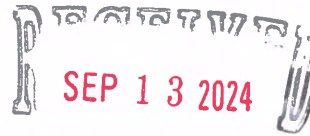


SEP 13 2024

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

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

December 31, 2023



COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

September 4, 2024

To the Diocesan Council Members
Episcopal Diocese of Bethlehem
Bethlehem, PA

We have audited the financial statements of Episcopal Diocese of Bethlehem for the year ended December 31, 2023, and we will issue our report thereon dated September 4, 2024. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 11, 2024. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Episcopal Diocese of Bethlehem are described in Note 1 to the financial statements. As described in Note 1, the Diocese adopted Accounting Standards Update (ASU) 2016-13, *Financial Instruments – Credit Losses (Topic 326) Measurements of Credit Losses on Financial Instruments* in 2023. We noted no transactions entered into by the Diocese during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the useful life of capitalized assets. Management's estimate of the useful life of capitalized assets is based on the type of asset and its use. We evaluated the key factors and assumptions used to develop the depreciation expense in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the allowance for doubtful accounts is based on historical loss levels and an analysis of the collectability of individual accounts. We evaluated key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a disagreement on a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 4, 2024.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Diocese's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

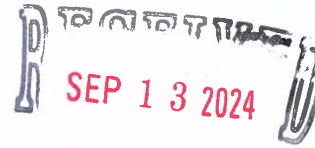
Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Diocese's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of management and Diocesan Council of Episcopal Diocese of Bethlehem and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Cory Bell, Rappold & Yusaite LLP



COMMUNICATION OF SIGNIFICANT DEFICIENCIES

To the Diocesan Council Members
Episcopal Diocese of Bethlehem
Bethlehem, PA

In planning and performing our audit of the financial statements of Episcopal Diocese of Bethlehem as of and for the year ended December 31, 2023, in accordance with auditing standards generally accepted in the United States of America, we considered Episcopal Diocese of Bethlehem's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Diocese's internal control. Accordingly, we do not express an opinion on the effectiveness of the Diocese's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Diocese's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the Episcopal Diocese of Bethlehem's internal control to be significant deficiencies:

Preparation of Year End Entries, Annual Financial Statements and Footnote Disclosures:

As is common of many entities of this size, the Diocese currently relies on the audit firm to draft the year-end financial statements and identify and disclose accounting principles in the notes to those financial statements in accordance with accounting principles generally accepted in the United States of America. Current standards on internal controls over reporting have evolved to include the controls over the preparation of the year-end financial statements and related notes.

Audit standards dictate that the audit firm cannot be part of management's internal control design and operation. In practice, the Diocese provides a trial balance and the audit firm prepares certain year-end entries, the financial statements and notes. This condition may indicate that the Diocese does not have sufficient controls or expertise over the auditor's preparation of the financial statements or footnote disclosures. Audit standards require us to communicate this internal control deficiency to management.

Documentation of the Components of Internal Control:

The Diocese prepared an internal control procedures narrative for use during the annual audit. However, we suggest that an accounting manual be established to inform all employees of desired operating procedures and policies. Lack of a well-structured accounting policies and procedures manual may result in proper procedures not being consistently followed. Such a manual would serve as an aid in training new employees, monitoring the performance of existing employees, and improving internal communications. Features of the system of internal controls would be documented in the manual for future review and evaluation.

Lack of Segregation of Duties:

The size of the Diocese's accounting staff precludes certain internal controls that would be preferred if the staff were large enough to provide optimum segregation of duties. Due to the limited number of people working in the office, many critical duties are combined and given to available employees.

To the extent possible, duties should be segregated to serve as a check and balance on the employee's integrity and to maintain the best control system possible. Management should determine if hiring of additional staff solely for the purpose of segregation of duties would be cost effective for the Diocese. The Diocesan Council Members should remain involved in the financial affairs of the Diocese to provide additional internal controls.

We believe that the implementation of these recommendations will provide Episcopal Diocese of Bethlehem with a stronger system of internal control while also making its operations more efficient. We will be happy to discuss the details of the recommendations with you and assist in any way possible with their implementation.

This communication is intended solely for the information and use of management, Diocesan Council Members and others within the Diocese, and is not intended to be, and should not be, used by anyone other than these specified parties.

