

THE DIOCESE OF SOUTHWEST FLORIDA, INC.

**Consolidated Financial Statements
and
Supplementary Information**

**December 31, 2013 and 2012
(With Independent Auditor's Report Thereon)**

THE DIOCESE OF SOUTHWEST FLORIDA, INC.

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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, 2013 and 2012, 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.

Auditor's 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, 2013 and 2012, 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 consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Maize Hoffman McLean P.C.

August 12, 2014
Clearwater, Florida

THE DIOCESE OF SOUTHWEST FLORIDA, INC.

Consolidated Statements of Financial Position

December 31, 2013 and 2012

Assets	2013	2012
Cash	\$ 1,804,812	892,022
Investments:		
Held for others	55,000	-
Held in endowment	7,461,323	5,394,344
Other	3,493,451	2,582,973
Apportionments and notes receivable, net	308,421	506,023
Accounts receivable, net	4,609	14,377
Loans receivable	2,095,795	2,484,697
Mortgage note receivable	1,478,879	1,700,475
Other assets	64,169	37,917
Land, buildings, and equipment, net	3,842,444	4,685,905
 Total assets	 \$ 20,608,903	 18,298,733
 Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 285,691	315,957
Deposits	177,495	174,425
Deposits held for others	55,000	-
 Total liabilities	 518,186	 490,382
Net assets unrestricted:		
Undesignated	2,490,622	1,895,534
Board-designated endowment	1,782,989	209,734
Board-designated other	5,019,590	4,662,427
Land, buildings, and equipment	3,842,444	4,685,905
 Total unrestricted net assets	 13,135,645	 11,453,600
Temporarily restricted	4,416,816	3,878,943
Permanently restricted	2,538,256	2,475,808
 Total net assets	 20,090,717	 17,808,351
 Total liabilities and net assets	 \$ 20,608,903	 18,298,733

See accompanying independent auditor's report and notes to consolidated financial statements.

THE DIOCESE OF SOUTHWEST FLORIDA, INC.

Consolidated Statement of Activities

For the Year Ended December 31, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue, gains, and other support:				
Diocesan apportionments	\$ 3,262,308	-	-	3,262,308
Investment return	582,568	724,873	-	1,307,441
Contributions and bequests	1,529,133	-	62,448	1,591,581
Dayspring operations	1,251,465	104,911	-	1,356,376
Interest income from loans to Churches	70,191	-	-	70,191
Recovery of bad debt	188,383	-	-	188,383
Other income	70,475	-	-	70,475
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenue and gains	6,954,523	829,784	62,448	7,846,755
Net assets released from restrictions	291,911	(291,911)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenue, gains, and other support	7,246,434	537,873	62,448	7,846,755
Expenses:				
Program services:				
Congregational	479,436	-	-	479,436
Ministry	913,049	-	-	913,049
Dayspring	1,387,586	-	-	1,387,586
	<hr/>	<hr/>	<hr/>	<hr/>
Total program services	2,780,071	-	-	2,780,071
Supporting services:				
Administrative	1,703,026	-	-	1,703,026
	<hr/>	<hr/>	<hr/>	<hr/>
Change in net assets before depreciation and other items:	2,763,337	537,873	62,448	3,363,658
Depreciation	279,068	-	-	279,068
Loss on disposal of assets	3,087	-	-	3,087
Land distribution	799,137	-	-	799,137
	<hr/>	<hr/>	<hr/>	<hr/>
Total depreciation and other items	1,081,292	-	-	1,081,292
Total expenses	5,564,389	-	-	5,564,389
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Change in net assets	1,682,045	537,873	62,448	2,282,366
Net assets at beginning of year	11,453,600	3,878,943	2,475,808	17,808,351
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Net assets at end of year	\$ 13,135,645	4,416,816	2,538,256	20,090,717
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THE DIOCESE OF SOUTHWEST FLORIDA, INC.

