

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, 2018 and 2017**

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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, 2018 and 2017, 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, 2018 and 2017, 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.

**Emphasis of Matter**

As described in Note 1, Pennsylvania Southeast Conference of the United Church of Christ adopted FASB ASU No. 2016-14 for the year ended December 31, 2018.

**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 24, 2019**

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

**STATEMENTS OF FINANCIAL POSITION**

	December 31	
<b>ASSETS</b>	2018	2017
<b>CURRENT ASSETS</b>		
Cash	\$ 26,474	\$ 315,534
Restricted cash	219,134	213,122
Contributions receivable	198,096	206,805
Prepaid expenses and other current assets	18,635	39,111
<b>TOTAL CURRENT ASSETS</b>	462,339	774,572
<b>FURNITURE AND EQUIPMENT</b> , less accumulated depreciation of \$92,489 in 2018 and \$88,598 in 2017	5,645	9,535
<b>INVESTMENTS</b>		
Investments	1,549,284	1,347,689
Restricted investments	955,971	1,043,091
<b>TOTAL INVESTMENTS</b>	2,505,255	2,390,780
<b>OTHER ASSETS</b>		
Security deposit	3,000	3,000
<b>TOTAL ASSETS</b>	<b>\$ 2,976,239</b>	<b>\$ 3,177,887</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 76,156	\$ 103,348
Accrued payroll and payroll taxes	19,278	17,116
<b>TOTAL CURRENT LIABILITIES</b>	95,434	120,464
<b>TOTAL LIABILITIES</b>	95,434	120,464
<b>NET ASSETS</b>		
Without donor restrictions	1,705,700	1,801,210
With donor restrictions:		
Purpose restrictions	521,707	527,125
Restricted in perpetuity	653,398	729,088
Total with donor restrictions	1,175,105	1,256,213
<b>TOTAL NET ASSETS</b>	2,880,805	3,057,423
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 2,976,239</b>	<b>\$ 3,177,887</b>

See accompanying notes.

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

**STATEMENTS OF ACTIVITIES**

	Year Ended December 31, 2018			Year Ended December 31, 2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
	<b>REVENUES AND OTHER SUPPORT</b>					
Contributions	\$ 761,492	\$ 12,368	\$ 773,860	\$ 743,991	\$ 4,901	\$ 748,892
Contributions - Our Churches Wider Mission National	84,868	-	84,868	86,200	-	86,200
Other program income	154,739	-	154,739	132,868	-	132,868
(Loss) on disposal of equipment	-	-	-	(15)	-	(15)
Investment income	90,583	38,556	129,139	64,876	39,911	104,787
Unrealized gain (loss) on investments	(207,236)	(95,059)	(302,295)	103,878	78,115	181,993
Net assets released from restriction	5,021	(5,021)	-	1,601	(1,601)	-
Transfer earnings (5% in 2018 and 5% in 2017)	31,952	(31,952)	-	32,046	(32,046)	-
<b>TOTAL REVENUES AND OTHER SUPPORT</b>	<b>921,419</b>	<b>(81,108)</b>	<b>840,311</b>	<b>1,165,445</b>	<b>89,280</b>	<b>1,254,725</b>
<b>EXPENSES</b>						
Program expenses:						
Church and ministry	684,810	-	684,810	652,471	-	652,471
Management and general	332,119	-	332,119	325,922	-	325,922
<b>TOTAL EXPENSES</b>	<b>1,016,929</b>	<b>-</b>	<b>1,016,929</b>	<b>978,393</b>	<b>-</b>	<b>978,393</b>
<b>CHANGE IN NET ASSETS BEFORE CHURCH CLOSURE FUNDS</b>	<b>(95,510)</b>	<b>(81,108)</b>	<b>(176,618)</b>	<b>187,052</b>	<b>89,280</b>	<b>276,332</b>
<b>CHURCH CLOSURE FUNDS</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>269,712</b>	<b>269,712</b>
<b>CHANGE IN NET ASSETS AFTER CHURCH CLOSURE FUNDS</b>	<b>(95,510)</b>	<b>(81,108)</b>	<b>(176,618)</b>	<b>187,052</b>	<b>358,992</b>	<b>546,044</b>
<b>NET ASSETS AT BEGINNING OF YEAR - RECLASSIFIED</b>	<b>1,801,210</b>	<b>1,256,213</b>	<b>3,057,423</b>	<b>1,614,158</b>	<b>897,221</b>	<b>2,511,379</b>
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 1,705,700</b>	<b>\$ 1,175,105</b>	<b>\$ 2,880,805</b>	<b>\$ 1,801,210</b>	<b>\$ 1,256,213</b>	<b>\$ 3,057,423</b>

See accompanying notes.

