

**EPISCOPAL DIOCESE OF BETHLEHEM
(A Not-for-Profit Corporation)**

**Financial Statements and
Independent Auditor's Report**

December 31, 2018

CAMPBELL, RAPPOLD & YURASITS LLP
Certified Public Accountants
1033 South Cedar Crest Boulevard Allentown, PA 18103

EPISCOPAL DIOCESE OF BETHLEHEM
(A Not-for-Profit Corporation)
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INDEPENDENT AUDITOR'S REPORT

Diocesan Council Members
Episcopal Diocese of Bethlehem
Bethlehem, PA

We have audited the accompanying financial statements of the Episcopal Diocese of Bethlehem (A Not-for-Profit Corporation), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Episcopal Diocese of Bethlehem as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Episcopal Diocese of Bethlehem's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 28, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Congbell, Rappold & Yasaita LLP

August 29, 2019

EPISCOPAL DIOCESE OF BETHLEHEM
(A Not-for-Profit Corporation)
STATEMENT OF FINANCIAL POSITION
As of December 31, 2018
With Comparative Totals for December 31, 2017

	2018			2017 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
- ASSETS -				
Cash and Cash Equivalents	\$ 350,231	\$ 194,684	\$ 544,915	\$ 1,233,046
Short-Term Investments (Note 3)	-	-	-	64,182
Accounts Receivable (net of Allowance of \$-0- and \$93,000 in 2018 and 2017)	55,167	-	55,167	91,986
Prepaid Expenses	23,277	-	23,277	19,358
Loans Receivable - Clergy/Parishes (Note 5)	51,161	-	51,161	65,821
Diocesan Trust Investments (Note 3)	9,326,321	17,593,533	26,919,854	29,157,633
Property and Equipment, Net (Note 6)	285,434	-	285,434	263,863
	<u>\$ 10,091,591</u>	<u>\$ 17,788,217</u>	<u>\$ 27,879,808</u>	<u>\$ 30,895,889</u>
- LIABILITIES AND NET ASSETS -				
Liabilities:				
Accounts Payable and Accrued Expenses	\$ 7,940	\$ -	\$ 7,940	\$ 6,470
Investments Held for Others	-	15,155,662	15,155,662	16,828,923
	<u>7,940</u>	<u>15,155,662</u>	<u>15,163,602</u>	<u>16,835,393</u>
Net Assets:				
Without Donor Restrictions:				
Undesignated	(284,286)	-	(284,286)	(188,900)
Investment in Property and Equipment	285,434	-	285,434	263,863
Designated for Long-Term Investment	9,326,321	-	9,326,321	9,798,931
Designated for Reserves	756,182	-	756,182	1,304,323
With Donor Restrictions (Note 8)	-	2,632,555	2,632,555	2,882,279
	<u>10,083,651</u>	<u>2,632,555</u>	<u>12,716,206</u>	<u>14,060,496</u>
	<u>\$ 10,091,591</u>	<u>\$ 17,788,217</u>	<u>\$ 27,879,808</u>	<u>\$ 30,895,889</u>

See independent auditor's report and notes to financial statements.

EPISCOPAL DIOCESE OF BETHLEHEM
(A Not-for-Profit Corporation)
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2018
With Comparative Totals for the Year Ended December 31, 2017

