

# Episcopal Diocese of Pennsylvania and Affiliates

Financial Statements  
Years Ended December 31, 2018 and 2017



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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, 2018 and 2017, 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, 2018 and 2017, 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  
November 27, 2019**

# EPISCOPAL DIOCESE OF PENNSYLVANIA AND AFFILIATES

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2018 and 2017

	Without Donor Restrictions			With Donor Restrictions	Totals	
	Operating	Designated	Total		2018	2017
<b>ASSETS</b>						
Cash	\$ 608,663	\$ 1,095,278	\$ 1,703,941	\$ 262,600	\$ 1,966,541	\$ 2,122,359
Contributions receivable						
Pledges	33,455	-	33,455	-	33,455	28,044
Other	-	-	-	112,000	112,000	19,000
Assessments receivable	18,574	-	18,574	-	18,574	17,273
Other receivables	685,185	-	685,185	-	685,185	144,986
Prepaid expenses and other assets	94,452	-	94,452	-	94,452	31,608
Investments (Note 3)	-	22,388,389	22,388,389	44,623,734	67,012,123	74,365,568
Real estate held for sale (Note 8)	4,500,000	-	4,500,000	-	4,500,000	4,500,000
Loans receivable (Note 4)	-	83,409	83,409	-	83,409	985,305
Property and equipment (Note 5)	6,403,749	-	6,403,749	-	6,403,749	5,844,221
Beneficial interest in perpetual trusts (Note 6)	-	-	-	3,899,875	3,899,875	4,425,956
<b>Total assets</b>	<b>\$ 12,344,078</b>	<b>\$ 23,567,076</b>	<b>\$ 35,911,154</b>	<b>\$ 48,898,209</b>	<b>\$ 84,809,363</b>	<b>\$ 92,484,320</b>
<b>LIABILITIES</b>						
Accounts payable and accrued expenses	\$ 579,467	\$ -	\$ 579,467	\$ -	\$ 579,467	\$ 709,233
Postretirement benefit obligation (Note 7)	3,642,000	-	3,642,000	-	3,642,000	3,850,000
<b>Total liabilities</b>	<b>4,221,467</b>	<b>-</b>	<b>4,221,467</b>	<b>-</b>	<b>4,221,467</b>	<b>4,559,233</b>
<b>NET ASSETS</b>						
Without donor restrictions	8,122,611	23,567,076	31,689,687	-	31,689,687	34,183,351
With donor restrictions (Note 11)	-	-	-	48,898,209	48,898,209	53,741,736
<b>Total net assets</b>	<b>8,122,611</b>	<b>23,567,076</b>	<b>31,689,687</b>	<b>48,898,209</b>	<b>80,587,896</b>	<b>87,925,087</b>
<b>Total liabilities and net assets</b>	<b>\$ 12,344,078</b>	<b>\$ 23,567,076</b>	<b>\$ 35,911,154</b>	<b>\$ 48,898,209</b>	<b>\$ 84,809,363</b>	<b>\$ 92,484,320</b>

See accompanying notes

# EPISCOPAL DIOCESE OF PENNSYLVANIA AND AFFILIATES

## CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended December 31, 2018 with comparative totals for 2017

	Without Donor Restrictions			With Donor Restrictions	Totals	
	Operating	Designated	Total		2018	2017
<b>REVENUE AND SUPPORT</b>						
Contributions						
Congregation pledges	\$ 645,120	\$ -	\$ 645,120	\$ -	\$ 645,120	\$ 705,284
Other contributions	76,496	-	76,496	95,889	172,385	374,277
Congregation assessments	1,905,844	-	1,905,844	-	1,905,844	1,966,506
Investment income (loss)	184,184	(1,191,153)	(1,006,969)	(2,320,415)	(3,327,384)	12,409,892
Change in value of beneficial interest in perpetual trusts	-	-	-	(526,081)	(526,081)	92,929
Other income	612,113	33,865	645,978	93,000	738,978	627,030
Net assets released from restrictions						
Endowment income distribution	2,857,388	(927,521)	1,929,867	(1,929,867)	-	-
Other transfers	1,329,908	(1,073,855)	256,053	(256,053)	-	-
<b>Total revenue and support</b>	<u>7,611,053</u>	<u>(3,158,664)</u>	<u>4,452,389</u>	<u>(4,843,527)</u>	<u>(391,138)</u>	<u>16,175,918</u>
<b>EXPENSES</b>						
<b>Program services</b>						
Grants and scholarships	1,608,142	-	1,608,142	-	1,608,142	1,100,276
Financially assisted congregations	790,460	-	790,460	-	790,460	730,440
Episcopal function	1,979,128	-	1,979,128	-	1,979,128	1,849,834
Diocesan meetings and communications	313,968	-	313,968	-	313,968	280,917
Investment management expenses	270,422	-	270,422	-	270,422	250,651
Wapiti	172,344	-	172,344	-	172,344	165,832
Other Diocesan programs	1,341,297	-	1,341,297	-	1,341,297	1,189,583
<b>Total program services</b>	<u>6,475,761</u>	<u>-</u>	<u>6,475,761</u>	<u>-</u>	<u>6,475,761</u>	<u>5,567,533</u>
<b>Supporting service</b>						
Management and general	930,292	-	930,292	-	930,292	1,091,812
<b>Unallocated national apportionment</b>	<u>440,000</u>	<u>-</u>	<u>440,000</u>	<u>-</u>	<u>440,000</u>	<u>365,000</u>
<b>Total expenses</b>	<u>7,846,053</u>	<u>-</u>	<u>7,846,053</u>	<u>-</u>	<u>7,846,053</u>	<u>7,024,345</u>
<b>CHANGE IN NET ASSETS BEFORE OTHER CHANGES</b>	(235,000)	(3,158,664)	(3,393,664)	(4,843,527)	(8,237,191)	9,151,573
<b>OTHER CHANGES</b>						
Closed or deconsecrated parishes	900,000	-	900,000	-	900,000	950,000
<b>CHANGE IN NET ASSETS</b>	<u>665,000</u>	<u>(3,158,664)</u>	<u>(2,493,664)</u>	<u>(4,843,527)</u>	<u>(7,337,191)</u>	<u>10,101,573</u>
<b>NET ASSETS</b>						
Beginning of year	7,457,611	26,725,740	34,183,351	53,741,736	87,925,087	77,823,514
End of year	<u>\$ 8,122,611</u>	<u>\$ 23,567,076</u>	<u>\$ 31,689,687</u>	<u>\$ 48,898,209</u>	<u>\$ 80,587,896</u>	<u>\$ 87,925,087</u>

