obtain quality housing and healthcare. Since the Diocese only acts in an advisory capacity, the foundation's assets and related income are not recorded in the Diocese consolidated financial statements.

(g) Land, Buildings, and Equipment

Land, buildings, and equipment are stated at cost if purchased or at estimated fair value at the date of gift if donated. Depreciation on buildings and equipment is calculated using the straight-line method over the estimated useful lives of the assets, which range from 3 to 28 years. Expenditures in excess of $1,000 with an estimated useful life in excess of one year are capitalized.

(h) Impairment of Long-Lived Assets

In accordance with FASB Accounting Standards Codification Topic "Property, Plant, and Equipment (360), long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated from the use and eventual disposition of the asset, excluding interest. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the statements of financial position and reported at the lower of carrying amount or fair value less costs to sell, and are no longer depreciated.

(2) Summary of Significant Accounting Policies and Practices - Continued

(h) Impairment of Long-Lived Assets - Continued

In addition to consideration of impairment upon events or changes in circumstances described above, management regularly evaluates the remaining lives of its long-lived assets. If estimates are revised, the carrying value of affected assets is depreciated or amortized over the remaining lives. At December 31, 2011 and 2010, there were no impairments.

(i) Diocesan Apportionments

The Diocese's principal source of revenue consists of apportionments received from congregations located within the Diocese. The apportionment is generally based upon 10 percent of the congregations' total operating revenue and 10 percent of total capital income for the fiscal year ended two years prior. However, for the year ended December 31, 2010, the Diocesan Council decreased the rate to 9 percent. The rate was 10 percent for the year ended December 31, 2011.

The Diocese of Southwest Florida is a member of the Worldwide Anglican Communion and the Episcopal Church in the United States. The suggested pledge to the National Church is 20% and 21% of certain revenues less a $120,000 exemption during 2011 and 2010, respectively. The "asking" expense was approximately $435,000 and $607,000 for the years ended December 31, 2011 and 2010, respectively and is included in ministry expense on the consolidated statement of activities. Of these amounts, $7,228 and $26,338 are represented as accrued expenses at December 31, 2011 and 2010, respectively.

(j) Dayspring Operations

The Dayspring Episcopal Conference Center, a ministry of the Diocese of Southwest Florida, provides room and board accommodations for various groups and ministries. Advance deposits are recorded as liabilities until the events occur, at which time the amounts are recorded as revenue.

(k) Income Taxes

The Diocese is a non-profit agency under the laws of the State of Florida and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

The Internal Revenue Code provides for taxation of unrelated business income under certain circumstances. The Diocese believes that it has no liability for taxes with respect to business income. However, such status is subject to final determination upon examination of the related income tax returns by the appropriate taxing authorities.

The Diocese follows Accounting Standards Codification Topic 740, "Income Taxes" ("ASC 740"). A component of this standard prescribes a recognition and measurement threshold of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities.

(2) Summary of Significant Accounting Policies and Practices - Continued

(k) Income Taxes - Continued

The Diocese's policy is to recognize interest and penalties associated with tax positions under this standard as a component of tax expense, and none were recognized since there was no material impact of the overall adoption of this standard for the years ended December 31, 2011 and 2010.

(l) Use of Estimates

The preparation of financial statements requires management of the Diocese to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, gains, and other support and expenses during the period. Actual results could differ from those estimates.

(m) Change in Accounting Estimate

During 2011, the Diocese reviewed its method for determining the allowance for uncollectible accounts related to apportionments and notes receivable. This resulted in a large decrease in the balance of the allowance for uncollectible accounts and a recovery of bad debt recorded as revenue in the amount of approximately $185,000 for the year ended December 31, 2011.

(n) Reclassifications

Certain prior-year amounts have been reclassified to conform to the current year's financial statement presentation.

(o) Related Party Consolidation

Accounting Standard Codification 958-810, *Not-For-Profit Entity Consolidation* (ASC 958-810), clarifies the application of consolidated financial statements to certain related party entities in which a not-for-profit entity has characteristics of a controlling and economic financial interest. This guidance clarifies how to identify a related party entity in which the not-for-profit entity has a controlling and economic interest and how to determine when a not-for-profit entity should include the assets, liabilities, net assets and results of activities of the related party entity in its consolidated financial statements.

