THE EPISCOPAL DIOCESE OF MINNESOTA
Minneapolis, Minnesota

FINANCIAL STATEMENTS
Including Independent Auditors' Report

As of and for the Year Ended December 31, 2017

THE EPISCOPAL DIOCESE OF MINNESOTA

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BAKER TILLY

INDEPENDENT AUDITORS' REPORT

To the Diocesan Council
Episcopal Diocese of Minnesota
Minneapolis, Minnesota

We have audited the accompanying financial statements of Episcopal Diocese of Minnesota (the "Church"), which comprise the statement of financial position as of December 31, 2017, 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 Church as of December 31, 2017, 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 13, 2018

THE EPISCOPAL DIOCESE OF MINNESOTA

STATEMENT OF FINANCIAL POSITION
As of December 31, 2017

ASSETS	Unrestricted	Temporarily Restricted	Total
CURRENT ASSETS			
Cash and cash equivalents	$ 285,476	$ 148,278	$ 433,754
Receivables, net	117,384	-	117,384
Prepaid expenses	29,480	-	29,480
Total Current Assets	432,340	148,278	580,618
PROPERTY AND EQUIPMENT, net	196,859	-	196,859
TOTAL ASSETS	$ 629,199	$ 148,278	$ 777,477
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable	$ 51,279	$ -	$ 51,279
Accrued expenses	81,925	-	81,925
Note payable, current portion	6,312	-	6,312
Capital lease, current portion	6,053	-	6,053
Total Current Liabilities	145,569	-	145,569
LONG TERM LIABILITIES			
Note payable	27,386	-	27,386
Capital lease	25,947	-	25,947
Total Long-Term Liabilities	53,333	-	53,333
TOTAL LIABILITIES	198,902	-	198,902
NET ASSETS	430,297	148,278	578,575
TOTAL LIABILITIES AND NET ASSETS	$ 629,199	$ 148,278	$ 777,477

See accompanying notes to financial statements.

THE EPISCOPAL DIOCESE OF MINNESOTA

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2017

	Unrestricted			Temporarily Restricted	Total
	Operating	Other	Total		
REVENUES					
Mission and Ministry Support (MMS)	$ 1,998,787	$ -	$ 1,998,787	$ -	$ 1,998,787
Endowment distributions	418,714	58,243	476,957	150,984	627,941
Contribution income	9,841	33,510	43,351	56,761	100,112
Management fees	117,200	-	117,200	-	117,200
Event and other income	81,117	590	81,707	-	81,707
Gain on disposals of property and equipment	-	5,430	5,430	-	5,430
	2,625,659	97,773	2,723,432	207,745	2,931,177
Net assets released from restrictions	-	579,469	579,469	(579,469)	-
Total Revenue	2,625,659	677,242	3,302,901	(371,724)	2,931,177
EXPENDITURES					
Mission	592,444	-	592,444	-	592,444
Ministry	504,368	-	504,368	-	504,368
Management	670,761	-	670,761	-	670,761
Episcopate	782,022	-	782,022	-	782,022
Grants	161,082	152,221	313,303	-	313,303
Other	-	29,213	29,213	-	29,213
Total Expenditures	2,710,677	181,434	2,892,111	-	2,892,111
Change in net assets before transfers	(85,018)	495,808	410,790	(371,724)	39,066
Building investment returns from Trustees	32,800	-	32,800	-	32,800
Change in Net Assets	(52,218)	495,808	443,590	(371,724)	71,866
NET ASSETS (DEFICIT) - Beginning of Year	309,298	(322,591)	(13,293)	520,002	506,709
NET ASSETS - END OF YEAR	$ 257,080	$ 173,217	$ 430,297	$ 148,278	$ 578,575

See accompanying notes to financial statements.

THE EPISCOPAL DIOCESE OF MINNESOTA

STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2017

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	$ 71,866
Adjustments to reconcile change in net assets to net cash flows from operating activities	
Depreciation and amortization	28,171
Gain on disposals of property and equipment	(5,430)
Changes in assets and liabilities	
Receivables	(51,267)
Prepaid expenses	(2,506)
Accounts payable and accrued expenses	(1,763)
Net Cash Flows From Operating Activities	39,071
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property and equipment	(28,139)
Proceeds from the sale of property and equipment	10,000
Net Cash Flows From Investing Activities	(18,139)
CASH FLOWS FROM FINANCING ACTIVITIES	
Principal payments on capital lease	(7,346)
Principal payments on notes payable	(5,044)
Net Cash Flows From Financing Activities	(12,390)
Net Change in Cash and Cash Equivalents	8,542
CASH AND CASH EQUIVALENTS - Beginning of year	425,212
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 433,754
Non-cash investing and financing activities:	
Note payable and capital asset addition	34,747
Insurance proceeds paid directly to bank to satisfy note payable	(20,161)
Property and equipment acquired through a capital lease	32,000
Capital lease reduction and asset disposal with trade in	(9,519)

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 (the "Trustees") 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 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. There were no such adjustments for the year ended December 31, 2017. Receivables are unsecured. An allowance for uncollectible apportionments is determined based on historical experience. Delinquent accounts are not charged a service fee.

