

# Appendix

# 2015

# Compensation Guide

# for Clergy and Lay Employees

## Episcopal Diocese of Pittsburgh



**Approved by Diocesan Council  
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## INTRODUCTION

The purpose of this Compensation Guide is to provide – for the **Bishop’s Wellness Committee, the diocesan Personnel Committee, Parish Vestries, and Institutional Boards** – standards for the proper compensation, including cash salary, allowances, and benefits, of clergy and lay employees in the Episcopal Diocese of Pittsburgh.

The Guide is applicable to the diocese, to all congregations in the diocese, and to any other institution under the authority of the Constitution and Canons of the Episcopal Diocese of Pittsburgh.

The terms of compensation of the **Bishop** are to be reviewed annually and recommended to the Diocesan Council for the Budget of the Diocese by a **Bishop’s Wellness Committee**. The Committee is to be comprised of the President of the Standing Committee, President of the Board of Trustees, and the President of Diocesan Council. The Committee is to meet with the Bishop semi-annually to review compensation and wellness issues with the Bishop.

The terms of compensation of **other clergy and of lay employees serving in the Diocesan Office** are recommended to the **Diocesan Council** by the Bishop for inclusion in the annual diocesan budget. This recommendation takes place in the context of consultation with a **Diocesan Personnel Committee** appointed by the Bishop and in conformity with minimum guidelines for clergy and for lay employees established in the annual Compensation Guide.

For parishes, other congregations, and other institutions under diocesan authority it is the responsibility of each **Vestry, Board, or similar governing body** to use these minimum and recommended Compensation Guidelines, approved by Diocesan Council and authorized by the Annual Convention of the Diocese, in determining the compensation levels for **clergy and for lay employees** for whom that body may be responsible.

Both clergy and vestries or similar bodies have access to the Bishop’s Office and to the Compensation Committee of Diocesan Council to seek clarification of elements of the guide or to seek resolution of conflicts that may arise in applying the guide to particular situations.

Respectfully Submitted,

The Compensation Committee of Diocesan Council:

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The Rev. William Geiger  
Mr. James Neral  
The Rev. Leslie Reimer  
The Rev. Dr. Bruce Robison (Chair)

Ex officio: The Ven. Jean Chess; The Rev. Lou Hays; The Rt. Rev. Dorsey McConnell; and  
Ms. Kathi Workman

## **CLERGY AND LAY EMPLOYEE COMPENSATION: DEFINITIONS AND POLICIES**

### **TOTAL COMPENSATION, CLERGY**

**Clergy Compensation** is appropriately guided by the resources available in the ministry situation in which the ministry is offered and by the level of responsibility and commensurate skill and experience required.

Clergy Compensation Letters of Agreement and subsequent specification of clergy compensation will specify and limit the figure of **Total Compensation** to include **only** those elements of compensation subject to assessment by the Church Pension Fund – the total of: (1) Cash Salary, (2) Housing/Utility Allowance or the amount specified in this guide to calculate the value of Housing/Utilities Provided (with additional Housing/Utility Allowance, (3) Equity Allowance, and (4) recommended Self-Employment Tax Allowance, as described and treated in this Guide.

**Additional elements of compensation, such as the costs of pension assessments and contributions, health insurance, travel and professional allowances, and discretionary and benevolent funds are not included in the Total Compensation calculation.**

### **TOTAL COMPENSATION: CASH SALARY**

For the purposes of this Guide “Cash Salary” refers to that portion of Total Compensation in addition to provided Housing and Utilities, Housing Allowance, Equity Allowance, and/or Social Security/Medicare Self-Employment Tax Allowance.

### **TOTAL COMPENSATION: HOUSING AND HOUSING ALLOWANCES**

When church-owned housing and utilities are provided for the use of ordained clergy the Internal Revenue Service currently allows their value to be excluded from the calculation of income subject to Federal Income Tax.

When church-owned housing and utilities are provided for the use of ordained clergy, the Minimum and Recommended amounts designated in this Guide for Total Compensation may be reduced by 25%.

When church-owned housing and utilities are not provided, clergy are permitted to designate in advance a portion of their income no greater than the fair market rental value of house, furnishings, and utilities, as a Housing Allowance, and this designated portion of their income is not subject to Federal Income Tax. A Designated Housing Allowance must be recorded in the official records of the congregation or other employer and should be identified on budget forms. When housing and utilities are provided, an additional amount of Clergy Compensation may be designated as Housing Allowance (see below) to the extent allowable by the Tax Code. A model Housing Allowance designation is provided in this Guide, Appendix E. *It is important to remind*

*Clergy that the fair market rental value of provided furnished housing and utilities, and/or of any Housing /Utility Allowance, are subject to Self-Employment Tax and are to be reported on Schedule SE of IRS Form 1040.*

### **TOTAL COMPENSATION: OTHER INCLUDED ALLOWANCES**

#### **SOCIAL SECURITY SELF-EMPLOYMENT TAX ALLOWANCE**

For the purposes of Payroll Taxes related to Social Security and Medicare, all ordained clergy are considered self-employed. When desired and by negotiation, an allowance equal to half of the clergy's social security self-employment tax (SECA), currently 15.3%, may be paid directly to the member of the clergy as an additional compensation. **NOTE: This income is fully taxable and reportable as income to the clergy. The amount of any Self-Employment Tax Allowance is included within, not in addition to, the Minimum and Recommended Total Compensation figures in this Guide.**

### **EQUITY ALLOWANCE**

The 133rd Annual Convention of the Diocese of Pittsburgh adopted a resolution stating that effective January 1, 1999, Letters of Agreement *for all clergy living in church-provided housing* shall include an additional category of compensation entitled "Housing Equity Allowance," and it was further resolved that the specific amount of the Housing Equity Allowance shall be calculated by using a percentage of the value designated for housing on the assessment form of the Church Pension Fund (30 percent of cash stipend plus utilities) or an amount agreed upon between the clergy and the parish. **NOTE: This income is fully taxable and reportable as income to the clergy. The amount of any Equity Allowance is included within, not in addition to, the Minimum and Recommended Total Compensation figures in this Guide.**

### **LAY EMPLOYEE COMPENSATION**

*Canonically mandatory pension benefits for lay employees regularly scheduled to work 1,000 hours per year or more are described in Appendix F of this Guide. Canonically mandatory Denominational Health Plan benefits for lay employees regularly scheduled to work 1,500 hours per year or more are described in Appendix G of the Guide.*

