



**CONVENTION OF THE PROTESTANT
EPISCOPAL CHURCH OF THE
DIOCESE OF MARYLAND**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

DECEMBER 31, 2016 and 2015

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Independent Auditor's Report

To the Officers and Board of Directors
Convention of the Protestant Episcopal Church of the
Diocese of Maryland

We have audited the accompanying financial statements of Convention of the Protestant Episcopal Church of the Diocese of Maryland (a nonprofit organization) which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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 involves 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 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.

Independent Auditor's Report (Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Convention of the Protestant Episcopal Church of the Diocese of Maryland as of December 31, 2016 and 2015, 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.

Gross, Mendelsohn & Associates, P.A.

Baltimore, Maryland
March 29, 2017

**CONVENTION OF THE PROTESTANT EPISCOPAL CHURCH
OF THE DIOCESE OF MARYLAND
Statements of Financial Position
December 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
Assets		
Cash and cash equivalents	\$ 1,254,341	\$ 1,317,350
Pledges receivable, net	684,669	770,704
Accounts receivable, net	81,149	113,442
Investments	18,820,046	18,577,345
Loans receivable	3,253,630	3,085,157
Prepaid expenses and deposits	67,618	87,673
Other assets	4,474	9,275
Beneficial interest in irrevocable trust	788,405	747,777
Investments restricted to long-term investment	11,372,685	11,193,141
Property, net of accumulated depreciation	<u>15,125,670</u>	<u>15,562,709</u>
Total Assets	<u><u>\$ 51,452,687</u></u>	<u><u>\$ 51,464,573</u></u>
Liabilities		
Accounts payable and accrued expenses	\$ 505,051	\$ 615,276
Line of credit	490,969	152,642
Construction loan	1,543,000	1,643,000
Note payable	11,323	21,457
Custodial funds held for congregations	<u>2,351,529</u>	<u>2,527,187</u>
Total Liabilities	<u><u>4,901,872</u></u>	<u><u>4,959,562</u></u>
Commitments (Note 11 and 12)		
Net Assets		
Unrestricted	18,469,005	19,277,793
Temporarily restricted	20,210,076	19,355,484
Permanently restricted	<u>7,871,734</u>	<u>7,871,734</u>
Total Net Assets	<u><u>46,550,815</u></u>	<u><u>46,505,011</u></u>
Total Liabilities and Net Assets	<u><u>\$ 51,452,687</u></u>	<u><u>\$ 51,464,573</u></u>

The accompanying notes are an integral part of these financial statements.

**CONVENTION OF THE PROTESTANT EPISCOPAL CHURCH
OF THE DIOCESE OF MARYLAND
Statements of Activities
Years Ended December 31, 2016 and 2015**

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue				
Contributions and bequests	\$ 4,111,584	\$ 455,967	\$ -0-	\$ 4,567,551
Claggett conference fees	1,623,933	-0-	-0-	1,623,933
Investment income (loss), net	321,858	794,126	-0-	1,115,984
Interest on loans	-0-	87,464	-0-	87,464
Gain on sale of property	64,025	-0-	-0-	64,025
Special events	8,730	-0-	-0-	8,730
Miscellaneous income	176,098	-0-	-0-	176,098
Net assets released from restrictions	482,965	(482,965)	-0-	-0-
Total Support and Revenue	6,789,193	854,592	-0-	7,643,785
Expenses				
Program Services:				
Claggett Conference Center	1,852,211	-0-	-0-	1,852,211
Ministry in the World	1,081,617	-0-	-0-	1,081,617
Ministry to Congregations and Institutions	906,970	-0-	-0-	906,970
Ministry for Christian Formation	170,140	-0-	-0-	170,140
Ministry of Communications	62,498	-0-	-0-	62,498
Ministry of the Bishop's Office	1,141,016	-0-	-0-	1,141,016
Total Program Services	5,214,452	-0-	-0-	5,214,452
Support Services:				
Ministry of the Bishop's Office	922,969	-0-	-0-	922,969
Ministry of Operations	1,460,560	-0-	-0-	1,460,560
Total Support Services	2,383,529	-0-	-0-	2,383,529
Total Expenses	7,597,981	-0-	-0-	7,597,981
Change in Net Assets	(808,788)	854,592	-0-	45,804
Net Assets at Beginning of Year	19,277,793	19,355,484	7,871,734	46,505,011
Net Assets at End of Year	\$ 18,469,005	\$ 20,210,076	\$ 7,871,734	\$ 46,550,815

