

DIOCESE OF SOUTHWEST FLORIDA, INC.

**Consolidated Financial Statements
and
Supplementary Information**

**December 31, 2014 and 2013
(With Independent Auditor's Report Thereon)**

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 consolidated statements of financial position as of December 31, 2014 and 2013, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated 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.



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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Diocese as of December 31, 2014 and 2013, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying 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 audits 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.

Maury Hoffman Mc Carr P.C.

June 16, 2015
Clearwater, Florida

DIOCESE OF SOUTHWEST FLORIDA, INC.**Consolidated Statements of Financial Position****December 31, 2014 and 2013**

Assets	2014	2013
Cash	\$ 1,786,748	1,804,812
Investments:		
Held for others	510,989	55,000
Held in endowment	7,668,335	7,461,323
Other	3,541,606	3,493,451
Apportionments and notes receivable, net	90,558	308,421
Accounts receivable, net	-	4,609
Loans receivable	2,490,342	2,095,795
Mortgage note receivable	1,449,307	1,478,879
Other assets	209,143	64,169
Land, buildings, and equipment, net	<u>3,659,815</u>	<u>3,842,444</u>
 Total assets	 \$ <u>21,406,843</u>	 <u>20,608,903</u>
 Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 347,966	285,691
Deposits	145,920	177,495
Deposits held for others	<u>510,989</u>	<u>55,000</u>
 Total liabilities	 1,004,875	 518,186
Net assets unrestricted:		
Undesignated	2,585,089	2,490,622
Board-designated endowment	1,804,552	1,782,989
Board-designated other	5,133,997	5,019,590
Land, buildings, and equipment	<u>3,659,815</u>	<u>3,842,444</u>
 Total unrestricted net assets	 13,183,453	 13,135,645
Temporarily restricted	4,604,054	4,416,816
Permanently restricted	<u>2,614,461</u>	<u>2,538,256</u>
 Total net assets	 <u>20,401,968</u>	 <u>20,090,717</u>
 Total liabilities and net assets	 \$ <u>21,406,843</u>	 <u>20,608,903</u>

DIOCESE OF SOUTHWEST FLORIDA, INC.

Consolidated Statement of Activities

For the Year Ended December 31, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue, gains, and other support:				
Diocesan apportionments	\$ 3,178,080	-	-	3,178,080
Investment return	169,606	381,308	-	550,914
Contributions and bequests	53,233	2,058	76,205	131,496
DaySpring operations	1,290,098	-	-	1,290,098
Interest income from loans to churches	73,911	-	-	73,911
Recovery of bad debt	156,201	-	-	156,201
Other income	100,781	-	-	100,781
Total revenue and gains	5,021,910	383,366	76,205	5,481,481
Net assets released from restrictions	196,128	(196,128)	-	-
Total revenue, gains, and other support	5,218,038	187,238	76,205	5,481,481
Expenses:				
Program services:				
Congregational	707,169	-	-	707,169
Ministry	1,014,984	-	-	1,014,984
DaySpring	1,337,794	-	-	1,337,794
Total program services	3,059,947	-	-	3,059,947
Supporting services:				
Administrative	1,808,935	-	-	1,808,935
Change in net assets before depreciation and other items	349,156	187,238	76,205	612,599
Depreciation	272,952	-	-	272,952
Loss on disposal of assets	28,396	-	-	28,396
Total depreciation and other items	301,348	-	-	301,348
Total expenses	5,170,230	-	-	5,170,230
Change in net assets	47,808	187,238	76,205	311,251
Net assets at beginning of year	13,135,645	4,416,816	2,538,256	20,090,717
Net assets at end of year	\$ 13,183,453	4,604,054	2,614,461	20,401,968

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	<hr/>	<hr/>	<hr/>	<hr/>
	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	<hr/>	<hr/>	<hr/>	<hr/>
	5,564,389	-	-	5,564,389
Change in net assets	1,682,045	537,873	62,448	2,282,366
Net assets at beginning of year	<hr/>	<hr/>	<hr/>	<hr/>
	11,453,600	3,878,943	2,475,808	17,808,351
Net assets at end of year	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 13,135,645	4,416,816	2,538,256	20,090,717

DIOCESE OF SOUTHWEST FLORIDA, INC.