Parishes and other employers subject to the authority of the Episcopal Diocese of Pittsburgh shall comply with applicable Federal and State employment law, including Federal, State, and Local Minimum Wage and Occupational Health and Safety regulations. The National Association of Episcopal Christian Education Directors, the Episcopal Church Youth Ministry Network, the American Guild of Organists, the Association of Anglican Musicians, and other organizations serving Lay Professional Ministers of the Episcopal Church may offer recommended guidelines for Lay Professional compensation. The United Way of Allegheny County compiles a survey of compensation practices in non-profit organizations in our region. A recent edition may be found here:

<http://bcnm.rmu.edu/ProgramsServices/cmp-media/docs/BayerCenter/wbsurvey2012.pdf>

**MANDATORY ALLOWANCES**  
***NOT INCLUDED WITHIN “TOTAL COMPENSATION”***  
**FOR CLERGY AND LAY EMPLOYEES**

**TRAVEL (JOB-RELATED)**

Each congregation or other institution subject to this Guide shall provide clergy and lay employees either a monthly, job-related Travel Allowance or an accountable reimbursement plan utilizing the IRS per mile reimbursement rate set annually by the Diocesan Council. It is recommended that the vestry adopt an accountable reimbursement plan. Reimbursements paid under an accountable plan are not reportable by the employer or employee as taxable income, unlike the monthly allowance which is taxable. The accountable plan is a significant advantage to the clergy. Note: When the accountable reimbursement plan is adopted by the vestry it applies to all employees – clergy or lay.

If employees are paid at a rate in excess of the IRS per mile reimbursement rate, under IRS revenue ruling 84-127, the **entire reimbursement** must be added to the wages reported on form W-2. The clergy can then claim a deduction of the IRS per mile rate on IRS Form 2106 for the business mileage. This is not recommended.

Clergy and lay employees should keep in mind that travel expenses either reimbursed as an allowance or under an accountable reimbursement plan **must** be documented. See APPENDIX G for a sample documentation form. In the event of an audit the IRS will request the documentation of these expenses.

**RELOCATION (MOVING) ALLOWANCE**

When a congregation or other institution issues a call following the election of a clergy person to a full-time, settled position of ministry, the calling congregation or other institution is to pay the expenses associated with the relocation. Clergy who have been called and the leadership of the congregations to which they have been called are encouraged to discuss and negotiate the anticipated expenses in advance.

**CONTINUING EDUCATION ALLOWANCE**

All clergy, as required by canon and all lay ministry professionals are encouraged to engage in regular continuing education to strengthen their ministries. Parishes are expected to provide both time and money to make such study possible. Continuing education should be focused on vocational development, workshops, courses or intentional study in areas that undergird present or future ministry and develop or strengthen talents and skills. This time is not to be used as additional vacation or leisure time.

Congregations and other institutions shall designate a stated allowance amount in the annual budget (in previous years the Continuing Education Subcommittee of the Commission on

Ministry recommended \$500 to \$1,000 for each full-time clergy person or lay employee) toward the expenses of continuing education.

### **SABBATICAL LEAVE**

After five years of continuous service in a parish or in the service of the Diocese, clergy in full-time ministry appointments are eligible for a period of paid sabbatical leave, accrued at the rate of two weeks per year of service, up to a maximum of three months (14 weeks) of paid leave. (Some slightly longer sabbaticals have been negotiated, with the additional leave paid or unpaid, depending on terms of the negotiation.) It is recommended that full-time lay ministry professionals be offered a similar sabbatical opportunity. Parishes shall build provision into their budgets to cover the expenses of a sabbatical, which include program and travel costs as well as liturgical and pastoral care coverage for the parish. Limited diocesan aid may be available to help defray the cost of supply clergy and other expenses for the parish during the priest's sabbatical. The purposes of the sabbatical are to promote personal, spiritual, professional, and academic enrichment for continued ministry. A written description of the sabbatical plan should be submitted to the Bishop no less than 90 days before it commences.

### **DESCRIPTION OF MANDATORY AND RECOMMENDED BENEFITS: CLERGY AND LAY EMPLOYEES**

*Note that any costs to the parish or other employer of the mandatory and recommended benefits required below are **not** included in the calculation of Minimum or Recommended “Total Clergy Compensation.”*

### **CHURCH PENSION FUND: CLERGY AND LAY EMPLOYEES**

Title I, Canon 8, Section 3 of the Constitution and Canons of the Protestant Episcopal Church in the United States of America requires the diocese, parish, mission, and other ecclesiastical organizations to pay the Church Pension Fund Assessment for the Bishop and clergy, and for lay employees scheduled to work 1,000 hours or more each year.

### **DENOMINATIONAL HEALTH PLAN: CLERGY AND LAY EMPLOYEES**

Medical/Dental group insurance as provided by the Denominational Health Plan of the Episcopal Church is required for clergy and lay employees scheduled to work 1,500 hours or more each year.

## **EXTENDED SICK LEAVE/SHORT-TERM DISABILITY**

Effective January 1, 2004, as a benefit of the Church Pension Fund, all clergy actively participating in and fully covered by the Clergy Pension Plan will be enrolled in a Short-Term Disability Benefit Program at no additional pension assessment cost. In cases of extended serious illness, clergy are to be provided with sick leave at full pay, supplemented by short-term disability payments of 70 percent of compensation from the Pension Fund, up to \$1,000 per week, for a maximum period of 52 weeks.

**If the illness is prolonged beyond 360 days, the clergy should initiate the Long-Term Disability Benefit through the Pension Fund.** Prior to or during a term of office, clergy are expected to inform the congregation and diocesan office of any health factors, which may interfere significantly with effective fulfillment of responsibilities.

Effective January 1, 2005, as a benefit of the Church Pension Fund, all clergy actively participating in and fully covered by the Clergy Pension Plan will be enrolled in a new Long-Term Disability Benefit Program at no additional pension assessment cost. Clergy should contact the CPG to verify inclusion in this plan and to obtain description of plan benefits.

Congregations and other employers within the diocese are *encouraged* to provide extended sick-leave, short-term, and long-term disability insurance benefits for full-time lay employees.

## **SUPPLEMENTAL LIFE INSURANCE BENEFITS**

All clergy listed in Active Status with the Church Pension Fund are provided with a Group Term Life Insurance Benefit equal to four times total annual compensation, up to \$100,000. Clergy and their spouses have the ability to purchase additional insurance coverage from the Church Life Insurance Corporation and the Pennsylvania Widows Corporation. Please contact the diocesan office for additional information. Supplemental Life Insurance may be included as an additional negotiated benefit in Clergy or Lay Employee Letters of Agreement. Congregations and other employers within the diocese are *encouraged* to provide life insurance benefits for full-time lay employees.

