

PENNSYLVANIA SOUTHEAST CONFERENCE
OF THE UNITED CHURCH OF CHRIST



***PENNSYLVANIA SOUTHEAST CONFERENCE OF
THE UNITED CHURCH OF CHRIST***

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

Years Ended December 31, 2017 and 2016

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INDEPENDENT AUDITOR'S REPORT

**To the Conference Consistory
Pennsylvania Southeast Conference of the United Church of Christ
Pottstown, Pennsylvania**

We have audited the accompanying financial statements of Pennsylvania Southeast Conference of the United Church of Christ (a nonprofit organization), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pennsylvania Southeast Conference of the United Church of Christ as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules of investments, special funds are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepting in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Herbein + Company, Inc.

Reading, Pennsylvania
April 18, 2018

**PENNSYLVANIA SOUTHEAST CONFERENCE
OF THE UNITED CHURCH OF CHRIST**

STATEMENTS OF FINANCIAL POSITION

| | December 31 | |
|---|---------------------|---------------------|
| | 2017 | 2016 |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | \$ 301,707 | \$ 255,912 |
| Restricted cash | 226,949 | 224,562 |
| Contributions receivable | 206,805 | 201,192 |
| Prepaid expenses and other current assets | 39,111 | 38,064 |
| | 774,572 | 719,730 |
| TOTAL CURRENT ASSETS | | |
| FURNITURE & FIXTURES , less accumulated depreciation of \$88,598 in 2017 and \$84,936 in 2016 | 9,535 | 13,728 |
| INVESTMENTS | | |
| Investments | 1,347,689 | 1,204,517 |
| Restricted investments | 1,043,091 | 685,404 |
| | 2,390,780 | 1,889,921 |
| TOTAL INVESTMENTS | | |
| OTHER ASSETS | | |
| Security deposit | 3,000 | 3,000 |
| | 3,000 | 3,000 |
| | \$ 3,177,887 | \$ 2,626,379 |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Accounts payable and accrued expenses | \$ 103,348 | \$ 99,532 |
| Accrued payroll and payroll taxes | 17,116 | 15,468 |
| | 120,464 | 115,000 |
| TOTAL CURRENT LIABILITIES | | |
| | 120,464 | 115,000 |
| TOTAL LIABILITIES | | |
| NET ASSETS | | |
| Unrestricted | 1,787,383 | 1,601,413 |
| Temporarily restricted | 540,952 | 252,833 |
| Permanently restricted | 729,088 | 657,133 |
| | 3,057,423 | 2,511,379 |
| TOTAL NET ASSETS | | |
| | 3,057,423 | 2,511,379 |
| TOTAL LIABILITIES AND NET ASSETS | | |
| | \$ 3,177,887 | \$ 2,626,379 |

See accompanying notes.