Congell, Roppold & Yurawita LLP

September 4, 2024

**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 Episcopal Diocese of Bethlehem (A Not-for-Profit Corporation), which comprise the statement of financial position as of December 31, 2023, 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, 2023, 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 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 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 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 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 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 Episcopal Diocese of Bethlehem's 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 2, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Cory Bell, Roppold & Yusaite LLP

September 4, 2024

EPISCOPAL DIOCESE OF BETHLEHEM
(A Not-for-Profit Corporation)
STATEMENT OF FINANCIAL POSITION
As of December 31, 2023
With Comparative Totals for December 31, 2022

	2023			2022 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
- ASSETS -				
Cash and Cash Equivalents	\$ 351,590	\$ 231,885	\$ 583,475	\$ 637,876
Accounts Receivable (less allowance of \$3,189 in 2023 and \$-0- in 2022) (Note 1)	29,469	-	29,469	36,528
Related Party Receivable (Note 10)	21,108	-	21,108	385
Prepaid Expenses	43,473	-	43,473	19,726
Loans Receivable - Parishes (Note 5)	197,771	-	197,771	120,505
Diocesan Trust Investments (Notes 3 and 4)	12,835,065	21,863,483	34,698,548	31,929,921
Property and Equipment, Net (Note 6)	246,002	-	246,002	277,743
Total Assets	\$ 13,724,478	\$ 22,095,368	\$ 35,819,846	\$ 33,022,684
- LIABILITIES AND NET ASSETS -				
Liabilities:				
Accounts Payable and Accrued Expenses	\$ -	\$ -	\$ -	\$ 1,603
Investments Held for Others	-	18,674,799	18,674,799	17,205,316
Total Liabilities	-	18,674,799	18,674,799	17,206,919
Net Assets:				
Without Donor Restrictions:				
Undesignated	(116,869)	-	(116,869)	(72,685)
Investment in Property and Equipment	246,002	-	246,002	277,743
Designated for Long-Term Investment	12,835,065	-	12,835,065	11,844,360
Designated for Reserves	760,280	-	760,280	655,649
With Donor Restrictions (Note 8)	-	3,420,569	3,420,569	3,110,698
Total Net Assets	13,724,478	3,420,569	17,145,047	15,815,765
Total Liabilities and Net Assets	\$ 13,724,478	\$ 22,095,368	\$ 35,819,846	\$ 33,022,684

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, 2023
With Comparative Totals for the Year Ended December 31, 2022

	Year Ended December 31, 2023			2022 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
Operating Support and Revenue:				
Acceptances	\$ 82,869	\$ -	\$ 82,869	\$ 97,563
Assessments	962,867	-	962,867	940,903
Investment Income (Net of Fees of \$72,785 and \$73,569 in 2023 and 2022)	408,524	62,087	470,611	520,553
Grants and Contributions	38,255	6,502	44,757	224,393
Miscellaneous Income	3,800	-	3,800	3,035
Releases from Restrictions (Note 8)	29,345	(29,345)	-	-
Total Operating Support and Revenue	1,525,660	39,244	1,564,904	1,786,447
Operating Expenses:				
Program Services	1,439,128	-	1,439,128	1,236,187
General and Administrative	285,851	-	285,851	259,618
Total Operating Expenses	1,724,979	-	1,724,979	1,495,805
Increase (Decrease) in Net Assets from Operations	(199,319)	39,244	(160,075)	290,642
Non-Operating Activities:				
New Hope Contributions	-	7,530	7,530	6,645
New Hope Expenses	(75,069)	-	(75,069)	(62,737)
Bad Debt Expense	(17,782)	-	(17,782)	(6,197)
Depreciation Expense	(31,741)	-	(31,741)	(30,660)
Realized/Unrealized Gain (Loss) in Investment Value	1,251,628	354,791	1,606,419	(3,061,051)
Releases from Restrictions (Note 8)	91,694	(91,694)	-	-
Total Non-Operating Activities	1,218,730	270,627	1,489,357	(3,154,000)
Increase (Decrease) in Net Assets	1,019,411	309,871	1,329,282	(2,863,358)
Net Assets at Beginning of Year	12,705,067	3,110,698	15,815,765	18,679,123
Net Assets at End of Year	\$ 13,724,478	\$ 3,420,569	\$ 17,145,047	\$ 15,815,765