	Year Ended December 31, 2018			2017 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
Operating Support and Revenue:				
Acceptances	\$ 93,965	\$ -	\$ 93,965	\$ 102,385
Assessments	995,522	-	995,522	1,019,411
Investment Income (Net of Fees of \$60,543 and \$130,594)	199,027	35,017	234,044	508,005
Grants and Contributions	41,874	15,243	57,117	13,782
Miscellaneous Income	3,359	-	3,359	2,594
Releases from Restrictions (Note 8)	62,869	(62,869)	-	-
Total Support and Revenue	1,396,616	(12,609)	1,384,007	1,646,177
Operating Expenses:				
Program Services	1,255,760	-	1,255,760	1,133,803
General and Administrative	298,151	-	298,151	208,972
Total Operating Expenses before Depreciation and Other Expenses	1,553,910	-	1,553,910	1,342,775
Operating Surplus before Other Expenses	(157,294)	(12,609)	(169,903)	303,402
Other Expenses:				
Bad Debt Expense	(18,512)	-	(18,512)	(10,711)
Debt Forgiveness	-	-	-	(45,369)
Increase (Decrease) in Net Assets from Operations	(175,806)	(12,609)	(188,415)	247,322
Non-Operating Activities:				
New Hope Contributions	-	13,998	13,998	78,192
New Hope Expenses	(58,831)	-	(58,831)	(62,974)
Depreciation	(25,652)	-	(25,652)	(18,616)
Realized/Unrealized Gain (Loss) in Investment Value	(906,594)	(178,796)	(1,085,390)	1,094,459
Releases from Restrictions (Note 8)	72,317	(72,317)	-	-
Total Non-Operating Activities	(918,760)	(237,115)	(1,155,875)	1,091,061
Increase (Decrease) in Net Assets	(1,094,566)	(249,724)	(1,344,290)	1,338,383
Net Assets at Beginning of Year	11,178,217	2,882,279	14,060,496	12,722,113
Net Assets at End of Year	<u>\$ 10,083,651</u>	<u>\$ 2,632,555</u>	<u>\$ 12,716,206</u>	<u>\$ 14,060,496</u>

See independent auditor's report and notes to financial statements.

EPISCOPAL DIOCESE OF BETHLEHEM
(A Not-for-Profit Corporation)
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities:		
Change in Net Assets	\$ (1,344,290)	\$ 1,338,383
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	25,652	18,616
Unrealized/Realized (Gain) Loss on Investments	1,085,390	(1,094,459)
Restricted Contributions	(29,241)	(81,974)
Forgiveness of Debt	-	45,369
Allowance For Uncollectibles	(93,000)	(21,000)
Decrease (Increase) in Assets:		
Accounts Receivable	129,819	38,847
Prepaid Expenses	(3,919)	17,064
Increase (Decrease) in Liabilities:		
Accounts Payable and Accrued Expenses	1,470	(15,996)
Investments Held for Others	(1,673,261)	2,499,945
Net Cash Provided (Used) by Operating Activities	(1,901,380)	2,744,795
Cash Flows from Investing Activities:		
Purchase of Investments	(12,773,169)	(10,651,389)
Sale of Investments	13,989,740	7,967,763
Purchase of Property and Equipment	(47,223)	(62,716)
Loan Distributions to Clergy/Parishes	(23,500)	-
Proceeds from Loan Payments	38,160	24,078
Net Cash Provided (Used) by Investing Activities	1,184,008	(2,722,264)
Cash Flows from Financing Activities:		
Restricted Contributions	29,241	81,974
Net Cash Provided by Financing Activities	29,241	81,974
Net Increase (Decrease) in Cash and Cash Equivalents	(688,131)	104,505
Cash and Cash Equivalents at Beginning of Year	1,233,046	1,128,541
Cash and Cash Equivalents - End of Year	\$ 544,915	\$ 1,233,046

See independent auditor's report and notes to financial statements.

EPISCOPAL DIOCESE OF BETHLEHEM
(A Not-for-Profit Corporation)
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2018
With Comparative Totals for the Year Ended December 31, 2017

