

**DIOCESE OF NEW JERSEY BISHOP'S
DISCRETIONARY FUND**

Financial Statements
and
Supplementary Information

December 31, 2017

DIOCESE OF NEW JERSEY BISHOP'S DISCRETIONARY FUND

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INDEPENDENT AUDITORS' REPORT

To the Audit Committee of
Diocese of New Jersey Bishop's Discretionary Fund

Report on the Financial Statements

We have audited the accompanying financial statements of the Diocese of New Jersey Bishop's Discretionary Fund (the "Fund") which comprise the statement of financial position as of December 31, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Opinion

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

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Report on Summarized Comparative Information

We have previously audited the Fund's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 24, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Mercadieu, P.C.
Certified Public Accountants

August 28, 2018

DIOCESE OF NEW JERSEY BISHOP'S DISCRETIONARY FUND

STATEMENTS OF FINANCIAL POSITION

December 31, 2017

(With Comparative Totals for December 31, 2016)

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash	\$ 3,460	\$ 3,574
Diocesan Investment Trust (3,918.81 shares at \$54.61 (2017) and 3,918.81 shares at \$47.84 (2016) per share)	214,006	187,476
Dividends receivable - related party (Note E)	<u>-</u>	<u>10,338</u>
Total Assets	<u>\$ 217,466</u>	<u>\$ 201,388</u>
 NET ASSETS		
Unrestricted	\$ 1,199	\$ 11,651
Temporarily restricted	<u>216,267</u>	<u>189,737</u>
Total Net Assets	<u>\$ 217,466</u>	<u>\$ 201,388</u>

DIOCESE OF NEW JERSEY BISHOP'S DISCRETIONARY FUND

STATEMENTS OF ACTIVITIES

Year Ended December 31, 2017

(With Comparative Totals for the Year Ended December 31, 2016)

	2017			2016
	Unrestricted	Temporarily Restricted	Total	Total
Revenues and support				
Visitations and offerings	\$ 13,125	\$ -	\$ 13,125	\$ 10,963
Other Income	-	-	-	35
Investment return	-	34,054	34,054	12,266
Net assets released from restrictions	<u>7,524</u>	<u>(7,524)</u>	<u>-</u>	<u>-</u>
Total revenues and support	<u>20,649</u>	<u>26,530</u>	<u>47,179</u>	<u>23,264</u>
Expenses				
Contributions and gifts	7,080	-	7,080	9,400
Donations	8,000	-	8,000	22,544
Other	<u>16,021</u>	<u>-</u>	<u>16,021</u>	<u>2,310</u>
Total expenses	<u>31,101</u>	<u>-</u>	<u>31,101</u>	<u>34,254</u>
Change in net assets	(10,452)	26,530	16,078	(10,990)
Net assets, beginning of year	<u>11,651</u>	<u>189,737</u>	<u>201,388</u>	<u>212,378</u>
Net assets, end of year	<u>\$ 1,199</u>	<u>\$ 216,267</u>	<u>\$ 217,466</u>	<u>\$ 201,388</u>

DIOCESE OF NEW JERSEY BISHOP'S DISCRETIONARY FUND

STATEMENTS OF CASH FLOWS

Year Ended December 31, 2017

(With Comparative Totals for the Year Ended December 31, 2016)

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 16,078	\$ (10,990)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Unrealized gain on investments	(26,530)	(4,742)
Forgiveness of related party receivable	10,338	-
Increase in cash from		
Dividends receivable - related party	<u>-</u>	<u>235</u>
Net cash from operating activities and net change in cash	(114)	(15,497)
Cash, beginning of year	<u>3,574</u>	<u>19,071</u>
Cash, end of year	<u>\$ 3,460</u>	<u>\$ 3,574</u>

DIOCESE OF NEW JERSEY BISHOP'S DISCRETIONARY FUND

NOTES TO FINANCIAL STATEMENTS

A. NATURE OF ORGANIZATION

Revenues of the Diocese of New Jersey Bishop's Discretionary Fund (the "Fund"), are derived primarily from the following sources:

- Visitations and Offerings - receipts from plate offerings and contributions from parishes and missions in connection with visitations and services by the Bishop.
- Contributions - receipts from organizations and individuals, including the Bishop, other than visitations and offerings.
- Temporarily Restricted Investment Return - subject to donor restrictions.

