

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

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

December 31, 2021

**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

Opinion

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, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Episcopal Diocese of Bethlehem as of December 31, 2021, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Episcopal Diocese of Bethlehem and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Episcopal Diocese of Bethlehem's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Episcopal Diocese of Bethlehem's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Episcopal Diocese of Bethlehem's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited the Episcopal Diocese of Bethlehem's 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 22, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Congell, Rappold & Yucasita LLP

August 3, 2022

EPISCOPAL DIOCESE OF BETHLEHEM
(A Not-for-Profit Corporation)
STATEMENT OF FINANCIAL POSITION
As of December 31, 2021
With Comparative Totals for December 31, 2020

	2021			2020 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
- ASSETS -				
Cash and Cash Equivalents	\$ 513,455	\$ 218,943	\$ 732,398	\$ 695,448
Accounts Receivable	46,662	-	46,662	21,711
Related Party Receivable (Note 10)	18,513	-	18,513	15,490
Prepaid Expenses	28,976	-	28,976	29,490
Loans Receivable - Clergy/Parishes (Note 5)	121,143	-	121,143	136,598
Related Party Loan Receivable (Note 10)	-	-	-	82,128
Diocesan Trust Investments (Notes 3 and 4)	14,021,669	24,309,417	38,331,086	34,131,783
Property and Equipment, Net (Note 6)	255,450	-	255,450	243,078
	<u>\$ 15,005,868</u>	<u>\$ 24,528,360</u>	<u>\$ 39,534,228</u>	<u>\$ 35,355,726</u>
- LIABILITIES AND NET ASSETS -				
Liabilities:				
Accounts Payable and Accrued Expenses	\$ 4,085	\$ -	\$ 4,085	\$ 93
Deferred Revenue	25,000	-	25,000	-
Notes Payable (Note 12)	-	-	-	185,600
Investments Held for Others	-	20,826,020	20,826,020	18,705,529
	<u>29,085</u>	<u>20,826,020</u>	<u>20,855,105</u>	<u>18,891,222</u>
Net Assets:				
Without Donor Restrictions:				
Undesignated	(2,650)	-	(2,650)	(37,632)
Investment in Property and Equipment	255,450	-	255,450	243,078
Designated for Long-Term Investment	14,021,669	-	14,021,669	12,301,119
Designated for Reserves	702,314	-	702,314	639,880
With Donor Restrictions (Note 8)	-	3,702,340	3,702,340	3,318,059
	<u>14,976,783</u>	<u>3,702,340</u>	<u>18,679,123</u>	<u>16,464,504</u>
	<u>\$ 15,005,868</u>	<u>\$ 24,528,360</u>	<u>\$ 39,534,228</u>	<u>\$ 35,355,726</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, 2021
With Comparative Totals for the Year Ended December 31, 2020

	Year Ended December 31, 2021			2020 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
Operating Support and Revenue:				
Acceptances	\$ 98,154	\$ -	\$ 98,154	\$ 102,577
Assessments	1,014,094	-	1,014,094	1,013,333
Investment Income (Net of Fees of \$77,399 and \$66,951 in 2021 and 2020)	201,155	30,304	231,459	174,122
Grants and Contributions	18,312	6,426	24,738	22,826
Miscellaneous Income	1,249	-	1,249	1,240
Releases from Restrictions (Note 8)	21,783	(21,783)	-	-
Total Operating Support and Revenue	1,354,747	14,947	1,369,694	1,314,098
Operating Expenses:				
Program Services	954,679	-	954,679	972,368
General and Administrative	180,912	-	180,912	176,448
Total Operating Expenses	1,135,591	-	1,135,591	1,148,816
Increase in Net Assets from Operations	219,156	14,947	234,103	165,282
Non-Operating Activities:				
New Hope Contributions	-	10,975	10,975	19,968
New Hope Expenses	(45,407)	-	(45,407)	(115,490)
Bad Debt Expense	(24,267)	-	(24,267)	(29,961)
Depreciation Expense	(29,877)	-	(29,877)	(29,834)
Gain (Loss) on Sale of Assets	12,506	-	12,506	(640)
Realized/Unrealized Gain in Investment Value	1,549,348	403,766	1,953,114	1,405,423
Gain on Loan Extinguishment	103,472	-	103,472	-
Releases from Restrictions (Note 8)	45,407	(45,407)	-	-
Total Non-Operating Activities	1,611,182	369,334	1,980,516	1,249,466
Increase in Net Assets	1,830,338	384,281	2,214,619	1,414,748
Net Assets at Beginning of Year	13,146,445	3,318,059	16,464,504	15,049,756
Net Assets at End of Year	\$ 14,976,783	\$ 3,702,340	\$ 18,679,123	\$ 16,464,504

