



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, 2019 and 2018



TABLE OF CONTENTS

	Pages
INDEPENDENT AUDITOR'S REPORT	1 - 2
FINANCIAL STATEMENTS	
Statements of Financial Position	3
Statements of Activities.....	4
Statements of Functional Expenses.....	5
Statements of Cash Flows.....	6
Notes to Financial Statements.....	7 - 20
SUPPLEMENTARY INFORMATION	
Schedules of Investments, Special Funds	21 - 22



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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, 2019 and 2018, 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 in the first paragraph present fairly, in all material respects, the financial position of Pennsylvania Southeast Conference of the United Church of Christ as of December 31, 2019 and 2018, 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
May 13, 2020

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

STATEMENTS OF FINANCIAL POSITION

	December 31	
ASSETS	2019	2018
CURRENT ASSETS		
Cash	\$ 59,412	\$ 113,118
Restricted cash	136,815	132,490
Contributions receivable	214,135	198,096
Prepaid expenses and other current assets	13,066	18,635
TOTAL CURRENT ASSETS	423,428	462,339
FURNITURE AND EQUIPMENT , less accumulated depreciation of \$96,034 in 2019 and \$92,488 in 2018	2,099	5,645
INVESTMENTS		
Investments	1,785,284	1,549,284
Restricted investments	1,247,271	955,971
TOTAL INVESTMENTS	3,032,555	2,505,255
OTHER ASSETS		
Security deposit	3,000	3,000
TOTAL ASSETS	\$ 3,461,082	\$ 2,976,239
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 60,746	\$ 76,156
Accrued payroll and payroll taxes	21,333	19,278
Deferred revenue	7,245	-
TOTAL CURRENT LIABILITIES	89,324	95,434
TOTAL LIABILITIES	89,324	95,434
NET ASSETS		
Without donor restrictions	1,987,672	1,792,344
With donor restrictions:		
Purpose restrictions	629,789	435,063
Restricted in perpetuity	754,297	653,398
Total with donor restrictions	1,384,086	1,088,461
TOTAL NET ASSETS	3,371,758	2,880,805
TOTAL LIABILITIES AND NET ASSETS	\$ 3,461,082	\$ 2,976,239

See accompanying notes.

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

STATEMENTS OF ACTIVITIES

	Year Ended December 31, 2019			Year Ended December 31, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND OTHER SUPPORT						
Contributions	\$ 802,990	\$ 47,670	\$ 850,660	\$ 830,567	\$ 10,405	\$ 840,972
Contributions - Our Churches Wider Mission National	82,700	-	82,700	84,868	-	84,868
Program income	90,085	-	90,085	87,627	-	87,627
Investment income, net	257,929	165,054	422,983	(116,653)	(56,503)	(173,156)
Net assets released from restriction	33,541	(33,541)	-	5,021	(5,021)	-
Transfer earnings (5% in 2019 and 5% in 2018)	32,156	(32,156)	-	31,952	(31,952)	-
TOTAL REVENUES AND OTHER SUPPORT	1,299,401	147,027	1,446,428	923,382	(83,071)	840,311
EXPENSES						
Program expenses:						
Church and ministry	760,572	-	760,572	684,810	-	684,810
Management and general	343,501	-	343,501	332,119	-	332,119
TOTAL EXPENSES	1,104,073	-	1,104,073	1,016,929	-	1,016,929
CHANGE IN NET ASSETS BEFORE CHURCH CLOSURE FUNDS	195,328	147,027	342,355	(93,547)	(83,071)	(176,618)
CHURCH CLOSURE FUNDS	-	148,598	148,598	-	-	-
CHANGE IN NET ASSETS AFTER CHURCH CLOSURE FUNDS	195,328	295,625	490,953	(93,547)	(83,071)	(176,618)
NET ASSETS AT BEGINNING OF YEAR	1,792,344	1,088,461	2,880,805	1,885,891	1,171,532	3,057,423
NET ASSETS AT END OF YEAR	\$ 1,987,672	\$ 1,384,086	\$ 3,371,758	\$ 1,792,344	\$ 1,088,461	\$ 2,880,805

See accompanying notes.