The existence and use of clergy discretionary funds originated with Canon III.9 5(b)(6) of the Episcopal Church regarding "almoner's funds." While the practices described in that canon have evolved and while it refers specifically to discretionary funds of congregations, current authoritative guidance relating it to the administration of revenue and expenditures from the Fund is found in the Episcopal Church's guidelines for administration of discretionary funds included in the Manual of Business Methods in Church Affairs (the "Manual"). Chapter V of the Manual, last updated in 2012, states: "The thrust of this Chapter is to deal with funds given to and used by rectors of parishes, but the guidelines generally would also apply to other clergy, including bishops, serving in other church capacities." In summary, those guidelines include:

- The traditional uses of clergy discretionary funds are to relieve the poor of the parish church and the larger parish community. Payments for food, rent, utilities, medical bills, and the like for persons in need are always appropriate uses of the fund.
- Clergy may also use the fund for expenses related to the exercise of ministry not otherwise provided for in the church budget, provided such an understanding is agreed to in general by the vestry. Attendance at conferences, purchase of books and journals, entertainment of individuals directly related to the church's ministry, and membership in groups that are related to the exercise of ministry are examples of appropriate discretionary use in these circumstances. However, discretionary funds should not be used to sustain the ongoing operations of the church.
- Management has the responsibility to exercise appropriate internal controls to ensure compliance with these guidelines.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of the Fund have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Net assets and revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

DIOCESE OF NEW JERSEY BISHOP'S DISCRETIONARY FUND

NOTES TO FINANCIAL STATEMENTS

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

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

- Unrestricted net assets - net assets not subject to donor-imposed stipulations, and therefore are expendable for operating purposes.
- Temporarily restricted net assets - net assets subject to donor-imposed stipulations that will be met by actions of the Fund and/or by the passage of time.
- Permanently restricted net assets - net assets subject to donor-imposed stipulations that they be maintained permanently by the Fund. Generally, the donors of these assets permit the Fund to use all or part of the income earned on related investments for general or donor-specified purposes. The Fund has no permanently restricted net assets.

Comparative Financial Information

The financial statements include certain prior year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Fund's financial statements for the year ended December 31, 2016, from which the summarized information was derived.

Cash

Cash includes highly liquid debt instruments with original maturities of ninety days or less.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Investments

Investments are stated at fair value in the statement of financial position. Dividends and unrealized gains and losses are included in the change in net assets in the accompanying statements of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted.

Public Support and Revenue Recognition

Contributions, visitations and offerings are recognized when the donor makes a promise to give to the Fund that is, in substance, unconditional.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily restricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

DIOCESE OF NEW JERSEY BISHOP'S DISCRETIONARY FUND

NOTES TO FINANCIAL STATEMENTS

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The Fund and its related parties and missions are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state law. Income generated by activities that would be considered unrelated to the Fund's mission would be subject to tax, which, if incurred, would be recognized as a current expense. No such tax has been recognized as of December 31, 2017 or 2016.

U.S. GAAP requires management to evaluate tax positions taken by the Fund and recognize a tax liability if the Fund has taken an uncertain position that more likely than not would not be sustained upon examination by taxing authorities. Management evaluated the Fund's tax positions and concluded that the Fund had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance.

The Fund did not record any interest or penalties on uncertain tax positions in the accompanying statements of financial position as of December 31, 2017 or 2016, or the accompanying statements of activities for the years then ended. If the Fund were to incur any income tax liability in the future, interest on any income tax liability would be reported as interest expense and penalties on any income tax liability would be reported as income taxes.

Recent Accounting Pronouncement

In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which now requires net assets to be presented in two classes, instead of three. The two classes will be net assets with donor restrictions and net assets without donor restrictions. Additional enhanced disclosures will be required to present the amounts and purposes of board designations, composition of net assets with donor restrictions and how the restrictions affect the use of resources. ASU 2016-14 requires the entity to communicate qualitative and quantitative information on how it manages its liquid resources available to meet the cash flow needs for general expenditures within one year of the statement of financial position date, including disclosure of the availability of financial assets at the statement of financial position date, affected by 1) its nature, 2) external limits imposed by donors, grantors, laws and contracts with others, and 3) internal limits imposed by governing board decisions. ASU 2016-14 requires reporting of expenses by both their natural and functional classification. ASU 2016-14 also requires reporting of investment returns net of external and direct internal investment expenses and removes the requirement to disclose the netting of such investment expenses. ASU 2016-14 is effective for the Fund for the year ending December 31, 2018, with early adoption permitted. The Fund is currently evaluating the effect that the new standard will have on its financial statements and related disclosures.