## **ADVOCACY FOR CLERGY AND LAY EMPLOYEES DURING COMPENSATION/BENEFIT NEGOTIATIONS**

At the time of determining the annual budget in congregations, clergy and lay employees often find it difficult to negotiate for an adjustment in compensation and benefits. Negotiation is not a skill that everyone possesses. In response to this reality, the Compensation Committee proposes that clergy and lay employees may ask an advocate to represent his or her needs and desires to the vestry or budget committee. This section of the Guidelines proposes a method for finding and making use of an advocate.

1. Let the vestry or budget committee know well in advance that you will be asking someone to represent you at the budget meeting.

2. When deciding on an advocate, choose someone who cares about you within the parish community, but not the Treasurer (the Treasurer would be put in an untenable position as your advocate). The advocate does not have to be a member of the parish, but needs to be someone with credibility in the community. The advocate should have an understanding of the covenant between the cleric or lay employee and the parish and also have a sense of advocacy as a ministry that may serve both the cleric or lay employee and the parish. Write or call this person and outline what you are asking him or her to do. For example, you would like an advocate:
  - a) To represent you and your needs to the vestry or budget committee.
  - b) To discuss with you what your hopes are for the next year regarding your package.
  - c) To meet with you one or two times before the budget meeting.
  - d) To be an advocate for one or two years.
3. Meet with the person you've chosen to be your advocate at least one week before the budget committee meets.
  - a) Give the person a sense of the role of an advocate. That an advocate should
    - have a sense of this ministry as a way of caring for the parish cleric who comes to the parish as servant;
    - understand that vestry and cleric have entered into a mutual covenant of care giving. As the cleric cares for the people, the people must care for the cleric. This is important for the parish as well as for the cleric; and
    - speak for the cleric when he or she may not be in a position to speak for him or herself.
  - b) Use the Diocesan or recommended Lay Professional Compensation Guidelines as focus for the meeting and go through them carefully.
  - c) Note all the categories of the covenant between the cleric or lay employee and the vestry.
  - d) Note that it is reasonable for the parish to support these categories.
  - e) When you come to the financial section, note that the recommended amounts are minimums, not maximums.
  - f) Ask if the advocate can accept the principles of the categories.
  - g) Have an annual meeting with the advocate to review your needs and expectations.
  - h) Assure the person that you are depending on him or her to represent your needs.
  - i) Don't be afraid to articulate your needs.

## **LETTERS OF AGREEMENT**

For Clergy it is *required* that prior to beginning a compensated ministry within the Diocese of Pittsburgh, a **Letter of Agreement**, specifying Terms of Call and Compensation, has been signed by the Clergy Person, the Senior Warden or other officer of the Parish or employing Organization, and the Bishop. An original, signed copy of the Letter of Agreement is to be maintained in the files of the Diocesan Office. Terms of compensation within the Letter of Agreement are to be reviewed annually, and the entire Letter of Agreement should be reviewed and updated periodically.

It is strongly recommended that similar, periodically updated Letters of Agreement be for all Lay Employees as well.

## **DEFINITION OF ADDITIONAL TERMS**

Associate	Settled Clergy on staff with delegated responsibilities under the supervision of a primary clergy person.
Primary	Settled Clergy on staff entrusted with supervisory responsibility over all aspects of parish life according to canon.
Complex Program	A parish with multiple daily demands on clergy including several week-day services, board meetings and multiple staff (clergy & lay) to administer a consistent, growing number of programs.
Smaller Parish	A parish (typically under 50 ASA) with one primary clergy person and rarely additional paid staff (clergy & lay) to administer a consistent, limited number of programs.
Cluster	A group of smaller parishes, missions, and/or lay-led parishes sharing one or more clergy person and (rarely) additional paid staff to administer a few programs.
Mission	A smaller gathering of Christians under the supervision of the bishop, the assistance of an appointed primary clergy person and lay leadership with the intent of forming an established parish.
Lay-Led Parish	An established smaller parish depending predominantly on lay leadership for the daily functioning of the parish.

## **CLERGY AND CONGREGATIONS: SITUATIONS OF MINISTRY AND DEPLOYMENT**

### **PARISH “TYPE” DESCRIPTIONS**

The descriptions of each congregational situation, and particularly of the clergy responsibility level, are provided to help the congregation assess their level of functioning and ministry development. The “types” are determined by a mix of factors, including size of active congregation, available financial resources, and style of ministry.

**TYPE 1 – May include lay-led parishes, diocesan church plants or “restart” congregations, and missions utilizing full-time clergy, part-time clergy, shared clergy, supply clergy, or deacons**

**TYPE 2 – Smaller parishes with settled full or part-time clergy and lay volunteers filling most other staff roles**

**TYPE 3 – Mid-sized parishes with settled full-time clergy and a mix of paid and volunteer staff**

**TYPE 4 – Larger parishes with complex programming and some paid lay and clergy staffing**

**TYPE 5 – Larger parishes with complex programming**

## **CLERGY MINISTRY DEPLOYMENT DEFINITIONS**

### **CLERGY DEPLOYED IN FULL-TIME MINISTRY SITUATIONS**

Full-Time clergy may either hold canonically elected and tenured positions (Rectors) or be non-tenured Priests-in-Charge. Appendix B of the Compensation Guide relates the five patterns or “types” of deployment situations with minimum and recommended Total Compensation guidelines for full-time ministry in these situations. The location of a ministry situation within these guidelines is somewhat flexible and takes into account a number of factors including the size of the active congregation, available resources (both human and financial), and the scope and complexity of the ministry and parish programs. Parishes and settled full-time and part-time clergy are to have a signed Letter of Agreement that is regularly updated. Clergy serving in a shared situation shall be paid as full-time if their time commitment total among all participating parishes is 100% or 48 hours per week.

### **FULL TIME CALCULATION, DAYS OFF, AND VACATION**

For the purposes of this Guide, a **work week for full-time clergy** will average approximately 48 hours.

Full-time clergy are expected to have at least one continuous 24-hour period each week reserved for personal and family use. Full-time clergy shall have a minimum of one full month of paid vacation time per year, to include at least four Sundays. Arrangements for designated days-off and paid vacation time for Settled Part-Time Clergy are to be negotiated and included in the Letter of Agreement.

### **CLERGY DEPLOYED IN PART-TIME MINISTRY SITUATIONS**

#### **Time Commitment Calculations for Part-Time Clergy Appointments:**

1/4 Time	Sermon Preparation, Sunday Service, plus equivalent of 7-8 hours/week pastoral care/groups/meetings/other services
1/2 Time	Sermon Preparation, Sunday Service, plus equivalent of 18-20 hours/week pastoral care/groups/meetings/other services
3/4 Time	Sermon Preparation, Sunday Service, plus equivalent of 28-30 hours/week pastoral care/groups/meetings/other services

## **CLERGY ASSISTANTS (FULL- AND PART-TIME)**

Parishes with a full-time Rector or Priest-in-Charge may also be served by additional stipendiary clergy on a full- or part-time basis. Minimum Compensation for Full-Time Assistant Clergy shall conform to the minimum stipend levels established for Full-Time Clergy in Type I Parishes in Appendix B and shall include mandatory health and pension benefits. Part-Time Clergy Assistants shall receive a Letter of Agreement defining their duties and specifying the “percentage of full time” of the ministry appointment.