**PENNSYLVANIA SOUTHEAST CONFERENCE
OF THE UNITED CHURCH OF CHRIST**

STATEMENTS OF ACTIVITIES

| | Year Ended December 31, 2017 | | | | Year Ended December 31, 2016 | | | |
|---|------------------------------|------------------------|------------------------|---------------------|------------------------------|------------------------|------------------------|---------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| REVENUES AND OTHER SUPPORT | | | | | | | | |
| Contributions | \$ 742,909 | \$ 5,983 | \$ - | \$ 748,892 | \$ 761,727 | \$ 2,008 | \$ - | \$ 763,735 |
| Contributions - Our Churches Wider | | | | | | | | |
| Mission National | 86,200 | - | - | 86,200 | 86,200 | - | - | 86,200 |
| Other program income | 132,868 | - | - | 132,868 | 130,187 | - | - | 130,187 |
| (Loss) on disposal of equipment | (15) | - | - | (15) | (1,825) | - | - | (1,825) |
| Investment income | 68,585 | 4,006 | 35,905 | 108,496 | 45,849 | 6,448 | 126,136 | 178,433 |
| Unrealized gain (loss) on investments | 103,878 | 10,019 | 68,096 | 181,993 | 26,950 | 1,909 | (82,924) | (54,065) |
| Net assets released from restriction | 1,601 | (1,601) | - | - | 12,053 | (12,053) | - | - |
| Transfer earnings (5% in 2017 and 5% in 2016) | 32,046 | - | (32,046) | - | 34,542 | - | (34,542) | - |
| TOTAL REVENUES AND OTHER SUPPORT | 1,168,072 | 18,407 | 71,955 | 1,258,434 | 1,095,683 | (1,688) | 8,670 | 1,102,665 |
| EXPENSES | | | | | | | | |
| Program expenses: | | | | | | | | |
| Church and ministry | 521,473 | - | - | 521,473 | 500,803 | - | - | 500,803 |
| Contributions - Our Churches Wider | | | | | | | | |
| Mission National | 86,200 | - | - | 86,200 | 86,200 | - | - | 86,200 |
| Depreciation | 4,078 | - | - | 4,078 | 5,487 | - | - | 5,487 |
| Management and general | 370,351 | - | - | 370,351 | 367,401 | - | - | 367,401 |
| TOTAL EXPENSES | 982,102 | - | - | 982,102 | 959,891 | - | - | 959,891 |
| CHANGE IN NET ASSETS BEFORE CHURCH CLOSURE FUNDS | 185,970 | 18,407 | 71,955 | 276,332 | 135,792 | (1,688) | 8,670 | 142,774 |
| CHURCH CLOSURE FUNDS | - | 269,712 | - | 269,712 | - | - | - | - |
| CHANGE IN NET ASSETS AFTER CHURCH CLOSURE FUNDS | 185,970 | 288,119 | 71,955 | 546,044 | 135,792 | (1,688) | 8,670 | 142,774 |
| NET ASSETS AT BEGINNING OF YEAR - RECLASSIFIED | 1,601,413 | 252,833 | 657,133 | 2,511,379 | 1,465,621 | 254,521 | 648,463 | 2,368,605 |
| NET ASSETS AT END OF YEAR | \$ 1,787,383 | \$ 540,952 | \$ 729,088 | \$ 3,057,423 | \$ 1,601,413 | \$ 252,833 | \$ 657,133 | \$ 2,511,379 |

See accompanying notes.

**PENNSYLVANIA SOUTHEAST CONFERENCE
OF THE UNITED CHURCH OF CHRIST**

STATEMENTS OF CASH FLOWS

| | Year Ended December 31 | |
|--|------------------------|------------|
| | 2017 | 2016 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ 546,044 | \$ 142,774 |
| Adjustments to reconcile change in net assets to net cash from operating activities: | | |
| Depreciation | 4,078 | 5,487 |
| Loss on disposal of equipment | 15 | 1,825 |
| Unrealized (gain) loss on investments | (181,993) | 54,065 |
| Change in: | | |
| Contributions receivable | (5,613) | 17,447 |
| Prepaid expenses and other current assets | (1,047) | 17,654 |
| Accounts payable and accrued expenses | 3,816 | 799 |
| Accrued payroll and payroll taxes | 1,648 | 8,243 |
| | 366,948 | 248,294 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | | |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from sale of furniture and fixtures | 100 | - |
| Purchases of furniture and fixtures | - | (7,196) |
| Change in investments | (318,866) | (243,105) |
| | (318,766) | (250,301) |
| NET CASH USED BY INVESTING ACTIVITIES | | |
| NET INCREASE (DECREASE) IN CASH | | |
| | 48,182 | (2,007) |
| CASH AT BEGINNING OF YEAR | | |
| | 480,474 | 482,481 |
| CASH AT END OF YEAR | | |
| | \$ 528,656 | \$ 480,474 |
| RECONCILIATION OF CASH | | |
| Cash | \$ 301,707 | \$ 255,912 |
| Restricted cash | 226,949 | 224,562 |
| | \$ 528,656 | \$ 480,474 |

See accompanying notes.

**PENNSYLVANIA SOUTHEAST CONFERENCE OF
THE UNITED CHURCH OF CHRIST**

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

The Pennsylvania Southeast Conference (the "Conference") is an association of various churches with a mission to extend the ministry, witness, and outreach of the United Church of Christ in the Conference area.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Member Churches

The Conference is made up of 165 member churches in the greater Philadelphia area and the surrounding six counties, representing 42,000 members of the United Church of Christ. The Conference provides support and training (both lay and clergy) and congregational formation support to strengthen local churches. Part of the Conference's mission is to encourage local churches toward new and renewed ministries; nurturing strong pastoral and lay leadership; while celebrating and developing the God-given gifts of all members. The member churches provide congregational gifts, through Our Church's Wider Mission, to support the Conference as well as the national organization of the United Church of Christ.

