THE DIOCESE OF SOUTHWEST FLORIDA, INC.

Consolidated Financial Statements
and Supplementary Information

December 31, 2012 and 2011
(With Independent Auditor's Report Thereon)

THE DIOCESE OF SOUTHWEST FLORIDA, INC.

Index

MHM®

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Diocese of Southwest Florida, Inc. (the "Diocese") (a nonprofit organization) which comprise the statements of financial position as of December 31, 2012 and 2011, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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.

Auditors' Responsibility

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 consolidated financial statements are free from 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 audit opinion.

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, 2012 and 2011, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 12, 2013
Clearwater, Florida

THE DIOCESE OF SOUTHWEST FLORIDA, INC.

Consolidated Statements of Financial Position

December 31, 2012 and 2011

Assets		2012	2011
Cash	$	892,022	2,076,164
Investments		7,977,317	6,301,119
Apportionments and notes receivable, net		506,023	544,331
Accounts receivable, net		14,377	3,761
Loans receivable		2,484,697	2,521,338
Mortgage note receivable		1,700,475	1,403,093
Other assets		37,917	29,728
Beneficial interest in trust		-	658,262
Land, buildings, and equipment, net		4,685,905	3,366,908
Property held for sale, net		-	499,576
Total assets	$	18,298,733	17,404,280
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	315,957	435,001
Deposits		174,425	173,640
Note payable		-	370,945
Total liabilities		490,382	979,586
Net assets unrestricted:			
Undesignated		1,895,534	3,426,154
Designated		4,872,161	4,464,254
Land, buildings, and equipment		4,685,905	2,995,963
Total unrestricted net assets		11,453,600	10,886,371
Temporarily restricted		3,878,943	3,173,868
Permanently restricted		2,475,808	2,364,455
Total net assets		17,808,351	16,424,694
Total liabilities and net assets	$	18,298,733	17,404,280

THE DIOCESE OF SOUTHWEST FLORIDA, INC.

Consolidated Statement of Activities

For the Year Ended December 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, gains, and other support:				
Diocesan apportionments	$ 3,203,297	-	-	3,203,297
Investment return	387,174	476,345	13,515	877,034
Contributions and bequests	180,727	429,493	97,838	708,058
Dayspring operations	1,219,399	112,616	-	1,332,015
Change in value of beneficial interest in trust	-	-	-	-
Interest income from loans to Churches	107,401	-	-	107,401
Recovery of bad debt	171,750	-	-	171,750
Other income	61,372	-	-	61,372
Total revenue and gains	5,331,120	1,018,454	111,353	6,460,927
Net assets released from restrictions	313,379	(313,379)	-	-
Total revenue, gains, and other support	5,644,499	705,075	111,353	6,460,927
Expenses:				
Congregational	859,039	-	-	859,039
Ministry	823,593	-	-	823,593
Administrative	1,833,562	-	-	1,833,562
Dayspring	1,213,234	-	-	1,213,234
Depreciation	251,784	-	-	251,784
Loss on disposal of assets	72,848	-	-	72,848
Interest	23,210	-	-	23,210
Total expenses	5,077,270	-	-	5,077,270
Change in net assets	567,229	705,075	111,353	1,383,657
Net assets at beginning of year	10,886,371	3,173,868	2,364,455	16,424,694
Net assets at end of year	$ 11,453,600	3,878,943	2,475,808	17,808,351

THE DIOCESE OF SOUTHWEST FLORIDA, INC.

Consolidated Statement 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	1,383,353	-	-	1,383,353
Depreciation	190,410	-	-	190,410
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, as restated	$ 10,886,371	3,173,868	2,364,455	16,424,694

THE DIOCESE OF SOUTHWEST FLORIDA, INC.