2015

Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Increase (Decrease)
\$ 4,036,188	\$ 1,044,151	\$ -0-	\$ 5,080,339	\$ (512,788)
1,592,777	-0-	-0-	1,592,777	31,156
(183,956)	(449,114)	-0-	(633,070)	1,749,054
-0-	91,232	-0-	91,232	(3,768)
1,271,085	-0-	-0-	1,271,085	(1,207,060)
1,140	-0-	-0-	1,140	7,590
152,058	-0-	-0-	152,058	24,040
869,233	(869,233)	-0-	-0-	-0-
<u>7,738,525</u>	<u>(182,964)</u>	<u>-0-</u>	<u>7,555,561</u>	<u>88,224</u>
1,686,686	-0-	-0-	1,686,686	165,525
1,061,270	-0-	-0-	1,061,270	20,347
665,032	-0-	-0-	665,032	241,938
167,462	-0-	-0-	167,462	2,678
78,425	-0-	-0-	78,425	(15,927)
1,182,946	-0-	-0-	1,182,946	(41,930)
<u>4,841,821</u>	<u>-0-</u>	<u>-0-</u>	<u>4,841,821</u>	<u>372,631</u>
943,466	-0-	-0-	943,466	(20,497)
1,739,820	-0-	-0-	1,739,820	(279,260)
<u>2,683,286</u>	<u>-0-</u>	<u>-0-</u>	<u>2,683,286</u>	<u>(299,757)</u>
<u>7,525,107</u>	<u>-0-</u>	<u>-0-</u>	<u>7,525,107</u>	<u>72,874</u>
213,418	(182,964)	-0-	30,454	<u>\$ 15,350</u>
<u>19,064,375</u>	<u>19,538,448</u>	<u>7,871,734</u>	<u>46,474,557</u>	
<u>\$ 19,277,793</u>	<u>\$ 19,355,484</u>	<u>\$ 7,871,734</u>	<u>\$ 46,505,011</u>	

The accompanying notes are an integral part of these financial statements.

**CONVENTION OF THE PROTESTANT EPISCOPAL CHURCH
OF THE DIOCESE OF MARYLAND**

Statements of Cash Flows

Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash Flows From Operating Activities		
Change in net assets	\$ 45,804	\$ 30,454
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Provision for uncollectible loan receivables	(3,431)	242,426
Discount on pledges receivable	(4,900)	(5,500)
Change in fair value of irrevocable trust	(40,628)	-0-
Contribution of a beneficial interest in irrevocable trust	-0-	(747,777)
Net realized and unrealized losses (gains) on investments	(938,015)	835,699
Depreciation	690,164	684,919
Gain on sale of property	(64,025)	(1,271,085)
Changes in operating assets and liabilities:		
Pledges receivable	94,365	101,123
Accounts receivable	32,293	(66,724)
Prepaid expenses and deposits	20,055	24,528
Other assets	4,801	(9,275)
Accounts payable and accrued expenses	(110,225)	(69,385)
Net Cash Used in Operating Activities	<u>(273,742)</u>	<u>(250,597)</u>
Cash Flows From Investing Activities		
Purchase of investments	(8,979,430)	(10,284,741)
Proceeds from sale of investments	9,319,542	10,116,079
Loans made to churches and outside organizations	(564,431)	(70,835)
Principal collections of loans receivable	395,958	250,081
Proceeds from sale of property	73,625	871,086
Purchase of property	(262,724)	(309,024)
Net Cash Provided by (Used in) Investing Activities	<u>(17,460)</u>	<u>572,646</u>
Cash Flows From Financing Activities		
Net proceeds of line of credit	338,327	117,851
Payments on note payable	(10,134)	(9,979)
Payments on construction loan	(100,000)	(580,000)
Net Cash Provided by (Used in) Financing Activities	<u>228,193</u>	<u>(472,128)</u>
Net Decrease in Cash and Cash Equivalents	(63,009)	(150,079)
Cash and Cash Equivalents at Beginning of Year	<u>1,317,350</u>	<u>1,467,429</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,254,341</u>	<u>\$ 1,317,350</u>

**CONVENTION OF THE PROTESTANT EPISCOPAL CHURCH
OF THE DIOCESE OF MARYLAND**
Statements of Cash Flows (Continued)
Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Supplemental Disclosure of Cash Flow Information		
Interest paid	<u>\$ 43,740</u>	<u>\$ 38,408</u>
Noncash Investing and Financing Activities:		
Accounts receivable from sale of property		<u>\$ 6,600</u>
Loan receivable from sale of property		<u>\$ 900,000</u>

The accompanying notes are an integral part of these financial statements.

**CONVENTION OF THE PROTESTANT EPISCOPAL CHURCH
OF THE DIOCESE OF MARYLAND
Notes to Financial Statements
December 31, 2016 and 2015**

Note 1: Summary of Significant Accounting Policies

The mission of the Convention of the Protestant Episcopal Church of the Diocese of Maryland (the Diocese) is to carry forward God's reconciling work through Jesus Christ as they build up the Body of Christ, strengthen one another for Christ's mission and strive for justice and peace within the Church and the world within Maryland. The major forms of support come from contributions and bequests from the congregations.

The major programs and priorities of the Diocese are as follows:

Claggett Conference Center: The Bishop Claggett Center is a farm and conference center located in Frederick, Maryland. The Center is available to church, school and special interest groups for the purpose of spiritual growth, recreation and education.

Ministry to the World: In response to the desire to proclaim the Good News and make disciples of all nations, the Diocese will be responsive to the needs of the people of this world.

Ministry to Congregations and Institutions: In response with the desire to walk in faith with the communities, the Diocese will be responsive to the needs of the congregations and institutions.

Ministry of Christian Formation: In response with the desire to have all members of the Body of Christ to participate in a Christian Formation program, the Diocese will be responsive to the needs of all who seek to further their formation.

Ministry of Communication: In response with the desire to further Christian communication, the Diocese will strive to equip every member of the Diocese to tell his or her faith story by words and actions.

