THE EPISCOPAL DIOCESE OF MINNESOTA

Minneapolis, Minnesota

FINANCIAL STATEMENTS
Including Independent Auditors' Report

As of and for the Year Ended December 31, 2015

THE EPISCOPAL DIOCESE OF MINNESOTA

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INDEPENDENT AUDITORS' REPORT

To the Diocesan Council
The Episcopal Diocese of Minnesota
Minneapolis, Minnesota

We have audited the accompanying financial statements of The Episcopal Diocese of Minnesota (the “Church”), which comprise the statement of financial position as of December 31, 2015, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Episcopal Diocese of Minnesota as of December 31, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
June 10, 2016

THE EPISCOPAL DIOCESE OF MINNESOTA

STATEMENT OF FINANCIAL POSITION
As of December 31, 2015

ASSETS	Unrestricted	Temporarily Restricted	Total
CURRENT ASSETS			
Cash and cash equivalents	$ 261,857	$ 314,359	$ 576,216
Receivables, net	20,530	-	20,530
Interfund receivable (payable)	(65,471)	65,471	-
Prepaid expenses	27,530	-	27,530
Total Current Assets	244,446	379,830	624,276
PROPERTY AND EQUIPMENT, net	179,787	-	179,787
TOTAL ASSETS	$ 424,233	$ 379,830	$ 804,063
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable	$ 65,235	$ -	$ 65,235
Accrued expenses	103,891	-	103,891
Funds held for others	261,226	-	261,226
Note payable, current portion	6,904	-	6,904
Capital lease, current portion	5,352	-	5,352
Total Current Liabilities	442,608	-	442,608
LONG TERM LIABILITIES			
Note payable	26,422	-	26,422
Capital lease	14,563	-	14,563
Total Long-Term Liabilities	40,985	-	40,985
TOTAL LIABILITIES	483,593	-	483,593
NET ASSETS (DEFICIT)	(59,360)	379,830	320,470
TOTAL LIABILITIES AND NET ASSETS	$ 424,233	$ 379,830	$ 804,063

See accompanying notes to financial statements.

THE EPISCOPAL DIOCESE OF MINNESOTA

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2015

	Unrestricted			Temporarily Restricted	Total
	Operating	Other	Total		
REVENUES:					
Mission and Ministry Support (MMS)	$ 1,971,959	$ -	$ 1,971,959	$ -	$ 1,971,959
MMS adjustments	(20,000)	-	(20,000)	-	(20,000)
Subtotal net MMS	1,951,959	-	1,951,959	-	1,951,959
Endowment distributions	285,244	61,821	347,065	134,952	482,017
Contribution income	385,497	44,373	429,870	54,525	484,395
Investment returns	-	103,160	103,160	-	103,160
Management fees	174,901	-	174,901	-	174,901
Event and other income	87,656	27,342	114,998	-	114,998
	2,885,257	236,696	3,121,953	189,477	3,311,430
Net assets released from restrictions	-	67,191	67,191	(67,191)	-
Total Revenue	2,885,257	303,887	3,189,144	122,286	3,311,430
EXPENDITURES:					
Mission	598,918	-	598,918	-	598,918
Ministry	442,318	-	442,318	-	442,318
Management	731,732	-	731,732	-	731,732
Episcopate	790,832	-	790,832	-	790,832
Grants	157,850	184,763	342,613	-	342,613
Other	-	127,652	127,652	-	127,652
Total Expenditures	2,721,650	312,415	3,034,065	-	3,034,065
Increase in net assets before transfers	163,607	(8,528)	155,079	122,286	277,365
Building investment returns from Trustees	32,800	-	32,800	-	32,800
Reclassification for investments held by Trustees	(6,485,270)	-	(6,485,270)	-	(6,485,270)
Transfer of property and equipment	(534,141)	-	(534,141)	-	(534,141)
Change in Net Assets	(6,823,004)	(8,528)	(6,831,532)	122,286	(6,709,246)
NET ASSETS (DEFICIT) - Beginning of Year	7,040,714	(268,542)	6,772,172	257,544	7,029,716
NET ASSETS (DEFICIT) - END OF YEAR	$ 217,710	$ (277,070)	$ (59,360)	$ 379,830	$ 320,470

See accompanying notes to financial statements.