Member church closures occur from time to time within the Conference. With church closures, the Conference often receives any residual assets from the church which may include cash, investments, and property and equipment. In June 2017, the Conference received one-time restricted funds from the closure of a member church. The church liquidated their assets and provided the remaining cash, totaling \$269,712, to the Conference to be used for new church ministries and members in discernment (MID) education support. This amount is included in temporarily restricted net assets at December 31, 2017.

Basis of Accounting

These financial statements have been prepared on the accrual basis and, accordingly, reflect all significant receivables, payables, and other liabilities.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain 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.

Financial Statement Presentation

The Conference reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

**PENNSYLVANIA SOUTHEAST CONFERENCE OF
THE UNITED CHURCH OF CHRIST**

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Contributions and Contributions Receivable

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Contributions receivable at December 31 represent funds received from various churches early in the following year which were earmarked for the prior year.

Revenues and Receivables

Support received from grantors or from fees for programs is recorded as revenue when the related costs are met or services provided. Amounts received in advance are recorded as deferred revenues. Amounts earned but not received are recorded as grants or contributions receivable. The Conference provides for losses on grants or accounts receivable using the allowance method. Receivables are considered impaired if full payments are not received based on the actual billing. The Conference charges off uncollectible accounts receivable when management determines the receivable will not be collected.

Cash Balances

At various times during the years, the Conference's cash in bank balances exceeded the federally insured limits. The Organization places its cash in high-credit quality institutions.

Furniture and Fixtures

Furniture and fixtures are recorded at historical cost or estimated cost or fair market value at the date of contribution, in the case of gifts, and are depreciated over their estimated useful lives. Equipment, furniture, and fixtures are depreciated over five years. Repairs and maintenance are expensed as incurred.

Donated Materials and Services

Donated materials and services are reflected as contributions in the Conference's statements at their estimated values at date of receipt. No amounts have been reflected in the statements for donated services since no objective basis is available to measure the value of such services; however, a substantial number of volunteers have donated significant amounts of their time in the Conference's fundraising campaigns.

Spending Policy

The Conference has an approved spending policy that allows the operating fund to receive and utilize 5% of the investment fund balance annually for the years ended December 31, 2017 and 2016, respectively.

**PENNSYLVANIA SOUTHEAST CONFERENCE OF
THE UNITED CHURCH OF CHRIST**

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Tax-Exempt Status

The Conference is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

Reclassification

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation of the current year financial statements.

Subsequent Events

In preparing these financial statements, the Conference has evaluated events and transactions for potential recognition through April 18, 2018, the date the financial statements were available to be issued.

NOTE 2 - INVESTMENTS

The Conference records investments at fair value (quoted market price). For the years ended December 31, 2017 and 2016, unrealized gains (losses) of \$181,993 and (\$54,065), respectively, were recorded.

The following table represents investments held at December 31:

| | <u>2017</u> | | <u>2016</u> | |
|--------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | <u>Fair Value</u> | <u>Book Value</u> | <u>Fair Value</u> | <u>Book Value</u> |
| Cash equivalents | \$ 16,952 | \$ 16,952 | \$ 17,215 | \$ 17,215 |
| Stocks and mutual funds: | | | | |
| Common stocks | 87,359 | 87,769 | 164,701 | 162,325 |
| Mututal funds | <u>2,286,469</u> | <u>1,538,166</u> | <u>1,708,005</u> | <u>1,326,348</u> |
| | <u>2,373,828</u> | <u>1,625,935</u> | <u>1,872,706</u> | <u>1,488,673</u> |
| Total investments | <u>\$ 2,390,780</u> | <u>\$ 1,642,887</u> | <u>\$ 1,889,921</u> | <u>\$ 1,505,888</u> |

Marketable securities are in the custody of the financial institutions contracted by the Pennsylvania Southeast Conference of the United Church of Christ to advise the trustees on investment decisions.