	Program Services	General and Administrative	Total 2018	Total 2017
Salaries and Wages	\$ 326,524	\$ 108,841	\$ 435,365	\$ 409,257
Employee Benefits	116,537	38,846	155,382	117,420
Housing	43,537	7,683	51,220	53,494
Payroll Taxes	11,145	3,715	14,860	13,486
Total Salaries and Related Expenses	497,742	159,085	656,827	593,657
National Church	193,822	-	193,822	178,870
New Bethany Ministries	15,000	-	15,000	15,000
Other Ministries	27,386	-	27,386	27,899
Congregational Development	103,498	-	103,498	79,678
Grants and Assistance	182,681	-	182,681	106,934
Youth Ministry	8,028	-	8,028	11,940
Staff Travel	16,020	5,340	21,360	32,152
Utilities	5,738	1,913	7,651	9,285
Building Maintenance and Repairs	30,101	10,034	40,135	56,160
Equipment Leases and Maintenance	5,973	1,991	7,964	10,721
Telephone and Internet	5,307	1,769	7,076	8,889
Insurance	8,978	2,993	11,971	11,064
Office Supplies	4,724	1,575	6,299	6,128
Bishop Search	-	95,162	95,162	17,565
Communications	26,690	2,966	29,655	38,812
Professional Services	15,131	5,044	20,174	30,497
Retiree Benefits	60,367	-	60,367	94,572
Convention and Meetings	48,573	8,572	57,145	11,429
Miscellaneous	-	1,709	1,709	1,523
Total Operating Expenses	\$ 1,255,760	\$ 298,151	\$ 1,553,910	\$ 1,342,775

See independent auditor's report and notes to financial statements.

EPISCOPAL DIOCESE OF BETHLEHEM
(A Not-for-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
December 31, 2018
With Comparative Information as of December 31, 2017

1. Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities

The Mission of the Diocese of Bethlehem is to live God's love; tell what you have seen and heard. This mission will seek to create communities of faith where all God's people can deepen their relationship with Jesus. We seek so to live that the Holy Spirit might use us to draw others to Christ. We seek to welcome others to the fellowship of God's church. This vision will lead us to celebrate our Anglican identity, to proclaim the importance of our life together in Christ, to live lives of prayer, service, and compassion as we work to build a world of justice and peace, and to be open to change as the Holy Spirit prompts us.

The Episcopal Diocese of Bethlehem also operates to receive, hold, administer, and properly dispose of all property, real and personal, which may be given, granted, conveyed, devised, bequeathed, or transferred to them, either in their own names or in trust, for religious, charitable or educational use or purpose connected with the Protestant Episcopal Church in said Diocese or any portion thereof, or for the aid, benefit or advancement of any parish, congregation or religious, charitable or education association in the Diocese.

Trusts for parishes and missions and the Diocesan trusts are governed by the Board of Trustees with separate counsel for investment advice. Regularly scheduled distributions occur on a quarterly basis, however the Diocese and parishes can request additions and withdrawals as needed. For trusts restricted to income only, the income, net of expenses, is distributed to the beneficiaries on a quarterly basis based on an investment return policy.

The Diocese is a not-for-profit religious organization and is exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3). In addition, as a Diocese, the Organization is not required to file income tax or information returns with either the Internal Revenue Service or the Commonwealth of Pennsylvania.

Program Descriptions

Ministry – The office of the Bishop includes full administration of the Diocese, the diocesan staff, personnel, property expenses and the ministries that support the life of the Diocese.

Parish Life – Support of congregational life and programs in the parishes of the Diocese of Bethlehem.

Mission Support – Outreach locally and nationally. The Diocesan participation of program and ministry of the larger church.

Grants/Assistance – The funding of programs and ministries both locally and nationally.

EPISCOPAL DIOCESE OF BETHLEHEM
(A Not-for-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
December 31, 2018
With Comparative Information as of December 31, 2017

1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

Net Asset Classification

Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by the action of the Diocesan Council Members.

Net Assets With Donor Restrictions – Net Assets subject to donor-imposed stipulations. Some donor restrictions are temporary in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource has been fulfilled, or both.

Accounting Method

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Cash and Cash Equivalents

For purposes of the Statements of Cash Flows, the Diocese includes all bank accounts as cash and cash equivalents. Any cash and cash equivalents held for investment purposes are reported as investments and not as cash and cash equivalents on the Statements of Cash Flows.

Investments

Investments are carried at fair value based on quoted market values and realized and unrealized gains and losses are reflected on the Statements of Activities.