THE EPISCOPAL DIOCESE OF MINNESOTA

STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2015

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	$ (6,709,246)
Adjustments to reconcile change in net assets to net cash flows from operating activities	
Depreciation	47,783
Gain on investments	(41,169)
Loss on disposals of property and equipment	534,988
Reclassification for investments held by Trustees	6,485,270
Changes in assets and liabilities	
Receivables	1,144,228
Prepaid expenses	(15,371)
Due from Trustees	29,121
Accounts payable and accrued expenses	11,155
Funds held for others	261,226
Net Cash Flows From Operating Activities	1,747,985
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of investments held by Trustees	(1,522,993)
Proceeds from sales of investments held by Trustees	220,578
Purchase of property and equipment	(8,670)
Net Cash Flows From Investing Activities	(1,311,085)
CASH FLOWS FROM FINANCING ACTIVITIES	
Principal payments on capital lease	(5,200)
Principal payments on notes payable	(8,809)
Net Cash Flows From Financing Activities	(14,009)
Net Change in Cash and Cash Equivalents	422,891
CASH AND CASH EQUIVALENTS - Beginning of year	153,325
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 576,216
Non-cash investing and financing activities:	
Note payable and capital asset addition	$ 35,056
Note payable reduction and asset disposal with trade in	$ 14,000

See accompanying notes to financial statements.

NOTE 1 - Summary of Significant Accounting Policies

Nature of Activities

The Episcopal Diocese of Minnesota (the "Church") is a nonprofit organization supported by donations from member churches and missions and exists to bring people to know and respond to God, as revealed in Jesus Christ, to deepen their motivation and commitment to Christ, and to equip them to fulfill their Christian mission in and to the world through worship and service in cooperation with other religious bodies.

The Church collects apportionments from member churches for its programs and services which include granting amounts to The Domestic and Foreign Missionary Society of the Protestant Episcopal Church in the United States of America (DFMS) for national and worldwide purposes.

The Episcopal Diocese of Minnesota and Trustees of the Diocese of Minnesota are related entities, with separate governing boards. The Trustees hold investments for the Church, rents property to the Church and makes periodic distributions to the Church.

Principles of Presentation

The financial statements of the Church have been prepared on the accrual basis.

Economic Dependency

The Church is primarily dependent upon assessments from member churches and missions in Minnesota and distributions from the Trustees of the Diocese of Minnesota to meet the expenses of operation.

Concentrations of Credit Risk Due to Accounts Receivable

Financial instruments that potentially subject the Church to concentrations of credit risk consist principally of accounts receivable. Management believes concentration risks with respect to such receivables are limited in nature.

Tax-Exempt Status

The Episcopal Diocese of Minnesota has received notification that it qualifies as a tax-exempt organization under Section 501(c)(3) of the U.S. Internal Revenue Code and corresponding provisions of State law and, accordingly, is not subject to federal or state income taxes. However, unrelated business income may be subject to taxation. The Church, an organization affiliated with the Episcopal Church, is not required to file federal income tax returns unless subject to the tax on unrelated business income under section 511 of the Code.

NOTE 1 - Summary of Significant Accounting Policies (continued)

Programs

The Church has the following programs and supporting services:

Mission - Serves as a resource for every faith community to discern their particular gifts so that they may engage in God's mission with their neighbors to meet the needs of the world.

Ministry - Serves as a resource for the discernment, formation and empowering of the ministry of all the baptized for God's mission.

Management - Serves as a resource for every faith community in establishing sustainable models from which to participate in God's mission.

Episcopate - Serves as a resource for all the baptized and all the faith communities in the Episcopal Church in Minnesota as well as sharing in the leadership of the Councils of the Church.

Cash and Cash Equivalents

The Church considers all highly liquid, short-term investments with a maturity of three months or less when purchased to be cash equivalents. Cash on deposit in excess of federally insured limits are subject to the usual banking risks of funds in excess of those limits.

Receivables

Receivables include unpaid support assessments due from member churches in the state of Minnesota. Mission and Ministry Support revenue is recorded net of adjustments to member churches. Such adjustments for the year ended December 31, 2015 were $20,000. Receivables are unsecured. An allowance for uncollectible apportionments is determined based on experience.

Receivables are summarized as follows:

	2015
Mission and Ministry Support	$ 43,484
Contributions	7,169
	50,653
Allowance for uncollectible receivables	(30,123)
Total receivables, net	$ 20,530

NOTE 1 - Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment are stated at cost if purchased or fair market value at date of gift if donated. Maintenance, repairs, and minor improvements are expensed as incurred. When assets are retired or otherwise disposed of, their cost and related accumulated depreciation are removed from the accounts and resulting gains or losses are included in income.

Depreciation of buildings, furniture and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis.

Impairment of Long-Lived Assets

The Church reviews long-lived assets, including property and equipment and intangible assets, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. To date, there have been no such losses.

Net Assets

For the purpose of financial reporting, the Church classifies resources into three net asset categories pursuant to any donor-imposed restrictions. Accordingly, the net assets of the Church are classified in the accompanying financial statements in the categories that follow:

Unrestricted Net Assets - Net assets not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that will be met by action of the Church and/or the passage of time.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Church. Presently, there are no permanently restricted net assets.