Consolidated Statement of Activities

For the Year Ended December 31, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
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
Interest income from loans to Churches	107,401	-	-	107,401
Recovery of bad debt	171,750	-	-	171,750
Other income	61,372	-	-	61,372
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Total revenue and gains	5,331,120	1,018,454	111,353	6,460,927
Net assets released from restrictions	313,379	(313,379)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenue, gains and other support	5,644,499	705,075	111,353	6,460,927
Expenses:				
Program services:				
Congregational	859,039	-	-	859,039
Ministry	823,593	-	-	823,593
Dayspring	1,222,644	-	-	1,222,644
	<hr/>	<hr/>	<hr/>	<hr/>
Total program services	2,905,276	-	-	2,905,276
Supporting services:				
Administrative	1,847,362	-	-	1,847,362
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Change in net assets before depreciation and other items	891,861	-	-	1,708,289
Depreciation	251,784	-	-	251,784
Loss on disposal of assets	72,848	-	-	72,848
	<hr/>	<hr/>	<hr/>	<hr/>
Total depreciation and other items	324,632	-	-	324,632
Total expenses	5,077,270	-	-	5,077,270
	<hr/>	<hr/>	<hr/>	<hr/>
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
	<hr/>	<hr/>	<hr/>	<hr/>
Net assets at end of year	\$ 11,453,600	3,878,943	2,475,808	17,808,351
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THE DIOCESE OF SOUTHWEST FLORIDA, INC.

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Change in net assets	\$ 2,282,366	1,383,657
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	279,068	251,784
Loss on disposal of assets	3,087	72,848
Land distribution	799,137	-
Realized and unrealized gains on investments	(964,002)	(699,476)
Provision for uncollectible apportionments and notes receivable	(48,048)	(65,370)
Decrease in apportionments and notes receivable	245,650	103,678
Decrease (increase) in accounts receivable, net	9,768	(10,616)
Increase in other assets	(26,252)	(8,189)
Decrease in beneficial interest in trust	-	658,262
Decrease in accounts payable and accrued expenses	(30,266)	(119,044)
Increase in deposits	3,070	785
Increase in deposits held for others	55,000	-
Contributions restricted for endowment	(62,448)	(98,106)
	<u>2,546,130</u>	<u>1,470,213</u>
Net cash provided by operating activities		
Cash flows from investing activities:		
Purchases of investments	(2,587,296)	(1,918,645)
Proceeds from sale of investments	519,481	942,563
Proceeds from sale of property held for sale, net	-	499,576
Payments received on loans receivable	488,902	304,641
Proceeds disbursed for loans receivable	(100,000)	(268,000)
Payments received on mortgage notes receivable	321,596	2,618
Proceeds disbursed for mortgage notes receivable	(100,000)	(300,000)
Purchases of equipment	(246,471)	(2,054,269)
Proceeds from sale of equipment	8,000	410,000
	<u>(1,695,788)</u>	<u>(2,381,516)</u>
Net cash used in investing activities		
Cash flows from financing activities:		
Contributions restricted for endowment	62,448	98,106
Principal payments on note payable	-	(370,945)
	<u>62,448</u>	<u>(272,839)</u>
Net cash provided by (used in) financing activities		
Net increase (decrease) in cash	912,790	(1,184,142)
Cash at beginning of year	<u>892,022</u>	<u>2,076,164</u>
Cash at end of year	\$ <u>1,804,812</u>	<u>892,022</u>
Supplemental disclosure of noncash activities:		
Cash paid for interest	\$ <u>8,929</u>	<u>23,210</u>
Land distribution	\$ <u>799,137</u>	<u>-</u>

See accompanying independent auditor's report and notes to consolidated financial statements.

THE DIOCESE OF SOUTHWEST FLORIDA, INC.

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

(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 109 dioceses of the Protestant Episcopal Church in the U.S.A. (101 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 16).

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.

THE DIOCESE OF SOUTHWEST FLORIDA, INC.

Notes to Consolidated Financial Statements - Continued

(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, 2013 and 2012, 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.

THE DIOCESE OF SOUTHWEST FLORIDA, INC.

Notes to Consolidated Financial Statements - Continued

(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.

THE DIOCESE OF SOUTHWEST FLORIDA, INC.

Notes to Consolidated Financial Statements - Continued

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

(h) Impairment of Long-Lived Assets

In accordance with FASB Accounting Standards Codification Topic 360, *Property, Plant, and Equipment*, 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, 2013 and 2012, 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.

On an annual basis, apportionments receivable balances are reviewed for collectability and any allowance for uncollectable accounts is recorded.

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% of certain revenues less a \$120,000 exemption during 2013 and 2012. The "asking" expense was approximately \$544,000 and \$453,000 for the years ended December 31, 2013 and 2012, respectively and is included in ministry expense on the consolidated statement of activities.

(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.

THE DIOCESE OF SOUTHWEST FLORIDA, INC.