See accompanying notes

# EPISCOPAL DIOCESE OF PENNSYLVANIA AND AFFILIATES

## CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended December 31, 2017

	Without Donor Restrictions			With Donor Restrictions	
	Operating	Designated	Total	Restrictions	Total
<b>REVENUE AND SUPPORT</b>					
Contributions					
Congregation pledges	\$ 705,284	\$ -	\$ 705,284	\$ -	\$ 705,284
Other contributions	-	131,226	131,226	243,051	374,277
Congregation assessments	1,892,333	74,173	1,966,506	-	1,966,506
Investment income	191,868	5,164,968	5,356,836	7,053,056	12,409,892
Change in value of beneficial interest in perpetual trusts	-	-	-	92,929	92,929
Other income	581,526	35,615	617,141	9,889	627,030
Net assets released from restrictions					
Endowment income distribution	3,169,142	(2,117,360)	1,051,782	(1,051,782)	-
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>6,347,143</u>	<u>16,175,918</u>
<b>EXPENSES</b>					
<b>Program services</b>					
Grants and scholarships	1,100,276	-	1,100,276	-	1,100,276
Financially assisted congregations	730,440	-	730,440	-	730,440
Episcopal function	1,849,834	-	1,849,834	-	1,849,834
Diocesan meetings and communications	280,917	-	280,917	-	280,917
Investment management expenses	250,651	-	250,651	-	250,651
Wapiti	165,832	-	165,832	-	165,832
Other Diocesan programs	1,189,583	-	1,189,583	-	1,189,583
<b>Total program services</b>	<u>5,567,533</u>	<u>-</u>	<u>5,567,533</u>	<u>-</u>	<u>5,567,533</u>
<b>Supporting service</b>					
Management and general	1,091,812	-	1,091,812	-	1,091,812
<b>Unallocated national apportionment</b>	<u>365,000</u>	<u>-</u>	<u>365,000</u>	<u>-</u>	<u>365,000</u>
<b>Total expenses</b>	<u>7,024,345</u>	<u>-</u>	<u>7,024,345</u>	<u>-</u>	<u>7,024,345</u>
<b>CHANGE IN NET ASSETS BEFORE OTHER CHANGES</b>	(439,379)	3,243,809	2,804,430	6,347,143	9,151,573
<b>OTHER CHANGES</b>					
Closed or deconsecrated parishes	950,000	-	950,000	-	950,000
<b>CHANGE IN NET ASSETS</b>	<u>510,621</u>	<u>3,243,809</u>	<u>3,754,430</u>	<u>6,347,143</u>	<u>10,101,573</u>
<b>NET ASSETS</b>					
Beginning of year	6,946,990	23,481,931	30,428,921	47,394,593	77,823,514
End of year	<u>\$ 7,457,611</u>	<u>\$ 26,725,740</u>	<u>\$ 34,183,351</u>	<u>\$ 53,741,736</u>	<u>\$ 87,925,087</u>

See accompanying notes

# EPISCOPAL DIOCESE OF PENNSYLVANIA AND AFFILIATES

## CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended December 31, 2018 with comparative totals for 2017

	<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	\$ 51,919	\$ 350,211	\$ 750,100	\$ 113,643	\$ 89,529
Employee benefits	26,888	181,371	388,470	58,855	61,753
Bad debt expense	-	-	-	-	-
Depreciation	-	-	179,844	53,953	-
Grants and scholarships	1,511,658	102,100	-	-	7,018
Honoraria	-	-	10,550	-	-
Insurance	-	54,348	14,327	4,298	8,700
Meeting expense	3,769	20,396	54,451	8,249	-
National apportionment	-	-	-	-	-
Postage	239	-	3,446	522	-
Printing	991	-	14,324	2,170	-
Professional fees	1,373	60,000	73,337	3,006	81,106
Repairs and maintenance	-	-	123,919	37,176	-
Supplies	1,913	-	27,636	4,187	7,458
Telecommunications	1,172	-	16,932	2,565	-
Travel	1,080	20,823	115,116	2,362	-
Unrelated business income tax	-	-	-	-	-
Utilities	-	-	24,502	7,351	-
Miscellaneous	7,140	1,211	182,174	15,631	14,858
	<u>\$ 1,608,142</u>	<u>\$ 790,460</u>	<u>\$ 1,979,128</u>	<u>\$ 313,968</u>	<u>\$ 270,422</u>

