

Episcopal Diocese of Pennsylvania And Affiliates

Consolidated Financial Statements
Years Ended December 31, 2015 and 2014



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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, 2015 and 2014, 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, 2015 and 2014, 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
June 28, 2016**

EPISCOPAL DIOCESE OF PENNSYLVANIA AND AFFILIATES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2015 and 2014

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Totals</u> | |
|---|----------------------|-----------------------------------|-----------------------------------|----------------------|----------------------|
| | | | | <u>2015</u> | <u>2014</u> |
| ASSETS | | | | | |
| Cash | \$ 2,141,341 | \$ 203,827 | \$ 24,295 | \$ 2,369,463 | \$ 2,537,541 |
| Contributions receivable | | | | | |
| Pledges | 16,120 | - | - | 16,120 | 17,750 |
| Other | - | 11,000 | - | 11,000 | 11,000 |
| Assessments receivable | 9,065 | - | - | 9,065 | 8,468 |
| Other receivables | 133,900 | - | - | 133,900 | 500,244 |
| Prepaid expenses and other assets | 17,332 | - | - | 17,332 | 26,478 |
| Investments | 21,781,709 | 8,317,237 | 33,556,548 | 63,655,494 | 66,230,390 |
| Real estate held for sale | 5,000,000 | - | - | 5,000,000 | 5,905,000 |
| Loans receivable | 161,763 | - | - | 161,763 | 180,718 |
| Property and equipment, net | 500,226 | - | - | 500,226 | 607,256 |
| Beneficial interest in perpetual trusts | - | - | 4,189,385 | 4,189,385 | 4,503,539 |
| Total assets | \$ 29,761,456 | \$ 8,532,064 | \$ 37,770,228 | \$ 76,063,748 | \$ 80,528,384 |
| LIABILITIES AND NET ASSETS | | | | | |
| LIABILITIES | | | | | |
| Accounts payable and accrued expenses | \$ 377,323 | \$ - | \$ - | \$ 377,323 | \$ 1,037,837 |
| Postretirement benefit obligation | 3,981,000 | - | - | 3,981,000 | 3,961,000 |
| Total liabilities | 4,358,323 | - | - | 4,358,323 | 4,998,837 |
| NET ASSETS | | | | | |
| Unrestricted | 25,403,133 | - | - | 25,403,133 | 27,113,174 |
| Temporarily restricted | - | 8,532,064 | - | 8,532,064 | 8,872,262 |
| Permanently restricted | - | - | 37,770,228 | 37,770,228 | 39,544,111 |
| Total net assets | 25,403,133 | 8,532,064 | 37,770,228 | 71,705,425 | 75,529,547 |
| Total liabilities and net assets | \$ 29,761,456 | \$ 8,532,064 | \$ 37,770,228 | \$ 76,063,748 | \$ 80,528,384 |

See accompanying notes

EPISCOPAL DIOCESE OF PENNSYLVANIA AND AFFILIATES

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended December 31, 2015 with comparative totals for 2014

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Totals | |
|---|---------------------|---------------------------|---------------------------|---------------------|---------------------|
| | | | | 2015 | 2014 |
| REVENUE AND SUPPORT | | | | | |
| Contributions | | | | | |
| Congregation pledges | \$ 663,491 | \$ - | \$ - | \$ 663,491 | \$ 724,885 |
| Other contributions | 173,648 | 15,371 | - | 189,019 | 292,662 |
| Congregation assessments | 1,614,999 | - | - | 1,614,999 | 1,477,553 |
| Income distributions and other interest income | 2,402,424 | - | - | 2,402,424 | 2,222,695 |
| Medical insurance premiums | 146,332 | - | - | 146,332 | 253,065 |
| Other income | 955,760 | - | - | 955,760 | 852,448 |
| Net assets released from restrictions | <u>232,728</u> | <u>(232,728)</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total revenue and support | <u>6,189,382</u> | <u>(217,357)</u> | <u>-</u> | <u>5,972,025</u> | <u>5,823,308</u> |
| EXPENSES | | | | | |
| Program services | | | | | |
| Grants and scholarships | 1,052,465 | - | - | 1,052,465 | 1,042,749 |
| Health insurance program | 126,264 | - | - | 126,264 | 607,419 |
| Financially assisted congregations | 835,116 | - | - | 835,116 | 697,284 |
| Episcopal function | 1,690,835 | - | - | 1,690,835 | 1,555,191 |
| Diocesan meetings and communications | 260,111 | - | - | 260,111 | 225,549 |
| Investment management expenses | 371,612 | - | - | 371,612 | 317,039 |
| Wapiti | 173,268 | - | - | 173,268 | 185,502 |
| Other Diocesan programs | <u>1,285,908</u> | <u>-</u> | <u>-</u> | <u>1,285,908</u> | <u>1,459,120</u> |
| Total program services | 5,795,579 | - | - | 5,795,579 | 6,089,853 |
| Supporting service | | | | | |
| Management and general | 1,029,508 | - | - | 1,029,508 | 1,031,648 |
| Unallocated national apportionment | <u>275,000</u> | <u>-</u> | <u>-</u> | <u>275,000</u> | <u>225,000</u> |
| Total expenses | <u>7,100,087</u> | <u>-</u> | <u>-</u> | <u>7,100,087</u> | <u>7,346,501</u> |
| CHANGE IN NET ASSETS BEFORE OTHER CHANGES | | | | | |
| | <u>(910,705)</u> | <u>(217,357)</u> | <u>-</u> | <u>(1,128,062)</u> | <u>(1,523,193)</u> |
| OTHER CHANGES | | | | | |
| Realized and unrealized gain (loss) on investments | (653,613) | (122,841) | (1,459,729) | (2,236,183) | 1,604,565 |
| Loss on sale of real estate and property and equipment | (145,723) | - | - | (145,723) | (308,498) |
| Change in value of beneficial interest in perpetual trusts | <u>-</u> | <u>-</u> | <u>(314,154)</u> | <u>(314,154)</u> | <u>(45,620)</u> |
| Total other changes | <u>(799,336)</u> | <u>(122,841)</u> | <u>(1,773,883)</u> | <u>(2,696,060)</u> | <u>1,250,447</u> |
| CHANGE IN NET ASSETS | | | | | |
| | (1,710,041) | (340,198) | (1,773,883) | (3,824,122) | (272,746) |
| NET ASSETS | | | | | |
| Beginning of year | <u>27,113,174</u> | <u>8,872,262</u> | <u>39,544,111</u> | <u>75,529,547</u> | <u>75,802,293</u> |
| End of year | <u>\$25,403,133</u> | <u>\$8,532,064</u> | <u>\$37,770,228</u> | <u>\$71,705,425</u> | <u>\$75,529,547</u> |

