

THE EPISCOPAL DIOCESE OF MINNESOTA
Minneapolis, Minnesota

FINANCIAL STATEMENTS
Including Independent Auditors' Report

As of and for the Years Ended December 31, 2012 and 2011

THE EPISCOPAL DIOCESE OF MINNESOTA

TABLE OF CONTENTS

Independent Auditors' Report	1
Financial Statements	
Statements of Financial Position	2
Statements of Activities	3 - 4
Statements of Cash Flows	5
Notes to Financial Statements	6 - 16

INDEPENDENT AUDITORS' REPORT

Diocesan Council
The Episcopal Diocese of Minnesota
Minneapolis, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of The Episcopal Diocese of Minnesota (the "Organization"), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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

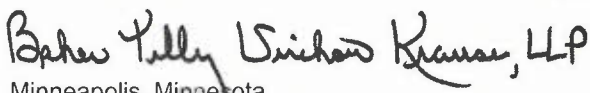
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about 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, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.


Minneapolis, Minnesota
June 11, 2013

THE EPISCOPAL DIOCESE OF MINNESOTA

STATEMENTS OF FINANCIAL POSITION
As of December 31, 2012 and 2011

ASSETS	2012			2011		
	Unrestricted	Temporarily Restricted	Total 2012	Unrestricted	Temporarily Restricted	Total 2011
CURRENT ASSETS						
Cash and cash equivalents	\$ -	\$ 844,960	\$ 844,960	\$ -	\$ 1,000,072	\$ 1,000,072
Receivables, net	1,308,095	-	1,308,095	31,441	-	31,441
Loans receivable from affiliated camp	-	-	-	36,357	-	36,357
Due from Trustees	150,406	-	150,406	81,249	-	81,249
Interfund receivable (payable)	491,103	(491,103)	-	661,675	(661,675)	-
Other current assets	21,066	-	21,066	47,819	-	47,819
Total Current Assets	1,970,670	353,857	2,324,527	858,541	338,397	1,196,938
PROPERTY AND EQUIPMENT, net	775,139	-	775,139	798,352	-	798,352
OTHER ASSETS						
Investments held by Trustees	1,696,373	-	1,696,373	1,583,478	-	1,583,478
TOTAL ASSETS	\$ 4,442,182	\$ 353,857	\$ 4,796,039	\$ 3,240,371	\$ 338,397	\$ 3,578,768
LIABILITIES AND NET ASSETS						
CURRENT LIABILITIES						
Accounts payable	\$ 117,265	\$ -	\$ 117,265	\$ 144,022	\$ -	\$ 144,022
Accrued expenses	39,549	-	39,549	20,875	-	20,875
Notes payable, current	133,424	-	133,424	140,401	-	140,401
Capital leases, current	4,306	-	4,306	4,063	-	4,063
Total Current Liabilities	294,544	-	294,544	309,361	-	309,361
LONG TERM LIABILITIES						
Note payable Trustees	84,438	-	84,438	121,255	-	121,255
Note payable - bank	28,438	-	28,438	16,283	-	16,283
Notes payable, long term	112,876	-	112,876	137,538	-	137,538
Capital leases	11,073	-	11,073	15,379	-	15,379
Total Long-Term Liabilities	123,949	-	123,949	152,917	-	152,917
NET ASSETS	4,023,689	353,857	4,377,546	2,778,093	338,397	3,116,490
TOTAL LIABILITIES AND NET ASSETS	\$ 4,442,182	\$ 353,857	\$ 4,796,039	\$ 3,240,371	\$ 338,397	\$ 3,578,768

See accompanying notes to financial statements.

THE EPISCOPAL DIOCESE OF MINNESOTA

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2012
With Comparative Totals for 2011

