Diocese of Southwest Florida, Inc.

Consolidated Financial Statements

December 31, 2016 and 2015

PDR
CPAs + ADVISORS

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Oldsmar / Tampa / St. Petersburg

727-785-4447
813-498-1294
727-784-5491 Fax

www.pdr-cpa.com

INDEPENDENT AUDITOR'S REPORT

To the Diocesan Council
Diocese of Southwest Florida, Inc.
Parrish, FL

We have audited the accompanying consolidated financial statements of the Diocese of Southwest Florida, Inc. (the Diocese), which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, 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 Consolidated 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

CONTINUED

INDEPENDENT AUDITOR'S REPORT - CONTINUED

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Diocese of Southwest Florida, Inc. as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

The financial statements previously issued as of and for the year ended December 31, 2015 have been restated to adjust for the matter disclosed in **NOTE R**. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information in the consolidating statement of financial position and consolidating statement of activities as of and for the year ended December 31, 2016; and schedule of DaySpring expenses for the years ended December 31, 2016 and 2015 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 supplementary 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 supplementary information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

PDR Certified Public Accountants

Oldsmar, Florida
May 9, 2017

DIOCESE OF SOUTHWEST FLORIDA, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015

ASSETS

	2016	2015
Cash	$ 535,354	$ 1,389,262
Investments:		
Held for others	1,910,899	768,955
Held in endowment	8,305,949	8,041,605
Other	3,728,456	3,516,349
Apportionments and notes receivable, net	24,657	52,998
Accounts receivable, net	20,767	10,244
Loans receivable, net	2,072,683	2,051,546
Mortgage note receivable	1,365,573	1,413,157
Other assets	43,876	73,445
Land, buildings, and equipment, net	7,105,796	4,578,847
Total Assets	$25,114,010	$21,896,408

LIABILITIES AND NET ASSETS

	2016	2015
Liabilities:		
Accounts payable and accrued expenses	$ 505,790	$ 425,965
Deposits	152,066	96,034
Line-of-credit	1,300,000	-
Deposits held for others	1,910,899	768,955
Total liabilities	3,868,755	1,290,954
Net Assets Unrestricted:		
Undesignated (deficit)	(358,666)	1,996,018
Board-designated endowment	1,759,605	1,700,553
Board-designated other	5,548,215	5,375,256
Land, buildings, and equipment	7,105,796	4,578,847
Total unrestricted net assets	14,054,950	13,650,674
Temporarily restricted	4,427,347	4,276,111
Permanently restricted	2,762,958	2,678,669
Total net assets	21,245,255	20,605,454
Total Liabilities and Net Assets	$25,114,010	$21,896,408

See accompanying notes to consolidated financial statements

DIOCESE OF SOUTHWEST FLORIDA, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2016
(WITH COMPARATIVE TOTALS FOR 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2016	Total 2015
Support and Revenue					
Diocesan apportionments	$ 3,365,152	$ -	$ -	$ 3,365,152	$ 3,351,249
Investment return (loss), net of fees	272,027	430,204	-	702,231	(181,874)
Contributions and bequests	15,510	-	84,289	99,799	83,764
DaySpring operations	1,429,241	-	-	1,429,241	1,437,764
Program revenue	121,877	-	-	121,877	101,084
Capital income - major gifts	166,597	-	-	166,597	89,000
Interest income from loans to churches	78,629	-	-	78,629	64,884
Other interest income	5,228	-	-	5,228	5,690
Recovery of bad debt	153,082	-	-	153,082	140,805
	5,607,343	430,204	84,289	6,121,836	5,092,366
Net assets released from restrictions	278,968	(278,968)	-	-	-
Total support and revenue	5,886,311	151,236	84,289	6,121,836	5,092,366
Expenses					
Program services:					
Congregational	520,631	-	-	520,631	626,947
Ministry	1,103,340	-	-	1,103,340	1,177,800
DaySpring	1,505,022	-	-	1,505,022	1,433,562
Total program services	3,128,993	-	-	3,128,993	3,238,309
Supporting Services:					
Administrative	1,953,906	-	-	1,953,906	1,758,678
Change in Net Assets Before Other Items	803,412	151,236	84,289	1,038,937	95,379
Other Items					
Depreciation	277,288	-	-	277,288	280,748
(Gain) loss on disposal of assets	121,848	-	-	121,848	(410,269)
Total other items	399,136	-	-	399,136	(129,521)
Total expenses	5,482,035	-	-	5,482,035	4,867,466
Change in Net Assets	404,276	151,236	84,289	639,801	224,900
Net Assets at Beginning of Year	13,650,674	4,276,111	2,678,669	20,605,454	20,380,554
Net Assets at End of Year	$ 14,054,950	$ 4,427,347	$ 2,762,958	$ 21,245,255	$ 20,605,454