Subsequent Events

Management has evaluated events for potential recognition and disclosure through August 28, 2018, the date the financial statements were available to be issued. No items were determined by management to require disclosure.

DIOCESE OF NEW JERSEY BISHOP'S DISCRETIONARY FUND

NOTES TO FINANCIAL STATEMENTS

C. FAIR VALUE MEASUREMENT

Investments consist of shares of the Diocesan Investment Trust ("DIT"). The DIT investments consist of money market funds, common stocks, fixed income and mutual funds. The DIT determines fair value using the net asset value per share ("NAV") practical expedient.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Fund uses various methods including market, income and cost approaches. Based on these approaches, the Fund often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Fund utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques the Fund is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value are classified and disclosed in one of the following three categories:

- Level 1 — Quoted prices for identical assets and liabilities traded in active exchange markets.
- Level 2 — Observable inputs other than Level 1 including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data. Level 2 also includes derivative contracts whose value is determined using a pricing model with observable market inputs or can be derived principally from or corroborated by observable market data.
- Level 3 — Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation; also includes observable inputs for nonbinding single dealer quotes not corroborated by observable market data.

During the years ended December 31, 2017 and 2016, there were no changes to the Fund's valuation techniques that had, or are expected to have, a material impact on its financial position or changes in net assets.

The following is a description of the valuation methodologies used for instruments measured at fair value:

Diocesan Investment Trust - The fair value of the DIT is based on the fair value of the underlying pooled investments which are comprised of money market funds, common stocks, fixed income and mutual funds.

The table below sets forth a summary of changes in the fair value of the Fund's DIT investments for the years ended December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Fair value, beginning of year	\$ 187,476	\$ 182,734
Investment activity		
Unrealized gain	26,530	4,742
Fair value, end of year	<u>\$ 214,006</u>	<u>\$ 187,476</u>

DIOCESE OF NEW JERSEY BISHOP'S DISCRETIONARY FUND

NOTES TO FINANCIAL STATEMENTS

C. FAIR VALUE MEASUREMENT (CONTINUED)

In accordance with U.S. GAAP, investments measured at fair value using the NAV per share practical expedient have not been classified in the fair value hierarchy. The following table presents quantitative information about the DIT investments:

	Fair Value at December 31, 2017	Fair Value at December 31, 2016	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
DIT	<u>\$ 214,006</u>	<u>\$ 187,476</u>	<u>\$ 0</u>	Daily	1 day

Fair value for each of the DIT funds for the years ended December 31, 2017 and 2016, is summarized as follows:

	Fair Value December 31	
	2017	2016
Edward Baker Fund	\$ 22,294	\$ 19,530
Mrs. J. Conover Fund	28,994	25,400
Estate of Elizabeth Ink Fund	31,059	27,209
Merrit Memorial Fund	13,665	11,971
Hanford Smith Fund	6,062	5,311
Louisa Vought Fund	47,431	41,551
Bishop Discretionary Funds	64,501	56,504
	<u>\$ 214,006</u>	<u>\$ 187,476</u>

The following schedule summarizes the investment return for the years ended December 31, 2017 and 2016, and its classification in the statements of activities:

	2017	2016
Dividend Income	\$ 7,524	\$ 7,524
Unrealized gain	26,530	4,742
Total investment return	<u>\$ 34,054</u>	<u>\$ 12,266</u>

D. RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are comprised of the following:

	December 31,	
	2017	2016
Fair value of shares in DIT	\$ 214,006	\$ 187,476
Hurricane Sandy Relief Assistance	2,261	2,261
	<u>\$ 216,267</u>	<u>\$ 189,737</u>

DIOCESE OF NEW JERSEY BISHOP'S DISCRETIONARY FUND

NOTES TO FINANCIAL STATEMENTS

D. RESTRICTIONS ON NET ASSETS (CONTINUED)

Fair value of shares in DIT are available for the purposes of the Fund as described in the Nature of Organization disclosure in Note A.