The accounting and reporting policies of the Diocese conform to accounting principles generally accepted in the United States of America. Following is a description of the most significant of those policies:

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Basis of Presentation: The Diocese reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Unrestricted net assets are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Temporarily restricted net assets result from contributions whose use is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the organization pursuant to those stipulations. Net assets may be temporarily restricted for various purposes, such as use in the future period or use for specified purposes.

Permanently restricted net assets result from contributions whose use is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by the organization's actions.

**CONVENTION OF THE PROTESTANT EPISCOPAL CHURCH
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Notes to Financial Statements
December 31, 2016 and 2015**

Note 1: Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents: The Diocese classifies certain investments which are readily convertible to cash and which have a maturity of three months or less when purchased as cash equivalents. Cash and cash equivalents designated and held for investment purposes are included in investments and are not considered cash and cash equivalents for cash flow purposes.

Pledges Receivable: Unconditional promises to give in a future period are discounted to their net present value at the time the revenue is recorded. A provision is made for uncollectible pledges based on anticipated collection losses. Estimated losses are generally determined from historical collection experience and a review of outstanding pledges receivable. Pledges receivable are written off by management when, in their determination, all appropriate collection efforts have been taken.

Investments: Investments with readily determinable fair value are reported at fair value in the statements of financial position. Investments whose fair values are not readily determinable are recorded at cost. Fair value is defined 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. Realized and unrealized gains and losses are included in investment income on the statements of activities. Realized gains and losses on sales of investments are computed on a specific identification basis.

All the congregations' and the Diocese's investment portfolios are maintained on a pooled "mutual fund" accounting basis with total earnings and investment expenses allocated to each account on a pro-rata basis. Investments restricted to long-term investment consist of permanently restricted investments and temporarily restricted investments for property acquisitions.

Beneficial Interest in Irrevocable Trust: The Diocese was bequeathed a partial interest of an irrevocable charitable remainder trust. The Trust is to distribute 20% of the balance of the trust on the passing of the last survivor of all named beneficiaries. When the Diocese is notified of the existence of a trust, an asset and contribution revenue is recorded as temporarily restricted net assets. The trust is reported at fair value with investment income, realized and unrealized net gains and losses reported on the statements of activities as change in value of irrevocable trust. Fair value of the trust has been computed as the present value of the estimated future cash flows to be received discounted at a rate of 1.75%.

Property: Property acquired prior to 1950 is stated at independently appraised values at the time of acquisition. Property acquired after 1950 is stated at cost or, if donated, at the approximate fair value at the date of donation. Subsequent to 1950 several congregation properties have been deeded to the Diocese and these properties are carried at values based on parochial reports or insurable values at that time. Expenditures for maintenance and routine repairs are charged to expense as incurred; expenditures for improvements and major repairs that materially extend the useful lives of assets are capitalized. Deprecation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	40 years
Building improvements	5 - 20 years
Furniture and equipment	3 - 10 years

**CONVENTION OF THE PROTESTANT EPISCOPAL CHURCH
OF THE DIOCESE OF MARYLAND**
Notes to Financial Statements
December 31, 2016 and 2015

Note 1: Summary of Significant Accounting Policies (Continued)

Income Taxes: The Diocese is a not-for-profit corporation exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code. Income that is not related to exempt purposes, less applicable deductions, is subject to federal and state income taxes. The Diocese had no unrelated business income for the years ended December 31, 2016 and 2015. Accordingly, no provision for income taxes is reflected in these financial statements. The Diocese's federal exempt organization income tax returns, if applicable, are subject to examination by the IRS, generally for three years after the returns are filed.

Functional Allocation of Expenses: The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, costs have been allocated among the programs and supporting services benefited.

Reclassification: Certain amounts previously reported in the financial statements for the year ended December 31, 2015 have been reclassified to conform to the financial presentation for the year ended December 31, 2016.

Subsequent Events: In preparing these financial statements, the Diocese has evaluated events and transactions for potential recognition or disclosure through March 29, 2017, the date the financial statements were available to be issued. During the period January 1, 2017 to March 29, 2017, the Diocese did not have any material recognizable subsequent events.

Note 2: Pledges Receivable

Pledges receivable as of December 31, 2016 and 2015 consists of the following:

	2016	2015
Pledges receivable	\$ 745,694	\$ 840,060
Present value discount at 3%	(2,600)	(7,500)
Allowance for uncollectible pledges	(58,425)	(61,856)
Net Pledges Receivable	<u>\$ 684,669</u>	<u>\$ 770,704</u>

Pledges receivable at December 31, 2016, are generally expected to be received as follows:

2017	\$ 577,694
2018	84,800
2019	82,800
2020	400
2021	-0-
	<u>\$ 745,694</u>

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Notes to Financial Statements
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Note 3: Loans Receivable

The Diocese makes unsecured loans to churches in Maryland with interest ranging from 3% to 4% through its Middendorf Loan Program. The balance of these loans at December 31, 2016 and 2015 was \$2,351,963 and \$2,183,902, respectively. The Diocese also made other loans bearing interest at 3% to other organizations with outstanding balances of \$901,667 and \$901,255 at December 31, 2016 and 2015, respectively. The loans mature at various dates through 2025.