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

**STATEMENTS OF FUNCTIONAL EXPENSES**

	Year Ended December 31, 2018			Year Ended December 31, 2017		
	Program Service	Management and General	Total	Program Service	Management and General	Total
Salaries	\$ 203,896	\$ 181,712	\$ 385,608	\$ 196,932	\$ 177,937	\$ 374,869
Payroll taxes	15,481	13,967	29,448	15,065	13,710	28,775
Other employee benefits	56,892	51,862	108,754	64,765	48,414	113,179
<b>TOTAL PAYROLL AND RELATED EXPENSES</b>	<b>276,269</b>	<b>247,541</b>	<b>523,810</b>	<b>276,762</b>	<b>240,061</b>	<b>516,823</b>
Our Churches Wider Mission National	84,868	-	84,868	86,200	-	86,200
Youth ministries	23,255	-	23,255	16,593	-	16,593
Conference administrative expenses	20,975	4,006	24,981	65,519	3,976	69,495
Clergy development ministries	83,817	-	83,817	59,574	-	59,574
Church development and stewardship ministries	63,056	-	63,056	19,021	-	19,021
Conference supported ministries	46,394	-	46,394	28,315	-	28,315
Information technology	13,193	-	13,193	22,561	-	22,561
Equipment purchases	4,585	-	4,585	4,244	-	4,244
Rent expense	-	39,421	39,421	-	38,649	38,649
Repairs and maintenance	-	7,150	7,150	-	9,772	9,772
Postage and mailing	-	999	999	-	1,225	1,225
Office expenses	-	4,356	4,356	-	4,964	4,964
Telephone	-	7,733	7,733	-	7,671	7,671
Equipment lease expense	-	8,329	8,329	-	7,374	7,374
Conferences and meetings	41,310	-	41,310	44,798	-	44,798
Audit fees	-	8,200	8,200	-	7,500	7,500
Miscellaneous	27,088	494	27,582	28,884	652	29,536
<b>TOTAL EXPENSES BEFORE DEPRECIATION</b>	<b>684,810</b>	<b>328,229</b>	<b>1,013,039</b>	<b>652,471</b>	<b>321,844</b>	<b>974,315</b>
Depreciation	-	3,890	3,890	-	4,078	4,078
<b>TOTAL EXPENSES</b>	<b>\$ 684,810</b>	<b>\$ 332,119</b>	<b>\$ 1,016,929</b>	<b>\$ 652,471</b>	<b>\$ 325,922</b>	<b>\$ 978,393</b>

See accompanying notes.

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

**STATEMENTS OF CASH FLOWS**

	Year Ended December 31	
	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (176,618)	\$ 546,044
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	3,890	4,078
Loss on disposal of equipment	-	15
Unrealized (gain) loss on investments	302,295	(181,993)
Change in:		
Contributions receivable	8,709	(5,613)
Prepaid expenses and other current assets	20,476	(1,047)
Accounts payable and accrued expenses	(27,192)	3,816
Accrued payroll and payroll taxes	2,162	1,648
	<u>133,722</u>	<u>366,948</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>133,722</b>	<b>366,948</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of furniture and equipment	-	100
Proceeds from sale of investments	262,301	-
Purchase of investments	(679,071)	(318,866)
	<u>(416,770)</u>	<u>(318,766)</u>
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<b>(416,770)</b>	<b>(318,766)</b>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>(283,048)</b>	<b>48,182</b>
<b>CASH AT BEGINNING OF YEAR</b>	<u>528,656</u>	<u>480,474</u>
<b>CASH AT END OF YEAR</b>	<u><u>\$ 245,608</u></u>	<u><u>\$ 528,656</u></u>
<b>RECONCILIATION OF CASH</b>		
Cash	\$ 26,474	\$ 315,534
Restricted cash	219,134	213,122
	<u>\$ 245,608</u>	<u>\$ 528,656</u>

See accompanying notes.



