

THE EPISCOPAL DIOCESE OF WEST TEXAS
CONSOLIDATING FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
with
INDEPENDENT AUDITORS' REPORT

THE EPISCOPAL DIOCESE OF WEST TEXAS

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INDEPENDENT AUDITORS' REPORT

The Finance Committee
The Episcopal Diocese of West Texas
San Antonio, Texas

We have audited the accompanying consolidating financial statements of The Episcopal Diocese of West Texas, which comprise the consolidating statement of financial position as of December 31, 2017 and 2016, and the related consolidating 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.

Auditor's 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 auditor 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 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 consolidating financial statements referred to above present fairly, in all material respects, the financial position of The Episcopal Diocese of West Texas as of December 31, 2017 and 2016, 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.

A Professional Corporation
May 9, 2018

THE EPISCOPAL DIOCESE OF WEST TEXAS
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2017

ASSETS	<u>Budget Fund</u>	<u>Episcopal Church Corporation</u>	<u>Episcopal Church Foundation</u>	<u>Interfund Eliminations</u>	<u>TOTAL 2017</u>
Cash and cash equivalents	\$ 3,209,161	\$ 1,496,434	\$ 4,542,456	\$ -	\$ 9,248,051
Investments	-	296	60,781,141	-	60,781,437
Accounts receivable	254,909	6,636	37,672	-	299,217
Prepaid expenses	265,673	-	-	-	265,673
Notes receivable - related party, net of allowance of \$650,969	-	374,479	-	-	374,479
Notes receivable	-	302,485	-	-	302,485
Equity interest in Christ Chapel	-	305,000	-	-	305,000
Property and equipment, net	-	19,217,414	-	-	19,217,414
Land held for sale, net of allowance of \$360,000	-	-	780,000	-	780,000
Assets held in trust	-	-	2,616,086	-	2,616,086
Contributions receivable from remainder trusts	-	842,655	-	-	842,655
Beneficial interest in perpetual trusts	-	2,414,826	-	-	2,414,826
Interfund receivable	1,886,479	20,123,723	-	(22,010,202)	-
TOTAL	<u>\$ 5,616,222</u>	<u>\$ 45,083,948</u>	<u>\$ 68,757,355</u>	<u>\$ (22,010,202)</u>	<u>\$ 97,447,323</u>
 LIABILITIES AND NET ASSETS					
LIABILITIES:					
Accounts payable	\$ 47,692	\$ 226,609	\$ -	\$ -	\$ 274,301
Accrued liabilities	28,227	-	-	-	28,227
Deferred revenue	124,639	100	-	-	124,739
Line of credit	-	1,940,537	-	-	1,940,537
Funds held for others	17,335	53,956	38,405,716	-	38,477,007
Liability under unitrusts	-	-	995,878	-	995,878
Interfund payable	81,512	203,347	21,725,343	(22,010,202)	-
	299,405	2,424,549	61,126,937	(22,010,202)	41,840,689
 NET ASSETS:					
Unrestricted	3,858,327	35,177,320	32,071	-	39,067,718
Temporarily restricted	1,458,490	3,715,369	5,913,735	-	11,087,594
Permanently restricted	-	3,766,710	1,684,612	-	5,451,322
	5,316,817	42,659,399	7,630,418	-	55,606,634
TOTAL	<u>\$ 5,616,222</u>	<u>\$ 45,083,948</u>	<u>\$ 68,757,355</u>	<u>\$ (22,010,202)</u>	<u>\$ 97,447,323</u>

See notes to consolidating financial statements

THE EPISCOPAL DIOCESE OF WEST TEXAS
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2016

ASSETS	<u>Budget Fund</u>	<u>Episcopal Church Corporation</u>	<u>Episcopal Church Foundation</u>	<u>Interfund Eliminations</u>	<u>TOTAL 2016</u>
Cash and cash equivalents	\$ 2,808,056	\$ 725,454	\$ 7,238,386	\$ -	\$ 10,771,896
Investments	-	479	52,922,999	-	52,923,478
Accounts receivable	196,714	6,636	40,847	-	244,197
Prepaid expenses	243,993	-	-	-	243,993
Notes receivable - related party, net of allowance of \$652,069	-	635,107	-	-	635,107
Notes receivable	-	339,758	-	-	339,758
Equity interest in Christ Chapel	-	315,000	-	-	315,000
Property and equipment, net	-	16,759,044	-	-	16,759,044
Land held for sale, net of allowance of \$360,000	-	-	780,000	-	780,000
Assets held in trust	-	-	2,442,629	-	2,442,629
Contributions receivable from remainder trusts	-	933,996	-	-	933,996
Beneficial interest in perpetual trusts	-	2,197,984	-	-	2,197,984
Interfund receivable	1,835,293	19,196,088	-	(21,031,381)	-
TOTAL	<u><u>\$ 5,084,056</u></u>	<u><u>\$ 41,109,546</u></u>	<u><u>\$ 63,424,861</u></u>	<u><u>\$ (21,031,381)</u></u>	<u><u>\$ 88,587,082</u></u>
 LIABILITIES AND NET ASSETS					
LIABILITIES:					
Accounts payable	\$ 57,600	\$ 2,093	\$ 230,535	\$ -	\$ 290,228
Accrued liabilities	97,214	-	-	-	97,214
Deferred revenue	71,933	100	-	-	72,033
Line of credit	-	1,940,537	-	-	1,940,537
Funds held for others	17,681	72,061	34,683,922	-	34,773,664
Liability under unitrusts	-	-	958,466	-	958,466
Interfund payable	77,148	270,154	20,684,079	(21,031,381)	-
	321,576	2,284,945	56,557,002	(21,031,381)	38,132,142
 NET ASSETS:					
Unrestricted	3,810,481	31,043,901	6,447	-	34,860,829
Temporarily restricted	951,999	4,230,832	5,184,071	-	10,366,902
Permanently restricted	-	3,549,868	1,677,341	-	5,227,209
	4,762,480	38,824,601	6,867,859	-	50,454,940
TOTAL	<u><u>\$ 5,084,056</u></u>	<u><u>\$ 41,109,546</u></u>	<u><u>\$ 63,424,861</u></u>	<u><u>\$ (21,031,381)</u></u>	<u><u>\$ 88,587,082</u></u>

See notes to consolidating financial statements

THE EPISCOPAL DIOCESE OF WEST TEXAS
CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017