Management has concluded that Dayspring, a related party under common control, is a related party entity in which Diocese has both controlling and economic interest in. Management has elected to include the related assets, liabilities, net assets and results of activities of Dayspring in these consolidated financial statements, as required by accounting principles generally accepted in the United States of America.

(3) Investments

At December 31, 2011 and 2010 the Diocese held investments with a fair value of $6,301,119 and $7,822,651, respectively. The composition of these investments was as follows:

	2011		2010	
	Cost	**Fair Value**	**Cost**	**Fair Value**
ECF - Balanced Fund	$ 5,226,025	5,025,087	5,496,778	6,154,096
ECF - Income Fund	939,732	963,335	1,587,847	1,601,626
Short-term investments	312,697	312,697	66,929	66,929
	$ 6,478,454	6,301,119	7,151,554	7,822,651

Investment return was comprised of the following for the years ended December 31, 2011 and 2010:

	2011	**2010**
Dividends and interest	$ 303,810	281,539
Net realized and unrealized appreciation	51,323	424,788
	$ 355,133	706,327

(4) Fair Value of Financial Instruments

The Diocese follows FASB Accounting Standards Codification Topic 820, "Fair Value and Measurement" ("ASC 820"). ASC 820 establishes a framework for using fair value to measure assets and liabilities and defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) as opposed to the price that would be paid to acquire the asset or received to assume the liability (an entry price).

Under ASC 820, a fair value measure should reflect the assumptions that market participants would use in pricing the asset or liability, including the assumptions about the risk inherent in a particular valuation technique, the effect of a restriction on the sale or use of an asset and the risk of nonperformance. ASC 820 requires disclosures that stratify balance sheet amounts measured at fair value based on inputs the Diocese used to derive fair value measurements. These strata include:

- Level 1 valuations, where the valuation is based on quoted market prices for identical assets or liabilities traded in active markets (which include exchanges and over-the counter markets with sufficient volume);

- Level 2 valuations, where the valuation is based on quoted market prices for similar instruments traded in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market; and

(4) Fair Value of Financial Instruments – Continued

- Level 3 valuations, where the valuation is generated from model-based techniques that use significant assumptions not observable in the market, but observable based on Organization-specific data. These unobservable assumptions reflect the Organization's own estimates for assumptions that market participants would use in pricing the asset or liability. Valuation techniques typically include option pricing models, discounted cash flow models and similar techniques, but may also include the use of market prices of assets or liabilities that are not directly comparable to the subject asset or liability.

Financial instruments including investments and beneficial interest in trust included in the consolidated statement of financial position at December 31, 2011 and 2010 are measured at the reporting date using Level 2 inputs.

(5) Apportionments and Notes Receivable

During the year ended December 31, 2011 and 2010, the Diocese reviewed the individual apportionment receivable balances for collectability. Several of the prior years' apportionment receivables were converted into five year note receivables. As of December 31, 2011 and 2010 the apportionments and notes receivable included:

		2011	2010
Prior years apportionment receivables	$	18,000	138,017
Apportionments converted to notes		710,874	538,628
Current apportionment receivable		144,995	252,388
Allowance for uncollectible accounts		(329,538)	(677,021)
Total apportionments and notes receivable	$	544,331	252,012

(6) Loans Receivable

At December 31, 2011 and 2010 the Diocese has interest and non-interest bearing loans receivable totaling $2,521,338 and $2,176,957, respectively due from member churches. Repayment terms and scheduled payments are made according to each Church's agreement with the Diocese, respectively. As of December 31, 2011 and 2010 the loans outstanding included:

		2011	2010
Iona Hope Episcopal Church, Fort Myers	$	968,446	989,639
Grace Episcopal Church, Tampa		319,950	319,950
St. Catherine's Episcopal Church, Temple Terrace		184,488	197,186
St. Mary's Episcopal Church, Tampa		112,500	112,500
St. Nathaniel's Episcopal Church, North Port		287,995	294,369
St. Giles Manor II, Pinellas Park		1,763	8,542
St. Elizabeth's Episcopal Church, Zephyrhills		-	(229)
Church of the Good Shepherd, Punta Gorda		85,000	85,000
Church of the Holy Spirit, Safety Harbor		18,541	-
St. Monica's Episcopal Church, Naples		170,000	170,000
St. Hilary Episcopal Church, Fort Myers		216,990	-
Epiphany Episcopal Church, Cape Coral		116,238	-
All Souls Episcopal Church, Fort Myers		39,427	-
	$	2,521,338	2,176,957

During 2011 and 2010, the Diocese reviewed certain nonperforming loans involving several parishes. This review resulted in loans being restructured for repayment during both years. Management of the Diocese believes all loans receivable at December 31, 2011 and 2010 are fully collectible within the terms of the respective agreements with each parish.

