

**EPISCOPAL DIOCESE OF WESTERN MICHIGAN**  
**FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT**  
**For the Years Ended December 31, 2015 and 2014**

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# SEBER TANS, PLC

CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

To the Executive Council  
Episcopal Diocese of Western Michigan

We have audited the accompanying financial statements of the Episcopal Diocese of Western Michigan (a Michigan nonprofit organization) which comprise the statements financial position as of December 31, 2015 and 2014, and the related statements of activities, cash flows, and functional expenses 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 of 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 Western Michigan as of December 31, 2015 and 2014, 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.



Seber Tans, PLC  
Kalamazoo, Michigan

September 23, 2016

**Episcopal Diocese of Western Michigan  
Statements of Financial Position  
December 31, 2015 and 2014**

	2015		
	Unrestricted	Temporarily Restricted	Total
<b>ASSETS</b>			
Current Assets			
Cash and cash equivalents	\$ 56,787	\$ 141,309	\$ 198,096
Investments	3,066,571	207,076	3,273,647
Pledges receivable	49,130	-	49,130
Other receivables	9,598	-	9,598
Prepaid expenses	16,810	-	16,810
Total Current Assets	<u>3,198,896</u>	<u>348,385</u>	<u>3,547,281</u>
Noncurrent Assets			
Assets held for parish development	<u>640,000</u>	<u>-</u>	<u>640,000</u>
Net Property and Equipment	<u>45,789</u>	<u>-</u>	<u>45,789</u>
<b>Total Assets</b>	<b><u>\$ 3,884,685</u></b>	<b><u>\$ 348,385</u></b>	<b><u>\$ 4,233,070</u></b>
<b>LIABILITIES AND NET ASSETS</b>			
Current Liabilities			
Accounts payable	\$ 9,772	\$ -	\$ 9,772
Deferred revenue	1,980	-	1,980
Deposits held for others	69,551	-	69,551
Current maturities of long-term obligations	6,586	-	6,586
Total Current Liabilities	<u>87,889</u>	<u>-</u>	<u>87,889</u>
Long-term obligations, net of current maturities	<u>172,589</u>	<u>-</u>	<u>172,589</u>
Total Liabilities	<u>260,478</u>	<u>-</u>	<u>260,478</u>
Net Assets			
Unrestricted			
Designated for religious and social welfare programs	368,751	-	368,751
Designated for youth and young adult ministries	248,387	-	248,387
Designated for parish development	413,646	-	413,646
Undesignated	2,593,423	-	2,593,423
Total Unrestricted	<u>3,624,207</u>	<u>-</u>	<u>3,624,207</u>
Temporarily Restricted	<u>-</u>	<u>348,385</u>	<u>348,385</u>
Total Net Assets	<u>3,624,207</u>	<u>348,385</u>	<u>3,972,592</u>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 3,884,685</u></b>	<b><u>\$ 348,385</u></b>	<b><u>\$ 4,233,070</u></b>

See Accompanying Notes to Financial Statements

2014		
Unrestricted	Temporarily Restricted	Total
\$ 117,922	\$ 147,857	\$ 265,779
3,209,617	218,368	3,427,985
38,864	-	38,864
780	-	780
9,960	-	9,960
<u>3,377,143</u>	<u>366,225</u>	<u>3,743,368</u>
345,000	-	345,000
54,250	-	54,250
<b><u>\$ 3,776,393</u></b>	<b><u>\$ 366,225</u></b>	<b><u>\$ 4,142,618</u></b>
\$ 17,458	-	\$ 17,458
11,089	-	11,089
6,288	-	6,288
<u>34,835</u>	<u>-</u>	<u>34,835</u>
105,055	-	105,055
179,797	-	179,797
<u>319,687</u>	<u>-</u>	<u>319,687</u>
411,493	-	411,493
274,799	-	274,799
429,745	-	429,745
2,340,669	-	2,340,669
<u>3,456,706</u>	<u>-</u>	<u>3,456,706</u>
-	366,225	366,225
<u>3,456,706</u>	<u>366,225</u>	<u>3,822,931</u>
<b><u>\$ 3,776,393</u></b>	<b><u>\$ 366,225</u></b>	<b><u>\$ 4,142,618</u></b>

**Episcopal Diocese of Western Michigan**  
**Statements of Activities**  
**For the Years Ended December 31, 2015 and 2014**