Minimum compensation for Part-Time Assistant Clergy shall be calculated on a percentage basis using the Minimum Full Time Compensation standard for each Parish Type. If the percentage assignment meets qualifying hours, such clergy shall also be accorded health and pension benefits.

## **SUPPLY CLERGY**

Supply Clergy provide liturgical leadership on occasional instances – as when parish clergy may be away on vacation or study leave – or during short-term intervals when there is a vacancy in a parish. Supply Clergy provide liturgical leadership and preaching at Sunday or designated weekday services only, and are not expected to attend to additional or on-going pastoral or administrative duties. If a Supply position is expected to extend beyond a single three-month period or to involve duties beyond liturgical leadership and preaching, the position should be redefined as Settled Part-Time.

## **APPENDIX A**

### **REGISTER OF PARISH TYPES AND MINISTRY SITUATIONS**

*The location of a parish situation within these guidelines may be somewhat intuitive, taking into account a number of factors including the size of the active congregation, available resources (both human and financial), and the scope and complexity of the ministry and parish programs.*

#### **Type 1**

Blairsville, St. Peter's  
Brackenridge, St. Barnabas  
Bridgeville, All Saints  
Brighton Heights, All Saints  
Carnegie, Atonement  
Donora, St. John's  
Greensburg, Christ Church  
Hazelwood, Good Shepherd  
Homestead, St. Matthew's  
Jeannette, Advent  
Monongahela, St. Paul's  
North Versailles, All Souls  
Northern Cambria, St. Thomas  
Penn Hills, St. James  
Scottdale, St. Bartholomew's  
Wayne Township, St. Michael's

#### **Type 2**

Brentwood, St. Peter's  
Canonsburg, St. Thomas  
Homewood, Holy Cross  
Indiana, Christ Church  
Johnstown, St. Mark's  
Kittanning, St. Paul's  
McKeesport, St. Stephens  
North Side, Emmanuel  
Peters Township, St. David's  
Somerset, St. Francis  
Squirrel Hill, Redeemer  
Wilkinsburg, St. Stephen's

#### **Type 3**

Crafton, Nativity  
Franklin Park, St. Brendan's  
Highland Park, St. Andrew's  
Ligonier, St. Michael's  
Oakmont, St. Thomas  
Pittsburgh, Trinity Cathedral

#### **Type 4**

North Hills, Christ Church

#### **Type 5**

East Liberty, Calvary  
Mt. Lebanon, St. Paul's

## **APPENDIX B** **CLERGY COMPENSATION** **MINIMUM AND RECOMMENDED GUIDELINES**

### **Clergy in Settled Appointments, Full Time**

Guideline figures include **ONLY**: Cash Stipend and Allowances designated for Housing, Utilities, Housing Equity, and Self-Employment Tax. If Housing and Utilities are supplied by the parish, the Guideline figures may be reduced by 25%. (Figures are for Compensation as defined in the Rules of the Church Pension Fund and do not include allowances for Travel, Professional Expenses, Benevolence and Discretionary Funds, and Continuing Education or Sabbatical allowances.)

Guideline figures ranging above the Minimum/Initial figures at each level represent a standard of normal compensation for full-time clergy with good performance. When resources are available and in accordance with advancing tenure and performance clergy are appropriately compensated above the indicated Guideline figures at each level. Compensation for clergy in parishes shall not fall below the Minimum/Initial range for the designated Parish Type (see Appendix A) and the Minimum “Type 1” figure shall be an **Absolute Minimum for all full-time clergy**, including those who are Assistants, Associates, or who have positions in other diocesan institutions or ministries.

### **ABSOLUTE MINIMUM COMPENSATION, BY PARISH TYPE (See pg. 11)**

PARISH TYPE	FULL TIME PRIMARY	FULL-TIME ASSOCIATE	OCCASIONAL SUPPLY
TYPE 1	\$48,000	N/A	\$125 for one Sunday service; \$25 increments for each additional Sunday service; \$50 for a Mid-Week service
TYPE 2	\$51,125	\$51,125	\$125 for one Sunday service; \$25 increments for each additional Sunday service; \$50 for a Mid-Week service
TYPE 3	\$59,575	\$51,125	\$125 for one Sunday service; \$25 increments for each additional Sunday service; \$50 for a Mid-Week service
TYPE 4	\$68,700	\$51,125	\$125 for one Sunday service; \$25 increments for each additional Sunday service; \$50 for a Mid-Week service
TYPE 5	\$94,700	\$51,125	\$125 for one Sunday service; \$25 increments for each additional Sunday service; \$50 for a Mid-Week service

**RECOGNITION OF EXPERIENCE:  
MINIMUM AND TARGET RANGES, BY PARISH TYPE**

It is appropriate to recognize experience of clergy by **increasing the minimum for clergy serving in each “Parish Type”** by a percentage figure depending on the amount of additional clergy experience.

Guideline figures for each experience level in the Table below show **two** Compensation figures: a lower, **minimum** figure and a somewhat larger figure representing a **target**, generally based on experience in the diocese, for normal compensation for Full-Time Clergy with good performance.

When resources are available and in accordance with advancing tenure and performance clergy are appropriately compensated above the indicated target figures at each level.

	0-4 Years (Absolute Minimum)	5-9 Years	10-14 Years	15-19 Years	20+ Years
Type 1 Minimum Target	\$48,000	\$49,425	\$50,850	\$52,400	\$53,975
Type 2 Minimum Target	\$51,125	\$52,650	\$54,200	\$55,725	\$57,250
Type 3 Minimum Target	\$59,975	\$61,350	\$61,600	\$63,350	\$65,075
Type 4 Minimum Target	\$68,700	\$70,750	\$72,800	\$74,875	\$76,925
Type 5 Minimum Target	\$94,700	\$97,500	\$100,350	\$103,200	\$106,025
		\$106,925	\$121,025	\$151,250	\$155,775

## **Clergy in Settled Appointments, Part-Time**

Clergy serving congregations by diocesan appointment as “clergy-in-charge,” with pastoral and administrative duties, and other clergy serving parishes or other diocesan institutions as Parish Assistants in **long-term, part-time positions** shall have a Letter of Agreement defining the position as a percentage of full-time (e.g., 25%, 50%, 75%), and with a narrative description outlining the extent of ministerial responsibilities. See Table on Page 12 for specific guidance. Minimum Compensation in these positions will apply the percentage of full-time service to the figure for the diocesan Absolute Minimum for the Parish Type. (Thus, e.g., a long-term 25% position in a “Type 2” Parish would have a Minimum Compensation of \$12,781 ( $51,125 \times .25$ ) in 2015.

