



*REPORT OF THE SPECIAL
COMMITTEE CONCERNING
CORPORATION SOLE*

SUBMITTED JULY 30, 2016

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CHARTER, MEMBERSHIP, AND SCOPE AND RESPONSIBILITY OF THE COMMITTEE

Charter

The Special Committee (“The Committee”) Regarding Corporation Sole (“Corp Sole” or “Corporation Sole”) was authorized by resolution of the Convention of the Episcopal Church in the Diocese of Los Angeles (“the Diocese”) in December, 2015. Per the terms of that resolution, the members were nominated by the former Presidents of the Standing Committee of the Diocese.

Membership

Members of the Special Committee include the following:

- Richard van Horn, Chairman
St. Mary’s Mariposa, Los Angeles

- Joanne Bradshaw
St. John’s Episcopal Church, Rancho Santa Margarita

- Reynolds Cafferata
St. Mark’s Parish, Altadena

- Eric Edmunds
The Parish of St. Matthew, Pacific Palisades

- John Flemming
St Mary’s Episcopal Church, Laguna Beach

- Colleen Sterne
Trinity Episcopal Church, Santa Barbara

- Andrew Tomat
The Church of the Epiphany, Oak Park

Scope and Responsibility

The past Presidents of the Standing Committee have defined the following as the Scope and Responsibility (“Scope and Responsibility”) of the Committee:

Part 1 - Research

Diocese of Los Angeles - Corporation Sole Property Assessment

The Committee is asked to engage in careful research and study of the issue. Specifically, the Committee is asked to:

- (a) Determine what properties are held in Corp Sole*
- (b) Determine the criteria, if any, for placement of a property into Corp Sole*
- (c) Determine the criteria currently in place, if any, to transfer a property from Corp Sole to the Corporation of the Diocese*
- (d) Determine if different criteria exist for Mission properties versus Parish with regard to Corp Sole.*
- (e) Determine the legal, financial and pastoral implications of the sale or transfer of property from Corp Sole to the Corporation of the Diocese.*

If necessary:

- 1. Research and understand the financial relationship between Corp Sole and the properties, congregations or institutions associated with each property*
- 2. Research and assess the operational and financial viability of properties or institutions without the financial support of Corp Sole*

Corporation Sole Concept

The Committee is asked to examine other models of Corporation Sole operations and functions within the wider Episcopal Church which might be relevant to the issues under study in the Diocese of Los Angeles.

Part 2 - Output

Based on the research, the Committee is asked to draft a report to the 2016 Diocesan convention with recommendations regarding the holdings of Corp Sole. The recommendations may be presented in the form of a resolution or an amendment to the Canons.

The Committee should offer recommendations which address:

- (a) The appropriateness of real property remaining in or being transferred from Corp Sole*
- (b) Transparency of Corp Sole's holdings and audits*
- (c) Appropriate checks and balances*
- (d) Alignment with current Episcopal Church policy and polity*

The Committee has completed its research, and prepared the following as its report and recommendations on these matters.

WORK COMPLETED TO DATE

The Committee has completed the following tasks in fulfilling its assignment

1. Reviewed the Constitution and Canons of the Diocese of Los Angeles for relevant sections concerning Corp Sole specifically, and our Scope and Responsibility more broadly.
2. Reviewed the Canons and Constitution of the national Episcopal Church to the same purpose.
3. Reviewed applicable California law concerning Corporation Sole entities, their legal status, tax treatment and other relevant provisions.
4. Completed a preliminary review of the use of Corp Sole entities in other US states.
5. Reviewed the original Articles of Incorporation of Corp Sole filed with the California Secretary of State.
6. Reviewed the Articles of Incorporation of The Episcopal Church in the Diocese of Los Angeles, as amended.
7. Met with the General Counsel to the Presiding Bishop, seeking any relevant input on Corp Sole, including any national policy or history that would assist in our evaluation.
8. Through the General Counsel, made the same request of the Chancellor of the Episcopal Church and received his response.
9. Conducted telephone interviews with the Chancellors of the Diocese of California and the Diocese of San Diego for relevant experience and action in their Dioceses with the issues in the reference.
10. Reviewed agreements and canon amendments put in place by the Diocese of California in 2006 and subsequent that changed the relationship between that Diocese and its Corporation Sole.
11. Met with Bishop Bruno to discuss the issues in our Scope and Responsibility and to seek his comment and input.
12. Had discussions with the Vice-Chancellors of the Diocese of Los Angeles to discuss our Scope and Responsibility and to seek their view of the role of the Committee.
13. Had limited discussions with senior business officials of the Diocese, including Chief Financial Officer Ted Forbath and Chief of Staff David Tumilty.
14. Reviewed the audited financial statements of Corp Sole for the fiscal years ended December 31, 2013 and December 31, 2014.
15. Prepared an internal analysis of those financial statements for the Committee's use.
16. Prepared and submitted a list of follow-up requests for information and documents to the Bishop's office and the Diocese.
17. Had discussions concerning the historic evolution of the Corp Sole entity and its history in the Diocese.
18. Conducted other interviews, reviewed other information, and held other discussions relevant to our Scope and Responsibility.