See accompanying notes

EPISCOPAL DIOCESE OF PENNSYLVANIA AND AFFILIATES

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended December 31, 2014

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|---------------------|
| REVENUE AND SUPPORT | | | | |
| Contributions | | | | |
| Congregation pledges | \$ 724,885 | \$ - | \$ - | \$ 724,885 |
| Other contributions | 260,858 | 31,804 | - | 292,662 |
| Congregation assessments | 1,477,553 | - | - | 1,477,553 |
| Income distributions and other interest income | 2,222,695 | - | - | 2,222,695 |
| Medical insurance premiums | 253,065 | - | - | 253,065 |
| Other income | 852,448 | - | - | 852,448 |
| Net assets released from restrictions | <u>229,785</u> | <u>(229,785)</u> | <u>-</u> | <u>-</u> |
| Total revenue and support | <u>6,021,289</u> | <u>(197,981)</u> | <u>-</u> | <u>5,823,308</u> |
| EXPENSES | | | | |
| Program services | | | | |
| Grants and scholarships | 1,042,749 | - | - | 1,042,749 |
| Health insurance program | 607,419 | - | - | 607,419 |
| Financially assisted congregations | 697,284 | - | - | 697,284 |
| Episcopal function | 1,555,191 | - | - | 1,555,191 |
| Diocesan meetings and communications | 225,549 | - | - | 225,549 |
| Investment management expenses | 317,039 | - | - | 317,039 |
| Wapiti | 185,502 | - | - | 185,502 |
| Other Diocesan programs | <u>1,459,120</u> | <u>-</u> | <u>-</u> | <u>1,459,120</u> |
| Total program services | 6,089,853 | - | - | 6,089,853 |
| Supporting service | | | | |
| Management and general | 1,031,648 | - | - | 1,031,648 |
| Unallocated national apportionment | | | | |
| | <u>225,000</u> | <u>-</u> | <u>-</u> | <u>225,000</u> |
| Total expenses | <u>7,346,501</u> | <u>-</u> | <u>-</u> | <u>7,346,501</u> |
| CHANGE IN NET ASSETS | | | | |
| BEFORE OTHER CHANGES | | | | |
| | <u>(1,325,212)</u> | <u>(197,981)</u> | <u>-</u> | <u>(1,523,193)</u> |
| OTHER CHANGES | | | | |
| Realized and unrealized gain on investments | 596,524 | 374,074 | 633,967 | 1,604,565 |
| Loss on sale of property and equipment | (308,498) | - | - | (308,498) |
| Change in value of beneficial interest in perpetual trusts | <u>-</u> | <u>-</u> | <u>(45,620)</u> | <u>(45,620)</u> |
| Total other changes | <u>288,026</u> | <u>374,074</u> | <u>588,347</u> | <u>1,250,447</u> |
| CHANGE IN NET ASSETS | | | | |
| | (1,037,186) | 176,093 | 588,347 | (272,746) |
| NET ASSETS | | | | |
| Beginning of year | <u>28,150,360</u> | <u>8,696,169</u> | <u>38,955,764</u> | <u>75,802,293</u> |
| End of year | <u>\$27,113,174</u> | <u>\$8,872,262</u> | <u>\$39,544,111</u> | <u>\$75,529,547</u> |

See accompanying notes

EPISCOPAL DIOCESE OF PENNSYLVANIA AND AFFILIATES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2015 with comparative totals for 2014

| | Program Services | | | | |
|----------------------------------|--------------------------------|---------------------------------|---|---------------------------|---|
| | <u>Grants and Scholarships</u> | <u>Health Insurance Program</u> | <u>Financially Assisted Congregations</u> | <u>Episcopal Function</u> | <u>Diocesan Meetings and Communications</u> |
| Salaries | \$ 47,104 | \$ - | \$317,734 | \$ 586,789 | \$103,104 |
| Employee benefits | 30,553 | - | 206,094 | 441,423 | 66,877 |
| Bad debt expense | - | - | - | - | - |
| Depreciation | - | - | - | 65,766 | 19,730 |
| Grants and scholarships | 957,568 | - | 196,397 | - | - |
| Health insurance - congregations | - | 126,264 | - | - | - |
| Honoraria | - | - | - | 28,476 | - |
| Insurance | - | - | 32,905 | 9,834 | 2,950 |
| Interest | - | - | - | - | - |
| Meeting expense | 1,837 | - | 16,257 | 26,531 | 4,019 |
| National apportionment | - | - | - | - | - |
| Postage | 256 | - | - | 3,703 | 561 |
| Printing | 472 | - | - | 6,812 | 1,032 |
| Professional fees | 1,346 | - | 58,581 | 91,268 | 2,946 |
| Repairs and maintenance | - | - | - | 85,599 | 25,680 |
| Supplies | 1,948 | - | - | 28,139 | 4,263 |
| Telecommunications | 871 | - | - | 12,585 | 1,907 |
| Travel | 2,150 | - | 6,144 | 96,402 | 4,706 |
| Utilities | - | - | - | 13,463 | 4,039 |
| Miscellaneous | 8,360 | - | 1,004 | 194,045 | 18,297 |
| | <u>\$1,052,465</u> | <u>\$126,264</u> | <u>\$835,116</u> | <u>\$1,690,835</u> | <u>\$260,111</u> |