See accompanying notes



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<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>2018</u>	<u>2017</u>
\$ 70,954	\$ 580,377	\$ 372,037	\$ -	\$ 2,378,770	\$ 2,261,598
36,746	300,572	197,804	-	1,252,459	1,190,711
-	-	31,858	-	31,858	-
-	53,953	71,937	-	359,687	287,965
-	-	-	-	1,620,776	1,090,546
-	-	-	-	10,550	19,920
-	4,298	8,631	-	94,602	88,585
5,150	101,280	24,841	-	218,136	95,801
-	-	-	440,000	440,000	365,000
326	2,666	1,572	-	8,771	11,701
1,355	11,083	6,534	-	36,457	35,711
3,019	43,244	50,330	-	315,415	255,259
-	37,176	49,566	-	247,837	185,198
2,614	21,383	14,859	-	80,050	62,319
1,602	13,101	7,723	-	43,095	44,753
1,475	84,617	9,748	-	235,221	270,577
-	-	-	-	-	271,882
-	7,351	9,800	-	49,004	34,000
49,103	80,196	73,052	-	423,365	452,819
<u>\$ 172,344</u>	<u>\$ 1,341,297</u>	<u>\$ 930,292</u>	<u>\$ 440,000</u>	<u>\$ 7,846,053</u>	<u>\$ 7,024,345</u>

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# EPISCOPAL DIOCESE OF PENNSYLVANIA AND AFFILIATES

## CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended December 31, 2017

	<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
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>

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>
\$ 88,397	\$ 67,322	\$ 550,666	\$ 354,142	\$ -	\$ 2,261,598
54,170	35,125	287,307	187,455	-	1,190,711
-	-	43,195	57,592	-	287,965
5,530	-	-	-	-	1,090,546
-	-	-	-	-	19,920
9,209	-	2,897	6,934	-	88,585
-	2,198	47,511	10,930	-	95,801
-	-	-	-	365,000	365,000
-	435	3,557	2,098	-	11,701
-	1,327	10,856	6,401	-	35,711
75,532	2,244	15,648	52,357	-	255,259
-	-	27,780	37,039	-	185,198
1,900	2,222	18,174	11,349	-	62,319
-	1,663	13,605	8,021	-	44,753
-	2,852	70,604	14,328	-	270,577
-	-	-	271,882	-	271,882
-	-	5,100	6,800	-	34,000
<u>15,913</u>	<u>50,444</u>	<u>92,683</u>	<u>64,484</u>	<u>-</u>	<u>452,819</u>
<u>\$ 250,651</u>	<u>\$ 165,832</u>	<u>\$ 1,189,583</u>	<u>\$ 1,091,812</u>	<u>\$ 365,000</u>	<u>\$ 7,024,345</u>

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# EPISCOPAL DIOCESE OF PENNSYLVANIA AND AFFILIATES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<i>Change in net assets</i>	\$(7,337,191)	\$ 10,101,573
<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	4,733,439	(11,266,557)
Bad debt expense	31,858	-
Depreciation	359,687	287,965
Closed or deconsecrated parishes	(900,000)	(950,000)
Change in value of beneficial interest in perpetual trusts	526,081	(92,929)
(Increase) decrease in		
Contributions and accounts receivable	(671,769)	11,884
Prepaid expenses and other assets	(62,844)	(2,356)
Loans receivable	901,896	(28,979)
Increase (decrease) in		
Accounts payable and accrued expenses	(129,766)	395,050
Postretirement benefit obligation	(208,000)	(197,000)
<b>Net cash used for operating activities</b>	<u>(2,756,609)</u>	<u>(1,741,349)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net proceeds from sale of investments	2,620,006	1,163,142
Proceeds from sale of real estate	-	620,500
Purchase of property and equipment	<u>(19,215)</u>	<u>(5,822)</u>
<b>Net cash provided by investing activities</b>	<u>2,600,791</u>	<u>1,777,820</u>
<b>Change in cash</b>	(155,818)	36,471
<b>CASH</b>		
Beginning of year	<u>2,122,359</u>	<u>2,085,888</u>
<b>End of year</b>	<u>\$ 1,966,541</u>	<u>\$ 2,122,359</u>

See accompanying notes

# EPISCOPAL DIOCESE OF PENNSYLVANIA AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

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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

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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:

##### ***Without donor restrictions***

Net assets that are not subject to donor-imposed restrictions.

##### ***With donor restrictions***

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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Also included in this category are net assets subject to donor-imposed restrictions that require the net assets be maintained indefinitely while permitting the Diocese and Affiliates to expend the income generated in accordance with the provisions of the contribution.