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Change in net assets	\$ 311,251	2,282,366
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	272,952	279,068
Loss on disposal of assets	28,396	3,087
Land distribution	-	799,137
Realized and unrealized gains on investments	(539,945)	(964,002)
Recovery of uncollectible apportionments and notes receivable	(6,566)	(48,048)
Decrease in apportionments and notes receivable, net	224,429	245,650
Decrease in accounts receivable, net	4,609	9,768
Increase in other assets	(144,974)	(26,252)
Increase (decrease) in accounts payable and accrued expenses	62,275	(30,266)
Increase (decrease) in deposits	(31,575)	3,070
Increase in deposits held for others	455,989	55,000
Contributions restricted for endowment	(76,205)	(62,448)
Net cash provided by operating activities	<u>560,636</u>	<u>2,546,130</u>
Cash flows from investing activities:		
Purchases of investments	(906,309)	(2,587,296)
Proceeds from sale of investments	735,441	519,481
Payments received on loans receivable	336,131	488,902
Proceeds disbursed for loans receivable	(730,678)	(100,000)
Payments received on mortgage notes receivable	29,572	321,596
Proceeds disbursed for mortgage notes receivable	-	(100,000)
Purchases of equipment	(119,062)	(246,471)
Proceeds from sale of equipment	-	8,000
Net cash used in investing activities	<u>(654,905)</u>	<u>(1,695,788)</u>
Cash flows from financing activities:		
Contributions restricted for endowment	76,205	62,448
Net cash provided by financing activities	<u>76,205</u>	<u>62,448</u>
Net (decrease) increase in cash	(18,064)	912,790
Cash at beginning of year	<u>1,804,812</u>	<u>892,022</u>
Cash at end of year	<u>\$ 1,786,748</u>	<u>1,804,812</u>
Supplemental disclosure of noncash activities:		
Land distribution	<u>\$ -</u>	<u>799,137</u>

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

DIOCESE OF SOUTHWEST FLORIDA, INC.

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

(1) Description of Organization

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 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 15).

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; and
- Permanently restricted net assets – Net assets subject to donor-imposed stipulations that the assets be maintained by the Diocese in perpetuity.

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, 2014 and 2013, 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 model-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.

DIOCESE OF SOUTHWEST FLORIDA, INC.

Notes to Consolidated Financial Statements - Continued

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

(d) **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.

(e) **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.

(f) **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 occurrence of specific events or changes in circumstances described above, management regularly evaluates the remaining useful lives of its long-lived assets. If estimates are revised, the carrying value of affected assets is depreciated or amortized over the remaining useful lives. At December 31, 2014 and 2013, there were no impairments.

(g) **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.

DIOCESE OF SOUTHWEST FLORIDA, INC.

Notes to Consolidated Financial Statements - Continued

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

(g) **Diocesan Apportionments - Continued**

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 2014 and 2013. The “asking” expense was approximately \$525,000 and \$544,000 for the years ended December 31, 2014 and 2013, respectively and is included in ministry expense on the consolidated statement of activities.

(h) **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.

(i) **Deposits Held for Others**

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

(j) **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 unrelated 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 for 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 2011.

The Diocese’s policy is to recognize interest and penalties associated with uncertain tax positions under this standard as a component of tax expense, and none were recognized in 2014 and 2013.

DIOCESE OF SOUTHWEST FLORIDA, INC.

Notes to Consolidated Financial Statements - Continued

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

(k) 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.

(l) Estimates in Financial Statements

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) 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.

(3) Investments

At December 31, 2014 and 2013, the Diocese held investments with a fair value of \$11,720,930 and \$11,009,774, respectively. The composition of these investments was as follows:

	<u>2014</u>		<u>2013</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
ECF - Endowment Fund	\$ 8,428,414	10,136,214	7,870,824	9,153,505
ECF - Income Fund	931,191	958,567	853,318	857,461
Short-term investments	626,149	626,149	998,808	998,808
	<u>\$ 9,985,754</u>	<u>11,720,930</u>	<u>9,722,950</u>	<u>11,009,774</u>

DIOCESE OF SOUTHWEST FLORIDA, INC.