See accompanying notes to consolidated financial statements

DIOCESE OF SOUTHWEST FLORIDA, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue				
Diocesan apportionments	$ 3,351,249	$ -	$ -	$ 3,351,249
Investment return (loss), net of fees	(74,034)	(107,840)	-	(181,874)
Contributions and bequests	11,404	8,152	64,208	83,764
DaySpring operations	1,437,764	-	-	1,437,764
Program revenue	101,084	-	-	101,084
Capital income - major gifts	89,000	-	-	89,000
Interest income from loans to churches	64,884	-	-	64,884
Other interest income	5,690	-	-	5,690
Recovery of bad debt	140,805	-	-	140,805
	5,127,846	(99,688)	64,208	5,092,366
Net assets released from restrictions	228,255	(228,255)	-	-
Total support and revenue	5,356,101	(327,943)	64,208	5,092,366
Expenses				
Program services:				
Congregational	626,947	-	-	626,947
Ministry	1,177,800	-	-	1,177,800
DaySpring	1,433,562	-	-	1,433,562
Total program services	3,238,309	-	-	3,238,309
Supporting Services:				
Administrative	1,758,678	-	-	1,758,678
Change in Net Assets Before Other Items	359,114	(327,943)	64,208	95,379
Other Items				
Depreciation	280,748	-	-	280,748
(Gain) loss on disposal of assets	(410,269)	-	-	(410,269)
Total other items	(129,521)	-	-	(129,521)
Total expenses	4,867,466	-	-	4,867,466
Change in Net Assets	488,635	(327,943)	64,208	224,900
Net Assets at Beginning of Year	13,183,453	4,604,054	2,614,461	20,401,968
Prior Period Adjustment (See NOTE R)	(21,414)	-	-	(21,414)
Net Assets at End of Year	$ 13,650,674	$ 4,276,111	$ 2,678,669	$ 20,605,454

See accompanying notes to consolidated financial statements

DIOCESE OF SOUTHWEST FLORIDA, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Cash Flows from Operating Activities:		
Change in net assets	$ 639,801	$ 224,900
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	277,288	280,748
Loss (gain) on disposal of assets	121,848	(410,269)
Realized and unrealized (gain) loss on investments	(776,567)	106,980
Provision of uncollectible loans receivable	-	83,669
Recovery of uncollectible apportionments and notes receivable	(9,755)	(87,029)
Decrease in apportionments and notes receivable	38,096	124,589
(Increase) in accounts receivable, net	(10,523)	(10,244)
Decrease in other assets	29,569	135,698
Decrease in accounts payable and accrued expenses	79,825	77,999
(Decrease) increase in deposits	56,032	(49,886)
Increase in deposits held for others	1,141,944	257,966
Contributions restricted for endowment	(84,289)	(64,208)
Net cash provided by operating activities	1,503,269	670,913
Cash Flows from Investing Activities		
Purchases of investments	(3,617,619)	(2,207,512)
Proceeds from sale of investments	2,775,791	1,494,553
Payments received on loans receivable	258,863	355,126
Proceeds disbursed for loans receivable	(280,000)	-
Payments received on mortgage note receivable	47,584	36,150
Purchases of land, buildings, and equipment	(2,926,085)	(1,237,693)
Proceeds from sale of St. Francis Tampa	-	412,769
Proceeds from sale of land, buildings, and equipment	-	14,000
Net cash used in investing activities	(3,741,466)	(1,132,607)
Cash Flows from Financing Activities:		
Contributions restricted for endowment	84,289	64,208
Proceeds from line-of-credit	1,300,000	-
Net cash provided by financing activities	1,384,289	64,208
Net Decrease in Cash	(853,908)	(397,486)
Cash at Beginning of Year	1,389,262	1,786,748
Cash at End of Year	$ 535,354	$ 1,389,262

See accompanying notes to consolidated financial statements

NOTE A - NATURE 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 (collectively referred to as the Diocese) 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). All significant inter-organization transactions have been eliminated (see **NOTE P).**

The consolidated financial statements of the Diocese do not include the various churches, missions, and other religious organizations which operate within the Episcopal Diocese, but which are primarily responsible to their own governing boards.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements of the Diocese have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (US GAAP). 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.