(7) Mortgage Note Receivable

On December 22, 2004 the Diocese executed a mortgage in the amount of $1,500,000 by and between St. Mark's Episcopal Church for construction of their new facilities. The mortgage receivable, which bears interest at 3% and is payable over 30 years, is due in monthly installments of $6,324 beginning April 1, 2005. The note is secured by real property. The Diocesan Council approved the deferral of principal payments and required interest only payments for four years. Beginning January 2013, St. Mark's Episcopal Church will commence principal payments. As of December 31, 2011 and 2010 the note had an outstanding balance of $1,403,093. Management considers the amount to be fully collectible.

(8) Land, Buildings, and Equipment

Land, buildings, and equipment at December 31, 2011 and 2010 consist of following:

	2011 Diocese	2011 Conference Center	2011 Total	2010 Total
Land	$ 1,018,465	991,805	2,010,270	1,974,101
Buildings	171,894	3,170,662	3,342,556	3,172,109
Furniture and equipment	68,181	520,947	589,128	575,563
Vehicles	94,200	15,530	109,730	109,730
Construction in progress	231,685	-	231,685	-
			6,283,369	5,831,503
Less accumulated depreciation			2,916,461	2,728,226
Land, buildings, and equipment, net			$ 3,366,908	3,103,277

Depreciation expense for the years ended December 31, 2011 and 2010 is as follows:

	2011	2010
Diocese	$ 34,118	53,305
Dayspring	156,292	142,350
Total	$ 190,410	195,655

The amount related to the Dayspring is included in the Dayspring expense line item on the Consolidated Statement of Activities.

A full physical inventory was conducted during 2010 which resulted in a write off of several items. This write off amounted to a loss of approximately $440,000 and is reflected as loss on disposal of assets in the consolidated statement of activities for the year ended December 31, 2010.

(9) Property Held for Sale, Net

At December 31, 2011 and 2010, there is land and a building held for sale. These assets are held for sale due to the plan for the new administrative building to be built. The carrying value of the assets is approximately $500,000 at December 31, 2011 and 2010, of which $60,000 relates to the land and $440,000 relates to the building. The building is net of depreciation that was recorded prior to being held for sale. These assets are expected to be sold within one year. See Note 22 for subsequent event regarding the impending sale of this property.

(10) Notes Payable

Notes payable at December 31, 2011 and 2010 consists of the following:

		2011	2010
5.21% mortgage note payable in monthly installments of $6,811 including interest, due January 2011, secured by rents, leases, and real property.	$	-	703,545
6.25% mortgage note payable in monthly installments of $3,556, including interest, due September 2023, secured by rents, leases and real property.		370,945	392,049
Total notes payable	$	370,945	1,095,594

The aggregate maturities of notes payable for each of the five years subsequent to December 31, 2011 and thereafter are as follows:

Year Ending December 31,		
2012	$	23,067
2013		24,368
2014		25,742
2015		27,195
2016		28,729
Thereafter		241,844
	$	370,945

(11) Line of Credit

The Diocese has a line of credit with a maximum borrowing capacity of $750,000, which is payable on demand. The interest rate on the line of credit is prime plus 1% and the line of credit matures January 31, 2012. There is no outstanding balance on the line of credit at December 31, 2011 and 2010. The line of credit was not renewed subsequent to its maturity date.