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, 2023 and 2022

	2023	2022
Cash Flows from Operating Activities:		
Change in Net Assets	\$ 1,329,282	\$ (2,863,358)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities:		
Depreciation	31,741	30,660
Realized/Unrealized (Gain) Loss on Investments	(1,606,419)	3,061,051
Restricted Contributions	(7,530)	(6,645)
Bad Debt Expense	(17,782)	(6,197)
Decrease (Increase) in Assets:		
Accounts Receivable	24,841	16,331
Related Party Receivable	(20,723)	18,128
Prepaid Expenses	(23,747)	9,250
Increase (Decrease) in Liabilities:		
Accounts Payable and Accrued Expenses	(1,603)	(2,482)
Deferred Revenue	-	(25,000)
Investments Held for Others	1,469,483	(3,620,704)
Net Cash Provided by (Used in) Operating Activities	1,177,543	(3,388,966)
Cash Flows from Investing Activities:		
Purchase of Investments	(22,075,518)	(12,581,726)
Sale of Investments	20,913,310	15,921,840
Purchase of Property and Equipment	-	(52,953)
Loan Distributions to Parishes	(100,000)	(19,283)
Proceeds from Loan Payments	22,734	19,921
Net Cash Provided by (Used in) Investing Activities	(1,239,474)	3,287,799
Cash Flows from Financing Activities:		
Restricted Contributions	7,530	6,645
Net Cash Provided by Financing Activities	7,530	6,645
Net Decrease in Cash and Cash Equivalents	(54,401)	(94,522)
Cash and Cash Equivalents at Beginning of Year	637,876	732,398
Cash and Cash Equivalents at End of Year	\$ 583,475	\$ 637,876

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, 2023
With Comparative Totals for the Year Ended December 31, 2022

	Program Services	General and Administrative	Total 2023	Total 2022
Operating Expenses				
Salaries and Wages	\$ 481,043	\$ 160,348	\$ 641,391	\$ 561,178
Employee Benefits	203,613	67,871	271,484	250,678
Housing	72,645	12,820	85,465	81,795
Payroll Taxes	19,223	6,408	25,631	23,712
Total Salaries and Related Expenses	776,524	247,447	1,023,971	917,363
National Church	149,855	-	149,855	141,165
New Bethany Inc.	15,000	-	15,000	15,000
Other Ministries	38,342	-	38,342	37,023
Congregational Development	66,150	-	66,150	76,411
Grants and Assistance	249,832	-	249,832	118,989
Staff Travel	14,060	4,687	18,747	13,635
Utilities	6,822	2,274	9,096	8,337
Building Maintenance and Repairs	4,886	1,629	6,515	9,123
Equipment Leases and Maintenance	4,252	1,417	5,669	4,737
Telephone and Internet	5,920	1,973	7,893	8,151
Insurance	8,602	2,868	11,470	7,716
Office Supplies	4,504	1,501	6,005	5,265
Communications	6,704	745	7,449	7,647
Professional Services	30,672	10,224	40,896	42,362
Retiree Benefits	4,754	-	4,754	4,704
Convention and Meetings	52,249	9,221	61,470	76,845
Miscellaneous	-	1,865	1,865	1,332
Total Operating Expenses	1,439,128	285,851	1,724,979	1,495,805
New Hope Expenses				
Contract Labor	21,572	-	21,572	19,548
Grants and Assistance	53,425	-	53,425	43,117
Bank Fees	-	72	72	72
Total New Hope Expenses	74,997	72	75,069	62,737
Bad Debt Expense	17,782	-	17,782	6,197
Depreciation Expense	23,806	7,935	31,741	30,660
Total Expenses	\$ 1,555,713	\$ 293,858	\$ 1,849,571	\$ 1,595,399

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, 2023
With Comparative Information as of December 31, 2022

1. Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities

The Mission of 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.

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 Diocese 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, 2023
With Comparative Information as of December 31, 2022

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 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. Accounts are written off when they are determined to be uncollectible based upon management's assessment of individual accounts. Management has estimated an allowance for doubtful accounts on assessments of \$3,189 and \$-0- for the years ended December 31, 2023 and 2022, respectively. Allowance for uncollectible loans were \$-0- for the years ended December 31, 2023 and 2022.