Accounts/Loans Receivable

Assessments unpaid as of the year end are recorded as receivables and as current year revenue. Loans to clergy and parishes are carried at unpaid principal balances, less an allowance for uncollectible loans, as determined necessary. Interest received on loans is recorded on the accrual basis and all loans are considered current. Management has estimated an allowance for doubtful accounts on assessments of \$-0- and \$93,000 for the years ended December 31, 2018 and 2017, respectively.

EPISCOPAL DIOCESE OF BETHLEHEM
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NOTES TO FINANCIAL STATEMENTS
December 31, 2018
With Comparative Information as of December 31, 2017

1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

Property and Equipment

Property and equipment acquisitions over \$500 are recorded at historical cost. Depreciation is computed by use of the straight-line method based on estimated useful lives. Routine repairs and maintenance that do not improve or extend the original useful lives of the respective assets are expensed as incurred.

	<u>Years</u>
Buildings	50
Furniture and Equipment	5 - 15
Vehicles	3 - 5

Revenue Sources

The Organization derives a majority of its operating revenue from parish assessment, acceptance collections, and investment income. These funds are generated from the various parishes included under its geographic area boundaries of Northeastern Pennsylvania. The majority of Trustee revenue is from trust investment income.

Contributions

Contributions received are recorded as revenue with donor restrictions or revenue without donor restrictions depending on the existence and/or nature of donor restrictions. All donor-restricted support is reported as an increase in net assets with donor restrictions. When a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the Statement of Activities as net assets released from restrictions.

Contributed Services and Materials

In addition to receiving cash contributions, the Diocese occasionally receives in-kind contributions from various donors. It is the policy of the Diocese to record the estimated fair market value of certain in-kind donations as an asset or expense in its financial statements, and similarly increase donations by a like amount. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing these skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. For the years ended December 31, 2018 and 2017, there were no amounts contributed for services and materials.

EPISCOPAL DIOCESE OF BETHLEHEM
(A Not-for-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
December 31, 2018
With Comparative Information as of December 31, 2017

1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles of the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Operating Measure

The Organization classifies its activities in its Statement of Activities as operating and nonoperating. Operating activities principally include all income and expenses related to carrying out the Organization's mission. Operating revenues also include grants, contributions and investment return.

Nonoperating activities principally include depreciation, realized and unrealized gains or losses on investment activity and New Hope contributions and related expenses, which are for the purpose of building a college for seminarians, five primary schools, and one high school in Kajo Keji, South Sudan. New Hope also supports social ministry efforts for the needy within Pennsylvania.

Concentrations of Credit Risk

Financial instruments that are exposed to concentrations of credit risk consist of cash, accounts receivable and investments. The cash and investments in stocks and bonds are held at high quality institutions and companies with high credit ratings. Accounts receivable including loans receivable and various notes receivable are principally with member parishes and clergy. Realization of these items is dependent on various individual economic conditions. Investments are based on quoted market prices. Accounts receivable and notes receivable are carried at estimated net realizable values.

The Diocese had \$292,460 in excess of federally insured limits on deposit at one bank at December 31, 2018.

Functional Expenses

The Organization's program activity consists of governing church ministry for parishes within the territory of Northeastern Pennsylvania. Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. General and administrative expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization. There are no fundraising expenses.

EPISCOPAL DIOCESE OF BETHLEHEM
(A Not-for-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
December 31, 2018
With Comparative Information as of December 31, 2017

1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

New Accounting Pronouncement

In August 2016, the Financial Account Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The Organization has adjusted the presentation of its financial statements accordingly, applying the changes retrospectively to the comparative period presented. The new standard changes the following aspects of the Organization's 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 2).
- The presentation of expenses in both natural and functional classifications.