**PENNSYLVANIA SOUTHEAST CONFERENCE OF
THE UNITED CHURCH OF CHRIST**

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 3 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The Conference, in accordance with generally accepted accounting principles, has applied fair value measurement and disclosure in these financial statements as follows:

The primary effect of fair value measurement on the Conference was to expand the required disclosures pertaining to the methods used to determine fair value.

Generally accepted accounting principles establishes a fair value hierarchy that prioritizes the inputs to valuation methods 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 lower priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1: Unadjusted quoted prices in active markets are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

An asset's or liability's level within the fair value hierarchy is based on the lowest level of 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 fair value measurements as set forth by level within the fair value hierarchy, as of December 31, are as follows:

| Description | December 31, 2017 | (Level 1) Quoted Prices in Active Markets for Identical Assets | (Level 2) Significant Other Observable Inputs | (Level 3) Significant Unobservable Inputs |
|-------------------------------|----------------------|--|---|--|
| Cash equivalents | \$ 16,952 | \$ 16,952 | \$ - | \$ - |
| Common stock | 87,359 | 87,359 | - | - |
| Mutual funds | 2,286,469 | 705,400 | 1,581,069 | - |
| Total fair value measurements | <u>\$ 2,390,780</u> | <u>\$ 809,711</u> | <u>\$ 1,581,069</u> | <u>\$ -</u> |

**PENNSYLVANIA SOUTHEAST CONFERENCE OF
THE UNITED CHURCH OF CHRIST**

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 3 - FAIR VALUE OF FINANCIAL INSTRUMENTS - CONTINUED

| Description | December 31, 2016 | (Level 1) Quoted Prices in Active Markets for Identical Assets | (Level 2) Significant Other Observable Inputs | (Level 3) Significant Unobservable Inputs |
|-------------------------------|----------------------|--|---|--|
| Cash equivalents | \$ 17,215 | \$ 17,215 | \$ - | \$ - |
| Common stock | 164,701 | 164,701 | - | - |
| Mutual funds | <u>1,708,005</u> | <u>434,815</u> | <u>1,273,190</u> | - |
| Total fair value measurements | <u>\$ 1,889,921</u> | <u>\$ 616,731</u> | <u>\$ 1,273,190</u> | <u>\$ -</u> |

The following information should not be interpreted as an estimate of the fair value of the entire Conference since a fair value calculation is only provided for a limited portion of the Conference's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Conference's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair value of the Conference's financial instruments at December 31, 2017 and 2016:

Cash and cash equivalents: The carrying amounts approximate fair value because of the short maturity of these instruments.

Common stock: Valued at the closing price reported in the active market in which the individual security is traded (Level 1).

Mutual funds: Valued at closing price reported in the active market in which the individual securities are traded (Level 1 and Level 2).

NOTE 4 - FURNITURE AND FIXTURES

A summary of furniture and fixtures at December 31 is as follows:

| | <u>2017</u> | <u>2016</u> |
|-------------------------------|-----------------|------------------|
| Furniture and fixtures | \$ 98,133 | \$ 98,664 |
| Less accumulated depreciation | <u>(88,598)</u> | <u>(84,936)</u> |
| | <u>\$ 9,535</u> | <u>\$ 13,728</u> |

**PENNSYLVANIA SOUTHEAST CONFERENCE OF
THE UNITED CHURCH OF CHRIST**

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 5 - OUR CHURCH'S WIDER MISSION/RELATED-PARTY TRANSACTIONS

The Conference serves as a conduit for donations received for Our Church's Wider Mission. The Conference has the availability to use the money received for Conference expenses incurred. For the years ended December 31, 2017 and 2016, total contributions received for Our Church's Wider Mission were \$824,448 and \$832,041, respectively. The aggregate contribution to the National United Church of Christ was \$86,200 for both the years ended December 31, 2017 and 2016.