	BUDGET FUND				EPISCOPAL CHURCH CORPORATION				EPISCOPAL CHURCH FOUNDATION				Interfund Eliminations	2017
	Unrestricted	Temporarily Restricted	Permanently Restricted	TOTAL	Unrestricted	Temporarily Restricted	Permanently Restricted	TOTAL	Unrestricted	Temporarily Restricted	Permanently Restricted	TOTAL		
SUPPORT AND REVENUE														
Apportionments	\$ 4,215,876	\$ -	\$ -	\$ 4,215,876	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,215,876
Endowments and contributions	-	216,646	-	216,646	3,000	2,546,665	-	2,549,665	-	89,200	7,271	96,471	-	2,862,782
Realized investment income	104,565	39,227	-	143,792	1,367,609	250,317	-	1,617,926	3,023	423,529	-	426,552	-	2,188,270
Unrealized loss on investments	76,430	31,818	-	108,248	1,271,103	200,571	-	1,471,674	-	337,174	-	337,174	-	1,917,096
Change in value of split-interest agreements	-	-	-	-	-	(91,341)	216,842	125,501	-	136,045	-	136,045	-	261,546
Net gain on sale of fixed assets	-	-	-	-	(6,304)	-	-	(6,304)	-	-	-	-	-	(6,304)
Camp and conference fees	1,082,402	-	-	1,082,402	-	-	-	-	-	-	-	-	-	1,082,402
CRUT trustee fees	-	-	-	-	-	-	-	-	12,214	-	-	12,214	-	12,214
Designated receipts	780,459	972,914	-	1,753,373	51,737	7,502	-	59,239	-	-	-	-	-	1,812,612
Other revenue and rents	30,242	-	-	30,242	1,100	-	-	1,100	-	-	-	-	-	31,342
Interest	-	-	-	-	16,274	363	-	16,637	-	-	-	-	-	16,637
Total	6,289,974	1,260,605	-	7,550,579	2,704,519	2,914,077	216,842	5,835,438	15,237	985,948	7,271	1,008,456	-	14,394,473
EXPENSES														
Program services:														
General church program	360,385	-	-	360,385	-	-	-	-	-	-	-	-	-	360,385
Missions	686,458	-	-	686,458	5,352	-	-	5,352	-	-	-	-	-	691,810
Camps and conferences	2,190,228	-	-	2,190,228	253,628	-	-	253,628	-	-	-	-	-	2,443,856
Social services	918,253	-	-	918,253	-	-	-	-	-	-	-	-	-	918,253
Education	64,897	-	-	64,897	-	-	-	-	-	-	-	-	-	64,897
Communication	174,553	-	-	174,553	-	-	-	-	-	-	-	-	-	174,553
Evangelism	12,622	-	-	12,622	-	-	-	-	-	-	-	-	-	12,622
Specialized ministries	710,528	-	-	710,528	10,000	-	-	10,000	-	-	-	-	-	720,528
Educational aid	62,946	-	-	62,946	18,600	-	-	18,600	89,892	-	-	89,892	-	171,438
Cathedral park	82,461	-	-	82,461	-	-	-	-	-	-	-	-	-	82,461
Other program services	222,085	-	-	222,085	19,964	-	-	19,964	20,263	-	-	20,263	-	262,312
Total program services	5,485,416	-	-	5,485,416	307,544	-	-	307,544	110,155	-	-	110,155	-	5,903,115
Supporting services:														
Bishop Jones Center	250,826	-	-	250,826	-	-	-	-	-	-	-	-	-	250,826
Salaries and allowances	1,584,741	-	-	1,584,741	-	-	-	-	49,102	-	-	49,102	-	1,633,843
Professional services	19,456	-	-	19,456	133,749	-	-	133,749	31,153	-	-	31,153	-	184,358
Property taxes and expenses	-	-	-	-	5,323	-	-	5,323	-	-	-	-	-	5,323
Insurance	184,318	-	-	184,318	-	-	-	-	-	-	-	-	-	184,318
Interest	-	-	-	-	68,774	-	-	68,774	-	-	-	-	-	68,774
Depreciation	-	-	-	-	888,097	-	-	888,097	-	-	-	-	-	888,097
Other expenses	97,992	-	-	97,992	114	-	-	114	3,804	-	-	3,804	-	101,910
Total supporting services	2,137,333	-	-	2,137,333	1,096,057	-	-	1,096,057	84,059	-	-	84,059	-	3,317,449
Fundraising	800	-	-	800	21,415	-	-	21,415	-	-	-	-	-	22,215
Total expenses	7,623,549	-	-	7,623,549	1,425,016	-	-	1,425,016	194,214	-	-	194,214	-	9,242,779
Change in net assets from activities	(1,333,575)	1,260,605	-	(72,970)	1,279,503	2,914,077	216,842	4,410,422	(178,977)	985,948	7,271	814,242	-	5,151,694
Transfers of net assets:														
Which meet donor restrictions	1,321,091	(894,287)	-	426,804	2,960,156	(3,378,505)	-	(418,349)	144,983	(153,438)	-	(8,455)	-	-
From (to) the budget fund	-	-	-	-	(32,480)	(65,023)	-	(97,503)	(27,850)	(75,150)	-	(103,000)	200,503	-
From (to) the corporation	32,480	65,023	-	97,503	-	-	-	-	73,760	(13,988)	-	59,772	(157,275)	-
From (to) the foundation	27,850	75,150	-	103,000	(73,760)	13,988	-	(59,772)	13,708	(13,708)	-	-	(43,228)	-
CHANGE IN NET ASSETS	47,846	506,491	-	554,337	4,133,419	(515,463)	216,842	3,834,798	25,624	729,664	7,271	762,559	-	5,151,694
NET ASSETS beginning of year	3,810,481	951,999	-	4,762,480	31,043,901	4,230,832	3,549,868	38,824,601	6,447	5,184,071	1,677,341	6,867,859	-	50,454,940
NET ASSETS end of year	\$ 3,858,327	\$ 1,458,490	\$ -	\$ 5,316,817	\$ 35,177,320	\$ 3,715,369	\$ 3,766,710	\$ 42,659,399	\$ 32,071	\$ 5,913,735	\$ 1,684,612	\$ 7,630,418	\$ -	\$ 55,606,634

See notes to consolidating financial statements

THE EPISCOPAL DIOCESE OF WEST TEXAS
CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016