The changes have the following effect on net assets at December 31, 2017:

	<u>As Originally Presented</u>	<u>After Adoption of ASU 2016-14</u>
Unrestricted net assets	\$ 11,178,217	\$ -
Temporarily restricted net assets	2,882,279	-
Net assets without donor restrictions	-	11,178,217
Net assets with donor restrictions	-	2,882,279
Total net assets	<u>\$ 14,060,496</u>	<u>\$ 14,060,496</u>

EPISCOPAL DIOCESE OF BETHLEHEM
(A Not-for-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
December 31, 2018
With Comparative Information as of December 31, 2017

2. Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

	2018
Cash and Cash Equivalents	\$ 544,915
Accounts Receivable	55,167
Diocesan Trust Investments	26,919,854
Less: Investments Held for Others	(15,155,662)
Total Financial Assets at Year End	12,364,274
Less those Unavailable for General Expenditures within One Year Due to:	
Contractual or Donor-Imposed Restrictions:	
Restricted by Donor with Time or Purpose Restrictions	(2,632,555)
Board Designations:	
Designated for Long-Term Investment	(9,326,321)
Designated for Reserves	(756,182)
	\$ (350,784)

The Episcopal Diocese of Bethlehem is supported mainly by acceptance collections from parishes under its geographic area boundaries of Northeastern Pennsylvania. Funding is also received in the form of investment income and contributions. The Organization believes that acceptance revenue in conjunction with other support along with the assets held at December 31, 2018, is sufficient to enable the Organization to continue to operate for the upcoming year. In addition, Board Designation's can be made available for operation at any time by direction of the board.

3. Investments

Short-term investments consist of the following:

	2018		2017	
	Cost	Fair Value	Cost	Fair Value
Cash and Cash Equivalents	\$ -	\$ -	\$ 64,182	\$ 64,182
Government Securities	-	-	-	-
	\$ -	\$ -	\$ 64,182	\$ 64,182

EPISCOPAL DIOCESE OF BETHLEHEM
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3. Investments (Continued)

The diocesan trust investments consist of cash and marketable securities and are presented in the financial statements at fair value. Market risk could occur and is dependent on the future changes in market prices of the various investments held. An analysis of the investments held in trust as of December 31, 2018 and 2017 are as follows:

	2018		2017	
	Cost	Fair Value	Cost	Fair Value
Cash and Cash Equivalents	\$ 1,448,417	\$ 1,448,417	\$ 646,778	\$ 646,778
Government Securities and Corporate Bonds	5,628,959	5,563,656	8,396,559	8,286,477
Equities	9,807,621	11,323,238	9,546,954	12,303,236
Mutual Funds	9,921,131	8,584,543	6,971,701	7,921,142
	<u>\$ 26,806,128</u>	<u>\$ 26,919,854</u>	<u>\$ 25,561,992</u>	<u>\$ 29,157,633</u>

At December 31, 2018 and 2017, the market value of Government Securities and Corporate Bonds, by contracted maturity dates, are as shown below. Expected maturities will differ from contracted maturities because borrowers have the right to call on the prepay obligations with or without call or prepayment penalties.

	Fair Value 2018	Fair Value 2017
Due in 1 Year or Less	\$ 499,816	\$ 730,707
Due after 1 Through 5 Years	1,960,632	3,096,445
Due after 5 Through 20 Years	2,531,208	1,879,623
Due after 20 Years	572,000	2,579,702
	<u>\$ 5,563,656</u>	<u>\$ 8,286,477</u>

A summary of earnings on investments for the years ended December 31, 2018 and 2017 are as follows:

	2018	2017
Interest and Dividends	\$ 294,587	\$ 638,959
Unrealized Gains	1,480,423	283,599
Realized Gains / (Losses)	(395,033)	810,860
Investment Fees	(60,543)	(130,954)
	<u>\$ 1,319,434</u>	<u>\$ 1,602,464</u>

EPISCOPAL DIOCESE OF BETHLEHEM
(A Not-for-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
December 31, 2018
With Comparative Information as of December 31, 2017

4. Fair Value Measurements

Financial Accounting Standards Board (“FASB”) ASC 820-10, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820-10 are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Diocese has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable, are significant to the fair value measurement and include management’s judgments about the assumptions market participants would use in pricing the asset or liability.

The asset’s or liability’s fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Investments classified within Level 3 whose fair value measurements consider several inputs may include Level 1 and/or Level 2 inputs as components of the overall fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2018 and 2017.