	2015		
	Unrestricted	Temporarily Restricted	Total
Support and Revenue			
Contributions:			
Parish pledges	\$ 906,143	\$ -	\$ 906,143
Other	300,867	42,040	342,907
Fees	63,273	-	63,273
Local grants	29,504	-	29,504
Other	28,097	-	28,097
Investment income (loss)	(13,300)	(2,252)	(15,552)
Total Support and Revenue	<u>1,314,584</u>	<u>39,788</u>	<u>1,354,372</u>
Net Assets Released From			
Restrictions	<u>57,628</u>	<u>(57,628)</u>	<u>-</u>
Total Support, Revenue and Reclassifications	<u>1,372,212</u>	<u>(17,840)</u>	<u>1,354,372</u>
Expenses			
Program services			
Office of the Bishop	389,098	-	389,098
Commissions and Committees	19,588	-	19,588
Episcopal Church Pledge	184,347	-	184,347
Congregational Development	36,489	-	36,489
Children, Youth and Young Adult Ministries	190,655	-	190,655
Social Justice Ministries	65,377	-	65,377
Supporting services			
Management and general	319,157	-	319,157
Total Expenses	<u>1,204,711</u>	<u>-</u>	<u>1,204,711</u>
<b>Increase (Decrease) in Net Assets</b>	<b>167,501</b>	<b>(17,840)</b>	<b>149,661</b>
Net assets at beginning of year	<u>3,456,706</u>	<u>366,225</u>	<u>3,822,931</u>
<b>Net Assets at End of Year</b>	<b><u>\$ 3,624,207</u></b>	<b><u>\$ 348,385</u></b>	<b><u>\$ 3,972,592</u></b>

See Accompanying Notes to Financial Statements

2014		
Unrestricted	Temporarily Restricted	Total
\$ 864,988	\$ 25,444	\$ 890,432
60,249	-	60,249
36,808	43,728	80,536
21,894	-	21,894
1,376	-	1,376
165,563	9,277	174,840
<u>1,150,878</u>	<u>78,449</u>	<u>1,229,327</u>
<u>50,614</u>	<u>(50,614)</u>	<u>-</u>
<u>1,201,492</u>	<u>27,835</u>	<u>1,229,327</u>
391,134	-	391,134
17,885	-	17,885
170,889	-	170,889
931	-	931
194,612	-	194,612
66,568	-	66,568
291,634	-	291,634
<u>1,133,653</u>	<u>-</u>	<u>1,133,653</u>
<b>67,839</b>	<b>27,835</b>	<b>95,674</b>
<u>3,388,867</u>	<u>338,390</u>	<u>3,727,257</u>
<b><u>\$ 3,456,706</u></b>	<b><u>\$ 366,225</u></b>	<b><u>\$ 3,822,931</u></b>

**Episcopal Diocese of Western Michigan**  
**Statements of Cash Flows**  
**For the Years Ended December 31, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 149,661	\$ 95,674
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	8,461	8,461
Non-cash Parish contribution	(295,000)	-
In-kind contributions of debt payments	(6,910)	(5,981)
Realized and unrealized (gain) loss on investments	15,552	(174,840)
Changes in:		
Receivables	(19,084)	(9,997)
Prepaid expenses	(6,850)	(3,700)
Accounts payable and accrued expenses	(7,686)	(14,716)
Deferred revenue	(9,109)	10,074
Net Cash Used in Operating Activities	<u>(170,965)</u>	<u>(95,025)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investment securities	(39,950)	(54,697)
Proceeds from sale of investment securities	178,736	96,043
Net Cash Provided by Investing Activities	<u>138,786</u>	<u>41,346</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payment on long-term obligations	-	(121,936)
Decrease in deposits and long term obligations held for others	(35,504)	(3,269)
Net Cash Used in Financing Activities	<u>(35,504)</u>	<u>(125,205)</u>
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>(67,683)</b>	<b>(178,884)</b>
Cash and cash equivalents at beginning of year	<u>265,779</u>	<u>444,663</u>
<b>Cash and Cash Equivalents at End of Year</b>	<b><u>\$ 198,096</u></b>	<b><u>\$ 265,779</u></b>

