

**THE INCORPORATED TRUSTEES OF THE
EPISCOPAL DIOCESE OF CENTRAL PENNSYLVANIA**

FINANCIAL STATEMENTS – MODIFIED CASH BASIS

YEARS ENDED DECEMBER 31, 2020 AND 2019

AND

INDEPENDENT AUDITOR'S REPORT



McKONLY & ASBURY
CPAs & Business Advisors

**THE INCORPORATED TRUSTEES OF THE
EPISCOPAL DIOCESE OF CENTRAL PENNSYLVANIA**

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Financial Statements	
Statements of Assets, Liabilities, and Net Assets - Modified Cash Basis	3
Statements of Support and Revenue, Expenses, and Other Changes in Net Assets – Modified Cash Basis	4
Statements of Functional Expenses - Modified Cash Basis	6
Notes to Financial Statements	8

MEMBERS

AMERICAN AND PENNSYLVANIA INSTITUTES
OF CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT MEMBER OF



INDEPENDENT AUDITOR'S REPORT

To the Council of Trustees
The Incorporated Trustees of the
Episcopal Diocese of Central Pennsylvania

We have audited the financial statements of The Incorporated Trustees of the Episcopal Diocese of Central Pennsylvania (the Diocese; a nonprofit organization), which comprise the statement of assets, liabilities, and net assets - modified cash basis as of December 31, 2020, and the related statements of support and revenue, expenses, and other changes in net assets - modified cash basis, and functional expenses - modified cash basis, 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 the modified cash basis of accounting as described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the presentation of the financial statements in the circumstances. Management is also responsible 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.

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 auditors' 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 auditors consider 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 audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of the Diocese as of December 31, 2020, and its support, revenue, expenses, and changes in net assets for the year then ended in accordance with the modified cash basis of accounting as described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Prior Period Financial Statements

The financial statements as of and for the year ended December 31, 2019, were audited by another auditor whose report dated November 12, 2020, expressed an unmodified opinion on those modified cash basis financial statements.

McKonly & Asbury, LLP

Camp Hill, Pennsylvania
August 16, 2023

**THE INCORPORATED TRUSTEES OF THE
EPISCOPAL DIOCESE OF CENTRAL PENNSYLVANIA**

STATEMENTS OF ASSETS, LIABILITIES, AND NET ASSETS-MODIFIED CASH BASIS

DECEMBER 31, 2020 AND 2019

	2020	2019
ASSETS		
Cash	\$ 524,013	\$ 701,174
Investments	27,945,781	26,526,969
Total assets	28,469,794	27,228,143
LIABILITIES		
Payroll tax withholdings	\$ 13,951	\$ 9,621
Investments held for others	17,035,629	15,965,072
Total liabilities	17,049,580	15,974,693
NET ASSETS		
Without donor restrictions	5,130,014	5,127,721
With donor restrictions	6,290,200	6,125,729
Total net assets	11,420,214	11,253,450
Total liabilities and net assets	\$ 28,469,794	\$ 27,228,143

The accompanying notes are an integral part of these financial statements.

**THE INCORPORATED TRUSTEES OF THE
EPISCOPAL DIOCESE OF CENTRAL PENNSYLVANIA**

STATEMENT OF SUPPORT AND REVENUE, EXPENSES, AND OTHER CHANGES
IN NET ASSETS - MODIFIED CASH BASIS

YEAR ENDED DECEMBER 31, 2020

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue			
Parish assessments	\$ 1,371,285	\$ -	\$ 1,371,285
Investment income, net	316,183	470,109	786,292
Closed parish income	7,365	-	7,365
Contributions	182,061	-	182,061
Program fees - insurance payments	27,380	-	27,380
Program fees - conference and training	41,826	-	41,826
Government Grant - PPP	182,900	-	182,900
Miscellaneous income	8,318	-	8,318
Net assets released from restriction satisfaction of program restrictions	305,638	(305,638)	-
Total support and revenue	2,442,956	164,471	2,607,427
Expenses			
Program services:			
Mission and ministry	1,296,567	-	1,296,567
Financially assisted parishes	125,280	-	125,280
Parish transition, resources, and training	108,652	-	108,652
Episcopal function	32,855	-	32,855
Children, youth, and young adult	34,725	-	34,725
Stevenson school	240,595	-	240,595
Total program services	1,838,674	-	1,838,674
Support services:			
Management and general	267,855	-	267,855
Fundraising	30,203	-	30,203
Total support services	298,058	-	298,058
Unallocated national apportionment	303,931	-	303,931
Total expenses	2,440,663	-	2,440,663
Change in net assets	2,293	164,471	166,764
Net assets			
Beginning of year	5,127,721	6,125,729	11,253,450
End of year	\$ 5,130,014	\$ 6,290,200	\$ 11,420,214

The accompanying notes are an integral part of these financial statements.