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, 2021 and 2020

	2021	2020
Cash Flows from Operating Activities:		
Change in Net Assets	\$ 2,214,619	\$ 1,414,748
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities:		
(Gain) Loss on Sale of Assets	(12,506)	640
Depreciation	29,877	29,834
Realized/Unrealized Gain on Investments	(1,953,114)	(1,405,423)
Restricted Contributions	(17,401)	(26,069)
Bad Debt Expense	(24,267)	(29,961)
Gain on Loan Extinguishment	(103,472)	-
Decrease (Increase) in Assets:		
Accounts Receivable	(684)	57,298
Related Party Receivable	(3,023)	18,758
Related Party Loan Receivable	-	(82,128)
Prepaid Expenses	514	2,457
Increase (Decrease) in Liabilities:		
Accounts Payable and Accrued Expenses	3,992	(2,227)
Deferred Revenue	25,000	-
Investments Held for Others	2,120,491	856,159
	2,280,026	834,086
Net Cash Provided by Operating Activities	2,280,026	834,086
Cash Flows from Investing Activities:		
Purchase of Investments	(13,188,594)	(3,905,412)
Sale of Investments	10,942,405	3,018,383
Proceeds from Sale of Assets	27,000	-
Purchase of Property and Equipment	(56,743)	-
Loan Distributions to Clergy/Parishes	-	(103,000)
Proceeds from Loan Payments	15,455	17,197
	(2,260,477)	(972,832)
Net Cash Used in Investing Activities	(2,260,477)	(972,832)
Cash Flows from Financing Activities:		
Restricted Contributions	17,401	26,069
Proceeds from Paycheck Protection Program Loan	-	185,600
	17,401	211,669
Net Cash Provided by Financing Activities	17,401	211,669
Net Increase in Cash and Cash Equivalents	36,950	72,923
Cash and Cash Equivalents at Beginning of Year	695,448	622,525
Cash and Cash Equivalents at End of Year	\$ 732,398	\$ 695,448

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, 2021
With Comparative Totals for the Year Ended December 31, 2020

	Program Services	General and Administrative	Total 2021	Total 2020
Operating Expenses				
Salaries and Wages	\$ 300,553	\$ 100,184	\$ 400,737	\$ 412,780
Employee Benefits	126,947	42,316	169,263	173,754
Housing	34,000	6,000	40,000	39,968
Payroll Taxes	16,905	5,635	22,540	20,999
Total Salaries and Related Expenses	478,405	154,135	632,540	647,501
National Church	153,506	-	153,506	187,619
New Bethany Ministries	15,000	-	15,000	15,000
Other Ministries	53,126	-	53,126	38,211
Congregational Development	34,306	-	34,306	78,058
Grants and Assistance	121,164	-	121,164	93,499
Youth Ministry	-	-	-	161
Staff Travel	5,763	1,921	7,684	6,376
Utilities	6,263	2,088	8,351	7,277
Building Maintenance and Repairs	13,024	4,341	17,365	4,701
Equipment Leases and Maintenance	3,321	1,107	4,428	4,455
Telephone and Internet	6,100	2,034	8,134	7,369
Insurance	6,418	2,140	8,558	6,120
Office Supplies	3,727	1,243	4,970	4,661
Communications	17,454	1,939	19,393	6,509
Professional Services	24,727	8,242	32,969	20,019
Retiree Benefits	7,489	-	7,489	7,965
Convention and Meetings	4,886	862	5,748	12,519
Miscellaneous	-	860	860	796
Total Operating Expenses	954,679	180,912	1,135,591	1,148,816
New Hope Expenses				
Contract Labor	19,890	-	19,890	21,909
Grants and Assistance	24,980	-	24,980	92,779
Bank Fees	-	537	537	802
Total New Hope Expenses	44,870	537	45,407	115,490
Bad Debt Expense	24,267	-	24,267	29,961
Depreciation Expense	22,408	7,469	29,877	29,834
Total Expenses	\$ 1,046,224	\$ 188,918	\$ 1,235,142	\$ 1,324,101

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, 2021
With Comparative Information as of December 31, 2020

1. Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities

The Mission of the Diocese of Bethlehem (“Diocese”) 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, 2021
With Comparative Information as of December 31, 2020

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 Diocese 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 Statement 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- for the years ended December 31, 2021 and 2020.