#### **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.

# EPISCOPAL DIOCESE OF PENNSYLVANIA AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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 net assets without donor restrictions or with donor restrictions 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 net assets without donor restrictions.

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

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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.

### **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 various program and other activities have been presented on a functional basis in the statements of activities and functional expenses. Expenses directly attributable to a specific functional area are reported as expenses of that functional area. Expenses not directly attributable to a specific functional area are allocated. Significant expenses that are allocated include salaries and employee benefits which are allocated based on estimates of time and effort and rent, utilities and repairs and maintenance which are allocated based on estimates of square footage.

### **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 2019. See Note 4 for more information on loans receivable.

### **Accounting Pronouncements Adopted**

On August 18, 2016, the Financial Accounting Standards Board ("**FASB**") issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The Diocese and Affiliates have adjusted the presentation of their consolidated financial statements accordingly, applying the changes retrospectively to the comparative period presented. The new standards change the following aspects of the Diocese and Affiliates' consolidated financial statements:

- The temporarily restricted and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions.
- The unrestricted net asset class has been renamed net assets without donor restrictions.
- The financial statements include a new disclosure about liquidity and availability of resources (**Note 13**).

### **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.



# EPISCOPAL DIOCESE OF PENNSYLVANIA AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 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.

### 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, 2018:

	<u>Diocese</u>	<u>Foundation</u>	<u>Total</u>
Units in The Consolidated Fund of The Church Foundation	\$65,114,265	\$ 944,450	\$66,058,715
Investment in real estate	900,000	-	900,000
Other	53,408	-	53,408
	<u>\$66,067,673</u>	<u>\$ 944,450</u>	<u>\$67,012,123</u>

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	53,408	-	53,408
	<u>\$73,319,453</u>	<u>\$1,046,115</u>	<u>\$74,365,568</u>

Investment income (loss) was comprised of the following:

	<u>2018</u>	<u>2017</u>
Net realized and unrealized gain (loss)	\$ (4,733,439)	\$11,266,557
Interest and dividends	1,436,319	1,115,115
Distributions from perpetual trusts	186,772	240,302
Investment management fees	(217,036)	(212,082)
	<u>\$ (3,327,384)</u>	<u>\$12,409,892</u>

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# EPISCOPAL DIOCESE OF PENNSYLVANIA AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### (4) LOANS RECEIVABLE

Loans receivable consisted of the following at December 31:

	<u>2018</u>	<u>2017</u>
Loans to congregations	\$ 577,974	\$ 606,557
Other loans	<u>71,962</u>	<u>945,275</u>
	649,936	1,551,832
Less allowance for loan loss	<u>(566,527)</u>	<u>(566,527)</u>
	<u>\$ 83,409</u>	<u>\$ 985,305</u>

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 allowed for additional borrowings up to \$33,000 for renovations. The mortgage receivable bore interest at 3% and had a balance of \$866,135 at December 31, 2017. In 2018, this mortgage receivable was repaid.

### (5) PROPERTY AND EQUIPMENT

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

	<u>2018</u>	<u>2017</u>
Closed churches (including land)	\$ 6,660,002	\$ 5,760,002
Building and improvements	491,381	477,046
Furniture and equipment	<u>684,744</u>	<u>679,864</u>
	7,836,127	6,916,912
Less accumulated depreciation	<u>(1,432,378)</u>	<u>(1,072,691)</u>
	<u>\$ 6,403,749</u>	<u>\$ 5,844,221</u>

Closed churches consisted of the following at December 31,:

	<u>2018</u>	<u>2017</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	950,000
St. Jude and the Nativity, Lafayette Hill	900,000	-
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>\$ 6,660,002</u>	<u>\$ 5,760,002</u>

### (6) BENEFICIAL INTEREST IN PERPETUAL TRUSTS

The Diocese has been named as the income beneficiary in several perpetual trusts. The assets in the trusts are not the property of the Diocese. Because the Diocese will receive a perpetual stream of income from the trusts, it has recorded an asset on the consolidated statement of financial position. This asset has been recorded at the fair value of the Diocese's proportionate share of the trusts as an estimate of the present value of the perpetual income stream.

# EPISCOPAL DIOCESE OF PENNSYLVANIA AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### (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, 2018 and 2017 was \$3,642,000 and \$3,850,000, representing the charges for the current and prior years' service which were not funded.

The following table summarizes changes to the postretirement benefit obligation:

	<u>2018</u>	<u>2017</u>
Balance, beginning of year	\$ 3,850,000	\$ 4,047,000
Service cost	48,717	76,820
Interest cost	(152,497)	(112,666)
Benefit payments	<u>(104,220)</u>	<u>(161,154)</u>
Balance, end of year	<u>\$ 3,642,000</u>	<u>\$ 3,850,000</u>

The funded status of the plan was as follows:

	<u>2018</u>	<u>2017</u>
Postretirement benefit obligation	\$(1,256,000)	\$(1,527,000)
Unrecognized net actuarial gain	<u>(2,386,000)</u>	<u>(2,323,000)</u>
	(3,642,000)	(3,850,000)
Fair value of Plan assets	<u>-</u>	<u>-</u>
Accrued benefit cost	<u>\$ (3,642,000)</u>	<u>\$ (3,850,000)</u>