## **Clergy in Supply Appointments, Single-Event or Short-Term**

Clergy **Minimum Supply Compensation Rates** are intended to apply to occasional instances – as when parish clergy may be away on vacation or study leave – or short-term intervals when there is a vacancy in a parish. “Supply Rates” are intended to apply to liturgical leadership and preaching at Sunday or designated Weekday services only, and do not include additional ongoing pastoral or administrative duties. If a Supply position is expected to extend beyond a single three-month period or to involve duties beyond liturgical leadership and preaching, the position should be redefined as Part-Time, with Compensation Guidelines as indicated above.

1. One Sunday Service, with Sermon – \$125
2. Two Sunday Services, with Sermon – \$150  
*An additional \$50 is to be paid for each additional service on the same weekend.*
3. Midweek Service, with Informal Homily – \$ 50

Supply Clergy are to be reimbursed for round-trip travel costs from their home to the Church at the current IRS reimbursable mileage rate.

## **APPENDIX C**

### **2014 PENSION BENEFITS POLICY**

### **CLERGY AND LAY EMPLOYEES**

#### **Clergy Pensions**

In all cases parishes and other employers under the authority of the Episcopal Church shall comply with the canons of the Episcopal Church and of the Episcopal Diocese of Pittsburgh by enrolling all eligible Clergy in the Clergy Pension Plan of the Church Pension Fund of the Episcopal Church and by paying all Pension Fund assessments in a timely manner. Treasurers and other Administrators are encouraged to consult with the Director of Administration to assure compliance.

#### **Lay Employee Pensions**

As of January 1, 2013, parishes and other employers under the authority of the canons of the Episcopal Church and of the Episcopal Diocese of Pittsburgh shall enroll all Lay Employees scheduled to work 1,000 hours per year or more in the Lay Employee Pension Plan of the Church Pension Fund of the Episcopal Church and shall pay all Pension Fund assessments in a timely manner.

While it is not canonically mandatory, parishes and other employers are encouraged to provide Lay Employee Pension Benefits as well to those Lay Employees scheduled to work fewer than 1,000 hours per year. Treasurers and other Administrators are encouraged to consult with the Director of Administration to assure compliance.

Note: Participation in the Lay Employee Pension Plan of the Church Pension Fund was mandated by the 76th General Convention of the Episcopal Church in 2009, Resolution A138, amending Canon I.8. The Plan includes two programs – one “Defined Benefit” and the other “Defined Contribution.” Each employing parish or organization determines which one of these two programs to provide for all its employees. The Defined Benefit program requires an Employer Contribution of 9% of the employee’s compensation. The Defined Contribution program requires a base Employer Contribution of 5% of the Employee’s compensation. Employees are able to contribute to their account as well in the Defined Contribution program, and the employer is required to match the employee’s contribution up to an additional 4% of the employee’s compensation. If the employee contributes 4% or more of total compensation to the Pension account, the maximum mandatory Employer contribution is 9%. Experience to date indicates that most Employers and Employees prefer the Defined Contribution program.

## **APPENDIX D**

### **2015 POLICIES RELATED TO PARTICIPATION IN THE DENOMINATIONAL HEALTH PLAN OF THE EPISCOPAL CHURCH CLERGY AND LAY EMPLOYEES**

Participation in the Denominational Health Plan of the Episcopal Church provided by the Medical Trust of the Church Pension Fund of the Episcopal Church was mandated by the 76th General Convention of the Episcopal Church in 2009, Resolution A177, amending Canon I.8. The effective date of the canonical mandate for participation in the Denominational Health Plan is January 1, 2013.

As of January 1, 2013, all parishes, dioceses, and other organizations and institutions subject to the authority of the Constitution and Canons of the Episcopal Church and of the Episcopal Diocese of Pittsburgh are required to offer medical benefits on an equal basis to all Clergy and Lay Employees scheduled to work 1,500 hours per year or more through the Denominational Health Plan, and may not contract to offer such benefits through other providers.

While it is not canonically mandatory, parishes and other organizations under the authority of the Episcopal Diocese of Pittsburgh are encouraged to provide Clergy and Lay Employee Health Plan Benefits as well to those Clergy and Lay Employees scheduled to work fewer than 1,500 hours per year but at least 1,000 hours per year.

Each year the Diocesan Administrator, with the advice of the Committee on Compensation, appointed by the President of Diocesan Council, will select from the Denomination Health Plan offerings one or more programs offered within the DHP. Each eligible participant, clergy or lay, may select during the Open Enrollment period from that diocesan “menu” the program he or she prefers. The parish or other employing organization or institution receives and pays the Insurance Premium invoice.

Individual Clergy and Lay Employees scheduled to work 1,500 hours per year or more (but not parishes or other organizations) may choose to “opt out” of participation in the Denominational Health Plan if they are currently receiving similar medical benefits through dependent coverage in a parent or spouse’s plan or through another employer or retirement benefit (e.g., Tricare). Each “opt out” must be approved annually by the Diocesan Administrator. Employing parishes or other organizations may provide a financial “premium offset” when eligible Clergy or Lay Employees choose to decline the DHP benefit because they are otherwise covered.

***Insurance Premium Mandatory Minimum Benefit:*** As a matter of diocesan Minimum Standard, all Clergy and Lay Employees scheduled to work 1,500 hours per year or more shall be provided by the parish or other employing organization **full premium coverage for individual benefits, single coverage, without required Employee Contribution**, at the level of the least-expensive non-Medicare option provided in the approved diocesan menu, in one of the programs designated by the diocese and selected from that menu by the Clergy Person or Lay Employee.

All Clergy and Lay Employees scheduled to work 1,500 hours per year or more shall be provided access to the Denominational Health Plan programs designated in the diocesan “menu” for the additional coverage of any eligible dependents. Diocesan Council has determined that eligible clergy and lay employees who have partners in same-sex relationships, and the dependent children of that couple or of either member of that couple, shall be eligible for dependent benefits in the diocesan offering of the Denominational Health Plan on the same basis as the spouses and dependent children of eligible married clergy and lay employees. Each parish or other employing organization may elect to provide full premium coverage for all eligible dependents, or it may negotiate with Clergy and Lay Employees a cost-sharing arrangement for the additional premium to cover eligible dependents as a part of the larger compensation agreement.