EXECUTIVE SUMMARY

The following is a summary of key findings and recommendations of the Committee. Detailed discussion of each of these points follows in the body of the report.

BACKGROUND

- **The Diocese of Los Angeles includes two legal corporations: The Corporation of the Diocese and Corporation Sole (“Corporation Sole” or “Corp Sole”).**
- **A corporation sole is a legal corporation with just one incumbent - the Bishop. Some denominations use them as a legal mechanism for conserving and transferring the property of a church entity (usually but not always a diocese) upon a change in incumbent Bishop or other superior.**
- **The existence of Corp Sole in the Diocese of Los Angeles is an accident of history.**
- **The existence of corp sole structures is not contemplated by national Episcopal Church polity.**
- **Corp sole structures have been the subject of controversy or amendment in other California dioceses of the Episcopal Church in recent years.**
- **Simple dissolution of Corp Sole and transfer of its assets and liabilities to another entity poses possible legal, economic, and tax risks.**

FINANCES, GOVERNANCE, AND TRANSPARENCY

- **In the Diocese of Los Angeles, the finances and activities of Corp Sole, the Corporation of the Diocese, and parishes and missions of the Diocese, are extensively intertwined.**
- **Significant financial transactions in both directions take place between Corp Sole and the Corporation of the Diocese.**
- **While the policies, decisions, and financial statements of the Corporation of the Diocese and its parishes, missions, and institutions are subject to extensive oversight and transparency requirements, none of these requirements have historically been applied to Corp Sole. Corp Sole accordingly operates without outside governance oversight, and without transparency.**

- **In the Diocese of Los Angeles, the Bishop has historically been allocated unilateral decision-making power over Corp Sole, its activities, and its assets.**
- **The financial statements of Corp Sole have been prepared by the Bishop's staff. These accounts are audited annually by an outside firm, but have not historically been disclosed or published.**

CONSISTENCY WITH POLICY AND BEST PRACTICES

- **The lack of transparency and oversight of Corp Sole is not consistent with national church policy, the policies included in the Constitution and Canons of the Diocese of Los Angeles, or current required practices in the corporate or non-profit world.**
- **The lack of transparency and oversight of the activities of Corp Sole poses legal, financial, pastoral, and other risks.**

OPTIONS AND RECOMMENDATION

- **The Committee reviewed several options for resolution of the issues surrounding Corp Sole.**
- **The Diocese of California addressed similar issues regarding its Corporation Sole in the last decade, and has adopted a solution that addresses the issues well.**
- **Following the general example of the model adopted by the Diocese of California, the Committee recommends that the Diocese of Los Angeles amend its Canons (i) to subordinate Corp Sole to the governance structures and transparency requirements in place for the Corporation of the Diocese, and (ii) to provide for the transfer of all assets from Corp Sole to the Corporation of the Diocese to the maximum extent feasible unless such a transfer could result in a loss, negative tax implication, or other material economic impact.**
- **To implement this recommendation, the Committee has prepared, and proposes for adoption at the 2016 Diocesan Convention, an amendment to the Canons of the Diocese of Los Angeles. This amendment would give immediate effect to the transparency and governance changes recommended, as well as provide for a measured and prudent implementation of changes in real property titles.**

BACKGROUND

The existence of Corp Sole in the Diocese of Los Angeles is an accident of history.

The concept of a Corporation Sole is an ancient one. These entities had their origin in the Middle Ages as a form of ongoing entity that could hold property. Churches used them as a legal mechanism for conserving and transferring the property of a church entity (usually but not always a diocese) upon a change in incumbent Bishop or other superior.