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Change in net assets	$ 1,383,657	859,069
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	251,784	190,410
Loss on disposal of assets	72,848	2,527
Realized and unrealized gains on investments	(699,476)	(51,323)
Provision for uncollectible apportionments and notes receivable	(65,370)	(347,483)
Decrease (increase) in apportionments and notes receivable	103,678	55,164
Decrease (increase) in accounts receivable, net	(10,616)	5,223
(Increase) decrease in other assets	(8,189)	(7,365)
Decrease (increase) in beneficial interest in trust	658,262	43,004
Increase (decrease) in accounts payable and accrued expenses	(119,044)	252,657
(Decrease) increase in deposits	785	(42,867)
Contributions restricted for endowment	(98,106)	(40,033)
Net cash provided by operating activities	1,470,213	918,983
Cash flows from investing activities:		
Purchases of investments	(1,918,645)	(1,062,608)
Proceeds from sale of investments	942,563	2,635,493
Proceeds from sale of property held for sale, net	499,576	-
Payments received on loans receivable	304,641	46,815
Proceeds disbursed for loans receivable	(268,000)	(391,196)
Payments received on mortgage notes receivable	2,618	-
Proceeds disbursed for mortgage loan receivable	(300,000)	-
Purchases of equipment	(2,054,269)	(456,568)
Proceeds from sale of equipment	410,000	-
Net cash (used) provided by investing activities	(2,381,516)	771,936
Cash flows from financing activities:		
Contributions restricted for endowment	98,106	40,003
Proceeds from line of credit	-	702,858
Payments on line of credit	-	(702,858)
Principal payments on note payable	(370,945)	(724,649)
Net cash used in financing activities	(272,839)	(684,646)
Net (decrease) increase in cash	(1,184,142)	1,006,273
Cash at beginning of year	2,076,164	1,069,891
Cash at end of year	$ 892,022	2,076,164
Supplemental disclosure of noncash activities:		
Cash paid for interest	$ 23,210	42,820

(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(n)).

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 by the Diocese in perpetuity.

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

(a) Basis of Accounting - Continued

The Diocese follows the provisions of FASB Accounting Standards Codification Topic 958 "Not-for-Profit Entities" ("ASC 958"). This requires the Diocese to distinguish between contributions that increase permanently restricted net assets, temporarily restricted net assets and unrestricted net assets. It also requires recognition of contributed services meeting certain criteria at fair values.

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 net 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, 2012 and 2011, 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.

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

(d) Beneficial Interest in Trust

At December 31, 2011, the Diocese had a beneficial interest in a perpetual trust, the assets of which are administered by a third party. The Diocese received 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 was restricted for the use of home or maintenance for the elderly and support of missions.

The trust was terminated and the Diocese was named the beneficiary. The Diocese received $665,000 in relation this trust during the year ended December 31, 2012.

(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.

During 2012, the trust was terminated and the Diocese was named the beneficiary. 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 5 to 28 years. Expenditures in excess of $1,000 with an estimated useful life in excess of one year are capitalized.

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

(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.

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, 2012 and 2011, 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.

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 19% and 20% of certain revenues less a $120,000 exemption during 2012 and 2011, respectively. The "asking" expense was approximately $453,000 and $435,000 for the years ended December 31, 2012 and 2011, respectively and is included in ministry expense on the consolidated statement of activities. Of these amounts, $-0- and $7,228 are represented as accrued expenses at December 31, 2012 and 2011.

(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.

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

(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.

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, 2012 and 2011.

(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) 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.

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

(n) Related Party Consolidation - Continued

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. 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, 2012 and 2011 the Diocese held investments with a fair value of $7,977,317 and $6,301,119, respectively. The composition of these investments was as follows:

	2012		2011	
	Cost	Fair Value	Cost	Fair Value
ECF - Balanced Fund	$ 6,461,617	6,908,349	5,226,025	5,025,087
ECF - Income Fund	803,060	833,698	939,732	963,335
Short-term investments	235,269	235,270	312,697	312,697
	$ 7,499,946	7,977,317	6,478,454	6,301,119

Investment return was comprised of the following for the years ended December 31, 2012 and 2011:

	2012	2011
Dividends and interest	$ 177,558	303,810
Net realized and unrealized appreciation	699,476	51,323
	$ 877,034	355,133

(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

- 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, 2012 and 2011 are measured at the reporting date using Level 2 inputs.