(12) Designated Net Assets

At December 31, 2011 and 2010, the Diocesan Council had designated unrestricted net assets for the following:

	2011	2010
Dayspring	$ -	629,318
Mission / 2020 Fund	1,449,276	1,599,841
Capital revolving loan fund	3,014,978	2,311,992
	$ 4,464,254	4,541,151

(13) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets consist of gifts and other unexpended revenue available for the following at December 31, 2011 and 2010:

	2011	2010
Benefit of elderly	$ 1,810,507	1,810,688
Congregation loans	106,932	106,452
Ministry development	63,934	63,968
St. Bartholomew	58,184	58,190
SCF chaplaincy	30,025	-
Missions	525,784	525,811
Bishop's discretionary	16,618	16,782
Underprivileged	51,543	51,991
Theological education	218,923	219,085
Episcopal charities grants	61,848	21,309
Dayspring	82,917	130,312
Other	146,653	161,845
	$ 3,173,868	3,166,433

(13) Temporarily and Permanently Restricted Net Assets - Continued

At December 31, 2011 and 2010, permanently restricted net assets consist of perpetual trust funds totaling $2,364,454 and $2,367,285 respectively. The income from these assets can be used for the following purposes:

		2011	2010
Bishop's discretionary	$	534,689	534,689
Missions		385,680	407,182
Benefit of elderly		329,131	350,633
Ministry development		280,054	280,054
Education		122,128	121,987
Dayspring endowment		304,814	289,063
Episcopal charities grants		374,847	350,565
Other		33,112	33,112
	$	2,364,455	2,367,285

(14) Net Assets Released From Restrictions

Net assets were released from donor restrictions as follows during the years ended December 31, 2011 and 2010, by incurring expenses satisfying the restricted purposes, or by occurrence of other events specified by donors:

Purpose restrictions accomplished:

		2011	2010
Benefit of elderly	$	50,413	48,120
Ministry development		9,577	9,121
St. Bartholomew		1,620	1,538
Missions		7,511	7,129
Theological education		7,429	6,998
Bishop's discretionary		16,524	2,764
Underprivileged		3,490	18,134
Dayspring		75,640	20,951
Episcopal charities grants		15,337	2,961
Other		2,654	86,000
	$	190,195	203,716

(15) Endowment Funds

The Diocese's endowment consists of several individual funds established for a variety of purposes. Its endowment consists of donor-restricted funds. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law. The Diocese's Diocesan Council has interpreted the wishes of donors and state law 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 unrestricted net assets.

Investment Return Objectives, Risk Parameters and Strategies. The Diocese has adopted investment and spending policies, approved by the Diocesan Council, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk.

Endowment assets are invested in a well diversified asset mix, which includes equity and fixed-income securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to provide a high level of cash distribution, while growing the funds if possible. Therefore, the Diocese expects its endowment assets, over time, to produce an average rate of return of approximately 7-9% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy. The Diocese is operating under an endowment spending policy (adopted in 2011) which dictates that the endowment fund transfer to the operating fund an agreed upon percentage of the fund made available. The Dioceses estimates the distribution to fall in the range of three to five percent. In establishing this policy, the Diocese considers the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. This is consistent with the Diocese's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

(15) Endowment Funds - Continued

Endowment net asset composition by type of fund as of December 31, 2011 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Endowment Net Assets
Donor-restricted endowment funds	$ -	3,117,946	1,706,192	4,824,138
	$ -	3,117,946	1,706,192	4,824,138

Changes in endowment net assets for the year ended December 31, 2011 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Endowment Net Assets
Balance, beginning of year	$ -	3,068,725	1,666,019	4,734,744
Contributions	-	57,813	40,173	97,986
Interest and dividends, net of investment expenses	-	92,645	-	92,645
Net appreciation	-	27,992	-	27,992
Amount appropriated for expenditures	-	(129,229)	-	(129,229)
Balance, end of year	$ -	3,117,946	1,706,192	4,824,138

Endowment net asset composition by type of fund as of December 31, 2010 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Endowment Net Assets
Donor-restricted endowment funds	$ -	3,068,725	1,666,019	4,734,744
	$ -	3,068,725	1,666,019	4,734,744

(15) Endowment Funds - Continued

Changes in endowment net assets for the year ended December 31, 2010 are as follows:

		Unrestricted	Temporarily Restricted	Permanently Restricted	Total Endowment Net Assets
Balance, beginning of year	$	-	2,888,044	1,632,985	4,521,029
Contributions		-	-	33,034	33,034
Interest and dividends, net of investment expenses		-	105,598	-	105,598
Net appreciation		-	262,144	-	262,144
Amount appropriated for expenditures		-	(187,061)	-	(187,061)
Balance, end of year	$	-	3,068,725	1,666,019	4,734,744

In August 2008, the FASB issued Accounting Standards Codification Topic, "Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds" (ASC 958). ASC 958 provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). ASC 958 also requires additional disclosures about an organization's endowment funds whether or not the organization is subject to UPMIFA. Florida has not yet adopted UPMIFA and therefore the Diocese is not subject to its provisions.