Principal collections on loans receivables at December 31, 2016 are due as follows:

	Middendorf	Other	Total
2017	\$ 264,809	\$ 38,634	\$ 303,443
2018	208,571	24,724	233,295
2019	205,102	25,476	230,578
2020	104,849	26,251	131,100
2021	93,087	25,058	118,145
Thereafter	1,475,545	761,524	2,237,069
	<u>\$ 2,351,963</u>	<u>\$ 901,667</u>	<u>\$ 3,253,630</u>

Note 4: Investments

Investments consist of the following at December 31, 2016 and 2015:

	2016		2015	
	Fair Value	Cost	Fair Value	Cost
Equity mutual funds	\$ 10,045,429	\$ 10,098,555	\$ 11,024,162	\$ 10,685,899
Common stocks	10,888,762	8,591,942	9,515,767	7,558,592
U.S. Government and Agency Securities	1,876,664	1,864,966	2,009,397	1,979,510
Corporate bonds and obligations	1,820,233	1,825,816	1,755,703	1,777,122
Fixed income funds	4,589,124	5,001,176	4,510,237	4,908,797
Cash and cash equivalents	661,505	661,505	697,347	697,347
Municipal obligations	311,014	315,483	257,873	254,417
	<u>\$ 30,192,731</u>	<u>\$ 28,359,443</u>	<u>\$ 29,770,486</u>	<u>\$ 27,861,684</u>

Investments are allocated on the statements of financial position as of December 31, 2016 and 2015 as follows:

	2016	2015
Investments	\$ 18,820,046	\$ 18,577,345
Investments restricted to long-term investment	11,372,685	11,193,141
	<u>\$ 30,192,731</u>	<u>\$ 29,770,486</u>

**CONVENTION OF THE PROTESTANT EPISCOPAL CHURCH
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Notes to Financial Statements
December 31, 2016 and 2015**

Note 4: Investments (Continued)

Included in the investment portfolio of the Diocese as of December 31, 2016 and 2015 are custodial funds belonging to congregations in the amount of \$2,351,529 and \$2,527,187, respectively.

Investment income, net for the years ended December 31, 2016 and 2015 consists of the following:

	2016	2015
Interest and dividends	\$ 376,173	\$ 394,762
Net realized and unrealized gains (losses)	938,015	(835,699)
Investment fees	(198,204)	(192,133)
Investment income (loss), net	<u>\$ 1,115,984</u>	<u>\$ (633,070)</u>

Note 5: Property

Property consists of the following at December 31, 2016 and 2015:

	2016	2015
Land	\$ 1,717,736	\$ 1,627,336
Building and building improvements	24,738,706	24,676,106
Furniture and equipment	765,462	737,003
	<u>27,221,904</u>	<u>27,040,445</u>
Less: accumulated depreciation	12,096,234	11,477,736
Net property	<u>\$ 15,125,670</u>	<u>\$ 15,562,709</u>

Depreciation expense for the years ended December 31, 2016 and 2015 was \$690,164 and \$684,919, respectively.

Note 6: Line of Credit

The Diocese has a \$1,000,000 revolving note agreement with Manufacturers and Traders Trust Company (M&T Bank). The agreement provides that the line of credit will accrue interest at the 30 day LIBOR rate plus 1.75% (2.37% and 1.99% at December 31, 2016 and 2015, respectively). Included in the \$1,000,000 note is a \$200,000 letter of credit. The purpose of this note is to provide working capital and overdraft protection to the Diocese. The note is due and payable on demand. The note is collateralized by the Diocese's investment accounts held with M&T Bank. The outstanding balance on the note at December 31, 2016 and 2015 was \$490,969 and \$152,642, respectively.

Interest expense for this credit facility for the years ended December 31, 2016 and 2015 was \$7,322 and \$2,278, respectively.

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Notes to Financial Statements
December 31, 2016 and 2015**

Note 7: Construction Loan

The Diocese has a \$3,000,000 revolving note agreement with M&T Bank, which was used during 2014 to provide funds for the construction of The Inn at Bishop Claggett Center. The agreement provides that the line of credit will accrue interest at the 30 day LIBOR rate plus 1.75% (2.37% and 1.99% at December 31, 2016 and 2015, respectively). The note is due and payable on demand. The note is collateralized by the Diocese's investment accounts held with M&T Bank. The outstanding balance on the note at December 31, 2016 and 2015 was \$1,543,000 and \$1,643,000, respectively.

Interest expense for this credit facility for the years ended December 31, 2016 and 2015 was \$36,036 and \$35,593.

Note 8: Note Payable

In January 2013, The Bishop Claggett Center borrowed \$50,000 from a local Episcopal church, the proceeds of which were used to replace boilers. The note is being amortized over a 5 year period, requires monthly principal and interest payments of \$876 and is due in January 2018. Interest accrues on the outstanding balance at the rate of 2.00%. The outstanding balance on the note at December 31, 2016 and 2015 was \$11,323 and \$21,457, respectively.

Interest expense for this credit facility for the years ended December 31, 2016 and 2015 was \$382 and \$537, respectively.