(5) Apportionments and Notes Receivable

During the year ended December 31, 2012 and 2011, the Diocese reviewed the individual apportionment receivable balances for collectability. As of December 31, 2012 and 2011 the apportionments and notes receivable included:

		2012	2011
Prior years apportionment receivables	$	-	18,000
Apportionments converted to notes		664,228	710,874
Current apportionment receivable		105,963	144,995
Allowance for uncollectible accounts		(264,168)	(329,538)
Total apportionments and notes receivable	$	506,023	544,331

(6) Loans Receivable

At December 31, 2012 and 2011 the Diocese has interest and non-interest bearing loans receivable totaling $2,484,697 and $2,521,338, 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, 2012 and 2011 the loans outstanding included:

		2012	2011
Iona Hope Episcopal Church, Fort Myers	$	946,608	968,446
Grace Episcopal Church, Tampa		356,498	319,950
St. Catherine's Episcopal Church, Temple Terrace		170,676	184,488
St. Mary's Episcopal Church, Tampa		112,500	112,500
St. Nathaniel's Episcopal Church, North Port		281,428	287,995
St. Giles Manor II, Pinellas Park		-	1,763
Church of the Good Shepherd, Punta Gorda		85,000	85,000
Church of the Holy Spirit, Safety Harbor		16,676	18,541
St. Monica's Episcopal Church, Naples		105,534	170,000
St. Hilary Episcopal Church, Fort Myers		198,440	216,990
Epiphany Episcopal Church, Cape Coral		100,830	116,238
All Souls Episcopal Church, Fort Myers		19,740	39,427
St Alfred, Palm Harbor		90,767	-
	$	2,484,697	2,521,338

During 2011, the Diocese reviewed certain nonperforming loans involving several parishes. This review resulted in loans being restructured for repayment. Management of the Diocese believes all loans receivable at December 31, 2012 and 2011 are fully collectible within the terms of the respective agreements with each parish.

(7) Mortgage Note Receivable

At December 31, 2012, the Diocese had two mortgage note receivables totaling $1,700,475.

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, 2012 and 2011 the note had an outstanding balance of $1,403,093. Management considers the amount to be fully collectible.

On September 7, 2012, the Diocese executed a mortgage in the amount of $300,000 by and between Khalea Limited Partnership for two units at the Garden Office Park Condominium at Lakewood Ranch. The mortgage receivable, which bears interest at 8% and is payable in a year, is due in monthly installments of $2,867 beginning October 1, 2012, with a balloon payment in September 2013. The note is secured by real property. As of December 31, 2012, the note had an outstanding balance of $297,382. Management considers the amount to be fully collectible.

(8) Land, Buildings, and Equipment

Land, buildings, and equipment at December 31, 2012 and 2011 consist of following:

	2012			
	Diocese	Conference Center	Total	2011 Total
Land	$ 1,018,465	1,011,875	2,030,340	2,010,270
Buildings	1,633,229	3,247,717	4,880,946	3,342,556
Furniture and equipment	176,027	575,162	751,189	589,128
Vehicles	93,033	21,532	114,565	109,730
Construction in progress	-	-	-	231,685
			7,777,040	6,283,369
Less accumulated depreciation			3,091,135	2,916,461
Land, buildings, and equipment, net			$ 4,685,905	3,366,908

Depreciation expense for the years ended December 31, 2012 and 2011 is as follows:

	2012	2011
Diocese	$ 83,629	34,118
Dayspring	168,155	156,292
Total	$ 251,784	190,410

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

(9) Property Held for Sale, Net

At December 31, 2011, there is land and a building held for sale. These assets were held for sale due to the plan for the new administrative building to be built. The carrying value of the assets was approximately $500,000 at December 31, 2011, of which $60,000 related to the land and $440,000 related to the building. The building is net of depreciation that was recorded prior to being held for sale. During the year ended December 31, 2012, the property was sold for $499,576.