Equities, corporate bonds, and U.S. governmental securities: Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual Funds: Valued at the net asset value (“NAV”) of shares held by the Diocese at year end.

EPISCOPAL DIOCESE OF BETHLEHEM
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4. Fair Value Measurements (Continued)

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Diocese believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Diocese's assets at fair value as of December 31, 2018 and 2017.

	Assets at Fair Value as of December 31, 2018			
	Level 1	Level 2	Level 3	Total
Cash and Cash Equivalents	\$ 1,448,417	\$ -	\$ -	\$ 1,448,417
Equities				
Consumer Discretion	1,877,775	-	-	1,877,775
Consumer Staples	908,862	-	-	908,862
Energy	321,200	-	-	321,200
Financials	1,168,031	-	-	1,168,031
Healthcare	1,901,301	-	-	1,901,301
Industrials	1,465,903	-	-	1,465,903
Technology	3,059,399	-	-	3,059,399
Materials	332,727	-	-	332,727
Telecom	234,156	-	-	234,156
Utilities	53,884	-	-	53,884
Mutual Funds				
Foreign Large Blend	5,709,445	-	-	5,709,445
Diversified Emerging Markets	683,335	-	-	683,335
Real Estate	70,127	-	-	70,127
Small-Cap	365,942	-	-	365,942
Foreign Small Growth	1,089,526	-	-	1,089,526
Infrastructure	666,168	-	-	666,168
Corporate Bonds	-	2,352,096	-	2,352,096
Government Securities	-	3,211,560	-	3,211,560
Total Assets at Fair Value	\$21,356,198	\$5,563,656	\$ -	\$26,919,854

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4. Fair Value Measurements (Continued)

	Assets at Fair Value as of December 31, 2017			
	Level 1	Level 2	Level 3	Total
Cash and Cash Equivalents	\$ 710,960	\$ -	\$ -	\$ 710,960
Equities				
Consumer Discretion	1,502,827	-	-	1,502,827
Consumer Staples	1,056,637	-	-	1,056,637
Energy	460,096	-	-	460,096
Financials	1,806,794	-	-	1,806,794
Healthcare	1,860,978	-	-	1,860,978
Industrials	1,944,385	-	-	1,944,385
Technology	2,973,552	-	-	2,973,552
Materials	556,729	-	-	556,729
Telecom	101,096	-	-	101,096
Utilities	40,142	-	-	40,142
Mutual Funds				
Foreign Large Blend	5,984,169	-	-	5,984,169
Real Estate	62,733	-	-	62,733
Small-Cap	395,727	-	-	395,727
Foreign Small Growth	1,478,513	-	-	1,478,513
Corporate Bonds	-	2,681,515	-	2,681,515
Government Securities	-	5,604,962	-	5,604,962
Total Assets at Fair Value	<u>\$20,935,338</u>	<u>\$8,286,477</u>	<u>\$ -</u>	<u>\$29,221,815</u>

There were no transfers between Level 1, Level 2 and Level 3 investments in 2018 and 2017. Transfers are recognized at the end of the reporting period.

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5. Loans Receivable

The Diocese provides loans to member parishes. The loans are payable in monthly installments at an interest rate of 3.00%. Imputed interest on one zero percent interest loan was determined by Management to be immaterial to the financial statements as a whole. During 2017, the Diocese forgave the remaining balance on the zero percent interest loan in the amount of \$45,369. Outstanding loan balances at December 31, are as follows:

<u>Maturity Date</u>	<u>Term (Years)</u>	<u>Loan Amount</u>	<u>December 31,</u>	
			<u>2018</u>	<u>2017</u>
March, 2020	6	6,000	\$ 2,377	\$ 2,377
December, 2020	10	14,000	3,001	4,487
April, 2021	5	40,000	18,425	26,367
March, 2020	5	180,000	-	27,975
March, 2022	10	10,000	4,615	4,615
March, 2022	7	23,500	22,743	-
Total Loans Receivable			<u>\$ 51,161</u>	<u>\$ 65,821</u>

6. Property and Equipment

Property and equipment are as follows:

	<u>2018</u>	<u>2017</u>
Land and Buildings	\$ 519,449	\$ 515,949
Furniture and Equipment	228,439	224,500
Vehicles	37,809	-
	<u>785,697</u>	<u>740,449</u>
Less: Accumulated Depreciation	<u>(500,263)</u>	<u>(476,586)</u>
	<u>\$ 285,434</u>	<u>\$ 263,863</u>

Depreciation expense for 2018 and 2017 was \$25,652 and \$18,616, respectively.