**THE INCORPORATED TRUSTEES OF THE
EPISCOPAL DIOCESE OF CENTRAL PENNSYLVANIA**

STATEMENT OF SUPPORT AND REVENUE, EXPENSES, AND OTHER CHANGES
IN NET ASSETS - MODIFIED CASH BASIS

YEAR ENDED DECEMBER 31, 2019

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue			
Parish assessments	\$ 1,385,132	\$ -	\$ 1,385,132
Investment income, net	713,815	981,222	1,695,037
Closed parish income	9,899	-	9,899
Contributions	330,284	20,800	351,084
Program fees - insurance payments	35,435	-	35,435
Program fees - conference and training	55,276	-	55,276
Principal repayments	58,097	-	58,097
Miscellaneous income	4,351	-	4,351
Net assets released from restriction satisfaction of program restrictions	611,176	(611,176)	-
Total support and revenue	3,203,465	390,846	3,594,311
Expenses			
Program services:			
Mission and ministry	732,674	-	732,674
Financially assisted parishes	326,021	-	326,021
Parish transition, resources, and training	208,144	-	208,144
Episcopal function	55,582	-	55,582
Children, youth, and young adult	72,888	-	72,888
Stevenson school	291,801	-	291,801
Total program services	1,687,110	-	1,687,110
Support services:			
Management and general	493,626	-	493,626
Fundraising	42,458	-	42,458
Total support services	536,084	-	536,084
Unallocated national apportionment	199,728	-	199,728
Total expenses	2,422,922	-	2,422,922
Changes in net assets	780,543	390,846	1,171,389
Net assets			
Beginning of year	4,347,178	5,734,883	10,082,061
End of year	\$ 5,127,721	\$ 6,125,729	\$ 11,253,450

The accompanying notes are an integral part of these financial statements.

**THE INCORPORATED TRUSTEES OF THE
EPISCOPAL DIOCESE OF CENTRAL PENNSYLVANIA**

STATEMENT OF FUNCTIONAL EXPENSES - MODIFIED CASH BASIS

YEAR ENDED DECEMBER 31, 2020

	2020									
	Program services					Support services				
	Mission and Ministry	Financially Assisted Parishes	Parish Transition, Resources and Training	Episcopal Function	Children, Youth, and Young Adult	Stevenson School	Management and General	Fundraising	Unallocated National Apportionment	Total
Salaries	\$ 227,606	\$ 13,002	\$ 97,514	\$ 32,505	\$ 19,503	\$ 110,516	\$ 227,532	\$ 19,503	\$ -	\$ 747,681
Payroll taxes and employee benefits	355,894	-	-	-	-	-	-	-	-	355,894
Naional apportionment	-	-	-	-	-	-	-	-	303,931	303,931
Professional development	96	-	7,101	-	1,250	408	1,956	-	-	10,811
Grants, support, and loans	-	112,278	2,100	-	-	-	-	-	-	114,378
Educational training	3,300	-	-	-	4,304	107,870	-	-	-	115,474
Meetings, conferences, and convention	35,164	-	(478)	-	-	-	290	-	-	34,976
Travel, lodging, and entertainment	6,705	-	1,304	-	9,668	1,502	-	-	-	19,179
Office expense	104,876	-	-	-	-	-	1,455	10,700	-	117,031
Telecommunications	9,098	-	-	-	-	20,049	-	-	-	29,147
Occupancy expenses	78,943	-	-	-	-	-	-	-	-	78,943
Capital purchases	0	-	-	350	-	-	-	-	-	350
Retired clergy benefits	92,222	-	-	-	-	-	-	-	-	92,222
Vehicle expenses	4,514	-	-	-	-	-	-	-	-	4,514
Charitable giving	370,446	-	-	-	-	-	-	-	-	370,446
Marketing	-	-	-	-	-	250	-	-	-	250
Professional fees	-	-	-	-	-	-	31,650	-	-	31,650
Miscellaneous	7,703	-	1,111	-	-	-	4,972	-	-	13,786
	<u>\$ 1,296,567</u>	<u>\$ 125,280</u>	<u>\$ 108,652</u>	<u>\$ 32,855</u>	<u>\$ 34,725</u>	<u>\$ 240,595</u>	<u>\$ 267,855</u>	<u>\$ 30,203</u>	<u>\$ 303,931</u>	<u>\$ 2,440,663</u>

The accompanying notes are an integral part of these financial statements.

**THE INCORPORATED TRUSTEES OF THE
EPISCOPAL DIOCESE OF CENTRAL PENNSYLVANIA**

STATEMENT OF FUNCTIONAL EXPENSES - MODIFIED CASH BASIS

YEAR ENDED DECEMBER 31, 2019

	2019										
	Program services						Support services				
	Mission and Ministry	Financially Assisted Parishes	Parish Transition, Resources and Training	Episcopal Function	Children, Youth, and Young Adult	Stevenson School	Management and General	Fundraising	Unallocated National Apportionment	Total	
Salaries	\$ 133,062	\$ 13,306	\$ 99,794	\$ 33,265	\$ 19,959	\$ 113,101	\$ 232,326	\$ 19,959	\$ -	\$ 664,772	
Payroll taxes and employee benefits	59,877	5,988	44,908	14,969	8,981	50,895	110,312	8,981	-	304,911	
National apportionment	-	-	-	-	-	-	-	-	199,728	199,728	
Professional development	2,612	-	6,052	-	50	2,312	17,370	-	-	28,396	
Grants, support, and loans	-	306,727	17,369	-	-	-	-	-	-	324,096	
Educational training	2,414	-	-	-	9,689	70,545	603	-	-	83,251	
Meetings, conferences, and convention	164,734	-	1,290	6,843	-	-	6,390	-	-	179,257	
Travel, lodging, and entertainment	11,188	-	8,464	505	16,308	5,241	6,048	-	-	47,754	
Office expense	27,716	-	12,670	-	8,217	16,463	31,397	13,518	-	109,981	
Telecommunications	3,011	-	641	-	320	12,682	1,281	-	-	17,935	
Occupancy expenses	18,725	-	9,364	-	9,364	14,046	42,137	-	-	93,636	
Capital purchases	6,773	-	3,308	-	-	5,356	6,616	-	-	22,053	
Retired clergy benefits	98,482	-	-	-	-	-	-	-	-	98,482	
Vehicle expenses	2,657	-	3,037	-	-	-	2,775	-	-	8,469	
Charitable giving	199,709	-	-	-	-	-	-	-	-	199,709	
Marketing	-	-	-	-	-	1,160	-	-	-	1,160	
Professional fees	514	-	-	-	-	-	32,058	-	-	32,572	
Miscellaneous	1,200	-	1,247	-	-	-	4,313	-	-	6,760	
	<u>\$ 732,674</u>	<u>\$ 326,021</u>	<u>\$ 208,144</u>	<u>\$ 55,582</u>	<u>\$ 72,888</u>	<u>\$ 291,801</u>	<u>\$ 493,626</u>	<u>\$ 42,458</u>	<u>\$ 199,728</u>	<u>\$ 2,422,922</u>	