Notes to Consolidated Financial Statements - Continued

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

(k) Deposits Held for Others

The Diocese holds a deposit for a parish for investment purposes in which the Diocese has recorded a “deposit held for other” on the accompanying consolidated statements of financial position.

(l) 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 is subject to routine audits by taxing jurisdictions; however, there are no audits for any tax periods in progress. The Diocese believes it is no longer subject to income tax examinations for fiscal years ending prior to 2010.

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, 2013 and 2012.

(m) Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the consolidated statement of activities. Certain salaries and other expenses which are associated with a specific program are charged directly to that program.

(n) 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.

THE DIOCESE OF SOUTHWEST FLORIDA, INC.

Notes to Consolidated Financial Statements - Continued

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

(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. 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.

(p) Reclassifications

Certain reclassifications have been made to the 2012 financial statement presentation to conform to the current year presentation.

(3) Investments

At December 31, 2013 and 2012, the Diocese held investments with a fair value of \$11,009,774 and \$7,977,317, respectively. The composition of these investments was as follows:

	2013		2012	
	Cost	Fair Value	Cost	Fair Value
ECF - Endowment Fund	\$ 7,870,824	9,153,505	6,461,617	6,908,349
ECF - Income Fund	853,318	857,461	803,060	833,698
Short-term investments	998,808	998,808	235,269	235,270
	<u>\$ 9,722,950</u>	<u>11,009,774</u>	<u>7,499,946</u>	<u>7,977,317</u>

Investment return was comprised of the following for the years ended December 31, 2013 and 2012:

	2013	2012
Dividends and interest	\$ 343,439	177,558
Net realized and unrealized appreciation	964,002	699,476
	<u>\$ 1,307,441</u>	<u>877,034</u>

THE DIOCESE OF SOUTHWEST FLORIDA, INC.

Notes to Consolidated Financial Statements - Continued

(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: 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: 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.

Level 3: 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 included in the consolidated statement of financial position at December 31, 2013 and 2012 are measured at the reporting date using Level 2 inputs.

THE DIOCESE OF SOUTHWEST FLORIDA, INC.

Notes to Consolidated Financial Statements - Continued

(5) Apportionments and Notes Receivable

During the year ended December 31, 2013 and 2012, the Diocese reviewed the individual apportionment receivable balances for collectability. As of December 31, 2013 and 2012 the apportionments and notes receivable included:

	2013	2012
Apportionments converted to notes	\$ 429,457	664,228
Current apportionment receivable	95,084	105,963
Allowance for uncollectible accounts	(216,120)	(264,168)
 Total apportionments and notes receivable	 \$ 308,421	 506,023

(6) Loans Receivable

At December 31, 2013 and 2012 the Diocese has interest and non-interest bearing loans receivable totaling \$2,095,795 and \$2,484,697, 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, 2013 and 2012 the loans outstanding included:

	2013	2012
Iona Hope Episcopal Church, Fort Myers	\$ 924,106	946,608
Grace Episcopal Church, Tampa	-	356,498
St. Catherine's Episcopal Church, Temple Terrace	156,141	170,676
St. Mary's Episcopal Church, Tampa	100,000	112,500
St. Nathaniel's Episcopal Church, North Port	274,660	281,428
Church of the Good Shepherd, Punta Gorda	85,000	85,000
Church of the Holy Spirit, Safety Harbor	14,761	16,676
St. Monica's Episcopal Church, Naples	80,324	105,534
St. Hilary Episcopal Church, Fort Myers	279,088	198,440
Epiphany Episcopal Church, Cape Coral	90,260	100,830
All Souls Episcopal Church, Fort Myers	5,517	19,740
St Alfred, Palm Harbor	85,938	90,767
	 \$ 2,095,795	 2,484,697

Management of the Diocese believes all loans receivable at December 31, 2013 and 2012 are fully collectible within the terms of the respective agreements with each parish.

THE DIOCESE OF SOUTHWEST FLORIDA, INC.

Notes to Consolidated Financial Statements - Continued

(7) Mortgage Note Receivable

At December 31, 2013, the Diocese had two mortgage note receivables totaling \$1,478,879.

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, 2013 and 2012 the note had an outstanding balance of \$1,378,879 and \$1,403,093, respectively. 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 was secured by real property. This mortgage was fully collected in 2013.