The Diocese follows the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958, *Not-for-Profit Entities*. 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.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Basis of Presentation - Continued

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. As contributions with donor-imposed restrictions are expended, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements 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, 2016 and 2015, the Diocese had no outstanding pledges or bequests.

Use of Estimates

The preparation of consolidated financial statements in conformity with US GAAP requires management to make a number of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Accordingly, actual results could differ from those estimates. Significant estimates include the allowance for uncollectible receivables and unconditional promises to give, useful lives on related assets, the discount rate for the unconditional promises to give, and allocation of expenses by function.

Fair Value Measurement

The consolidated financial statements are prepared in accordance with FASB ASC 820, *Fair Value Measurement*, for all financial assets and liabilities and for nonfinancial assets and liabilities recognized or disclosed at fair value in the consolidated financial statements or on a recurring basis (at least annually). Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on a measurement date. The standard also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair value:

Level 1: Quoted market prices in active markets for identical assets or liabilities.
Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.
Level 3: Unobservable inputs that are not corroborated by market data.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Cash

Cash consists of cash on deposit with financial institutions. The Diocese considers all highly liquid assets with a maturity of three months or less when purchased as cash.

Financial instruments which potentially subject the Diocese to concentrations of credit risk consist principally of cash held in financial institutions in excess of federally-insured limits. From time to time throughout the years ended December 31, 2016 and 2015, the Diocese’s cash balance may have exceeded the federally insured limits. However, the Diocese has not experienced and does not expect to incur any losses in such accounts.

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 consolidated statements of activities.

Bishop Grey Retirement Foundation, Inc.

The Diocese elects four members to the governing board of the Bishop Gray Retirement Foundation, Inc. (the Foundation). The Foundation 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. Total assets of the Foundation at December 31, 2016 and December 31, 2015 were approximately $11.45 and $11.9 million, respectively.

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.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Impairment of Long-Lived Assets

In accordance with FASB ASC 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 consolidated 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, 2016 and 2015, there were no impairments.

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% of the congregations' total operating revenue and 10% 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 uncollectible accounts is recorded. Management budgets 5% of the annual apportionment for uncollectable amounts. The amount of unused allowance for uncollectible accounts is treated as recovery of bad debt in the consolidated statements of activities. Recovery of bad debt totaled $153,082 and $140,805 for the years ended December 31, 2016 and 2015, respectively.

The Diocesan Council may elect to return a portion of the unused budgeted uncollectable amount as a dividend to congregations who are current on their apportionment at year-end. The Diocesan Council approved a $185,000 and $210,000 Mission/Ministry Dividend for 2016 and 2015, respectively, that was distributed on a pro rata basis. This provision is under the sole discretion of the Diocesan Council and is determined on an annual basis.

The Episcopal Diocese is a member of the Worldwide Anglican Communion and the Episcopal Church in the United States. The suggested pledge to the National Church is 18% of certain revenues less a $150,000 exemption during 2016. The suggested pledge to the National Church is 19% of certain revenues less a $120,000 exemption during 2015. The "asking" expense was approximately $522,000 and $560,000 for the years ended December 31, 2016 and 2015, respectively, and is included in ministry expense on the consolidated statements of activities.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

DaySpring Operations

DaySpring, a ministry of the Diocese, provides room and board accommodations for various groups and ministries. Advance deposits are recorded as liabilities and recorded as “deposits” on the accompanying consolidated statements of financial position until the events occur, at which time the amounts are recorded as revenue.

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.

Income Tax Status

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 Diocese is listed as a subordinate of the group exemption of the Protestant Episcopal Church in the United States of America and therefore is exempt from income tax. Accordingly, the accompanying consolidated financial statements reflect no provision for income taxes.

The Diocese has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; and to review other matters that may be considered tax positions. No amounts of unrecognized tax benefits have been recorded by the Diocese as of December 31, 2016 or 2015.

Functional Allocation of Expenses

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

Related Party Consolidation

FASB ASC Topic 958-810, *Not-For-Profit Entity Consolidation*, 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 US GAAP.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Reclassifications

Certain amounts in the 2015 consolidated financial statements have been reclassified to conform to the 2016 presentation. These reclassifications have no impact on net assets for the year ended December 31, 2015.