The accompanying notes are an integral part of these financial statements.

**THE INCORPORATED TRUSTEES OF THE
EPISCOPAL DIOCESE OF CENTRAL PENNSYLVANIA**

NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

The Incorporated Trustees of the Episcopal Diocese of Central Pennsylvania (Diocese) is a constituent of the Episcopal Church, known as the Protestant Episcopal Church in the United States of America. The Diocese exists, operates, and is governed pursuant to a Constitution and Canons adopted in 1789 and subsequently amended from time to time. The Diocese is a nonprofit organization and is dedicated to establishing, developing, and promoting all aspects of church ministry within the sixty-one parishes of Central Pennsylvania. The Diocese is supported primarily through parish assessments received from each of the parishes.

Basis of Accounting

The Diocese presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis revenue is recognized when received rather than when earned and expenses are generally recognized when paid rather than when the liability is incurred with the exception of recording fair value adjustments on investments and recognizing investments held for others and payroll tax withholdings. Consequently, accounts receivable, accounts payable, and accrued expenses are not included in the financial statements. The financial operations of individual parishes distinct from the Diocese are not reflected in the financial statements.

Financial Statement Presentation

The Diocese financial statements follow the requirements of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Financial Statements of Not-for-Profit Entities*, and the provisions of Accounting Standards Update (ASU) 2016-14, *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 requires the Diocese to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net Assets without Donor Restrictions

Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Diocese. These net assets may be used at the discretion of the Diocese's management and the Council of Trustees.

Net Assets with Donor Restrictions

Net assets subject to stipulations imposed by donors and granters. Some donor restrictions are temporary in nature; those restrictions will be met by the actions of the Diocese. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

**THE INCORPORATED TRUSTEES OF THE
EPISCOPAL DIOCESE OF CENTRAL PENNSYLVANIA**

NOTES TO FINANCIAL STATEMENTS

Programs

The Diocese has six programs that focus on promoting aspects of church ministry of the member parishes. The mission and ministry program include resources that support local and international organizations related to the Diocesan ministry. The financially assisted parishes program includes assistance to parishes to support mission, ministry, operations, and capital projects. The parish transition, resources, and training program include resources provided to parishes for training and transition of rectors. The Episcopal function program includes costs for national and regional conferences supporting Episcopalians. The children, youth, and young adult program includes activities that support the encouragement of spirituality among the children, youth, and young members of each parish. The Stevenson School program provides theological education to all to further mission and ministry.

Use of Estimates

The preparation of financial statements on the modified cash basis of accounting requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Investments

Investments are recorded at fair value in the statements of assets, liabilities, and net assets - modified cash basis. Certain funds are managed by the Episcopal Church Foundation and include investments of the Diocese and custodial funds for any of the sixty-one parishes. The funds are pooled to maximize earnings. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in the change in unrestricted net assets unless restricted by the donor or the law.

The Diocese has adopted FASB ASC Topic 820, Fair Value Measurements and Disclosures. This standard defines fair value, establishes a framework for measuring fair value, and stipulates the disclosure requirements for fair value measurements.

The Diocese invests in a professionally managed portfolio that contains various types of securities. Such investments are exposed to interest rate, market, and credit risks. Due to the level of risk associated with such investments, and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in the near term may materially affect investment balances and the amounts reported in the financial statements and the accompanying notes.

Property and Equipment

The cost of property and equipment is expensed in the year purchased.

Paycheck Protection Program Loan

In 2020, the Diocese qualified for and received a loan pursuant to the Paycheck Protection Program, a

**THE INCORPORATED TRUSTEES OF THE
EPISCOPAL DIOCESE OF CENTRAL PENNSYLVANIA**

NOTES TO FINANCIAL STATEMENTS

program implemented by the U.S. Small Business Administration under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), from Farmers and Merchants Trust Company of Chambersburg, for the principal amount of \$182,900 (the "PPP loan"). The principal amount of the PPP Loan is subject to forgiveness upon the Diocese's request to the extent that the proceeds are used to pay expenses permitted by the Paycheck Protection Program, including payroll costs and covered utility payments incurred by the Diocese over a 24 week period. The Diocese has elected to treat the PPP loan as a government grant under ASC 958. All conditions were substantially met during 2020 and the Diocese has recognized the PPP loan as a government grant on its statement of support, revenues, expenses and other changes in net assets - modified cash basis. The Diocese applied for forgiveness of the PPP Loan and received full forgiveness in 2020.