***Insurance Premium Recommended Benefit:*** Parishes and other employing organizations **are encouraged to provide full coverage** of Denominational Health Plan benefits for all eligible Clergy and Lay Employees and for their eligible dependents. In those cases where the parish or other institution has provided full individual and dependent Medical Benefit coverage to Clergy and/or Lay Employees prior to January 1, 2013, no reduction in benefit coverage or additional contribution to premium cost may be instituted without the written permission of the Bishop.

**APPENDIX E**  
**SUGGESTED INSERT FOR MINUTES OF VESTRY**  
**FOR DESIGNATION OF CLERGY HOUSING ALLOWANCE**

The Vestry has received a statement from the Rev. \_\_\_\_\_ detailing the amounts that (he) (she) expects to spend in 20\_\_\_\_ to provide a home for (himself) (herself) and (family).

A copy of this statement is attached to and forms a part of the original minutes of this meeting.

After consideration, on motion duly made and seconded, the following resolution was adopted:

**BE IT RESOLVED** that the Rev. \_\_\_\_\_'s compensation for the year 20\_\_\_\_ be set at \$\_\_\_\_\_, of which \$\_\_\_\_\_ is designated as an allowance for the expenses of providing a home, based upon the attached statement of the Rev. \_\_\_\_\_'s estimated housing expenses for the year 20\_\_\_\_\_.

(If the clergy person is provided with the rent-free use of a house, the following should be added.)

The Rev. \_\_\_\_\_ shall also be provided with the rent-free use of the house located at \_\_\_\_\_ for the year 20\_\_\_\_ in consideration of (his) (her) services as \_\_\_\_\_ of \_\_\_\_\_ Church, \_\_\_\_\_, Pennsylvania.

(The clergy person should retain a copy of the minutes containing this notice with his or her IRS records.)

## **APPENDIX F** **SUGGESTED FORMAT FOR** **DOCUMENTATION OF CLERGY HOUSING ALLOWANCE**

TO: \_\_\_\_\_  
(Vestry)

\_\_\_\_\_  
(Name of church)

\_\_\_\_\_  
(Address of church)

FROM: \_\_\_\_\_  
(Clergy person)

SUBJECT: Housing Allowance for 20\_\_\_\_\_

---

The following amounts are estimates of the costs I expect to pay during 20\_\_\_\_\_ to provide a home for myself (and family):

(1)	House	\$ _____
<i>The lowest of mortgage, fair rental value, or rent on leased premises</i>		
(2)	Utilities	\$ _____
(3)	Taxes	\$ _____
(4)	Insurance	\$ _____
(5)	Repairs and maintenance	\$ _____
(6)	Furnishings	\$ _____
(7)	Other housing expenses:	
	_____	\$ _____
	_____	\$ _____
	<b>TOTAL</b>	\$ _____

Clergy Person's Signature: \_\_\_\_\_

Date: \_\_\_\_\_

# **APPENDIX G**

## **MILEAGE & TRANSPORTATION REPORT**

Name: \_\_\_\_\_

Number of miles \_\_\_\_\_ X current IRS Rate = \$\_\_\_\_\_

Total amount of other expenses \$ \_\_\_\_\_

**Total mileage and transportation expenses** \$ \_\_\_\_\_

**Communication to Those Charged with Governance**

Diocesan Council and Board of Trustees  
The Episcopal Diocese of Pittsburgh

We have audited the financial statements of The Episcopal Diocese of Pittsburgh (Diocese) for the year ended December 31, 2013, and have issued our report thereon dated September 3, 2014. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our conversations with the Board of Trustees President, Audit Committee Chair and Finance Committee Chair about planning matters on January 23, 2014. Professional standards also require that we communicate to you the following information related to our audit.

**Our Responsibility under Auditing Standards Generally Accepted in the United States of America**

As stated in our engagement letter dated February 27, 2014, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

In addition, our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the Diocese. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

**Significant Audit Policies**

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Diocese are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2013. We noted no transactions entered into by the Diocese during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

**Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

The Diocese is a beneficiary of ten irrevocable charitable remainder trusts. The estimation of the fair value of the Diocese's interest in these trusts is subjective and requires significant judgment.

Management's valuation of investments is based on the investment's fair value. The Diocese's investments are exposed to various risks, such as interest rate, market, and credit risk. Due to the level of risk associated with investments and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that significant changes in risks in the near-term may materially affect the amounts reported in the financial statements. We evaluated the key factors and assumptions used to develop the valuation of investments in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimates of the allowance for uncollectable assessments and allowance for loan loss are based on past history with the related organizations and the Diocese's expectations of future payments. The allowance estimates are reviewed and approved by management of the Diocese. We evaluated the key factors and assumptions used to develop the allowances for uncollectable assessments and loan receivable in determining that they are reasonable in relation to the financial statements taken as a whole.

The Diocese and various parishes have pooled their investments in order to obtain a better rate of return on the investments. The Diocese calculates a net asset value and per share price for the pooled investments and allocates on a per share basis the income, realized and unrealized gains and losses to the individual accounts held by the Diocese and the various parishes.

#### Disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- The Diocese's investments and their valuation in Note 5;
- The Diocese's guarantee of parish loans and their commitment to make a parish's loan payments in Note 9;
- The Diocese's assumed payments for a guaranteed mortgage in Note 10; and
- The Diocese's legal matters in Note 17.

The financial statement disclosures are neutral, consistent, and clear.

#### Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Our audit did not result in the identification of any material adjustments or any significant waived adjustments.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 3, 2014.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Diocese's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Diocese's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We have also performed agreed upon procedures with respect to the reasonableness of Pool 1 investment allocations and issued our report thereon dated September 3, 2014.

Matters involving internal control and other operational matters are communicated in our management letter dated September 3, 2014.

\* \* \* \* \*

This information is intended solely for the use of the Diocesan Council, Board of Trustees, and management of the Diocese and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*Maher Duessel*

Pittsburgh, Pennsylvania  
September 3, 2014

# **The Episcopal Diocese of Pittsburgh**

## Financial Statements

Years Ended December 31, 2013 and 2012  
with Independent Auditor's Report

**MaherDuessel**  
Certified Public Accountants

Pittsburgh | Harrisburg | Butler

Pursuing the profession while promoting the public good®  
[www.md-cpas.com](http://www.md-cpas.com)

# **THE EPISCOPAL DIOCESE OF PITTSBURGH**

YEARS ENDED DECEMBER 31, 2013 AND 2012

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#### **Financial Statements:**

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### Independent Auditor's Report

Diocesan Council and Board of Trustees  
The Episcopal Diocese of Pittsburgh

We have audited the accompanying financial statements of The Episcopal Diocese of Pittsburgh (Diocese), which comprise the statements of financial position as of December 31, 2013 and 2012, 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 the Diocese as of December 31, 2013 and 2012, 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.