EPISCOPAL DIOCESE OF BETHLEHEM
(A Not-for-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
December 31, 2023
With Comparative Information as of December 31, 2022

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

Allowance for Credit Losses

An allowance for credit losses for accounts receivable related to assessments on parishes and loans receivable is estimated based on specific parish situations, current and future expected economic conditions, past experiences of losses, as well as an assessment of potential recoverability of the balance due. The methodologies the Diocese uses to calculate its allowance for expected credit losses for accounts and loans receivable are as follows:

Individually Evaluated – The Diocese reviews all receivables considered at risk monthly and performs an analysis based upon current information available about the parish, such as news reports, current market-implied credit analysis, prior collection history, attempts to collect, and current and future expected economic conditions. Using this information, the Diocese determines the probability of collection and calculates an estimate of potential loss and the probability of loss. For those accounts in which the loss is probable, the Diocese records a specific reserve.

Collectively Evaluated – The Diocese determines its allowance for credit losses collectively based on collection history and expected economic conditions. Using this information, it has established an estimate of allowance on total accounts and loans receivable.

Bad debts are written off against the allowance as they are determined to be uncollectible. Bad debt expense for the years ended December 31, 2023 and 2022 were \$17,782 and \$6,197, respectively.

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.

EPISCOPAL DIOCESE OF BETHLEHEM
(A Not-for-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
December 31, 2023
With Comparative Information as of December 31, 2022

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

Revenue Sources (Continued)

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, 2023 and 2022, there were no amounts contributed for services and materials.

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.

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

Operating Measure (Continued)

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 places its cash with institutions insured by FDIC. As times, such balances may exceed the FDIC insurance limit, though, it historically has not experienced any credit losses.

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.

Adoption of New Accounting Standard

On January 1, 2023, the Diocese adopted Accounting Standards Update 2016-13 *Financial Instruments – Credit Losses (Topic 326) Measurement of Credit Losses on Financial Instruments*, as amended, which modifies the measurement of expected credit losses on certain financial instruments. The Diocese adopted this new guidance utilizing the modified retrospective transition method. The adoption of this Standard did not have a material impact on the Diocese's financial statements but did change how the allowance for credit losses is determined. Under the new standards, management is required to consider specific situations related to the receivable balance, current and future expected economic conditions, past experience of losses, as well as an assessment of potential recoverability for expected credit losses in determining an allowance for uncollectible accounts.

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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:

	2023	2022
Cash and Cash Equivalents	\$ 583,475	\$ 637,876
Accounts Receivable	29,469	36,528
Diocesan Trust Investments	34,698,548	31,929,921
Less: Investments Held for Others	(18,674,799)	(17,205,316)
Total Financial Assets at Year End	16,636,693	15,399,009
Less those Unavailable for General Expenditures within One Year Due to:		
Contractual or Donor-Imposed Restrictions:		
Restricted by Donor with Time or Purpose Restrictions	(3,420,569)	(3,110,698)
Council Designations:		
Designated for Long-Term Investment	(12,835,065)	(11,844,360)
Designated for Reserves	(760,280)	(655,649)
	\$ (379,221)	\$ (211,698)

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, 2023, is sufficient to enable the Diocese to continue to operate for the upcoming year. In addition, Council Designations can be made available for operation at any time by direction of the Council.

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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, 2023 and 2022 are as follows:

	<u>2023</u>		<u>2022</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Cash and Cash Equivalents	\$ 919,396	\$ 919,396	\$ 1,749,143	\$ 1,749,143
Equities	451,866	718,900	281,690	414,819
Mutual Funds	<u>31,119,197</u>	<u>33,060,252</u>	<u>31,312,971</u>	<u>29,765,959</u>
	<u>\$ 32,490,459</u>	<u>\$ 34,698,548</u>	<u>\$ 33,343,804</u>	<u>\$ 31,929,921</u>

A summary of earnings on investments for the years ended December 31, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
Interest and Dividends	\$ 543,396	\$ 594,122
Unrealized Gains (Losses)	1,688,854	(2,798,626)
Realized Gains (Losses)	(82,435)	(262,425)
Investment Fees	<u>(72,785)</u>	<u>(73,569)</u>
	<u>\$ 2,077,030</u>	<u>\$ (2,540,498)</u>

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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, 2023 and 2022.

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, 2023 and 2022.