	2012					2011
	Unrestricted			Temporarily	Total	Total
	Operating	Other	Total	Restricted		
REVENUES:						
Mission and Ministry Support (MMS)	\$ 1,975,179	\$ -	\$ 1,975,179	\$ -	\$ 1,975,179	\$ 1,923,121
MMS adjustments	(66,707)	-	(66,707)	-	(66,707)	(128,460)
Subtotal net MMS	1,908,472	-	1,908,472	-	1,908,472	1,794,661
Mission apportionment	-	-	-	-	-	45,965
Endowment distributions	90,306	60,147	150,453	56,879	207,332	207,898
Other income	105,261	43,546	148,807	-	148,807	115,256
Gain (loss) on disposal of assets	2,179	-	2,179	-	2,179	(2,041)
Contribution income	1,293,087	64,901	1,357,988	80,009	1,437,997	114,938
Investment income (loss)	12	195,639	195,651	-	195,651	(9,845)
Tribal government support	70,723	-	70,723	-	70,723	70,723
Management fees	174,240	-	174,240	-	174,240	150,044
Interfund transfers	34,718	26,964	61,682	(61,682)	-	-
	3,678,998	391,197	4,070,195	75,206	4,145,401	2,487,599
Total net assets released from restrictions	-	59,746	59,746	(59,746)	-	-
Total Revenue	3,678,998	450,943	4,129,941	15,460	4,145,401	2,487,599
EXPENDITURES:						
Program services						
Congregational development	387,251	-	387,251	-	387,251	263,031
Communications	135,006	-	135,006	-	135,006	140,588
Indian Work and Multicultural Ministry	483,233	-	483,233	-	483,233	599,083
Mission Work Within Minnesota	167,491	-	167,491	-	167,491	248,541
The Episcopate	345,723	-	345,723	-	345,723	330,350
Mission Work Beyond Minnesota	460,147	-	460,147	-	460,147	408,974
Insurance programs expense and claims	-	-	-	-	-	4,757
Grants	-	110,805	110,805	-	110,805	139,937
Other	-	227,561	227,561	-	227,561	109,965
	1,978,851	338,366	2,317,217	-	2,317,217	2,245,226
Supporting services						
Administrative support	599,928	-	599,928	-	599,928	562,108
Total Expenditures	2,578,779	338,366	2,917,145	-	2,917,145	2,807,334
Increase (decrease) in net assets before transfers	1,100,219	112,577	1,212,796	15,460	1,228,256	(319,735)
Building investment returns from trustees	32,800	-	32,800	-	32,800	33,000
Change in Net Assets	1,133,019	112,577	1,245,596	15,460	1,261,056	(286,735)
NET ASSETS - Beginning of Year	2,373,810	404,283	2,778,093	338,397	3,116,490	3,403,225
NET ASSETS - END OF YEAR	<u>\$ 3,506,829</u>	<u>\$ 516,860</u>	<u>\$ 4,023,689</u>	<u>\$ 353,857</u>	<u>\$ 4,377,546</u>	<u>\$ 3,116,490</u>

See accompanying notes to financial statements.

THE EPISCOPAL DIOCESE OF MINNESOTA

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2011

	Unrestricted		Total	Temporarily	Total
	Operating	Other		Restricted	
REVENUES:					
Mission and Ministry Support (MMS)	\$ 1,923,121	\$ -	\$ 1,923,121	\$ -	\$ 1,923,121
MMS adjustments	(128,460)	-	(128,460)	-	(128,460)
Subtotal net MMS	1,794,661	-	1,794,661	-	1,794,661
Mission apportionment		45,965	45,965	-	45,965
Endowment distributions	107,326	49,836	157,162	50,736	207,898
Other income	-	115,256	115,256	-	115,256
Loss on disposal of assets	(2,041)	-	(2,041)	-	(2,041)
Contribution income	4,760	60,852	65,612	49,326	114,938
Investment income (loss)	16	(9,861)	(9,845)	-	(9,845)
Tribal government support	70,723	-	70,723	-	70,723
Management fees	150,044	-	150,044	-	150,044
Interfund transfers	388,957	(206,758)	182,199	(182,199)	-
	<u>2,514,446</u>	<u>55,290</u>	<u>2,569,736</u>	<u>(82,137)</u>	<u>2,487,599</u>
 Total net assets released from restrictions	 -	 78,921	 78,921	 (78,921)	 -
 Total Revenues	 <u>2,514,446</u>	 <u>134,211</u>	 <u>2,648,657</u>	 <u>(161,058)</u>	 <u>2,487,599</u>
EXPENDITURES:					
Program services					
Congregational development	263,031	-	263,031	-	263,031
Communications	140,588	-	140,588	-	140,588
Indian Work and Multicultural Ministry	599,083	-	599,083	-	599,083
Mission Work Within Minnesota	248,541	-	248,541	-	248,541
The Episcopate	330,350	-	330,350	-	330,350
Mission Work Beyond Minnesota	408,974	-	408,974	-	408,974
Insurance programs expense and claims	-	4,757	4,757	-	4,757
Grants	-	139,937	139,937	-	139,937
Other	-	109,965	109,965	-	109,965
	<u>1,990,567</u>	<u>254,659</u>	<u>2,245,226</u>	<u>-</u>	<u>2,245,226</u>
Supporting services					
Administrative support	562,108	-	562,108	-	562,108
Total Expenditures	<u>2,552,675</u>	<u>254,659</u>	<u>2,807,334</u>	<u>-</u>	<u>2,807,334</u>
 Decrease in net assets before transfers	 (38,229)	 (120,448)	 (158,677)	 (161,058)	 (319,735)
 Building investment returns from trustees	 33,000	 -	 33,000	 -	 33,000
 Change in Net Assets	 (5,229)	 (120,448)	 (125,677)	 (161,058)	 (286,735)
 NET ASSETS - Beginning of Year	 <u>2,379,039</u>	 <u>524,731</u>	 <u>2,903,770</u>	 <u>499,455</u>	 <u>3,403,225</u>
 NET ASSETS - END OF YEAR	 <u>\$ 2,373,810</u>	 <u>\$ 404,283</u>	 <u>\$ 2,778,093</u>	 <u>\$ 338,397</u>	 <u>\$ 3,116,490</u>