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

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2018 and 2017**

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. The Conference is the link that connects our churches' various and diverse ministries locally and globally. Together, we provide our local churches, pastors, and congregations with the training and inspiration to carry out our churches' wider mission.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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**Member Churches**

The Conference is made up of 160 member churches in the greater Philadelphia area and the surrounding six counties, representing 38,000 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 net assets with donor restrictions at December 31, 2018 and 2017.

**Basis of Accounting**

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

**Cash Balances**

At various times during the years, the Conference's cash in bank balances exceeded the federally insured limits. The Conference places its cash in high-credit quality institutions. Certain cash balances are restricted for various ministry programs.

**Investments**

Investments in equity securities with readily determinable fair values, investments in debt securities, and investments in limited partnerships are measured at fair value in the statement of financial position. Investment income or loss, including gains and losses of investments, interest and dividends, and investment fees are included in the consolidated statement of activities as increases or decreases in net assets without donor restrictions unless the income or loss is restricted by donor or law.

**PENNSYLVANIA SOUTHEAST CONFERENCE OF  
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**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2018 and 2017**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

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**Investments - continued**

Investments are exposed to various risks such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the fair value of investments will occur in the near-term and that such changes could materially affect the amounts reported in the statement of financial position.

**Furniture and Equipment**

Purchased furniture and equipment are capitalized at cost. Donations of furniture and equipment are recorded as contributions at their fair market value. The Conference's policy is to capitalize any assets in excess of \$2,500 with an estimated useful life of more than one year. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Furniture and equipment are depreciated over five years.

Maintenance and repairs of property and equipment are charged to operations and major improvements are capitalized. Upon retirement, sale, or other disposition of property and equipment, the cost and accumulated depreciation are eliminated from the accounts and gain or loss is included in operations.

**Net Assets**

The Conference is required to report information regarding its financial position and activities according to two classes of net assets:

*Net Assets Without Donor Restrictions* - Net assets without donor restrictions include funds not subject to donor-imposed stipulations. In general, the revenues received, and expenses incurred in conducting the Conference's charitable mission are included in this category.

*Net Assets With Donor Restrictions* - Net assets with donor restrictions include gifts, grants, and pledges whose use by the Conference has been limited by donors to later periods of time or after specified dates, to specified purposes, or in perpetuity.

The Conference reports gifts of cash and other assets as revenue with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, the net assets are reclassified as net assets without donor restriction and reported in the consolidated statements of activities as net assets released from restrictions.

Some net assets with donor restrictions include a stipulation that assets provided be maintained permanently (perpetual in nature) while permitting the Conference to expend the income generated by the assets in accordance with the provisions of additional donor imposed stipulations or a Board approved spending policy.

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

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2018 and 2017**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

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**Net Assets - continued**

See Note 4 for more information on the composition of net assets with donor restrictions or the release of restrictions.

**Contributions Revenue and Receivable**

The Conference recognizes contributions received and made, including unconditional promises to give, as revenue in the period received or made. Contributions received are reported as either revenues without donor restrictions or revenues with donor restrictions. Contributions with donor restrictions that are used for the purpose specified by the donor in the same year as the contribution is received are recognized as revenues without donor restrictions. Promises to contribute that stipulate conditions to be met before the contribution is made are not recorded until the conditions are met.

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.

**Donated Services and Materials**

Gifts of property and equipment are presented as support without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as support with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service (as the assets are used in the Conference's activities).

Donated materials, furniture, fixtures, equipment, and certain services are reflected as contributions in the accompanying consolidated financial statements at their estimated fair value at the date of receipt.

A substantial number of volunteers have donated significant hours to the Conference's program services and fund-raising campaigns during the year; however, these donated services are not reflected in the consolidated financial statements since the services do not require specialized skills.

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

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2018 and 2017**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

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**Functional Expense Allocations**

Expenses that can be identified with specific programs and support services are allocated directly to their natural expenditure classification. Expenses relating to more than one function are allocated to program and supporting services based on the Conference's estimate of time devoted and related expenses incurred for the programs and supporting services benefited.

**Tax-Exempt Status**

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

**Adoption of FASB ASU No. 2016-14**

The Conference adopted FASB 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 previously existing three-category classification of net assets (i.e. unrestricted, temporarily restricted, and permanently restricted) is 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 highlight restrictions on the use of resources that make otherwise liquid assets unavailable for meeting near-term financial requirements. Note 10 discloses 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. The Conference adopted this standard for the year ended December 31, 2018, with retrospective application for the year ended December 31, 2017.

