

# Episcopal Diocese of Pennsylvania and Affiliates

Financial Statements  
Years Ended December 31, 2017 and 2016



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# EPISCOPAL DIOCESE OF PENNSYLVANIA AND AFFILIATES

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## INDEPENDENT AUDITOR'S REPORT

**Finance Committee  
Episcopal Diocese of Pennsylvania and Affiliates  
Philadelphia, Pennsylvania**

We have audited the accompanying consolidated financial statements of the Episcopal Diocese of Pennsylvania (the "**Diocese**") and Affiliates (nonprofit organizations), which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

### ***Basis for Qualified Opinion***

As explained in Note 1 to the financial statements, the financial statements of the Diocese are not consolidated with the financial statements of certain affiliated organizations. In our opinion, in order to conform with the U.S. generally accepted accounting principles, the Diocese's financial statements should be consolidated with the financial statements of the affiliated organizations. The effects on the financial statements of this departure are not reasonably determinable.

***Qualified Opinion***

In our opinion, except for the effects of the matters discussed in the Basis for Qualified Opinion paragraph, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Episcopal Diocese of Pennsylvania and Affiliates as of December 31, 2017 and 2016, and the changes in their net assets, and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

***Report on Supplementary Information***

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, except for the effects of the matter discussed in the Basis for Qualified Opinion paragraph, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*BBD, LLP.*

**Philadelphia, Pennsylvania  
October 26, 2018**

# EPISCOPAL DIOCESE OF PENNSYLVANIA AND AFFILIATES

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2017 and 2016

	Operating	Designated	Total Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
						2017	2016
<b>ASSETS</b>							
Cash	\$ 718,653	\$ 1,117,655	\$ 1,836,308	\$ 286,051	\$ -	\$ 2,122,359	\$ 2,085,888
Contributions receivable							
Pledges	28,044	-	28,044	-	-	28,044	9,512
Other	-	-	-	19,000	-	19,000	11,000
Assessments receivable	17,273	-	17,273	-	-	17,273	5,130
Other receivables	144,986	-	144,986	-	-	144,986	195,545
Prepaid expenses and other assets	31,608	-	31,608	-	-	31,608	29,252
Investments (Note 3)	670,467	24,649,829	25,320,296	9,757,109	39,288,163	74,365,568	64,262,153
Real estate held for sale (Note 8)	4,500,000	-	4,500,000	-	-	4,500,000	5,120,500
Loans receivable (Note 4)	9,215	976,090	985,305	-	-	985,305	956,326
Property and equipment (Note 5)	5,844,221	-	5,844,221	-	-	5,844,221	5,176,364
Beneficial interest in perpetual trusts (Note 6)	-	-	-	-	4,425,956	4,425,956	4,333,027
<b>Total assets</b>	<b>\$ 11,964,467</b>	<b>\$ 26,743,574</b>	<b>\$ 38,708,041</b>	<b>\$ 10,062,160</b>	<b>\$ 43,714,119</b>	<b>\$ 92,484,320</b>	<b>\$ 82,184,697</b>
<b>LIABILITIES</b>							
Accounts payable and accrued expenses	\$ 656,856	\$ 17,834	\$ 674,690	\$ 6,872	\$ 27,671	\$ 709,233	\$ 314,183
Postretirement benefit obligation (Note 7)	3,850,000	-	3,850,000	-	-	3,850,000	4,047,000
<b>Total liabilities</b>	<b>4,506,856</b>	<b>17,834</b>	<b>4,524,690</b>	<b>6,872</b>	<b>27,671</b>	<b>4,559,233</b>	<b>4,361,183</b>
<b>NET ASSETS</b>							
Unrestricted	7,457,611	26,725,740	34,183,351	-	-	34,183,351	30,428,921
Temporarily restricted (Note 10)	-	-	-	10,055,288	-	10,055,288	8,706,559
Permanently restricted (Note 11)	-	-	-	-	43,686,448	43,686,448	38,688,034
<b>Total net assets</b>	<b>7,457,611</b>	<b>26,725,740</b>	<b>34,183,351</b>	<b>10,055,288</b>	<b>43,686,448</b>	<b>87,925,087</b>	<b>77,823,514</b>
<b>Total liabilities and net assets</b>	<b>\$ 11,964,467</b>	<b>\$ 26,743,574</b>	<b>\$ 38,708,041</b>	<b>\$ 10,062,160</b>	<b>\$ 43,714,119</b>	<b>\$ 92,484,320</b>	<b>\$ 82,184,697</b>

See accompanying notes

# EPISCOPAL DIOCESE OF PENNSYLVANIA AND AFFILIATES

## CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended December 31, 2017 with comparative totals for 2016

	Operating	Designated	Total Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
						2017	2016
<b>REVENUE AND SUPPORT</b>							
Contributions							
Congregation pledges	\$ 705,284	\$ -	\$ 705,284	\$ -	\$ -	\$ 705,284	\$ 639,674
Other contributions	-	131,226	131,226	41,080	201,971	374,277	382,415
Congregation assessments	1,892,333	74,173	1,966,506	-	-	1,966,506	1,848,268
Medical insurance premiums	-	-	-	-	-	-	47,368
Investment income	191,868	5,164,968	5,356,836	1,407,858	5,645,198	12,409,892	4,275,278
Change in value of beneficial interest in perpetual trusts	-	-	-	-	92,929	92,929	143,642
Other income	581,526	35,615	617,141	9,889	-	627,030	972,229
Net assets released from restrictions							
Endowment income distribution	3,169,142	(2,117,360)	1,051,782	(110,098)	(941,684)	-	-
Other transfers	44,813	(44,813)	-	-	-	-	-
<b>Total revenue and support</b>	<u>6,584,966</u>	<u>3,243,809</u>	<u>9,828,775</u>	<u>1,348,729</u>	<u>4,998,414</u>	<u>16,175,918</u>	<u>8,308,874</u>
<b>EXPENSES</b>							
<b>Program services</b>							
Grants and scholarships	1,100,276	-	1,100,276	-	-	1,100,276	1,248,995
Health insurance program	-	-	-	-	-	-	72,631
Financially assisted congregations	730,440	-	730,440	-	-	730,440	807,528
Episcopal function	1,849,834	-	1,849,834	-	-	1,849,834	1,943,293
Diocesan meetings and communications	280,917	-	280,917	-	-	280,917	286,823
Investment management expenses	250,651	-	250,651	-	-	250,651	262,886
Wapiti	165,832	-	165,832	-	-	165,832	183,283
Other Diocesan programs	1,189,583	-	1,189,583	-	-	1,189,583	1,293,795
<b>Total program services</b>	<u>5,567,533</u>	<u>-</u>	<u>5,567,533</u>	<u>-</u>	<u>-</u>	<u>5,567,533</u>	<u>6,099,234</u>
<b>Supporting service</b>							
Management and general	1,091,812	-	1,091,812	-	-	1,091,812	937,287
<b>Unallocated national apportionment</b>							
	365,000	-	365,000	-	-	365,000	330,000
<b>Total expenses</b>	<u>7,024,345</u>	<u>-</u>	<u>7,024,345</u>	<u>-</u>	<u>-</u>	<u>7,024,345</u>	<u>7,366,521</u>
<b>CHANGE IN NET ASSETS BEFORE OTHER CHANGES</b>							
	(439,379)	3,243,809	2,804,430	1,348,729	4,998,414	9,151,573	942,353
<b>OTHER CHANGES</b>							
Closed or deconsecrated parishes	950,000	-	950,000	-	-	950,000	5,175,736
<b>CHANGE IN NET ASSETS</b>							
	510,621	3,243,809	3,754,430	1,348,729	4,998,414	10,101,573	6,118,089
<b>NET ASSETS</b>							
Beginning of year	6,946,990	23,481,931	30,428,921	8,706,559	38,688,034	77,823,514	71,705,425
<b>End of year</b>	<u>\$ 7,457,611</u>	<u>\$ 26,725,740</u>	<u>\$ 34,183,351</u>	<u>\$ 10,055,288</u>	<u>\$ 43,686,448</u>	<u>\$ 87,925,087</u>	<u>\$ 77,823,514</u>