In July 2011, the Legislature of the State of Florida enacted the Florida Uniform Prudent Management of Institutional Funds Acts (FLUPMIFA), which will become effective July 1, 2012. Changes related to the enactment of FLUPMIFA are not expected to have a material impact on classifications and interpretations outlined above.

(16) Pension Plan

The Clergy and the lay employees of the Diocese are participants in separate pension plans. The Clergy are covered by the Church Pension Fund and the lay employees are covered by a defined contribution plan administered by ING Life Insurance Company. The plan covering lay employees calls for annual contributions by the Diocese, based on a percent of aggregate employee compensation. Total pension expense for the Clergy employees for the years ended December 31, 2011 and 2010 was $66,474 and $63,333, respectively. Total pension expense for the lay employees for the years ended December 31, 2011 and 2010 was $32,275 and $31,250, respectively. The Church Pension Fund is a defined benefit plan; however, it is part of a National Plan and additional information with the respect to the Diocese of Southwest Florida, Inc. is not available as the plan is evaluated on an aggregate basis.

(16) Pension Plan – Continued

The Dayspring Episcopal Conference Center employees also participate in a separate pension plan through the Church Pension Fund. Total expense for the years ended December 31, 2011 and 2010 was $32,023 and $30,794, respectively.

(17) Postretirement Benefits

Under a plan adopted January 1, 1999, the Diocese provides certain health care and life insurance benefits for clergy and lay retirees. Eligibility for those benefits occurs upon the attainment of age 65 and a minimum of ten years of service while working for the Diocese. The Diocese has the right to amend or terminate the program at anytime; therefore, no future obligations are recorded under generally accepted accounting principles. During the year ended December 31, 2011 and 2010, the payment of benefits was limited to $85 per person per month.

Total postretirement benefit expense for the years ended December 31, 2011 and 2010 was $122,566 and $119,840, respectively.

(18) Dayspring Eliminations and Related Activity

The consolidated financial statements of the Diocese include related Dayspring balances and activities. For this reason, elimination of related party receivables and payables, along with corresponding revenues and expenses are necessary at year end. Eliminating entries were made to properly account for the $1,752,957 investment in Dayspring as of December 31, 2011 and 2010, respectively. At December 31, 2011 and 2010, $235,000 and $100,000 of Dayspring support was eliminated along with $0 and $60,000, respectively, for prepaid Dayspring support. In addition, a payable of $11,457 and $9,106 to the Diocese by the Dayspring were eliminated along with a due to Diocese of $321,519. Dayspring depreciation is included within the consolidated statement of activities.

(19) Commitments and Contingencies

During 2011, the Diocese entered into a construction agreement to have an administrative building constructed. The total remaining construction expenses expected to be incurred are approximately $1,200,000.

(20) Concentration of Credit Risk

The Diocese maintains cash balances on deposit with financial institutions at various times in excess of the Federal Deposit Insurance Corporation (FDIC) coverage. For interest-bearing accounts, the FDIC limit is $250,000. Effective from December 31, 2010 through December 31, 2012, all noninterest-bearing transaction accounts are fully insured, regardless of the balance of the account and the ownership capacity of the funds. The unlimited coverage is separate from, and in addition to, the insurance coverage provided for a depositor's other accounts held at an FDIC insured bank.

(21) Prior Period Adjustment

The Diocese's financial statements as of December 31, 2009 and 2010 included misclassifications of net assets. As a result, unrestricted net assets were overstated by approximately $690,000, temporary restricted net assets were understated by approximately $235,000 and permanently restricted net assets were understated by approximately $455,000 for the year ended December 31, 2009. Unrestricted net assets were overstated by approximately $963,000, temporary restricted net assets were understated by approximately $475,000 and permanently restricted net assets were understated by approximately $488,000 for the year ended December 31, 2010. Prior period adjustments were made to the net asset classifications to correct these errors. There was no effect on total net assets or net income for either year.

(22) Subsequent Events

Subsequent to year end the Diocese was named a beneficiary in two new trusts. Amounts will vary based on final determination of the estates and are expected to be received during 2012.

