

**TRUSTEES OF THE DIOCESE OF MINNESOTA,  
INCORPORATED**

Minneapolis, Minnesota

FINANCIAL STATEMENTS  
Including Independent Auditors' Report

As of and for the Year Ended December 31, 2015

# TRUSTEES OF THE DIOCESE OF MINNESOTA, INCORPORATED

## TABLE OF CONTENTS

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	<u>Page</u>
<b>Independent Auditors' Report</b>	1 - 2
<b>Financial Statements</b>	
Statement of Financial Position	3
Statement of Activities	4
Statement of Cash Flows	5
Notes to Financial Statements	6 - 17

## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees  
Trustees of the Diocese of Minnesota, Incorporated  
Minneapolis, Minnesota

We have audited the accompanying financial statements of the Trustees of the Diocese of Minnesota, Incorporated (the "Trustees"), 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 qualified audit opinion.

***Basis for Qualified Opinion***

As explained in Note 1 to the financial statements, the Trustees have recorded certain property and buildings at insurance replacement value and have not recorded a provision for depreciation. In our opinion, accounting principles generally accepted in the United States of America require that property and buildings be recorded at historical cost and depreciated over their estimated useful lives. The effects on the financial statements of that departure from those accounting principles are not reasonably determinable.

***Qualified Opinion***

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Trustees of the Diocese of Minnesota, Incorporated as of December 31, 2015, 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.

*Baker Tilly Virchow Krause, LLP*

Minneapolis, Minnesota  
June 10, 2016

**TRUSTEES OF THE DIOCESE OF MINNESOTA, INCORPORATED**

STATEMENT OF FINANCIAL POSITION  
As of December 31, 2015

<b>ASSETS</b>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ 105,129	\$ 48,036	\$ -	\$ 153,165
Accounts receivable	<u>17,382</u>	<u>-</u>	<u>-</u>	<u>17,382</u>
<b>Total Current Assets</b>	<u>122,511</u>	<u>48,036</u>	<u>-</u>	<u>170,547</u>
<b>INVESTMENTS</b>	<u>22,544,716</u>	<u>7,450,949</u>	<u>1,873,558</u>	<u>31,869,223</u>
<b>BENEFICIAL INTEREST IN PERPETUAL TRUSTS</b>				
Investments	-	-	2,209,243	2,209,243
Loans receivable	<u>-</u>	<u>-</u>	<u>250,000</u>	<u>250,000</u>
Total Beneficial Interest in Perpetual Trusts	<u>-</u>	<u>-</u>	<u>2,459,243</u>	<u>2,459,243</u>
<b>RECEIVABLES</b>				
Loan receivable	30,152	-	-	30,152
Split interest agreement receivable	<u>-</u>	<u>19,639</u>	<u>108,430</u>	<u>128,069</u>
Total Receivables	<u>30,152</u>	<u>19,639</u>	<u>108,430</u>	<u>158,221</u>
<b>PROPERTY AND BUILDINGS</b>				
Property held for sale	1,012,811	-	-	1,012,811
Mission church property	<u>24,238,217</u>	<u>-</u>	<u>-</u>	<u>24,238,217</u>
Total Property and Buildings	<u>25,251,028</u>	<u>-</u>	<u>-</u>	<u>25,251,028</u>
<b>TOTAL ASSETS</b>	<u>\$ 47,948,407</u>	<u>\$ 7,518,624</u>	<u>\$ 4,441,231</u>	<u>\$ 59,908,262</u>
<b>LIABILITIES AND NET ASSETS</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable	\$ 7,999	\$ -	\$ -	\$ 7,999
Loan payable, current portion	<u>3,686</u>	<u>-</u>	<u>-</u>	<u>3,686</u>
<b>Total Current Liabilities</b>	<u>11,685</u>	<u>-</u>	<u>-</u>	<u>11,685</u>
<b>LONG TERM LIABILITIES</b>				
Loan payable	26,466	-	-	26,466
Custodial accounts	<u>14,550,567</u>	<u>-</u>	<u>-</u>	<u>14,550,567</u>
<b>Total Long Term Liabilities</b>	<u>14,577,033</u>	<u>-</u>	<u>-</u>	<u>14,577,033</u>
<b>TOTAL LIABILITIES</b>	<u>14,588,718</u>	<u>-</u>	<u>-</u>	<u>14,588,718</u>
<b>NET ASSETS</b>				
Invested in property and buildings	25,251,028	-	-	25,251,028
Other	<u>8,108,661</u>	<u>7,518,624</u>	<u>4,441,231</u>	<u>20,068,516</u>
<b>TOTAL NET ASSETS</b>	<u>33,359,689</u>	<u>7,518,624</u>	<u>4,441,231</u>	<u>45,319,544</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 47,948,407</u>	<u>\$ 7,518,624</u>	<u>\$ 4,441,231</u>	<u>\$ 59,908,262</u>