See accompanying notes

# EPISCOPAL DIOCESE OF PENNSYLVANIA AND AFFILIATES

## CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>REVENUE AND SUPPORT</b>				
Contributions				
Congregation pledges	\$ 639,674	\$ -	\$ -	\$ 639,674
Other contributions	378,665	3,750	-	382,415
Congregation assessments	1,848,268	-	-	1,848,268
Medical insurance premiums	47,368	-	-	47,368
Investment income	3,065,566	435,548	774,164	4,275,278
Change in value of beneficial interest in perpetual trusts	-	-	143,642	143,642
Other income	972,229	-	-	972,229
Net assets released from restrictions	264,803	(264,803)	-	-
<b>Total revenue and support</b>	<u>7,216,573</u>	<u>174,495</u>	<u>917,806</u>	<u>8,308,874</u>
<b>EXPENSES</b>				
<b>Program services</b>				
Grants and scholarships	1,248,995	-	-	1,248,995
Health insurance program	72,631	-	-	72,631
Financially assisted congregations	807,528	-	-	807,528
Episcopal function	1,943,293	-	-	1,943,293
Diocesan meetings and communications	286,823	-	-	286,823
Investment management expenses	262,886	-	-	262,886
Wapiti	183,283	-	-	183,283
Other Diocesan programs	1,293,795	-	-	1,293,795
<b>Total program services</b>	6,099,234	-	-	6,099,234
<b>Supporting service</b>				
Management and general	937,287	-	-	937,287
<b>Unallocated national apportionment</b>	330,000	-	-	330,000
<b>Total expenses</b>	<u>7,366,521</u>	<u>-</u>	<u>-</u>	<u>7,366,521</u>
<b>CHANGE IN NET ASSETS BEFORE OTHER CHANGES</b>				
	(149,948)	174,495	917,806	942,353
<b>OTHER CHANGES</b>				
Closed or deconsecrated parishes	5,175,736	-	-	5,175,736
<b>CHANGE IN NET ASSETS</b>	5,025,788	174,495	917,806	6,118,089
<b>NET ASSETS</b>				
Beginning of year	25,403,133	8,532,064	37,770,228	71,705,425
<b>End of year</b>	<u>\$ 30,428,921</u>	<u>\$ 8,706,559</u>	<u>\$ 38,688,034</u>	<u>\$ 77,823,514</u>

See accompanying notes

# EPISCOPAL DIOCESE OF PENNSYLVANIA AND AFFILIATES

## CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended December 31, 2017 with comparative totals for 2016

	<b>Program Services</b>				
	<b>Grants and Scholarships</b>	<b>Financially Assisted Congregations</b>	<b>Episcopal Function</b>	<b>Diocesan Meetings and Communications</b>	<b>Investment Management Expenses</b>
Salaries	\$ 49,261	\$ 332,283	\$ 711,701	\$ 107,826	\$ 88,397
Employee benefits	25,702	173,367	371,327	56,258	54,170
Bad debt expense	-	-	-	-	-
Depreciation	-	-	143,983	43,195	-
Grants and scholarships	1,008,016	77,000	-	-	5,530
Health insurance - congregations	-	-	-	-	-
Honoraria	-	-	19,920	-	-
Insurance	-	56,990	9,658	2,897	9,209
Meeting expense	1,609	6,785	23,246	3,522	-
National apportionment	-	-	-	-	-
Postage	318	-	4,597	696	-
Printing	971	-	14,030	2,126	-
Professional fees	1,346	60,000	45,186	2,946	75,532
Repairs and maintenance	-	-	92,599	27,780	-
Supplies	1,626	-	23,489	3,559	1,900
Telecommunications	1,217	-	17,583	2,664	-
Travel	2,086	17,055	159,085	4,567	-
Unrelated business income tax	-	-	-	-	-
Utilities	-	-	17,000	5,100	-
Miscellaneous	8,124	6,960	196,430	17,781	15,913
	<u>\$ 1,100,276</u>	<u>\$ 730,440</u>	<u>\$ 1,849,834</u>	<u>\$ 280,917</u>	<u>\$ 250,651</u>

See accompanying notes



<u>Wapiti</u>	<u>Other Diocesan Programs</u>	<u>Supporting Service</u>	<u>Unallocated National Apportionment</u>	<u>Totals</u>	
		<u>Management and General</u>		<u>2017</u>	<u>2016</u>
\$ 67,322	\$ 550,666	\$ 354,142	\$ -	\$ 2,261,598	\$ 2,101,919
35,125	287,307	187,455	-	1,190,711	1,527,555
-	-	-	-	-	11,420
-	43,195	57,592	-	287,965	133,047
-	-	-	-	1,090,546	1,257,779
-	-	-	-	-	72,631
-	-	-	-	19,920	18,400
-	2,897	6,934	-	88,585	108,711
2,198	47,511	10,930	-	95,801	249,180
-	-	-	365,000	365,000	330,000
435	3,557	2,098	-	11,701	8,918
1,327	10,856	6,401	-	35,711	26,877
2,244	15,648	52,357	-	255,259	393,596
-	27,780	37,039	-	185,198	253,624
2,222	18,174	11,349	-	62,319	67,765
1,663	13,605	8,021	-	44,753	36,473
2,852	70,604	14,328	-	270,577	269,095
-	-	271,882	-	271,882	-
-	5,100	6,800	-	34,000	18,390
50,444	92,683	64,484	-	452,819	481,141
<u>\$ 165,832</u>	<u>\$ 1,189,583</u>	<u>\$ 1,091,812</u>	<u>\$ 365,000</u>	<u>\$ 7,024,345</u>	<u>\$ 7,366,521</u>

