

ST. PAUL'S EPISCOPAL CHURCH

**AUDITED
FINANCIAL STATEMENTS**

**YEAR ENDED
DECEMBER 31, 2016**

ST. PAUL'S EPISCOPAL CHURCH

Table of Contents

Independent Auditors' Report..... 1 - 2

Financial Statements:

 Statement of Assets, Liabilities, and Net Assets - Modified Cash Basis..... 3

 Statement of Revenue, Expenditures, and Changes in Net Assets - Modified Cash Basis..... 4

 Notes to Financial Statements 5 - 13

INDEPENDENT AUDITORS' REPORT

To The Vestry
St. Paul's Episcopal Church
Maumee, Ohio

We have audited the accompanying financial statements of St. Paul's Episcopal Church (a nonprofit organization), which comprise statement of assets, liabilities, and net assets - modified cash basis as of December 31, 2016, and the related statement of revenue, expenditures, and changes in net assets - modified cash basis 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 the modified cash basis of accounting described in Note A; this includes determining that the modified cash basis of accounting is an acceptable basis for preparation of the financial statements in the circumstances. Management is also responsible for 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.

Basis for Qualified Opinion

Because of the inadequacy of accounting records, we were unable to obtain sufficient appropriate audit evidence regarding the recorded amount of property and equipment representing \$3,554,003 as of January 1, 2016. Additionally, property and equipment is not being depreciated over the estimated useful lives of the underlying assets, which is a generally accepted modification of the modified cash basis of accounting. The effects this departure from the modified cash basis of accounting have not been determined.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets - modified cash basis of St. Paul's Episcopal Church as of December 31, 2016, and the revenue, expenditures, and changes in net assets for the year then ended in accordance with the modified cash basis of accounting as described in Note A.



Basis of Accounting

We draw attention to Note A of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Barnes Wendling CPAs Inc.

Sheffield Village, Ohio
December 19, 2017

ST. PAUL'S EPISCOPAL CHURCH

Statement of Assets, Liabilities, and Net Assets - Modified Cash Basis December 31, 2016

ASSETS

Cash and cash equivalents	\$	37,865	
Certificates of deposit		15,934	
Property and equipment		4,131,756	
Investments		1,762,168	
			<u>\$ 5,947,723</u>

LIABILITIES AND NET ASSETS

Liabilities

Payroll taxes withheld	\$	5,173
------------------------	----	-------

Net Assets

Unrestricted	\$	4,937,703	
Temporarily restricted		854,847	
Permanently restricted		150,000	
			<u>5,942,550</u>
			<u>\$ 5,947,723</u>

See Notes to Financial Statements

ST. PAUL'S EPISCOPAL CHURCH

Statement of Revenues, Expenditures, and Changes in Net Assets - Modified Cash Basis Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue				
Contributions and offerings	\$ 375,021	\$ 100,297	\$ -0-	\$ 475,318
Elizabeth Wayne Preschool	168,843	-0-	-0-	168,843
Investment income, net	141,530	35,373	-0-	176,903
Rent	9,425	-0-	-0-	9,425
Miscellaneous income	14,658	-0-	-0-	14,658
Total revenue	<u>709,477</u>	<u>135,670</u>	<u>-0-</u>	<u>845,147</u>
Appropriation of endowment assets for expenditure	79,316	(79,316)	-0-	-0-
Net assets released from restrictions	<u>54,344</u>	<u>(54,344)</u>	<u>-0-</u>	<u>-0-</u>
	843,137	2,010	-0-	845,147
Expenditures				
Salaries and wages	331,699	-0-	-0-	331,699
Payroll taxes	19,174	-0-	-0-	19,174
Employee benefits	70,943	-0-	-0-	70,943
Repairs and maintenance	64,184	-0-	-0-	64,184
Utilities	33,345	-0-	-0-	33,345
Church services	10,007	-0-	-0-	10,007
Miscellaneous	62,467	-0-	-0-	62,467
Advertising	2,640	-0-	-0-	2,640
Supplies	20,156	-0-	-0-	20,156
Insurance	14,373	-0-	-0-	14,373
Professional fees	13,305	-0-	-0-	13,305
Vestry outreach	52,003	-0-	-0-	52,003
Property tax	7,585	-0-	-0-	7,585
Postage	2,972	-0-	-0-	2,972
Telephone	5,489	-0-	-0-	5,489
Website development and maintenance	3,803	-0-	-0-	3,803
Direct assistance to individuals and outreach	13,844	-0-	-0-	13,844
Restricted fund expenditures	54,344	-0-	-0-	54,344
Diocesan assessment	41,777	-0-	-0-	41,777
Total expenditures	<u>824,110</u>	<u>-0-</u>	<u>-0-</u>	<u>824,110</u>
Changes in net assets	19,027	2,010	-0-	21,037
Net assets, beginning of the year	<u>4,918,676</u>	<u>852,837</u>	<u>150,000</u>	<u>5,921,513</u>
NET ASSETS, end of the year	<u>\$ 4,937,703</u>	<u>\$ 854,847</u>	<u>\$ 150,000</u>	<u>\$ 5,942,550</u>