See accompanying notes

| <u>Investment Management Expenses</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>2015</u> | <u>2014</u> |
| \$105,745 | \$ 64,374 | \$ 526,555 | \$ 345,708 | \$ - | \$2,097,113 | \$1,808,626 |
| 63,794 | 41,755 | 341,543 | 222,642 | - | 1,414,681 | 1,452,214 |
| - | - | - | 25,000 | - | 25,000 | - |
| - | - | 19,730 | 26,306 | - | 131,532 | 30,666 |
| 9,500 | - | - | - | - | 1,163,465 | 1,470,389 |
| - | - | - | - | - | 126,264 | 213,695 |
| - | - | - | - | - | 28,476 | 36,394 |
| 9,621 | - | 2,950 | 7,140 | - | 65,400 | 89,000 |
| - | - | - | - | - | - | 1,236 |
| - | 2,509 | 116,252 | 12,103 | - | 179,508 | 342,544 |
| - | - | - | - | 275,000 | 275,000 | 225,000 |
| - | 350 | 2,865 | 1,690 | - | 9,425 | 9,806 |
| - | 644 | 5,271 | 3,108 | - | 17,339 | 4,106 |
| 157,665 | 6,041 | 26,679 | 250,187 | - | 594,713 | 838,350 |
| - | - | 25,680 | 34,239 | - | 171,198 | 118,117 |
| 4,372 | 2,662 | 21,772 | 13,653 | - | 76,809 | 66,607 |
| - | 1,190 | 9,737 | 5,742 | - | 32,032 | 31,515 |
| - | 2,939 | 78,415 | 14,173 | - | 204,929 | 167,810 |
| - | - | 4,039 | 5,384 | - | 26,925 | 68,013 |
| 20,915 | 50,804 | 104,420 | 62,433 | - | 460,278 | 372,413 |
| <u>\$371,612</u> | <u>\$173,268</u> | <u>\$1,285,908</u> | <u>\$1,029,508</u> | <u>\$275,000</u> | <u>\$7,100,087</u> | <u>\$7,346,501</u> |

EPISCOPAL DIOCESE OF PENNSYLVANIA AND AFFILIATES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2014

| | Program Services | | | | |
|----------------------------------|--------------------------------|---------------------------------|---|---------------------------|---|
| | Grants and Scholarships | Health Insurance Program | Financially Assisted Congregations | Episcopal Function | Diocesan Meetings and Communications |
| Salaries | \$ 41,674 | \$ - | \$281,103 | \$ 477,081 | \$ 91,218 |
| Employee benefits | 32,155 | - | 216,896 | 464,560 | 70,383 |
| Depreciation | - | - | - | 15,333 | 4,600 |
| Grants and scholarships | 955,382 | 388,407 | 112,200 | - | - |
| Health insurance - congregations | - | 213,695 | - | - | - |
| Honoraria | - | - | - | 36,394 | - |
| Insurance | - | - | 64,289 | 5,997 | 1,799 |
| Interest | - | - | - | 20 | - |
| Meeting expense | 3,665 | - | 3,499 | 52,936 | 8,020 |
| National apportionment | - | - | - | - | - |
| Postage | 267 | - | - | 3,853 | 584 |
| Printing | 112 | - | - | 1,613 | 244 |
| Professional fees | 1,319 | - | 12,500 | 104,415 | 2,887 |
| Repairs and maintenance | - | - | - | 59,059 | 17,718 |
| Supplies | 1,780 | - | - | 25,712 | 3,895 |
| Telecommunications | 857 | - | - | 12,382 | 1,876 |
| Travel | 1,089 | - | 6,259 | 91,434 | 2,386 |
| Utilities | - | - | - | 34,007 | 10,202 |
| Miscellaneous | 4,449 | 5,317 | 538 | 170,395 | 9,737 |
| | <u>\$1,042,749</u> | <u>\$607,419</u> | <u>\$697,284</u> | <u>\$1,555,191</u> | <u>\$225,549</u> |

See accompanying notes

| <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> |
|---|------------------|--|--|---|--------------------|
| \$ 90,061 | \$ 56,952 | \$ 465,849 | \$ 304,688 | \$ - | \$1,808,626 |
| 39,675 | 43,944 | 359,445 | 225,156 | - | 1,452,214 |
| - | - | 4,600 | 6,133 | - | 30,666 |
| 3,900 | 500 | 10,000 | - | - | 1,470,389 |
| - | - | - | - | - | 213,695 |
| - | - | - | - | - | 36,394 |
| 9,538 | - | 1,799 | 5,578 | - | 89,000 |
| - | 1,216 | - | - | - | 1,236 |
| - | 5,008 | 245,268 | 24,148 | - | 342,544 |
| - | - | - | - | 225,000 | 225,000 |
| - | 364 | 2,981 | 1,757 | - | 9,806 |
| - | 153 | 1,248 | 736 | - | 4,106 |
| 169,915 | 7,515 | 192,949 | 346,850 | - | 838,350 |
| - | - | 17,718 | 23,622 | - | 118,117 |
| 911 | 2,432 | 19,894 | 11,983 | - | 66,607 |
| - | 1,171 | 9,580 | 5,649 | - | 31,515 |
| - | 1,490 | 57,968 | 7,184 | - | 167,810 |
| - | - | 10,202 | 13,602 | - | 68,013 |
| <u>3,039</u> | <u>64,757</u> | <u>59,619</u> | <u>54,562</u> | <u>-</u> | <u>372,413</u> |
| <u>\$317,039</u> | <u>\$185,502</u> | <u>\$1,459,120</u> | <u>\$1,031,648</u> | <u>\$225,000</u> | <u>\$7,346,501</u> |