**EPISCOPAL DIOCESE OF PENNSYLVANIA AND AFFILIATES**

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**

Year ended December 31, 2016

	<b>Program Services</b>				
	<b>Grants and Scholarships</b>	<b>Health Insurance Program</b>	<b>Financially Assisted Congregations</b>	<b>Episcopal Function</b>	<b>Diocesan Meetings and Communications</b>
Salaries	\$ 47,341	\$ -	\$319,331	\$ 613,611	\$103,623
Employee benefits	33,353	-	224,976	481,866	73,005
Bad debt expense	-	-	-	-	-
Depreciation	-	-	-	66,524	19,957
Grants and scholarships	1,147,429	-	102,900	-	-
Health insurance - congregations	-	72,631	-	-	-
Honoraria	-	-	-	18,400	-
Insurance	-	-	70,995	12,506	3,752
Meeting expense	5,467	-	3,585	78,980	11,966
National apportionment	-	-	-	-	-
Postage	243	-	-	3,504	531
Printing	731	-	-	10,560	1,600
Professional fees	1,346	-	70,200	74,959	2,946
Repairs and maintenance	-	-	-	126,812	38,044
Supplies	1,699	-	-	24,551	3,720
Telecommunications	992	-	-	14,330	2,171
Travel	2,029	-	12,096	189,150	4,443
Utilities	-	-	-	9,195	2,759
Miscellaneous	8,365	-	3,445	218,345	18,306
	<u>\$1,248,995</u>	<u>\$72,631</u>	<u>\$807,528</u>	<u>\$1,943,293</u>	<u>\$286,823</u>

See accompanying notes

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<u>Investment Management Expenses</u>	<u>Wapiti</u>	<u>Other Diocesan Programs</u>	<u>Supporting Service Management and General</u>	<u>Unallocated National Apportionment</u>	<u>Total</u>
\$ 84,069	\$ 64,698	\$ 529,202	\$340,044	\$ -	\$2,101,919
57,086	45,581	372,834	238,854	-	1,527,555
-	-	-	11,420	-	11,420
-	-	19,957	26,609	-	133,047
5,950	-	1,500.00	-	-	1,257,779
-	-	-	-	-	72,631
-	-	-	-	-	18,400
9,528	-	3,752	8,178	-	108,711
-	7,471	105,680	36,031	-	249,180
-	-	-	-	330,000	330,000
-	331	2,711	1,598	-	8,918
-	999	8,170	4,817	-	26,877
87,787	6,905	31,348	118,105	-	393,596
-	-	38,044	50,724	-	253,624
4,028	2,322	18,996	12,449	-	67,765
-	1,355	11,087	6,538	-	36,473
-	2,773	45,227	13,377	-	269,095
-	-	2,759	3,677	-	18,390
<u>14,438</u>	<u>50,848</u>	<u>102,528</u>	<u>64,866</u>	<u>-</u>	<u>481,141</u>
<u>\$262,886</u>	<u>\$183,283</u>	<u>\$1,293,795</u>	<u>\$937,287</u>	<u>\$330,000</u>	<u>\$7,366,521</u>

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# EPISCOPAL DIOCESE OF PENNSYLVANIA AND AFFILIATES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<i>Change in net assets</i>	\$ 10,101,573	\$ 6,118,089
<i>Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities</i>		
Realized and unrealized gain on investments	(11,266,557)	(3,208,482)
Bad debt expense	-	11,420
Depreciation	287,965	133,047
Closed or deconsecrated parishes	(950,000)	(5,175,736)
Change in value of beneficial interest in perpetual trusts	(92,929)	(143,642)
(Increase) decrease in		
Contributions and accounts receivable	11,884	(62,522)
Prepaid expenses and other assets	(2,356)	(11,920)
Loans receivable	(28,979)	(794,563)
Increase (decrease) in		
Accounts payable and accrued expenses	395,050	(63,140)
Postretirement benefit obligation	(197,000)	66,000
<b>Net cash used for operating activities</b>	<u>(1,741,349)</u>	<u>(3,131,449)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net proceeds from sale of investments	1,163,142	2,601,823
Proceeds from sale of real estate	620,500	285,235
Purchase of property and equipment	(5,822)	(39,184)
<b>Net cash provided by investing activities</b>	<u>1,777,820</u>	<u>2,847,874</u>
<b>Change in cash</b>	36,471	(283,575)
<b>CASH</b>		
Beginning of year	<u>2,085,888</u>	<u>2,369,463</u>
<b>End of year</b>	<u>\$ 2,122,359</u>	<u>\$ 2,085,888</u>

See accompanying notes

# EPISCOPAL DIOCESE OF PENNSYLVANIA AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

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### (1) NATURE OF OPERATIONS

#### Principles of Consolidation

U.S. generally accepted accounting principles require a nonprofit organization to consolidate the financial statements of affiliated nonprofit organizations when it has (a) certain kinds of control, or (b) other kinds of control coupled with an economic interest.

The consolidated financial statements include the accounts of the Episcopal Diocese of Pennsylvania (the "**Diocese**"), and the following affiliates - the Church Foundation (the "**Foundation**"), The Diocesan Health and Welfare Benefits Trust ("**DHWBT**") and Wapiti Land Company ("**WLC**"). All significant inter-organization balances and transactions have been eliminated.

A review of the control and financial structures of the Cathedral Church of the Saviour, also known as The Philadelphia Episcopal Cathedral (the "**Cathedral**"), and Episcopal Community Services ("**ECS**") resulted in a conclusion that the Diocese is required by U.S. generally accepted accounting principles to include these nonprofit entities in the Diocesan consolidated financial statements. However, because the Diocese exercises no direct control over these entities other than approval of directors by the Bishop and Standing Committee, and because the financial affairs of each entity are entirely separate and the Diocese is not responsible for their obligations, the Diocese has concluded that it would be misleading to consolidate with these entities and has not done so.

#### Episcopal Diocese of Pennsylvania

The Diocese is an unincorporated association of churches formed by an act of association on May 1, 1784. The Diocese exists and operates pursuant to a Constitution (the "**Diocesan Constitution**") adopted in 1814, and subsequently amended from time to time. The Diocese is governed pursuant to certain Canons (the "**Diocesan Canons**") adopted in 1829 and subsequently amended from time to time.

#### Wapiti Land Company

The Wapiti Land Company ("**WLC**") is a Pennsylvania nonprofit corporation that was created for the purpose of holding title to 433 acres of land and building improvements located in Cecil County, Maryland.

#### Diocesan Health and Welfare Benefits Trust

On January 1, 2007, the Diocesan Health and Welfare Benefits Trust ("**DHWBT**") was established to administer health, life, disability and other related insurance premiums and hold reserves in trust for the Episcopal Diocese of Pennsylvania and its parishes, missions and institutions. It ceased operations on January 1, 2017.

#### The Church Foundation

The Foundation is a Pennsylvania nonprofit corporation that was created as a service organization for the Diocese. The Foundation serves as trustee, custodian and investment advisor for certain assets owned by the Diocese and churches, chapels, missions and other institutions within the Diocese and provides ministerial services with respect to real estate as directed by the Diocese.