Revenues from sources other than contributions are generally reported as increases in unrestricted net assets. Expenses are reported as decreases in unrestricted net assets.

Contributions, including unconditional promises to give, are recognized in the period received. Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift. Conditional promises are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met.

The Church reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as restricted support and as net assets released from restriction.

Mission and Ministry Support Revenue

Mission and Ministry Support apportionments billed to member churches are set in accordance with the policies and procedures of the Diocesan Council and are based on yearly budgeted amounts. All such apportionments remain liabilities of the member church until paid or "released" through formal appeal procedures.

NOTE 1 - Summary of Significant Accounting Policies (continued)

Donated Services

Contributions of services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. There were no such services received and recorded for the year ended December 31, 2015.

A substantial number of volunteers have donated significant amounts of their time to the Church's programs. These amounts have not been reflected in the financial statements for donated services inasmuch as no objective basis is available to measure their value.

Distributions from Endowments Held by Trustees

Endowments received by the Church are required to be transferred to the Trustees of the Diocese of Minnesota. The Trustees invest and manage such endowments. Throughout the year, the Church receives distributions of income from the endowment funds.

Transfers (To) From Trustees

Transfers to the Trustees are monies or property received that are required to be transferred to the Trustees. Transfers from the Trustees are monies transferred at the discretion of the Trustees. Such transfers are from assets held by the Trustees for the benefit of the Church. These transfers will not be repaid by the Church.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers.* This new accounting guidance was issued that outlines a single comprehensive model for organizations to use in accounting for revenue from contracts with customers. This guidance is effective for the Organization’s fiscal year ending December 31, 2019 with early application permitted beginning in the year ended December 31, 2017. The Church is assessing the impact this new standard will have on its financial statements.

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases*. ASU No. 2016-02 was issued to increase transparency and comparability among organizations by recognizing all lease transactions (with terms in excess of 12 months) on the balance sheet as a lease liability and a right-of-use asset (as defined). ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, with earlier application permitted. Upon adoption, the lessee will apply the new standard retrospectively to all periods presented or retrospectively using a cumulative effect adjustment in the year of adoption. The Foundation is currently assessing the effect this standard will have on its results of operations, financial position and cash flows.

NOTE 1 - Summary of Significant Accounting Policies (continued)

Subsequent Events Review

The Organization has evaluated subsequent events occurring through June 10, 2016, the date that the financial statements were available to be issued, for events requiring recording or disclosure in the Church's financial statements.

NOTE 2 - Investments Held by Trustees

During the year ended December 31, 2015, there was a reclassification of investments held by Trustees totaling $6,485,270 resulting from a contribution that was received by the Church and reclassified once the entire balance of the receivable was collected. This reclassification resulted in the balance of funds held by the Trustees to be zero at December 31, 2015.

Income from investment securities before the reclassification described above is summarized as follows:

	2015
Interest and dividends	$ 61,991
Net realized and unrealized gains	41,169
Total income	$ 103,160

NOTE 3 - Property and Equipment

The major categories of property and equipment at December 31 are summarized as follows:

	Depreciable Lives	2015
Building, Ely House	40 yrs.	$ 129,500
Furniture and equipment	5 -10 yrs.	136,987
Vehicle	5 yrs.	35,056
Total Property and Equipment		301,543
Less: Accumulated depreciation		(121,756)
Net Property and Equipment		$ 179,787

NOTE 4 - Related Party Transactions (continued)

The following describes the significant related party transactions:

Administration Fee Expense

In accordance with an agreement between the Trustees and the Church, the Church provides the Trustees with administrative services in exchange for an administrative fee. The services provided include accounting, loan monitoring, real estate management, and other management services. The Trustees have an operating lease agreement with the Church. The lease agreement requires the Church to pay the Trustees for office space in For the year ended December 31, 2015, the Trustees paid the Church $99,901 for those services.

Distributions Income

The Church receives distributions from endowments and other fund earnings held by the Trustees. These funds are then paid out in grants. During the year ended December 31, 2015, endowment distributions received from the Trustees totaled $482,018. Distributions received from a perpetual trust, included in contribution revenue, totaled $54,525.

The following transfers were received from the Trustees during the year ended December 31:

	2015
Building investment returns transferred	$ 32,800

Summarized financial data of the Trustees as of December 31, 2015 and for the year then ended is as follows:

Total assets	$ 59,908,262
Total liabilities	14,588,718
Net assets	45,319,544
Total revenues	289,877
Total expenditures and losses	1,498,602
Transfers	6,819,905

NOTE 5 - Note Payable

Note payable consists of the following at December 31:

	2015
0.9% vehicle loan, $598 monthly installments of principal and interest, secured by vehicle with a cost of $35,056, due September 2020	$ 33,326
Less: Current portion	(6,904)
Long-Term Portion	$ 26,422

Principal requirements on long-term notes are as follows for year ending after December 31:

2016	$ 6,904
2017	6,966
2018	7,029
2019	7,093
2020	5,334
Total	$ 33,326

Interest charged to expense was $571 for the year ended December 31, 2015.