See accompanying notes to financial statements.

THE EPISCOPAL DIOCESE OF MINNESOTA

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,261,056	\$ (286,735)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	42,863	44,373
(Gain) loss on disposal of asset	(2,179)	2,041
(Gain) loss on investments	(145,959)	69,068
Changes in assets and liabilities		
Receivables	(1,240,297)	(19,090)
Other current assets	26,753	(11,585)
Due to/from Trustees	(69,157)	-
Accounts payable and accrued expenses	(8,083)	15,813
Net Cash Flows From Operating Activities	(135,003)	(186,115)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Change in investments held by Trustees	33,064	22,422
Purchase of property and equipment	(185)	(20,327)
Net Cash Flows From Investing Activities	32,879	2,095
 CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on capital lease	(4,063)	(7,287)
Principal payments on notes payable	(48,925)	(71,749)
Net Cash Flows From Financing Activities	(52,988)	(79,036)
 Net Change in Cash and Cash Equivalents	(155,112)	(263,056)
 CASH AND CASH EQUIVALENTS - Beginning of year	1,000,072	1,263,128
 CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 844,960	\$ 1,000,072
 Supplemental cash flow disclosures		
Noncash		
Lease payable and leased capital asset addition		\$ 22,022
Note payable and capital asset addition	\$ 35,447	
Note payable reduction and asset disposal with trade in	\$ 16,700	

See accompanying notes to financial statements.

THE EPISCOPAL DIOCESE OF MINNESOTA

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2012 and 2011

NOTE 1 - Summary of Significant Accounting Policies

Nature of Activities

The Episcopal Diocese of Minnesota (the Diocese) 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 Diocese 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 Diocese, rents property to the Diocese and makes periodic distributions to the Diocese.

Principles of Presentation

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

Economic Dependency

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

Concentrations of Credit Risk Due to Accounts Receivable and Loans Receivable

Financial instruments that potentially subject the Diocese to concentrations of credit risk consist principally of accounts receivable and loans receivable. Management believes concentrations of credit risk 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 Diocese, 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.

THE EPISCOPAL DIOCESE OF MINNESOTA

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2012 and 2011

NOTE 1 - Summary of Significant Accounting Policies (continued)

Programs

The Diocese has the following programs:

Congregational Development (Ministry) - Provides mission and ministry opportunities for clergy and congregations throughout the Episcopal Church in Minnesota. Missioners for Ministry and Formation work on behalf of the Bishop to help oversee the numerous issues that congregations face.

Communications (Mission) - Handles all publicity, news releases, and announcements in the forms of a website and weekly e-mails.

Indian Work and Multicultural Ministry (Mission) - Provides support for the twelve Native American and multicultural congregations, along with programs and staffing for all Native American and multicultural peoples in the Episcopal Church in Minnesota.