Notes to Consolidated Financial Statements - Continued

(3) Investments - Continued

Investment return was comprised of the following for the years ended December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Dividends and interest	\$ 10,969	343,439
Net realized and unrealized appreciation	<u>539,945</u>	<u>964,002</u>
	<u>\$ 550,914</u>	<u>1,307,441</u>

Investment management fees for the years ended December 31, 2014 and 2013, were \$78,438 and \$70,596, respectively.

(4) Fair Value of Financial Instruments

The Diocese follows FASB Accounting Standards Codification Topic 820, *Fair Value 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; and
- 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, 2014 and 2013 are measured at the reporting date using Level 2 inputs.

DIOCESE OF SOUTHWEST FLORIDA, INC.

Notes to Consolidated Financial Statements - Continued

(5) Apportionments and Notes Receivable

During the years ended December 31, 2014 and 2013, the Diocese reviewed the individual apportionment receivable balances for collectability. As of December 31, 2014 and 2013 the apportionments and notes receivable included:

	<u>2014</u>	<u>2013</u>
Apportionments converted to notes	\$ 208,978	429,457
Current apportionment receivable	104,266	95,084
Allowance for uncollectible accounts	<u>(222,686)</u>	<u>(216,120)</u>
Net apportionments and notes receivable	<u>\$ 90,558</u>	<u>308,421</u>

(6) Loans Receivable

At December 31, 2014 and 2013 the Diocese has interest and non-interest bearing loans receivable totaling \$2,490,342 and \$2,095,795, 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, 2014 and 2013 the loans outstanding included:

	<u>2014</u>	<u>2013</u>
Iona Hope Episcopal Church, Fort Myers	\$ 900,920	924,106
St. Catherine's Episcopal Church, Temple Terrace	140,977	156,141
St. Mary's Episcopal Church, Tampa	87,500	100,000
St. Nathaniel's Episcopal Church, North Port	265,452	274,660
Church of the Good Shepherd, Punta Gorda	184,769	85,000
Church of the Holy Spirit, Safety Harbor	12,790	14,761
St. Monica's Episcopal Church, Naples	54,348	80,324
St. Hilary Episcopal Church, Fort Myers	283,895	279,088
Epiphany Episcopal Church, Cape Coral	77,386	90,260
All Souls Episcopal Church, Fort Myers	-	5,517
St Alfred, Palm Harbor	229,202	85,938
St Martin, Hudson	86,804	-
St. Andrew, Spring Hill	100,067	-
St. Wilfred, Sarasota	<u>66,232</u>	<u>-</u>
	<u>\$ 2,490,342</u>	<u>2,095,795</u>

Management of the Diocese believes all loans receivable at December 31, 2014 and 2013 are fully collectible within the terms of the respective agreements with each church.

DIOCESE OF SOUTHWEST FLORIDA, INC.

Notes to Consolidated Financial Statements - Continued

(7) Mortgage Note Receivable

At December 31, 2014 and 2013, the Diocese had two mortgage notes receivable totaling \$1,449,307 and \$1,478,879, respectively.

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, 2015 monthly installments of \$1,000 are due, \$1,500 from March 1, 2015 through February 1, 2016 and \$2,500 from March 1, 2016 through February 1, 2017. The note is secured by real property. As of December 31, 2014 and 2013, the note had an outstanding balance of \$94,886 and \$100,000, respectively. Management considers the amount to be fully collectible.

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 began making principal payments per Council Resolution 2013-01-d, based on the 2013 agreement, which modified terms for 2013-2015 at 1% interest on 50 year amortization. In January 2016, terms revert back to original note. As of December 31, 2014 and 2013 the note had an outstanding balance of \$1,354,421 and \$1,378,879, respectively. Management considers the amount to be fully collectible.