See Accompanying Notes to Financial Statements



**Episcopal Diocese of Western Michigan  
Statement of Functional Expenses  
For the Year Ended December 31, 2015**

	Program Services						Supporting Services	Total
	Office of the Bishop	Commissions and Committees	Episcopal Church Pledge	Congregational Development	Children, Youth and Young Adult Ministries	Social Justice Ministries	Management and general	
Compensation and related expenses								
Compensation	\$ 251,686	\$ -	\$ -	\$ -	\$ 50,020	\$ -	\$ 77,432	\$ 379,138
Health insurance	29,429	-	-	-	10,170	-	3,761	43,360
Pension	41,751	-	-	-	4,547	-	5,797	52,095
Payroll taxes and workers compensation	-	-	-	-	3,719	-	9,801	13,520
	<u>322,866</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>68,456</u>	<u>-</u>	<u>96,791</u>	<u>488,113</u>
Communications	-	-	-	-	-	-	29,606	29,606
Contracted services	1,775	-	-	-	-	2,654	2,355	6,784
Donations and grants	12,981	-	184,347	-	-	62,638	-	259,966
Dues and fees	-	-	-	-	-	-	2,721	2,721
Property insurance	-	-	-	-	-	-	5,791	5,791
Office supplies	-	-	-	-	-	-	7,054	7,054
Postage and shipping	-	-	-	-	-	-	1,212	1,212
Professional fees	6,280	-	-	-	-	-	33,578	39,858
Rent	-	-	-	-	840	-	36,050	36,890
Repairs and maintenance, building	-	-	-	-	-	-	4,160	4,160
Repairs and maintenance, Resurrection Garden	-	-	-	-	-	-	1,200	1,200
Search/transition	-	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	2,466	2,466
Training, committees and conferences	5,485	19,040	-	35,558	2,537	-	21,839	84,459
Telephone	-	-	-	-	-	-	10,432	10,432
Travel	28,870	-	-	-	612	-	3,304	32,786
Youth and young adult ministries	-	-	-	-	116,941	-	-	116,941
Depreciation	3,300	338	-	931	1,269	85	2,538	8,461
Other	7,541	210	-	-	-	-	52,272	60,023
Total	<u>\$ 389,098</u>	<u>\$ 19,588</u>	<u>\$ 184,347</u>	<u>\$ 36,489</u>	<u>\$ 190,655</u>	<u>\$ 65,377</u>	<u>\$ 319,157</u>	<u>\$ 1,204,711</u>

See Accompanying Notes to Financial Statements

**Episcopal Diocese of Western Michigan  
Statement of Functional Expenses  
For the Year Ended December 31, 2014**

	Program Services						Supporting Services	Total
	Office of the Bishop	Commissions and Committees	Episcopal Church Pledge	Congregational Development	Children, Youth and Young Adult Ministries	Social Justice Ministries	Management and general	
Compensation and related expenses								
Compensation	\$ 246,367	\$ -	\$ -	\$ -	\$ 46,624	\$ -	\$ 69,296	\$ 362,287
Health insurance	38,769	-	-	-	10,206	-	7,588	56,563
Pension	40,957	-	-	-	3,881	-	5,801	50,639
Payroll taxes and workers compensation	-	-	-	-	3,432	-	9,415	12,847
	<u>326,093</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>64,143</u>	<u>-</u>	<u>92,100</u>	<u>482,336</u>
Communications	-	-	-	-	-	-	26,953	26,953
Contracted services	1,740	-	-	-	-	20,920	3,698	26,358
Donations and grants	14,760	-	170,889	-	-	45,563	-	231,212
Dues and fees	-	-	-	-	-	-	1,550	1,550
Property insurance	-	-	-	-	-	-	5,553	5,553
Office supplies	-	-	-	-	-	-	7,701	7,701
Postage and shipping	-	-	-	-	-	-	1,364	1,364
Professional fees	7,684	-	-	-	-	-	41,381	49,065
Rent	-	-	-	-	840	-	35,421	36,261
Repairs and maintenance, building	-	-	-	-	-	-	4,160	4,160
Repairs and maintenance, Resurrection	-	-	-	-	-	-	1,200	1,200
Search/transition	789	-	-	-	-	-	-	789
Supplies	-	-	-	-	-	-	7,141	7,141
Training, committees and conferences	4,544	16,892	-	-	2,852	-	28,237	52,525
Telephone	-	-	-	-	-	-	6,937	6,937
Travel	26,031	-	-	-	297	-	4,150	30,478
Youth and young adult ministries	-	-	-	-	125,211	-	-	125,211
Depreciation	3,300	338	-	931	1,269	85	2,538	8,461
Other	6,193	655	-	-	-	-	17,398	24,246
Total	<u>\$ 391,134</u>	<u>\$ 17,885</u>	<u>\$ 170,889</u>	<u>\$ 931</u>	<u>\$ 194,612</u>	<u>\$ 66,568</u>	<u>\$ 291,634</u>	<u>\$ 1,133,653</u>