	BUDGET FUND				EPISCOPAL CHURCH CORPORATION				EPISCOPAL CHURCH FOUNDATION				Interfund Eliminations	2016
	Unrestricted	Temporarily Restricted	Permanently Restricted	TOTAL	Unrestricted	Temporarily Restricted	Permanently Restricted	TOTAL	Unrestricted	Temporarily Restricted	Permanently Restricted	TOTAL		
SUPPORT AND REVENUE														
Apportionments	\$ 4,115,016	\$ -	\$ -	\$ 4,115,016	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,115,016
Endowments and contributions	-	47,724	-	47,724	220,410	2,213,482	-	2,433,892	-	146,050	21,717	167,767	-	2,649,383
Realized investment income	60,925	22,807	-	83,732	1,050,166	149,318	-	1,199,484	352	230,818	-	231,170	-	1,514,386
Unrealized loss on investments	(11,852)	(3,590)	-	(15,442)	(110,484)	(23,494)	-	(133,978)	-	(29,121)	-	(29,121)	-	(178,541)
Change in value of split-interest agreements	-	-	-	-	-	72,599	(40,249)	32,350	-	(6,760)	-	(6,760)	-	25,590
Net gain on sale of fixed assets	-	-	-	-	4,310	-	-	4,310	-	-	-	-	-	4,310
Camp and conference fees	1,100,091	-	-	1,100,091	-	-	-	-	-	-	-	-	-	1,100,091
CRUT trustee fees	-	-	-	-	-	-	-	-	12,604	-	-	12,604	-	12,604
Designated receipts	1,030,325	400,632	-	1,430,957	4,376	7,302	-	11,678	-	-	-	-	-	1,442,635
Other revenue and rents	31,376	-	-	31,376	56	-	-	56	-	-	-	-	-	31,432
Interest	-	-	-	-	19,950	592	-	20,542	-	-	-	-	-	20,542
Total	6,325,881	467,573	-	6,793,454	1,188,784	2,419,799	(40,249)	3,568,334	12,956	340,987	21,717	375,660	-	10,737,448
EXPENSES														
Program services:														
General church program	260,043	-	-	260,043	-	-	-	-	-	-	-	-	-	260,043
Missions	702,513	-	-	702,513	5,362	-	-	5,362	-	-	-	-	-	707,875
Camps and conferences	1,991,698	-	-	1,991,698	289,499	-	-	289,499	-	-	-	-	-	2,281,197
Social services	652,584	-	-	652,584	-	-	-	-	-	-	-	-	-	652,584
Education	80,168	-	-	80,168	-	-	-	-	-	-	-	-	-	80,168
Communication	214,962	-	-	214,962	-	-	-	-	-	-	-	-	-	214,962
Evangelism	5,775	-	-	5,775	-	-	-	-	-	-	-	-	-	5,775
Specialized ministries	689,344	-	-	689,344	10,000	-	-	10,000	-	-	-	-	-	699,344
Educational aid	76,446	-	-	76,446	28,000	-	-	28,000	93,452	-	-	93,452	-	197,898
Cathedral park	50,202	-	-	50,202	-	-	-	-	-	-	-	-	-	50,202
Other program services	153,992	-	-	153,992	55,584	-	-	55,584	58,567	-	-	58,567	-	268,143
Total program services	4,877,727	-	-	4,877,727	388,445	-	-	388,445	152,019	-	-	152,019	-	5,418,191
Supporting services:														
Bishop Jones Center	204,977	-	-	204,977	-	-	-	-	-	-	-	-	-	204,977
Salaries and allowances	1,487,956	-	-	1,487,956	-	-	-	-	47,632	-	-	47,632	-	1,535,588
Professional services	24,228	-	-	24,228	125,173	-	-	125,173	32,654	-	-	32,654	-	182,055
Property taxes and expenses	-	-	-	-	9,218	-	-	9,218	-	-	-	-	-	9,218
Insurance	185,351	-	-	185,351	175	-	-	175	-	-	-	-	-	185,526
Interest	-	-	-	-	58,885	-	-	58,885	-	-	-	-	-	58,885
Depreciation	-	-	-	-	827,088	-	-	827,088	-	-	-	-	-	827,088
Other expenses	103,754	-	-	103,754	294	-	-	294	4,794	-	-	4,794	-	108,842
Total supporting services	2,006,266	-	-	2,006,266	1,020,833	-	-	1,020,833	85,080	-	-	85,080	-	3,112,179
Fundraising	-	-	-	-	123,149	-	-	123,149	-	-	-	-	-	123,149
Total expenses	6,883,993	-	-	6,883,993	1,532,427	-	-	1,532,427	237,099	-	-	237,099	-	8,653,519
Change in net assets from activities	(558,112)	467,573	-	(90,539)	(343,643)	2,419,799	(40,249)	2,035,907	(224,143)	340,987	21,717	138,561	-	2,083,929
Transfers of net assets:														
Which meet donor restrictions	906,996	(747,013)	-	159,983	1,581,414	(1,728,374)	-	(146,960)	186,329	(199,352)	-	(13,023)	-	-
From (to) the budget fund	-	-	-	-	(367,444)	(124,277)	-	(491,721)	(21,029)	(50,969)	-	(71,998)	563,719	-
From (to) the corporation	367,444	124,277	-	491,721	-	-	-	-	72,230	(273)	-	71,957	(563,678)	-
From (to) the foundation	21,029	50,969	-	71,998	(72,230)	273	-	(71,957)	(13,727)	13,727	-	-	(41)	-
CHANGE IN NET ASSETS	737,357	(104,194)	-	633,163	798,097	567,421	(40,249)	1,325,269	(340)	104,120	21,717	125,497	-	2,083,929
NET ASSETS beginning of year	3,073,124	1,056,193	-	4,129,317	30,245,804	3,663,411	3,590,117	37,499,332	6,787	5,079,951	1,655,624	6,742,362	-	48,371,011
NET ASSETS end of year	\$ 3,810,481	\$ 951,999	\$ -	\$ 4,762,480	\$ 31,043,901	\$ 4,230,832	\$ 3,549,868	\$ 38,824,601	\$ 6,447	\$ 5,184,071	\$ 1,677,341	\$ 6,867,859	\$ -	\$ 50,454,940

See notes to consolidating financial statements

THE EPISCOPAL DIOCESE OF WEST TEXAS
CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017