7. Employee Retirement Plan

The Diocesan clergy participate in a defined benefit retirement plan managed by the Church Pension Fund of New York ("The Fund"), the assets of which are pooled for the benefit of all participants. The Fund levies assessments at the rate of 18% of participants' compensation, which includes salaries, other cash compensation, and the value of housing. Diocesan retirement expense for clergy employees was \$52,660 and \$40,588 for the years ended 2018 and 2017, respectively.

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7. Employee Retirement Plan (Continued)

The Diocese has adopted The Episcopal Church Lay Employees' Defined Contribution 403(b) Plan ("The Plan") for lay employees. The Plan provides for participants' pretax contributions to the Plan up to the limits defined by Section 401(k) of the Internal Revenue Code. The Diocese is required to provide eligible employees with a minimum 5% contribution, and matching contributions equal to 100% of eligible participants' elective deferrals, up to 4% of the participants' compensation. Participants must attain 1,000 hours of service in one year to be eligible to receive employer contributions. In 2018 and 2017, the Diocese contributed 18% of eligible participant compensation. Diocesan retirement expense for lay employees was \$34,858 and \$27,241 for the years ended 2018 and 2017, respectively.

8. Net Assets with Donor Restrictions

Net assets with donor restrictions include council custody accounts, clergy discretionary fund accounts, Diocesan Churchwomen accounts, and the New Hope Project Funds.

Activities and net asset balances for the years ended December 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
	With Donor Restrictions	With Donor Restrictions
Council Custody Accounts	\$ 731,501	\$ 828,589
New Hope Funds	<u>1,901,054</u>	<u>2,053,690</u>
Total Net Assets with Donor Restrictions	<u>\$ 2,632,555</u>	<u>\$ 2,882,279</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes specified by the donors as follows:

	<u>2018</u>	<u>2017</u>
Bishops Discretionary	\$ 46,889	\$ 14,538
Episcopal Churchwomen Fund	5,980	2,088
Scholarship Assistance	10,000	8,000
New Hope Funds	<u>72,317</u>	<u>62,974</u>
Total Net Assets with Donor Restrictions Released from Restriction	<u>\$ 135,186</u>	<u>\$ 87,600</u>

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9. Commitments and Contingencies

The Trustees guarantee a loan held by New Bethany, Inc., a charitable entity. The outstanding balance on the loan was \$-0- and \$59,619 at December 31, 2018 and 2017, respectively.

The Diocese is currently using the system of Reimbursement Financing to pay unemployment compensation claims, under which a liability occurs only when a former employee collects unemployment benefits. It is at that time that the Diocese must reimburse the State for claims paid.

10. Leases

The Organization leases office equipment under long-term lease agreements. The equipment leases expire in various years through August 2022. Rental expense was \$5,915 for the years ended December 31, 2018 and 2017.

Future lease obligations are as follows:

Year Ending December 31:	
2019	\$ 3,112
2020	3,112
2021	2,505
2022	<u>1,670</u>
	<u>\$ 10,399</u>

11. Summarized Totals for Year Ended December 31, 2017

The financial statements include certain prior-year summarized comparative information in total, but not by function or net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles in the United States of America. Accordingly, such information should be read in conjunction with Episcopal Diocese of Bethlehem's financial statements for the year ended December 31, 2017, from which summarized information was derived.

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12. Subsequent Events

The management of the Diocese has considered events subsequent to December 31, 2018 that affect the Organization through August 29, 2019, the date the financial statements were available to be issued, and has determined that no material subsequent events exist that require disclosure.