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

STATEMENTS OF FUNCTIONAL EXPENSES

	Year Ended December 31, 2019			Year Ended December 31, 2018		
	Program Service	Management and General	Total	Program Service	Management and General	Total
Salaries	\$ 212,027	\$ 186,742	\$ 398,769	\$ 203,896	\$ 181,712	\$ 385,608
Payroll taxes	16,040	14,244	30,284	15,481	13,967	29,448
Other employee benefits	56,460	52,932	109,392	56,892	51,862	108,754
TOTAL PAYROLL AND RELATED EXPENSES	284,527	253,918	538,445	276,269	247,541	523,810
Our Churches Wider Mission National	82,700	-	82,700	84,868	-	84,868
Youth ministries	12,251	-	12,251	23,255	-	23,255
Conference administrative expenses	72,661	1,519	74,180	20,975	4,006	24,981
Clergy development ministries	78,011	-	78,011	83,817	-	83,817
Church development and stewardship ministries	105,817	-	105,817	63,056	-	63,056
Conference supported ministries	36,751	-	36,751	46,394	-	46,394
Information technology	15,942	-	15,942	13,193	-	13,193
Equipment purchases	4,771	-	4,771	4,585	-	4,585
Rent expense	-	40,209	40,209	-	39,421	39,421
Repairs and maintenance	-	7,754	7,754	-	7,150	7,150
Postage and mailing	-	2,277	2,277	-	999	999
Office expenses	-	7,259	7,259	-	4,356	4,356
Telephone	-	9,563	9,563	-	7,733	7,733
Equipment lease expense	-	6,549	6,549	-	8,329	8,329
Conferences and meetings	39,068	-	39,068	41,310	-	41,310
Audit fees	-	9,174	9,174	-	8,200	8,200
Miscellaneous	28,073	1,733	29,806	27,088	494	27,582
TOTAL EXPENSES BEFORE DEPRECIATION	760,572	339,955	1,100,527	684,810	328,229	1,013,039
Depreciation	-	3,546	3,546	-	3,890	3,890
TOTAL EXPENSES	\$ 760,572	\$ 343,501	\$ 1,104,073	\$ 684,810	\$ 332,119	\$ 1,016,929

See accompanying notes.

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

STATEMENTS OF CASH FLOWS

	Year Ended December 31	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 490,953	\$ (176,618)
Adjustments to reconcile changes in net assets to net cash from operating activities:		
Depreciation	3,546	3,890
Unrealized (gain) loss on investments	(296,980)	302,295
Changes in:		
Contributions receivable	(16,039)	8,709
Prepaid expenses and other current assets	5,569	20,476
Accounts payable and accrued expenses	(15,410)	(27,192)
Accrued payroll and payroll taxes	2,055	2,162
Deferred revenue	7,245	-
	180,939	133,722
NET CASH PROVIDED BY OPERATING ACTIVITIES	180,939	133,722
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	633,834	262,301
Purchases of investments	(864,154)	(679,071)
	(230,320)	(416,770)
NET CASH USED BY INVESTING ACTIVITIES	(230,320)	(416,770)
	(49,381)	(283,048)
NET DECREASE IN CASH	(49,381)	(283,048)
CASH AT BEGINNING OF YEAR	245,608	528,656
CASH AT END OF YEAR	\$ 196,227	\$ 245,608
RECONCILIATION OF CASH		
Cash	\$ 59,412	\$ 113,118
Restricted cash	136,815	132,490
	\$ 196,227	\$ 245,608

See accompanying notes.

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

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.

Member Churches

The Conference is made up of 156 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 July 2019, 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 \$148,598, to the Conference to be used for new church ministries. This amount is included in net assets with donor restrictions at December 31, 2019.