NOTE C - INVESTMENTS

At December 31, 2016 and 2015, the Diocese held investments as follows:

	2016		2015	
	Cost	Fair Value	Cost	Fair Value
ECF - Endowment Fund	$10,501,143	$12,471,174	$ 9,699,087	$10,944,367
ECF - Income Fund	1,425,166	1,474,130	1,355,542	1,382,542
	$11,926,309	$13,945,304	$11,054,629	$12,326,909

Financial instruments included in the consolidated statements of financial position at December 31, 2016 and 2015 are measured at the reporting date using Level 2 inputs.

Investment return was comprised of the following for the years ended December 31, 2016 and 2015:

	2016	2015
Dividends and interest	1,512	1,600
Net realized and unrealized (depreciation) appreciation	776,567	(104,262)
Investment fees	(75,848)	(79,212)
Investment return (loss), net of fees	$ 702,231	$ (181,874)

NOTE D - APPORTIONMENTS AND NOTES RECEIVABLE

During the years ended December 31, 2016 and 2015, the Diocese reviewed the individual apportionment receivable balances for collectability. As of December 31, 2016 and 2015, the apportionments and notes receivable included:

	2016	2015
Apportionments converted to notes	$ 117,852	$ 118,507
Current apportionments receivable	32,707	70,148
Allowance for uncollectible accounts	(125,902)	(135,657)
Net apportionments and notes receivable	$ 24,657	$ 52,998

NOTE E - LOANS RECEIVABLE

At December 31, 2016 and 2015, the Diocese had interest and non-interest bearing loans receivable due from member churches. Repayment terms and scheduled payments are made according to each Church's agreement with the Diocese. As of December 31, 2016 and 2015, the loans outstanding included:

	2016	2015
Lona Hope Episcopal Church, Fort Myers	$ 852,211	$ 876,829
St. Mary's Episcopal Church, Tampa	87,500	87,500
St. Nathaniel's Episcopal Church, North Port	250,825	258,276
Church of the Good Shepherd, Punta Gorda	177,569	181,169
Church of the Holy Spirit, Safety Harbor	8,499	10,597
St. Hilary Episcopal Church, Fort Myers	62,498	228,556
Epiphany Episcopal Church, Cape Coral	52,249	65,126
St. Alfred, Palm Harbor	210,380	219,913
St. Martin, Hudson	70,190	78,621
St. Andrew, Spring Hill	78,964	89,311
St. Wilfred, Sarasota	93,508	39,320
St. Mary Magdalene	63,462	-
St. Raphael, Bradenton	28,500	-
St. Dunstan, Largo	50,000	-
St. Vincent, St. Petersburg	20,000	-
St. Marks, Marco Island	50,000	-
Allowance for uncollectable accounts	(83,672)	(83,672)
Net loans receivable	$ 2,072,683	$ 2,051,546

NOTE F - MORTGAGE NOTE RECEIVABLE

At December 31, 2016 and 2015, the Diocese had two mortgage notes receivable totaling $1,365,573 and $1,413,157, 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 four years and amortized over a five-year term with a balloon payment of $55,280 due February 1, 2018. 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, 2018. The note is secured by real property. As of December 31, 2016 and 2015, the note had an outstanding balance of $74,352 and $85,440, respectively. Management is assessing the collectability of the balloon payment due February 1, 2018.

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 the original note. As of December 31, 2016 and 2015, the note had an outstanding balance of $1,291,221 and $1,327,717, respectively. Management considers the amount to be fully collectible.

NOTE G - CONDITIONAL PROMISES TO GIVE

During 2016, the Diocese began a major donor campaign for the restricted purpose to upgrade the facilities at DaySpring. These pledges are an intention to give, rather than a promise, and are not legally binding to the donor. At December 31, 2016, the Diocese had $404,200 of conditional pledges outstanding. Since these amounts represent conditional promises to give, they are not recorded as contribution revenue until the donor conditions are met and the cash is received.