EPISCOPAL DIOCESE OF BETHLEHEM
(A Not-for-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
December 31, 2021
With Comparative Information as of December 31, 2020

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 Diocese 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 non-operating revenue is generated from trust investment income.

The Diocese's revenue within the scope of ASC 606 is recognized as follows:

- **Assessment Revenue:** The Diocese earns fees from member parishes based on a fixed percentage of operating income. The Diocese recognizes revenue of twelve percent (12%) from each parish's operating income from two fiscal years prior. No portion of assessment revenue represents unearned revenue.

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, 2021 and 2020, there were no amounts contributed for services and materials.

EPISCOPAL DIOCESE OF BETHLEHEM
(A Not-for-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
December 31, 2021
With Comparative Information as of December 31, 2020

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in 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 Diocese 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 Diocese'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 \$430,228 in excess of federally insured limits on deposit at one bank at December 31, 2021.

Functional Expenses

The Diocese'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 Diocese. There are no fundraising expenses.

EPISCOPAL DIOCESE OF BETHLEHEM
(A Not-for-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
December 31, 2021
With Comparative Information as of December 31, 2020

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

Accounting for Paycheck Protection Program (PPP)

The Diocese may account for a Paycheck Protection Program (PPP) loan as a financial liability in accordance with FASB ASC Topic 470, Debt, or under other models, if certain conditions are met. If the Diocese expects to meet the PPP's eligibility criteria and concludes that the PPP loan represents, in substance, a grant that is expected to be forgiven, the Diocese may account for the PPP loan in accordance with ASC Subtopic 958-605 as a conditional contribution. As of December 31, 2020, management had not evaluated whether the Diocese will have met the eligibility criteria for full forgiveness of the Loan. For this reason, the Diocese had elected the debt method. Under this method, the Diocese recorded a debt liability on the Statement of Financial Position and will subsequently recognize revenue from the extinguishment of debt once forgiveness has been determined by the Small Business Administration.

Reclassification

Certain prior year amounts have been reclassified to conform to current year presentation. The reclassifications have no effect on reported amounts of net assets or changes in net assets.

EPISCOPAL DIOCESE OF BETHLEHEM
(A Not-for-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
December 31, 2021
With Comparative Information as of December 31, 2020

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 Statement of Financial Position, comprise the following:

	2021	2020
Cash and Cash Equivalents	\$ 732,398	\$ 695,448
Accounts Receivable	46,662	21,711
Diocesan Trust Investments	38,331,086	34,131,783
Less: Investments Held for Others	(20,826,020)	(18,705,529)
Total Financial Assets at Year End	18,284,126	16,143,413
Less those Unavailable for General Expenditures within One Year Due to:		
Contractual or Donor-Imposed Restrictions:		
Restricted by Donor with Time or Purpose Restrictions	(3,702,340)	(3,318,059)
Board Designations:		
Designated for Long-Term Investment	(14,021,669)	(12,301,119)
Designated for Reserves	(702,314)	(639,880)
	\$ (142,197)	\$ (115,645)

The Episcopal Diocese of Bethlehem is supported mainly by assessment collections from parishes under its geographic area boundaries of Northeastern Pennsylvania. Funding is also received in the form of investment income and contributions. The Diocese believes that assessment revenue in conjunction with other support along with the assets held at December 31, 2021, is sufficient to enable the Diocese to continue to operate for the upcoming year. In addition, Board Designations can be made available for operation at any time by direction of the board.