See Accompanying Notes to Financial Statements

**Episcopal Diocese of Western Michigan  
Notes to Financial Statements  
For the Years Ended December 31, 2015 and 2014**

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**NOTE A – Summary of Significant Accounting Policies**

Diocese Purpose

The Episcopal Diocese of Western Michigan (Diocese) was organized to assist member parishes in development and maintenance of the doctrine, discipline and worship of the Episcopal Church, through leadership and representation, and the marshaling of resources to carry out programs and activities at the local level and beyond. A summary of the significant accounting policies applied in the preparation of the accompanying financial statements follows.

Basis of Presentation

The financial statements of the Diocese have been prepared on the accrual basis of accounting. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Diocese and changes therein are classified and reported as follows:

*Unrestricted net assets* are not subject to donor-imposed restrictions.

*Temporarily restricted net assets* are subject to donor-imposed restrictions that may or will be met, either by the actions of the Diocese and/or the passage of time. When a 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.

Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the use of management's estimates. These estimates affect the amounts reported in the financial statements and the disclosures provided. Actual results may differ from management's estimates.

Cash and Cash Equivalents

The Diocese considers all certificates of deposit with a maturity of three months or less to be cash equivalents. Certificates of deposit with original maturities of greater than three months are considered investments. Cash and cash equivalents does not include cash held by investment managers that has been designated for investment.

Accounts Receivable

Accounts receivable represent parish pledges and are due and payable within one year. Accounts receivable are reviewed periodically to determine amounts which are potentially uncollectable. After reasonable attempts to collect a receivable have been unsuccessful, the amount is written off.

Financial Instruments

The Diocese's financial instruments consist of cash balances, marketable securities, accounts receivable, pledges receivable, accounts payable, and notes payable. The Diocese's estimates of fair value approximate their carrying amounts as of December 31, 2015 and 2014.

**Episcopal Diocese of Western Michigan  
Notes to Financial Statements  
For the Years Ended December 31, 2015 and 2014**

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**NOTE A – Summary of Significant Accounting Policies (Continued)**

Revenue Recognition

The Diocese records appropriations, grants, and earned revenues on an accrual basis. The Diocese records as revenue in the period received the following types of unconditional contributions at their fair value: cash, promises to give (pledges), certain contributed services and gifts of long-lived and other assets, including the gift of parish properties when a parish goes out of existence or can no longer support the property. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met. Substantially all of the Diocese's appropriations and grants are considered to be contributions for purposes of applying revenue recognition policies. Contributions are recorded net of estimated uncollectible amounts.

Revenue received but not earned at the balance sheet date is reported as deferred revenue.

Public Support and Revenue

Grants and other contributions of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Investments and Investment Income

The Diocese maintains investments, which it pools with monies from local parishes, and invests with a third-party investment manager. Investment transactions shown in the Statement of Cash Flows reflect gross sales and purchases made by the investment manager during the year.

Investments are stated at fair value pursuant to the requirements of the *Fair Value Measurements and Disclosures Topic* of the FASB Codification. Adjustments to the fair value of investments are recorded in earnings.

Gains and losses on disposition are accounted for on a specific identification basis. Net realized and unrealized gains and losses are included in the statement of activities.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

**Episcopal Diocese of Western Michigan**  
**Notes to Financial Statements**  
**For the Years Ended December 31, 2015 and 2014**

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**NOTE A – Summary of Significant Accounting Policies (Continued)**

Assets Held for Parish Development

The Diocese regularly helps local congregations establish or expand their parishes. At times, this process will cause the Diocese to own real property. Real property consists of Parish buildings and real estate. The Parish buildings are not being depreciated. They are evaluated for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. See Note G.