On February 8, 2013, the Diocese executed a mortgage in the amount of \$100,000 by and between Fruit of the Spirit Ministries for property that was formerly St. Cecilia Episcopal Church. The mortgage receivable, which bears interest at 6%, is payable over 5 years. Beginning March 1, 2013 through February 1, 2014 interest only payments of \$500 are due. Beginning March 1, 2014 through February 1, 2017 monthly installments of \$1,000 are due. The note is secured by real property. Management considers the amount to be fully collectible.

(8) Land, Buildings, and Equipment

Land, buildings, and equipment, net at December 31, 2013 and 2012 consist of following:

	2013			2012 Total
	Diocese	Conference Center	Total	
Land	\$ 219,328	1,023,241	1,242,569	2,030,340
Buildings	1,697,577	3,315,388	5,012,965	4,880,946
Furniture and equipment	191,116	628,195	819,311	751,189
Vehicles	94,033	21,905	115,938	114,565
			7,190,783	7,777,040
Less accumulated depreciation			3,348,339	3,091,135
Land, buildings, and equipment, net			\$ 3,842,444	4,685,905

THE DIOCESE OF SOUTHWEST FLORIDA, INC.

Notes to Consolidated Financial Statements - Continued

(8) Land, Buildings, and Equipment - Continued

Depreciation expense for the years ended December 31, 2013 and 2012 is as follows:

	<u>2013</u>	<u>2012</u>
Diocese	\$ 107,798	83,629
Dayspring	<u>171,270</u>	<u>168,155</u>
Total	<u>\$ 279,068</u>	<u>251,784</u>

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

(9) Line of Credit

The Diocese had a line of credit with a maximum borrowing capacity of \$750,000, which was payable on demand. 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.

(10) Board-Designated Net Assets

At December 31, 2013 and 2012, the Diocesan Council had designated unrestricted net assets for the following:

	<u>2013</u>	<u>2012</u>
Mission / 2020 Fund	\$ 1,685,543	1,383,253
Capital revolving loan fund	3,334,047	3,279,174
Dayspring endowment	226,982	209,734
Diocesan endowment	<u>1,556,007</u>	<u>-</u>
	<u>\$ 6,802,579</u>	<u>4,872,161</u>

THE DIOCESE OF SOUTHWEST FLORIDA, INC.

Notes to Consolidated Financial Statements - Continued

(11) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets consist of gifts and other unexpended revenue available for the following at December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Benefit of elderly	\$ 2,106,132	1,929,895
Congregation loans	111,643	108,782
Ministry development	120,048	86,565
St. Bartholomew	67,673	62,007
SCF chaplaincy	34,959	32,026
Missions	604,898	543,543
Bishop's discretionary	413,366	283,079
Underprivileged	30,620	21,776
Theological education	498,557	487,935
Episcopal charities grants	139,399	94,186
Dayspring	108,097	68,445
Other	181,424	160,704
	<u>\$ 4,416,816</u>	<u>3,878,943</u>

Permanently restricted net assets consist of contributions and other gifts maintained by the Diocese in perpetuity for the following at December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Bishop's discretionary	\$ 534,689	534,689
Missions	392,438	392,438
Benefit of elderly	335,889	335,889
Ministry development	280,054	280,054
Education	122,159	122,159
Dayspring endowment	353,642	332,999
Episcopal charities grants	486,274	444,469
Other	33,111	33,111
	<u>\$ 2,538,256</u>	<u>2,475,808</u>

THE DIOCESE OF SOUTHWEST FLORIDA, INC.

Notes to Consolidated Financial Statements - Continued

(12) Net Assets Released From Restrictions

Net assets were released from donor restrictions as follows during the years ended December 31, 2013 and 2012, by incurring expenses satisfying the restricted purposes, or by occurrence of other events specified by donors:

Purpose restrictions accomplished:

	2013	2012
Benefit of elderly	\$ 63,228	65,172
Ministry development	12,012	12,384
St. Bartholomew	2,028	2,100
College chaplaincy	1,044	1,056
Missions	9,420	9,696
Theological education	3,804	25,507
Bishop's discretionary	46,440	2,724
Underprivileged	2,904	3,936
Dayspring	120,403	167,692
Episcopal charities grants	23,188	15,492
Other	7,440	7,620
	\$ 291,911	313,379

(13) 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 temporarily restricted net assets.

THE DIOCESE OF SOUTHWEST FLORIDA, INC.