Mission Work Within Minnesota (Mission) - Provides for items that are required by canon law, such as Diocesan Convention, Standing Committee, Deployment, historiographer, safe church training, and so forth.

The Episcopate - Relates to all funding that equips the Bishop (the Episcopate) to perform his duties.

Mission Work Beyond Minnesota (Mission) - The Diocese is part of Providence VI, which is part of the Episcopal Church in the United States of America. Funding is provided to the Providence VI and national church as part of belonging to the larger communities. Funding is also provided to the Minnesota Council of Churches as one part of being involved in ecumenical relationships.

Cash and Cash Equivalents

The Diocese 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 years ended December 31, 2012 and 2011 were \$66,707 and \$128,460, respectively. Receivables are unsecured. An allowance for uncollectible apportionments is determined based on experience. The Diocese received notification of a matured beneficial interest in a remainder unitrust during 2012. This contribution receivable was fully collected during 2013 so no allowance for uncollectible contributions was considered necessary.

Receivables are summarized as follows:

	<u>2012</u>	<u>2011</u>
Mission and Ministry Support	\$ 167,963	\$ 121,061
Contributions	1,259,147	-
	<u>1,427,110</u>	<u>121,061</u>
Allowance for uncollectible receivables	(119,015)	(89,620)
Total receivables, net	<u>\$ 1,308,095</u>	<u>\$ 31,441</u>

THE EPISCOPAL DIOCESE OF MINNESOTA

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2012 and 2011

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. The useful lives are follows:

	<u>Years</u>
Building and improvements	40
Furniture and equipment	5 - 10
Vehicles	5

Net Assets

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

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

THE EPISCOPAL DIOCESE OF MINNESOTA

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2012 and 2011

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 years ended December 31, 2012 and 2011.

A substantial number of volunteers have donated significant amounts of their time to the Diocese'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 Diocese are required to be transferred to the Trustees of the Episcopal Diocese of Minnesota. The Trustees invest and manage such endowments. Throughout the year, the Diocese 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 Diocese. These transfers will not be repaid by the Diocese.

Rental Income

Church of the Nativity, Burnsville occupies land and building owned by the Diocese. As a fee for occupying the building, Church of the Nativity makes the monthly loan payments on the outstanding debt of the related land and building. The Diocese records the payments as other income, interest expense, and as a reduction of the note payable.

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.

Subsequent Events Review

The Organization has evaluated subsequent events occurring through June 11, 2013, the date that the financial statements were available to be issued, for events requiring recording or disclosure in the Diocese's financial statements.

THE EPISCOPAL DIOCESE OF MINNESOTA

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2012 and 2011

NOTE 2 - Investments Held by Trustees

Following is a summary of investments held by Trustees as of December 31:

	Total Investments Held by Trustees at Fair Value	
	2012	2011
Funds held by the Trustees of the Diocese of Minnesota	\$ 1,696,373	\$ 1,583,478

The funds held by the Trustees are commingled with the other assets of the Trustees. The Trustees have discretion to invest the funds.

Income (loss) from investment securities is summarized as follows:

	2012	2011
Interest and dividends	\$ 49,692	\$ 59,223
Net realized and unrealized gains (losses)	145,959	(69,068)
Total income (loss)	\$ 195,651	\$ (9,845)

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 such changes could materially affect the amounts reported in the financial statements.

NOTE 3 - Fair Value of Financial Instruments

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.

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 inputs that are derived principally from or corroborated by observable market data.

Level 3 - Inputs are unobservable for the asset or liability. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances.

THE EPISCOPAL DIOCESE OF MINNESOTA

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2012 and 2011

NOTE 3 - Fair Value of Financial Instruments (continued)

Valuation Techniques and Inputs

Level 2 - Investments held by Trustees assets include investments in a pooled fund that is comprised of short-term investments, equity securities, debt securities, mutual and money funds, certificates of deposit and mortgaged backed securities. They are classified as Level 2 as they are not traded on a regular basis.

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.