Net assets were released from donor restrictions as follows:

	<u>Years Ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
Purpose restriction accomplished		
Diocesan programs	\$ 7,524	\$ 7,524
Hurricane relief	-	6,400
Total	<u>\$ 7,524</u>	<u>\$ 13,924</u>

E. RELATED PARTY

The Administrative Offices of the Diocese of New Jersey (the "Diocese") receives dividend income on behalf of the Fund and remits payments to the Fund for the dividend income from time to time. There were no dividends receivable from the Diocese as of December 31, 2017. Dividends receivable from the Diocese totaled \$10,338 as of December 31, 2016. Dividend income paid from the Diocese totaled \$7,759 for both of the years ended December 31, 2017 and 2016. During the year ended December 31, 2017, the Fund forgave dividends receivable from the Diocese totaling \$10,338. The forgiven dividends receivable from the Diocese are included in other expenses on the statement of activities.

SUPPLEMENTARY INFORMATION

DIOCESE OF NEW JERSEY BISHOP'S DISCRETIONARY FUND

SCHEDULE OF VISITATIONS AND OFFERINGS

Year Ended December 31, 2017

All Saint's Church	Scotch Plains	\$	259
Christ Church	Somers Point		150
Christ Church	Toms River		200
Church of the Advent	Cape May		354
Grace Church	Haddonfield		500
Holy Spirit Church	Bellmawr		100
San Andres Church	Camden		200
San Jose Church	Elizabeth		661
St.David's Church	Cranbury		230
St. Elizabeth's Church	Ortley Beach		642
St. Elizabeth's Church	Elizabeth		163
St. Francis Church	Dunellen		311
San James Church	Paulsboro		100
St. John's Church	Linden		77
St. John's Church	Woodbridge		250
St. Mark's and All Saints' Church	Basking Ridge		292
St. Mary's Church	Burlington		220
St. Mary's Church	Keyport		200
St. Paul's Church	Bound Brook		350
St. Peter's Church	Barnegat		683
St. Peter's Church	Cape May Point		300
St. Peter's Church	Freehold		463
St. Stephen's Memorial	Riverside		175
St. Thomas' Church	Red Bank		250
Trinity Church	Cranford		300
Trinity Church	Princeton		442
Anonymous donation	Unknown		5,000
Other donations	Various		253
			<u>\$ 13,125</u>

DIOCESE OF NEW JERSEY BISHOP'S DISCRETIONARY FUND

SCHEDULE OF VISITATIONS AND OFFERINGS

Year Ended December 31, 2016

Ascension Church	Gloucester	\$	100
Christ Church	Bordentown		328
Christ Church	Magnolia		500
Christ Church	Middletown		466
Christ Church	Palmyra		200
Church of Atonement	Laurel Springs		200
Good Shepherd Church	Berlin		81
Good Shepherd Church	Pitman		220
Grace Church	Merchantville		230
Holy Innocent Church	Beach Haven		1,000
Holy Spirit Church	Tuckerton		300
Holy Trinity Church	Collingswood		209
Holy Trinity Church	Wenonah		212
Holy Trinity Church	Moorestown		100
St. Alban's Church	New Brunswick		125
St. John's Church	Chews Landing		180
St. Luke's Church	Ewing		250
St. Luke's and All Saints' Church	Union		410
St. Mark's Church	Keansburg		100
St. Mark's Church	Williamstown		200
St. Mark's and All Saints' Church	Galloway		125
St. Martin in the Fields' Church	Lumberton		245
St. Mary's Church	Pt. Pleasant Beach		500
St. Peter's Church	Spotswood		261
St. Peter's Church	Cape May Point		375
St. Peter's Church	Trenton		400
St. Simeon's Church	North Wildwood		166
St. Stephen's Church	Mullica Hill		85
St. Thomas' Church	Glassboro		188
St. Thomas' Church	Pittstown		80
Trinity Church	Moorestown		764
Trinity Church	Princeton		178
Trinity Church	Woodbridge		260
Trinity Cathedral Church	Trenton		335
Other donations	Various		1,590
			<u>\$ 10,963</u>