The Foundation's primary activity is managing the Consolidated Fund, a balanced co-mingled fund of equity and fixed income securities providing a diversified investment medium for the Diocese, its parishes and other related institutions. In general, the Foundation holds title to real property of the Diocese and any improvements made thereto. In addition, the Foundation holds title to most, but not all, real property of parishes and missions of the Diocese.

The Foundation does not reflect in its statement of financial position any of the real property to which it holds title or Consolidated Fund accounts belonging to parishes and other institutions not consolidated in these financial statements.

# EPISCOPAL DIOCESE OF PENNSYLVANIA AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

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### (2) SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of Accounting**

The financial statements have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

#### **Basis of Presentation**

The Diocese and Affiliates classify their net assets, revenues, expenses, gains and losses based upon the existence or absence of donor-imposed restrictions as follows:

##### ***Unrestricted net assets***

Net assets that are not subject to donor-imposed restrictions. Included in unrestricted net assets is a fund functioning as an endowment designated by the Ecclesiastical Authority of the Diocese.

##### ***Temporarily restricted net assets***

Net assets that are subject to donor-imposed restrictions that will be satisfied by actions of the Diocese and Affiliates and/or the passage of time. When a restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as ***"net assets released from restrictions."***

##### ***Permanently restricted net assets***

Net assets that are subject to donor-imposed restrictions that such assets be maintained indefinitely.

#### **Fair Value Measurements of Assets and Liabilities**

Generally accepted accounting principles ("**GAAP**") define fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date. GAAP establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Diocese and Affiliates. Unobservable inputs reflect the Diocese and Affiliates' assumptions about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

**Level 1** – Valuations based on quoted prices in active markets for identical assets or liabilities that the Diocese and Affiliates have the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these assets and liabilities does not entail a significant degree of judgment.

**Level 2** – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

**Level 3** – Valuations based on inputs that are unobservable, that is, inputs that reflect the Diocese and Affiliates' own assumptions.

#### **Estimates**

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

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# EPISCOPAL DIOCESE OF PENNSYLVANIA AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

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### **Investments**

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value with gains and losses included in the statement of activities. Investment income is recorded as earned.

The Diocese and Affiliates invest in a professionally-managed portfolio that contains various types of securities (**See Note 3**). Such investments are exposed to market and credit risk. 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 the near term would materially affect investment balances and the amounts reported in the financial statements.

### **Loans Receivable and Allowance for Loan Losses**

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding principal, adjusted for any charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest on loans is recognized to the extent of interest payments received and credited to operations based upon the principal amounts outstanding. The allowance for loan losses is maintained at an amount management deems adequate to cover estimated losses. In determining the level to be maintained, management evaluates many factors, including current economic trends, historical loss experience, the borrowers' ability to repay and repayment performance, and estimated collateral values. In the opinion of management, the present allowance is adequate to absorb reasonable, foreseeable loan losses. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions or any of the other factors used in management's determination.

### **Real Estate Held for Sale**

Real estate held for sale is recorded at the lower of its carrying amount or fair value less the cost to sell.

### **Property and Equipment**

The Diocese and Affiliates capitalize all expenditures for property and equipment in excess of \$1,000. Property and equipment is carried at cost if purchased and at fair value at the date of donation if contributed. Depreciation is computed using the straight-line method over the estimated lives of the assets.

### **Mission and Parish Property**

Active missions and parishes of the Diocese are not recorded in the consolidated financial statements because the Diocese has no control over the property and the congregations maintain beneficial use of the properties. In the event that a mission or parish is closed or deconsecrated, beneficial ownership of the property held by the congregation reverts to the Diocese and is therefore recorded as an asset on the statement of financial position and "Closed or deconsecrated congregations" on the statement of activities.

### **Beneficial Interest in Perpetual Trusts**

The beneficial interest in perpetual trusts is reported at fair market value and is equal to the Diocese and Affiliates' share of the assets in the trusts.

### **Contributions**

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted net assets depending on the absence or existence and nature of any donor restrictions. Donor-restricted contributions whose restrictions are satisfied in the same period are reported as unrestricted.

Unconditional contributions are recognized as revenue when the related promise to give is received. Conditional contributions are recognized as revenue when the conditions are satisfied.

# EPISCOPAL DIOCESE OF PENNSYLVANIA AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

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### **Intentions to Give**

Congregation pledges for future periods are considered to be intentions to give. Intentions to give are not recognized as contributions until they become unconditional promises to give. At December 31, 2017, the Diocese had received congregation pledges for its 2018 program budget of approximately \$172,877.

### **Congregation Assessments**

Congregation assessments are recognized as revenue in the period that the Diocese provides services to the Congregations. Congregation assessments collected in advance of the services being performed are presented as deferred revenue.

### **Functional Allocation of Expenses**

The costs of providing the program and supporting services have been presented on a functional basis in the consolidated statements of activities and functional expenses. Accordingly, certain costs have been allocated among the program and supporting services benefited.

### **Income Tax Status**

The Diocese and Affiliates qualify as tax-exempt organizations under the Internal Revenue Code; therefore, no provision or liability for income taxes is included in the accompanying consolidated financial statements.

### **Concentration of Credit Risk**

Financial instruments which potentially subject the Diocese and Affiliates to concentrations of credit risk are cash, other receivables and loans receivable. The Diocese and Affiliates maintain their cash at various financial institutions. At times, such deposits may exceed federally-insured limits. Other receivables consist of various amounts that management expects to collect in 2018. See Note 4 for more information on loans receivable.

### **Reclassifications**

Certain items in the 2016 financial statements have been reclassified in order to conform to the 2017 presentation.

### **Program Services**

Descriptions of the program services of the Diocese and Affiliates are as follows:

#### **Grants and Scholarships**

This category includes grants made by the Diocese to institutions and congregations in the diocesan community for repair of church plant, financial aid and other needs. Grants are also made for scholarships for seminarians and support of deacon interns.

#### **Health Insurance Program**

This category includes the cost of providing medical insurance coverage for all clergy and lay employees within the Diocese. The cost of this insurance is billed by the Diocesan Health and Welfare Benefits Trust to the Diocese and its parishes to the extent that it relates to active clergy and lay employees working in those parishes.

#### **Financially Assisted Congregations**

The Diocese provides support in the form of clergy salary and benefits and other financial aid for approximately twenty congregations.

#### **Episcopal Function**

This category includes Diocesan support of bishops, their immediate staff, and the functions relating to the ordination, placement and licensing of clergy.

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# EPISCOPAL DIOCESE OF PENNSYLVANIA AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

### Diocesan Meetings and Communications

This category includes expenses related to the Convention of the Diocese, related governance meetings, the Diocesan newspaper and other communications.

### Investment Management Expenses

This category includes the cost of managing the Consolidated Fund and consists principally of fees paid to the custodial agent and the administrator of participant accounts.