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31 consisted of contributions restricted for the following purposes:

| | <u>2017</u> | <u>2016</u> |
|-------------------------------------|-------------------|-------------------|
| Local church ministries | \$ 32,191 | \$ 32,191 |
| Ensuring the future | 59,150 | 59,150 |
| Ecumenical relations savings | 1,849 | 2,500 |
| Church development | 32,529 | 31,010 |
| 2020 Vision scholarship | 2,000 | 2,000 |
| Interim minister training | 2,538 | 2,538 |
| Mass incarceration project | 812 | 812 |
| Zion disaster response ministries | 6,416 | 7,366 |
| Disaster response grant | 1,708 | - |
| Spring meeting scholarship | 3,065 | 3,065 |
| Goldbeck | 84,681 | 83,931 |
| New church ministries | 138,812 | - |
| MID education support | 143,956 | - |
| Camper scholarship | 10 | - |
| St. John's Philadelphia Dissolution | 31,235 | 28,270 |
| | <u>\$ 540,952</u> | <u>\$ 252,833</u> |

**PENNSYLVANIA SOUTHEAST CONFERENCE OF
THE UNITED CHURCH OF CHRIST**

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS - CONTINUED

Temporarily restricted net assets are released from donor restrictions when the reason for the restriction is met. Net assets released from restrictions for the year ended December 31 are as follows:

| | <u>2017</u> | <u>2016</u> |
|-----------------------------------|-----------------|------------------|
| National Youth Event | \$ - | \$ 7,500 |
| Camper scholarship | - | 4,553 |
| Ecumenical relations savings | 651 | - |
| Zion disaster response ministries | 950 | - |
| | <u>\$ 1,601</u> | <u>\$ 12,053</u> |

NOTE 7 - PERMANENTLY RESTRICTED NET ASSETS/ENDOWMENT

Permanently restricted net assets for the years ended December 31, 2017 and 2016, are net assets subject to donor-imposed endowment restrictions requiring the net assets be maintained in perpetuity as follows:

| | <u>2017</u> | <u>2016</u> |
|---------------------------|-------------------|-------------------|
| Church development | \$ 239,986 | \$ 217,201 |
| Education and nurturing | 76,307 | 67,841 |
| Mission and outreach | 174,719 | 154,427 |
| Outdoor and retreat | 30,435 | 26,747 |
| Retirees | 7,110 | 6,435 |
| Conference administration | 200,531 | 184,482 |
| | <u>\$ 729,088</u> | <u>\$ 657,133</u> |

**PENNSYLVANIA SOUTHEAST CONFERENCE OF
THE UNITED CHURCH OF CHRIST**

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 7 - PERMANENTLY RESTRICTED NET ASSETS/ENDOWMENT - CONTINUED

Endowment net asset composition by type of funds as of December 31 is as follows:

| | 2017 | 2016 |
|--|------------|------------|
| Donor-restricted endowment funds | \$ 729,088 | \$ 657,133 |
| Changes in Endowment Net Assets for the Year Ended December 31: | | |
| Endowment net assets, beginning of year | \$ 657,133 | \$ 648,463 |
| Investment return: | | |
| Investment income | 35,905 | 126,136 |
| Net appreciation (depreciation) (unrealized) | 68,096 | (82,924) |
| Total investment return | 104,001 | 43,212 |
| Contributions | - | - |
| Transfers (based on spending policy) | (32,046) | (34,542) |
| Endowment net assets, end of year | \$ 729,088 | \$ 657,133 |

The Conference complies with the disclosure provisions of FASB ASC 958-205 and subsections, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds.*

The Commonwealth of Pennsylvania has not adopted the Uniform Management of Institutional Funds Act (UMIFA) or the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Rather, the Pennsylvania Uniform Principal and Income Act (Pennsylvania Act) governs the investment, use, and management of the Conference's endowment funds. The Pennsylvania Act does not require the preservation of the fair value of a donor's original gift as of the gift date of an interpretation of the Pennsylvania Act and relevant accounting literature; the Conference classifies as permanently restricted net assets for reporting purposes; (i) the original value of gifts donated to the permanent endowment; (ii) the original value of subsequent gifts to the permanent endowment; and (iii) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The Pennsylvania Act allows a nonprofit to elect to appropriate for expenditure between 2% and 7% of the endowment's fair value, determined at least annually and averaged over a period of three or more preceding years.

The spending policy for the Conference is disclosed in Note 1.

**PENNSYLVANIA SOUTHEAST CONFERENCE OF
THE UNITED CHURCH OF CHRIST**

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 8 - RETIREMENT PLAN

All ministers and employees eligible may participate in the Annuity Plan (the "Plan") described in Section 403(b)(9) of the Internal Revenue Code of 1986. A church or an employer (the Conference) may make contributions to the Plan on behalf of eligible ministers or employees. Contributions made to the Plan were \$41,014 and \$35,511 for the years ended December 31, 2017 and 2016, respectively.