**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.

**PENNSYLVANIA SOUTHEAST CONFERENCE OF  
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**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2018 and 2017**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

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**Reclassification**

Certain amounts in the prior year 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 24, 2019, the date the financial statements were available to be issued.

**NOTE 2 - INVESTMENTS AND FAIR VALUE MEASUREMENTS**

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The Conference records investments at fair value (quoted market price).

The following table represents investments held at December 31:

	2018		2017	
	Fair Value	Book Value	Fair Value	Book Value
Cash equivalents	\$ 8,501	\$ 8,501	\$ 16,952	\$ 16,952
Stocks and mutual funds:				
Common stocks	173,255	172,921	87,359	87,769
Mutual funds	2,013,254	1,840,190	2,286,469	1,538,166
Fixed Income	310,245	346,891	-	-
	<u>2,496,754</u>	<u>2,360,002</u>	<u>2,373,828</u>	<u>1,625,935</u>
Total investments	<u>\$ 2,505,255</u>	<u>\$ 2,368,503</u>	<u>\$ 2,390,780</u>	<u>\$ 1,642,887</u>

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

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

**PENNSYLVANIA SOUTHEAST CONFERENCE OF  
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**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2018 and 2017**

**NOTE 2 - INVESTMENTS AND FAIR VALUE MEASUREMENTS - CONTINUED**

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 liability
- 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, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Common stock	\$ 173,255	\$ 173,255	\$ -	\$ -
Mutual funds	2,013,254	501,541	1,511,713	-
Fixed income	310,245	-	310,245	-
Total fair value measurements	<u>\$ 2,496,754</u>	<u>\$ 674,796</u>	<u>\$ 1,821,958</u>	<u>\$ -</u>

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

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2018 and 2017**

**NOTE 2 - INVESTMENTS AND FAIR VALUE MEASUREMENTS - CONTINUED**

Description	December 31, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Common stock	\$ 87,359	\$ 87,359	\$ -	\$ -
Mutual funds	2,286,469	646,257	1,640,212	-
Total fair value measurements	<u>\$ 2,373,828</u>	<u>\$ 733,616</u>	<u>\$ 1,640,212</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, 2018 and 2017:

*Common stock:* The custodian of the investments uses quoted prices in active markets for identical assets to determine the fair value of the investments.

*Mutual funds:* The custodian of the investments uses quoted prices in active markets for identical assets or various market inputs including outside pricing services and computerized pricing models to determine the fair value of the investments.

*Fixed income:* The custodian of the investments uses various market inputs to determine the fair value of these investments including outside pricing services and computerized pricing models.

**NOTE 3 - FURNITURE AND EQUIPMENT**

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

	2018	2017
Furniture and equipment	\$ 98,133	\$ 98,133
Less accumulated depreciation	(92,488)	(88,598)
	<u>\$ 5,645</u>	<u>\$ 9,535</u>

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

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2018 and 2017**

**NOTE 4 - NET ASSETS**

The Conference's net assets without donor restrictions are comprised of undesignated funds and board designated funds. Although no board designations exist currently, the board may designate a portion of net assets for specific programs. Net assets with donor restrictions are summarized as follows at December 31:

	<u>2018</u>	<u>2017</u>
Purpose:		
Local church ministries	\$ 32,191	\$ 32,191
Ensuring the future	59,150	59,150
Ecumenical relations savings	133	1,849
Church development	18,273	18,702
2020 Vision scholarship	2,100	2,000
Interim minister training	2,538	2,538
Mass incarceration project	812	812
Zion disaster response ministries	8,628	6,416
Disaster response grant	-	1,708
Spring meeting scholarship	3,065	3,065
Goldbeck	86,644	84,681
New church ministries	142,366	138,812
MID education support	132,551	143,956
Camper scholarship	10	10
St. John's Philadelphia Dissolution	27,656	31,235
Local flood relief	500	-
Pension Boards Campaign	5,090	-
	<u>521,707</u>	<u>527,125</u>
Total purpose	521,707	527,125
Perpetuity:		
Church development	212,485	239,986
Education and nurturing	68,603	76,307
Mission and outreach	159,351	174,719
Outdoor and retreat	27,499	30,435
Retirees	6,295	7,110
Conference administration	179,165	200,531
	<u>653,398</u>	<u>729,088</u>
Total perpetuity	653,398	729,088
Total net assets with donor restrictions	<u>\$ 1,175,105</u>	<u>\$ 1,256,213</u>