### Wapiti

This category includes the cost of operating the Wapiti Retreat Center, a rural facility located on the Chesapeake Bay, which is a property held for sale.

### Other Diocesan Programs

This category includes support of various Diocesan ministries including Christian education and training, ministry to youth and young adults, congregational development and advancement of Diocesan strategic objectives.

## (3) INVESTMENTS

Investments consisted of the following at December 31, 2017:

	<u>Diocese</u>	<u>Foundation</u>	<u>Total</u>
Units in The Consolidated Fund of The Church Foundation	\$73,266,045	\$1,046,115	\$74,312,160
Other	<u>53,408</u>	<u>-</u>	<u>53,408</u>
	<u>\$73,319,453</u>	<u>\$1,046,115</u>	<u>\$74,365,568</u>

Investments consisted of the following at December 31, 2016:

	<u>Diocese</u>	<u>Foundation</u>	<u>Total</u>
Units in The Consolidated Fund of The Church Foundation	\$61,823,721	\$810,359	\$62,634,080
Limited Partnership	1,574,665	-	1,574,665
Other	<u>53,408</u>	<u>-</u>	<u>53,408</u>
	<u>\$63,451,794</u>	<u>\$810,359</u>	<u>\$64,262,153</u>

Investment income was comprised of the following:

	<u>2017</u>	<u>2016</u>
Net realized and unrealized gain	\$11,266,557	\$3,208,482
Interest and dividends	1,355,417	1,285,473
Investment management fees	<u>(212,082)</u>	<u>(218,677)</u>
	<u>\$12,409,892</u>	<u>\$4,275,278</u>

## (4) LOANS RECEIVABLE

Loans receivable consisted of the following at December 31:

	<u>2017</u>	<u>2016</u>
Loans to congregations	\$ 606,557	\$ 969,160
Other loans	<u>945,275</u>	<u>903,693</u>
	1,551,832	1,872,853
Less allowance for loan loss	<u>(566,527)</u>	<u>(916,527)</u>
	<u>\$ 985,305</u>	<u>\$ 956,326</u>

# EPISCOPAL DIOCESE OF PENNSYLVANIA AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

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In December 2016, the Diocese entered into a mortgage receivable with the Bishop of the Diocese which is included in other loans. The mortgage agreement allows for additional borrowings up to \$33,000 for renovations. The mortgage receivable bears interest at 3% and had a balance of \$866,135 and \$817,000 at December 31, 2017 and 2016, respectively. Principal and interest payments began in January 2018.

### (5) PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31,:

	<u>2017</u>	<u>2016</u>
Closed churches (including land)	\$ 5,760,002	\$4,810,002
Building and improvements	477,046	477,046
Furniture and equipment	<u>679,864</u>	<u>674,042</u>
	5,966,912	5,961,090
Less accumulated depreciation	<u>(1,072,691)</u>	<u>(784,726)</u>
	<u>\$ 5,844,221</u>	<u>\$5,176,364</u>

Closed churches consisted of the following at December 31,:

	<u>2017</u>	<u>2016</u>
Church of St. James the Less, Philadelphia	\$ 1	\$ 1
Church of the Crucifixion, Philadelphia	850,000	850,000
St. Faith's preschool and kindergarten, Havertown	360,000	360,000
St. John's, Norristown	950,000	-
St. Mary's Episcopal Church, Elverson	300,001	300,001
St. Philip-In-The-Fields, Oreland	1,000,000	1,000,000
St. Stephen's Episcopal Church, Philadelphia	<u>2,300,000</u>	<u>2,300,000</u>
	<u>\$ 5,760,002</u>	<u>\$4,810,002</u>

### (6) BENEFICIAL INTEREST IN PERPETUAL TRUSTS

The Diocese is the income beneficiary of several bank-administered perpetual trusts. The principal portions of the trusts are permanently restricted and the income distributions are temporarily restricted and unrestricted.

### (7) POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

Diocesan clergy and lay employees who meet certain residence and service requirements are covered by Diocesan plans for medical benefits during retirement. The primary plan for these benefits is one administered by an agency of the national church (the Church Pension Group), which provides for a significant share of the costs. The costs for current benefits for retirees are covered by parochial assessment.

Although there is no guarantee that the specific provisions of current plans will remain unchanged or that the share of the costs provided by various parties will not change, the Diocese has calculated its charges and liabilities as if the current arrangements are continued into the indefinite future.

The Diocesan liability at December 31, 2017 and 2016 was \$3,850,000 and \$4,047,000, representing the charges for the current and prior years' service which were not funded.

# EPISCOPAL DIOCESE OF PENNSYLVANIA AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

The following table summarizes changes to the postretirement benefit obligation:

	<u>2017</u>	<u>2016</u>
Balance, beginning of year	\$ 4,047,000	\$ 3,981,000
Service cost	76,820	105,089
Interest cost	(112,666)	211,961
Benefit payments	<u>(161,154)</u>	<u>(251,050)</u>
Balance, end of year	<u>\$ 3,850,000</u>	<u>\$ 4,047,000</u>

The funded status of the plan was as follows:

	<u>2017</u>	<u>2016</u>
Postretirement benefit obligation	\$(1,527,000)	\$(1,781,000)
Unrecognized net actuarial gain	<u>(2,323,000)</u>	<u>(2,266,000)</u>
	(3,850,000)	(4,047,000)
Fair value of Plan assets	<u>-</u>	<u>-</u>
Accrued benefit cost	<u>\$ (3,850,000)</u>	<u>\$ (4,047,000)</u>

Net periodic benefit cost was comprised of the following:

	<u>2017</u>	<u>2016</u>
Service cost	\$ 76,820	\$ 105,089
Interest cost	<u>(112,666)</u>	<u>211,961</u>
Postretirement benefit expense	<u>\$ (35,846)</u>	<u>\$ 317,050</u>

The significant assumptions used in the determination of the postretirement benefit obligation were a discount rate of 5.25% and an increase in the cost of healthcare benefits of 9.8% grading to 5% over 3 years.

Assumed health care cost trend rates significantly impact reported amounts. The effect of a one-percentage-point change in assumed rates would alter the amounts of the benefit obligation and the sum of the service cost and interest cost components of postretirement benefit expense as follows for 2017:

	<u>One Percentage Point</u>	
	<u>Increase</u>	<u>Decrease</u>
Effect on the postretirement benefit obligation	\$188,423	\$(157,159)
Effect on the sum of the service cost and interest cost components	28,088	(29,167)

### (8) REAL ESTATE HELD FOR SALE

The following is a summary of real estate held for sale at December 31,:

	<u>2017</u>	<u>2016</u>
Wapiti Retreat Center	\$4,500,000	\$4,500,000
St. Stephen's Rectory, Philadelphia	<u>-</u>	<u>620,500</u>
	<u>\$4,500,000</u>	<u>\$5,120,500</u>

# EPISCOPAL DIOCESE OF PENNSYLVANIA AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

### (9) RETIREMENT PLANS

The Diocese and Affiliates participate in a defined benefit plan and a defined contribution plan. The defined benefit plan is a multi-employer plan maintained for the benefit of clergy and administered by the Church Pension Fund on behalf of the Episcopal Church. The Diocese's contributions to the plan were \$173,465 for 2017 and \$155,312 for 2016. The Diocese's relative position in this plan is not readily determinable.