	Budget Fund	Episcopal Church Corporation	Episcopal Church Foundation	TOTAL 2017
Cash flows from operating activities:				
Increase in net assets	\$ 554,337	\$ 3,834,798	\$ 762,559	\$ 5,151,694
Adjustments to reconcile the change in net assets to net cash provided by (used in) operating activities:				
Depreciation	-	888,097	-	888,097
Contributions restricted for long-term purposes	-	(2,385,650)	(7,271)	(2,392,921)
Interest income restricted for long-term purposes	-	(1,363)	-	(1,363)
Reinvested dividends	-	-	(2,708,171)	(2,708,171)
Unrealized loss (gain) on investments	-	183	(4,168,569)	(4,168,386)
Net realized gain on investments	-	-	(2,020,143)	(2,020,143)
Net loss on sale of fixed assets	-	6,304	-	6,304
Recovery of bad debts	-	(1,100)	-	(1,100)
Changes in assets and liabilities:				
Accounts receivable	(58,195)	-	3,175	(55,020)
Prepaid expenses	(21,680)	-	-	(21,680)
Equity interest in Christ Chapel	-	10,000	-	10,000
Perpetual and remainder trusts	-	(125,501)	(173,457)	(298,958)
Accounts payable	(9,908)	224,516	(230,535)	(15,927)
Accrued liabilities	(68,987)	-	-	(68,987)
Deferred revenue	52,706	-	-	52,706
Funds held for others	(346)	(18,105)	3,721,794	3,703,343
Liabilities under Unitrusts	-	-	37,412	37,412
Interfund receivable	(51,186)	(927,635)	-	(978,821)
Interfund payable	4,364	(66,807)	1,041,264	978,821
Net cash provided by (used in) operating activities	401,105	1,437,737	(3,741,942)	(1,903,100)
Cash flows from investing activities:				
Purchase of investments	-	-	(20,530,317)	(20,530,317)
Proceeds from sale of investments	-	-	21,569,058	21,569,058
Purchase of property and equipment	-	(3,412,271)	-	(3,412,271)
Proceeds from sale of property and equipment	-	59,500	-	59,500
Repayment of notes receivable	-	308,865	-	308,865
Advances on notes receivable	-	(9,864)	-	(9,864)
Net cash (used in) provided by investing activities	-	(3,053,770)	1,038,741	(2,015,029)
Cash flows from financing activities:				
Contributions restricted for long-term purposes	-	2,385,650	7,271	2,392,921
Interest income restricted for long-term purposes	-	1,363	-	1,363
Net cash provided by financing activities	-	2,387,013	7,271	2,394,284
Net increase (decrease) in cash and cash equivalents	401,105	770,980	(2,695,930)	(1,523,845)
Cash and cash equivalents at beginning of year	2,808,056	725,454	7,238,386	10,771,896
Cash and cash equivalents at end of year	\$3,209,161	\$ 1,496,434	\$ 4,542,456	\$ 9,248,051
Supplemental disclosure of cash flow information:				
Cash paid during the year for interest	\$ -	\$ 68,774	\$ -	\$ 68,774

See notes to consolidating financial statements

THE EPISCOPAL DIOCESE OF WEST TEXAS
CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Budget Fund</u>	<u>Episcopal Church Corporation</u>	<u>Episcopal Church Foundation</u>	<u>TOTAL 2016</u>
Cash flows from operating activities:				
Increase in net assets	\$ 633,163	\$ 1,325,269	\$ 125,497	\$ 2,083,929
Adjustments to reconcile the change in net assets to net cash provided by (used in) operating activities:				
Depreciation	-	827,088	-	827,088
Contributions restricted for long-term purposes	-	(1,991,223)	(21,717)	(2,012,940)
Interest income restricted for long-term purposes	-	(84)	-	(84)
Reinvested dividends	-	-	(2,375,134)	(2,375,134)
Unrealized loss on investments	-	22	501,425	501,447
Net realized gain on investments	-	-	(765,643)	(765,643)
Net gain on sale of fixed assets	-	(4,310)	-	(4,310)
Changes in assets and liabilities:				
Accounts receivable	(114,356)	4,960	(5,187)	(114,583)
Prepaid expenses	(32,282)	-	-	(32,282)
Equity interest in Christ Chapel	-	10,000	-	10,000
Perpetual and remainder trusts	-	(32,350)	117,848	85,498
Accounts payable	32,568	1,926	223,537	258,031
Accrued liabilities	33,742	-	-	33,742
Deferred revenue	(26,723)	-	-	(26,723)
Funds held for others	(959)	(20,056)	1,771,201	1,750,186
Liabilities under Unitrusts	-	-	(92,808)	(92,808)
Interfund receivable	(292,539)	(975,053)	-	(1,267,592)
Interfund payable	29,753	149,404	1,088,435	1,267,592
Net cash provided by (used in) operating activities	<u>262,367</u>	<u>(704,407)</u>	<u>567,454</u>	<u>125,414</u>
Cash flows from investing activities:				
Purchase of investments	-	-	(8,618,251)	(8,618,251)
Proceeds from sale of investments	-	-	10,084,779	10,084,779
Purchase of property and equipment	-	(1,462,301)	-	(1,462,301)
Proceeds from sale of property and equipment	-	47,000	-	47,000
Repayment of notes receivable	-	149,721	-	149,721
Advances on notes receivable	-	(8,802)	-	(8,802)
Net cash (used in) provided by investing activities	<u>-</u>	<u>(1,274,382)</u>	<u>1,466,528</u>	<u>192,146</u>
Cash flows from financing activities:				
Contributions restricted for long-term purposes	-	1,991,223	21,717	2,012,940
Interest income restricted for long-term purposes	-	84	-	84
Net cash provided by financing activities	<u>-</u>	<u>1,991,307</u>	<u>21,717</u>	<u>2,013,024</u>
Net increase in cash and cash equivalents	262,367	12,518	2,055,699	2,330,584
Cash and cash equivalents at beginning of year	<u>2,545,689</u>	<u>712,936</u>	<u>5,182,687</u>	<u>8,441,312</u>
Cash and cash equivalents at end of year	<u>\$2,808,056</u>	<u>\$ 725,454</u>	<u>\$ 7,238,386</u>	<u>\$ 10,771,896</u>
Supplemental disclosure of cash flow information:				
Cash paid during the year for interest	\$ -	\$ 58,885	\$ -	\$ 58,885

See notes to consolidating financial statements

THE EPISCOPAL DIOCESE OF WEST TEXAS
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

The Episcopal Diocese of West Texas (the Diocese) is the governing body of the Episcopal churches in south and central Texas in an area that covers 60 counties. Programs of the organization include the support of mission churches, foreign ministries and assistance to social charities. Additionally, the Diocese operates the 188-acre Camp Capers retreat center located in Waring, Texas, the Mustang Island Conference Center located in Port Aransas, Texas, and the 19-acre Duncan Park retreat center in Ward, Colorado.

Basis of Accounting

The consolidating financial statements are presented under the accrual basis, reflecting revenues as they are earned and expenses as incurred, regardless of when cash is received or disbursed. The consolidating financial statements include the financial position, the results of operation and cash flows of the Budget Fund, which represents the operating accounts of the Diocese, the Episcopal Church Corporation in West Texas, and the Episcopal Church Foundation in West Texas. The significant intercompany transactions and balances have been eliminated in consolidation.

Financial Statement Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Accounting Standards Codification (ASC) 958, "*Not-For-Profit Entities.*" Under ASC 958, the Diocese is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily-restricted net assets and permanently-restricted net assets.

Estimates

The preparation of consolidating financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

The Diocese considers cash on hand, cash in banks and all highly-liquid investments with an original maturity of three months or less to be cash equivalents. Cash held for permanently-restricted net assets amounted to \$5,381 and \$66,176 as of December 31, 2017 and 2016, respectively.