Net periodic benefit cost was comprised of the following:

	<u>2018</u>	<u>2017</u>
Service cost	\$ 48,717	\$ 76,820
Interest cost	<u>(152,497)</u>	<u>(112,666)</u>
Postretirement benefit expense	<u>\$ (103,780)</u>	<u>\$ (35,846)</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 2018:

	<u>One Percentage Point Increase</u>	<u>Decrease</u>
Effect on the postretirement benefit obligation	\$143,638	\$169,465
Effect on the sum of the service cost and interest cost components	23,069	(20,780)

# EPISCOPAL DIOCESE OF PENNSYLVANIA AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

### (8) REAL ESTATE HELD FOR SALE

Real estate held for sale consisted of the Wapiti Retreat Center for \$4,500,000 at December 31, 2018 and 2017.

### (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 \$220,839 for 2018 and \$173,465 for 2017. 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 \$92,314 for 2018 and \$101,233 for 2017.

### (10) NET ASSETS WITHOUT DONOR RESTRICTIONS - DESIGNATED

	Balance December 31, 2017	Investment Income (Loss)	Additions (Subtractions)	Endowment Income Distribution	Balance December 31, 2018
Endowment	\$24,631,995	\$(1,191,153)	\$ (124,932)	\$(927,521)	\$22,388,389
Loan receivable	866,135	-	(866,135)	-	-
Continuing Education	238,759	-	33,718	-	272,477
Clergy financial assistance	236,268	-	(883)	-	235,385
Revolving loan fund	216,457	-	(53,790)	-	162,667
Training	131,422	-	(8,288)	-	123,134
Other	404,704	-	(19,680)	-	385,024
	<u>\$26,725,740</u>	<u>\$(1,191,153)</u>	<u>\$(1,039,990)</u>	<u>\$(927,521)</u>	<u>\$23,567,076</u>

### (11) NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following for the year ended December 31, 2018:

	Balance December 31, 2017	Investment Income (Loss)	Additions (Subtractions)	Releases	Balance December 31, 2018
Non-endowment net assets					
Net assets spendable for specified purposes or periods					
Retired clergy	\$ 226,461	\$ -	\$ -	\$ (63,745)	\$ 162,716
Theological education	51,050	-	40,290	-	91,340
Other	3,431	-	14,174	(7,198)	10,407
For future periods	19,000	-	93,000	-	112,000
	<u>299,942</u>	<u>-</u>	<u>147,464</u>	<u>(70,943)</u>	<u>376,463</u>
Endowment assets					
Net assets spendable for specified purposes					
Retired clergy	4,607,834	(220,167)	-	(181,185)	4,206,482
Care of aged	2,361,832	(112,397)	-	(92,886)	2,156,549
Theological education	1,039,766	(52,872)	-	(41,166)	945,728
Other	1,745,914	(85,197)	35,470	(78,216)	1,617,971
	<u>9,755,346</u>	<u>(470,633)</u>	<u>35,470</u>	<u>(393,453)</u>	<u>8,926,730</u>

# EPISCOPAL DIOCESE OF PENNSYLVANIA AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Net assets to be maintained indefinitely					
Sayers Memorial Fund	22,039,887	(1,053,132)	-	(866,604)	20,120,151
Nunns Memorial Endowment Fund	7,780,155	(371,759)	-	(305,914)	7,102,482
Church Training and Deaconess Fund	1,851,762	(88,483)	-	(72,811)	1,690,468
Bishop Taitt Fund for Missions	1,648,049	(78,749)	-	(64,801)	1,504,499
Merrick Fund	1,591,946	(76,068)	-	(62,595)	1,453,283
Beneficial interest in perpetual trusts	4,425,956	-	(526,081)	-	3,899,875
Other	4,348,693	(181,591)	5,955	(348,799)	3,824,258
	<u>43,686,448</u>	<u>(1,849,782)</u>	<u>(520,126)</u>	<u>(1,721,524)</u>	<u>39,595,016</u>
	<u>\$53,741,736</u>	<u>\$(2,320,415)</u>	<u>\$(337,192)</u>	<u>\$(2,185,920)</u>	<u>\$48,898,209</u>

Income from the Sayers Memorial Fund, the Nunns Memorial Endowment Fund, the Bishop Taitt Fund for Missions and the Merrick Fund is without donor restriction. Income from the Church Training and Deaconess Fund is donor restricted to provide scholarships to women studying theology, social work and religious education.