EPISCOPAL DIOCESE OF PENNSYLVANIA AND AFFILIATES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31, 2015 and 2014

| | <u>2015</u> | <u>2014</u> |
|--|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| <i>Change in net assets</i> | \$ (3,824,122) | \$ (272,746) |
| <i>Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities</i> | | |
| Realized and unrealized (gain) loss on investments | 2,236,183 | (1,604,565) |
| Bad debt expense | 25,000 | - |
| Depreciation | 131,532 | 30,666 |
| Loss on sale of real estate | 145,723 | - |
| Loss on sale of property and equipment | - | 308,498 |
| Change in value of beneficial interest in perpetual trusts | 314,154 | 45,620 |
| (Increase) decrease in | | |
| Contributions and accounts receivable | 367,377 | (293,960) |
| Prepaid expenses and other assets | 9,146 | 17,159 |
| Loans receivable | (6,045) | (50,238) |
| Increase (decrease) in | | |
| Accounts payable and accrued expenses | (330,559) | 373,645 |
| Postretirement benefit obligation | 20,000 | 145,000 |
| Net cash used for operating activities | <u>(911,611)</u> | <u>(1,300,921)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of investments | (144,001) | (543,705) |
| Proceeds from sale of investments | 482,714 | 1,240,721 |
| Proceeds from sale of real estate | 759,277 | - |
| Proceeds from sale of property and equipment | - | 220,759 |
| Purchase of property and equipment | <u>(354,457)</u> | <u>(237,539)</u> |
| Net cash provided by investing activities | <u>743,533</u> | <u>680,236</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Repayment of notes payable | <u>-</u> | <u>(78,578)</u> |
| Decrease in cash | (168,078) | (699,263) |
| CASH | | |
| Beginning of year | <u>2,537,541</u> | <u>3,236,804</u> |
| End of year | <u>\$ 2,369,463</u> | <u>\$ 2,537,541</u> |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Purchases of property and equipment in accounts payable | <u>\$ -</u> | <u>\$ 329,955</u> |

See accompanying notes

EPISCOPAL DIOCESE OF PENNSYLVANIA AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

(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.

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.

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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.

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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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 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 "Deconsecrated (consecrated) 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.

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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, 2015, the Diocese had received congregation pledges for its 2016 program budget of approximately \$383,000.

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 and contributions receivable. The Diocese and Affiliates maintain their cash at various financial institutions. At times, such deposits may exceed federally-insured limits. Contributions receivable consist primarily of pledges that are expected to be collected from member churches during 2016.

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.

Diocesan Meetings and Communications

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

EPISCOPAL DIOCESE OF PENNSYLVANIA AND AFFILIATES

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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, 2015:

| | <u>Diocese</u> | <u>Foundation</u> | <u>Total</u> |
|-------------------------------|---------------------|-------------------|---------------------|
| Units in The Consolidated | | | |
| Fund of The Church Foundation | \$61,228,710 | \$795,982 | \$62,024,692 |
| Limited Partnership | 1,577,440 | - | 1,577,440 |
| Other | <u>53,362</u> | <u>-</u> | <u>53,362</u> |
| | <u>\$62,859,512</u> | <u>\$795,982</u> | <u>\$63,655,494</u> |

Investments consisted of the following at December 31, 2014:

| | <u>Diocese</u> | <u>Foundation</u> | <u>Total</u> |
|-------------------------------|---------------------|-------------------|---------------------|
| Units in The Consolidated | | | |
| Fund of The Church Foundation | \$63,719,880 | \$870,726 | \$64,590,606 |
| Limited Partnership | 1,584,429 | - | 1,584,429 |
| Other | <u>55,355</u> | <u>-</u> | <u>55,355</u> |
| | <u>\$65,359,664</u> | <u>\$870,726</u> | <u>\$66,230,390</u> |

In 2013, the Diocese purchased \$1,600,000 of limited partnership units in 3737 Radnor Investor Group, L.P. The purpose of the limited partnership is to develop and operate a mixed-use complex (the Cathedral development project). At December 31, 2015 and 2014, the Diocese had a 20% interest in the limited partnership and its interest is recorded on the equity method.

(4) LOANS RECEIVABLE

Loans receivable consisted of the following at December 31:

| | <u>2015</u> | <u>2014</u> |
|------------------------------|-------------------|-------------------|
| Loans to congregations | \$ 973,949 | \$ 979,505 |
| Other loans | <u>74,341</u> | <u>82,783</u> |
| | 1,048,290 | 1,062,288 |
| Less allowance for loan loss | <u>(886,527)</u> | <u>(881,570)</u> |
| | <u>\$ 161,763</u> | <u>\$ 180,718</u> |

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(5) PROPERTY AND EQUIPMENT

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

| | <u>2015</u> | <u>2014</u> |
|-------------------------------|-------------------|-------------------|
| Building and improvements | \$ 477,048 | \$ 467,277 |
| Furniture and equipment | <u>674,857</u> | <u>660,126</u> |
| | 1,151,905 | 1,127,403 |
| Less accumulated depreciation | <u>(651,679)</u> | <u>(520,147)</u> |
| | <u>\$ 500,226</u> | <u>\$ 607,256</u> |

In 2012, the Church of Saint James the Less of Philadelphia was added to property and equipment of the Diocese. It was recorded on the statement of financial position at one dollar since it is believed it cannot be sold given its historical importance to the Diocese. In 2012, the Diocese rented the property to the Saint James School. The rental agreement is for five years, includes 4 renewal terms of five years and requires rent of ten dollars for the entire term of the lease.

(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, 2015 and 2014 was \$3,981,000 and \$3,961,000, representing the charges for the current and prior years' service which were not funded. The unfunded liability for the coverage in its entirety, borne jointly by parishes, the Church Pension Group and the Diocese amounts to \$32,063,000 and \$31,896,000 at December 31, 2015 and 2014, respectively.