Property and Equipment

Acquisitions of property and equipment in excess of \$1,000 are capitalized. Fixed assets are recorded at cost if purchased or fair value if contributed; and are depreciated using the straight-line method. Buildings are depreciated over 30 to 40 years; furniture, fixtures and equipment are depreciated over 5 to 10 years; and automobiles and other such vehicles are depreciated over 5 years. Land, fine art and construction in progress are not depreciated. Repairs and maintenance are expensed as incurred.

THE EPISCOPAL DIOCESE OF WEST TEXAS
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Donated Materials And Contributed Services

Donated property, marketable securities, and other non-cash donations are recorded as contributions at their estimated market value at the date of donation.

The Diocese receives a substantial amount of services donated by those interested in the Diocese's programs. The kinds of services provided generally involve the contribution of time to organize and administer programs. Because of the difficulty in assigning values for such services, these items are generally not reflected in the accompanying consolidating financial statements.

Restricted and Unrestricted Revenue and Support

Contributions received are recorded as unrestricted, temporarily-restricted, or permanently-restricted support, depending on the existence and/or nature of any donor-designated restrictions.

Revenues are reported as increases in unrestricted net assets unless the use of the assets received is limited by donor-imposed restrictions. Restricted support is reported as an increase in temporarily or permanently-restricted net assets, depending on the nature of the restriction. When a 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 Statements of Activities as net assets released from restrictions.

Absent explicit donor stipulations about the length of time long-lived assets must be maintained, the Diocese reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Subsequent Events

Management has considered subsequent events through May 9, 2018, which is the date the financial statements have been available to be issued.

Income Taxes

The Diocese is a non-profit organization and is exempt from federal income tax under Internal Revenue Code Section 501(c)(3). In addition, the Diocese qualifies for the charitable contribution deduction under Section 509(a)(2).

The Diocese also qualifies as a religious order in accordance with IRS Sections 501-514, 4940-4947, and 6033. This makes the Diocese exempt from filing federal Form 990, Return of Organizations Exempt from Income Tax.

THE EPISCOPAL DIOCESE OF WEST TEXAS
 NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
 DECEMBER 31, 2017 AND 2016

Note 2 - CASH AND CASH EQUIVALENTS

Cash and cash equivalents consisted of the following at December 31, 2017:

	<u>Budget Fund</u>	<u>Episcopal Church Corporation</u>	<u>Episcopal Church Foundation</u>
Cash on hand	\$ 1,622	\$ -	\$ -
Cash in banks	831,035	43,279	68,477
Cash in money markets	<u>2,376,504</u>	<u>1,453,155</u>	<u>4,473,979</u>
	<u>\$ 3,209,161</u>	<u>\$ 1,496,434</u>	<u>\$ 4,542,456</u>

Note 3 - INVESTMENTS

Investments are stated at fair value on a recurring basis. A provision for unrealized gains or losses is made in each year to adjust to the appropriate fair value. Realized and unrealized gains or losses are determined by comparison of cost to proceeds or market, respectively. Cost is determined by historical purchase price or, in the case of donated investments, the fair value of those investments at the date of the gift.

The fair value of investments held at each fund at December 31, 2017 and 2016, is as follows:

	<u>2017</u>		<u>2016</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Episcopal Church Corporation	\$ 329	\$ 296	\$ 329	\$ 479
Episcopal Church Foundation	<u>54,407,649</u>	<u>60,781,141</u>	<u>50,718,076</u>	<u>52,922,999</u>
	<u>\$54,407,978</u>	<u>\$60,781,437</u>	<u>\$50,718,405</u>	<u>\$52,923,478</u>

Investments are comprised of the following:

	<u>2017</u>		<u>2016</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Mutual funds:				
Equities	\$36,122,253	\$42,654,809	\$33,397,304	\$36,100,096
Fixed income	<u>18,285,725</u>	<u>18,126,628</u>	<u>17,321,101</u>	<u>16,823,382</u>
	<u>\$54,407,978</u>	<u>\$60,781,437</u>	<u>\$50,718,405</u>	<u>\$52,923,478</u>

THE EPISCOPAL DIOCESE OF WEST TEXAS
 NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
 DECEMBER 31, 2017 AND 2016

Note 3 – INVESTMENTS (continued)

Fair value disclosures at December 31, 2017:

	Quoted Prices in Active Markets <u>(Level 1)</u>	Significant Other Observable Inputs <u>(Level 2)</u>	Significant Unobservable Inputs <u>(Level 3)</u>
Mutual Funds - equities	\$ 42,654,809	\$ -	\$ -
Mutual Funds - fixed income	<u>18,126,628</u>	<u>-</u>	<u>-</u>
	<u>\$ 60,781,437</u>	<u>\$ -</u>	<u>\$ -</u>

Fair value disclosures at December 31, 2016:

	Quoted Prices in Active Markets <u>(Level 1)</u>	Significant Other Observable Inputs <u>(Level 2)</u>	Significant Unobservable Inputs <u>(Level 3)</u>
Mutual Funds - equities	\$ 36,100,096	\$ -	\$ -
Mutual Funds - fixed income	<u>16,823,382</u>	<u>-</u>	<u>-</u>
	<u>\$ 52,923,478</u>	<u>\$ -</u>	<u>\$ -</u>

Note 4 - RESTRICTED USE OF CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and investments restricted permanently or for use for long-term purposes are as follows at December 31, 2017:

	Budget <u>Fund</u>	Episcopal Church <u>Corporation</u>	Episcopal Church <u>Foundation</u>
Cash and cash equivalents	\$ -	\$ 9,282	\$ 420,177
Investments	<u>-</u>	<u>-</u>	<u>3,005,326</u>
	<u>\$ -</u>	<u>\$ 9,282</u>	<u>\$ 3,425,503</u>

Cash and investments restricted permanently or for use for long-term purposes are as follows at December 31, 2016:

	Budget <u>Fund</u>	Episcopal Church <u>Corporation</u>	Episcopal Church <u>Foundation</u>
Cash and cash equivalents	\$ -	\$ 9,282	\$ 1,192,219
Investments	<u>-</u>	<u>-</u>	<u>2,904,188</u>
	<u>\$ -</u>	<u>\$ 9,282</u>	<u>\$ 4,096,407</u>

THE EPISCOPAL DIOCESE OF WEST TEXAS
 NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
 DECEMBER 31, 2017 AND 2016

Note 5 - NOTES RECEIVABLE

The notes receivable balance at December 31, 2017 and 2016 of \$302,485 and \$339,758, respectively, are due from purchases of real property that will benefit two parishes of the Diocese. Based on management's historical experience, management considers these notes receivable to be fully collectible; therefore, no allowance for doubtful accounts has been reflected for these two notes.