Mission and Parish Property

Active missions and parishes of the Diocese are not recorded in the financial statements. The Diocesan has control over the property through the Standing Committee. The congregations maintain beneficial use of the properties. In the event that a mission or parish is deconsecrated, beneficial ownership of the property held by the congregation reverts to the Diocese and is therefore held as an asset of the Diocese until sold. The proceeds from the sale of deconsecrated (consecrated) congregations are recorded as support and revenue on the statement of support and revenue, expenses, and other changes in net assets - modified cash basis.

Contributions

Support that is restricted by the donor is reported as an increase in net assets - without donor restrictions if the restriction expires in the reporting period in which the support is recognized. All other donor - restricted support is reported as an increase in net assets - with donor restrictions depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets - with donor restrictions are reclassified to net assets - without donor restrictions and reported in the statements of support and revenue, expenses, and other changes in net assets - modified cash basis as net assets released from restrictions.

Income Taxes

The Diocese is a non-profit organization which is statutorily exempt from federal income taxes under the Internal Revenue Code. The standards require an assessment of the Diocese's exposure to income taxes at the entity level as a result of uncertain tax positions taken in current and previously filed tax returns. Examples of tax positions taken at the entity level include the continuing validity of its tax-exempt status, potential unrelated business activities, and other tax positions that could result in income taxes to the Diocese upon examinations by taxing authorities. The Diocese's management is not aware of any activities that would jeopardize its tax-exempt status or would be subject to unrelated business or excise tax.

As a religious organization, the Diocese is not subject to annual income tax filings. However, any activities that are unrelated to their exempt purpose or activities requiring an excise tax could subject

**THE INCORPORATED TRUSTEES OF THE
EPISCOPAL DIOCESE OF CENTRAL PENNSYLVANIA**

NOTES TO FINANCIAL STATEMENTS

the Diocese to filing a Form 990T. In 2018, the Diocese filed Form 990T. The 2018 Form 990T is subject to examination by the Internal Revenue Service, generally for three years after the return is filed.

Functional Expenses

The costs of providing Diocese programs and supporting services have been summarized on a functional basis in the statements of support and revenue, expenses, and other changes in net assets - modified cash basis. Certain expenses are charged directly to programs or supporting services based on specific identification. Indirect expenses have been allocated by management based on reasonable allocation methods. Expenses related to more than one program or supporting service are allocated on the basis of actual or estimated employee time.

Reclassification

Certain amounts in the 2019 financial statements have been reclassified to conform to presentation of the 2020 financial statements.

Subsequent Events

Management evaluated subsequent events through August 16, 2023, the date the financial statements were available to be issued.

**THE INCORPORATED TRUSTEES OF THE
EPISCOPAL DIOCESE OF CENTRAL PENNSYLVANIA**

NOTES TO FINANCIAL STATEMENTS

2. INVESTMENTS

The cost and fair value of investments as of December 31, 2020 and 2019, are summarized as follows:

	2020		2019	
	Cost	Fair Value	Cost	Fair Value
Cash and Cash Equivalents	\$ 206,817	\$ 206,817	\$ 278,372	278,372
Stocks	9,146	19,036	5,979	13,084
Exchange Traded Funds	1,071	1,567	3,127	3,775
Corporate:				
Fixed Income	30,598	33,531	35,861	37,684
Common Trust Funds				
Large CAP Equities	5,541,966	9,451,317	4,838,392	7,670,688
Small/Mid CAP Equities	1,988,020	3,122,559	1,804,764	2,684,857
International Equities	6,800,113	8,196,717	6,207,506	7,249,151
REIT	293,511	278,800	1,906,148	2,037,481
Fixed Income	5,920,094	6,635,438	5,952,486	6,551,877
	<u>20,543,704</u>	<u>27,684,831</u>	<u>20,709,296</u>	<u>26,194,054</u>
	<u>\$20,791,336</u>	<u>\$ 27,945,787</u>	<u>\$ 21,032,635</u>	<u>\$26,526,969</u>

The following schedule summarizes investment income, net for the years ended December 31:

	2020	2019
Interest and Dividend Income	\$ 31,653	\$ 71,737
Net Realized and Unrealized Gains	877,563	1,676,840
	909,216	1,748,577
Investment Fees	(122,924)	(53,540)
Investment income, net	<u>\$ 786,292</u>	<u>\$ 1,695,037</u>

3. FAIR VALUE MEASUREMENTS

ASC 820, *Fair Value Measurements and Disclosures*, establishes a fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The hierarchy gives the highest priority to level 1 inputs and the lowest priority to level 3 inputs. The three levels of

**THE INCORPORATED TRUSTEES OF THE
EPISCOPAL DIOCESE OF CENTRAL PENNSYLVANIA**

NOTES TO FINANCIAL STATEMENTS

the fair value hierarchy are described as follows: 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 consist of observable inputs other than quoted prices for identical assets or quoted prices for similar assets or liabilities in active or inactive markets; and Level 3- inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset 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. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodology used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2020 and 2019.

The fair value of cash and cash equivalents, exchange traded funds, and stocks are based on closing market prices for the respective security as reported in active markets.

Corporate: fixed income - Valued at the closing price reported in the active market in which the bond is traded. Other corporate bonds are valued based on yield currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar bonds, the bond is valued under a discounted cash flows approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks.