NOTE 9 - LEASE COMMITMENTS

The Conference entered into operating leases for office space in April 2013. The lease is for a five-year term beginning May 1, 2013, and ending May 31, 2018. The lease is then renewable for a period of three years. Base rent for year one is \$36,000 with a 2% increase each subsequent year. The Conference also entered into a five-year equipment lease with monthly payments of \$361 through September 2017, and a five-year equipment lease with monthly payments of \$468 through December 20, 2021. Minimum annual rental commitments under the leases are as follows for the years ending December 31:

| | |
|------|------------------|
| 2018 | \$ 21,852 |
| 2019 | 5,616 |
| 2020 | 5,616 |
| 2021 | <u>5,148</u> |
| | <u>\$ 38,232</u> |

Rent expense for the years ended December 31, 2017 and 2016, totaled \$46,023 and \$44,201, respectively.

**PENNSYLVANIA SOUTHEAST CONFERENCE OF
THE UNITED CHURCH OF CHRIST**

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 10 - NEW ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606) and *Other Assets and Deferred Costs - Contracts with Customers* (Subtopic 340-40). This standard implements a single framework for recognition of all revenue earned from customers. This framework ensures that entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services by allocating transaction price to identified performance obligations and recognizing revenue as performance obligations are satisfied. Qualitative and quantitative disclosures are required to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. In August 2015, the FASB issued ASU No. 2015-14 which defers the effective date of ASU No. 2014-09 one year, making it effective for fiscal years beginning after December 15, 2018. The Conference is evaluating the impact of this standard on the financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. Under this guidance, lessees will need to recognize the following for all leases (with the exception of leases with a term of twelve months or less) at the commencement date: (a) a lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis; and (b) a right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. The guidance requires a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expire before the earliest comparative period presented. A full retrospective transition approach is not permitted. This standard is effective for fiscal years beginning after December 15, 2019, with early application permitted. The Conference is evaluating the impact this standard will have on the financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, which makes targeted changes to the not-for-profit financial reporting model. Under the new ASU, the existing three-category classification of net assets (i.e. unrestricted, temporarily restricted, and permanently restricted) will be replaced with a model that combines temporarily restricted and permanently restricted into a single category called “net assets with donor restrictions.” Differences in the nature of donor restrictions will be disclosed in the notes, with an emphasis on how and when the resources can be used. The guidance for classifying deficiencies in endowment funds (“underwater endowments”) and on accounting for the lapsing of restrictions on gifts to acquire property, plant, and equipment have also been clarified. New disclosures will highlight restrictions on the use of resources that make otherwise liquid assets unavailable for meeting near-term financial requirements. Entities will be required to disclose (on the face of the statement or in notes) the extent to which the balance sheet comprises financial assets, the extent to which those assets can be converted to cash within one year, and any limitations that would preclude their current use. This standard is effective for fiscal years beginning after December 15, 2017, with early application permitted. This standard should be applied on a retrospective basis in the year that the standard is first applied. The Conference is evaluating the impact of this standard on the financial statements.