In the early 1800's, there was no legal structure for a diocese to be formed in California. Initially to meet the needs of the Catholic faith, the concept of a corporation sole was adopted into the law of California and 14 other states. In California, the corporation sole was at first a filing done at the county level. Later, the Corporation Code was enacted, allowing a corporation sole filing with the Secretary of State. As the only legal option, many of the Episcopal dioceses in California were initially formed as a corporation sole.

California's relevant law permitted the establishment of a corporation sole:

...whenever the rules, regulations, or discipline of any religious denomination, society or church so requires for the management of the temporalities thereof and the management of the estate or property thereof...

Bishop Johnson, Episcopal Bishop of Los Angeles, filed Articles of Incorporation for Corp Sole with the Secretary of State of California. Bishop Johnson stated in those articles that

... the rules and regulations of the Protestant Episcopal Church in the diocese of Los Angeles, commonly called the canons of the diocese of Los Angeles, require the bishop of said diocese shall become a corporation sole under the laws of this state...

At some point, the California Corporation Code was revised to create a legal entity other than a corporation sole that could function as a diocese. The Corporation of the Diocese of Los Angeles was incorporated with the following purposes, as described in its Articles of Incorporation:

That the Purposes for which it is formed are: to take, receive, acquire, hold, manage and administer property, funds and money of and for the use of said Church, and of and for the use of its constituent parishes, missions and congregations, whether such property, money or funds be acquired or held for the use of churches, parsonages, hospitals, schools, colleges, orphan asylums, homes, cemeteries or for other religious, benevolent or educational purposes.

The overlap between these two purposes – two entities that exist to hold and administer property and other assets for what is essentially the same religious entity – is obvious. Nothing in these original filings differentiates the role or purposes of either entity in any substantive way.

The existence of Corp Sole is not contemplated by national church polity.

The Committee arranged a meeting with the General Counsel to the Presiding Bishop in New York for any insight or guidance he could provide on the wider use of the Corp Sole structure in the Episcopal Church, and any canonical or other policies concerning such structures on a national level. Through the General Counsel, the Committee posed similar questions concerning Corp Sole to the national Chancellor of the Episcopal Church, its chief legal officer.

These two officials reported as follows:

- The overwhelming majority of Episcopal Dioceses operate without a corporation sole.
- The National Constitution and Canons do not contemplate or address the existence of Corporation Sole structures.
- There is no national policy or canon law relating to such structures.
- National church legal authorities have little to no experience with them, and believe they are unique to California and a few other Western states.

Corp Sole structures have been the subject of controversy or amendment in other California dioceses of the Episcopal Church in recent years.

Some other – but not all – Episcopal dioceses in California also have corp sole structures. In recent years, appropriate governance of these entities has been addressed through canon amendments and, in one case, through litigation.

As a result of the history outlined above, a number of California dioceses, including the Diocese of Los Angeles, the Diocese of San Joaquin, and the Diocese of California, ended up with a two-entity structure, with the diocese as an incorporated entity as well as a corporation sole. In these dioceses, mission churches tended to be held in the corporation sole. Other assets tended to be held in the diocese entity. But there are many exceptions to these generalities.

The Diocese of San Joaquin experienced considerable stress through the existence of its corporation sole in the last decade, when its Bishop used his power as incumbent of that corp sole to transfer property and attempt to leave the Episcopal Church and set up a new Diocese affiliated with the Anglican entities in Africa. After protracted and expensive litigation,

California courts ruled definitively that corp sole entities were subject to the canons of a diocese, and ordered the return of the property to the Episcopal Diocese of San Joaquin.

The Diocese of California took action in the last decade to subordinate its corporation sole to its normal governance processes. That action is described in detail below, as a potential path for the Diocese of Los Angeles to consider.

By contrast, and to illustrate the antiquated nature of the corp sole structure, the Diocese of San Diego, which was formed in 1973, has no corporation sole. By that date, the religious corporation was well established in the Corporations Code, and the Diocese of San Diego formed as a religious corporation without a corporation sole. The corporate entity is now governed by a board of directors that combines its diocesan council with what was its corporation of the diocese board of directors.

Simple dissolution of Corp Sole and transfer of its assets and liabilities to another entity poses possible legal, financial, and tax risks.

The few legal cases that address a corporation sole indicate that it is governed by the canon law of the denomination with which it is affiliated. The recent litigation concerning the Diocese of San Joaquin confirmed that canon law has supremacy over the corporation sole and over the incumbent Bishop.

There is otherwise very limited corporate law respecting a corporation sole. California Corporation Code § 10000 et. seq. Significantly, there is no statute addressing the merger of a corporation sole into any other kind of corporation. There is only a provision for dissolution. California Corporation Code § 10012.