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

For purposes of the statements of cash flows, the Conference considers all cash, deposited in bank accounts or highly liquid investments, to be cash on the accompanying statement of financial position.

At various times during the year, the Conference may have cash balances in excess of the federally insured limit in deposit accounts

At December 31, 2019 and 2018, the Conference has cash restricted for various ministry programs totaling \$136,815 and \$132,490, respectively.

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Investments

Investments in debt and marketable securities 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 statement of activities as increases or decreases in net assets without donor restrictions unless the income or loss is restricted by donor or law.

Investments are exposed to various risks such as interest rate, credit, and overall market volatility. Additionally, there is heightened risk for negative impact on market performance and the investment portfolio due to the ongoing COVID-19 pandemic. 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 statements of activities as net assets released from restrictions.

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Net Assets - continued

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.

Contributions

The Conference recognizes revenue from contributions in accordance with Accounting Standards Update ASU 2018-08 Not-For-Profit Entities (Topic 958); *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. In accordance with ASU 2018-08, the Conference evaluates whether a transfer of assets is (1) an exchange transaction in which a resource provider is receiving commensurate value in return for the resources transferred or (2) a contribution. If the transfer of assets is determined to be an exchange transaction, the Conference applies guidance under ASC-606. If the transfer of assets is determined to be a contribution, the Conference evaluates whether the contribution is conditional based upon whether the agreement includes both (1) one or more barriers that must be overcome before the Conference is entitled to the assets transferred and promised, and (2) a right of return of assets transferred or a right or release of a promisor's obligation to transfer assets.

The Conference records unconditional contributions as net assets with donor restrictions if they are received with donor stipulations that limit their use either through purpose or time. When donor restrictions expire, that is when a purpose restriction is fulfilled or a time restriction ends, net assets with donor restrictions are reclassified to net assets without donor restrictions, and reports in the statement of activities as net assets released from 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.

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

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 Conference 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 financial statements at their estimated fair value at the date of receipt.

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Donated Services and Materials - continued

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 financial statements since the services do not require specialized skills.

Revenue Recognition

In accordance with Financial Accounting Standards Board, (FASB) Accountings Standards Codification Topic 606, *Revenue from Contracts with Customers* ("ASC 606"), the Conference recognizes revenue when control of the promised services is transferred to the Conference's outside parties in an amount that reflects the consideration the Conference expects to be entitled to in exchange for those services. The standard outlines a five-step process whereby revenue is recognized as performance obligations within a contract are satisfied.

Program Income

The Conference provides various, leadership development, retreats, and support for clergy and lay leaders throughout the Conference. The related fee is recognized as revenue when the program or event occurs. Fees paid in advance are maintained as deferred revenue until the event occurs. Deferred revenue totaled \$7,245 at December 31, 2019. No amounts were deferred at December 31, 2018.

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.

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.

Reclassification

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

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Subsequent Events

In preparing these financial statements, the Conference has evaluated events and transactions for potential recognition or disclosure through May 13, 2020, the date the financial statements were available to be issued. In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic which has caused major disruptions worldwide. The ongoing pandemic poses increased and unexpected business risks. The specific impact of the pandemic and the duration of the disruption is not determinable as of the report date; therefore, the financial statements do not include any adjustments that might result from the outcome of this uncertainty. Management is carefully monitoring the impact of the pandemic and taking steps to mitigate the impact.

On April 20, 2020, the Conference was approved for a Paycheck Protection Program Loan totaling \$92,308 at a 1% fixed interest rate through the United States Small Business Administration, administered by a local bank, as part of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). No payments are due on this loan for 6 months from the date of the first disbursement of this loan and the loan matures two years from the date of the note. Interest will continue to accrue during the deferment period. The Conference will apply for forgiveness of the loan if certain requirements regarding qualifying expenses are met.