Net assets with donor restrictions consisted of the following for the year ended December 31, 2017:

	Balance December 31, 2016	Investment Income (Loss)	Additions	Releases	Balance December 31, 2017
Non-endowment net assets					
Net assets spendable for specified purposes or periods					
Retired clergy	\$ 141,249	\$ -	\$ -	\$ 85,212	\$ 226,461
Theological education	21,205	-	-	29,845	51,050
Other	10,332	-	(4,956)	(1,945)	3,431
For future periods	11,000	-	8,000	-	19,000
	<u>183,786</u>	<u>-</u>	<u>3,044</u>	<u>113,112</u>	<u>299,942</u>
Endowment assets					
Net assets spendable for specified purposes					
Retired clergy	4,059,266	665,999	6	(117,437)	4,607,834
Care of aged	2,080,652	341,371	3	(60,194)	2,361,832
Theological education	911,887	155,835	-	(27,956)	1,039,766
Other	1,470,968	244,653	47,916	(17,623)	1,754,914
	<u>8,522,773</u>	<u>1,407,858</u>	<u>47,925</u>	<u>(223,210)</u>	<u>9,755,346</u>
Net assets to be maintained indefinitely	<u>38,688,034</u>	<u>5,645,198</u>	<u>294,900</u>	<u>(941,684)</u>	<u>43,686,448</u>
	<u>\$47,394,593</u>	<u>\$ 7,053,056</u>	<u>\$ 345,869</u>	<u>\$(1,051,782)</u>	<u>\$53,741,736</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.

# EPISCOPAL DIOCESE OF PENNSYLVANIA AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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 4.440% 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, 2018 and 2017 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total Endowment Assets</u>
Endowment net assets, December 31, 2016	\$19,787,918	\$42,879,570	\$62,667,488
Additions	2,733,700	243,051	2,976,751
Withdrawals	(30,076)	-	(30,076)
Investment income	4,257,813	7,053,056	11,310,869
Spending policy distribution	<u>(2,117,360)</u>	<u>(1,164,948)</u>	<u>(3,282,308)</u>
Endowment net assets, December 31, 2017	24,631,995	49,010,729	73,642,724
Transfer	192,302	(192,302)	-
Additions	1,287,496	55,593	1,343,089
Withdrawals	(1,604,730)	-	(1,604,730)
Investment income	(1,191,153)	(2,327,615)	(3,518,768)
Spending policy distribution	<u>(927,521)</u>	<u>(1,922,671)</u>	<u>(2,850,192)</u>
Endowment net assets, December 31, 2018	<u>\$22,388,389</u>	<u>\$44,623,734</u>	<u>\$67,012,123</u>

### (13) LIQUIDITY AND AVAILABILITY OF RESOURCES

The following reflects the Diocese's financial assets as of the statement of financial position date, which has been reduced by financial assets not available within one year.

Cash	\$ 1,966,541
Contributions receivable	145,455
Assessments receivable	18,574
Other receivables	685,185
Investments	<u>67,012,123</u>
Total financial assets	69,827,878
Less: financial assets not available for general operations within one year	
Restricted by donors for specific purposes or periods	(9,303,191)
Restricted by donors to be maintained indefinitely	(35,695,141)
Designated financial assets	<u>(23,483,667)</u>
Total financial assets available within one year	<u>\$ 1,345,879</u>

#### Liquidity Management

As part of the Diocese's liquidity management, it invests cash in excess of daily requirements in short-term investments, typically money market funds.

### (14) LEASE COMMITMENT

The Diocese leases its administrative office under a non-cancelable operating lease which expires in November 2019. Rent expense for the years ended December 31, 2018 and 2017 was \$226,927 and \$232,831, respectively. The future minimum annual commitment under this lease for the year ending December 31, 2019 is \$198,500.

# EPISCOPAL DIOCESE OF PENNSYLVANIA AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

### (15) 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, 2018</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	\$67,012,123	\$ -	\$66,112,123	\$ 900,000
Beneficial interest in perpetual trusts	<u>3,899,875</u>	<u>-</u>	<u>-</u>	<u>3,899,875</u>
	<u>\$70,911,998</u>	<u>\$ -</u>	<u>\$66,112,123</u>	<u>\$4,799,875</u>
Liabilities				
Postretirement benefit obligation	<u>\$ 3,642,000</u>	<u>\$ -</u>	<u>\$ 3,642,000</u>	<u>\$ -</u>
<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>

Level 3 assets (beneficial interest in perpetual trust and investments) had net losses of \$492,216 in the consolidated statement of activities in 2018 and gains of \$92,929 in 2017.

### (16) SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 27, 2019, the date on which the consolidated financial statements were available to be issued. No material subsequent events have occurred since December 31, 2018 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, 2018**

	<u>Diocese</u>	<u>Wapiti Land Company</u>	<u>DHWBT</u>	<u>Foundation</u>	<u>Consolidated</u>
<b>ASSETS</b>					
Cash	\$ 1,810,676	\$ -	\$ -	\$ 155,865	\$ 1,966,541
Contributions receivable					
Pledges	33,455	-	-	-	33,455
Other	112,000	-	-	-	112,000
Assessments receivable	18,574	-	-	-	18,574
Other receivables	678,843	-	-	6,342	685,185
Prepaid expenses and other assets	80,722	-	-	13,730	94,452
Investments	66,067,673	-	-	944,450	67,012,123
Real estate held for sale	-	4,500,000	-	-	4,500,000
Loans receivable	83,409	-	-	-	83,409
Property and equipment, net	6,403,749	-	-	-	6,403,749
Beneficial interest in perpetual trusts	<u>3,899,875</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,899,875</u>
<b>Total assets</b>	<u>\$ 79,188,976</u>	<u>\$ 4,500,000</u>	<u>\$ -</u>	<u>\$ 1,120,387</u>	<u>\$ 84,809,363</u>
<b>LIABILITIES</b>					
Accounts payable and accrued expenses	\$ 527,805	\$ -	\$ -	\$ 51,662	\$ 579,467
Postretirement benefit obligation	<u>3,642,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,642,000</u>
<b>Total liabilities</b>	<u>4,169,805</u>	<u>-</u>	<u>-</u>	<u>51,662</u>	<u>4,221,467</u>
<b>NET ASSETS</b>					
Without donor restrictions	26,530,473	4,500,000	-	659,214	31,689,687
With donor restrictions	<u>48,488,698</u>	<u>-</u>	<u>-</u>	<u>409,511</u>	<u>48,898,209</u>
<b>Total net assets</b>	<u>75,019,171</u>	<u>4,500,000</u>	<u>-</u>	<u>1,068,725</u>	<u>80,587,896</u>
<b>Total liabilities and net assets</b>	<u>\$ 79,188,976</u>	<u>\$ 4,500,000</u>	<u>\$ -</u>	<u>\$ 1,120,387</u>	<u>\$ 84,809,363</u>