*Maher Düssel*

Pittsburgh, Pennsylvania  
September 3, 2014

# THE EPISCOPAL DIOCESE OF PITTSBURGH

## STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2013 AND 2012

	2013	2012
<b>Assets</b>		
Cash and cash equivalents	\$ 517,022	\$ 356,905
Investments at fair value	24,606,679	21,796,930
Assessments receivable:		
Parishes	3,628,389	3,094,113
Less allowance for doubtful accounts	<u>(3,608,883)</u>	<u>(2,994,249)</u>
Total assessments receivable, net	<u>19,506</u>	<u>99,864</u>
Loans receivable:		
Parishes and missions - growth fund	1,218,023	1,120,319
Bishop's residence fund	27,000	12,000
Less allowance for loan losses	<u>(540,782)</u>	<u>(543,663)</u>
Total loans receivable, net	<u>704,241</u>	<u>588,656</u>
Note receivable	543,907	578,686
Fixed assets (net of accumulated depreciation)	1,717,879	1,804,858
Property held for sale	85,031	960,031
Trusts held by others at fair value	4,007,894	3,367,918
Accrued interest receivable	58,091	76,456
Prepaid expenses	<u>3,728</u>	<u>22,983</u>
<b>Total Assets</b>	<u>\$ 32,263,978</u>	<u>\$ 29,653,287</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 208,397	\$ 116,135
Mortgage payable	919,375	952,631
Funds held for others	<u>2,975,096</u>	<u>2,711,977</u>
Total Liabilities	<u>4,102,868</u>	<u>3,780,743</u>
Net Assets:		
Unrestricted:		
Undesignated	3,863,294	2,642,312
Board-designated	<u>10,865,331</u>	<u>11,264,048</u>
Total unrestricted	<u>14,728,625</u>	<u>13,906,360</u>
Temporarily restricted	684,497	531,681
Permanently restricted	<u>12,747,988</u>	<u>11,434,503</u>
Total Net Assets	<u>28,161,110</u>	<u>25,872,544</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 32,263,978</u>	<u>\$ 29,653,287</u>

See accompanying notes to financial statements.

# THE EPISCOPAL DIOCESE OF PITTSBURGH

## STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
<b>Unrestricted Revenues and Expenses:</b>		
Operating revenues and other support:		
Parish assessments	\$ 565,189	\$ 565,885
Investment returns designated for current operations	680,128	864,284
Contributions and grants	<u>122,353</u>	<u>107,632</u>
Total operating revenues and other support	<u>1,367,670</u>	<u>1,537,801</u>
Operating expenses:		
Office of Administration	386,627	434,802
Legal expense	37,252	123,030
Office of the Bishop	241,192	279,336
Reopened parish, property, and other expenses	326,306	416,816
Beyond the Diocese	153,635	158,521
Transformational networks	108,635	129,494
Congregational mission	90,187	85,862
Real property third party consulting expenses	<u>3,400</u>	<u>47,936</u>
Total operating expenses	<u>1,347,234</u>	<u>1,675,797</u>
Net gain (loss) from operations	20,436	(137,996)
Other revenues (expenses):		
Transfer in of parish property	-	875,000
Spending policy transfers	177,035	141,818
Released from restriction	84,803	7,854
Other revenues	42,693	69,495
Grants and contributions to others	(320,812)	(610,456)
Investment (loss) income	836,827	102,975
Loss on assumption of mortgage	-	(1,005,781)
Gain (loss) on sale of property	65,380	64,283
Bad debt recovery	2,882	-
Depreciation	<u>(86,979)</u>	<u>(88,150)</u>
Total other revenues (expenses)	<u>801,829</u>	<u>(442,962)</u>
<b>Change in Unrestricted Net Assets</b>	<u>822,265</u>	<u>(580,958)</u>
<b>Temporarily Restricted Net Assets:</b>		
Contributions and grants	78,497	-
Investment (loss) income	126,422	53,635
Spending policy transfers	32,700	-
Released from restriction	<u>(84,803)</u>	<u>(7,854)</u>
<b>Change in Temporarily Restricted Net Assets</b>	<u>152,816</u>	<u>45,781</u>
<b>Permanently Restricted Net Assets:</b>		
Spending policy transfers	(209,735)	(141,818)
Investment (loss) income	<u>1,523,220</u>	<u>666,491</u>
<b>Change in Permanently Restricted Net Assets</b>	<u>1,313,485</u>	<u>524,673</u>
<b>Total Change in Net Assets</b>	2,288,566	(10,504)
<b>Net Assets:</b>		
Beginning of year	25,872,544	25,883,048
End of year	<u>\$ 28,161,110</u>	<u>25,872,544</u>

See accompanying notes to financial statements.

# THE EPISCOPAL DIOCESE OF PITTSBURGH

## STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
<b>Cash Flows From Operating Activities:</b>		
Change in net assets	\$ 2,288,566	\$ (10,504)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Transfer in of parish property	-	(875,000)
Parish mortgage assumed by Diocese	-	1,005,781
Gain on sale of asset held for sale	(64,570)	-
Realized (gains) loss on investments	(2,952,792)	(963,643)
Allowance for uncollectible assessments	614,634	722,731
Allowance for loan loss	(2,881)	(57,917)
Depreciation expense	86,979	88,150
Change in operating assets and liabilities:		
Assessment receivables	(534,276)	(806,430)
Prepaid expense	19,255	(17,686)
Accrued interest receivable	18,365	15,976
Accounts payable and accrued expenses	<u>92,262</u>	<u>(22,344)</u>
Net cash provided by (used in) operating activities	<u>(434,458)</u>	<u>(920,886)</u>
<b>Cash Flows From Investing Activities:</b>		
Net proceeds from sale of investments	143,043	886,450
Change in trusts held by others	(639,976)	(311,856)
Increase in Growth Fund loans receivable	(97,704)	(155,051)
Payments received on Bishop's Fund loan receivable	-	109,630
Issuance of Bishop's Fund loan receivable	(15,000)	(12,000)
Payments received on note receivable	34,779	33,701
Sale of asset held for sale	<u>939,570</u>	<u>-</u>
Net cash provided by (used in) investing activities	<u>364,712</u>	<u>550,874</u>
<b>Cash Flows From Financing Activities:</b>		
Change in funds held for others	263,119	66,843
Payments on mortgage	<u>(33,256)</u>	<u>(53,150)</u>
Net cash provided by (used in) financing activities	<u>229,863</u>	<u>13,693</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<u>160,117</u>	<u>(356,319)</u>
<b>Cash and Cash Equivalents:</b>		
Beginning of year	<u>356,905</u>	<u>713,224</u>
End of year	<u>\$ 517,022</u>	<u>\$ 356,905</u>
<b>Schedule of Non-Cash Activities:</b>		
Mortgage payable assumed by Diocese	<u>\$ -</u>	<u>\$ 1,005,781</u>
Property held for sale - parish transfer	<u>\$ -</u>	<u>\$ 875,000</u>

See accompanying notes to financial statements.