	Assets at Fair Value as of December 31, 2023			
	Level 1	Level 2	Level 3	Total
Cash and Cash Equivalents	\$ 919,396	\$ -	\$ -	\$ 919,396
Equities	718,900	-	-	718,900
Mutual Funds - Equities	21,921,504	-	-	21,921,504
Mutual Funds - Fixed Income	9,974,622	-	-	9,974,622
Mutual Funds - Balanced	1,164,126	-	-	1,164,126
	\$ 34,698,548	\$ -	\$ -	\$ 34,698,548
	Assets at Fair Value as of December 31, 2022			
	Level 1	Level 2	Level 3	Total
Cash and Cash Equivalents	\$ 1,749,143	\$ -	\$ -	\$ 1,749,143
Equities	414,819	-	-	414,819
Mutual Funds - Equities	21,131,199	-	-	21,131,199
Mutual Funds - Fixed Income	7,979,976	-	-	7,979,976
Mutual Funds - Balanced	654,784	-	-	654,784
	\$ 31,929,921	\$ -	\$ -	\$ 31,929,921

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5. Loans Receivable

The Diocese provides loans to member parishes. The loans are payable in monthly installments at interest rates ranging from 3.00% to 6.50%. 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>2023</u>	<u>2022</u>
July, 2024	7	23,500	\$ -	\$ 5,951
September, 2029	10	20,000	10,783	13,987
September, 2030	10	75,000	53,042	59,454
November, 2030	10	28,000	20,243	22,838
April, 2032	10	19,283	16,699	18,275
June, 2033	10	50,000	47,888	-
September, 2033	10	50,000	49,116	-
Total Loans Receivable			<u>\$ 197,771</u>	<u>\$ 120,505</u>

6. Property and Equipment

Property and equipment are as follows:

	<u>2023</u>	<u>2022</u>
Land and Buildings	\$ 596,766	\$ 596,766
Furniture and Equipment	167,185	167,185
Vehicles	45,744	45,744
	<u>809,695</u>	<u>809,695</u>
Less: Accumulated Depreciation	<u>(563,693)</u>	<u>(531,952)</u>
	<u>\$ 246,002</u>	<u>\$ 277,743</u>

Depreciation expense for 2023 and 2022 was \$31,741 and \$30,660, 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 \$70,489 and \$63,254 for the years ended 2023 and 2022, 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 2023 and 2022, the Diocese contributed 18% of eligible participant compensation. Diocesan retirement expense for lay employees was \$57,645 and \$53,129 for the years ended 2023 and 2022, respectively.

8. Net Assets with Donor Restrictions

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

Activities and net asset balances for the years ended December 31, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
	<u>With Donor Restrictions</u>	<u>With Donor Restrictions</u>
Council Custody Accounts	\$ 929,712	\$ 847,589
New Hope Funds	<u>2,490,857</u>	<u>2,263,109</u>
Total Net Assets with Donor Restrictions	<u>\$ 3,420,569</u>	<u>\$ 3,110,698</u>

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

	<u>2023</u>	<u>2022</u>
Bishops Discretionary	\$ 21,650	\$ 18,763
Episcopal Churchwomen Fund	3,607	3,274
Scholarship Assistance	4,088	5,010
New Hope Funds	<u>91,694</u>	<u>65,237</u>
Total Net Assets with Donor Restrictions Released from Restriction	<u>\$ 121,039</u>	<u>\$ 92,284</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 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.

The Diocese leases equipment under a long-term lease agreement with monthly payments of \$46. The final lease expired January 2024. Expenses incurred under the leases were \$547 and \$2,217 for 2023 and 2022, respectively.

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. Related party transactions were as follows:

	2023	2022
Salaries and Related Employee Expenses Charged to Grace Montessori School	\$ 463,036	\$ 479,284

Accounts and loans receivable from Grace Montessori School at December 31, 2023 and 2022 for related expenses was \$21,108 and \$385, respectively.

11. Summarized Totals for Year Ended December 31, 2022

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 Episcopal Diocese of Bethlehem's financial statements for the year ended December 31, 2022, from which summarized information was derived.

12. Subsequent Events

Management has evaluated subsequent events through September 4, 2024, the date the financial statements were available to be issued, and has determined that no material subsequent events exist that require recognition or disclosure.