The defined contribution plan covers substantially all eligible lay employees. The provisions of the plan permit the employees to make tax-deferred contributions to the plan not to exceed IRS limitations. The plan also permits the Diocese to make discretionary contributions to the plan. The Diocese's contributions were \$101,233 for 2017 and \$104,033 for 2016.

### (10) TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes and periods:

	<b>Balance December 31, 2016</b>	<b>Additions</b>	<b>Releases</b>	<b>Balance December 31, 2017</b>
<b>Purpose restrictions</b>				
Retired clergy	\$4,200,515	\$ 666,005	\$ (32,225)	\$ 4,834,295
Care of aged	2,080,652	341,374	(60,194)	2,361,832
Theological education	933,092	157,724	-	1,090,816
Pension fund	331,663	56,280	(9,572)	378,371
Episcopal Churchwomen	306,225	50,242	(8,859)	347,608
Medical insurance	208,738	34,594	(2,295)	241,037
Youth work	208,738	34,594	(2,296)	241,036
Mission needs	175,823	29,139	(1,934)	203,028
Periodical club	58,849	9,753	(647)	67,955
Other	<u>191,264</u>	<u>71,122</u>	<u>7,924</u>	<u>270,310</u>
	8,695,559	1,450,827	(110,098)	10,036,288
<b>Time restrictions</b>				
For future periods	<u>11,000</u>	<u>8,000</u>	<u>-</u>	<u>19,000</u>
	<b><u>\$8,706,559</u></b>	<b><u>\$1,458,827</u></b>	<b><u>\$(110,098)</u></b>	<b><u>\$10,055,288</u></b>

### (11) PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets, the income from which is both unrestricted and temporarily restricted, consisted of the following endowments at December 31,:

	<b><u>2017</u></b>	<b><u>2016</u></b>
Sayers Memorial Fund	\$22,039,886	\$19,416,006
Nunns Memorial Endowment Fund	7,780,155	6,853,916
Church Training and Deaconess Fund	1,851,762	1,631,307
Bishop Taitt Fund for Missions	1,648,049	1,451,846
Merrick Fund	1,591,946	1,402,423
McPherson Fund	459,375	404,686
Clergy Daughters Fund	437,094	375,236

# EPISCOPAL DIOCESE OF PENNSYLVANIA AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

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T. James Fernley Fund	432,632	374,660
Elizabeth Cooper Fund	397,590	350,256
Harry E. Stone Retreat Fund	318,818	280,391
David M. Ashley Hospital Fund	227,387	-
Vera Merkel	176,526	152,872
Elizabeth Price Martin Fund	162,071	142,777
LF Hill Episcopal Churchwomen Fund	161,968	142,685
JE Hill Christmas Fund	161,967	142,684
Bishop MacKay Smith Fund	154,122	135,773
Thomas Ministry Fund	140,453	121,633
Thomas Sunday School Fund	138,042	105,092
JE Hill Scholarship Fund	114,565	100,926
LF Hill Episcopate Fund	112,901	99,460
Episcopal Churchwomen Cole Fund	102,489	90,288
Christmas Fund – Stern Fund	89,132	78,520
Potter Deacon Training Fund	89,053	78,451
Atonement – McCauley Fund	94,837	71,541
Newbold Fund	70,995	62,543
Christmas Fund – Weinman Fund	61,271	53,977
Wetherill Chaplain Fund	58,919	51,904
Samuel Houston Fund	59,598	51,533
St. Luke K Biddle CC Fund	57,331	50,506
St. John/Baptist Ihling Fund	29,876	22,797
St. John's Kelton	20,067	17,378
St. Johns Settlement Goodloe Endowment Fund	15,961	14,061
Bishop CF Pennsylvania Agency Account	12,203	10,750
Baugh Helene A Fund	11,131	9,806
Calvary Germantown	7,991	6,323
Accrued investment management fees	(27,671)	-
Beneficial interest in perpetual trusts	<u>4,425,956</u>	<u>4,333,027</u>
	<u>\$43,686,448</u>	<u>\$38,688,034</u>

### (12) ENDOWMENT FUNDS

An accounting standard exists which provides 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 ("*UPMIFA*"). The Diocese and Affiliates are not subject to this guidance since Pennsylvania has not enacted a version of UPMIFA. The standard 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.

In accordance with Pennsylvania statutes, the Diocese and Affiliates have adopted investment and spending policies for their endowment assets that attempt to provide a predictable stream of funding to programs supported by their endowments while seeking to maintain the purchasing power of these endowment assets over the long-term. The Diocese and Affiliates' spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes.

The spending policy calculates the amount of money annually distributed from the permanently restricted endowment fund to support various programs. The current spending policy is to distribute an amount equal to 4.445% of a moving three-year average of the fair value of the endowment fund. In 2017, the Diocese took an additional endowment distribution of \$670,467.

# EPISCOPAL DIOCESE OF PENNSYLVANIA AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

Changes in the endowment assets for the years ended December 31, 2017 and 2016 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Assets</u>
Endowment net assets, December 31, 2015	\$20,184,269	\$8,317,237	\$33,580,843	\$62,082,349
Additions	137,418	3,750	-	141,168
Withdrawals	(968,834)	(231,972)	-	(1,200,806)
Investment income	1,432,367	441,805	2,223,036	4,097,208
Spending policy distribution	<u>(997,302)</u>	<u>(6,257)</u>	<u>(1,448,872)</u>	<u>(2,452,431)</u>
Endowment net assets, December 31, 2016	19,787,918	8,524,563	34,355,007	62,667,488
Additions	2,733,700	41,080	201,971	2,976,751
Withdrawals	(30,076)	-	-	(30,076)
Investment income	4,257,813	1,407,858	5,645,198	11,310,869
Spending policy distribution	<u>(2,117,360)</u>	<u>(223,264)</u>	<u>(941,684)</u>	<u>(3,282,308)</u>
Endowment net assets, December 31, 2017	<u>\$24,631,995</u>	<u>\$9,750,237</u>	<u>\$39,260,492</u>	<u>\$73,642,724</u>

### (13) LEASE COMMITMENT

The Diocese leases its administrative office under a non-cancelable operating lease which expires in December 2019. Rent expense for the years ended December 31, 2017 and 2016 was \$232,831 and \$237,896, respectively.