Investments Measured Using the Net Asset Value (NAV) per Share Practical Expedient

Certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value presented in the following notes is intended to permit the reconciliation of the fair value hierarchy to the line items presented in the statement of assets, liabilities, and net assets - modified cash basis.

Common Trust Funds

Large CAP

DJ-UBS Roll Select Commodity Index: The investment objective of the Fund is to approximate as closely as practicable, before expenses, the performance of the Bloomberg Roll Select Commodity Index (sm) over the long term. The per unit net asset value of the Fund is determined each business day based on the quoted market prices of the underlying investments held and for certain holdings, values are derived from indices, reference rates or a combination of these factors.

S&P 500 Common Trust Fund: The investment objective of the Fund is to approximate as closely as practicable, before expenses, the performance of the S&P 500 Index over the long term. The per unit net asset value of the Fund is determined each business day based on the quoted market prices of the underlying investments held and for certain holdings, values are derived from indices, reference rates or a combination of these factors.

**THE INCORPORATED TRUSTEES OF THE
EPISCOPAL DIOCESE OF CENTRAL PENNSYLVANIA**

NOTES TO FINANCIAL STATEMENTS

Small/Mid CAP

S&P Mid CAP Lending: The investment objective of the Fund is to approximate as closely as practicable, before expenses, the performance of the S&P Mid CAP 400 Index over the long term. The per unit net asset value of the Fund is determined each business day based on the quoted market prices of the underlying investments held and for certain holdings, values are derived from indices, reference rates or a combination of these factors.

Small CAP Index: The investment objective of the Fund is to exceed the performance of the Russell 2000 Index over the long term. The per unit net asset value of the Fund is determined each business day based on the quoted market prices of the underlying investments held and for certain holdings, values are derived from indices, reference rates, or a combination of these factors.

International

Active International Small CAP: The investment objective of the Fund is to exceed the performance of the S&P EPAC Small CAP Index over the long term. The per unit net asset value of the Fund is determined each business day based on the quoted market prices of the underlying investments held and for certain holdings, values are derived from indices, reference rates, or a combination of these factors.

Daily Active Emerging Market: The investment objective of the Fund is to provide a total investment return in excess of the performance of the MSCI Emerging Markets Index over the long term. The per unit net asset value of the Fund is determined each business day based on the quoted market prices of the underlying investments held and for certain holdings, values are derived from indices, reference rates, or a combination of these factors.

International Alpha Select: The investment objective of the Fund is to provide a total investment return in excess of the performance of the MSCI EAFE Index over the long term. The per unit net asset value of the Fund is determined each business day based on the quoted market prices of the underlying investments held and for certain holdings, values are derived from indices, reference rates, or a combination of these factors.

REIT (Real Estate Investment Trust)

REIT Index: The investment objective of the Fund is to approximate as closely as practicable, before expenses, the performance of the Dow Jones U.S. Select REIT Index (sm) over the long term. The per unit net asset value of the Fund is determined each business day based on the quoted market prices of the underlying investments held.

SPDR Dow Jones International Real Estate Fund: The investment objective is to provide investment results, that, before expenses, correspond generally to the price, and yield performance of publicly traded equity securities of companies in Dow Jones Global Real Estate Index. The per unit net asset value of the Fund is determined by dividing the value of total assets less total liabilities by the number of units outstanding. The market price used to calculate the market return is determined by using the

**THE INCORPORATED TRUSTEES OF THE
EPISCOPAL DIOCESE OF CENTRAL PENNSYLVANIA**

NOTES TO FINANCIAL STATEMENTS

midpoint between the highest bid and the lowest offer on the exchange on which the shares of a fund are listed for trading, as of the time that the fund's net asset value is calculated.

Fixed Income

High Yield: The investment objective of the Fund is to approximate as closely as practicable, before expenses, the performance of the Bloomberg Barclays U.S. Corporate High Yield Custom BB/B ex-144A Index over the long term. The per unit net asset value of the Fund is determined each business day based on holdings in which the values are derived from indices, reference rates, or a combination of these factors.

Passive Bond Market: The investment objective of the Fund is to approximate as closely as practicable, before expenses, the performance of the Bloomberg Barclays U.S. Aggregate Bond Index over the long term. The per unit net asset value of the Fund is determined each business day and is determined by dividing the value of total assets less total liabilities by the number of units outstanding.

TCW Emerging Markets Income Fund: The investment objective of the Fund is to seek high total return from current income and capital appreciation by investing at least 80% of the value of its net assets in debt securities issued or guaranteed by companies, financial institutions, and government entities in emerging market countries. The net asset value per share is determined by dividing the Fund's net assets attributable to each class by the number of shares issued and outstanding of that class on each day the New York Stock Exchange is open for trading.

Treasury Inflation Protected Securities: The investment objective of the Fund is to approximate as closely as practicable, before expenses, the performance of the Bloomberg Barclays U.S. Treasury Inflation Protected Securities (TIPS) Index over the long term. The per unit net asset value of the Fund is determined each business day based on the quoted market prices of the underlying investments held.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although 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 INCORPORATED TRUSTEES OF THE
EPISCOPAL DIOCESE OF CENTRAL PENNSYLVANIA**

NOTES TO FINANCIAL STATEMENTS

The following table sets forth by level, within the fair value hierarchy, the Diocese's assets at fair value on a recurring basis.