One note is due in 60 installments of \$2,175 beginning November 1, 2014, bearing interest of 6% and is secured by the property sold. There is a corresponding liability to the Church in Comfort, TX for the amount of this note. The balance of this note was \$53,957 and \$72,061 at December 31, 2017 and 2016, respectively.

A second note is due in 164 installments of \$2,000 beginning November 1, 2015, bearing interest of 4% and is secured by the property sold. The balance of this note was \$248,528 and \$267,697 at December 31, 2017 and 2016, respectively.

Note 6 - NOTES RECEIVABLE - RELATED PARTY

Notes receivable at December 31, 2017 and 2016 consisted of the following:

	2017	2016
Churches	\$ 1,025,428	\$ 1,287,176
Less allowance for doubtful accounts	650,949	652,069
	\$ 374,479	\$ 635,107

Notes receivable consist of amounts advanced to Diocese churches for capital improvements. Management periodically reviews past-due notes receivable for collectability and based on the financial condition and outlook of each church, adjusts the allowance for losses if the collectability of the note receivable is deemed to be remote. It is the policy of the Diocese to maintain records of past due notes receivable and to indefinitely maintain them in the allowance until the obligor is able to repay the debt. Interest is not accrued on loans that are past due one month or more. As of December 31, 2017, there was \$148,397 of net reported notes receivable on non-accrual status.

Note 7 - BENEFICIAL INTEREST IN PERPETUAL TRUST

The Diocese is the income beneficiary of two irrevocable perpetual trusts which are held by third party trustees. Revocable or conditional agreements are not recognized. The Diocese's interest in perpetual trusts is the present value of estimated future cash receipts from the trusts, which is best measured by the fair market value of the trusts' assets. This interest is classified as permanently-restricted net assets. The assets of these trusts consist of cash, bonds, common stocks and mutual funds. Based upon the fair market value of these assets from quoted market prices at December 31, 2017 and 2016, the beneficial interest is estimated at \$2,414,826 and \$2,197,984, respectively.

Distributions to the Diocese, totaling \$107,151 for 2017 and \$152,321 for 2016, were reported as unrestricted investment income as received.

THE EPISCOPAL DIOCESE OF WEST TEXAS
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

Note 8 - CONTRIBUTIONS RECEIVABLE FROM REMAINDER TRUSTS

The Diocese is the remainder beneficiary of irrevocable charitable trusts for which it is a trustee and also for which a third party is trustee. Under ASC 958, the Diocese recognizes the present value of the contribution at the date of the creation of the instrument. Present value is computed based upon the quoted market prices of the assets in trust reduced by the present value of the future payments to the donor or other beneficiaries based on life expectancy and the applicable federal mid-term discount rate. The Remainder trusts held by third party trustees use the federal mid-term discount rate as of the balance sheet date, which at December 31, 2017 and 2016 was 2.6% and 1.8%, respectively. For remainder trusts where the Organization is Trustee, the discount rate at the date of the trust's creation is used, which was 5% for two trusts, 1.4% for one trust and 7.6% for a fourth trust that ended during 2016. Changes in the value of the split-interest agreements result from revaluations of future benefits due donors and amortization of discounts initially set up to account for future benefits. These changes are reflected in the statement of activities. The interest of the Diocese in the split-interest agreements, net of the donors' interest, is presented as temporarily-restricted assets. Revocable or conditional agreements are not recognized as either contributions or assets.

The assets held in the various trusts consist of cash, bonds, common stocks and mutual funds having an aggregate fair market value of \$4,393,034 and \$4,123,234 at December 31, 2017 and 2016, respectively. At December 31, 2017 and 2016, \$2,616,086 and \$2,442,629, respectively, of these assets was reported as assets held in trust, with a corresponding liability to beneficiaries of \$995,878 and \$958,466, respectively. The remaining trust assets reflect trusts held by third party trustees and are reported as the present value of the estimated future distributions to the Diocese which were \$842,655 and \$933,996 at December 31, 2017 and 2016, respectively. In accordance with ASC 958, these amounts are recorded as a contribution receivable.

Note 9 - INTENTIONS TO GIVE

In connection with the Diocesan Development Campaign, the Diocese had approximately \$2,998,373 and \$3,810,852 in outstanding intentions to give at December 31, 2017 and 2016, respectively. The intentions to give may be rescinded or modified by the donors at any time. As such, the intentions to give do not meet the criteria for revenue recognition under ASC 958. These intentions to give are recorded as contributions when funds are received.

Note 10 - ASSETS HELD FOR THE BENEFIT OF CHURCHES

The Diocese, through the Church Corporation, holds title to real property used by parishes within the Diocese. This real property is not recorded as assets of the Diocese and the historical costs of this property are unknown since the funds raised for construction were raised and managed by the individual parishes. Certain of these properties are encumbered for borrowings used by the parishes in construction. The Church Corporation at times may guarantee debt held on these properties; however, any guarantees are limited to funds received on the sale of said properties. Canon 21 of the Diocesan Canons provides that no real property, consecrated or unconsecrated, of any congregation, institution or other diocesan body shall be alienated or encumbered without the consent of the Church Corporation. Any debt created in such an approved transaction may encumber the property but can in no way become an obligation, direct or otherwise, of the Diocese or the Church Corporation.

THE EPISCOPAL DIOCESE OF WEST TEXAS
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

Note 11 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of December 31, 2017 and 2016:

	2017	2016
Land	\$ 5,151,674	\$ 5,151,674
Fine Art	112,811	112,811
Buildings and improvements	23,674,726	18,694,720
Furniture and equipment	1,417,577	1,405,404
Automobiles	283,146	277,372
Construction in progress	381,244	1,042,930
	31,021,178	27,684,911
Less accumulated depreciation	11,803,764	10,925,867
Net property and equipment	\$ 19,217,414	\$ 16,759,044

Note 12 - FUNDS HELD FOR OTHERS

The Diocese holds and invests funds for the benefit of parishes, the Good Samaritan Center (which is a related party of the Diocese) and other various religious purposes. These investments consist of cash, bonds, stocks and mutual funds and are as follows at December 31, 2017:

	Budget Fund	Episcopal Church Corporation	Episcopal Church Foundation
Churches and schools within the Diocese	\$ -	\$ 53,956	\$ 36,730,781
Good Samaritan Center	-	-	1,303,737
Other religious purposes	17,335	-	371,198
	\$ 17,335	\$ 53,956	\$ 38,405,716

Funds invested for others are as follows at December 31, 2016:

	Budget Fund	Episcopal Church Corporation	Episcopal Church Foundation
Churches and schools within the Diocese	\$ -	\$ 72,061	\$ 33,119,072
Good Samaritan Center	-	-	1,153,734
Other religious purposes	17,681	-	411,116
	\$ 17,681	\$ 72,061	\$ 34,683,922