Accordingly, it is not clear that a corporation sole can be merged with any other legal entity. This is significant because in a merger, all present and future rights of the disappearing corporation transfer to the surviving corporation in the merger process.

A corporation sole could be dissolved after an assignment of all of its rights to another corporation. Such an assignment, however, might not be effective with respect to interest in certain trusts and estates or other agreements. The dissolution of the corporation sole could result in a permanent loss of those rights.

Further, the precipitous transfer of real property from Corp Sole to the Corporation of the Diocese could have unforeseen financial and tax consequences. For certain properties, such a transfer could trigger a property tax reassessment and resultant higher tax expense. If the property is mortgaged, a transfer of title without consent of the lender could accelerate the mortgage, making it immediately due and payable.

For these and other reasons, as a part of its diligence and review surrounding its canon amendments related to Corp Sole made in the last decade, the Diocese of California determined that their corporation sole entity needed to remain in existence to protect rights held by it that cannot otherwise be assigned or transferred, and to retain title to property whose transfer could trigger unintended economic consequences. Accordingly, they developed and adopted a solution that (i) maintained the existence of their corporation sole, (ii) subordinated corporation sole to their normal governance and transparency processes, and (iii) provided for the transfer of property and assets out of the corporation sole to the maximum extent prudent and feasible. The Committee believes that this approach, which is described more fully below, is a model for the Diocese of Los Angeles to emulate.

FINANCES, GOVERNANCE AND OVERSIGHT

The finances and activities of Corp Sole, the Corporation of the Diocese, and parishes and missions of the Diocese, are extensively intertwined.

The Committee has completed a review of the audited financial statements of Corp Sole for the years 2013 and 2014.

The financial condition of Corp Sole, the Corporation of the Diocese, and parishes and missions of the Diocese are deeply interrelated.

As of December 31, 2014, which is the latest period for which audited statements are available, Corp Sole owned all or part of the property of 20 parishes and 23 missions, and was the parent of one non-profit entity associated with the Diocese. As of that date, it owned certain other assets, including real property, and acted as a trustee for significant assets on behalf of other Episcopal entities affiliated with the Diocese of Los Angeles.¹

Corp Sole's net worth, primarily made up of these real property assets in use by parishes and missions, is substantial. Its precise tangible net worth could not be estimated because (i) its real property assets are carried at historical cost rather than current market value and (ii) mortgage liabilities, if any, associated with these properties are not obligations of Corp Sole, but of the underlying parish or mission.

While we requested further information to assist in our evaluation, we were not informed what flow of funds, if any, is associated with the property connections between Corp Sole and missions and parishes. It is unclear how and why decisions concerning these relationships are made. Despite a request for such information, no standards or written policies or procedures that govern the transfer of property into or out of Corp Sole were provided to us— these decisions seem to be made on an ad hoc basis. No apparent distinctions exist between parish and mission properties in this and other regards.

Significant financial transactions take place between Corp Sole and the Corporation of the Diocese.

- In the last four years, the Corporation of the Diocese has transferred real property to Corp Sole valued at more than \$20 million.
- The Corporation of the Diocese has also forgiven sums due from Corp Sole in an amount of \$2.9 million.

¹ A list of the real property assets held by Corp Sole as of December 31, 2014, is attached as Exhibit A.

- In certain years, Corp Sole has provided millions of dollars in support to the budget of the Corporation of the Diocese and diocesan activities.

The activities of the Corporation of the Diocese and its parishes, missions, and institutions are subject to extensive oversight and transparency requirements. Corp Sole has not been subject to these oversight processes, and operates without outside governance oversight, and without transparency.

Like the overwhelming majority of larger non-profit entities, significant governance and disclosure requirements are part of the governing documents of the Diocese of Los Angeles. Some examples of such requirements in the Canons of the Diocese of Los Angeles include the following:

- The Program and Budget of the Diocese is submitted annually to Convention for its approval (19.06).
- The books of the Diocese are open to inspection (15.05). Annual audited financial statements for the Diocese are filed with convention.
- All parishes and other organizations file annual audited statements with Convention (6.0).
- The duties, responsibilities, and powers of the Treasurer of the Diocese are spelled out in detail (15).
- The sale or encumbrance of mission property requires approval of the Bishop and Standing Committee (2.11 and 2.13).
- The sale or encumbrance of parish property requires approval of the Bishop and Standing Committee (3.0).
- The sale of Diocesan real property valued at more than \$100,000 requires approval of the Directors of the Corporation of the Diocese and the Bishop (21.02).
- All Diocesan institutions are required to file audited annual reports with convention (24.05).