	December 31, 2020			Total
	Level 1	Level 2	Level 3	
Investments Measured at Fair Value				
Cash and Cash Equivalents	\$ 196,754	\$ -	\$ -	\$ 196,754
Stocks	19,036	-	-	19,036
Exchange Traded Funds	1,567	-	-	1,567
Corporate: Fixed Income	-	33,531	-	33,531
Total Investments Measured at Fair Value	\$ 217,357	\$ 33,531	\$ -	\$ 250,888

	December 31, 2020 (cont'd)			Total
	Level 1	Level 2	Level 3	
Investments Measured at NAV				
Common Trust Funds				
Large CAP:				
DJ-UBS Roll Select	\$ -	\$ -	\$ 1,380,364	\$ 1,380,364
Commodity Index				
S&P 500 Common Trust Fund	-	-	8,077,133	8,077,133
Small/Mid CAP:				
S&P/Mid CAP Lending	-	-	1,439,401	1,439,401
Small CAP Index	-	-	1,687,619	1,687,619
International:				
Active International Small CAP	-	-	1,179,170	1,179,170
Daily Active Emerging Market	-	-	1,100,541	1,100,541
EAFE Index	-	-	2,401,797	2,401,797
Emerging Markets Lending Fund	-	-	1,402,665	1,402,665

**THE INCORPORATED TRUSTEES OF THE
EPISCOPAL DIOCESE OF CENTRAL PENNSYLVANIA**

NOTES TO FINANCIAL STATEMENTS

International Alpha Select	-	-	2,110,752	2,110,752
REIT:				
REIT Index	-	-	133,701	133,701
SPDR Dow Jones	-	-	142,598	142,598
International Real Estate Fund				
Fixed Income:				
Intermediate Credit Index	-	-	1,369,923	1,369,923
High Yield	-	-	1,612,744	1,612,744
Passive Bond Market	-	-	1,459,137	1,459,137
TCW Emerging Market	-	-	1,372,341	1,372,341
Income Fund				
Treasury Inflation Protected Securities	-	-	825,005	825,005
Total Investments Measured at NAV	<u>-</u>	<u>-</u>	<u>\$27,694,891</u>	<u>\$27,694,891</u>
Total Investments	<u>\$ 250,888</u>	<u>\$ -</u>	<u>\$27,694,891</u>	<u>\$27,945,781</u>

December 31, 2019

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments Measured at Fair Value				
Cash and Cash Equivalents	\$ 278,372	\$ -	\$ -	\$ 278,372
Stocks	13,084	-	-	13,084
Exchange Traded Fund	3,775	-	-	3,775
Corporate:				
Fixed Income		37,684	-	37,684
Total Investments Measured at Fair Value	<u>\$ 295,231</u>	<u>\$ 37,684</u>	<u>\$ -</u>	<u>\$ 332,915</u>

**THE INCORPORATED TRUSTEES OF THE
EPISCOPAL DIOCESE OF CENTRAL PENNSYLVANIA**

NOTES TO FINANCIAL STATEMENTS

	December 31, 2019 (cont'd)			
	Level 1	Level 2	Level 3	Total
Investments Measured at NAV				
Common Trust Funds				
Large CAP:				
DJ-UBS Roll Select				
Commodity Index	\$ -	\$ -	\$ 1,053,369	\$ 1,053,369
S&P 500 Common Trust				
Fund	-	-	6,617,319	6,717,319
Small/Mid CAP:				
S&P/Mid CAP Lending	-	-	1,367,674	1,367,674
Small CAP Index	-	-	1,317,183	1,317,183
International:				
Active International Small				
CAP	-	-	1,097,729	1,097,729
Daily Active Emerging				
Market	-	-	2,214,613	2,214,613
International Alpha Select	-	-	3,936,809	3,936,809
REIT:				
REIT Index	-	-	1,031,579	1,031,579
SPDR Dow Jones				
International Real Estate				
Fund	-	-	1,005,902	1,005,902
Fixed Income:				
High Yield	-	-	1,284,691	1,284,691
Passive Bond Market	-	-	2,672,411	2,672,411
TCW Emerging Market				
Income Fund	-	-	1,285,052	1,285,052
Treasury Inflation				
Protected Securities	-	-	1,309,723	1,309,723
Total Investments Measured at NAV	-	-	\$ 26,194,054	\$ 26,194,054
Total Investments	\$ 295,231	\$ 37,684	\$ 26,194,054	\$ 26,526,969

**THE INCORPORATED TRUSTEES OF THE
EPISCOPAL DIOCESE OF CENTRAL PENNSYLVANIA**

NOTES TO FINANCIAL STATEMENTS

Additional Information for Investments Using the NAV per Share Practical Expedient

The following table sets forth additional disclosures for the measurements of investments in certain entities that calculate net assets per share (or its equivalent) at December 31, 2020.