**PENNSYLVANIA SOUTHEAST CONFERENCE OF  
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**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2018 and 2017**

**NOTE 4 - NET ASSETS - CONTINUED**

Net assets with donor restrictions 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:

	2018	2017
St. John's Philadelphia Dissolution	\$ 1,165	\$ -
Disaster response grant	1,708	-
Church development	429	-
Ecumenical relations savings	1,719	651
Zion disaster response ministries	-	950
	\$ 5,021	\$ 1,601

**NOTE 5 - ENDOWMENT FUNDS**

The Conference's endowment consists of contributions with restrictions from donors to be held in perpetuity. As required by generally accepted accounting principles, net assets associated with the endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

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

	2018	2017
Donor-restricted endowment funds	\$ 653,398	\$ 729,088
<b>Changes in Endowment Net Assets for the Year Ended December 31:</b>		
Endowment net assets, beginning of year	\$ 729,088	\$ 657,133
Investment return:		
Investment income	32,866	35,905
Net appreciation (depreciation) (unrealized)	(76,604)	68,096
Total investment return	(43,738)	104,001
Contributions	-	-
Transfers (based on spending policy)	(31,952)	(32,046)
Endowment net assets, end of year	\$ 653,398	\$ 729,088

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**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2018 and 2017**

**NOTE 5 - ENDOWMENT FUNDS - CONTINUED**

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*Interpretation of Relevant Law:* 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.

*Investment Objectives:* The primary investment objective is to achieve a steady and growing source of income to the Organization in perpetuity while preserving capital and growing it for future generations to support the mission of the Organization.

*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, 2018 and 2017, respectively.

*Underwater Endowment Funds:* The Conference considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund, and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the director of the applicable donor gift instrument. The Conference has no underwater endowment funds at December 31, 2018 or 2017.

**NOTE 6 - OUR CHURCH'S WIDER MISSION/RELATED-PARTY TRANSACTIONS**

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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, 2018 and 2017, total contributions received for Our Church's Wider Mission were \$846,074 and \$824,448, respectively. The aggregate contribution to the National United Church of Christ was \$84,868 and \$86,200 for the years ended December 31, 2018 and 2017.

**PENNSYLVANIA SOUTHEAST CONFERENCE OF  
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**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2018 and 2017**

**NOTE 7- RETIREMENT PLAN**

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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 \$41,991 and \$41,014 for the years ended December 31, 2018 and 2017, respectively.

**NOTE 8 - LEASE COMMITMENTS**

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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 was then renewed 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:

2019	\$ 45,825
2020	46,628
2021	<u>22,377</u>
	<u>\$ 114,830</u>

Rent expense for the years ended December 31, 2018 and 2017, totaled \$47,750 and \$46,023, respectively.

**PENNSYLVANIA SOUTHEAST CONFERENCE OF  
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**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2018 and 2017**

**NOTE 9 - AVAILABILITY OF FINANCIAL RESOURCES**

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The following reflects the Conference's financial assets as of December 31, 2018, reduced by amounts not available for general use within one year because of contractual or donor-imposed restrictions and financial liabilities due within one year. The Conference's financial assets include cash, investments, and receivables. The Organization has restricted funds.

	2018	2017
Cash	\$ 245,608	\$ 528,656
Contributions receivable	198,096	206,805
Investments	2,505,255	2,390,780
Total financial assets	2,948,959	3,126,241
Less:		
Amounts unavailable for general expenditures within one year, due to:		
Restricted by donors with purpose restrictions	(521,707)	(527,125)
Donor restricted endowment	(653,398)	(729,088)
Lease commitment due within one year	(45,825)	(21,852)
Total financial assets available to meet cash needs for general expenditures within one year	\$ 1,728,029	\$ 1,848,176

**NOTE 10 - NEW ACCOUNTING PRONOUNCEMENTS**

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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.