The following table summarizes changes to the postretirement benefit obligation:

| | <u>2015</u> | <u>2014</u> |
|----------------------------|---------------------|---------------------|
| Balance, beginning of year | \$ 3,961,000 | \$ 3,816,000 |
| Service cost | 98,425 | 199,285 |
| Interest cost | 195,987 | 207,959 |
| Benefit payments | <u>(274,412)</u> | <u>(262,244)</u> |
| Balance, end of year | <u>\$ 3,981,000</u> | <u>\$ 3,961,000</u> |

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The funded status of the plan was as follows:

| | <u>2015</u> | <u>2014</u> |
|-----------------------------------|----------------------|----------------------|
| Postretirement benefit obligation | \$(4,403,000) | \$(4,057,000) |
| Unrecognized net actuarial gain | <u>422,000</u> | <u>96,000</u> |
| | (3,981,000) | (3,961,000) |
| Fair value of Plan assets | <u>-</u> | <u>-</u> |
| Accrued benefit cost | <u>\$(3,981,000)</u> | <u>\$(3,961,000)</u> |

Net periodic benefit cost was comprised of the following:

| | <u>2015</u> | <u>2014</u> |
|--------------------------------|-------------------|-------------------|
| Service cost | \$ 98,425 | \$ 199,285 |
| Interest cost | <u>195,987</u> | <u>207,959</u> |
| Postretirement benefit expense | <u>\$ 294,412</u> | <u>\$ 407,244</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 2015:

| | <u>One Percentage Point Increase</u> | <u>Decrease</u> |
|--|--------------------------------------|-----------------|
| Effect on the postretirement benefit obligation | \$550,878 | \$(454,239) |
| Effect on the sum of the service cost and interest cost components | 44,067 | (42,694) |

(8) REAL ESTATE HELD FOR SALE

The following is a summary of real estate held for sale at December 31, 2015 and 2014:

| | <u>2015</u> | <u>2014</u> |
|--|--------------------|--------------------|
| St. Mary's Church, Warwick | \$ 500,000 | \$ 500,000 |
| Wapiti Retreat Center | 4,500,000 | 4,500,000 |
| All Saints Church, Collingdale | - | 405,000 |
| Calvary Episcopal Church Germantown | <u>-</u> | <u>500,000</u> |
| | <u>\$5,000,000</u> | <u>\$5,905,000</u> |

(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 \$144,003 for 2015 and \$118,038 for 2014. 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 \$95,242 for 2015 and \$85,160 for 2014.

EPISCOPAL DIOCESE OF PENNSYLVANIA AND AFFILIATES

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(10) TEMPORARILY RESTRICTED NET ASSETS

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

| | Balance December 31, 2014 | Additions | Releases | Balance December 31, 2015 |
|-----------------------------|--|--------------------|--------------------|--|
| Purpose restrictions | | | | |
| Retired clergy | \$4,145,960 | \$ (66,003) | \$(109,533) | \$3,970,424 |
| Care of aged | 2,125,094 | (33,831) | (56,148) | 2,035,115 |
| Theological education | 907,987 | (12,969) | (14,622) | 880,396 |
| Pension fund | 333,971 | (3,226) | (8,705) | 322,040 |
| Episcopal Churchwomen | 312,737 | (4,979) | (8,240) | 299,518 |
| Medical insurance | 201,836 | (3,300) | - | 198,536 |
| Youth work | 201,836 | (3,300) | - | 198,536 |
| Mission needs | 170,010 | (2,780) | - | 167,230 |
| Periodical club | 61,340 | (842) | (4,522) | 55,976 |
| Other | 400,491 | 23,760 | (30,958) | 393,293 |
| | <u>8,861,262</u> | <u>(107,470)</u> | <u>(232,728)</u> | <u>8,521,064</u> |
| Time restrictions | | | | |
| For future periods | 11,000 | - | - | 11,000 |
| | <u>\$8,872,262</u> | <u>\$(107,470)</u> | <u>\$(232,728)</u> | <u>\$8,532,064</u> |

(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,:

| | 2015 | 2014 |
|------------------------------------|--------------|--------------|
| Sayers Memorial Fund | \$18,991,069 | \$19,830,738 |
| Nunns Memorial Endowment Fund | 6,703,961 | 7,000,301 |
| Church Training and Deaconess Fund | 1,607,257 | 1,689,885 |
| Bishop Taitt Fund for Missions | 1,420,071 | 1,482,857 |
| Merrick Fund | 1,371,729 | 1,432,377 |
| McPherson Fund | 395,829 | 413,330 |
| T. James Fernley Fund | 356,348 | 362,271 |
| Clergy Daughters Fund | 353,670 | 359,511 |
| Elizabeth Cooper Fund | 342,591 | 357,737 |
| Harry E. Stone Retreat Fund | 278,565 | 288,424 |
| Vera Merkel | 145,400 | 147,817 |
| Elizabeth Price Martin Fund | 139,652 | 145,826 |
| LF Hill Episcopal Churchwomen Fund | 139,563 | 145,733 |
| JE Hill Christmas Fund | 139,562 | 145,732 |
| Bishop MacKay Smith Fund | 132,802 | 138,673 |
| Thomas Ministry Fund | 115,688 | 117,611 |
| Thomas Sunday School Fund | 99,956 | 101,617 |
| JE Hill Scholarship Fund | 98,717 | 103,082 |
| LF Hill Episcopate Fund | 97,283 | 101,584 |
| Episcopal Churchwomen Cole Fund | 88,312 | 92,216 |
| Christmas Fund – Stern Fund | 76,802 | 80,197 |
| Potter Deacon Training Fund | 76,734 | 80,127 |
| Atonement – McCauley Fund | 68,044 | 69,175 |

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| | | |
|---|---------------------|---------------------|
| Newbold Fund | 61,174 | 63,878 |
| Christmas Fund – Weinman Fund | 52,795 | 55,130 |
| Wetherill Chaplain Fund | 50,769 | 53,013 |
| St. Luke K Biddle CC Fund | 49,401 | 51,585 |
| Samuel Houston Fund | 49,015 | 49,829 |
| St. John/Baptist Ihling Fund | 21,683 | 22,043 |
| St. John's Kelton | 16,528 | 16,803 |
| St. Johns Settlement Goodloe Endowment Fund | 13,753 | 14,361 |
| Bishop CF Pennsylvania Agency Account | 10,515 | 10,980 |
| Baugh Helene A Fund | 9,591 | 10,015 |
| Calvary Germantown | 6,014 | 6,114 |
| Beneficial interest in perpetual trusts | <u>4,189,385</u> | <u>4,503,539</u> |
| | <u>\$37,770,228</u> | <u>\$39,544,111</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 4.35% of a moving three-year average of the fair value of the endowment fund.