Apparently since its inception, Corp Sole has not been subject to any of the governance and transparency requirements identified above.

- The governance of Corp Sole in the Diocese of Los Angeles, including all decisions as to the sale or purchase of property, is in the hands of the Bishop's Office and staff.

- That governance is subject to no external Board or review authority.
- The accounts and audited financial statements of Corp Sole are kept private, and are not shared with any Diocesan authority outside the Bishop's Office.
- The process by which decisions are made, the reasons for those decisions, and the broader context for decisions are similarly private.
- While there are internal financial controls and independent financial audits, no other external checks and balances are in place relating to Corp Sole.

CONSISTENCY WITH POLICY AND BEST PRACTICES

The lack of transparency and oversight of the activities of Corp Sole is not consistent with national church policy and practice, the policies included in the Constitution and Canons of the Diocese of Los Angeles, or current required practices in the corporate or non-profit-world.

Consistency with Episcopal Policy

As noted above, the national Episcopal Church has no specific policies or guidance relating to corporation sole entities. The existence of a parallel entity to a Diocese is not contemplated.

However, national canons do contain relevant requirements that provide standards for transparency. Pursuant to Canon 7, the Episcopal Church and its dioceses make their accounts public and readily available for review. Their budgeting and decision-making processes are also more or less transparent, as they require approval by conventions and councils.

The current governance and transparency practices in place for Corp Sole in financial and other matters is not consistent with these national policies and practices.

Canon 7 of the Constitution and Canons of the Episcopal Church provides in pertinent part:

All accounts of the Diocese shall be audited annually by an independent Certified Public Accountant...

(g) All reports of such audits, including any memorandum issued by the auditors or audit committee regarding internal controls or other accounting matters, together with a summary of action taken or proposed to be taken to correct deficiencies or implement recommendations contained in any such memorandum, shall be filed with the Bishop or Ecclesiastical Authority not later than 30 days following the date of such report, and in no event, not later than September 1 of each year, covering the financial reports of the previous calendar year...

(i) The Finance Committee or Department of Finance of the Diocese may require copies of any or all accounts described in this Section to be filed with it and shall report annually to the Convention of the Diocese upon its administration of this Canon.

The intent of this provision is straightforward: accounts are to be made, audited, and presented to Convention.

The Canons of the Diocese of Los Angeles have a similar requirement, found in Canon 24.05:

Each diocesan institution shall submit a written annual report to each Annual Meeting of Convention, setting forth its financial transactions and other activities during the previous year, by the date set forth in Title I, Canon 7(g) of the Canons of the National Church. The financial portion of the annual report of each institution shall be audited annually by an independent certified public accountant or an independent licensed public accountant in accordance with generally accepted auditing standards and shall be prepared in accordance with generally accepted accounting principles or some other basis of accounting that reasonably sets forth and fairly presents the assets, liabilities and fund balances and the income and expense of the institution and that discloses the accounting basis used in their preparation.

This provision is clear in its requirements for transparency and disclosure.

Other aspects of the governance and financial reporting of Corp Sole are also inconsistent with national Episcopal policy. The accounting basis on which Corp Sole maintains its books is such an example.

The financial statements are kept and audited on what is described as a “modified cash basis”. This standard is vague, and is much less consistent than accrual basis accounting. It is also inconsistent with national Episcopal policy as provided in *The Episcopal Church: Manual of Business Methods in Church Affairs (“Manual”)*, which reads in pertinent part:

Method of Accounting. *The use of the accrual method of accounting is required by GAAP [Generally Accepted Accounting Principles] and is the preferred method. Many congregations, however, continue to use the Cash Basis method of accounting...[This] is an acceptable method for use by congregations... **Dioceses should use the accrual method of accounting.** (emphasis in original) ²*

The financial statements of Corp Sole do not meet other requirements of GAAP as specified in the *Manual*. They include no statements of cash flow, making it difficult or impossible to determine the flow of funds through Corp Sole. The statement of activities or income statement is uninformative.

Consistency with For-Profit Corporate Requirements

Corp Sole’s current governance and transparency structure does not meet requirements in place in the corporate world.