**PENNSYLVANIA SOUTHEAST CONFERENCE OF  
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**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2018 and 2017**

**NOTE 10 - NEW ACCOUNTING PRONOUNCEMENTS - CONTINUED**

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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 June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope of the Accounting Guidance for Contributions Received and Contributions Made*. The new ASU provides a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction. ASU 2018-08 clarifies that benefits received by the general public is not the same as the resource provider receiving that benefit and that the execution of the resource provider's mission does not equate to commensurate value. The ASU also provides guidance for distinguishing between condition and unconditional contributions. A conditional contribution must have (1) a barrier that must be overcome AND (2) a right of return or release of the donor obligation. Conditional contributions received are accounted for as a liability, while conditional pledges are unrecognized. In each instance, when the barriers to entitlement are overcome, the related revenue is recognized and classified in the appropriate net asset class. The effective date is for fiscal years beginning after December 15, 2018, with early implementation permitted. 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, 2018**

	Market Value December 31, 2017	Investment Income	Contributions	Net Transfers from Operating and Special Funds	Unrealized Gain (Loss)	Market Value December 31, 2018
First Christian Building	\$ 163,957	\$ 8,988	\$ -	\$ (6,117)	\$ (21,660)	\$ 145,168
Mission in the 70's -						
Dunkel's Church	7,463	509	-	(278)	(1,086)	6,608
Mount Hermon	12,992	814	-	(485)	(1,818)	11,503
Park Church Endowment	55,575	3,606	-	(2,073)	(7,902)	49,206
Church Development	161,081	10,284	-	(6,009)	(22,733)	142,623
Continuing Education	1,186	81	-	(44)	(173)	1,050
Reading Classis	29,489	1,476	-	-	(3,813)	27,152
Shetler Theological Students	12,223	763	-	(456)	(1,708)	10,822
Shetler Campus Ministry	4,611	317	-	(172)	(673)	4,083
Arcadia Make a Difference	135,370	6,881	-	(8,254)	(17,143)	116,854
Church and Ministry	1,709	117	-	(64)	(249)	1,513
Paul Slinghoff Memorial	1,208	83	-	(45)	(176)	1,070
Cheryl and Sancho Robinson	20,189	1,328	-	(754)	(2,888)	17,875
Emergency Reserve	8,493	547	-	(317)	(1,203)	7,520
Disaster Fund Savings	60,480	4,152	-	(2,257)	(8,826)	53,549
Outdoor and Retreat	18,200	1,108	-	(679)	(2,515)	16,114
Shetler Retirees Fund	4,274	287	-	(159)	(618)	3,784
Unrestricted Endowment	22,119	957	-	(772)	(3,280)	19,024
Make a Difference - Conference	3,844	202	-	(144)	(499)	3,403
MID Education Support -						
Pilgrim Community	143,956	2,951	-	-	(14,357)	132,550
Spatz - Retirees	2,836	187	-	(106)	(406)	2,511
Spatz - Education and Nurturing	7,547	494	-	(284)	(1,077)	6,680
Spatz - Conference Administration	1,238	82	-	(47)	(177)	1,096
Executive Staff - Continuing						
Education	2,249	148	-	(84)	(322)	1,991
Retirees Unrestricted Fund	1,209	68	-	(44)	(162)	1,071
Mensch Mill Development	132	7	-	(4)	(18)	117
St. John's of Philadelphia -						
Dissolution	31,235	1,684	-	(1,165)	(4,098)	27,656
New Ministries Fund	126,433	9,375	-	(48,800)	(16,171)	70,837
Charles Yetter Endowment	6,940	169	-	(255)	(389)	6,465
Heidelberg Endowment	174,719	4,324	-	(7,127)	(12,565)	159,351
Richard Wentzel Endowment	12,103	192	-	(449)	(577)	11,269
Nationwide Fund Class D	226,219	47,233	-	(8,113)	(60,769)	204,570
Anna M. Goldbeck -						
Irrevocable Trust	174,888	7,429	-	(12,535)	(14,047)	155,735
John Z. Zeller - Irrevocable Trust	20,559	606	-	-	(2,235)	18,930
Investing in the Future	178,766	4,614	-	-	(18,779)	164,601
New Church Ministries -						
Pilgrim Community	138,812	1,054	2,500	-	-	142,366
Church Builders' Bonus						
Investment	146,551	4,429	-	-	-	150,980
General Savings	114,228	3,440	-	49,500	(15,762)	151,406
Citizens Investments	155,697	1,876	-	340,000	(41,421)	456,152
	<u>\$ 2,390,780</u>	<u>\$ 132,862</u>	<u>\$ 2,500</u>	<u>\$ 281,408</u>	<u>\$ (302,295)</u>	<u>\$ 2,505,255</u>

**PENNSYLVANIA SOUTHEAST CONFERENCE  
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**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>