SUPPLEMENTARY INFORMATION

**PENNSYLVANIA SOUTHEAST CONFERENCE
OF THE UNITED CHURCH OF CHRIST**

SCHEDULE OF INVESTMENTS, SPECIAL FUNDS

Year Ended December 31, 2017

| | Market Value December 31, 2016 | Investment Income | Contributions | Net Transfers from Operating and Special Funds | Unrealized Gain (Loss) | Market Value December 31, 2017 |
|--|--------------------------------------|----------------------|-------------------|---|---------------------------|--------------------------------------|
| First Christian Building | \$ 148,390 | \$ 9,384 | \$ - | \$ (7,573) | \$ 13,756 | \$ 163,957 |
| Mission in the 70's - Dunkel's Church | 6,754 | 546 | - | (344) | 507 | 7,463 |
| Mount Hermon | 11,759 | 866 | - | (600) | 967 | 12,992 |
| Park Church Endowment | 50,298 | 3,853 | - | (2,567) | 3,991 | 55,575 |
| Church Development | 145,787 | 10,961 | - | (7,440) | 11,773 | 161,081 |
| Continuing Education | 1,074 | 87 | - | (55) | 80 | 1,186 |
| Reading Classis | 25,462 | 1,417 | - | - | 2,610 | 29,489 |
| Shetler Theological Students | 11,062 | 811 | - | (565) | 915 | 12,223 |
| Shetler Campus Ministry | 4,173 | 340 | - | (212) | 310 | 4,611 |
| Arcadia Make a Difference | 124,505 | 6,820 | (811) | (7,611) | 12,467 | 135,370 |
| Church and Ministry | 1,547 | 126 | - | (79) | 115 | 1,709 |
| Paul Slinghoff Memorial | 1,093 | 90 | - | (56) | 81 | 1,208 |
| Cheryl and Sancho Robinson | 18,272 | 1,421 | - | (932) | 1,428 | 20,189 |
| Emergency Reserve | 7,687 | 583 | - | (392) | 615 | 8,493 |
| Disaster Fund Savings | 54,736 | 4,464 | - | (2,792) | 4,072 | 60,480 |
| Outdoor and Retreat | 16,472 | 1,174 | - | (841) | 1,395 | 18,200 |
| Shetler Retirees Fund | 3,868 | 308 | - | (197) | 295 | 4,274 |
| Unrestricted Endowment | 18,496 | 782 | - | (627) | 3,468 | 22,119 |
| Make a Difference - Conference | 3,480 | 210 | - | (178) | 332 | 3,844 |
| MID Education Support - Pilgrim Community | - | 1,735 | 134,856 | - | 7,365 | 143,956 |
| Spatz - Retirees | 2,566 | 200 | - | (131) | 201 | 2,836 |
| Spatz - Education and Nurturing | 6,837 | 529 | - | (355) | 536 | 7,547 |
| Spatz - Conference Administration | 1,121 | 87 | - | (57) | 87 | 1,238 |
| Executive Staff - Continuing Education | 2,035 | 159 | - | (104) | 159 | 2,249 |
| Retirees Unrestricted Fund | 1,094 | 72 | - | (56) | 99 | 1,209 |
| Mensch Mill Development | 119 | 8 | - | (6) | 11 | 132 |
| St. John's of Philadelphia - Dissolution | 28,271 | 1,753 | - | (1,443) | 2,654 | 31,235 |
| New Ministries Fund | 124,422 | 4,255 | (894) | (15,000) | 13,650 | 126,433 |
| Charles Yetter Endowment | 5,765 | 96 | - | (153) | 1,232 | 6,940 |
| Heidelberg Endowment | 154,428 | 3,988 | - | (4,923) | 21,226 | 174,719 |
| Richard Wentzel Endowment | 10,156 | 227 | - | (344) | 2,064 | 12,103 |
| Nationwide Fund Class D | 196,768 | 24,508 | - | (9,725) | 14,668 | 226,219 |
| Anna M. Goldbeck - Irrevocable Trust | 162,129 | 9,859 | - | (12,117) | 15,017 | 174,888 |
| John Z. Zeller - Irrevocable Trust | 17,752 | 518 | - | - | 2,289 | 20,559 |
| Investing in the Future | 154,358 | 3,779 | - | - | 20,629 | 178,766 |
| New Church Ministries - Pilgrim Community | - | 518 | 138,294 | - | - | 138,812 |
| Church Builders' Bonus Investment | 142,251 | 4,300 | - | - | - | 146,551 |
| General Savings | 82,933 | 2,395 | 1,400 | 15,000 | 12,500 | 114,228 |
| Citizens Investments | 142,001 | 5,267 | - | - | 8,429 | 155,697 |
| | <u>\$ 1,889,921</u> | <u>\$ 108,496</u> | <u>\$ 272,845</u> | <u>\$ (62,475)</u> | <u>\$ 181,993</u> | <u>\$ 2,390,780</u> |