See accompanying notes to financial statements.

**TRUSTEES OF THE DIOCESE OF MINNESOTA, INCORPORATED**

STATEMENT OF ACTIVITIES  
For the Year Ended December 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUES :</b>				
Investment returns	\$ (4,822)	\$ (399,059)	\$ -	\$ (403,881)
Change in beneficial interest in perpetual trust	-	-	(153,084)	(153,084)
Change in split interest agreements	-	160	2,983	3,143
Rental income	245,799	-	-	245,799
Contributions and grants	316,858	-	-	316,858
Fee income	165,401	-	-	165,401
Other income	115,641	-	-	115,641
	<u>838,877</u>	<u>(398,899)</u>	<u>(150,101)</u>	<u>289,877</u>
Net assets released from restrictions	<u>119,238</u>	<u>(119,238)</u>	<u>-</u>	<u>-</u>
<b>Total Revenues</b>	<u><b>958,115</b></u>	<u><b>(518,137)</b></u>	<u><b>(150,101)</b></u>	<u><b>289,877</b></u>
<b>EXPENDITURES AND LOSSES:</b>				
Program services				
Distributions to the Church and other organizations	490,607	-	-	490,607
Grants to parishes and missions	<u>99,438</u>	<u>-</u>	<u>-</u>	<u>99,438</u>
Total program services	<u>590,045</u>	<u>-</u>	<u>-</u>	<u>590,045</u>
Support services				
Direct building costs	150,851	-	-	150,851
Amortization of leasehold improvements	20,264	-	-	20,264
Property tax and insurance	7,838	-	-	7,838
Professional and administrative fees	237,124	-	-	237,124
Investment management fees	149,761	-	-	149,761
Liability insurance	10,324	-	-	10,324
Miscellaneous expense	<u>27,320</u>	<u>-</u>	<u>-</u>	<u>27,320</u>
Total support services	<u>603,482</u>	<u>-</u>	<u>-</u>	<u>603,482</u>
Loss on disposal of properties	<u>305,075</u>	<u>-</u>	<u>-</u>	<u>305,075</u>
<b>Total Expenditures and Losses</b>	<u><b>1,498,602</b></u>	<u><b>-</b></u>	<u><b>-</b></u>	<u><b>1,498,602</b></u>
<b>Net decrease in net assets before transfers</b>	<u><b>(540,487)</b></u>	<u><b>(518,137)</b></u>	<u><b>(150,101)</b></u>	<u><b>(1,208,725)</b></u>
Transfer from the Church	6,485,270	-	-	6,485,270
Transfer to the Church	(32,800)	-	-	(32,800)
Transfer from the Saint Paul on the Hill	<u>367,435</u>	<u>-</u>	<u>-</u>	<u>367,435</u>
<b>Change in Net Assets</b>	<u><b>6,279,418</b></u>	<u><b>(518,137)</b></u>	<u><b>(150,101)</b></u>	<u><b>5,611,180</b></u>
NET ASSETS - Beginning of Year	<u>27,080,271</u>	<u>8,036,761</u>	<u>4,591,332</u>	<u>39,708,364</u>
<b>NET ASSETS - END OF YEAR</b>	<u><b>\$ 33,359,689</b></u>	<u><b>\$ 7,518,624</b></u>	<u><b>\$ 4,441,231</b></u>	<u><b>\$ 45,319,544</b></u>

See accompanying notes to financial statements.