While the Diocese 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 Diocese's assets measured at fair value on a recurring basis as of December 31, 2012 based upon the three-tier hierarchy:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
ASSETS				
Investments held by Trustees	<u>\$ 1,696,373</u>	<u>\$ -</u>	<u>\$ 1,696,373</u>	<u>\$ -</u>

The following table presents information about the Diocese's assets measured at fair value on a recurring basis as of December 31, 2011 based upon the three-tier hierarchy:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
ASSETS				
Investments held by Trustees	<u>\$ 1,583,478</u>	<u>\$ -</u>	<u>\$ 1,583,478</u>	<u>\$ -</u>

NOTE 4 - Loan Receivable from Affiliated Mission and Camp

The Diocese had a non-interest bearing note receivable from a camp with a balance outstanding of \$36,357 at December 31, 2011. During the year ended December 31, 2012, the Trustees assumed control of the camp and related payable. The receivable is now included in due from Trustees as described in Note 6.

THE EPISCOPAL DIOCESE OF MINNESOTA

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2012 and 2011

NOTE 5 - Property and Equipment

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

	Depreciable Lives	2012	2011
Land, Church of Nativity, Burnsville	0 yrs.	\$ 120,000	\$ 120,000
Building, Church of Nativity, Burnsville	40 yrs.	838,180	838,180
Building, Ely House	40 yrs.	129,500	129,500
Furniture and equipment	5 -10 yrs.	111,170	123,806
Vehicle	5 yrs.	<u>35,632</u>	<u>34,748</u>
Total Property and Equipment		1,234,482	1,246,234
Less: Accumulated depreciation		<u>459,343</u>	<u>447,882</u>
Net Property and Equipment		<u>\$ 775,139</u>	<u>\$ 798,352</u>

NOTE 6 - Related Party Transactions

The following describes the significant related party transactions:

Administration Fee Income

In accordance with an agreement between the Trustees and the Diocese, the Diocese provides the Trustees with administrative services in exchange for an administrative fee. The services provided include accounting, investment monitoring, loan monitoring, real estate management, and other management services. For the years ended December 31, 2012 and 2011, respectively, the Trustees paid the Diocese \$174,240 and \$150,044 for those services.

Lease Agreement Expense

The Diocese has an operating lease agreement with the Trustees. The lease agreement requires the Diocese to pay the Trustees for office space in the commercial office building owned by the Trustees. Currently, the lease is month-to-month. For the years ended December 31, 2012 and 2011, rent expense was \$67,701 and \$38,000, respectively.

Distributions Income

The Diocese receives distributions from endowments and other fund earnings held by the Trustees. These funds are then paid out in grants. During the years ended December 31, 2012 and 2011 endowment distributions received from the Trustees totaled \$205,289 and \$203,800, respectively. Grant distributions received, included in contribution revenue, totaled \$0 and \$23,996, respectively. Distributions received from a perpetual trust, included in contribution revenue, totaled \$47,500 and \$48,326, respectively.

THE EPISCOPAL DIOCESE OF MINNESOTA

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2012 and 2011

NOTE 6 - Related Party Transactions (continued)

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

	2012	2011
Building investment returns transferred	\$ 32,800	\$ 33,000

The following summarizes the amounts due from (to) the Trustees as of December 31:

	2012	2011
Due from Trustees	\$ 150,406	\$ 81,249
Investments held by Trustees	1,696,373	1,583,478
Due to Trustees (included in accounts payable)	-	(28,449)
Notes payable (\$211,326 see Note 7) and accrued interest (\$1,619)	(212,945)	(257,119)

Summarized financial data of the Trustees as of December 31, 2012 and 2011 and for the years then ended is as follows:

	2012	2011
Total assets	\$ 53,559,874	\$ 52,024,758
Total liabilities	17,149,787	16,050,866
Net assets	36,410,087	35,973,892
Total revenues	1,396,810	360,671
Total expenditures	927,815	818,644
Total other gains (losses)	-	(564,174)
Transfers to Diocese	(32,800)	(33,000)

NOTE 7 - Long-Term Debt

Long-term debt consists of the following at December 31:

	2012	2011
5.59% vehicle loan, \$667 monthly installments of principal and interest, secured by vehicle, due February 2015 (paid off during transaction noted below)	\$ -	\$ 23,163
4.24% vehicle loan, \$658 monthly installments of principal and interest, secured by vehicle with a cost of \$35,632, due December 2017	34,974	
0% note payable to the Trustees, due December 2012, secured by land and building with a cost of \$958,180, paid off January 2013	68,882	68,882
5% note payable to the Trustees, due in monthly installments of principal and interest of \$3,505, due March 2015, secured by land and building with a cost of \$958,180	142,444	185,894
Total due to Trustees	211,326	254,776
Total long term debt	246,300	277,939
Less: Current portion	(133,424)	(140,401)
Long-Term Portion	\$ 112,876	\$ 137,538