See Notes to Financial Statements

ST. PAUL'S EPISCOPAL CHURCH

Notes to Financial Statements Year Ended December 31, 2016

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

St. Paul's Episcopal Church (the Church), a parish of the Episcopal Diocese of Ohio, is located in Maumee, Ohio. The Church was founded in 1836. The Church's tradition of community service is lived out through its Elizabeth Wayne Preschool program, youth ministries, and service to the poor and elderly. The Church manages and controls its property and secular affairs under the laws of the State of Ohio and is subject to the Constitution and Canons of the Episcopal Church of the Diocese of Ohio.

Basis of Accounting

The financial statements of the Church have been prepared on the modified cash basis of accounting, which includes recording investments at fair market value and capitalizing property and equipment. Under this basis, certain revenues and the related assets are recognized when received rather than when earned and certain expenditures are recognized when paid rather than when the obligation is incurred. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with accounting principles generally accepted in the United States of America.

Basis of Presentation

The Church 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.

Unrestricted Net Assets

Net assets not restricted by donors. This category includes net assets designated to the endowment by the Vestry.

Temporarily Restricted Net Assets

Net assets where use by the Church is limited by donor-imposed restrictions that either expire by the passage of time or can be fulfilled and removed by actions of the Church pursuant to the stipulations. Temporarily restricted net assets also include endowment earnings on donor restricted endowment net assets not yet appropriated by the Vestry.

Permanently Restricted Net Assets

Net assets subject to donor imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise be removed by actions of the Church.

ST. PAUL'S EPISCOPAL CHURCH

Notes to Financial Statements Year Ended December 31, 2016

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

The Church considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. The Church maintains its cash balances in financial institutions insured by the Federal Deposit Insurance Corporation. The Church's cash balances may exceed the insured amount from time to time.

Fair Value Measurements

The Church carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statement of assets, liabilities, and net assets - modified cash basis. Realized and unrealized gains and losses and investment income are included in the changes in net assets in the accompanying statement of revenue, expenditures, and changes in net assets - modified cash basis. Investments received by donation are recorded at their fair value at the date of receipt.

Accounting standards establish fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price) and establishes a fair value hierarchy based upon the inputs used to measure fair value. The three levels of the fair value hierarchy are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices in active markets accessible at the measurement date for identical unrestricted assets or liabilities (for example, exchange quoted prices).

Level 2 - Inputs to the valuation methodology are observable inputs, other than Level 1 prices, such as quoted prices for similar assets or liabilities in active markets, quoted prices in markets not sufficiently active to qualify as Level 1, other observable inputs, or inputs that can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Inputs to the valuation methodology are significant to the fair value measurement and unobservable (for example, supported by little or no market activity).

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Church's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels. The Church's investments are all considered to be Level 1.

ST. PAUL'S EPISCOPAL CHURCH

Notes to Financial Statements Year Ended December 31, 2016

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

The Church's investments accounted for at fair value as of December 31, 2016 are summarized below:

	Level 1
Money market funds	\$ 43,087
Equity mutual funds	966,739
Fixed income mutual funds	579,629
Common equity securities	172,713
	<u>\$ 1,762,168</u>

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used during the year ended December 31, 2016.

Money market funds, equity mutual funds, fixed income mutual funds, and common equity securities are valued at quoted prices of the shares held by the Church at year end.

The Church's assessment of the significance of particular inputs to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels. Furthermore, while the Church 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 as of the reporting date. The methods used in determining fair value may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values.