# TRUSTEES OF THE DIOCESE OF MINNESOTA, INCORPORATED

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

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### CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 5,611,180
Adjustments to reconcile change in net assets to net cash flows from operating activities	
Amortization expense	20,264
Change in beneficial interest in perpetual trusts	153,084
Change in split interest agreements	(3,143)
Loss on disposal of properties	305,075
Net loss on marketable securities	776,558
Non-cash transfer from the Church	(6,485,270)
Non-cash transfer from Saint Paul on the Hill	(367,435)
Changes in assets and liabilities	
Accounts receivable	(11,561)
Due to the Church	(29,121)
Accounts payable	(59,605)
Grant commitments	(10,130)
Net Cash Flows From Operating Activities	<u>(100,104)</u>

### CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from the sale of property and buildings	173,582
Purchases of investments	(2,189,866)
Proceeds from sales of investments	2,055,399
Increase in custodial account liability	<u>(8,768)</u>
Net Cash Flows From Investing Activities	<u>30,347</u>

**Net Change in Cash and Cash Equivalents** (69,757)

CASH AND CASH EQUIVALENTS - Beginning of year 222,922

**CASH AND CASH EQUIVALENTS - END OF YEAR** \$ 153,165

### Supplemental Cash Flow Disclosures

Note payable principal payments made directly by church \$ 4,028

See accompanying notes to financial statements.

# TRUSTEES OF THE DIOCESE OF MINNESOTA, INCORPORATED

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2015

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## **NOTE 1 - Summary of Significant Accounting Policies**

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### *Nature of Activities*

Trustees of the Diocese of Minnesota, Incorporated (the "Trustees") was incorporated in order to acquire property to hold for investment and income production for the religious, charitable, educational, and administrative purposes of the Episcopal Diocese of Minnesota (the "Church"). The Trustees hold investments for the Church for the purpose of investment, reinvestment and for return to the Church. In addition, the Trustees receive and hold in-trust, properties and investments for parishes, missions, and other organizations of the Church, and properties for the endowment of the Church. The Annual Convention of the Church elects the Board of Directors of the Trustees.

### *Principles of Presentation*

The accompanying financial statements include the accounts of the Trustees and do not include other accounts and activities of the Church or other organizations within the Church community, which are separate legal entities apart from the Trustees. The financial statements have been prepared on the accrual basis.

### *Cash and Cash Equivalents*

The Trustees consider 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.

### *Split Interest Agreements*

The Trustees are the designated beneficiary of split interest agreements held by others. The Trustees recognize the contribution from split interest agreements when the trust is established and they are notified of their interest. The split interest agreement receivable is the present value of the estimated future cash flows expected to be received by the Trustees. The significant assumptions used to estimate the present value of the future cash flows include a discount rate of 5.4%.

### *Property and Buildings*

Property and buildings include property, churches, and related buildings used by mission churches, as well as an office building. At December 31, 2015 the office building was reclassified to property held for sale as it met all the conditions for such classification.

Property and buildings, excluding the commercial office building, are recorded at insurance replacement value as of 1995. No additional adjustments have been made to recorded values since 1995. Additions subsequent to 1995 are added at insurance value during the year of addition. When assets are retired or otherwise disposed of, their costs are removed from the accounts and resulting gains or losses are included in income. At December 31, 2015 one property valued at insurance replacement value of approximately \$5.1 million is listed for sale for approximately \$1.7 million.



# TRUSTEES OF THE DIOCESE OF MINNESOTA, INCORPORATED

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2015

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## NOTE 1 - Summary of Significant Accounting Policies (continued)

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### *Property and Buildings (continued)*

Recording property and buildings at insurance replacement value and not recognizing depreciation is not in accordance with accounting principles generally accepted in the United States of America

The Trustees provide for amortization of tenant improvements made to the commercial office building using the straight-line method over the lease term. However, there is no provision or allowance for depreciation of the original cost of the office building.

Property and buildings consist of the following at December 31:

	<u>2015</u>
Property and buildings – insurance value, no depreciation	<u>\$ 25,091,543</u>
Tenant building improvements	
Cost of improvements	472,366
Accumulated amortization	<u>(312,881)</u>
Tenant building improvements, net	<u>159,485</u>
Total property and buildings	<u>\$ 25,251,028</u>

Donated property and buildings are recorded as increases in unrestricted net assets at their estimated fair market value as of the date received. Contributions of cash that must be used to acquire property and buildings are reported as temporarily restricted contributions. The Trustees reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Trustees reclassifies temporarily restricted net assets to unrestricted net assets at that time.