(8) Land, Buildings, and Equipment

Land, buildings, and equipment, net at December 31, 2014 and 2013 consist of following:

	2014			2013
	Diocese	Conference Center	Total	Total
Land	\$ 219,328	1,052,541	1,271,869	1,242,569
Buildings	1,708,060	3,271,650	4,979,710	5,012,965
Furniture and equipment	199,642	680,477	880,119	819,311
Vehicles	94,033	21,905	115,938	115,938
			7,247,636	7,190,783
Less accumulated depreciation			3,587,821	3,348,339
Land, buildings, and equipment, net			\$ 3,659,815	3,842,444

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, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Diocese	\$ 105,576	107,798
DaySpring	<u>167,376</u>	<u>171,270</u>
Total	<u>\$ 272,952</u>	<u>279,068</u>

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

(9) Board-Designated Net Assets

At December 31, 2014 and 2013, the Diocesan Council had designated unrestricted net assets for the following:

	<u>2014</u>	<u>2013</u>
Mission fund	\$ 1,692,728	1,685,543
Capital revolving loan fund	3,441,269	3,334,047
DaySpring endowment	231,021	226,982
Diocesan endowment	<u>1,573,531</u>	<u>1,556,007</u>
	<u>\$ 6,938,549</u>	<u>6,802,579</u>

DIOCESE OF SOUTHWEST FLORIDA, INC.

Notes to Consolidated Financial Statements - Continued

(10) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets consist of gifts and other unexpended support available for the following at December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Benefit of elderly	\$ 2,144,541	2,106,132
Congregation loans	114,279	111,643
Ministry development	127,344	120,048
St. Bartholomew	68,912	67,673
SCF chaplaincy	35,593	34,959
Missions	627,628	604,898
Bishop's discretionary	495,109	413,366
Underprivileged	33,673	30,620
Theological education	500,868	498,557
Episcopal charities grants	151,659	139,399
DaySpring	118,508	108,097
Other	185,940	181,424
	<u>\$ 4,604,054</u>	<u>4,416,816</u>

Permanently restricted net assets consist of contributions and other gifts maintained by the Diocese in perpetuity for the following at December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</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	387,405	353,642
Episcopal charities grants	528,716	486,274
Other	33,111	33,111
	<u>\$ 2,614,461</u>	<u>2,538,256</u>

DIOCESE OF SOUTHWEST FLORIDA, INC.

Notes to Consolidated Financial Statements - Continued

(11) Net Assets Released From Restrictions

Net assets were released from donor restrictions as follows during the years ended December 31, 2014 and 2013, by incurring expenses satisfying the restricted purposes, or by occurrence of other events specified by donors:

Purpose restrictions accomplished:

	<u>2014</u>	<u>2013</u>
Benefit of elderly	\$ 68,472	63,228
Ministry development	13,008	12,012
St. Bartholomew	2,196	2,028
College chaplaincy	1,140	1,044
Missions	10,200	9,420
Theological education	4,128	3,804
Bishop's discretionary	50,820	46,440
Underprivileged	3,360	2,904
DaySpring	14,604	120,403
Episcopal charities grants	20,148	23,188
Other	8,052	7,440
	<u>\$ 196,128</u>	<u>291,911</u>

(12) Endowment Funds

Effective July 1, 2012, the State of Florida adopted the Florida Uniform Prudent Management of Institutional Funds Act (FUPMIFA) and in accordance with ASC Topic 958-205-45-28, *Classification of Donor Restricted Endowment Funds Subject to UPMIFA*, the Organization classifies investment earnings on endowments as a component of temporarily restricted net assets if not appropriated for expenditure in the period earned. Once investment earnings are appropriated for expenditure, the Organization reclassifies the amount appropriated as a component of unrestricted net assets.

The Diocese's endowment consists of several individual funds established for a variety of purposes. Its endowment consists of donor-restricted funds and is subject to donor intent and the terms of its governing documents as well as the provisions of FUPMIFA. 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.

DIOCESE OF SOUTHWEST FLORIDA, INC.