NOTE 6 - Capital Lease

The Church entered into a capital lease agreement for a copier on August 1, 2014. The capitalized cost of the leased property at December 31, 2015 was $27,238. Amortization expense on the capital lease is included with depreciation expense. Accumulated amortization was $5,448 as of December 31, 2015. The capital lease obligation is secured by the leased equipment.

Future minimum lease payments under the capital lease with the present value of the net minimum lease payments as of December 31, 2015 are as follows:

2016	$	5,857
2017		5,857
2018		5,857
2019		3,417
Total Future Minimum Lease Payments		20,988
Less: Amount representing interest		(1,073)
Present Value of Future Minimum Lease Payments		19,915
Less: Current portion		(5,352)
Long-Term Capital Lease Obligation	$	14,563

NOTE 7 - Retirement Plans

Defined Contribution Retirement Plan

The Church contributes to a defined contribution retirement savings plan for all eligible lay employees. The plan is administered by the Church Pension Fund, an affiliate of the Episcopal Church. The Church contributes 9% of eligible employee compensation to the plan. Retirement plan expense was $37,418 for the year ended December 31, 2015.

Defined Benefit Retirement Plan - Multiemployer Pension Plans

The following information, except the Church’s annual contributions, was provided in The Church Pension Group 2015 Annual Report. The Church Pension Fund (the “Fund”) is the plan sponsor and administrator of three plans, the Clergy Pension Plan (the “Clergy Plan”); The Episcopal Church Lay Employees’ Retirement Plan (the “Lay Plan”); and The Staff Retirement Plan of The Church Pension Fund and Affiliates (the “Staff Plan”). The respective assets of these defined benefit plans are pooled, solely for investment purposes, for the benefit of all participants. As church plans, the Qualified Plans are exempt from Titles I and IV of the Employee Retirement Income Security Act of 1974 and, therefore, are not subject to Pension Benefit Guaranty Corporation requirements.

The Church participates in the Clergy Plan, which is a multi-employer defined benefit plan providing retirement, death and disability benefits to eligible clergy of the Episcopal Church. Contributions to the plan are computed at 18% of the sum of the employee's annual gross salary, self-employment allowance and housing or utility/rectory allowance. Pension contributions totaled $100,890 for the year ended December 31, 2015.

NOTE 7 - Retirement Plans (continued)

Multi-Employer Pension Plans

The risks of participating in these multi-employer plans are different from single-employer plans in the following aspects.

a. Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers. As a result, over or underfunding assets or liabilities are not recognized in the statement of financial position.

b. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

c. If the Church chooses to stop participating in some of its multi-employer plans, the Church may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The annual contributions for all plans and the funding position of the Clergy Plan, the Lay Plan and the Staff Plan as of March 31, 2015 are summarized as follows:

	Most Recent Available Funded Status at Church Pension Fund	Total Contributions for all Plans March 31, 2015
All Plans		$ 102,021,790
Clergy Plan	120%	
Lay Plan	73%	
Staff Plan	65%	

403(b) Retirement Plan

The Church participates in a 403(b) retirement plan for all employees.

NOTE 8 - Concentrations

The Church maintains a cash balance in one institution which occasionally exceeds the federally insured limit of $250,000. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

NOTE 9 - Net Assets

Temporarily restricted net assets at December 31 are composed of:

	2015
Grant Funds:	
DIW Program - 702	$ 16,767
DIW New Ops - 710	7,037
Total	23,804
Other Funds:	
ECS - Endowment Fund	11,022
ECS - John Hannaford Fund	4,665
ECS - Gwendolyn Twentyman Fund	455
ECS - Karen Peterson Fund	43,207
ECS - Guilfillian Fund	188,915
Seabury	36,217
Seminarian Aid - 600	10,698
Continuing Education - 601	17,659
Minister Financial Aid - 605	6,330
College Center Ministries - 610	6,166
Boutwell - 611	1,264
Dr. Daniel's Trust - 613	4,771
Elliot Marston Trust - 614	673
Lois Granner Trust - 615	3,418
Diocese of Minnesota - 616	4,382
Trustee’s C.O. Diocese of Minnesota - 631	2,748
Trustee’s C.O. Diocese of Minnesota - 632	16
Diocese of Minnesota - 633	10,125
Mudge Evangelism - 635	1,776
Retired Clergy - 640	1,039
Clergy Health - 660	480
Totals	356,026
Total temporarily restricted net assets	$ 379,830