### *Custodial Accounts*

Custodial accounts are investments held for other churches or missions.

### *Net Assets*

For the purpose of financial reporting, the Trustees classify resources into three net asset categories pursuant to any donor-imposed restrictions. Accordingly, the net assets of the Trustees 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 Trustees and/or the passage of time.

**Permanently Restricted Net Assets** - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Trustees.

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. Conditional promises are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met.

# TRUSTEES OF THE DIOCESE OF MINNESOTA, INCORPORATED

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2015

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## **NOTE 1 - Summary of Significant Accounting Policies** (continued)

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The Trustees 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.

### *Donated Services*

A number of volunteers have made significant donations of their time to the Trustees program and support functions. The value of this contributed time does not meet the criteria for recognition and, accordingly, is not reflected in the accompanying financial statements.

### *Tax-Exempt Status*

Trustees of the Diocese of Minnesota, Incorporated 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 Trustees, 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.

### *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.

### *Investments*

Certificates of deposit are recorded at cost.

Investments and other financial instruments recorded at fair value on a recurring basis are described in Note 3.

### *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.

# TRUSTEES OF THE DIOCESE OF MINNESOTA, INCORPORATED

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2015

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## NOTE 1 - Summary of Significant Accounting Policies (continued)

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### *Subsequent Events Review*

The Trustees 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 Trustees' financial statements.

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## NOTE 2 - Investments

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Following is a summary of investments, including custodial account investments, as of December 31:

	<u>2015</u>
Equity securities - stocks	\$ 4,262,352
Debt securities - bonds	5,357,610
Mutual and money funds	21,965,121
Mortgage backed securities	33,226
Total Investments - at fair value	<u>31,618,309</u>
Certificates of deposit - at cost	<u>250,914</u>
Total Investments	<u>\$ 31,869,223</u>

Amounts invested for agency/custodial and other purposes are as follows as of December 31:

	<u>2015</u>
Custodial depository funds - churches and others	\$ 14,550,567
Endowment and other	<u>17,318,656</u>
	<u>\$ 31,869,223</u>

The Trustees share of returns from investment securities is summarized as follows:

	<u>2015</u>
Interest and dividends	\$ 375,482
Net realized and unrealized losses	(776,558)
Fees	<u>(2,805)</u>
Total	<u>\$ (403,881)</u>

Investment income and net appreciation or depreciation of investments for custodial accounts are reflected as additions or deductions to the custodial account liabilities in the statement of financial position.

Investments, in general, are subject to various risks, including credit, interest and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the financial statements.

# TRUSTEES OF THE DIOCESE OF MINNESOTA, INCORPORATED

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2015

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### **NOTE 3 - Fair Value of Financial Instruments**

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#### *Fair Value Hierarchy*

Fair value is defined in the accounting guidance as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the assets or liability in an orderly transaction between market participants at the measurement date. Under this guidance, a three-level hierarchy is used for fair value measurements which are based on the transparency of information, such as the pricing source, used in the valuation of an asset or liability as of the measurement date.

Financial instruments measured and reported at fair value are classified and disclosed in one of the following three categories.

- Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.
- Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. This includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or market-corroborated inputs.
- Level 3 - Inputs are unobservable for the asset or liability. Unobservable inputs reflect the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk) using the best information available in the circumstances, which may include using the reporting entity's own data.

#### *Valuation Techniques and Inputs*

- Level 1 - Level 1 assets include investments in short-term investments, consisting primarily of equity securities, debt securities (consisting of U.S. Treasuring notes, municipal bonds, and corporate bonds and notes), and mutual and money funds for which quoted prices are readily available.
- Level 2 - Level 2 assets include investments in mortgage backed securities as fair value is based on multiple sources of information, which may include market data and/or quoted market prices from either markets that are not active or are for the same or similar assets in active markets.
- Level 3 - Level 3 assets include investments in beneficial interest in perpetual trusts administered by a third party as the fair values are based on a combination of Level 2 inputs and significant unobservable inputs (entity specific estimates of cash flows). Since the Trustee has an irrevocable right to receive the income earned from the trust's assets, the fair value of the beneficial interest is estimated to approximate the fair value of the trust's assets.