Notes to Consolidated Financial Statements - Continued

(13) 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 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, 2013 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Net Assets</u>
Board-designated endowment funds	\$ 1,782,989	-	-	1,782,989
Donor-restricted endowment funds	-	3,811,856	1,866,478	5,678,334
	<u>\$ 1,782,989</u>	<u>3,811,856</u>	<u>1,866,478</u>	<u>7,461,323</u>

THE DIOCESE OF SOUTHWEST FLORIDA, INC.

Notes to Consolidated Financial Statements - Continued

(13) Endowment Funds - Continued

Changes in endowment net assets for the year ended December 31, 2013 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Net Assets</u>
Balance, beginning of year	\$ 209,734	3,380,580	1,804,030	5,394,344
Contributions	1,519,534	-	62,448	1,581,982
Interest and dividends, net of investment expenses	(2,338)	3,888	-	1,550
Net appreciation	61,814	574,241	-	636,055
Amount appropriated for expenditures	<u>(5,755)</u>	<u>(146,853)</u>	<u>-</u>	<u>(152,608)</u>
Balance, end of year	\$ <u>1,782,989</u>	<u>3,811,856</u>	<u>1,866,478</u>	<u>7,461,323</u>

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Net Assets</u>
Board-designated endowment funds	\$ 209,734	-	-	209,734
Donor-restricted endowment funds	<u>-</u>	<u>3,380,580</u>	<u>1,804,030</u>	<u>5,184,610</u>
	\$ <u>209,734</u>	<u>3,380,580</u>	<u>1,804,030</u>	<u>5,394,344</u>

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Net Assets</u>
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	<u>(4,052)</u>	<u>(137,668)</u>	<u>-</u>	<u>(141,720)</u>
Balance, end of year	\$ <u>209,734</u>	<u>3,380,580</u>	<u>1,804,030</u>	<u>5,394,344</u>

THE DIOCESE OF SOUTHWEST FLORIDA, INC.

Notes to Consolidated Financial Statements - Continued

(14) Pension Plan

The Clergy and the lay employees of the Diocese are participants in separate pension plans. The Clergy and lay employees are covered by the Church Pension Fund. The Clergy are covered by a defined benefit plan and lay employees are covered by a defined contribution plan. 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, 2013 and 2012 was \$68,802 and \$68,329, respectively. Total pension expense for the lay employees for the years ended December 31, 2013 and 2012 was \$37,729 and \$37,323, respectively. The Church Pension Fund 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, 2013 and 2012 was \$41,219 and \$28,112, respectively.

(15) 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 any time; 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 retirees each year.

Total postretirement benefit expense for the years ended December 31, 2013 and 2012 was \$89,884 and \$81,698, respectively.

(16) 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, 2013. At December 31, 2013, \$120,000 of Dayspring support was eliminated along with the transfer of \$18,216 of interest income included in the endowment fund. In addition, a due to affiliates of \$336,569 was eliminated for the year ended December 31, 2013. Dayspring depreciation is included within the consolidated statement of activities.

THE DIOCESE OF SOUTHWEST FLORIDA, INC.

Notes to Consolidated Financial Statements - Continued

(17) Concentration of Credit Risk

Financial instruments which potentially subject the Diocese to concentrations of credit risk consist principally of cash. The Diocese places its cash with creditworthy, high quality financial institutions. Accounts are maintained at institutions that are insured by the Federal Deposit Insurance Corporation (FDIC). At December 31, 2012 the FDIC insured up to \$250,000 for interest bearing accounts and unlimited coverage for noninterest bearing accounts. Effective January 1, 2013 the FDIC discontinued the unlimited coverage but continued to insure balances up to \$250,000. The amount in excess of the FDIC limit totaled \$807,727 at December 31, 2013.

(18) Subsequent Events

The Diocese has evaluated events occurring after the statement of financial position through August 12, 2014, the date which the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

THE DIOCESE OF SOUTHWEST FLORIDA, INC.