Future minimum annual lease commitments under non-cancelable operating leases are as follows:

#### Year ending December 31,

2018	\$195,567
2019	<u>198,500</u>
	<u>\$394,067</u>

### (14) ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS

The following is a summary of assets and liabilities measured at fair value on a recurring basis and the valuation inputs used to value them:

<u>Description</u>	<u>Balance December 31, 2017</u>	<u>Quoted Prices in Active Markets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Assets				
Investments	\$74,365,568	\$ -	\$74,365,568	\$ -
Beneficial interest in perpetual trusts	<u>4,425,956</u>	<u>-</u>	<u>-</u>	<u>4,425,956</u>
	<u>\$78,791,524</u>	<u>\$ -</u>	<u>\$74,365,568</u>	<u>\$4,425,956</u>
Liabilities				
Postretirement benefit obligation	<u>\$ 3,850,000</u>	<u>\$ -</u>	<u>\$ 3,850,000</u>	<u>\$ -</u>

# EPISCOPAL DIOCESE OF PENNSYLVANIA AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

<u>Description</u>	<u>Balance December 31, 2016</u>	<u>Quoted Prices in Active Markets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Assets				
Investments	\$64,262,153	\$ -	\$62,687,488	\$1,574,665
Beneficial interest in perpetual trusts	<u>4,333,027</u>	<u>-</u>	<u>-</u>	<u>4,333,027</u>
	<u>\$68,595,180</u>	<u>\$ -</u>	<u>\$62,687,488</u>	<u>\$5,907,692</u>
Liabilities				
Postretirement benefit obligation	<u>\$ 4,047,000</u>	<u>\$ -</u>	<u>\$ 4,047,000</u>	<u>\$ -</u>

Level 3 assets (beneficial interest in perpetual trust and investments) had gains of \$92,929 in the consolidated statement of activities in 2017.

### (15) SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 26, 2018, the date on which the consolidated financial statements were available to be issued. No material subsequent events have occurred since December 31, 2017 that required recognition or disclosure in the consolidated financial statements.

## **SUPPLEMENTARY INFORMATION**



**EPISCOPAL DIOCESE OF PENNSYLVANIA AND AFFILIATES**

**CONSOLIDATING STATEMENT OF FINANCIAL POSITION**

**December 31, 2017**

	<u>Diocese</u>	<u>Wapiti Land Company</u>	<u>DHWBT</u>	<u>Foundation</u>	<u>Consolidated</u>
<b>ASSETS</b>					
Cash	\$ 1,993,188	\$ -	\$ 89,048	\$ 40,123	\$ 2,122,359
Contributions receivable					
Pledges	28,044	-	-	-	28,044
Other	19,000	-	-	-	19,000
Assessments receivable	17,273	-	-	-	17,273
Other receivables	141,860	-	3,126	-	144,986
Prepaid expenses and other assets	16,419	-	-	15,189	31,608
Investments	73,319,453	-	-	1,046,115	74,365,568
Real estate held for sale	-	4,500,000	-	-	4,500,000
Loans receivable	985,305	-	-	-	985,305
Property and equipment, net	5,844,221	-	-	-	5,844,221
Beneficial interest in perpetual trusts	4,425,956	-	-	-	4,425,956
<b>Total assets</b>	<u>\$ 86,790,719</u>	<u>\$ 4,500,000</u>	<u>\$ 92,174</u>	<u>\$ 1,101,427</u>	<u>\$ 92,484,320</u>
<b>LIABILITIES</b>					
Accounts payable and accrued expenses	\$ 654,053	\$ -	\$ -	\$ 55,180	\$ 709,233
Postretirement benefit obligation	3,850,000	-	-	-	3,850,000
<b>Total liabilities</b>	<u>4,504,053</u>	<u>-</u>	<u>-</u>	<u>55,180</u>	<u>4,559,233</u>
<b>NET ASSETS</b>					
Unrestricted	28,983,785	4,500,000	92,174	607,392	34,183,351
Temporarily restricted	10,053,527	-	-	1,761	10,055,288
Permanently restricted	43,249,354	-	-	437,094	43,686,448
<b>Total net assets</b>	<u>82,286,666</u>	<u>4,500,000</u>	<u>92,174</u>	<u>1,046,247</u>	<u>87,925,087</u>
<b>Total liabilities and net assets</b>	<u>\$ 86,790,719</u>	<u>\$ 4,500,000</u>	<u>\$ 92,174</u>	<u>\$ 1,101,427</u>	<u>\$ 92,484,320</u>

# EPISCOPAL DIOCESE OF PENNSYLVANIA AND AFFILIATES

## CONSOLIDATING STATEMENT OF ACTIVITIES

Year ended December 31, 2017

	<u>Diocese</u>	<u>Wapiti Land Company</u>	<u>DHWBT</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>REVENUE AND SUPPORT</b>						
Contributions						
Congregation pledges	\$ 705,284	\$ -	\$ -	\$ -	\$ -	\$ 705,284
Other contributions	329,554	-	-	44,723	-	374,277
Congregation assessments	1,966,506	-	-	-	-	1,966,506
Investment income	12,274,717	-	-	135,175	-	12,409,892
Change in value of beneficial interest in perpetual trusts	92,929	-	-	-	-	92,929
Other income	249,678	-	-	422,075	(44,723)	627,030
<b>Total revenue and support</b>	<u>15,618,668</u>	<u>-</u>	<u>-</u>	<u>601,973</u>	<u>(44,723)</u>	<u>16,175,918</u>
<b>EXPENSES</b>						
<b>Program services</b>						
Grants and scholarships	1,100,276	-	-	-	-	1,100,276
Financially assisted congregations	730,440	-	-	-	-	730,440
Episcopal function	1,849,834	-	-	-	-	1,849,834
Diocesan meetings and communications	280,917	-	-	-	-	280,917
Investment management expenses	-	-	-	295,374	(44,723)	250,651
Wapiti	165,832	-	-	-	-	165,832
Other Diocesan programs	1,189,583	-	-	-	-	1,189,583
<b>Total program services</b>	<u>5,316,882</u>	<u>-</u>	<u>-</u>	<u>295,374</u>	<u>(44,723)</u>	<u>5,567,533</u>
<b>Supporting service</b>						
Management and general	996,839	-	5,542	89,431	-	1,091,812
<b>Unallocated national apportionment</b>	<u>365,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>365,000</u>
<b>Total expenses</b>	<u>6,678,721</u>	<u>-</u>	<u>5,542</u>	<u>384,805</u>	<u>(44,723)</u>	<u>7,024,345</u>
<b>CHANGE IN NET ASSETS BEFORE OTHER CHANGES</b>	<u>8,939,947</u>	<u>-</u>	<u>(5,542)</u>	<u>217,168</u>	<u>-</u>	<u>9,151,573</u>
<b>OTHER CHANGES</b>						
Closed or deconsecrated parishes	950,000	-	-	-	-	950,000
<b>CHANGE IN NET ASSETS</b>	<u>9,889,947</u>	<u>-</u>	<u>(5,542)</u>	<u>217,168</u>	<u>-</u>	<u>10,101,573</u>
<b>NET ASSETS</b>						
Beginning of year	72,396,719	4,500,000	97,716	829,079	-	77,823,514
<b>End of year</b>	<u>\$ 82,286,666</u>	<u>\$ 4,500,000</u>	<u>\$ 92,174</u>	<u>\$ 1,046,247</u>	<u>\$ -</u>	<u>\$ 87,925,087</u>