The following methods and assumptions were used to measure the fair value for each class of financial instrument. There has been no change in the methodologies and assumptions used at December 31, 2015.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. The schedules within this note are not intended to indicate the volatility of the investments.

# TRUSTEES OF THE DIOCESE OF MINNESOTA, INCORPORATED

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2015

### NOTE 3 - Fair Value of Financial Instruments (continued)

While the Trustees believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The following table presents information about the Trustees' assets measured at fair value on a recurring basis as of December 31, 2015 based upon the three-tier hierarchy:

	Total	Level 1	Level 2	Level 3
ASSETS				
Equity securities-stocks	\$ 4,262,352	\$ 4,262,352	\$ -	\$ -
Debt securities-bonds	5,357,610	5,357,610	-	-
Mutual and money funds	21,965,121	21,965,121	-	-
Mortgage backed securities	<u>33,226</u>	-	<u>33,226</u>	-
Investments	31,618,309	31,585,083	33,226	-
Beneficial interest in perpetual trusts	<u>2,209,243</u>	-	-	<u>2,209,243</u>
Total	<u>\$ 33,827,552</u>	<u>\$ 31,585,083</u>	<u>\$ 33,226</u>	<u>\$ 2,209,243</u>

The following table presents a reconciliation of the statement of financial position amounts for financial instruments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31:

	2015
Beneficial Interest in Perpetual Trusts	
Balance at beginning of year	<u>\$ 2,362,327</u>
Net realized and unrealized losses	(58,974)
Distributions to beneficiaries	(123,930)
Purchases	73,002
Sales, issuances and settlements	<u>(43,182)</u>
Net change in beneficial interest in perpetual trust shown in statement of activities	<u>(153,084)</u>
Balance at end of year	<u><u>\$ 2,209,243</u></u>

### NOTE 4 - Related Party Transactions

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 has an operating lease agreement with the Church. The lease agreement requires the Church to pay the Trustees for office space in the commercial office building owned by the Trustees. Rental income is netted against this administrative fee. For the year ended December 31, 2015, the Trustees paid the Church \$99,901 for those services.

# TRUSTEES OF THE DIOCESE OF MINNESOTA, INCORPORATED

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2015

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## NOTE 4 - Related Party Transactions (continued)

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### *Distributions Expense*

The Trustees make distributions from endowment and other earnings to the Church. These funds are then paid out in grants. During the year ended December 31, 2015 endowment distributions totaled \$482,018.

### *Loan Guarantee*

The Church has guaranteed a loan to Saint Andrews by the Lake Episcopal Church, Duluth by securing a mission property owned by the Trustees.

### *Transfers Expense*

The Trustees make annual distributions from the Isabella Cooke perpetual trust to the Church. During the year ended December 31, 2015 these distributions totaled \$54,525.

The following transfers were made between the Trustees and the Church during the year ended December 31:

	<u>2015</u>
Transfers to the Church	
Building investment returns transferred	\$ (32,800)

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

Total assets	\$ 804,063
Total liabilities	483,593
Net assets	320,470
Total revenues	3,311,430
Total expenditures	3,034,065
Transfers and other reclassifications	(6,986,611)

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## NOTE 5 - Loan Payable

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Loan payable consists of the following at December 31:

	<u>2015</u>
Bank mortgage note payable, 5.5% per annum, payable in monthly installments of \$447 with a balloon payment due February 2018)	\$ <u>30,152</u>

The mortgage note payable was taken out on behalf of a mission church, Trinity Episcopal Church, in Hermantown, Minnesota. All principal and interest payments are made by the mission church. A note receivable from the church is recorded in the financial statements for the same amount as the loan payable. Loan payable debt interest expense paid by the church was \$1,804 for the year ended December 31, 2015.

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## NOTE 6 - Custodial Accounts

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The Trustees manage funds as an agent for parishes, missions and other organizations within the Church. As agent, the Trustees establish, manage and invest the funds in the Church's name. Distributions are made in accordance with the agency agreements or directions from the organization. Either party may cancel an agency agreement at any time.