The aggregate annual maturities of long-term debt for each of the years subsequent to December 31, 2016 are as follows:

2017	\$ 10,386
2018	<u>937</u>
	<u>\$ 11,323</u>

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Notes to Financial Statements
December 31, 2016 and 2015**

Note 9: Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets as of December 31, 2016 and 2015 are restricted for the following purposes:

	<u>2016</u>	<u>2015</u>
Ministry of Communications	\$ 3,401,264	\$ 3,237,444
Ministry of Bishop's Office	2,747,892	2,651,430
Ministry to Congregations and Institutions	1,561,587	1,377,002
Ministry in the World	97,196	116,594
Ministry for Christian Formation	918,943	928,915
Ministry of Operations	4,616,009	4,328,732
Other (primarily acquisitions and capital campaign)	1,593,783	1,493,192
Claggett Conference Center	520,404	610,561
Middendorf Loan Program	4,752,998	4,611,614
	<u>\$ 20,210,076</u>	<u>\$ 19,355,484</u>

Included in the table above is the accumulated income from the endowment fund by purpose.

Permanently restricted net assets at December 31, 2016 and 2015 were restricted to be held in perpetuity, the income from which is expendable to principally support the following:

	<u>2016</u>	<u>2015</u>
Ordained Ministry	\$ 5,344,480	\$ 5,344,480
Theological Education	1,352,795	1,352,795
Congregational Development	402,208	402,208
Social Ministry	69,890	69,890
Lay Ministry	100,998	100,998
Benefit of congregations	378,012	378,012
Property acquisitions	223,351	223,351
	<u>\$ 7,871,734</u>	<u>\$ 7,871,734</u>

The Financial Accounting Standards Board (FASB) issued guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The State of Maryland has enacted UPMIFA. This guidance also requires additional disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

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Notes to Financial Statements
December 31, 2016 and 2015**

Note 9: Temporarily and Permanently Restricted Net Assets (Continued)

In accordance with the Maryland Uniform Prudent Management of Institutional Funds Act (MUPMIFA), the Diocese preserves the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary (when a donor expresses intent clearly in a written gift instrument, the Act requires that the charity follow the donor's instructions). The Diocese classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The Diocese considers permanently restricted net assets to be endowment funds. In accordance with MUPMIFA, the Diocese considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Diocese, and (7) the Diocese's investment policies.

Investment Return Objectives, Risk Parameters and Strategies

Diocese funds are invested with due diligence for stability, growth and adequate diversification to achieve the Diocese's goals. In fulfilling the responsibilities of monitoring Diocese funds, the investment committee avails themselves to advisors proficient in the area of banking and finance. These advisors are consulted when necessary to secure Diocese funds in safe and equitable investments.

Spending Policy

The Diocese has a policy of appropriating for distribution each year not more than 5% of its endowment fund's average fair value of the prior 3 years. In establishing its spending policy, the Diocese considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, all of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. The Diocese expects the current spending policy to allow its endowment funds to grow at a nominal average rate of 4% annually. This is consistent with the Diocese's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

Changes in endowment net assets during the year ended December 31, 2016 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -0-	\$ -0-	\$ 7,871,734	\$ 7,871,734
Interest and dividends	-0-	82,345	-0-	82,345
Net realized and unrealized gains (losses)	-0-	208,037	-0-	208,037
Investment fees	-0-	(44,117)	-0-	(44,117)
Released from restriction	-0-	-0-	-0-	-0-
Allocation to/from temporarily restricted	-0-	(246,265)	-0-	(246,265)
Endowment net assets, end of year	\$ -0-	\$ -0-	\$ 7,871,734	\$ 7,871,734

**CONVENTION OF THE PROTESTANT EPISCOPAL CHURCH
OF THE DIOCESE OF MARYLAND
Notes to Financial Statements
December 31, 2016 and 2015**

Note 9: Temporarily and Permanently Restricted Net Assets (Continued)

Changes in endowment net assets during the year ended December 31, 2015 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -0-	\$ -0-	\$ 7,871,734	\$ 7,871,734
Interest and dividends	-0-	89,706	-0-	89,706
Net realized and unrealized gains (losses)	-0-	(192,028)	-0-	(192,028)
Investment fees	-0-	(44,297)	-0-	(44,297)
Released from restriction	-0-	-0-	-0-	-0-
Allocation to temporarily restricted	-0-	146,619	-0-	146,619
Endowment net assets, end of year	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 7,871,734</u>	<u>\$ 7,871,734</u>

Note 10: Net Assets Released from Restrictions

Net assets were released from donor restrictions during 2016 and 2015, by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows:

	2016	2015
Ministry of Communications	\$ -0-	\$ 100,443
Ministry of Bishop's Office	37,706	72,072
Ministry to Congregations and Institutions	119,855	165,884
Ministry in the World	71,824	100,341
Ministry for Christian Formation	62,182	52,666
Ministry of Operations	21,460	17,682
Claggett Conference Center	169,938	310,961
Other	-0-	49,184
	<u>\$ 482,965</u>	<u>\$ 869,233</u>

Note 11: Retirement Plans

The Diocese contributes to a Multiple Employer Defined Benefit Plan which is administered by the Church Pension Fund of the National Episcopal Church and covers clergy members. The Diocese is required to make regular assessment payments of 18% of the clergy member's assessable compensation on behalf of the clergy member as mandated by the Episcopal Church. If payments are not made, the clergy member risks losing benefits for which he or she might otherwise be eligible. Assessments are pooled, solely for investment purposes, for the benefit of all participants. The Diocese's policy is to expense amounts required to be funded by the Plan administrator. Pension expense was \$183,885 and \$189,050 for the years ended December 31, 2016 and 2015, respectively.