The reporting and disclosure requirements relating to public corporations are very broad and comprehensive in nature. They require extensive reporting on financial performance,

² *The Episcopal Church: Manual of Business Methods in Church Affairs*, 2012, page i-4.

compensation of officers, significant transactions, financial trends, and other matters. Such reporting is made quarterly, with a comprehensive annual disclosure.

While they are far less extensive, private corporations also have disclosure and reporting requirements for their shareholders that include access to corporate financial information.

Consistency with Non-Profit Requirements

Non-profit entities are also not permitted to operate with a governance and disclosure structure like that currently in place for Corp Sole.

All non-profit entities in the United States with more than \$500,000 in assets are required to file Treasury Form 990 – *Return of Organization Exempt From Income Tax*.

These filings are comprehensive. They include detailed balance sheets, income statements, and cash flow statements. They disclose the identity and compensation of insiders, and significant other information. They are typically many pages long.

Form 990 filings are required by law to be public. They are available for inspection, and current best practice for most significant organizations is that they be posted on their website, or a non-profit monitoring site such as *Guidestar*.

For constitutional reasons, churches – parishes, dioceses, and denominations - are exempt from filing Form 990. (Other religious organizations – hospitals, schools, charitable aid societies - are not exempt.) However, mainstream denominations and their dioceses – including the Episcopal Church, as noted above - in general make substantial financial information public.

OPTIONS

The lack of transparency and oversight of the activities of Corp Sole creates substantial legal, pastoral, and other risks for the Diocese of Los Angeles.

In the Committee's view, the current governance and transparency processes and structures for Corp Sole are antiquated. They do not meet current standards and practices for transparency, oversight, or accountability in either the corporate or non-profit world. They are inconsistent with national Episcopal practice and polity. They pose potential pastoral, financial, legal, and other risks to the Diocese of Los Angeles.

The Committee reviewed several options for resolution of the issues surrounding Corp Sole.

The reference from the Past Presidents of the Standing Committee asked that the Committee make recommendations addressing the issues surrounding Corp Sole. Accordingly, and in view of all the foregoing, the Committee examined the following options for possible recommended action:

- 1. Maintain the status quo – leave Corp Sole, its governance, and its activities as they are.**

Analysis: does not address any of the identified governance and transparency issues.

- 2. Maintain the status quo, but improve disclosure and transparency by disclosing audited statements on an annual basis.**

Analysis: provides improved financial transparency, but does not provide oversight or governance transparency, and does not necessarily address the accounting standard to be used in audits.

- 3. Immediately transfer all the assets of Corp Sole to the Corporation of the Diocese (the original motion debated at Convention in 2015)**

Analysis: As noted above in the *Background* section, such a precipitous action could lead to loss of rights with respect to interests in certain trusts, estates, or other agreements, potential significant negative tax implications, or other material economic consequences.

- 4. Seek legislative changes to California law to permit the merger of Corp Sole with the Corporation of the Diocese.**

Analysis: While this would provide a path to resolving the issues, it depends on the ability of the legislature to act on what would almost certainly not be viewed as a

pressing matter. It would be subject to such completion risk and delay as to be an ineffective resolution of the issues in the Committee's reference.

- 5. Create new governance structures for Corp Sole – for example, an Advisory Board on Corp Sole to be appointed by the Bishop, or the Board of Directors of the Corporation of the Diocese, or some combination thereof.**

Analysis: This might or might not address governance issues, depending on the appointment process and the powers of the Advisory Board. However, the Diocese already has at least three governing bodies in addition to Convention itself: the Standing Committee, Diocesan Council, and the Board of Directors of the Corporation of the Diocese. It seems inefficient and unnecessary to create a fourth entity to address Corp Sole, and does not serve the interests of transparency.

- 6. Use the existing governance and transparency structures and canons of the diocese, and apply them to Corp Sole by making appropriate canon amendments.**

Analysis: This approach, modeled on the action taken by the Diocese of California that is described more fully below, can resolve the governance and transparency issues surrounding Corp Sole. It has administrative efficiency, by relying on existing governing bodies and processes rather than creating new ones. Finally, it would unite all financial and other decision-making in the same place, which should contribute to improved short and long-term planning. It is the solution recommended by the Committee and more fully spelled out below.

Nothing in our recommendation precludes the appropriate governing bodies of the Diocese from providing delegated expenditure authority to the Bishop, if such authority is deemed advisable. In the exercise of that authority, the Bishop could direct the expenditure of funds for purposes that, in his or her judgment, fulfill the mission of the Diocese or serve pastoral needs. If such delegated authority were granted, it should, in our view, be subject to the governance and financial transparency requirements provided in national and Diocesan canons, as more fully described above, and to appropriate provisions for personal privacy in pastoral matters.