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Investments Type				
Common Trust Funds:				
Large CAP:				
DJ-UBS Roll Select Commodity Index	\$1,380,364	N/A	Daily	None
S&P 500 Common Trust Fund	8,077,133	N/A	Daily	None
Small/Mid CAP:				
S&P/Mid CAP Lending	1,439,401	N/A	Daily	None
Small CAP Index	1,687,619			
Market				
EAFE Index	2,401,797	N/A	Daily	None
Emerging Markets Lending	1,402,665	N/A	Daily	None
International:				
Active International Small CAP	1,179,170	N/A	Daily	None
Daily Active Emerging Market	1,100,541	N/A	Daily	None
International Alpha Select	2,110,752	N/A	Daily	None
REIT:				
REIT Index	133,701	N/A	Daily	None
SPDR Dow Jones	142,598	N/A	Daily	None
Fixed Income:				
Intermediate Credit Index	1,369,923	N/A	Daily	None
High Yield	1,612,744	N/A	Daily	None
Passive Bond Market	1,459,137	N/A	Daily	None
TCW Emerging Market Income Fund	1,372,341	N/A	Daily	None
Treasury Inflation Protected Securities	825,005	N/A	Daily	None
	<u>\$27,694,891</u>			

Changes in Fair Value Levels

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

**THE INCORPORATED TRUSTEES OF THE
EPISCOPAL DIOCESE OF CENTRAL PENNSYLVANIA**

NOTES TO FINANCIAL STATEMENTS

Gains and losses (realized and unrealized) included in changes in value for the period above are reflected in the statements of support and revenue, expenses, and other changes in net assets - modified cash basis. There were no transfers in or out of level 3 in 2020 or 2019.

4. ENDOWMENT FUNDS

Endowments consist of various investment funds established primarily for operating needs of the Diocese and include net assets with donor restrictions. Net assets associated with endowment funds are classified and reported based on Pennsylvania state law and the existence or absence of donor-imposed restrictions.

Investment Return Objectives, Risk Parameters, and Strategies - The Diocese has adopted written investment and spending policies, approved by the Council of Trustees, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Investment risk is measured in terms of the total endowment fund. Investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk. Endowment assets are managed by a committee of the Council of Trustees and are invested in a well-diversified asset-mix, which includes equity and debt securities.

Spending Policy - The Diocese is governed by the Commonwealth of Pennsylvania's Act 141. Act 141 is a total return policy that allows a nonprofit to treat a percentage of the average market value of the endowment's investments as income each year. The Diocese established a policy of appropriating for distribution each year a range of 2% to 7% of the average annual value of the endowment assets over the prior three years. For 2020 and 2019, the Diocese used a 5% distribution rate, respectively. In establishing these policies, the Diocese considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. For 2019, the distribution did not occur until January 2020.

**THE INCORPORATED TRUSTEES OF THE
EPISCOPAL DIOCESE OF CENTRAL PENNSYLVANIA**

NOTES TO FINANCIAL STATEMENTS

Changes in the endowment assets for the years ending December 31 is as follows:

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total Endowment Assets
Endowment Net Assets, January 1, 2020	\$ 3,542,027	\$ 6,054,482	\$ 9,596,509
Withdrawals	(164,353)	(263,529)	(427,882)
Investment Income	8,561	14,601	23,162
Realized and Unrealized Gains	<u>275,625</u>	<u>454,498</u>	<u>730,123</u>
Endowment Net Assets, December 31, 2020	<u>\$ 3,661,860</u>	<u>\$ 6,260,052</u>	<u>\$ 9,921,912</u>
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total Endowment Assets
Endowment Net Assets, January 1, 2019	\$ 3,133,512	\$ 5,628,047	\$ 8,761,559
Additions	58,097	-	58,097
Withdrawals	(201,231)	(551,072)	(752,303)
Investment Income	21,792	37,830	59,622
Realized and Unrealized Gains	<u>529,857</u>	<u>939,677</u>	<u>1,469,534</u>
Endowment Net Assets, December 31, 2019	<u>\$ 3,542,027</u>	<u>\$ 6,054,482</u>	<u>\$ 9,596,509</u>

5. CONTINGENCIES

Certain parishes of the Diocese have entered into loans which have been co-signed by an Officer of the Diocese. In the event of default, the Diocese may be obligated to pay the unpaid portion of the defaulted obligations. The outstanding balances of such loans at December 31, 2020 and 2019, were \$186,000 and \$697,309, respectively.

**THE INCORPORATED TRUSTEES OF THE
EPISCOPAL DIOCESE OF CENTRAL PENNSYLVANIA**

NOTES TO FINANCIAL STATEMENTS

6. POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

The Diocese provides the cost of a health insurance supplement policy to its retired clergy for life. The primary plan for these benefits is administered by an agency of the national church (the Episcopal Church Clergy and Employees). For 2020 and 2019, the monthly premium per clergy totaled approximately \$130 a month. The total paid for the years ended December 31, 2020 and 2019, totaled \$44,481 and \$48,883, respectively.

7. RETIREMENT PLAN

The Diocese participates in a defined benefit plan and a defined contribution plan. The defined benefit plan is a multi-employer plan maintained for the benefit of clergy and administered by the Church Pension Fund on behalf of the Episcopal Church. The Diocese's contributions in 2020 and 2019 to the plan were \$79,051 and \$65,258, respectively. The Diocese's relative position in this plan is not readily determinable.

The defined contribution plan covers substantially all eligible lay employees. The provisions of the plan permit the employees to make tax-deferred contributions to the plan not to exceed IRS limitations. The plan also permits the Diocese to make discretionary contributions to the plan. The Diocese's 2020 and 2019 contributions were \$19,579 and \$17,945, respectively.