THE EPISCOPAL DIOCESE OF WEST TEXAS
 NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
 DECEMBER 31, 2017 AND 2016

Note 13 - RESTRICTIONS ON NET ASSETS

Temporarily-restricted net assets are available for the following purposes as of December 31, 2017:

	<u>Budget Fund</u>	<u>Episcopal Church Corporation</u>	<u>Episcopal Church Foundation</u>
Outreach, missions and development	\$ 434,342	\$ 1,092,693	\$ 780,000
Education	5,351	816,562	2,426,218
Pastoral programs	741,330	451,444	979,897
Facilities maintenance	277,467	512,015	107,412
Time restrictions	<u>-</u>	<u>842,655</u>	<u>1,620,208</u>
	<u>\$ 1,458,490</u>	<u>\$ 3,715,369</u>	<u>\$ 5,913,735</u>

Temporarily-restricted net assets are available for the following purposes as of December 31, 2016:

	<u>Budget Fund</u>	<u>Episcopal Church Corporation</u>	<u>Episcopal Church Foundation</u>
Outreach, missions and development	\$ 294,611	\$ 1,855,999	\$ 780,000
Education	7,035	680,415	2,011,401
Pastoral programs	605,103	391,330	748,065
Facilities maintenance	45,250	369,092	160,442
Time restrictions	<u>-</u>	<u>933,996</u>	<u>1,484,163</u>
	<u>\$ 951,999</u>	<u>\$ 4,230,832</u>	<u>\$ 5,184,071</u>

Temporarily-restricted net assets released from donor restrictions by incurring expenditures satisfying the purpose of donors are as follows for the year ended December 31, 2017:

	<u>Budget Fund</u>	<u>Episcopal Church Corporation</u>	<u>Episcopal Church Foundation</u>
Outreach, missions and development	\$ 568,842	\$ 205	\$ -
Education	45,707	21,577	89,892
Pastoral programs	193,453	343,782	21,214
Administrative support to ECF	2,056	12,760	22,068
Facilities maintenance and construction	<u>84,229</u>	<u>3,000,181</u>	<u>20,264</u>
	<u>\$ 894,287</u>	<u>\$ 3,378,505</u>	<u>\$ 153,438</u>

THE EPISCOPAL DIOCESE OF WEST TEXAS
 NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
 DECEMBER 31, 2017 AND 2016

Note 13 - RESTRICTIONS ON NET ASSETS (continued)

Temporarily-restricted net assets released from donor restrictions by incurring expenditures satisfying the purpose of donors are as follows for the year ended December 31, 2016:

	<u>Budget Fund</u>	<u>Episcopal Church Corporation</u>	<u>Episcopal Church Foundation</u>
Outreach, missions and development	\$ 319,995	\$ -	\$ -
Education	62,198	6,100	93,452
Pastoral programs	263,195	265,199	7,453
Administrative support to ECF	2,040	12,710	21,600
Time	-	-	18,280
Facilities maintenance and construction	<u>99,585</u>	<u>1,444,365</u>	<u>58,567</u>
	<u>\$ 747,013</u>	<u>\$ 1,728,374</u>	<u>\$ 199,352</u>

Permanently-restricted net asset amounts and restrictions as of December 31, 2017 are as follows:

	<u>Budget Fund</u>	<u>Episcopal Church Corporation</u>	<u>Episcopal Church Foundation</u>
Education	\$ -	\$ 383,500	\$ 724,592
Facilities maintenance	-	668,089	53,000
Pastoral programs	-	75,292	907,021
Capital assets	-	225,003	-
Time restrictions	<u>-</u>	<u>2,414,826</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ 3,766,710</u>	<u>\$ 1,684,612</u>

Permanently-restricted net asset amounts and restrictions as of December 31, 2016 are as follows:

	<u>Budget Fund</u>	<u>Episcopal Church Corporation</u>	<u>Episcopal Church Foundation</u>
Education	\$ -	\$ 383,500	\$ 724,592
Facilities maintenance	-	668,089	53,000
Pastoral programs	-	75,292	899,749
Capital assets	-	225,003	-
Time restrictions	<u>-</u>	<u>2,197,984</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ 3,549,868</u>	<u>\$ 1,677,341</u>

THE EPISCOPAL DIOCESE OF WEST TEXAS
 NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
 DECEMBER 31, 2017 AND 2016

Note 14 - DESIGNATIONS ON UNRESTRICTED NET ASSETS

Designated unrestricted net assets available at December 31, 2017 and 2016 are as follows:

	2017	2016
Designated unrestricted:		
Budget Fund	\$ 3,244,599	\$ 3,273,804
Episcopal Church Corporation	13,408,394	12,199,461
Episcopal Church Foundation	800	650
	\$ 16,653,793	\$ 15,473,915

Note 15 - ENDOWMENT

The Diocese's endowment consists of donor-restricted funds established for property maintenance, scholarships, and pastoral programs. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

Management has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the corpus of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations of the contrary. As a result of this interpretation, the Diocese classifies as permanently-restricted net assets the original value of gifts donated to the permanent endowment and the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently-restricted net assets is classified as temporarily-restricted and unrestricted net assets until those amounts are appropriated for expenditure by the Diocese in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Diocese considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: the duration and preservation of the fund, the purposes of the Diocese and the donor-restricted endowment fund, general economic conditions, the possible effect of inflation and deflation, the expected total return from income and the appreciation of investments, other resources of the Diocese, and the investment policies of the Diocese.

Return Objectives and Risk Parameters

The Diocese has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment. Endowment assets include those assets of donor-restricted funds that the Diocese must hold in perpetuity. Under this policy, as approved by management, the endowment assets are invested in a manner that is intended to produce regular investment returns while assuming a reasonable level of investment risk. The Diocese expects its endowment funds, over time, to provide an average total rate of return of approximately 8% annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

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

THE EPISCOPAL DIOCESE OF WEST TEXAS
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Note 15 - ENDOWMENT (continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Diocese has a policy of regular distributions from its endowment funds. In establishing this policy, the Diocese considered the long-term expected return on its endowment. Accordingly, over the long term, the Diocese expects the current spending policy to allow its endowment to grow at an average rate of 4% annually, as uses of the endowment typically do not exceed growth of the endowment. These considerations resulted in distribution rates of 4.0% for both 2017 and 2016.