Net investment income on investments is comprised of the following for the year ended December 31, 2016:

Dividends and interest	\$ 48,363
Net realized and unrealized gains	145,846
Investment fees	(17,306)
	<u>\$ 176,903</u>

Property and Equipment

Buildings have been reported at insurance appraisal value from a prior year. Land and land improvements, building improvements, and furniture and equipment are recorded at cost in the statement of assets, liabilities, and net assets - modified cash basis. The policy of the Church is to capitalize land and land improvements, building improvements, and furniture and equipment with a useful life longer than one year. Depreciation is not being computed on property and equipment. Expenditures for repairs and maintenance are charged to operations when paid.

ST. PAUL'S EPISCOPAL CHURCH

Notes to Financial Statements Year Ended December 31, 2016

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions

Contributions of cash and other assets are reported as revenue when received and measured at fair value. Contributions with donor-imposed restrictions are reported as restricted revenue and temporarily or permanently restricted contributions. The Church receives pledges from its members for operations of the Church. The Church recognizes these pledges as revenue when the cash is received.

Elizabeth Wayne Preschool

Tuition and fees for the Elizabeth Wayne Preschool are recognized ratably over the school calendar year and are reported net of scholarships and discounts.

Income Taxes

The Church is a nonprofit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and classified as a religious organization. Management has analyzed uncertain tax positions taken, if any, that would require disclosure in the financial statements.

Functional Expenses

Direct costs of providing the Church's various programs and other activities have been summarized on a functional basis and reflected Note F. Indirect costs have been allocated between various programs and support services. Although the methods of allocation used are considered appropriate, other methods could be used that would produce a different result.

Use of Estimates

The preparation of financial statements in conformity with modified cash basis of accounting 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 financial statements and the reported amounts of revenue, expenditures, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Subsequent Events

The Church has evaluated subsequent events through December 19, 2017, the date which the financial statements were available to be issued.

ST. PAUL'S EPISCOPAL CHURCH

Notes to Financial Statements Year Ended December 31, 2016

NOTE B - PROPERTY AND EQUIPMENT

The cost of property and equipment as of December 31, 2016 is summarized as follows:

Land and land improvements	\$ 302,847
Building and building improvements	3,643,272
Furniture and equipment	<u>185,637</u>
Total cost	<u>\$ 4,131,756</u>

NOTE C - NET ASSETS

Net assets have the following restrictions as specified by the donor or designated by the Vestry as of December 31, 2016:

Unrestricted:	
General operating	\$ 3,511,376
Board designated endowments:	
Memorial fund	268,975
Development fund	122,326
Operating fund	793,987
St. Paul's emergency assistance fund	<u>241,039</u>
Total unrestricted	<u>\$ 4,937,703</u>
Temporarily restricted:	
Designated memorial gifts	\$ 27,480
Almoner's fund	20,820
Schweir-Lamp fund	68,512
Youth group	6,815
Other program restrictions	47,292
Organ fund	109,957
Capital campaign	359,198
Altar guild fund	2,266
2017 operating support	26,665
Endowment earnings	<u>185,842</u>
Total temporarily restricted	<u>\$ 854,847</u>
Permanently restricted:	
Preservation endowment fund	<u>\$ 150,000</u>

ST. PAUL'S EPISCOPAL CHURCH

Notes to Financial Statements Year Ended December 31, 2016

NOTE D - ENDOWMENTS

The Church's endowment includes donor-restricted and vestry designated endowment funds. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Return Objectives and Risk Parameters - The Church has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Church must hold in perpetuity or for a donor-specified period. Under this policy, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 Index while assuming a moderate level of investment risk. The Church has adopted an investment policy of balancing modest growth and income. The endowment funds are invested with approximately 0% - 15% in cash and money market funds, 40% - 70% in equity mutual funds and common equity securities, and 30% - 60% in fixed income securities.

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

Spending Policy and How the Investment Objectives Relate to Spending Policy

Donor-Restricted: Preservation Fund

Purpose: The fund is used for the preservation of the church property. Preservation funds are used for large repairs the vestry cannot afford but must spend to preserve the value and integrity of the property.

Spending policy: Income may be used for the purposes defined above with approval of the Preservation Advisory Committee. The donor corpus of \$150,000 is to remain within the fund in perpetuity.

Vestry Designated: Operating Fund

Purpose: The funds may be used to maintain the building, grounds, and physical facilities, as well as meeting operational budget requirements.