**CONVENTION OF THE PROTESTANT EPISCOPAL CHURCH
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Note 11: Retirement Plans (Continued)

The Diocese has a Defined Contribution Retirement Plan which covers substantially all lay employees. Participants must have attained age 21, worked 1,000 hours during the previous year and have 12 months of service at the Diocese. The Diocese contributes 5% of the salary of all participants to the Plan. In addition, the Diocese matches 100% of employee contributions up to 4% of their salaries. Total contributions to the Plan were \$106,818 and \$105,456 for the years ended December 31, 2016 and 2015, respectively.

Note 12: Operating Leases

The Diocese leases various equipment under operating leases which expire through 2018. Lease expense for the equipment for the years ended December 31, 2016 and 2015 was \$9,053 and \$8,653, respectively.

As of December 31, 2016, future minimum rental payments, summarized by year, are as follows:

2017	\$ 9,005
2018	<u>7,585</u>
	<u>\$ 16,590</u>

Note 13: Fair Value Measurement

Generally accepted accounting principles provides a framework for measuring fair value. The 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 as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

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; and
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the assets 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.

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December 31, 2016 and 2015**

Note 13: Fair Value Measurement (Continued)

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. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

In determining the appropriate levels, the Diocese performs a detailed analysis of the assets and liabilities that are subject to fair value measurements. Level 1 fair value is based on quoted market prices of identical assets. Level 2 fair value is based on matrix pricing. Matrix prices are based on quoted prices for securities with similar coupons, ratings and maturities, rather than on specific bids and offers for the designated security. Matrix pricing involves interpolating among values for similar instruments arranged in a matrix format.

The table below presents the balances of assets as of December 31, 2016 measured at fair value on a recurring basis by level within the hierarchy.

	Total	Level 1	Level 2	Level 3
Equity mutual funds:				
Value Index Fund	\$ 1,482,736	\$ 1,482,736	\$ -0-	\$ -0-
Long-Short Fund	1,021,471	1,021,471	-0-	-0-
Mid Cap Value Fund	972,099	972,099	-0-	-0-
International Fund	2,245,339	2,245,339	-0-	-0-
Asian Growth and Income Fund	872,678	872,678	-0-	-0-
International Value Fund	1,850,752	1,850,752	-0-	-0-
Global Alternatives Fund	1,600,354	1,600,354	-0-	-0-
Common stocks	10,888,762	10,888,762	-0-	-0-
U.S. Government and				
Agency Securities	1,876,664	449,792	1,426,872	-0-
Corporate bonds and obligations	1,820,233	95,856	1,724,377	-0-
Fixed income funds:				
Short Duration Income Fund	1,039,687	1,039,687	-0-	-0-
Managed Futures Strategy Fund	740,080	740,080	-0-	-0-
Floating Rate Fund	888,113	888,113	-0-	-0-
Real Return Strategy Fund	277,879	277,879	-0-	-0-
Mortgage Security Fund	1,643,365	1,643,365	-0-	-0-
Cash and cash equivalents	661,505	661,505	-0-	-0-
Municipal obligations	311,014	-0-	311,014	-0-
Total Investments	30,192,731	26,730,468	3,462,263	-0-
Beneficial interest in irrevocable trust	788,405	-0-	788,405	-0-
	<u>\$ 30,981,136</u>	<u>\$ 26,730,468</u>	<u>\$ 4,250,668</u>	<u>\$ -0-</u>

**CONVENTION OF THE PROTESTANT EPISCOPAL CHURCH
OF THE DIOCESE OF MARYLAND
Notes to Financial Statements
December 31, 2016 and 2015**

Note 13: Fair Value Measurement (Continued)

The table below presents the balances of assets as of December 31, 2015 measured at fair value on a recurring basis by level within the hierarchy.

	Total	Level 1	Level 2	Level 3
Equity mutual funds:				
Large Cap	\$ 2,589,468	\$ 2,589,468	\$ -0-	\$ -0-
Long-Short Fund	923,994	923,994	-0-	-0-
Mid Cap Value Fund	849,971	849,971	-0-	-0-
International Fund	2,239,790	2,239,790	-0-	-0-
Asian Growth and Income Fund	860,281	860,281	-0-	-0-
International Value Fund	1,889,630	1,889,630	-0-	-0-
Global Alternatives Fund	1,671,027	1,671,027	-0-	-0-
Common stocks	9,515,767	9,515,767	-0-	-0-
U.S. Government and Agency Securities	2,009,397	465,972	1,543,425	-0-
Corporate bonds and obligations	1,755,703	41,462	1,714,241	-0-
Fixed income funds:				
Short Duration Income Fund	999,946	999,946	-0-	-0-
Managed Futures Strategy Fund	808,230	808,230	-0-	-0-
Floating Rate Fund	799,496	799,496	-0-	-0-
Real Return Strategy Fund	242,608	242,608	-0-	-0-
Mortgage Security Fund	1,659,958	1,659,958	-0-	-0-
Cash and cash equivalents	697,347	697,347	-0-	-0-
Municipal obligations	257,873	-0-	257,873	-0-
Total Investments	29,770,486	26,254,947	3,515,539	-0-
Beneficial interest in irrevocable trust	747,777	-0-	747,777	-0-
	<u>\$ 30,518,263</u>	<u>\$ 26,254,947</u>	<u>\$ 4,263,316</u>	<u>\$ -0-</u>