Composition and Change of Endowment Assets

For the years ended December 31, 2017 and 2016, the endowment net assets of the Diocese did not consist of unrestricted endowment funds. The changes of donor-restricted endowment assets for the years ended 2017 and 2016 are as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets December 31, 2015	\$ 2,716,291	\$ 2,782,505	\$ 5,498,796
Contributions	102,300	21,716	124,016
Investment return:			
Investment income	328,598	-	328,598
Net unrealized gain	<u>(67,460)</u>	<u>-</u>	<u>(67,460)</u>
Total investment return	261,138	-	261,138
Intercompany transfer	(24,067)	-	(24,067)
Endowment assets released from restrictions	<u>(175,891)</u>	<u>-</u>	<u>(175,891)</u>
Endowment net assets December 31, 2016	2,879,771	2,804,221	5,683,992
Contributions	3,795	7,271	11,066
Investment return:			
Investment income	538,138	-	538,138
Net unrealized gain	<u>432,751</u>	<u>-</u>	<u>432,751</u>
Total investment return	970,889	-	970,889
Intercompany transfer	(22,281)	-	(22,281)
Endowment assets released from restrictions	<u>(143,518)</u>	<u>-</u>	<u>(143,518)</u>
Endowment net assets December 31, 2017	<u>\$ 3,688,656</u>	<u>\$ 2,811,492</u>	<u>\$ 6,500,148</u>

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Note 16 - LINE OF CREDIT

The Diocese has a line of credit with a bank collateralized by future contributions. Terms of the underlying credit agreement call for interest due monthly at a varying rate equal to 2.25% added to the 3-month LIBOR rate. The interest rate for this line at December 31, 2017 was 3.80%. The maximum credit line, which matures January 24, 2018, is \$2,500,000. Advances under this line were \$1,940,537 and \$1,940,537 at December 31, 2017 and 2016, respectively.

On February 12, 2018, the Diocese renewed the line of credit resulting in a new maturity date of January 24, 2021 and an interest calculation equal to 2.00% added to the 3-month LIBOR rate.

Note 17 - RELATED PARTY TRANSACTIONS

The Diocese is a related party to all congregations and schools under its authority, the Good Samaritan Center of San Antonio and TMI - The Episcopal School of Texas (TMI). These entities receive support from the Diocese and the congregations contribute apportionments to help pay for the management of the Diocese. Support received from the congregations is shown as apportionments on these consolidating financial statements and totaled \$4,215,876 and \$4,115,016 for the years ended December 31, 2017 and 2016, respectively. Additionally, endowments and contributions as reported on the statements of activities included amounts donated by Churches within the Diocese of \$175,874 and \$226,323 for the years ended December 31, 2017 and 2016, respectively.

The Diocese provided direct support to the mission congregations of the Diocese, which approximated \$686,458 and \$702,513 for the years ended December 31, 2017 and 2016, respectively. The Diocese support of the programs at the Good Samaritan Center totaled approximately \$150,700 and \$153,750 for the years ended December 31, 2017 and 2016, respectively. The Diocese support of the programs of TMI totaled approximately \$151,016 and \$175,901 for the years ended December 31, 2017 and 2016, respectively. Additionally, at December 31, 2017, \$2,048,816 of the restricted funds in the Episcopal Church Foundation are purposed for the benefit of TMI.

The Diocese invested \$430,677 and \$330,000 in 2008 and 2007, respectively, to become a 50% owner of Christ Chapel at Texas State University – San Marcos (Christ Chapel). The remaining 50% of this non-profit corporation is owned by the Evangelical Lutheran Church in America. Christ Chapel's assets consisted of real property with an estimated value, based on the agreed price for the property in 2007, of \$1,500,000. Christ Chapel used this property, which is adjacent to the Texas State University in San Marcos, Texas, to provide campus ministries. In September of 2010, Christ Chapel sold this property for \$1,500,000. The sales price consisted of cash of \$750,000 and a note receivable for \$750,000 at 10% interest, payable in 10 annual installments at the first of each year beginning January 1, 2011. A corresponding lease was also entered into whereas Christ Chapel leases the same property for a period of 10 years beginning September 15, 2010. Lease payments consist of \$1 per year in addition to a reduction of the expected annual note payments by \$20,000 per year. The Diocese's interest in half of Christ Chapel's note receivable is reported as "Equity interest in Christ Chapel" on the 2017 and 2016 statements of financial position. No note payments have been collected on the notes receivable to date. However, during both 2017 and 2016, the equity interest reported on the statement of financial position was reduced by \$10,000, or 50% of the note receivable reduction per the lease agreement. Salary and related costs for Christ Chapel ministries were \$0 for both 2017 and 2016.

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Note 18 - OPERATING LEASE AGREEMENTS

Effective November 2010, the Diocese entered into a lease agreement with US Bank to lease copier equipment. This agreement called for base monthly payments of \$2,275 for 63 months. The lease was renewed in February 2016 with base monthly payments of \$1,928 for 60 months. Lease payments made during 2017 and 2016 were \$23,892 and \$25,592, respectively. Future minimum lease payments at December 31, 2017 are as follows: 2018 - \$23,136; 2019 - \$23,136; 2020 - \$23,136; 2021 - \$3,856.

Note 19 - LAND HELD FOR SALE

Property assets of the Episcopal Church Foundation consist of a 25% interest in a 12.18 acre tract of land situated in McAllen, Texas. This property was donated in 2006, originally valued at \$1,140,000 and is classified as held for sale. An allowance of \$360,000 was assessed on the reported value of the land, resulting in a carrying value of \$780,000 at December 31, 2017 and 2016.

Note 20 - PENSION PLAN

Lay employees of the Diocese become eligible for a pension plan administered by the Church Pension Group upon hire. Clergy employees of the Diocese become eligible upon ordination. The Diocese helps to fund this plan by sending 9% of eligible Diocesan lay employees and 18% of eligible Diocesan staff clergy salaries to the Church Pension Group. Pension expense for 2017 and 2016 was \$245,843 and \$230,442, respectively.

Note 21 - CONCENTRATION OF CREDIT RISK

The Diocese had more than the insured limit of \$250,000 in one financial institution. At December 31, 2017, cash deposits exceeded federally insured limits by \$4,333,166. Management monitors the creditworthiness of the institution, and believes the risk of loss due to credit risk to be remote.

Note 22 - PERMANENT FUND ASSET VALUES BELOW DONOR REQUIRED CORPUS

In accordance with ASC 958, "*Not-for-Profit Entities*," losses on investments of a donor-restricted endowment fund should reduce temporarily-restricted net assets to the extent that donor-imposed temporary restrictions on net appreciation of the fund have not been met before the loss occurs and that any remaining loss should reduce unrestricted net assets.

During 2016, the Organization experienced investment losses bringing certain permanently-restricted net asset balances to amounts below original corpus. Amounts necessary to bring permanently-restricted net assets to the donor-imposed corpus were subsequently transferred from unrestricted net assets. These amounts must be repaid from future gains from these restricted funds until the amounts transferred from unrestricted net assets are repaid. At December 31, 2016, the Episcopal Church Foundation had a balance in arrears of \$13,708. During 2017, the Episcopal Church Foundation repaid its arrears in full.