Property and Equipment

Property and equipment are recorded at cost when purchased or estimated fair value on the date donated. Property and equipment are assets with an initial cost or fair value of more than \$1,000 and an estimated useful life in excess one year. Depreciation is provided to relate the cost of depreciable assets to operations over their estimated service lives utilizing the straight-line method.

Volunteers

A number of volunteers, including the members of the Diocesan Council, have made significant contributions of time to the Diocese's policy-making, program and support functions. The value of this contributed time does not meet the criteria for recognition of contributed services contained in the *Not-for-Profit Revenue Recognition Topic* of the FASB codification, and accordingly, is not reflected in the accompanying financial statements.

Functional Expenses

The cost of providing the various programs and other activities has been summarized on a functional basis in the Statements of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on management's analysis and estimates.

Description of Activities

Below is a summary of the program services administered by the Diocese.

*Office of the Bishop* - includes the activities of the Bishop, his support staff, Transition Ministries and the Canon to the Ordinary.

*Commission and Committees* - provides education and support for seminarians, postulants, and all clergy in the Diocese.

*Episcopal Church Pledge* - provides financial support for the mission and ministry of the Episcopal Church.

*Congregational Development* – supports the staff that provides support and growth opportunities to the congregations in the Diocese. It also provides financial support for new church starts.

*Children, Youth & Young Adult Ministries* - provides for youth camps, other youth and young adult programs, support for camp and youth programs held in the diocese.

**Episcopal Diocese of Western Michigan  
Notes to Financial Statements  
For the Years Ended December 31, 2015 and 2014**

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**NOTE A – Summary of Significant Accounting Policies (Continued)**

*Social Justice Ministries* – provides financial support to programs for Episcopal Relief and Development, millennium development goals, mission trips, health ministry and the elimination of racism.

Tax Status

The Diocese is exempt from federal income tax under Internal Revenue Code Section 501(c)(3).

**NOTE B – Concentrations of Credit Risk**

Financial instruments that potentially subject the Diocese to concentrations of credit risk consist of bank balances that at times exceed federally insured limits. At December 31, 2015 and 2014, there were no uninsured bank balances. Investments subject the Diocese to credit risk and market risk and are subject to changes in fair value resulting from market and economic factors.

**NOTE C – Net Asset Restrictions**

Temporarily restricted net assets are available for the following purposes:

	2015	2014
Deacon Outreach Project	\$ 500	\$ 500
Canon Discretionary Fund	1,068	450
Bishop's Discretionary Fund	1,719	2,990
Deacon's Discretionary Fund	3,769	2,970
Dominican Republic Building Fund	122,271	137,072
Max Phares Memorial	1,816	1,816
Domestic Mission Fund	6,574	8,281
Cursillo Fund	2,824	4,281
CDI Training	10,289	-
Jarvis Fund	1,332	1,351
Waddell Fund-Seminarian Support	164,173	174,864
Helen James Fund	3,861	3,861
Parish Church Residual	14,714	14,714
ECW - Mary Powers Fund	13,475	13,075
	<u>\$ 348,385</u>	<u>\$ 366,225</u>

**Episcopal Diocese of Western Michigan**  
**Notes to Financial Statements**  
**For the Years Ended December 31, 2015 and 2014**

**NOTE D – Investments**

Investments are stated at fair value and consist of money market funds, certificates of deposit, corporate bonds and notes, and equity securities. Fair values and unrealized appreciation (depreciation) at December 31, 2015 and 2014 are summarized as follows:

	2015		
	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Money market funds	\$ 331,759	\$ 331,759	\$ -
Certificate of deposit	406,115	407,236	1,121
Corporate bonds and notes	181,879	177,373	(4,506)
Equities	1,755,307	2,357,279	601,972
	<u>\$ 2,675,060</u>	<u>\$ 3,273,647</u>	<u>\$ 598,587</u>

  

	2014		
	Cost	Fair Value	Unrealized Appreciation
Money market funds	\$ 97,104	\$ 97,104	\$ -
Certificate of deposit	654,927	654,911	(16)
Corporate bonds and notes	255,326	253,313	(2,013)
Equities	1,539,624	2,422,657	883,033
	<u>\$ 2,546,981</u>	<u>\$ 3,427,985</u>	<u>\$ 881,004</u>

The following schedule summarizes the investment return and its classification in the statements of activities for the years ended December 31, 2015 and 2014:

	2015		
	Unrestricted	Temporarily Restricted	Total
Interest and dividends	\$ 41,035	\$ 1,514	\$ 42,549
Realized gain and unrealized appreciation (depreciation)	(54,335)	(3,766)	(58,101)
	<u>\$ (13,300)</u>	<u>\$ (2,252)</u>	<u>\$ (15,552)</u>

  

	2014		
	Unrestricted	Temporarily Restricted	Total
Interest and dividends	\$ 34,418	\$ 168	\$ 34,586
Realized gain and unrealized appreciation	131,145	9,109	140,254
	<u>\$ 165,563</u>	<u>\$ 9,277</u>	<u>\$ 174,840</u>

**Episcopal Diocese of Western Michigan**  
**Notes to Financial Statements**  
**For the Years Ended December 31, 2015 and 2014**

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**NOTE D – Investments (Continued)**

The Diocese invests in various investment securities. Investment securities are exposed to various risks such as interest rates, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect investment account balances and the amounts reported in the financial statements. Additionally, the Diocese is exposed to custodial risk. All investments are managed by one custodial investment advisory firm.

**NOTE E – Fair Value Measurements**

The *Fair Value Measurements and Disclosure Topic* of the FASB Codification establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Diocese has the ability to access.
- Level 2 Inputs to the valuation methodology include:
- quoted prices for similar assets or liabilities in active markets;
  - quoted prices for identical or similar assets or liabilities in inactive markets;
  - inputs other than quoted prices that are observable for the asset or liability;
  - inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement. The Diocese does not have any Level 3 assets.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The Diocese's Level 1 marketable securities consist of certificates of deposit, money market accounts, and equity securities and are valued using a market approach based on quoted prices from transactions in active exchange markets.

The Diocese's Level 2 marketable securities consist of corporate bonds. The Diocese's Level 2 marketable securities values are determined using prices for recently traded financial instruments with similar underlying terms as well as directly or indirectly observable inputs, such as interest rates and yield curves that are observable at commonly quoted intervals.



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**NOTE E – Fair Value Measurements (Continued)**

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, 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 fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Diocese's assets at fair value as of December 31, 2015:

	<u>Total</u>	<u>Quoted Prices in Active Markets (Level 1)</u>	<u>Prices with Other Observable Inputs (Level 2)</u>	<u>Prices with Unobserv- able Inputs (Level 3)</u>
Cash and cash equivalents	\$ 198,096	\$ 198,096	\$ -	\$ -
Investments (marketable securities):				
Certificates of deposits	407,236	407,236	-	-
Money market accounts	331,759	331,759	-	-
Equities	2,357,279	2,357,279	-	-
Corporate bonds	<u>177,373</u>	<u>-</u>	<u>177,373</u>	<u>-</u>
Total Investments	<u>3,273,647</u>	<u>3,096,274</u>	<u>177,373</u>	<u>-</u>
Totals	<u>\$ 3,471,743</u>	<u>\$ 3,294,370</u>	<u>\$ 177,373</u>	<u>\$ -</u>

The following table sets forth by level, within the fair value hierarchy, the Diocese's assets at fair value as of December 31, 2014:

	<u>Total</u>	<u>Quoted Prices in Active Markets (Level 1)</u>	<u>Prices with Other Observable Inputs (Level 2)</u>	<u>Prices with Unobserv- able Inputs (Level 3)</u>
Cash and cash equivalents	\$ 265,779	\$ 265,779	\$ -	\$ -
Investments (marketable securities):				
Certificates of deposits	654,911	654,911	-	-
Money market accounts	97,104	97,104	-	-
Equities	2,422,657	2,422,657	-	-
Corporate bonds	<u>253,313</u>	<u>-</u>	<u>253,313</u>	<u>-</u>
Total Investments	<u>3,427,985</u>	<u>3,174,672</u>	<u>253,313</u>	<u>-</u>
Totals	<u>\$ 3,693,764</u>	<u>\$ 3,440,451</u>	<u>\$ 253,313</u>	<u>\$ -</u>

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**NOTE F – Property and Equipment**

Property and equipment as of December 31, 2015 and 2014 consists of the following:

	<u>2015</u>	<u>2014</u>
Building	\$ 63,000	\$ 63,000
Office equipment	45,037	45,037
Vehicles	<u>58,685</u>	<u>58,685</u>
	166,722	166,722
Less accumulated depreciation	<u>(127,933)</u>	<u>(119,472)</u>
	38,789	47,250
Land	<u>7,000</u>	<u>7,000</u>
	<u>\$ 45,789</u>	<u>\$ 54,250</u>

**NOTE G – Assets Held for Parish Development**

Assets held for Parish Development consist of two Parish building and adjoining real estate: one Parish is located in Belmont, Michigan the other Parish is located in Muskegon, Michigan. The Diocese acquired the Belmont, Michigan Parish in 2005 and the Muskegon, Michigan Parish in 2015.