Receivables are summarized as follows:

	2017
Mission and Ministry Support	$ 68,111
Other accounts receivable	44,653
Contributions	25,346
	138,110
Allowance for uncollectible receivables	(20,726)
Total receivables, net	$ 117,384

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. All acquisitions of property and equipment in excess of $1,000 and all expenditures for repairs, maintenance, improvements and betterments that materially prolong the useful lives of assets are capitalized. 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, 2017.

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. 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 guidance outlines a single comprehensive model for entities to use in accounting for revenue from contracts with customers. ASU 2014-09 is effective date for fiscal years beginning after December 15, 2018. The Church is assessing the impact this new standard will have on its financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. ASU No. 2016-02 was issued to increase transparency and comparability among entities. Lessees will need to recognize nearly all lease transactions (other than leases that meet the definition of a short-term lease) on the statement of financial position as a lease liability and a right-of-use asset (as defined). Lessor accounting under the new guidance will be similar to the current model. ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2019. Upon adoption, lessees and lessors will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach, which includes a number of optional practical expedients that entities may elect to apply. The Church 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)

New Accounting Pronouncements (cont.)

In August 2016, the FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities.* The new guidance improves and simplifies the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017. ASU 2016-14 is to be applied retroactively with transition provisions. The Church is assessing the impact this new standard will have on its financial statements.

Subsequent Events Review

The Church has evaluated subsequent events occurring through June 13, 2018, 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 - Property and Equipment

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

	Depreciable Lives	2017
Building, Ely House	40 yrs.	$ 129,500
Furniture and equipment	5 -10 yrs.	142,083
Vehicle	5 yrs.	34,747
Total Property and Equipment		306,330
Less: Accumulated depreciation		(109,471)
Net Property and Equipment		$ 196,859

NOTE 3 - 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 have an operating lease agreement with the Church. The lease agreement requires the Church to pay the Trustees for office space. For the year ended December 31, 2017, the Trustees paid the Church $117,200 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, 2017, endowment distributions received from the Trustees totaled $627,941. Distributions received from a perpetual trust, included in contribution revenue, totaled $56,761.

NOTE 3 - Related Party Transactions (continued)

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

	2017
Building investment returns transferred	$ 32,800

Summarized financial data of the Trustees as of December 31, 2017 and for the year then ended is as follows:

Total assets	$ 66,433,770
Total liabilities	17,220,599
Net assets	49,213,171
Total revenues	5,125,822
Total expenditures and losses	1,994,207
Transfers	(32,800)

NOTE 4 - Note Payable

Note payable consists of the following at December 31:

	2017
5.04% vehicle loan, $658 monthly installments of principal and interest, secured by vehicle with a carrying value of $33,589, due September 2022	$ 33,698
Less: Current portion	(6,312)
Long-Term Portion	$ 27,386

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

2018	$ 6,312
2019	6,637
2020	6,980
2021	7,340
2022	6,429
Total	$ 33,698

Interest charged to expense was $168 for the year ended December 31, 2017.

NOTE 5 - Capital Lease

The Church entered into a capital lease agreement for a copier on September 29, 2017. The capitalized cost of the leased property at December 31, 2017 was $32,000. Amortization expense on the capital lease is included with depreciation expense. Accumulated amortization was $495 as of December 31, 2017. 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, 2017 are as follows:

2018	$	6,900
2019		6,900
2020		6,900
2021		6,900
2022		6,900
Total Future Minimum Lease Payments		34,500
Less: Amount representing interest		(2,500)
Present Value of Future Minimum Lease Payments		32,000
Less: Current portion		(6,053)
Long-Term Capital Lease Obligation	$	25,947

NOTE 6 - 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 $47,066 for the year ended December 31, 2017.

Defined Benefit Retirement Plan - Multiemployer Pension Plans

The following information, except the Church's annual contributions, was provided in The Church Pension Group 2017 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 $95,768 for the year ended December 31, 2017.

NOTE 6 - 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, 2017 are summarized as follows:

	Most Recent Available Funded Status at Church Pension Fund	Total Contributions for all Plans March 31, 2017
All Plans		$ 96,946,002
Clergy Plan	143%	
Lay Plan	82%	
Staff Plan	118%	

403(b) Retirement Plan

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

NOTE 7 - Concentrations

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

NOTE 8 - Net Assets

Temporarily restricted net assets at December 31 are composed of:

	2017
Grant Funds:	
DIW Program - 702	$ 16,767
DIW New Ops - 710	7,037
Total	23,804
Other Funds:	
Seabury	36,219
Seminarian Aid - 600	10,698
Continuing Education - 601	17,659
Minister Financial Aid - 605	9,792
College Center Ministries - 610	6,166
Boutwell - 611	4,740
Cowdry - 612	3,092
Dr. Daniel's Trust - 613	4,771
Elliot Marston Trust - 614	673
Lois Granner Trust - 615	3,418
Diocese of Minnesota - 616	8,282
Trustee's C.O. Diocese of Minnesota - 631	5,371
Trustee's C.O. Diocese of Minnesota - 632	173
Diocese of Minnesota - 633	10,125
Mudge Evangelism - 635	1,776
Retired Clergy - 640	1,039
Clergy Health - 660	480
Totals	124,474
Total temporarily restricted net assets	$ 148,278