Notes to Consolidated Financial Statements - Continued

(12) 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. 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, 2014 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Net Assets</u>
Board-designated endowment funds	\$ 1,804,552	-	-	1,804,552
Donor-restricted endowment funds	-	3,921,100	1,942,683	5,863,783
	<u>\$ 1,804,552</u>	<u>3,921,100</u>	<u>1,942,683</u>	<u>7,668,335</u>

DIOCESE OF SOUTHWEST FLORIDA, INC.

Notes to Consolidated Financial Statements - Continued

(12) Endowment Funds - Continued

Changes in endowment net assets for the year ended December 31, 2014 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Net Assets</u>
Balance, beginning of year	\$ 1,782,989	3,811,856	1,866,478	7,461,323
Contributions	-	-	76,205	76,205
Interest and dividends, net of investment expenses	(11,629)	(32,584)	-	(44,213)
Net appreciation	100,183	298,785	-	398,968
Amount appropriated for expenditures	<u>(66,991)</u>	<u>(156,957)</u>	<u>-</u>	<u>(223,948)</u>
Balance, end of year	\$ <u>1,804,552</u>	<u>3,921,100</u>	<u>1,942,683</u>	<u>7,668,335</u>

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	<u>-</u>	<u>3,811,856</u>	<u>1,866,478</u>	<u>5,678,334</u>
	\$ <u>1,782,989</u>	<u>3,811,856</u>	<u>1,866,478</u>	<u>7,461,323</u>

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>

DIOCESE OF SOUTHWEST FLORIDA, INC.

Notes to Consolidated Financial Statements - Continued

(13) 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, 2014 and 2013 was \$76,849 and \$68,802, respectively. Total pension expense for the lay employees for the years ended December 31, 2014 and 2013 was \$39,248 and \$37,729, 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, 2014 and 2013 was \$44,733 and \$41,219, respectively.

(14) Postretirement Benefits

Under a plan adopted January 1, 1999, the Diocese provides certain health care 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, 2014 and 2013 was \$83,879 and \$89,884, respectively.

(15) 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 \$2,033,440 investment in DaySpring as of December 31, 2014. At December 31, 2014, \$110,000 of DaySpring support was eliminated along with the transfer of \$21,348 of interest income included in the endowment fund. In addition, a due to affiliates of \$50,000 was eliminated as of December 31, 2014. DaySpring depreciation is included within the consolidated statement of activities.

DIOCESE OF SOUTHWEST FLORIDA, INC.

Notes to Consolidated Financial Statements - Continued

(16) 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 \$1,118,602 at December 31, 2014.

(17) Subsequent Events

On January 30, 2015, the Episcopal Conference Center, Diocese of Southwest Florida, Inc. acquired property located in Parrish, Florida in the amount of \$460,799 in which a \$150,000 deposit was made and recorded as part of other asset as of December 31, 2014. The purpose of this purchase is to house a new staff member who started on January 1, 2015. The property was the sole remaining piece of property within the 92-acre property owned by a third party.

The Diocese has evaluated events occurring after the consolidated statement of financial position date through, June 16, 2015 the date which the consolidated financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

DIOCESE OF SOUTHWEST FLORIDA, INC.