(10) Note Payable

Note payable at December 31, 2012 and 2011 consists of the following:

		2012	2011
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

(11) Line of Credit

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

(12) Designated Net Assets

At December 31, 2012 and 2011, the Diocesan Council had designated unrestricted net assets for the following:

		2012	2011
Mission / 2020 Fund	$	1,383,253	1,449,276
Capital revolving loan fund		3,279,174	3,014,978
Dayspring permanent endowment		209,734	-
	$	4,872,161	4,464,254

(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, 2012 and 2011:

		2012	2011
Benefit of elderly	$	1,929,895	1,810,507
Congregation loans		108,782	106,932
Ministry development		86,565	63,934
St. Bartholomew		62,007	58,184
SCF chaplaincy		32,026	30,025
Missions		543,543	525,784
Bishop's discretionary		283,079	16,618
Underprivileged		21,776	51,543
Theological education		487,935	218,923
Episcopal charities grants		94,186	82,917
Dayspring		68,445	61,848
Other		160,704	146,653
	$	3,878,943	3,173,868

Permanently restricted net assets consist of contributions and other gifts maintained by the Diocese in perpetuity for the following at December 31, 2012 and 2011:

		2012	2011
Bishop's discretionary	$	534,689	534,689
Missions		392,438	385,680
Benefit of elderly		335,889	329,131
Ministry development		280,054	280,054
Education		122,159	122,128
Dayspring endowment		332,999	304,814
Episcopal charities grants		444,469	374,847
Other		33,111	33,112
	$	2,475,808	2,364,455

(14) Net Assets Released From Restrictions

Net assets were released from donor restrictions as follows during the years ended December 31, 2012 and 2011, by incurring expenses satisfying the restricted purposes, or by occurrence of other events specified by donors:

Purpose restrictions accomplished:

		2012	2011
Benefit of elderly	$	65,172	50,413
Ministry development		12,384	9,577
St. Bartholomew		2,100	1,620
College chaplaincy		1,056	-
Missions		9,696	7,511
Theological education		25,507	7,429
Bishop's discretionary		2,724	16,524
Underprivileged		3,936	3,490
Dayspring		167,692	75,640
Episcopal charities grants		15,492	15,337
Other		7,620	2,654
	$	313,379	190,195

(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.

(15) Endowment Funds - Continued

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 Diocese 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.

Endowment net asset composition by type of fund as of December 31, 2012 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Endowment Net Assets
Donor-restricted endowment funds	$ 209,734	3,380,580	1,804,030	5,394,344
	$ 209,734	3,380,580	1,804,030	5,394,344

(15) Endowment Funds - Continued

Changes in endowment net assets for the year ended December 31, 2012 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Endowment Net Assets
Balance, beginning of year	$ -	3,117,946	1,706,192	4,824,138
Contributions	199,991	268	97,838	298,097
Interest and dividends, net of investment expenses	(252)	(5,797)	-	(6,049)
Net appreciation	14,047	405,831	-	419,878
Amount appropriated for expenditures	(4,052)	(137,668)	-	(141,720)
Balance, end of year	$ 209,734	3,380,580	1,804,030	5,394,344

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

(15) Endowment Funds - Continued

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

(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, 2012 and 2011 was $68,329 and $66,474, respectively. Total pension expense for the lay employees for the years ended December 31, 2012 and 2011 was $37,323 and $32,275, 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.

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, 2012 and 2011 was $28,112 and $32,023, 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. In 2011 the Diocese adopted a new policy that affected the calculation of the total retiree benefit amount starting in 2012. The new policy provides for the Diocese to designate a total retiree benefit amount each year as part of their annual budgeting process. This amount is based on the income released from the endowment funds restricted for the benefit of the elderly, may include funds from current year Diocesan operating funds and is then divided by the budgeted number of eligible retires each year.

Total postretirement benefit expense for the years ended December 31, 2012 and 2011 was $81,698 and $122,566, 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, 2012 and 2011, respectively. At December 31, 2012 and 2011, $100,000 and $235,000 of Dayspring support was eliminated along with the transfer of $249,991 of bequests included in the endowment fund for the year ended December 31, 2012. In addition, a payable of $3,001 and $11,457 to the Diocese by the Dayspring were eliminated along with a due to Diocese of $354,285 and $321,519 for the years ended December 31, 2012 and 2011, respectively. Dayspring depreciation is included within the consolidated statement of activities.