Changes in the endowment assets for the years ended December 31, 2015 and 2014 are as follows:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total Endowment Assets</u> |
|---|---------------------|-------------------------------|-------------------------------|-------------------------------|
| Endowment net assets, December 31, 2013 | \$20,837,045 | \$8,459,191 | \$34,406,605 | \$63,702,841 |
| Additions | 761,144 | 3,150 | - | 764,294 |
| Withdrawals | (1,200,991) | (185,067) | - | (1,386,058) |
| Investment income | 640,580 | 229,785 | 1,330,479 | 2,200,844 |
| Spending policy distribution | (640,580) | (229,785) | (1,330,479) | (2,200,844) |
| Realized and unrealized gain | <u>605,277</u> | <u>374,074</u> | <u>633,967</u> | <u>1,613,318</u> |
| Endowment net assets, December 31, 2014 | 21,002,475 | 8,651,348 | 35,040,572 | 64,694,395 |
| Additions | 139,862 | 4,139 | - | 144,001 |
| Withdrawals | (304,455) | (215,409) | - | (519,864) |
| Investment income | 933,936 | 5,948 | 1,437,827 | 2,377,711 |
| Spending policy distribution | (933,936) | (5,948) | (1,437,827) | (2,377,711) |
| Realized and unrealized loss | <u>(653,613)</u> | <u>(122,841)</u> | <u>(1,459,729)</u> | <u>(2,236,183)</u> |
| Endowment net assets, December 31, 2015 | <u>\$20,184,269</u> | <u>\$8,317,237</u> | <u>\$33,580,843</u> | <u>\$62,082,349</u> |

EPISCOPAL DIOCESE OF PENNSYLVANIA AND AFFILIATES

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(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, 2015 and 2014 was \$240,678 and \$116,171, respectively.

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

Year ending December 31,

| | |
|------|------------------|
| 2016 | \$189,830 |
| 2017 | 192,677 |
| 2018 | 195,567 |
| 2019 | <u>198,500</u> |
| | <u>\$776,574</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, 2015</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 | \$63,655,494 | \$ - | \$62,078,054 | \$1,577,440 |
| Beneficial interest in perpetual trusts | <u>4,189,385</u> | <u>-</u> | <u>-</u> | <u>4,189,385</u> |
| | <u>\$67,844,879</u> | <u>\$ -</u> | <u>\$62,078,054</u> | <u>\$5,766,825</u> |
| Liabilities | | | | |
| Postretirement benefit obligation | <u>\$ 3,981,000</u> | <u>\$ -</u> | <u>\$ 3,981,000</u> | <u>\$ -</u> |

| <u>Description</u> | <u>Balance December 31, 2014</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 | \$66,230,390 | \$ - | \$64,645,961 | \$1,584,429 |
| Beneficial interest in perpetual trusts | <u>4,503,539</u> | <u>-</u> | <u>-</u> | <u>4,503,539</u> |
| | <u>\$70,733,929</u> | <u>\$ -</u> | <u>\$64,645,961</u> | <u>\$6,087,968</u> |
| Liabilities | | | | |
| Postretirement benefit obligation | <u>\$ 3,961,000</u> | <u>\$ -</u> | <u>\$ 3,961,000</u> | <u>\$ -</u> |

Level 3 assets (beneficial interest in perpetual trust and investments) had losses of \$321,143 in the consolidated statement of activities in 2015.

(15) SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 28, 2016, the date on which the consolidated financial statements were available to be issued. No material subsequent events have occurred since December 31, 2015 that required recognition or disclosure in the consolidated financial statements.

ADDITIONAL INFORMATION

EPISCOPAL DIOCESE OF PENNSYLVANIA AND AFFILIATES

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

December 31, 2015

| | <u>Diocese</u> | <u>Wapiti Land Company</u> | <u>DHWBT</u> | <u>Foundation</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|--|----------------------|--------------------------------|-------------------|---------------------|---------------------|----------------------|
| ASSETS | | | | | | |
| Cash | \$ 1,896,762 | \$ - | \$ 130,591 | \$ 342,110 | \$ - | \$ 2,369,463 |
| Contributions receivable | | | | | | |
| Pledges | 16,120 | - | - | - | - | 16,120 |
| Other | 11,000 | - | - | - | - | 11,000 |
| Assessments receivable | 9,065 | - | - | - | - | 9,065 |
| Other receivables | 387,692 | - | 30,849 | 24,442 | (309,083) | 133,900 |
| Prepaid expenses and other assets | 9,853 | - | - | 7,479 | - | 17,332 |
| Investments | 62,859,512 | - | - | 795,982 | - | 63,655,494 |
| Real estate held for sale | 500,000 | 4,500,000 | - | - | - | 5,000,000 |
| Loans receivable | 161,763 | - | - | - | - | 161,763 |
| Property and equipment, net | 500,226 | - | - | - | - | 500,226 |
| Beneficial interest in perpetual trusts | 4,189,385 | - | - | - | - | 4,189,385 |
| Total assets | <u>\$ 70,541,378</u> | <u>\$ 4,500,000</u> | <u>\$ 161,440</u> | <u>\$ 1,170,013</u> | <u>\$ (309,083)</u> | <u>\$ 76,063,748</u> |
| LIABILITIES AND NET ASSETS | | | | | | |
| LIABILITIES | | | | | | |
| Accounts payable and accrued expenses | \$ 201,479 | \$ - | \$ - | \$ 484,927 | \$ (309,083) | \$ 377,323 |
| Postretirement benefit obligation | 3,981,000 | - | - | - | - | 3,981,000 |
| Total liabilities | <u>4,182,479</u> | <u>-</u> | <u>-</u> | <u>484,927</u> | <u>(309,083)</u> | <u>4,358,323</u> |
| NET ASSETS | | | | | | |
| Unrestricted | 20,411,465 | 4,500,000 | 161,440 | 330,228 | - | 25,403,133 |
| Temporarily restricted | 8,530,876 | - | - | 1,188 | - | 8,532,064 |
| Permanently restricted | 37,416,558 | - | - | 353,670 | - | 37,770,228 |
| Total net assets | <u>66,358,899</u> | <u>4,500,000</u> | <u>161,440</u> | <u>685,086</u> | <u>-</u> | <u>71,705,425</u> |
| Total liabilities and net assets | <u>\$ 70,541,378</u> | <u>\$ 4,500,000</u> | <u>\$ 161,440</u> | <u>\$ 1,170,013</u> | <u>\$ (309,083)</u> | <u>\$ 76,063,748</u> |