In July 2005, the Diocese purchased a property in Belmont, Michigan for \$460,000 with a down payment of \$20,000 donated by the local parish and a bank note payable. In 2013, the Diocese obtained an appraisal that indicated a fair value of \$345,000. The Diocese adjusted the recorded amount of the property to the appraised value and recorded a loss of \$115,000 in 2012. The Diocese will hold title to the Belmont, Michigan property until the Parish is financially stable and can take over the loan obligation. The parish is currently funding the payments on the associated bank note. The Parish's payments are recorded as contribution income in the Diocese financial statements. The Diocese did not receive any other income or pay any other expenses on the property in 2015 or 2014.

In June 2015, the Muskegon, Michigan Parish closed. At that time, the Diocese took possession of the property. An appraisal was obtained that indicated a fair value of \$295,000. The Diocese recorded the receipt of the property as other contribution income at the appraised value. The property is currently being leased on a short-term basis to an unaffiliated church. The lease requires the unaffiliated church to cover a portion of utilities and maintenance costs in addition to the rent. In 2015, the Diocese received approximately \$12,000 in rent and paid approximately \$14,000 in costs for the Parish property. The Diocese is currently evaluating the viability of a future Parish.

**NOTE H – Long Term Debt**

Long-term debt at December 31, 2015 and 2014 consists of the following:

	<u>2015</u>	<u>2014</u>
Note payable in monthly installments of \$1,288 including interest at 4.95%, maturing May 2018. Secured by real property in Belmont, Michigan.	\$179,175	\$186,085
Less current maturities	<u>(6,586)</u>	<u>(6,288)</u>
	<u>\$172,589</u>	<u>\$179,797</u>

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**NOTE H – Long Term Debt (Continued)**

Aggregate maturities of long-term debt for 2016 through 2018 are as follows:

<u>Year ending December 31,</u>	<u>Note Payable</u>
2016	\$ 6,586
2017	6,950
2018	<u>165,639</u>
	<u><u>\$179,175</u></u>

**NOTE I – Post-Retirement Benefits**

The Diocese is a participant in a defined benefit pension plan administered by the Church Pension Fund (an independent organization) that provides pension benefits to all ordained clergy of the Episcopal Church. The current assessment rate is 18% of total annual compensation, including stipend, housing, utilities and self-employment tax allowance. The Diocese total pension expense for this plan for the years ended December 31, 2015 and 2014 was \$42,000 and \$41,000, respectively.

The Diocese also is a participant in the Episcopal Church Lay Employees' Defined Contribution Retirement Plan available to lay employees who meet the age and years of service requirements. The Diocese is also a participant in the Episcopal Church Lay Employees' Defined Benefit Retirement Plan available to lay employees and is based on salary and years of service requirements. The Diocese pension expense for the lay plans for the years ended December 31, 2015 and 2014 was approximately \$12,000 and \$11,000, respectively.

Diocese contributions are less than 5% of total employer contributions for each plan. Additional information for the Episcopal Church retirement's plans is available from Episcopal Church.

**NOTE J – Commitments**

The Diocese conducts its operations in facilities leased under an agreement that extends through February 2019. The lease requires current monthly rentals of \$2,972, increasing by 2.5% annually, and the payment of all occupancy costs by the lessee. Rent expense and surcharges for the years ended December 31, 2015 and 2014 were approximately \$36,050, and \$35,420, respectively. The Diocese has a one-time termination option on February 29, 2016, exercisable with 180 days' notice to the lessor. Annual future lease payments as of December 31, 2015, are as follows:

2016	\$ 36,403
2017	37,314
2018	38,246
2019	<u>6,400</u>
	<u><u>\$ 118,363</u></u>

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***NOTE K*—Subsequent Events**

Management has evaluated subsequent events through September 23, 2016, the date on which the financial statements were available to be issued.