# EPISCOPAL DIOCESE OF PENNSYLVANIA AND AFFILIATES

## CONSOLIDATING STATEMENT OF ACTIVITIES

Year ended December 31, 2018

	<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	\$ 645,120	\$ -	\$ -	\$ -	\$ -	\$ 645,120
Other contributions	114,248	-	-	58,137	-	172,385
Congregation assessments	1,905,844	-	-	-	-	1,905,844
Investment income (loss)	(3,274,584)	-	-	(52,800)	-	(3,327,384)
Change in value of beneficial interest in perpetual trusts	(526,081)	-	-	-	-	(526,081)
Other income	353,188	-	-	443,927	(58,137)	738,978
<b>Total revenue and support</b>	<u>(782,265)</u>	<u>-</u>	<u>-</u>	<u>449,264</u>	<u>(58,137)</u>	<u>(391,138)</u>
<b>EXPENSES</b>						
<b>Program services</b>						
Grants and scholarships	1,608,142	-	-	-	-	1,608,142
Financially assisted congregations	790,460	-	-	-	-	790,460
Episcopal function	1,979,128	-	-	-	-	1,979,128
Diocesan meetings and communications	313,968	-	-	-	-	313,968
Investment management expenses	-	-	-	328,559	(58,137)	270,422
Wapiti	172,344	-	-	-	-	172,344
Other Diocesan programs	1,341,297	-	-	-	-	1,341,297
<b>Total program services</b>	6,205,339	-	-	328,559	(58,137)	6,475,761
<b>Supporting service</b>						
Management and general	832,065	-	-	98,227	-	930,292
<b>Unallocated national apportionment</b>	440,000	-	-	-	-	440,000
<b>Total expenses</b>	<u>7,477,404</u>	<u>-</u>	<u>-</u>	<u>426,786</u>	<u>(58,137)</u>	<u>7,846,053</u>
<b>CHANGE IN NET ASSETS BEFORE OTHER CHANGES</b>	<u>(8,259,669)</u>	<u>-</u>	<u>-</u>	<u>22,478</u>	<u>-</u>	<u>(8,237,191)</u>
<b>OTHER CHANGES</b>						
Closed or deconsecrated parishes	900,000	-	-	-	-	900,000
<b>CHANGE IN NET ASSETS</b>	(7,359,669)	-	-	22,478	-	(7,337,191)
<b>NET ASSETS</b>						
Beginning of year	82,286,666	4,500,000	92,174	1,046,247	-	87,925,087
Transfer of net assets	92,174	-	(92,174)	-	-	-
<b>End of year</b>	<u>\$ 75,019,171</u>	<u>\$ 4,500,000</u>	<u>\$ -</u>	<u>\$ 1,068,725</u>	<u>\$ -</u>	<u>\$ 80,587,896</u>