EPISCOPAL DIOCESE OF PENNSYLVANIA AND AFFILIATES

CONSOLIDATING STATEMENT OF ACTIVITIES

Year Ended December 31, 2015

| | <u>Diocese</u> | <u>Wapiti Land Company</u> | <u>DHWBT</u> | <u>Foundation</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|--|---------------------|----------------------------|-------------------|-------------------|---------------------|---------------------|
| REVENUE AND SUPPORT | | | | | | |
| Contributions | | | | | | |
| Congregation pledges | \$ 663,491 | \$ - | \$ - | \$ - | \$ - | \$ 663,491 |
| Other contributions | 188,816 | - | 19,928 | 73,996 | (93,721) | 189,019 |
| Congregation assessments | 1,614,999 | - | - | - | - | 1,614,999 |
| Income distributions and other interest income | 2,388,854 | - | - | 13,570 | - | 2,402,424 |
| Medical insurance premiums | - | - | 511,364 | - | (365,032) | 146,332 |
| Other income | 625,532 | - | - | 423,978 | (93,750) | 955,760 |
| Total revenue and support | <u>5,481,692</u> | <u>-</u> | <u>531,292</u> | <u>511,544</u> | <u>(552,503)</u> | <u>5,972,025</u> |
| EXPENSES | | | | | | |
| Program services | | | | | | |
| Grants and scholarships | 1,072,190 | - | - | - | (19,725) | 1,052,465 |
| Health insurance program | - | - | 491,296 | - | (365,032) | 126,264 |
| Financially assisted congregations | 835,116 | - | - | - | - | 835,116 |
| Episcopal function | 1,784,585 | - | - | - | (93,750) | 1,690,835 |
| Diocesan meetings and communications | 260,111 | - | - | - | - | 260,111 |
| Investment management expenses | - | - | - | 445,608 | (73,996) | 371,612 |
| Wapiti | 173,268 | - | - | - | - | 173,268 |
| Other Diocesan programs | 1,285,908 | - | - | - | - | 1,285,908 |
| Total program services | <u>5,411,178</u> | <u>-</u> | <u>491,296</u> | <u>445,608</u> | <u>(552,503)</u> | <u>5,795,579</u> |
| Supporting service | | | | | | |
| Management and general | 744,849 | - | 168,162 | 116,497 | - | 1,029,508 |
| Unallocated national apportionment | <u>275,000</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>275,000</u> |
| Total expenses | <u>6,431,027</u> | <u>-</u> | <u>659,458</u> | <u>562,105</u> | <u>(552,503)</u> | <u>7,100,087</u> |
| CHANGE IN NET ASSETS BEFORE OTHER CHANGES | <u>(949,335)</u> | <u>-</u> | <u>(128,166)</u> | <u>(50,561)</u> | <u>-</u> | <u>(1,128,062)</u> |
| OTHER CHANGES | | | | | | |
| Realized and unrealized loss on investments | (2,223,831) | - | - | (12,352) | - | (2,236,183) |
| Loss on sale of real estate | (145,723) | - | - | - | - | (145,723) |
| Change in value of beneficial interest in perpetual trusts | (314,154) | - | - | - | - | (314,154) |
| Total other changes | <u>(2,683,708)</u> | <u>-</u> | <u>-</u> | <u>(12,352)</u> | <u>-</u> | <u>(2,696,060)</u> |
| CHANGE IN NET ASSETS | <u>(3,633,043)</u> | <u>-</u> | <u>(128,166)</u> | <u>(62,913)</u> | <u>-</u> | <u>(3,824,122)</u> |
| NET ASSETS | | | | | | |
| Beginning of year | 69,991,942 | 4,500,000 | 289,606 | 747,999 | - | 75,529,547 |
| End of year | <u>\$66,358,899</u> | <u>\$4,500,000</u> | <u>\$ 161,440</u> | <u>\$685,086</u> | <u>\$ -</u> | <u>\$71,705,425</u> |