EPISCOPAL DIOCESE OF BETHLEHEM
(A Not-for-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
December 31, 2021
With Comparative Information as of December 31, 2020

3. Investments

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, 2021 and 2020 are as follows:

	2021		2020	
	Cost	Fair Value	Cost	Fair Value
Cash and Cash Equivalents	\$ 1,049,636	\$ 1,049,636	\$ 1,206,402	\$ 1,206,402
Equities	281,690	580,726	1,731,317	2,662,806
Mutual Funds	32,304,283	36,700,724	21,013,068	23,730,709
Government Securities	-	-	2,586,525	2,850,744
Corporate Bonds	-	-	3,047,648	3,327,189
Mortgage Backed Security Bonds	-	-	347,317	353,933
	<u>\$ 33,635,609</u>	<u>\$ 38,331,086</u>	<u>\$ 29,932,277</u>	<u>\$ 34,131,783</u>

At December 31, 2021 and 2020, 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 2021	Fair Value 2020
Due in 1 Year or Less	\$ -	\$ 312,624
Due after 1 Through 5 Years	-	2,367,309
Due after 5 Through 20 Years	-	2,563,000
Due after 20 Years	-	935,000
	<u>\$ -</u>	<u>\$ 6,177,933</u>

A summary of earnings on investments for the years ended December 31, 2021 and 2020 are as follows:

	2021	2020
Interest and Dividends	\$ 308,858	\$ 241,073
Unrealized Gains (Losses)	625,994	(279,825)
Realized Gains	1,327,120	1,685,248
Investment Fees	(77,399)	(66,951)
	<u>\$ 2,184,573</u>	<u>\$ 1,579,545</u>

EPISCOPAL DIOCESE OF BETHLEHEM
(A Not-for-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
December 31, 2021
With Comparative Information as of December 31, 2020

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, 2021 and 2020.

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.

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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, 2021 and 2020.

	Assets at Fair Value as of December 31, 2021			
	Level 1	Level 2	Level 3	Total
Cash and Cash Equivalents	\$ 1,049,636	\$ -	\$ -	\$ 1,049,636
Equities	580,726	-	-	580,726
Mutual Funds - Equities	24,848,034	-	-	24,848,034
Mutual Funds - Fixed Income	11,140,549	-	-	11,140,549
Mutual Funds - Balanced	712,141	-	-	712,141
Mortgage Backed Security Bonds	-	-	-	-
Corporate Bonds	-	-	-	-
Government Securities	-	-	-	-
Total Assets at Fair Value	<u>\$ 38,331,086</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 38,331,086</u>
	Assets at Fair Value as of December 31, 2020			
	Level 1	Level 2	Level 3	Total
Cash and Cash Equivalents	\$ 1,206,402	\$ -	\$ -	\$ 1,206,402
Equities	2,662,806	-	-	2,662,806
Mutual Funds - Equities	20,267,537	-	-	20,267,537
Mutual Funds - Fixed Income	2,764,510	-	-	2,764,510
Commodity Funds	698,662	-	-	698,662
Mortgage Backed Security Bonds	-	353,933	-	353,933
Corporate Bonds	-	3,327,189	-	3,327,189
Government Securities	-	2,850,744	-	2,850,744
Total Assets at Fair Value	<u>\$ 27,599,917</u>	<u>\$ 6,531,866</u>	<u>\$ -</u>	<u>\$ 34,131,783</u>

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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%. 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>2021</u>	<u>2020</u>
April, 2021	5	40,000	-	1,809
March, 2022	7	23,500	13,477	16,477
September, 2029	10	20,000	15,854	17,667
September, 2030	10	75,000	66,250	72,845
November, 2030	10	28,000	25,562	27,800
Total Loans Receivable			<u>\$ 121,143</u>	<u>\$ 136,598</u>

6. Property and Equipment

Property and equipment are as follows:

	<u>2021</u>	<u>2020</u>
Land and Buildings	\$ 543,813	\$ 532,815
Furniture and Equipment	167,185	167,185
Vehicles	45,744	37,809
	<u>756,742</u>	<u>737,809</u>
Less: Accumulated Depreciation	<u>(501,292)</u>	<u>(494,731)</u>
	<u>\$ 255,450</u>	<u>\$ 243,078</u>

Depreciation expense for 2021 and 2020 was \$29,877 and \$29,834, 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 \$27,700 and \$27,290 for the years ended 2021 and 2020, 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 2021 and 2020, the Diocese contributed 18% of eligible participant compensation. Diocesan retirement expense for lay employees was \$51,634 and \$54,205 for the years ended 2021 and 2020, 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, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
	With Donor Restrictions	With Donor Restrictions
Council Custody Accounts	\$ 1,006,555	\$ 906,025
New Hope Funds	<u>2,695,785</u>	<u>2,412,034</u>
Total Net Assets with Donor Restrictions	<u>\$ 3,702,340</u>	<u>\$ 3,318,059</u>

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

	<u>2021</u>	<u>2020</u>
Bishops Discretionary	\$ 15,407	\$ 35,624
Episcopal Churchwomen Fund	1,706	3,672
Scholarship Assistance	4,670	-
New Hope Funds	<u>45,407</u>	<u>101,902</u>
Total Net Assets with Donor Restrictions Released from Restriction	<u>\$ 67,190</u>	<u>\$ 141,198</u>

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9. Commitments and Contingencies

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.