# TRUSTEES OF THE DIOCESE OF MINNESOTA, INCORPORATED

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2015

## NOTE 7 - Net Assets

Temporarily restricted net assets at year end are composed of:

	2015
Ellen M. Watkinson Trust (Fund 500)	\$ 59,729
Israel Trust (Fund 510) - future interest	19,639
Total	79,368
Held in Pooled Investment Fund:	
ECS - Endowment Fund - 35091	256,402
ECS - John Hannaford Fund - 35092	60,013
ECS - Gwendolyn Twentyman Fund - 35093	5,847
ECS - Karen Peterson Fund - 35094	555,781
ECS - Guifillian Fund - 35095	2,430,048
Episcopate Fund A - 37001	119,919
Episcopate B - 37002	97,766
George Brown Fund - 37005	11,168
Yardley Fund - 37007	114,137
Dr. Daniels Fund - 37009	171,729
Lois Granner Fund - 37010	82,330
Elliot Marston Fund - 37012	5,181
Mudge Evangelism Fund - 37013	47,362
Post Ordination Fund - 37014	237,188
Retired Clergy Fund - 37015	161,554
Seminarian Aid Fund - 37016	205,089
Knickerbocker Fund - 37017	19,143
Eric Freidus Fund - 37018	4,676
Keeler Trust - 37076	283,716
Elizabeth Leigh Fund - 37078	822,917
Weed Jones Fund - 37079	1,077,165
Whipple Scholarship Fund - 37088	31,344
Henton Endowment Fund - 37089	1,971
Pope Fund - 37093	133,064
S.B. Cowdry Fund - 37100	22,819
Witts Memorial Fund - 37110	118,775
Boutwell Fund - 37111	45,003
Shakopee Episcopal Mission Trust - 37142	6,879
Sullivan Seminary Fund - 37153	147,705
Elaine Marshall Rural Minnesota Fund - 37162	89,571
Minister Financial Aid Fund - 37169	41,361
James Tippy Fund - 37174	6,680
St. Barnabas Fund - 37176	24,953
Total	7,439,256
Total temporarily restricted net assets	\$ 7,518,624

Net assets released from temporary donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors were reclassified to unrestricted net assets for operations and programs.

# TRUSTEES OF THE DIOCESE OF MINNESOTA, INCORPORATED

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2015

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## NOTE 7 - Net Assets (continued)

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Permanently restricted net assets at year end are composed of:

	<u>2015</u>
Held in Loan Fund:	
Isabella T. Cooke Trust - Perpetual Trust	\$ 1,361,508
Hatch Loan Fund	78,000
Total	<u>1,439,508</u>
Held in Office Building Fund:	
Helen Henton Fund	<u>67,105</u>
Held in Investment Fund:	
Bernier Trust - future interest	108,430
Harrington Trust	21,290
Isabella T. Cooke Trust - Perpetual Trust	1,097,735
Total	<u>1,227,455</u>
Held in Pooled Investment Fund - Endowments:	
Mildred H. and Hamilton H. Kellogg Fund	780,712
Episcopate Fund B	56,216
Program Fund	155,389
Helen Henton Fund	171,894
Yardley Fund	85,711
Dr. Daniels Fund	5,347
Elliot Marston Fund	872
Post Ordination Fund	20,000
Retired Clergy Fund	39,470
Seminarian Aid Fund	93,026
Knickerbocker Fund	28,976
Keeler Trust	177,579
Weed Jones Fund	76,000
S. B. Cowdry Fund	15,971
Total Endowments (Note 11)	<u>1,707,163</u>
Total permanently restricted net assets	<u>\$ 4,441,231</u>

The principal must be perpetually maintained as either endowment or loan funds and the income from these funds is expendable and any changes in the fair value of permanently restricted net assets are recorded as changes in temporarily restricted net assets (except for those related to beneficial interests in perpetual trusts).

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## NOTE 8 - Rental Income

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The Trustees lease space in the buildings that it owns and operates to several tenants. The leases have month-to-month terms with monthly payments between \$208 and \$5,340.