NOTE H - LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment, consist of the following at December 31, 2016 and 2015:

	2016			2015
	Diocese	DaySpring	Total	Total
Land	$ 219,328	$ 1,486,267	$ 1,705,595	$ 1,698,060
Buildings	1,747,602	3,286,704	5,034,306	5,326,721
Construction in progress	3,193,784	-	3,193,784	365,278
Furniture and equipment	213,002	769,055	982,057	939,239
Vehicles	68,091	32,167	100,258	109,976
			11,016,000	8,439,274
Less accumulated depreciation			(3,910,204)	(3,860,427)
			$ 7,105,796	$ 4,578,847

Depreciation expense for the years ended December 31, 2016 and 2015 is as follows:

	2016	2015
Diocese	$ 105,982	$ 103,773
DaySpring	171,306	176,975
	$ 277,288	$ 280,748

The Diocese approved a 3-phase plan to upgrade the facilities at DaySpring Episcopal Center. Phase 1 of this plan includes construction of a new program center and a new pool complex. Phase 2 includes a new multi-purpose worship center, and Phase 3 includes new residential rooms. Phases 2 and 3 are as yet unfunded, and initiation is dependent on gifts and fund raising. Phase 1 was completed in early 2017 and cost approximately $3.6 million. This Phase was funded with cash on hand of approximately $1.3 million, funds raised from a major donor campaign, and a line-of-credit from a financial institution for the remainder. The Diocese acquired land in 2015 for development of this project totaling $412,000. Construction in progress of $3,193,784 at December 31, 2016 includes costs related to Phase 1. Construction in progress of $365,278 at December 31, 2015 includes architectural and related planning costs for Phase 1.

NOTE I - LINE-OF-CREDIT

The Diocese obtained a $3,000,000 unsecured line-of-credit with a financial institution in 2016. The interest rate on this line-of-credit is 3.5%. The outstanding balance is $1,300,000 at December 31, 2016. The unused balance at December 31, 2016 is $1,700,000.

NOTE J - BOARD-DESIGNATED NET ASSETS

At December 31, 2016 and 2015, the Diocesan Council has designated unrestricted net assets for the following:

	2016	2015
Mission fund	$ 2,051,402	$ 1,992,809
Capital revolving loan fund	3,496,813	3,382,447
DaySpring endowment	223,340	203,720
Diocesan endowment	1,536,265	1,496,833
	$ 7,307,820	$ 7,075,809

NOTE K - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of gifts and other unexpended support available for the following at December 31, 2016 and 2015:

	2016	2015
Benefit of elderly	$ 2,093,980	$ 2,040,227
Congregation loans	117,487	113,218
Ministry development	117,739	107,528
St. Bartholomew	67,287	65,560
SCF chaplaincy	34,754	33,862
Missions	612,078	595,338
Bishop's discretionary	543,760	539,342
Underprivileged	32,581	26,539
Theological education	404,810	364,921
Episcopal charities grants	136,259	120,082
DaySpring	86,618	95,820
Other	179,994	173,674
	$ 4,427,347	$ 4,276,111

NOTE K - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS - CONTINUED

Permanently restricted net assets consist of contributions and other gifts maintained by the Diocese in perpetuity for the following at December 31, 2016 and 2015:

	2016	2015
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	469,796	425,344
Episcopal charities grants	594,821	554,985
Other	33,112	33,111
	$ 2,762,958	$ 2,678,669

NOTE L - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions as follows during the years ended December 31, 2016 and 2015, by incurring expenses satisfying the restricted purposes, or by occurrence of other events specified by donors:

Purpose restrictions accomplished:

	2016	2015
Benefit of elderly	$ 81,087	$ 70,370
Ministry development	15,404	13,368
St. Bartholomew	2,605	2,261
College chaplaincy	1,346	1,168
Missions	25,245	21,725
Theological education	6,663	5,758
Bishop's discretionary	60,174	58,638
Underprivileged	6,125	4,346
DaySpring	41,629	15,470
Episcopal charities grants	29,156	26,877
Other	9,534	8,274
	$ 278,968	$ 228,255

NOTE M - 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 Diocese 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 Diocese 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 US GAAP, 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 of the contrary. As a result of this interpretation, the Diocese classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Diocese in a manner consistent with the standard of prudence prescribed by FUPMIFA.

In accordance with FUPMIFA, the Diocese considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund

(2) The purposes of the Diocese and the donor-restricted endowment fund

(3) General economic conditions

(4) The possible effect of inflation and deflation

(5) The expected total return from income and the appreciation of investments

(6) Other resources of the Diocese

(7) The investment policies of the Diocese

For the years ended December 31, 2016 and 2015, the Diocese has elected not to add appreciation for cost of living or other spending policies to its permanently restricted endowment for inflation and other economic conditions.