Note 14: Other Matters

Uninsured Balances: The Diocese maintains its cash balances at various financial institutions. Periodically during the year, the Diocese's cash balances may exceed federally insured limits. The Diocese has not experienced any losses in such accounts and believes it is not exposed to significant risk on cash balances.

Financial Risk: The Diocese's investment portfolio is a professionally managed portfolio that contains common shares and bonds of publicly traded companies, United States Government obligations, municipal obligations and mutual funds. Such investments are exposed to various investment risks such as interest rate, market and credit risks. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term could materially affect investment balances and the amounts reported in the financial statements.

Litigation and Claims: The Diocese is a party to various legal actions and claims that have arisen in the ordinary course of business. In the opinion of management, the amount of any ultimate liability with respect to these actions will not have a material adverse effect on the Diocese's change in net assets or financial condition.

**CONVENTION OF THE PROTESTANT EPISCOPAL CHURCH
OF THE DIOCESE OF MARYLAND**

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2016 AND 2015

Independent Auditor's Report on Supplementary Information

To the Officers and Board of Directors
Convention of the Protestant Episcopal Church of the
Diocese of Maryland

We have audited the financial statements of Convention of the Protestant Episcopal Church of the Diocese of Maryland as of and for the years ended December 31, 2016 and 2015, and have issued our report thereon dated March 29, 2017, which contained an unmodified opinion on those financial statements. Our audits were performed for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on the following pages is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Gross, Mendelsohn & Associates, P.A.

Baltimore, Maryland
March 29, 2017

**CONVENTION OF THE PROTESTANT EPISCOPAL CHURCH
OF THE DIOCESE OF MARYLAND**
Combining Schedules of Financial Position By Internal Fund
December 31, 2016 and 2015

	2016			
	Episcopal Diocese	Bishop Claggett Center	Middendorf Loan Fund	Total
Assets				
Cash and cash equivalents	\$ 117,775	\$ 792,565	\$ 344,001	\$ 1,254,341
Pledges receivable, net	502,176	182,493	-0-	684,669
Accounts receivable, net	10,030	71,119	-0-	81,149
Due (to)/ from other funds	(1,007,431)	856,742	150,689	-0-
Investments	18,820,046	-0-	-0-	18,820,046
Loans receivable	901,667	-0-	2,351,963	3,253,630
Prepaid expenses and deposits	52,563	15,055	-0-	67,618
Other assets	4,474	-0-	-0-	4,474
Beneficial interest in irrevocable trust	788,405	-0-	-0-	788,405
Investments restricted to long-term investment	9,465,517	-0-	1,907,168	11,372,685
Property, net of accumulated depreciation	9,546,910	5,578,760	-0-	15,125,670
Total Assets	\$ 39,202,132	\$ 7,496,734	\$ 4,753,821	\$ 51,452,687
Liabilities				
Accounts payable and accrued expenses	\$ 322,418	\$ 181,810	\$ 823	\$ 505,051
Line of credit	490,969	-0-	-0-	490,969
Construction loan	-0-	1,543,000	-0-	1,543,000
Note payable	-0-	11,323	-0-	11,323
Custodial funds held for congregations	2,351,529	-0-	-0-	2,351,529
Total Liabilities	3,164,916	1,736,133	823	4,901,872
Net Assets	36,037,216	5,760,601	4,752,998	46,550,815
Total Liabilities and Net Assets	\$ 39,202,132	\$ 7,496,734	\$ 4,753,821	\$ 51,452,687

2015

Episcopal Diocese	Bishop Claggett Center	Middendorf Loan Fund	Total
\$ 97,991	\$ 669,727	\$ 549,632	\$ 1,317,350
407,123	363,581	-0-	770,704
7,644	105,798	-0-	113,442
(882,511)	831,822	50,689	-0-
18,577,345	-0-	-0-	18,577,345
901,255	-0-	2,183,902	3,085,157
85,993	1,680	-0-	87,673
9,275	-0-	-0-	9,275
747,777	-0-	-0-	747,777
9,364,926	-0-	1,828,215	11,193,141
9,859,850	5,702,859	-0-	15,562,709
\$ 39,176,668	\$ 7,675,467	\$ 4,612,438	\$ 51,464,573
\$ 420,049	\$ 194,403	\$ 824	\$ 615,276
152,642	-0-	-0-	152,642
-0-	1,643,000	-0-	1,643,000
-0-	21,457	-0-	21,457
2,527,187	-0-	-0-	2,527,187
3,099,878	1,858,860	824	4,959,562
36,076,790	5,816,607	4,611,614	46,505,011
\$ 39,176,668	\$ 7,675,467	\$ 4,612,438	\$ 51,464,573