Adoption of Accounting Pronouncements

The Conference adopted FASB No. 2014-09, ASU 606, *Revenue from Contracts with Customers* ("Topic 606"), on January 1, 2019. Topic 606 supersedes the revenue recognition requirements in ASC 605, *Revenue Recognition*, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The financial statements reflect the application of ASC 606 guidance using the modified retrospective approach with application to all contracts open as of January 1, 2019. There was no impact on the revenue recognized or net assets for the year ended December 31, 2019.

During the year, the Conference also adopted the provisions of FASB ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (Topic 958). This accounting standard is meant to help not-for-profit entities evaluate whether transactions should be accounted for as contributions or as exchange transactions and, if the transaction is identified as a contribution, whether it is conditional or conditional. Topic 958 was applied, with no effect on the financial statements as a result of the adoption.

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Adoption of Accounting Pronouncements - continued

The Conference adopted ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a Consensus of the FASB Emerging Issues Task Force)* ("ASU 2016-18"). This new standard addresses the diversity that exists in the classification and presentation of changes in restricted cash on the statement of cash flows. The amendments in ASU 2016-18 require that a statement of cash flows explain the change during the year in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning of year and end of year total amounts shown on the statement of cash flows. ASU 2016-18 became effective for the Conference beginning January 1, 2019. There was no material impact on the Conference's financial statement presentation.

NOTE 2 - FURNITURE AND EQUIPMENT

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

	<u>2019</u>	<u>2018</u>
Furniture and equipment	\$ 98,133	\$ 98,133
Less accumulated depreciation	<u>(96,034)</u>	<u>(92,488)</u>
	<u>\$ 2,099</u>	<u>\$ 5,645</u>

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE 3 - INVESTMENTS AND FAIR VALUE MEASUREMENTS

Investments as of December 31 are summarized as follows:

	2019	2018
Cash equivalents	\$ 7,385	\$ 8,501
Stocks and mutual funds:		
Common stocks	208,462	173,255
Mutual funds	2,479,422	2,013,254
Fixed Income	337,286	310,245
	3,025,170	2,496,754
Total investments	\$ 3,032,555	\$ 2,505,255

Included in investment income is summarized as follows at December 31:

	2019	2018
Interest and dividend income	\$ 52,785	\$ 86,665
Unrealized gains (losses)	296,980	(302,295)
Realized gains	76,109	46,197
Investment fees	(2,891)	(3,723)
Total investment income (loss)	\$ 422,983	\$ (173,156)

Financial accounting standards require the use of fair value measurement. The Conference, in accordance with generally accepted accounting principles, has applied fair value measurement and disclosure in these consolidated financial statements as follows:

That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements), and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE 3 - INVESTMENTS AND FAIR VALUE MEASUREMENTS - CONTINUED

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets and liabilities in active markets;
- Quoted prices for identical or similar assets and liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2019 and 2018.

Long-Term Investments

Custodians hold the investments of the Conference in accordance with the investment policy of the Organization. Amounts held are invested to diversify the funds to minimize the risk of large losses and preserve the capital. Investments are comprised of certificates of deposits and mutual funds for which fair value is based on quoted market prices in an active market. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

The methods described previously may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its reliance on the valuation methods of the financial institutions 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.

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE 3 - INVESTMENTS AND FAIR VALUE MEASUREMENTS - CONTINUED

The following tables set forth the Conference's assets at fair value by level within the fair value hierarchy, as of December 31:

Description	December 31, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Common stock	\$ 208,462	\$ 208,462	\$ -	\$ -
Mutual funds	2,479,422	604,878	1,874,544	-
Fixed income	337,286	-	337,286	-
Total fair value measurements	<u>\$ 3,025,170</u>	<u>\$ 813,340</u>	<u>\$ 2,211,830</u>	<u>\$ -</u>

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, 2019 and 2018

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:

	2019	2018
Purpose:		
Local church ministries	\$ 32,191	\$ 32,191
Ensuring the future	59,150	59,150
Ecumenical relations savings	133	133
Church development	17,259	18,273
2020 Vision scholarship	2,100	2,100
Interim minister training	2,038	2,538
Mass incarceration project	812	812
Zion disaster response ministries	10,032	8,628
Immigration work grant	500	-
Spring meeting scholarship	2,980	3,065
New church ministries	304,214	142,366
MID education support	157,204	132,551
Camper scholarship	10	10
St. John's Philadelphia Dissolution	31,555	27,656
Local flood relief	-	500
Pension Boards Campaign	9,611	5,090
Total purpose	629,789	435,063
Perpetuity:		
Church development	242,443	212,485
Education and nurturing	79,496	68,603
Mission and outreach	190,114	159,351
Outdoor and retreat	32,983	27,499
Retirees	7,182	6,295
Conference administration	202,079	179,165
Total perpetuity	754,297	653,398
Total net assets with donor restrictions	\$ 1,384,086	\$ 1,088,461

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

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:

	<u>2019</u>	<u>2018</u>
St. John's Philadelphia Dissolution	\$ 1,162	\$ 1,165
Disaster Response Grant	400	1,708
Church Development	1,250	429
Ecumenical Relations Savings	-	1,719
Pension Boards Campaign	29,644	-
Local Flood Relief	500	-
Interim Minister Training	500	-
Spring Meeting Scholarship	85	-
	<u>\$ 33,541</u>	<u>\$ 5,021</u>

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.

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 Conference in perpetuity while preserving capital and growing it for future generations to support the mission of the Conference.

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE 5 - ENDOWMENT FUNDS - CONTINUED

Spending Policy: The Conference has an approved spending policy that allows the operating fund to receive and utilize 4% of the investment fund balance annually for the years ended December 31, 2019 and 2018, 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, 2019 or 2018.

Endowment net asset composition for donor-restricted funds as of December 31 is as follows:

	2019	2018
Donor-restricted endowment funds	\$ 754,297	\$ 653,398
 Changes in Endowment Net Assets for the Year Ended December 31:		
Endowment net assets, beginning of year	\$ 653,398	\$ 729,088
Investment return:		
Investment income	52,119	32,866
Net appreciation (depreciation) (unrealized)	80,936	(76,604)
Total investment return	133,055	(43,738)
Transfers (based on spending policy)	(32,156)	(31,952)
Endowment net assets, end of year	\$ 754,297	\$ 653,398

NOTE 6 - 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, 2019 and 2018, total contributions received for Our Church's Wider Mission were \$824,044 and \$846,074, respectively. The related contribution passed through to the National United Church of Christ was \$82,700 and \$84,868 for the years ended December 31, 2019 and 2018.

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE 7 - 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 \$43,041 and \$41,991 for the years ended December 31, 2019 and 2018, respectively.

NOTE 8 - 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 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:

2020	\$ 46,628
2021	<u>22,377</u>
	<u>\$ 69,005</u>

Rent and equipment lease expense for the years ended December 31, 2019 and 2018, totaled \$46,758 and \$47,750, respectively.

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE 9 - AVAILABILITY OF FINANCIAL RESOURCES

The following reflects the Conference's financial assets as of December 31, 2019 and 2018, reduced by amounts not available for general use within one year because of contractual or donor-imposed restrictions. The Conference's financial assets include cash, receivables, and various types of investments. The Conference has limitations on those assets consisting of contractual obligations and donor-imposed restrictions.

	2019	2018
Cash	\$ 188,982	\$ 245,608
Contributions receivable	214,135	198,096
Investments	3,032,555	2,505,255
Total financial assets	3,435,672	2,948,959
Less:		
Contractual or donor-imposed restrictions:		
Restricted by donors with purpose restrictions	(629,789)	(435,063)
Donor restricted endowment	(754,297)	(653,398)
Total financial assets available to meet cash needs for general expenses within one year	\$ 2,051,586	\$ 1,860,498

NOTE 10 - NEW ACCOUNTING PRONOUNCEMENTS

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, 2020, with early application permitted. The Conference is evaluating the impact this standard will have on the financial statements.