RECOMMENDATION AND FORM OF RESOLUTION

The Diocese of California addressed similar issues regarding its Corporation Sole in the last decade, and has adopted a solution that addresses the issues well.

For many of the same historical reasons as our own, the Diocese of California has a corporation sole entity in place. They therefore faced many of the same governance, transparency, and pastoral issues as are currently posed by Corp Sole in the Diocese of Los Angeles. They also had identical concerns as to California legal and tax issues to address.

In the previous decade, the Diocese of California crafted a solution to these issues that is a model for our consideration. These were the key elements:

- The existence of the Corp Sole entity was maintained, in order to avoid the potential tax and legal issues its elimination would create.
- All decision-making authority for Corp Sole, including decision-making authority over real property, was transferred from the Bishop's Office to the Corporation of the Diocese.
- To the maximum extent feasible, Corp Sole funds and real and personal property assets were transferred to the Corporation of the Diocese.
- The financial statements of Corp Sole are now consolidated with the financial statements of the Diocese, and are publicly available.
- The Canons of the Diocese of California were amended to reflect these new governance and transparency arrangements.

Enacting a similar amendment to the Canons of the Diocese of Los Angeles, suitably modified for slight differences in governance structures, would resolve all of the governance, transparency, and oversight issues posed by the current Corp Sole arrangements. It would eliminate the pastoral, financial, and legal concerns that the current arrangements create.

The Committee therefore recommends that the Diocese of Los Angeles amend its Canons (i) to subordinate Corp Sole to the governance structures and transparency requirements in place for the Corporation of the Diocese, and (ii) to provide for the transfer of all assets from Corp Sole to the Corporation of the Diocese to the maximum extent feasible unless such a transfer could result in a loss, negative tax implication, or other material economic consequence.

The form of a resolution for consideration by Convention is attached on the following page.

FORM OF RESOLUTION FOR CONVENTION

Amend Canon XXX of the Canons of the Episcopal Diocese of Los Angeles as follows:

Canon XXX currently reads as follows:

The Bishop of this Diocese shall be the incumbent of a Corporation Sole under the laws of the State of California by the title of "The Bishop of the Protestant Episcopal Church in Los Angeles (a corporation sole)"; for the administration of such temporalities and the management of such estate and property as may be granted or in any manner committed to the Bishop for the uses, purposes, or on behalf of this Church, that is to say, the Church known as "The National Church," or any Diocese, Dioceses, or other subdivisions or institutions of the said Church; or any religious, benevolent, or educational objects connected therewith.

Strike this language in its entirety, and substitute the following:

(a) *The Bishop of this Diocese is authorized to maintain a corporation sole, entitled "The Bishop of the Protestant Episcopal Church in Los Angeles (a corporation sole)", under California law for the administration of the real property of missions, and of such other real or personal property and funds as may have been, or may be, granted or committed to the Bishop for the use of The Episcopal Church in this Diocese, or of any of its related, constituent or subordinate units or institutions, or for any religious, benevolent or educational objects connected with any of the foregoing.*

(b) *The Bishop or the Treasurer shall report to the Annual Convention in detail concerning the activities of the Corporation Sole. Its financial condition shall be reported to the Annual Convention in accordance with generally accepted accounting principles either individually, on a consolidated basis, or both, with the Diocese, as shall be determined by the Treasurer.*

(c) *Now and in the future, the Corporation Sole shall transfer all real and personal property and funds in its possession to the greatest extent feasible to the Corporation of the Diocese, unless such a transfer could result in a loss by burdensome taxation, by reverter or otherwise under the terms of restricted gifts, or by other material economic consequence. The articles of incorporation of the Corporation Sole shall provide that any transaction by the Corporation Sole affecting real property shall require the consent of the Board of Directors of the Corporation of the Diocese.*