Consolidating Statement of Financial Position

December 31, 2014

Assets	<u>Diocese Operating</u>	<u>DaySpring Operating</u>	<u>Eliminating Entries</u>	<u>Total</u>
Cash and cash equivalents	\$ 1,660,003	126,745	-	1,786,748
Investments:				
Held for others	510,989	-	-	510,989
Held in endowment	7,668,335	-	-	7,668,335
Other	3,541,606	-	-	3,541,606
Apportionments and notes receivable, net	90,558	-	-	90,558
Loans receivable	2,490,342	-	-	2,490,342
Mortgage note receivable	1,449,307	-	-	1,449,307
Other assets	204,814	4,329	-	209,143
Land, buildings, and equipment, net	1,806,893	1,852,922	-	3,659,815
Investment in DaySpring	2,033,440	-	(2,033,440)	-
Due from affiliate	50,000	-	(50,000)	-
	<u>21,506,287</u>	<u>1,983,996</u>	<u>(2,083,440)</u>	<u>21,406,843</u>
Total assets	\$ 21,506,287	1,983,996	(2,083,440)	21,406,843
Liabilities and Net Assets				
Accounts payable and accrued expenses	\$ 274,611	73,355	-	347,966
Deposits	38,342	107,578	-	145,920
Deposits held for others	510,989	-	-	510,989
Due to affiliates	-	50,000	(50,000)	-
	<u>823,942</u>	<u>230,933</u>	<u>(50,000)</u>	<u>1,004,875</u>
Total liabilities	823,942	230,933	(50,000)	1,004,875
Net assets unrestricted:				
Undesignated (deficit)	4,735,382	(116,853)	(2,033,440)	2,585,089
Board-designated endowment	1,804,552	-	-	1,804,552
Board-designated other	5,133,997	-	-	5,133,997
Land, buildings, and equipment	1,806,893	1,852,922	-	3,659,815
	<u>13,480,824</u>	<u>1,736,069</u>	<u>(2,033,440)</u>	<u>13,183,453</u>
Total unrestricted net assets	13,480,824	1,736,069	(2,033,440)	13,183,453
Temporarily restricted	4,587,060	16,994	-	4,604,054
Permanently restricted	2,614,461	-	-	2,614,461
	<u>20,682,345</u>	<u>1,753,063</u>	<u>(2,033,440)</u>	<u>20,401,968</u>
Total net assets	20,682,345	1,753,063	(2,033,440)	20,401,968
Total liabilities and net assets	\$ 21,506,287	1,983,996	(2,083,440)	21,406,843

DIOCESE OF SOUTHWEST FLORIDA, INC.

Consolidating Statement of Activities

For the Year Ended December 31, 2014

	<u>Diocese Operating</u>	<u>DaySpring Operating</u>	<u>Eliminating Entries</u>	<u>Total</u>
Revenue, gains, and other support:				
Diocesan apportionments	\$ 3,178,080	-	-	3,178,080
Investment return	550,818	21,444	(21,348)	550,914
Contributions and bequests	124,513	6,983	-	131,496
DaySpring operations	-	1,400,098	(110,000)	1,290,098
Interest income from loans to churches	73,911	-	-	73,911
Recovery of bad debt	156,201	-	-	156,201
Other income	100,781	-	-	100,781
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenue, gains, and other support	4,184,304	1,428,525	(131,348)	5,481,481
Expenses:				
Program services:				
Congregational	728,517	-	(21,348)	707,169
Ministry	1,014,984	-	-	1,014,984
DaySpring	-	1,337,794	-	1,337,794
	<hr/>	<hr/>	<hr/>	<hr/>
Total program services	1,743,501	1,337,794	(21,348)	3,059,947
Supporting services:				
Administrative	1,918,935	-	(110,000)	1,808,935
	<hr/>	<hr/>	<hr/>	<hr/>
Change in net assets before depreciation and other items	521,868	90,731	-	612,599
Depreciation	105,576	167,376	-	272,952
Loss on disposal of assets	-	28,396	-	28,396
	<hr/>	<hr/>	<hr/>	<hr/>
Total depreciation and other items	105,576	195,772	-	301,348
Total expenses	<u>3,768,012</u>	<u>1,533,566</u>	<u>(131,348)</u>	<u>5,170,230</u>
Change in net assets	416,292	(105,041)	-	311,251
Net assets at beginning of year	<u>20,266,053</u>	<u>1,858,104</u>	<u>(2,033,440)</u>	<u>20,090,717</u>
Net assets at end of year	<u>\$ 20,682,345</u>	<u>1,753,063</u>	<u>(2,033,440)</u>	<u>20,401,968</u>

DIOCESE OF SOUTHWEST FLORIDA, INC.

Schedule of DaySpring Expenses

For the Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Food services	\$ 387,159	424,595
Guest services	184,573	200,295
Grounds and building maintenance	303,303	277,194
Depreciation	167,376	171,270
Administration	459,542	472,811
Miscellaneous	28,817	4,307
Interest	<u>2,796</u>	<u>8,929</u>
Total DaySpring expenses	<u>\$ 1,533,566</u>	<u>1,559,401</u>