EPISCOPAL DIOCESE OF PENNSYLVANIA AND AFFILIATES

STATEMENT OF ACTIVITIES - EPISCOPAL DIOCESE OF PENNSYLVANIA ONLY

Year ended December 31, 2015 with comparative totals for 2014

| | Unrestricted | Temporarily | | Totals | |
|--|---------------------|--------------------|------------------------|---------------------|---------------------|
| | | Restricted | Permanently Restricted | 2015 | 2014 |
| REVENUE AND SUPPORT | | | | | |
| Contributions | | | | | |
| Congregation pledges | \$ 663,491 | \$ - | \$ - | \$ 663,491 | \$ 724,885 |
| Other contributions | 173,445 | 15,371 | - | 188,816 | 292,662 |
| Congregation assessments | 1,614,999 | - | - | 1,614,999 | 1,477,553 |
| Income distributions and other interest income | 2,388,854 | - | - | 2,388,854 | 2,208,968 |
| Other income | 625,532 | - | - | 625,532 | 574,575 |
| Net assets released from restrictions | 223,228 | (223,228) | - | - | - |
| Total revenue and support | <u>5,689,549</u> | <u>(207,857)</u> | <u>-</u> | <u>5,481,692</u> | <u>5,278,643</u> |
| EXPENSES | | | | | |
| Program services | | | | | |
| Grants and scholarships | 1,072,190 | - | - | 1,072,190 | 1,042,749 |
| Financially assisted congregations | 835,116 | - | - | 835,116 | 697,284 |
| Episcopal function | 1,784,585 | - | - | 1,784,585 | 1,680,191 |
| Diocesan meetings and communications | 260,111 | - | - | 260,111 | 225,549 |
| Wapiti | 173,268 | - | - | 173,268 | 164,971 |
| Other Diocesan programs | 1,285,908 | - | - | 1,285,908 | 1,459,120 |
| Total program services | <u>5,411,178</u> | <u>-</u> | <u>-</u> | <u>5,411,178</u> | <u>5,269,864</u> |
| Supporting service | | | | | |
| Management and general | 744,849 | - | - | 744,849 | 715,306 |
| Unallocated national apportionment | <u>275,000</u> | <u>-</u> | <u>-</u> | <u>275,000</u> | <u>225,000</u> |
| Total expenses | <u>6,431,027</u> | <u>-</u> | <u>-</u> | <u>6,431,027</u> | <u>6,210,170</u> |
| CHANGE IN NET ASSETS BEFORE OTHER CHANGES | | | | | |
| | <u>(741,478)</u> | <u>(207,857)</u> | <u>-</u> | <u>(949,335)</u> | <u>(931,527)</u> |
| OTHER CHANGES | | | | | |
| Realized and unrealized gain (loss) on investments | (641,519) | (128,424) | (1,453,888) | (2,223,831) | 1,580,362 |
| Loss on sale of real estate and property and equipment | (145,723) | - | - | (145,723) | (308,498) |
| Change in value of beneficial interest in perpetual trusts | - | - | (314,154) | (314,154) | (45,620) |
| Total other changes | <u>(787,242)</u> | <u>(128,424)</u> | <u>(1,768,042)</u> | <u>(2,683,708)</u> | <u>1,226,244</u> |
| CHANGE IN NET ASSETS | | | | | |
| | <u>(1,528,720)</u> | <u>(336,281)</u> | <u>(1,768,042)</u> | <u>(3,633,043)</u> | <u>294,717</u> |
| NET ASSETS | | | | | |
| Beginning of year | <u>21,940,185</u> | <u>8,867,157</u> | <u>39,184,600</u> | <u>69,991,942</u> | <u>69,697,225</u> |
| End of year | <u>\$20,411,465</u> | <u>\$8,530,876</u> | <u>\$37,416,558</u> | <u>\$66,358,899</u> | <u>\$69,991,942</u> |

EPISCOPAL DIOCESE OF PENNSYLVANIA AND AFFILIATES

STATEMENT OF FUNCTIONAL EXPENSES - EPISCOPAL DIOCESE OF PENNSYLVANIA ONLY

Year Ended December 31, 2015 with comparative totals for 2014

| | Program Services | | | |
|-------------------------|------------------------------------|---|-------------------------------|---|
| | Grants and Scholarships | Financially Assisted Congregations | Episcopal Function | Diocesan Meetings and Communications |
| Salaries | \$ 47,104 | \$ 317,734 | \$ 680,539 | \$ 103,104 |
| Employee benefits | 30,553 | 206,094 | 441,423 | 66,877 |
| Bad debt expense | - | - | - | - |
| Depreciation | - | - | 65,766 | 19,730 |
| Grants and scholarships | 977,293 | 196,397 | - | - |
| Honoraria | - | - | 28,476 | - |
| Insurance | - | 32,905 | 9,834 | 2,950 |
| Meeting expense | 1,837 | 16,257 | 26,531 | 4,019 |
| National apportionment | - | - | - | - |
| Postage | 256 | - | 3,703 | 561 |
| Printing | 472 | - | 6,812 | 1,032 |
| Professional fees | 1,346 | 58,581 | 91,268 | 2,946 |
| Repairs and maintenance | - | - | 85,599 | 25,680 |
| Supplies | 1,948 | - | 28,139 | 4,263 |
| Telecommunications | 871 | - | 12,585 | 1,907 |
| Travel | 2,150 | 6,144 | 96,402 | 4,706 |
| Utilities | - | - | 13,463 | 4,039 |
| Miscellaneous | 8,360 | 1,004 | 194,045 | 18,297 |
| | <u>\$ 1,072,190</u> | <u>\$ 835,116</u> | <u>\$ 1,784,585</u> | <u>\$ 260,111</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>2015</u> | <u>2014</u> |
| \$ 64,374 | \$ 526,555 | \$ 310,460 | \$ - | \$ 2,049,870 | \$ 1,813,545 |
| 41,755 | 341,543 | 201,378 | - | 1,329,623 | 1,399,314 |
| - | - | 25,000 | - | 25,000 | - |
| - | 19,730 | 26,306 | - | 131,532 | 30,666 |
| - | - | - | - | 1,173,690 | 1,078,082 |
| - | - | - | - | 28,476 | 36,394 |
| - | 2,950 | 3,933 | - | 52,572 | 76,283 |
| 2,509 | 116,252 | 12,103 | - | 179,508 | 342,544 |
| - | - | - | 275,000 | 275,000 | 225,000 |
| 350 | 2,865 | 1,690 | - | 9,425 | 9,806 |
| 644 | 5,271 | 3,108 | - | 17,339 | 4,106 |
| 6,041 | 26,679 | 33,043 | - | 219,904 | 399,806 |
| - | 25,680 | 34,239 | - | 171,198 | 118,117 |
| 2,662 | 21,772 | 12,836 | - | 71,620 | 65,443 |
| 1,190 | 9,737 | 5,742 | - | 32,032 | 31,515 |
| 2,939 | 78,415 | 14,173 | - | 204,929 | 167,810 |
| - | 4,039 | 5,384 | - | 26,925 | 68,013 |
| 50,804 | 104,420 | 55,454 | - | 432,384 | 343,726 |
| <u>\$ 173,268</u> | <u>\$ 1,285,908</u> | <u>\$ 744,849</u> | <u>\$ 275,000</u> | <u>\$ 6,431,027</u> | <u>\$ 6,210,170</u> |