Combining Statement of Financial Position

For the Year Ended December 31, 2013

	<u>Diocese Operating</u>	<u>Dayspring Operating</u>	<u>Eliminating Entries</u>	<u>Total</u>
Assets				
Cash	\$ 1,619,167	185,645	-	1,804,812
Investments:				
Held for others	55,000	-	-	55,000
Held in endowment	7,461,323	-	-	7,461,323
Other	3,493,451	-	-	3,493,451
Apportionments and notes receivable, net	308,421	-	-	308,421
Accounts receivable, net	-	4,609	-	4,609
Loans receivable	2,382,364	-	(286,569)	2,095,795
Mortgage note receivable	1,478,879	-	-	1,478,879
Other assets	63,480	689	-	64,169
Land, buildings, and equipment, net	1,892,348	1,950,096	-	3,842,444
Investment in Dayspring	1,752,957	-	(1,752,957)	-
Due from affiliate	50,000	-	(50,000)	-
	<u>\$ 20,557,390</u>	<u>2,141,039</u>	<u>(2,089,526)</u>	<u>20,608,903</u>
Liabilities				
Accounts payable and accrued expenses	\$ 224,991	60,700	-	285,691
Deposits	11,348	166,147	-	177,495
Deposits held for others	55,000	-	-	55,000
Due to affiliates	-	336,569	(336,569)	-
	<u>291,339</u>	<u>563,416</u>	<u>(336,569)</u>	<u>518,186</u>
Net assets unrestricted:				
Undesignated (deficit)	4,631,126	(387,547)	(1,752,957)	2,490,622
Board-designated endowment	1,782,989	-	-	1,782,989
Board-designated other	5,019,590	-	-	5,019,590
Land, buildings, and equipment	1,892,348	1,950,096	-	3,842,444
	13,326,053	1,562,549	(1,752,957)	13,135,645
Temporarily restricted	4,401,742	15,074	-	4,416,816
Permanently restricted	2,538,256	-	-	2,538,256
	20,266,051	1,577,623	(1,752,957)	20,090,717
Total liabilities and net assets	\$ <u>20,557,390</u>	<u>2,141,039</u>	<u>(2,089,526)</u>	<u>20,608,903</u>

THE DIOCESE OF SOUTHWEST FLORIDA, INC.

Combining Statement of Activities

For the Year Ended December 31, 2013

	<u>Diocese Operating</u>	<u>Dayspring Operating</u>	<u>Eliminating Entries</u>	<u>Total</u>
Revenue, gains, and other support:				
Diocesan apportionments	\$ 3,262,308	-	-	3,262,308
Investment return	1,307,245	18,412	(18,216)	1,307,441
Contributions and bequests	1,565,975	25,606	-	1,591,581
Dayspring operations	-	1,476,376	(120,000)	1,356,376
Interest income from loans to churches	70,191	-	-	70,191
Recovery of bad debt	188,383	-	-	188,383
Other income	<u>70,475</u>	<u>-</u>	<u>-</u>	<u>70,475</u>
Total revenue, gains, and other support	<u>6,464,577</u>	<u>1,520,394</u>	<u>(138,216)</u>	<u>7,846,755</u>
Expenses:				
Program services:				
Congregational	497,652	-	(18,216)	479,436
Ministry	913,049	-	-	913,049
Dayspring	<u>-</u>	<u>1,387,586</u>	<u>-</u>	<u>1,387,586</u>
Total program services	1,410,701	1,387,586	(18,216)	2,780,071
Supporting services:				
Administrative	<u>1,823,026</u>	<u>-</u>	<u>(120,000)</u>	<u>1,703,026</u>
Change in net assets before depreciation and other items	3,230,850	132,808	-	3,363,658
Depreciation	107,798	171,270	-	279,068
Loss on disposal of assets	2,542	545	-	3,087
Land distribution	<u>799,137</u>	<u>-</u>	<u>-</u>	<u>799,137</u>
Total depreciation and other items	909,477	171,815	-	1,081,292
Total expenses	<u>4,143,204</u>	<u>1,559,401</u>	<u>(138,216)</u>	<u>5,564,389</u>
Change in net assets	2,321,373	(39,007)	-	2,282,366
Net assets at beginning of year	<u>17,946,983</u>	<u>(138,632)</u>	<u>-</u>	<u>17,808,351</u>
Net assets at end of year	<u>\$ 20,268,356</u>	<u>(177,639)</u>	<u>-</u>	<u>20,090,717</u>

THE DIOCESE OF SOUTHWEST FLORIDA, INC.

Schedule of Dayspring Expenses

For the Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Food services	\$ 424,595	415,745
Guest services	200,295	196,237
Grounds and building maintenance	277,194	225,682
Depreciation	171,270	168,155
Administration	472,811	719,912
Miscellaneous	4,307	7,706
Interest	<u>8,929</u>	<u>9,410</u>
Total Dayspring expenses	<u>\$ 1,559,401</u>	<u>1,742,847</u>