# EPISCOPAL DIOCESE OF PENNSYLVANIA AND AFFILIATES

## STATEMENT OF ACTIVITIES - EPISCOPAL DIOCESE OF PENNSYLVANIA ONLY

Year ended December 31, 2018 with comparative totals for 2017

	Without Donor Restrictions			With Donor Restrictions	Totals	
	Operating	Designated	Total		2018	2017
<b>REVENUE AND SUPPORT</b>						
Contributions						
Congregation pledges	\$ 645,120	\$ -	\$ 645,120	\$ -	\$ 645,120	\$ 705,284
Other contributions	25,661	-	25,661	88,587	114,248	374,277
Congregation assessments	1,905,844	-	1,905,844	-	1,905,844	1,966,506
Investment income (loss)	176,880	(1,160,497)	(983,617)	(2,290,967)	(3,274,584)	12,274,717
Change in value of beneficial interest in perpetual trusts	-	-	-	(526,081)	(526,081)	92,929
Other income	226,323	33,865	260,188	93,000	353,188	204,955
Net assets released from restrictions						
Endowment income distribution	2,850,190	(927,521)	1,922,669	(1,922,669)	-	-
Other	1,288,249	(1,032,196)	256,053	(256,053)	-	-
<b>Total revenue and support</b>	<b>7,118,267</b>	<b>(3,086,349)</b>	<b>4,031,918</b>	<b>(4,814,183)</b>	<b>(782,265)</b>	<b>15,618,668</b>
<b>EXPENSES</b>						
<b>Program services</b>						
Grants and scholarships	1,608,142	-	1,608,142	-	1,608,142	1,100,276
Financially assisted congregations	790,460	-	790,460	-	790,460	730,440
Episcopal function	1,979,128	-	1,979,128	-	1,979,128	1,849,834
Diocesan meetings and communications	313,968	-	313,968	-	313,968	280,917
Wapiti	172,344	-	172,344	-	172,344	165,832
Other Diocesan programs	1,341,297	-	1,341,297	-	1,341,297	1,189,583
<b>Total program services</b>	<b>6,205,339</b>	<b>-</b>	<b>6,205,339</b>	<b>-</b>	<b>6,205,339</b>	<b>5,316,882</b>
<b>Supporting service</b>						
Management and general	832,065	-	832,065	-	832,065	996,839
<b>Unallocated national apportionment</b>	<b>440,000</b>	<b>-</b>	<b>440,000</b>	<b>-</b>	<b>440,000</b>	<b>365,000</b>
<b>Total expenses</b>	<b>7,477,404</b>	<b>-</b>	<b>7,477,404</b>	<b>-</b>	<b>7,477,404</b>	<b>6,678,721</b>
<b>CHANGE IN NET ASSETS BEFORE OTHER CHANGES</b>	<b>(359,137)</b>	<b>(3,086,349)</b>	<b>(3,445,486)</b>	<b>(4,814,183)</b>	<b>(8,259,669)</b>	<b>8,939,947</b>
<b>OTHER CHANGES</b>						
Closed or deconsecrated parishes	900,000	-	900,000	-	900,000	950,000
<b>CHANGE IN NET ASSETS</b>	<b>540,863</b>	<b>(3,086,349)</b>	<b>(2,545,486)</b>	<b>(4,814,183)</b>	<b>(7,359,669)</b>	<b>9,889,947</b>
<b>NET ASSETS</b>						
Beginning of year	2,865,303	26,118,482	28,983,785	53,302,881	82,286,666	72,396,719
Transfer of net assets from DHWBT	92,174	-	92,174	-	92,174	-
<b>End of year</b>	<b>\$ 3,498,340</b>	<b>\$ 23,032,133</b>	<b>\$ 26,530,473</b>	<b>\$ 48,488,698</b>	<b>\$ 75,019,171</b>	<b>\$ 82,286,666</b>

# EPISCOPAL DIOCESE OF PENNSYLVANIA AND AFFILIATES

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

Year ended December 31, 2018 with comparative totals for 2017

	<u>Program Services</u>			
	<u>Grants and Scholarships</u>	<u>Financially Assisted Congregations</u>	<u>Episcopal Function</u>	<u>Diocesan Meetings and Communications</u>
Salaries	\$ 51,919	\$ 350,211	\$ 750,100	\$ 113,643
Employee benefits	26,888	181,371	388,470	58,855
Bad debt expense	-	-	-	-
Depreciation	-	-	179,844	53,953
Grants and scholarships	1,511,658	102,100	-	-
Honoraria	-	-	10,550	-
Insurance	-	54,348	14,327	4,298
Meeting expense	3,769	20,396	54,451	8,249
National apportionment	-	-	-	-
Postage	239	-	3,446	522
Printing	991	-	14,324	2,170
Professional fees	1,373	60,000	73,337	3,006
Repairs and maintenance	-	-	123,919	37,176
Supplies	1,913	-	27,636	4,187
Telecommunications	1,172	-	16,932	2,565
Travel	1,080	20,823	115,116	2,362
Utilities	-	-	24,502	7,351
Miscellaneous	7,140	1,211	182,174	15,631
	<u>\$ 1,608,142</u>	<u>\$ 790,460</u>	<u>\$ 1,979,128</u>	<u>\$ 313,968</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>2018</u>	<u>2017</u>
\$ 70,954	\$ 580,377	\$ 342,194	\$ -	\$ 2,259,398	\$ 2,143,736
36,746	300,572	177,220	-	1,170,122	1,118,484
-	-	31,858	-	31,858	-
-	53,953	71,937	-	359,687	287,965
-	-	-	-	1,613,758	1,085,016
-	-	-	-	10,550	19,920
-	4,298	5,731	-	83,002	76,306
5,150	101,280	24,841	-	218,136	95,801
-	-	-	440,000	440,000	365,000
326	2,666	1,572	-	8,771	11,701
1,355	11,083	6,534	-	36,457	35,711
3,019	43,244	23,633	-	207,612	141,283
-	37,176	49,566	-	247,837	185,198
2,614	21,383	12,607	-	70,340	59,786
1,602	13,101	7,723	-	43,095	44,753
1,475	84,617	9,748	-	235,221	270,577
-	7,351	9,800	-	49,004	34,000
49,103	80,196	57,101	-	392,556	703,484
<u>\$ 172,344</u>	<u>\$ 1,341,297</u>	<u>\$ 832,065</u>	<u>\$ 440,000</u>	<u>\$ 7,477,404</u>	<u>\$ 6,678,721</u>