EXHIBIT A: SCHEDULE OF PROPERTIES HELD IN CORP SOLE AS OF DEC 31, 2014

PARISHES

City	Church	Properties
Buena Park	St. Joseph's	Land, Church & Dual Purpose Building, Rectory, Classrooms
Compton	St. Timothy's	Land, Church & Parish House, Sunday School Building, Classrooms
Costa Mesa	St. John the Divine	Church & Parish Hall, Classrooms, Daycare Center, Land, Sidewalks, Curbing, and Parking Lot
Fullerton	Emmanuel	Land, Church and Administrative Classroom Unit
Granada Hills	St. Andrew & St. Charles'	Land, Land Improvements, Church and Parish Hall, Rectory, Earthquake Repairs and Improvements
Huntington Beach	St. Wilfrid's	Building, Land, Classrooms, Church
Laguna Hills	St. George's	Rectory
Lancaster	St. Paul's	Land, Dual Purpose Building and Guild Room, Nursery School Building, Church School Building, Rectory
Lompoc	St. Mary's	Land, Building
Los Angeles	Advent	Church & Parish House, Income Property

City	Church	Properties
Los Angeles	Palms St. Mary's	Land (adjacent), Rectory, Church, Parish House
Malibu	St. Aidan's	Church, Parish, Sunday School, Storage, Vicarage, Land, Contents & Organ
Monterrey Park	St. Gabriel's	Church, Parish Hall, Contents & Organ, Land, Rectory, Sunday School, Parking Lot
Ojai	St. Andrew's	Land, Rectory
Pasadena	Church of the Angels	Church & Parish House, Rectory, Building Restoration
Pasadena	St. Barnabas'	Church & Guild House, Land, Parish Hall & Facilities, Rectory
Placentia	Blessed Sacrament	Land, Church, Rectory, Classrooms, New Classrooms
Santa Barbara	Christ the King	Land, Church, Parish Hall, Classrooms, and Office
South Gate	St. Margaret's	Church, Land, Parish Hall, Rectory
Woodland Hills	Prince of Peace	Land, Dual Purpose Hall, Classrooms, Land Improvements

MISSIONS

City	Church	Properties
Barstow	St. Paul's	Church, Land, Contents, Parish Hall & Parking Lot, Vicarage, Outreach Building
El Monte	Immanuel	Church, Land, Vicarage, Parking Lot – land, Contents
Gardena	Holy Communion	Church & Parish House, Contents, Vicarage
Hacienda Heights	St. Thomas'	Church & remodeling, Land and House, Parish Hall, Classroom Buildings
Hawthorne	St. George's	Church, Buildings, Contents & Organ, Vicarage, Arcade Addition
Isla Vista	St. Michael's University Episcopal Mission	Parish Hall, Land, Chapel, Vicarage, Shelter for the Homeless
Laguna Niguel	Faith Episcopal	Land and Church
Los Angeles	Church of the Epiphany	Rectory, Church
Moreno Valley	Grace Episcopal Church	Land, Church & School
Needles	St. John the Evangelist	Church, Parish house, Vicarage, Land
Newport Beach	St. James' the Great	Church, Classrooms, Hall, Other Property
North Hollywood	Holy Family	Church & Parish House, Organ, Chapel and Office
Norwalk	St. Francis	Church, Contents, Sunday School & Assembly Hall, Paving, Wall, & Gate, Classrooms, Daycare Center

City	Church	Properties
Pico Rivera	St. Bartholomew's	Church and parish household, Church
Rancho Cucamonga	St. Clare's	Land & building
Rialto	St. Peter's	Land, Church
Riverside	St. George's	Land, Parish hall and street improvements
Simi Valley	St. Francis of Assisi	Land & Chapel, Classrooms, Contents – classroom, Building
Twenty-Nine Palms	St. Martin in the Fields	Land, Church, Vicarage
Wilmington	St. John's	Land, Church & Parish House, Classroom kitchen and parking lot
Yucaipa	St. Alban's	Vacant land, Activity Building
Yucca Valley	St. Joseph of Arimathea	Church, Parish hall

OTHER PROPERTIES

City	Organization	Properties
Anaheim		25% Interest in Rental Properties
Compton	Angeles Abbey Memorial Park	Burial Crypts
Fontana	St. Luke's (Ministry Outreach Center)	Church, Church School & Offices, Vicarage
Claremont	Old Bloy House	Gas Oil and Mineral Rights

City	Organization	Properties
Hollywood	Hollywood Cemetery Association	Burial Lots
Irvine		77% Interest in Residence
Lancaster	Randall Hall	Unimproved acreage
Los Angeles (Echo Park)		Rental Properties
Pasadena		50% Interest in Property
Riverside		Donated Parcel of Land
Riverside	St. Michaels (Ministry Outreach Center)	Land, Dual Purpose Classroom Building, Church
San Bernardino	St. Francis of Assisi (Ministry Outreach Center)	Land and Church
Yucca Valley		Land