Subsequent to year end, a contract was signed for the sale of the property held for sale (Note 9). The closing date is expected to be in September 2012.

The Diocese has evaluated events occurring after the statement of financial position through August 17, 2012, the date which the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

DIOCESE OF SOUTHWEST FLORIDA, INC.

Schedule of Dayspring Expenses

For the Years Ended December 31, 2011 and 2010

		2011	2010
Food services	$	416,990	402,843
Guest services		196,553	193,321
Grounds and building maintenance		246,287	264,560
Depreciation		156,292	142,350
Administration		498,690	521,962
Miscellaneous		15,325	16,120
Interest		9,508	18,329
Total Dayspring expenses	$	1,539,645	1,559,485

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August 17, 2012

The Diocesan Council and Anne Vickers, CFO
The Episcopal Diocese of Southwest Florida:

In planning and performing our audit of the consolidated financial statements of The Episcopal Diocese of Southwest Florida, Inc. (the "Diocese") as of and for the year ended December 31, 2011, in accordance with the auditing standards generally accepted in the United States of America, we considered the Diocese's internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the combined financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Diocese's internal control. Accordingly, we do not express an opinion on the effectiveness of the Diocese's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's combined financial statements will not prevented, or detected and corrected, on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe that a material weakness, yet important enough to merit attention by those charged with governance.

See below for our analysis of prior year control deficiencies and current year control deficiencies and recommendations.

Follow up on prior year's control deficiencies:

Prior Year's Comments	Not Implemented	Partially Implemented	Implemented
Material Weakness:			
Property and Equipment			X
Significant Deficiencies:			
No Review or Approval of Bank Reconciliations			X
Accrued Liabilities	X		
Net Assets			X
Approval of Journal Entries		X	
Matters to strengthen internal control:			
Dual Signatures on Checks			X
Proper Check Sequence			X
Held Checks			X
Diocese Credit Cards			X
Property and Equipment Asset Disposal Policy			X
Event Contracts			X

Current year control deficiencies that are considered material weaknesses:

Net Assets

The FASB Accounting Standards Codification Topic "Not-for-Profit Entities" (958) requires the Diocese to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted net assets. Over the past few years management has reviewed supporting documentation and adjustments have been made to identify and properly record the classification of these net assets.

During the current year, management reviewed information regarding any endowments in an effort to meet the required footnote disclosures for endowment activity. As a result, it was determined that certain net assets were not properly classified as unrestricted, temporarily restricted or permanently restricted for donor restricted funds which were established for a variety of purposes many years ago.

This resulted in material adjustments being made to the financial statements as of December 31, 2009 and for the year ended December 31, 2010. There was no effect to total net assets or net income for either year, however we recommend that management continue to properly track all restricted net assets by its proper classification to ensure the Diocese is properly recording all activity based on donor restrictions.

Current year control deficiencies that are considered significant deficiencies:

Accrued Liabilities

As noted during the prior year audit, all the accruals were not properly recorded at year-end. The year-end account balances for the financial statements should be prepared on an accrual basis in accordance with generally accepted accounting principles. Accrual basis accounting is the method of accounting where revenues are recognized when earned, and expenses are recognized when incurred. During the audit procedures performed this year, there was one item for approximately $64,000 that was discovered in our search for unrecorded liabilities that related to the year under audit that had not been properly accrued at year-end. As a result a journal entry was prepared to record this transaction. We recommend that the client review all items at year-end to ensure that all liabilities have been properly booked in the proper period or that they are properly accrued each year.

Approval of Journal Entries

We had recommended in the prior year that all journal entries be reviewed by a second person prior to posting to the general ledger. We had also noted that if it was not practical to review all entries before they are posted to the general ledger, that the journal entries be reviewed on a monthly or quarterly basis by a designated individual such as the Chief Financial Officer. This step should also include evidence, such as a signature or initials, indicating that the entries were reviewed.

During our testing of journal entries this year, we noted that the Episcopal Diocese had implemented these procedures, however at Dayspring, we observed that the journal entries did not have evidence of such review. The review of journal entries before recording to the general ledger ensures that the transactions are valid, correct and appropriate and provides for additional oversight and strengthens internal controls.

This communication is intended solely for the information and use of the Diocesan Council and management of the Diocese, and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Mayer Hoffman McCann P.C.

Mayer Hoffman McCann P.C.
Clearwater, Florida