(19) 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.

(20) Subsequent Events

The Diocese has evaluated events occurring after the statement of financial position through August 12, 2013, the date which the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

DIOCESE OF SOUTHWEST FLORIDA, INC.

Combining Statement of Financial Position

For the Year Ended December 31, 2012

		Diocese Operating	DaySpring Operating	Eliminating Entries	Total
Assets					
Cash	$	717,493	174,529	-	892,022
Investments		7,977,317	-	-	7,977,317
Apportionments receivable, net		506,023	-	-	506,023
Accounts receivable, net		-	14,377	-	14,377
Loans receivable, net		2,788,982	-	(304,285)	2,484,697
Mortgage note receivable		1,700,475	-	-	1,700,475
Other assets		32,949	4,968	-	37,917
Land, buildings, and equipment, net		2,701,887	1,984,018	-	4,685,905
Investment in DaySpring		1,752,957	-	(1,752,957)	-
Due from affiliate		53,000	-	(53,000)	-
Total Assets	$	18,231,083	2,177,892	(2,110,242)	18,298,733
Liabilities					
Accounts payable and accrued expenses	$	263,260	55,698	(3,001)	315,957
Deposits		20,840	153,585	-	174,425
Due to affiliates		-	354,285	(354,285)	-
Total liabilities	$	284,100	563,568	(357,286)	490,382
Net assets unrestricted:					
Undesignated (deficit)		4,030,958	(382,468)	(1,752,956)	1,895,534
Designated		4,872,161	-	-	4,872,161
Land, buildings, and equipment		2,701,887	1,984,018	-	4,685,905
Total unrestricted net assets		11,605,006	1,601,550	(1,752,956)	11,453,600
Temporarily restricted		3,866,169	12,774	-	3,878,943
Permanently restricted		2,475,808	-	-	2,475,808
Total net assets		17,946,983	1,614,324	(1,752,956)	17,808,351
Total liabilities and net assets	$	18,231,083	2,177,892	(2,110,242)	18,298,733

DIOCESE OF SOUTHWEST FLORIDA, INC.

Combining Statement of Activities

For the Year Ended December 31, 2012

	Diocese Operating	DaySpring Operating	Eliminating Entries	Total
Revenue, gains, and other support:				
Diocesan apportionments	$ 3,203,297	-	-	3,203,297
Investment return	1,126,445	12,508	(261,919)	877,034
Contributions and bequests	440,322	267,736	-	708,058
Dayspring operations	-	1,432,015	(100,000)	1,332,015
Change in value of beneficial interest in trust	-	-	-	-
Interest income from loans to churches	107,401	-	-	107,401
Recovery of bad debt	171,750	-	-	171,750
Other income	61,372	-	-	61,372
Total revenue, gains, and other support	$ 5,110,587	1,712,259	(361,919)	6,460,927
Expenses:				
Congregational	$ 870,967	-	(11,928)	859,039
Ministry	823,593	-	-	823,593
Administrative	1,833,562	-	-	1,833,562
Dayspring	-	1,563,225	(349,991)	1,213,234
Depreciation	83,629	168,155	-	251,784
Loss (Gain) on disposal	70,791	2,057	-	72,848
Interest expense	13,800	9,410	-	23,210
Total Expenses	$ 3,696,342	1,742,847	(361,919)	5,077,270
Change in net assets	1,414,245	(30,588)	-	1,383,657
Net assets at beginning of year	16,532,738	(108,044)	-	16,424,694
Net assets at end of year	$ 17,946,983	(138,632)	-	17,808,351

DIOCESE OF SOUTHWEST FLORIDA, INC.

Schedule of DaySpring Expenses

For the Years Ended December 31, 2012 and 2011

		2012	2011
Food services	$	415,745	416,990
Guest services		196,237	196,553
Grounds and building maintenance		225,682	246,287
Depreciation		168,155	156,292
Administration		719,912	498,690
Miscellaneous		7,706	15,325
Interest		9,410	9,508
Total Dayspring expenses	$	1,742,847	1,539,645