NOTE M - 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 and 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, 2016 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Endowment Net Assets
Board-designated endowment funds	$ 1,759,605	$ -	$ -	$ 1,759,605
Donor-restricted endowment funds	-	3,783,386	2,762,958	6,546,344
	$ 1,759,605	$ 3,783,386	$ 2,762,958	$ 8,305,949

NOTE M - ENDOWMENT FUNDS - CONTINUED

Changes in endowment net assets for the year ended December 31, 2016 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Endowment Net Assets
Balance, beginning of year	$ 1,700,553	$ 3,662,383	$ 2,678,669	$ 8,041,605
Contributions	-	-	84,289	84,289
Interest and dividends, net of investment expenses	(10,967)	(33,054)	-	(44,021)
Net appreciation	125,629	380,121	-	505,750
Amount appropriated for expenditures	(55,610)	(226,064)	-	(281,674)
Balance, end of year	$ 1,759,605	$ 3,783,386	$ 2,762,958	$ 8,305,949

Endowment net asset composition by type of fund as of December 31, 2015 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Endowment Net Assets
Board-designated endowment funds	$ 1,700,553	$ -	$ -	$ 1,700,553
Donor-restricted endowment funds	-	3,662,383	2,678,669	6,341,052
	$ 1,700,553	$ 3,662,383	$ 2,678,669	$ 8,041,605

Changes in endowment net assets for the year ended December 31, 2015 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Endowment Net Assets
Balance, beginning of year	$ 1,804,552	$ 3,921,100	$ 2,614,461	$ 8,340,113
Contributions	-	6,667	64,208	70,875
Interest and dividends, net of investment expenses	(11,616)	(34,742)	-	(46,358)
Net depreciation	(17,189)	(52,164)	-	(69,353)
Amount appropriated for expenditures	(75,194)	(178,478)	-	(253,672)
Balance, end of year	$ 1,700,553	$ 3,662,383	$ 2,678,669	$ 8,041,605

NOTE N - 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 the 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, 2016 and 2015 was $83,533 and $80,987, respectively. Total pension expense for the lay employees for the years ended December 31, 2016 and 2015 was $42,982 and $40,979, 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 employees also participate in a separate pension plan through the Church Pension Fund. Total expense for the years ended December 31, 2016 and 2015 was $55,057 and $46,373, respectively.

NOTE O - 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, 2016 and 2015 was $98,290 and $88,130, respectively.

NOTE P - 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 $2,706,128 investment in DaySpring as of both December 31, 2016 and 2015. At both December 31, 2016 and 2015, $100,000 of DaySpring support was eliminated along with the transfer of $27,763 and $22,977, respectively, of total return distribution per the spending rule included in the endowment fund. DaySpring depreciation is included within the consolidated statements of activities.

NOTE Q - SALE OF PROPERTY

The Diocese received proceeds from the sale of the St. Francis Episcopal Mission in Tampa, Florida in August 2015. The total selling price was $450,000 and net proceeds were $412,769. This amount is included in the gain on sale disposal of assets on the consolidated statement of activities. The proceeds are included in the Mission fund designated net assets at December 31, 2015.

NOTE R - PRIOR PERIOD ADJUSTMENT

As part of our audit of the 2016 financial statements, certain errors related to the amount reflected in accumulated depreciation within the 2015 and 2014 financial statements were discovered by management. Accordingly, the Diocese restated its 2014 financial statements. The effect of the restatement was to decrease land, building, and equipment, net as well as decrease the change in net assets for 2014 by $21,414. Unrestricted net assets at the beginning of 2015 were reduced by $21,414 and 2015 land, building, and equipment, net was decreased by $21,414 for the effects of the 2014 error.

The effect of the restatement on the change in unrestricted net assets and financial position as of and for the year ended December 31, 2015 is as follows:

	As Previously Reported	Restated
Land, buildings, and equipment, net	$ 4,600,261	$ 4,578,847
Net assets	$ 20,626,868	$ 20,605,454

NOTE S - SUBSEQUENT EVENTS

The Diocese has evaluated events occurring after the consolidated statements of financial position date through May 9, 2017, the date which the consolidated financial statements were available and issued. The Diocese is not aware of any subsequent events which would require recognition or disclosures in the consolidated financial statements.