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## NOTE 9 - Concentrations

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The Trustees maintains cash balances in two institutions which exceeds the federally insured limit of \$250,000. The Trustees have not experienced any losses in such accounts. Substantially all investments are held by Morgan Stanley.



# TRUSTEES OF THE DIOCESE OF MINNESOTA, INCORPORATED

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2015

## NOTE 10 - Endowments

The Trustees' endowments consist of 40 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. Endowments do not include trusts or future interest agreements.

### *Interpretation of Relevant Law*

The Board of Directors of the Trustees has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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 Trustees classifies as permanently restricted net assets (a) the original value of the 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 as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Trustees in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Trustees consider 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 Trustees 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 Trustees
7. The investment policies of the Trustees

Endowment net asset composition by type of fund consists of the following as of December 31, 2015.

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (48,508)	\$ 7,439,256	\$ 1,707,163	\$ 9,097,911
Board-designated endowment funds	323,490	-	-	323,490
Total funds	<u>\$ 274,982</u>	<u>\$ 7,439,256</u>	<u>\$ 1,707,163</u>	<u>\$ 9,421,401</u>

# TRUSTEES OF THE DIOCESE OF MINNESOTA, INCORPORATED

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2015

### NOTE 10 - Endowments (continued)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, December 31, 2014	\$ 195,984	\$ 7,957,553	\$ 1,707,163	\$ 9,860,700
Investment return:				
Investment income	7,029	235,180	-	242,209
Net depreciation (realized and unrealized)	(61,057)	(353,358)	-	(414,415)
Total investment return	(54,028)	(118,178)	-	(172,206)
Contributions	135,442	-	-	135,442
Appropriation of endowment assets for expenditure	(2,416)	(400,119)	-	(402,535)
Endowment net assets, December 31, 2015	\$ 274,982	\$ 7,439,256	\$ 1,707,163	\$ 9,421,401

#### *Funds with Deficiencies*

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Trustees to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$48,508 as of December 31, 2015.

#### *Return Objectives and Risk Parameters*

The Trustees has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment. Endowment assets include those assets of donor-restricted funds that the Trustees must hold in perpetuity or for a donor-specified period as well as Trustee designated funds. Under this policy, as approved by the Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the spending rate while assuming a moderate level of investment risk.

#### *Strategies Employed for Achieving Objectives*

To satisfy its long-term rate-of-return objectives, the Trustees relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Trustees targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

# TRUSTEES OF THE DIOCESE OF MINNESOTA, INCORPORATED

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2015

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### NOTE 10 - Endowments (continued)

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#### *Spending Policy and How the Investment Objectives Relate to Spending Policy*

The Trustees' endowment distribution policy for 2015 recommended a spending rate up to 5 percent applied to the average of the fair value of endowment investments for the 12 quarters ended September 30, 2014. In establishing this policy, the Trustees considered the long-term expected return on its endowment. Accordingly, the long term goal is to achieve a rate of growth sufficient to meet the Trustees' spending needs, while maintaining the inflation-adjusted principal of the endowment funds. If actual earnings for any year are less than the current year spending rule, the deficiency is drawn from prior years' amounts that have accumulated but not been spent.

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### NOTE 11 - Beneficial Interest in Perpetual Trusts

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Beneficial interest in perpetual trusts consists of irrevocable trusts contributed to the Trustees of the Diocese of Minnesota, Incorporated and from which the Trustees' is to receive the income in perpetuity. The principal is held in trust by US Bank and will never revert to the Trustees.

The Trustees records its beneficial interest in perpetual trusts as permanently restricted net assets. Income received is recorded as either unrestricted or temporarily restricted activity based on the presence or absence of donor restrictions. Increases or decreases in the fair value of the trust assets are recorded on the statement of activities as changes in permanently restricted net assets. Some of the assets of the trust have been loaned out and the perpetual trust holds the receivables for these assets.

Receivables held in the trust as of December 31, 2015 are as follows:

	<u>2015</u>
St Andrews by the Lake	\$ 250,000

At December 31, 2015, there were no amounts past due under these loans.

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### NOTE 12 - Contingencies

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From time to time, the Trustees are party to various pending claims and legal proceedings. Although the outcome of such matters cannot be forecasted with certainty, it is the opinion of management and their attorney that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the Trustees' financial position or results of operations.