THE EPISCOPAL DIOCESE OF MINNESOTA

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2012 and 2011

NOTE 7 - Long-Term Debt (continued)

Principal requirements on long-term debt are as follows for years ending after December 31:

2013	\$	133,424
2014		45,539
2015		52,833
2016		7,422
2017		<u>7,082</u>
Total	\$	<u>246,300</u>

Interest charged to expense was \$11,007 and \$11,450 for the years ended December 31, 2012 and 2011, respectively.

NOTE 8 - Capital Leases

The Diocese has capital lease agreements for a copier and a phone system. The capitalized cost of the leased property at December 31, 2012 and 2011 was \$39,109. Amortization expense on capital leases is included with depreciation expense. Accumulated amortization was \$24,428 and \$20,023 as of December 31, 2012 and 2011, respectively. The capital lease obligation is secured by the leased equipment.

Future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of December 31, 2012 are as follows:

2013	\$	5,087
2014		5,087
2015		5,087
2016		<u>1,694</u>
Total Future Minimum Lease Payments		16,955
Less: Amount representing interest		<u>(1,576)</u>
Present Value of Future Minimum Lease Payments		15,379
Less: Current portion		<u>(4,306)</u>
Long-Term Capital Lease Obligation	\$	<u>11,073</u>

NOTE 9 - Retirement Plans

Defined Contribution Retirement Plan

The Diocese 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 Diocese contributes 9% of eligible employee compensation to the plan. Retirement plan expense was \$36,495 and \$34,872 for the years ended December 31, 2012 and 2011, respectively.

THE EPISCOPAL DIOCESE OF MINNESOTA

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2012 and 2011

NOTE 9 - Retirement Plans (continued)

Defined Benefit Retirement Plan - Multiemployer Pension Plans

The following information, except the Diocese's annual contributions, was provided in The Church Pension Group 2012 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 Diocese 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 \$89,809 and \$107,071 for the years ended December 31, 2012 and 2011, respectively.

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 Diocese chooses to stop participating in some of its multi-employer plans, the Diocese 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, 2012 and 2011 are summarized as follows:

	<u>Most Recent Available Funded Status at Church Pension Fund</u>	<u>Total Contributions for all Plans</u>	
		<u>March 31, 2012</u>	<u>March 31, 2011</u>
All Plans		\$ 94,997,461	\$ 93,608,276
Clergy Plan	110%		
Lay Plan	72%		
Staff Plan	58%		

403(b) Retirement Plan

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

THE EPISCOPAL DIOCESE OF MINNESOTA

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2012 and 2011

NOTE 10 - Net Assets

Temporarily restricted net assets at December 31 are composed of:

	<u>2012</u>	<u>2011</u>
Grant Funds:		
DIW Program - 702	\$ 17,094	\$ 17,094
DIW New Ops - 710	21,786	20,486
Total	38,880	37,580
Other Funds:		
Seminarian Aid - 600	47,489	43,029
Continuing Education - 601	10,904	7,387
Minister Financial Aid - 605	1,503	-
College Center Ministries - 610	57,578	56,003
Boutwell - 611	19,987	19,219
Cowdry - 612	1,222	-
Dr. Daniel's Trust - 613	4,381	-
Elliot Marston Trust - 614	213	-
Lois Granner Trust - 615	9,160	8,149
Diocese of Minnesota - 616	484	-
Rural Ministry - 620	-	43,691
Seabury - 630	24,956	25,423
Trustee's C.O. Diocese of Minnesota - 631	1,065	-
Trustee's C.O. Diocese of Minnesota - 632	61	-
Diocese of Minnesota - 633	4,826	-
Trustee's - 634	208	-
Mudge Evangelism - 635	23,930	23,136
Retired Clergy - 640	77,110	74,780
Native American Ministry Grant - 650	19,900	-
Clergy Health - 660	10,000	-
Totals	<u>314,977</u>	<u>300,817</u>
Total temporarily restricted net assets	<u>\$ 353,857</u>	<u>\$ 338,397</u>

NOTE 11 - Concentrations

The Organization maintains a cash balance in one institution which 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.