# EPISCOPAL DIOCESE OF PENNSYLVANIA AND AFFILIATES

## STATEMENT OF ACTIVITIES - EPISCOPAL DIOCESE OF PENNSYLVANIA ONLY

Year ended December 31, 2017 with comparative totals for 2016

	Operating	Designated	Total Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
						2017	2016
<b>REVENUE AND SUPPORT</b>							
Contributions							
Congregation pledges	\$ 705,284	\$ -	\$ 705,284	\$ -	\$ -	\$ 705,284	\$ 639,674
Other contributions	-	131,226	131,226	41,080	201,971	374,277	382,415
Congregation assessments	1,892,333	74,173	1,966,506	-	-	1,966,506	1,848,268
Investment income	183,988	5,099,531	5,283,519	1,407,858	5,583,340	12,274,717	4,225,274
Change in value of beneficial interest in perpetual trusts	-	-	-	-	92,929	92,929	143,642
Other income	161,340	35,615	196,955	8,000	-	204,955	589,822
Net assets released from restrictions							
Endowment income distribution	3,167,224	(2,117,360)	1,049,864	(108,180)	(941,684)	-	-
Other transfers	153,301	(153,301)	-	-	-	-	-
<b>Total revenue and support</b>	<u>6,263,470</u>	<u>3,069,884</u>	<u>9,333,354</u>	<u>1,348,758</u>	<u>4,936,556</u>	<u>15,618,668</u>	<u>7,829,095</u>
<b>EXPENSES</b>							
<b>Program services</b>							
Grants and scholarships	1,100,276	-	1,100,276	-	-	1,100,276	1,248,995
Financially assisted congregations	730,440	-	730,440	-	-	730,440	807,528
Episcopal function	1,849,834	-	1,849,834	-	-	1,849,834	2,013,643
Diocesan meetings and communications	280,917	-	280,917	-	-	280,917	286,823
Wapiti	165,832	-	165,832	-	-	165,832	183,283
Other Diocesan programs	1,189,583	-	1,189,583	-	-	1,189,583	1,293,795
<b>Total program services</b>	<u>5,316,882</u>	<u>-</u>	<u>5,316,882</u>	<u>-</u>	<u>-</u>	<u>5,316,882</u>	<u>5,834,067</u>
<b>Supporting service</b>							
Management and general	996,839	-	996,839	-	-	996,839	802,944
<b>Unallocated national apportionment</b>							
	365,000	-	365,000	-	-	365,000	330,000
<b>Total expenses</b>	<u>6,678,721</u>	<u>-</u>	<u>6,678,721</u>	<u>-</u>	<u>-</u>	<u>6,678,721</u>	<u>6,967,011</u>
<b>CHANGE IN NET ASSETS BEFORE OTHER CHANGES</b>	(415,251)	3,069,884	2,654,633	1,348,758	4,936,556	8,939,947	862,084
<b>OTHER CHANGES</b>							
Closed or deconsecrated parishes	950,000	-	950,000	-	-	950,000	5,175,736
<b>CHANGE IN NET ASSETS</b>	534,749	3,069,884	3,604,633	1,348,758	4,936,556	9,889,947	6,037,820
<b>NET ASSETS</b>							
Beginning of year	2,330,554	23,048,598	25,379,152	8,704,769	38,312,798	72,396,719	66,358,899
<b>End of year</b>	<u>\$ 2,865,303</u>	<u>\$ 26,118,482</u>	<u>\$ 28,983,785</u>	<u>\$ 10,053,527</u>	<u>\$ 43,249,354</u>	<u>\$ 82,286,666</u>	<u>\$ 72,396,719</u>

# EPISCOPAL DIOCESE OF PENNSYLVANIA AND AFFILIATES

## STATEMENT OF FUNCTIONAL EXPENSES - EPISCOPAL DIOCESE OF PENNSYLVANIA ONLY

Year ended December 31, 2017 with comparative totals for 2016

	<b>Program Services</b>			
	<b>Grants and Scholarships</b>	<b>Financially Assisted Congregations</b>	<b>Episcopal Function</b>	<b>Diocesan Meetings and Communications</b>
Salaries	\$ 49,261	\$ 332,283	\$ 711,701	\$ 107,826
Employee benefits	25,702	173,367	371,327	56,258
Bad debt expense	-	-	-	-
Depreciation	-	-	143,983	43,195
Grants and scholarships	1,008,016	77,000	-	-
Honoraria	-	-	19,920	-
Insurance	-	56,990	9,658	2,897
Meeting expense	1,609	6,785	23,246	3,522
National apportionment	-	-	-	-
Postage	318	-	4,597	696
Printing	971	-	14,030	2,126
Professional fees	1,346	60,000	45,186	2,946
Repairs and maintenance	-	-	92,599	27,780
Supplies	1,626	-	23,489	3,559
Telecommunications	1,217	-	17,583	2,664
Travel	2,086	17,055	159,085	4,567
Unrelated business income tax	-	-	-	-
Utilities	-	-	17,000	5,100
Miscellaneous	8,124	6,960	196,430	17,781
	<u>\$ 1,100,276</u>	<u>\$ 730,440</u>	<u>\$ 1,849,834</u>	<u>\$ 280,917</u>

<u>Wapiti</u>	<u>Other Diocesan Programs</u>	<u>Supporting Service</u>	<u>Unallocated National Apportionment</u>	<u>Totals</u>	
		<u>Management and General</u>		<u>2017</u>	<u>2016</u>
\$ 67,322	\$ 550,666	\$ 324,677	\$ -	\$ 2,143,736	\$ 2,060,177
35,125	287,307	169,398	-	1,118,484	1,451,440
-	-	-	-	-	11,420
-	43,195	57,592	-	287,965	133,047
-	-	-	-	1,085,016	1,251,829
-	-	-	-	19,920	18,400
-	2,897	3,864	-	76,306	96,007
2,198	47,511	10,930	-	95,801	249,180
-	-	-	365,000	365,000	330,000
435	3,557	2,098	-	11,701	8,918
1,327	10,856	6,401	-	35,711	26,877
2,244	15,648	13,913	-	141,283	227,793
-	27,780	37,039	-	185,198	253,624
2,222	18,174	10,716	-	59,786	62,489
1,663	13,605	8,021	-	44,753	36,473
2,852	70,604	14,328	-	270,577	269,095
-	-	271,882	-	271,882	-
-	5,100	6,800	-	34,000	18,390
50,444	92,683	59,180	-	431,602	461,852
<u>\$ 165,832</u>	<u>\$ 1,189,583</u>	<u>\$ 996,839</u>	<u>\$ 365,000</u>	<u>\$ 6,678,721</u>	<u>\$ 6,967,011</u>