The staff of Grace Montessori School, a not-for-profit organization, are employed through the Episcopal Diocese of Bethlehem. Grace Montessori School is also a certificate holder of a liability insurance policy that is purchased and maintained by the Diocese. The Diocese could be liable for as much as the full amount of any unemployment claims or litigation, arising in the normal conduct of Grace Montessori School's activities.

10. Related Party Transactions

As discussed in Note 9, Grace Montessori School utilizes the Employer Identification Number of the Diocese to administer payroll for its staff. In addition, a portion of the Diocese's liability insurance is allocated to Grace Montessori School. On May 1, 2020, Grace Montessori School was allocated loan proceeds of \$82,128, based on their calculated share of a Paycheck Protection Program ("PPP") loan awarded to the Episcopal Diocese of Bethlehem. On March 1, 2021, Grace Montessori School was allocated the entire proceeds of the second round of the Paycheck Protection Program in the amount of \$76,550. All PPP loan proceeds were forgiven in their entirety in 2021. Related party transactions were as follows:

	2021	2020
Salaries and Related Employee		
Expenses Charged to Grace Montessori School	\$ 402,975	\$ 350,865
Insurance and Miscellaneous Office Charges	1,998	1,830

Accounts and loans receivable from Grace Montessori School at December 31, 2021 and 2020 for related expenses was \$18,513 and \$97,618, respectively.

11. Leases

The Diocese leases office equipment under long-term lease agreements. The equipment leases expire in various years through December 2023. Rental expense was \$3,112 for the years ended December 31, 2021 and 2020.

Future lease obligations are as follows:

Year Ending December 31:	
2022	\$ 2,217
2023	547
	\$ 2,764

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12. Notes Payable

The Diocese was the recipient of the federally issued Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) Paycheck Protection Program (PPP) as a result of the COVID-19 pandemic.

Proceeds of \$185,600 from the PPP loan program were received on May 8, 2020. The Diocese elected to treat the loan proceeds as a financial liability as of December 31, 2020. \$82,128 of the loan proceeds are to be used entirely by the Grace Montessori School, whose staff is employed through the Diocese as discussed in Note 9. If the Small Business Administration (SBA) did not confirm forgiveness of the loan, or only partly confirmed forgiveness of the loan, the Diocese would be obligated to repay the bank principal and interest (at a fixed rate of 1.00%) based upon terms established in a separate letter with the bank based upon a maturity date of two years from the funding date. On February 1, 2021, the Diocese received full forgiveness in the amount of \$185,600. Gain on loan extinguishment representing the portion of the Diocese loan for the year ended December 31, 2021 was \$103,472.

On December 27, 2020, the Consolidated Appropriations Act, 2021 (the “CA Act”) was signed. Included in the CA Act is a second round of Paycheck Program loans for business facing significant revenue declines in any 2020 quarter compared to the same quarter in 2019. Eligible second-time borrowers were required to have 300 or fewer employees, a 25% gross revenue decline during any quarter in 2020 as compared to the same quarter in 2019, and have used or will use the full amount of the first Paycheck Protection loan. The second round of Paycheck Program loans are capped at the lesser of 2.5x a borrower’s LTM average monthly payroll consisting of no more than \$100,000 per employee plus health and retirement benefits, or \$2,000,000 per borrower. The Diocese has the option to choose the length of the covered period of expenses of not few than eight weeks, but no longer than twenty-four weeks. The Diocese received \$76,550 related to this program on March 1, 2021. The proceeds from the second PPP loan are to be used entirely by the Grace Montessori School. The Diocese elected to treat the loan proceeds as a financial liability. On November 1, 2021, the Diocese received full forgiveness in the amount of \$76,550.

13. Summarized Totals for Year Ended December 31, 2020

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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Episcopal Diocese of Bethlehem’s financial statements for the year ended December 31, 2020, from which summarized information was derived.

14. Subsequent Events

Management has evaluated subsequent events through August 3, 2022, the date on which the financial statements were available to be issued.