**CONVENTION OF THE PROTESTANT EPISCOPAL CHURCH
OF THE DIOCESE OF MARYLAND**
Combining Schedules of Activities By Internal Fund
Years Ended December 31, 2016 and 2015

	2016				
	Episcopal Diocese	Bishop Claggett Center	Middendorf Loan Fund	Eliminations	Total
Support and Revenue					
Contributions and bequests	\$ 4,474,176	\$ 93,375	\$ -0-	\$ -0-	\$ 4,567,551
Claggett conference fees	-0-	1,696,944	-0-	(73,011)	1,623,933
Investment income (loss), net	1,036,661	370	78,953	-0-	1,115,984
Interest on loans	25,033	-0-	62,431	-0-	87,464
Gain on sale of property	64,025	-0-	-0-	-0-	64,025
Special events	8,730	-0-	-0-	-0-	8,730
Miscellaneous income	170,582	5,516	-0-	-0-	176,098
Total Support and Revenue	<u>5,779,207</u>	<u>1,796,205</u>	<u>141,384</u>	<u>(73,011)</u>	<u>7,643,785</u>
Expenses					
Program Services:					
Claggett Conference Center	-0-	1,852,211	-0-	-0-	1,852,211
Ministry in the World	1,119,310	-0-	-0-	(37,693)	1,081,617
Ministry to Congregations and Institutions	911,384	-0-	-0-	(4,414)	906,970
Ministry for Christian Formation	196,840	-0-	-0-	(26,700)	170,140
Ministry of Communications	62,498	-0-	-0-	-	62,498
Ministry of the Bishop's Office	1,143,230	-0-	-0-	(2,214)	1,141,016
Total Program Services	<u>3,433,262</u>	<u>1,852,211</u>	<u>-0-</u>	<u>(71,021)</u>	<u>5,214,452</u>
Support Services:					
Ministry of the Bishop's Office	923,959	-0-	-0-	(990)	922,969
Ministry of Operations	1,461,560	-0-	-0-	(1,000)	1,460,560
Total Support Services	<u>2,385,519</u>	<u>-0-</u>	<u>-0-</u>	<u>(1,990)</u>	<u>2,383,529</u>
Total Expenses	<u>5,818,781</u>	<u>1,852,211</u>	<u>-0-</u>	<u>(73,011)</u>	<u>7,597,981</u>
Change in Net Assets	(39,574)	(56,006)	141,384	-0-	45,804
Net Assets at Beginning of Year	<u>36,076,790</u>	<u>5,816,607</u>	<u>4,611,614</u>	<u>-0-</u>	<u>46,505,011</u>
Net Assets at End of Year	<u>\$ 36,037,216</u>	<u>\$ 5,760,601</u>	<u>\$ 4,752,998</u>	<u>\$ -0-</u>	<u>\$ 46,550,815</u>

2015

Episcopal Diocese	Bishop Claggett Center	Middendorf Loan Fund	Eliminations	Total	Increase (Decrease)
\$ 4,916,264	\$ 164,055	\$ 20	\$ -0-	\$ 5,080,339	\$ (512,788)
-0-	1,700,086	-0-	(107,309)	1,592,777	31,156
(593,890)	68	(39,248)	-0-	(633,070)	1,749,054
20,748	-0-	70,484	-0-	91,232	(3,768)
1,271,085	-0-	-0-	-0-	1,271,085	(1,207,060)
1,140	-0-	-0-	-0-	1,140	7,590
150,129	1,929	-0-	-0-	152,058	24,040
<u>5,765,476</u>	<u>1,866,138</u>	<u>31,256</u>	<u>(107,309)</u>	<u>7,555,561</u>	<u>88,224</u>
-0-	1,690,696	-0-	(4,010)	1,686,686	165,525
1,101,217	-0-	-0-	(39,947)	1,061,270	20,347
667,572	-0-	-0-	(2,540)	665,032	241,938
206,737	-0-	-0-	(39,275)	167,462	2,678
78,425	-0-	-0-	-0-	78,425	(15,927)
1,182,996	-0-	-0-	(50)	1,182,946	(41,930)
<u>3,236,947</u>	<u>1,690,696</u>	<u>-0-</u>	<u>(85,822)</u>	<u>4,841,821</u>	<u>372,631</u>
943,466	-0-	-0-	-0-	943,466	(20,497)
1,761,307	-0-	-0-	(21,487)	1,739,820	(279,260)
<u>2,704,773</u>	<u>-0-</u>	<u>-0-</u>	<u>(21,487)</u>	<u>2,683,286</u>	<u>(299,757)</u>
<u>5,941,720</u>	<u>1,690,696</u>	<u>-0-</u>	<u>(107,309)</u>	<u>7,525,107</u>	<u>72,874</u>
(176,244)	175,442	31,256	-0-	30,454	<u>\$ 15,350</u>
<u>36,253,034</u>	<u>5,641,165</u>	<u>4,580,358</u>	<u>-0-</u>	<u>46,474,557</u>	
<u>\$ 36,076,790</u>	<u>\$ 5,816,607</u>	<u>\$ 4,611,614</u>	<u>\$ -0-</u>	<u>\$ 46,505,011</u>	