SUPPLEMENTARY INFORMATION

DIOCESE OF SOUTHWEST FLORIDA, INC.
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2016

Assets	Diocese Operating	DaySpring Operating	Eliminating Entries	Total
Cash	$ 436,214	$ 99,140	$ -	$ 535,354
Investments:				
Held for others	1,910,899	-	-	1,910,899
Held in endowment	8,305,949	-	-	8,305,949
Other	3,728,456	-	-	3,728,456
Apportionments and notes receivable, net	24,657	-	-	24,657
Accounts receivable, net	-	20,767	-	20,767
Loans receivable, net	2,072,683	-	-	2,072,683
Mortgage note receivable	1,365,573	-	-	1,365,573
Other assets	43,876	-	-	43,876
Land, buildings, and equipment, net	4,846,330	2,259,466	-	7,105,796
Investment in DaySpring	2,706,128	-	(2,706,128)	-
Due from affiliate	50,000	(50,000)	-	-
Total assets	$ 25,490,765	$ 2,329,373	$ (2,706,128)	$ 25,114,010
Liabilities and Net Assets				
Accounts payable and accrued expenses	$ 405,181	$ 100,609	$ -	$ 505,790
Deposits	56,084	95,982	-	152,066
Line-of-credit	1,300,000	-	-	1,300,000
Deposits held for others	1,910,899	-	-	1,910,899
Total liabilities	3,672,164	196,591	-	3,868,755
Net assets unrestricted:				
Undesignated (deficit)	2,475,775	(128,313)	(2,706,128)	(358,666)
Board-designated endowment	1,759,605	-	-	1,759,605
Board-designated other	5,548,215	-	-	5,548,215
Land, buildings, and equipment	4,846,330	2,259,466	-	7,105,796
Total unrestricted net assets	14,629,925	2,131,153	(2,706,128)	14,054,950
Temporarily restricted	4,425,718	1,629	-	4,427,347
Permanently restricted	2,762,958	-	-	2,762,958
Total net assets	21,818,601	2,132,782	(2,706,128)	21,245,255
Total liabilities and net assets	$ 25,490,765	$ 2,329,373	$ (2,706,128)	$ 25,114,010

See independent auditor's report

DIOCESE OF SOUTHWEST FLORIDA, INC.
CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2016

	Diocese Operating	DaySpring Operating	Eliminating Entries	Total
Support and Revenue				
Diocesan apportionments	$ 3,365,152	$ -	$ -	$ 3,365,152
Investment return, net of fees	702,231	27,763	(27,763)	702,231
Contributions and bequests	93,674	6,125	-	99,799
DaySpring operations	-	1,529,241	(100,000)	1,429,241
Program revenue	121,877	-	-	121,877
Capital income - major gifts	182,720	-	(16,123)	166,597
Interest income from loans to churches	78,629	-	-	78,629
Other interest income	5,187	41	-	5,228
Recovery of bad debt	153,082	-	-	153,082
Total support and revenue	4,702,552	1,563,170	(143,886)	6,121,836
Expenses:				
Program services:				
Congregational	548,394	-	(27,763)	520,631
Ministry	1,103,340	-	-	1,103,340
DaySpring	-	1,521,145	(16,123)	1,505,022
Total program services	1,651,734	1,521,145	(43,886)	3,128,993
Supporting services:				
Administrative	2,053,906	-	(100,000)	1,953,906
Change in Net Assets Before Other Items	996,912	42,025	-	1,038,937
Other Items				
Depreciation	105,982	171,306	-	277,288
(Gain) loss on disposal of assets	-	121,848	-	121,848
Total other items	105,982	293,154	-	399,136
Total expenses	3,811,622	1,814,299	(143,886)	5,482,035
Change in Net Assets	890,930	(251,129)	-	639,801
Net Assets at Beginning of Year	20,927,671	(322,217)	-	20,605,454
Net Assets at End of Year	$ 21,818,601	$ (573,346)	$ -	$ 21,245,255

See independent auditor's report

DIOCESE OF SOUTHWEST FLORIDA, INC.
SCHEDULES OF DAYSPRING EXPENSES
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Food services	$ 431,660	$ 426,857
Guest services	198,791	201,242
Grounds and building maintenance	363,650	315,831
Depreciation	171,306	176,975
Administration	525,999	489,537
Miscellaneous	1,045	95
Loss on disposal of assets	121,848	-
Total DaySpring expenses	$ 1,814,299	$ 1,610,537

See independent auditor's report