**THE INCORPORATED TRUSTEES OF THE
EPISCOPAL DIOCESE OF CENTRAL PENNSYLVANIA**

NOTES TO FINANCIAL STATEMENTS

8. NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions have been set-aside by the Council of Trustees for the following purposes at December 31:

	<u>2020</u>	<u>2019</u>
Designated for Specific Purpose:		
Lambeth Conference	\$ 40,526	\$ 37,415
National Convention	3,475	13,209
Bishop Search	56,223	61,907
	<u>100,224</u>	<u>112,531</u>
Designated - Quasi Endowment:		
Parish Loan Fund	2,367,681	2,277,359
Mission and Ministry	676,114	659,647
Communications	43,204	42,150
Children, Youth, and Young Adults	155,385	151,611
Stevenson School	269,329	264,721
Leadership Development	65,583	63,982
Episcopal Church Women	38,330	37,459
College Ministry	46,234	45,098
	<u>\$ 3,661,860</u>	<u>\$ 3,542,027</u>

**THE INCORPORATED TRUSTEES OF THE
EPISCOPAL DIOCESE OF CENTRAL PENNSYLVANIA**

NOTES TO FINANCIAL STATEMENTS

9. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes at December 31:

	2020	2019
Designated for Specific Purpose:		
Episcopal Church Women	\$ 22,194	\$ 23,784
Bishop's Discretionary Funds	7,954	3,597
Parish Support	-	3,098
College Ministry	-	1,801
Sharing the Vision	-	38,967
	30,148	71,247
Endowment Funds:		
Mission and Ministry	2,014,091	1,964,359
Social Ministry	585,144	570,869
Parish Support	93,697	90,734
Stevenson School	483,552	471,732
Construction and Repairs	472,149	460,661
Domestic and Foreign Missions	316,219	308,497
World Outreach, Youth, Aging, Leadership	1,557,357	1,519,318
General Purposes	737,843	668,312
	6,260,052	6,054,482
Total Net Assets with Donor Restrictions	\$ 6,290,200	\$ 6,125,729

10. RELATED PARTIES

The Diocese provides grants to parishes within its region for the purpose of assisting congregations with major structural and renovation projects, assistance with certain qualified projects, and assistance with college outreach and other parish missions. During 2020 and 2019, the Diocese provided \$67,035 and \$127,840, respectively, in funding. By virtue of being member parishes, these transactions are considered related party in nature.

The Diocese provides loans to congregations for the purpose of new construction, existing facility remodel or for repairs over a term of 2 to 10 years with a fixed term rate of 2%. The loans outstanding at December 31, 2020 and 2019, totaled \$297,377 and \$352,870, respectively.

The Diocese is affiliated with the Protestant Episcopal Church in the United States of America. As part of that affiliation, in 2020 and 2019, the Diocese committed \$303,931 and \$199,728, respectively, in support of the national church. In addition, the Diocese participates in various health and benefit plans as provided by the national church. Refer to Note 7 for further details.

**THE INCORPORATED TRUSTEES OF THE
EPISCOPAL DIOCESE OF CENTRAL PENNSYLVANIA**

NOTES TO FINANCIAL STATEMENTS

11. CONCENTRATIONS

The Diocese revenues for the Missionary Budget Fund include amounts received from the sixty-one parishes within its Central Pennsylvania diocese. The parish assessment revenue represents 53.1% and 38.5% of the total support and revenue for the Diocese. The continuation of Diocese operations is usually assumed in financial accounting in the absence of evidence to the contrary. The Diocese is subject to uncertainty as to the amounts of future support.

Financial instruments that potentially subject the Diocese to concentration of credit risk consist of cash and investments. The Diocese maintains its cash deposits and investments. The Diocese maintains its cash deposits and investments with various financial institutions where the account balances may at times exceed FDIC and SIPC insured limits.

The Diocese has a line-of-credit with Mid-Penn Bank in the amount of \$250,000. Interest is payable monthly based on the prime rate as quoted in the Wall Street Journal subject to a floor rate of 3.75%. Principal is due on demand. The line-of-credit is secured by the assets of the Diocese. At December 31, 2020 and 2019, there was no outstanding balance.

12. AVAILABILITY AND LIQUIDITY

The following represents the Diocese's financial assets available for general expenses within one year of the statements of assets, liabilities, and net assets date:

	2020	2019
Financial Assets at Year End		
Cash	\$ 524,013	\$ 701,174
Investments	27,945,781	26,526,969
Total Financial Assets	28,469,794	27,228,143
Less Amounts not Available to be Used Within One Year for General Expenses		
Net Assets with Donor Restrictions	6,290,200	6,125,729
Net Assets Without Donor Restrictions		
Council Designated Quasi-Endowment	3,661,860	3,542,027
Designated for specific purpose	30,148	71,247
Investments Held for Others	17,035,629	15,965,072
	27,017,837	25,704,075
Financial Assets Available to Meet General Expenses Within One Year	\$ 1,451,957	\$1,524,068

**THE INCORPORATED TRUSTEES OF THE
EPISCOPAL DIOCESE OF CENTRAL PENNSYLVANIA**

NOTES TO FINANCIAL STATEMENTS

A donor's restriction requires resources to be used in a particular manner or in a future period. The Diocese must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenses within one year.

The Diocese manages its liquidity by operating within a prudent range of financial soundness and stability and maintaining adequate liquid assets to fund near-term operating needs. As part of the Diocese's liquidity management plan, the Diocese invests cash in excess of daily requirements in investments and interest bearing accounts.



BEST PLACES
to work in **PA**

BEST BEST
ACCOUNTING ACCOUNTING
FIRMS FIRMS
TO WORK FOR FOR WOMEN

www.macpas.com

MEMBERS
AMERICAN AND PENNSYLVANIA INSTITUTES
OF CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT MEMBER OF