**PENNSYLVANIA SOUTHEAST CONFERENCE
OF THE UNITED CHURCH OF CHRIST**

SCHEDULE OF INVESTMENTS, SPECIAL FUNDS

Year Ended December 31, 2016

| | Market Value December 31, 2015 | Investment Income | Contributions | Net Transfers from Operating and Special Funds | Unrealized Gain (Loss) | Market Value December 31, 2016 |
|--|--------------------------------------|----------------------|---------------|---|---------------------------|--------------------------------------|
| First Christian Building | \$ 146,400 | \$ 8,362 | \$ - | \$ (7,826) | \$ 1,454 | \$ 148,390 |
| Mission in the 70's - Dunkel's Church | 6,663 | 521 | - | (356) | (74) | 6,754 |
| Mount Hermon | 11,601 | 806 | - | (620) | (28) | 11,759 |
| Park Church Endowment | 49,622 | 3,624 | - | (2,652) | (296) | 50,298 |
| Church Development | 143,833 | 10,262 | - | (7,688) | (620) | 145,787 |
| Continuing Education | 1,059 | 83 | - | (57) | (11) | 1,074 |
| Reading Classis | 23,835 | 1,290 | - | - | 337 | 25,462 |
| Shetler Theological Students | 10,914 | 754 | - | (583) | (23) | 11,062 |
| Shetler Campus Ministry | 4,117 | 325 | - | (220) | (49) | 4,173 |
| Arcadia Make a Difference | 128,428 | 6,294 | - | (12,461) | 2,244 | 124,505 |
| Church and Ministry | 1,526 | 120 | - | (82) | (17) | 1,547 |
| Paul Slinghoff Memorial | 1,079 | 85 | - | (58) | (13) | 1,093 |
| Cheryl and Sancho Robinson | 18,025 | 1,341 | - | (962) | (132) | 18,272 |
| Emergency Reserve | 7,583 | 547 | - | (405) | (38) | 7,687 |
| Disaster Fund Savings | 53,996 | 4,260 | - | (2,881) | (639) | 54,736 |
| Outdoor and Retreat | 16,250 | 1,084 | - | (869) | 7 | 16,472 |
| Shetler Retirees Fund | 3,818 | 292 | - | (204) | (38) | 3,868 |
| Unrestricted Endowment | 17,345 | 436 | - | (348) | 1,063 | 18,496 |
| Make a Difference - Conference | 3,433 | 184 | - | (184) | 47 | 3,480 |
| Spatz - Retirees | 2,532 | 189 | - | (135) | (20) | 2,566 |
| Spatz - Education and Nurturing | 6,930 | 577 | - | (555) | (115) | 6,837 |
| Spatz - Conference Administration | 1,107 | 83 | - | (59) | (10) | 1,121 |
| Executive Staff - Continuing Education | 2,007 | 150 | - | (107) | (15) | 2,035 |
| Retirees Unrestricted Fund | 1,080 | 65 | - | (58) | 7 | 1,094 |
| Mensch Mill Development | 118 | 7 | - | (6) | - | 119 |
| St. John's of Philadelphia - Dissolution | 27,891 | 1,554 | - | (1,490) | 316 | 28,271 |
| New Ministries Fund | 148,589 | 4,036 | - | (33,962) | 5,759 | 124,422 |
| Charles Yetter Endowment | 6,429 | (400) | - | (303) | 39 | 5,765 |
| Heidelberg Endowment | 150,415 | 97,826 | - | (8,965) | (84,848) | 154,428 |
| Richard Wentzel Endowment | 11,400 | 7,158 | - | (786) | (7,616) | 10,156 |
| Nationwide Fund Class D | 185,494 | 11,493 | - | (9,574) | 9,355 | 196,768 |
| Anna M. Goldbeck - Irrevocable Trust | 162,658 | 1,186 | - | (9,453) | 7,738 | 162,129 |
| John Z. Zeller - Irrevocable Trust | 16,618 | 377 | - | - | 757 | 17,752 |
| Investing in the Future | 144,493 | 2,470 | - | - | 7,395 | 154,358 |
| Church Builders' Bonus Investment | 138,078 | 4,173 | - | - | - | 142,251 |
| General Savings | 45,515 | 1,030 | - | 33,962 | 2,426 | 82,933 |
| Citizens Investments | - | 4,894 | - | 135,514 | 1,593 | 142,001 |
| | <u>\$ 1,700,881</u> | <u>\$ 177,538</u> | <u>\$ -</u> | <u>\$ 65,567</u> | <u>\$ (54,065)</u> | <u>\$ 1,889,921</u> |