SUPPLEMENTARY INFORMATION

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

SCHEDULE OF INVESTMENTS, SPECIAL FUNDS

Year Ended December 31, 2019

	Market Value December 31, 2018	Investment Income	Contributions	Net Transfers from Operating and Special Funds	Unrealized Gain (Loss)	Market Value December 31, 2019
First Christian Building	\$ 145,168	\$ 8,664	\$ -	\$ (6,100)	\$ 17,903	\$ 165,635
Mission in the 70's - Dunkel's Church	6,608	482	-	(278)	727	7,539
Mount Hermon	11,503	776	-	(483)	1,329	13,125
Park Church Endowment	49,206	3,430	-	(2,068)	5,575	56,143
Church Development	142,623	9,791	-	(5,994)	16,310	162,730
Continuing Education	1,050	77	-	(44)	115	1,198
Reading Classis	27,152	1,432	-	-	3,617	32,201
Shetler Theological Students	10,822	728	-	(455)	1,253	12,348
Shetler Campus Ministry	4,083	300	-	(172)	447	4,658
Arcadia Make a Difference	116,854	14,051	-	(37,394)	5,468	98,979
Church and Ministry	1,513	111	-	(63)	166	1,727
Paul Slinghoff Memorial	1,070	79	-	(46)	117	1,220
Cheryl and Sancho Robinson	17,875	1,262	-	(750)	2,009	20,396
Emergency Reserve	7,520	520	-	(316)	856	8,580
Disaster Fund Savings	53,549	3,932	-	(2,250)	5,868	61,099
Outdoor and Retreat	16,114	1,059	-	(677)	1,890	18,386
Shetler Retirees Fund	3,784	272	-	(159)	421	4,318
Unrestricted Endowment	19,024	559	-	(795)	4,062	22,850
Make a Difference - Conference	3,403	196	-	(143)	427	3,883
MID Education Support - Pilgrim Community	132,550	3,165	-	-	21,489	157,204
Spatz - Retirees	2,511	178	-	(106)	282	2,865
Spatz - Education and Nurturing	6,680	468	-	(281)	754	7,621
Spatz - Conference Administration	1,096	78	-	(46)	123	1,251
Executive Staff - Continuing Education	1,991	141	-	(83)	223	2,272
Retirees Unrestricted Fund	1,071	66	-	(45)	130	1,222
Mensch Mill Development	117	7	-	(5)	14	133
St. John's of Philadelphia - Dissolution	27,656	1,626	-	(1,162)	3,435	31,555
New Ministries Fund	70,837	4,787	-	(25,785)	5,477	55,316
Charles Yetter Endowment	6,465	118	-	(272)	1,957	8,268
Heidelberg Endowment	159,351	8,284	-	(7,174)	29,653	190,114
Richard Wentzel Endowment	11,269	206	-	(475)	3,464	14,464
Nationwide Fund Class D	204,570	9,379	-	(8,366)	53,122	258,705
Anna M. Goldbeck - Irrevocable Trust	155,735	23,539	-	(12,701)	7,922	174,495
John Z. Zeller - Irrevocable Trust	18,930	618	-	-	2,903	22,451
Investing in the Future	164,601	4,783	-	-	25,828	195,212
New Church Ministries - Pilgrim Community	142,366	2,284	159,564	-	-	304,214
Church Builders' Bonus Investment	150,980	4,563	-	-	-	155,543
General Savings	151,406	4,716	-	56,550	27,995	240,667
Citizens Investments	456,152	12,167	-	-	43,649	511,968
	<u>\$ 2,505,255</u>	<u>\$ 128,894</u>	<u>\$ 159,564</u>	<u>\$ (58,138)</u>	<u>\$ 296,980</u>	<u>\$ 3,032,555</u>

**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>