Spending policy: Income may be used for the purposes defined above. Principal may be used if necessary for meeting the operating needs of the Church.

ST. PAUL'S EPISCOPAL CHURCH

Notes to Financial Statements Year Ended December 31, 2016

NOTE D - ENDOWMENTS (CONTINUED)

Spending Policy and How the Investment Objectives Relate to Spending Policy (Continued)

Vestry Designated: Development Fund

Purpose: The funds may be used for the general purposes of the Church, including payment of pensions for clergy and staff.

Spending policy: Current year income may be used, as required, for the purposes defined above in conjunction with approval of the vestry and the advisory committee. Principal and accumulated income may be used with the approval of the advisory committee in the event of an emergency situation.

Vestry Designated: Memorial Fund

Purpose: The funds may be used to provide assistance to individuals deemed to have special, unusual, or extraordinary need.

Spending policy: Principal and accumulated income may be used by for the purposes defined above, as recommended by the memorial endowment committee and approved by the Vestry.

Vestry Designated: Emergency Assistance Fund

Purpose: The funds may be used to provide assistance to individuals and families in the Toledo metropolitan area in need as a result of personal or financial hardship.

Spending policy: The rector has sole and complete authority over the disbursement of the fund's assets. In addition to current year interest income, the rector may distribute up to 20% of the fund's value in any given year.

Endowment net asset composition by type of fund as of December 31, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted	\$ -0-	\$ 185,842	\$ 150,000	\$ 335,842
Vestry designated	<u>1,426,327</u>	<u>-0-</u>	<u>-0-</u>	<u>1,426,327</u>
Total funds	<u>\$ 1,426,327</u>	<u>\$ 185,842</u>	<u>\$ 150,000</u>	<u>\$ 1,762,169</u>

ST. PAUL'S EPISCOPAL CHURCH

Notes to Financial Statements Year Ended December 31, 2016

NOTE D - ENDOWMENTS (CONTINUED)

Changes in endowment net assets for the year ended December 31, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 1,640,896	\$ 229,785	\$ 150,000	\$ 2,020,681
Investment return:				
Investment and dividends, net	25,213	5,844	-0-	31,057
Net appreciation (realized and unrealized)	<u>116,317</u>	<u>29,529</u>	<u>-0-</u>	<u>145,846</u>
Total investment return	141,530	35,373	-0-	176,903
Appropriation of endowment assets for expenditure	(359,263)	(79,316)	-0-	(438,579)
Contributions	<u>3,164</u>	<u>-0-</u>	<u>-0-</u>	<u>3,164</u>
Endowment net assets, end of year	<u>\$ 1,426,327</u>	<u>\$ 185,842</u>	<u>\$ 150,000</u>	<u>\$ 1,762,169</u>

NOTE E - RETIREMENT PLANS

The Church participates in two 401(a) retirement plans (the clergy pension plan and the lay employee pension plan), sponsored by the National Episcopal Church, that provide pension benefits for eligible clergy and lay employees of the Church who meet certain service requirements. The clergy pension plan and the lay employee pension plan require the Church to make contributions of 18% and 9% of the clergy's and the lay employees' total compensation, respectively. Total compensation for clergy and lay employees is defined in each of the respective plan documents. Both clergy and lay employees become immediately vested in the plans. Pension expense was \$27,755 for the year ended December 31, 2016.

ST. PAUL'S EPISCOPAL CHURCH

Notes to Financial Statements Year Ended December 31, 2016

NOTE F - FUNCTIONAL EXPENSES

Management has allocated expenditures of the Church into the following functional classification for the year ended December 31, 2016:

Program expenditures	
Church	\$ 399,780
Elizabeth Wayne Preschool	201,435
Under One Roof food pantry	13,844
Management and general	158,188
Fundraising	9,086
Unallocated Diocesan payments	41,777
	<u>824,110</u>
	<u>\$ 824,110</u>

NOTE G - OPERATING LEASES

The Church leases office equipment under various operating leases. Rent expense related to these leases was \$6,274, for the years ended December 31, 2016. The minimum future rental payments under all non-cancellable leases having initial or remaining terms in excess of one year for the next five years are as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2017	\$ 6,705
2018	6,705
2019	6,705
2020	6,705
2021	2,794
	<u>29,614</u>
	<u>\$ 29,614</u>