# THE EPISCOPAL DIOCESE OF PITTSBURGH

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2013 AND 2012

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### **1. NATURE OF OPERATIONS**

The Episcopal Diocese of Pittsburgh (Diocese) is a nonprofit diocese of the Episcopal Church in the United States of America in support of member parishes located in Southwestern Pennsylvania and faith communities. The Diocese, through its parishes, provides worship services for its members. In addition, the Diocese provides various social services to the community. The Diocese is supported primarily through assessments from its parish congregations and through investment income.

Parish churches and the capital assets of affiliated institutions are not included in the Diocese financial statements, with the exception of when a parish closes. At that time the parish property is recorded on the books of the Diocese. Land, buildings, and equipment, including property recorded by the Diocese from closed parishes are recorded at cost or appraised value at the date of donation or return to the Diocese (for closed parishes). Fixed assets include the Allegheny Township property, the Donegal property, and the Avalon property, equipment, leasehold improvements, and furniture. Closed parishes that the Diocese intends to sell are recorded as property held for sale.

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### Reporting Entity

The financial statements of the Diocese reflect the combination of Operating and Program Funds, Trust and Endowment Funds, and the Plant Fund.

The Operating and Program Funds finance the operations of the Diocese and include the General Budget and Budget Reserve Funds, Bishop's Residence Fund, Diocesan Growth Fund, Designated Funds, Reserve Funds, and Undesignated Funds.

Trust and Endowment Funds represent accumulated gifts, bequests, and donations that are invested in income-producing securities. These funds have varying degrees of restriction on income and/or principal usage and types of investment options available. The Board of Trustees (Board) must consider these factors in the administration of the affairs of the Diocese.

#### Method of Accounting

The financial statements of the Diocese are presented on the accrual basis of accounting and are prepared in conformity with accounting principles generally accepted in the United States

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# THE EPISCOPAL DIOCESE OF PITTSBURGH

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2013 AND 2012

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of America (GAAP) as promulgated by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC).

### Basis of Presentation

In accordance with accounting principles generally accepted in the United States of America, the accompanying financial statements are prepared using the accrual basis of accounting and include the assets, liabilities, net assets, and financial operations of the activities of the Diocese. Accordingly, revenues are recorded when earned and expenses are recognized when the liabilities are incurred. The financial operations of individual parishes and institutions distinct from the Diocese are not reflected in these financial statements.

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures 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.

### Basis of Net Assets

Contributions received, including unconditional promises to give, are recognized as increases in net assets in the period received at their fair values. The Diocese displays its activities and net assets into three classes as follows: unrestricted, temporarily restricted, and permanently restricted.

Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Unrestricted Net Assets – Net assets that are not subject to donor-imposed stipulations over which the Board has discretionary control.

Temporarily Restricted Net Assets – Net assets that are subject to donor-imposed stipulations that may or will be met either by actions of the Diocese and/or the passage of time. 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.

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# THE EPISCOPAL DIOCESE OF PITTSBURGH

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2013 AND 2012

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Permanently Restricted Net Assets – Net assets that are subject to donor-imposed stipulations that must be maintained permanently by the Diocese. Generally, the donors of these assets permit the use of all or part of the income earned and capital gains, if any, on related investments for general or specific purposes.

The statements of activities present changes in unrestricted net assets from operations separately from other changes in unrestricted net assets. Changes in net assets from operations include revenues and expenses for which the Diocese prepares its operating budget. The operating budget is prepared on a cash basis and does not include items such as grants paid directly from endowments or other restricted non-operating accounts, provisions for loan losses, investments income, depreciation, and releases from restrictions on net assets.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Expirations of temporary restrictions on net assets, that is, the donor-imposed stipulated purposes have been accomplished and/or the stipulated time period has elapsed, are reported as reclassifications between the applicable classes of net assets.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Contributions subject to donor-imposed stipulations that are met in the same reporting period are reported as unrestricted support. Contributions to give that are scheduled to be received after the financial position date are shown as increases in temporarily restricted net assets and are reclassified to unrestricted net assets when the purpose or time restrictions are met. Contributions to give subject to donor-imposed stipulations that the corpus be maintained permanently are recognized as increases in permanently restricted net assets. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year, if any, are discounted at the appropriate rate commensurate with the risks involved.

### Statements of Cash Flows

For purposes of the statements of cash flows, cash and cash equivalents include all highly liquid instruments with maturities of three months or less when purchased.

### Investments, Risks, and Uncertainties

Investments are carried at fair value and consist primarily of equity and fixed income securities. Gains and investment income are recognized in the period earned and are classified as unrestricted, temporarily restricted, or permanently restricted with respect to stipulations by the donor at the date of the donation.

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# THE EPISCOPAL DIOCESE OF PITTSBURGH

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Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and that such change could materially affect the amounts reported in the financial statements and the accompanying notes. The Diocese mitigates this risk by engaging a professional third-party investment manager of its investments, whose advice and activities are regularly monitored by the Finance Committee of the Board.

### Concentrations

Deposits maintained by the Diocese at institutions at any one time during the year could exceed FDIC limits; however, management does not believe that this represents a significant risk.

### Fixed Assets

Property and equipment are recorded at cost. The Diocese capitalizes all new assets with a value over \$5,000 and a useful life over three years. Land, buildings, and equipment transferred onto the books of the Diocese from closed parishes are recorded at appraised value at the date recorded.

Provision for depreciation is based on the estimated useful lives of the respective assets and is computed using the straight-line method.

The estimated useful lives are as follows:

Building	20 Years
Vehicles	5 Years

Repairs and maintenance that do not extend the lives of the applicable assets are charged to expense as incurred. Gains or losses resulting from retirement or other disposition of assets are included in the change in net assets.

### Property Held for Sale

The Diocese has recorded property from closed parishes that are being held for sale at net realizable value, which represents the estimated fair value of the properties less estimated costs to sell at \$85,031 and \$960,031 as of December 31, 2013 and 2012, respectively.

# THE EPISCOPAL DIOCESE OF PITTSBURGH

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### Donated Property and Equipment

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Absent donor stipulations regarding how long those donated assets must be maintained, the Diocese reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Diocese reclassifies temporarily restricted net assets to unrestricted net assets at that time.

### Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment when circumstances indicate the carrying value of an asset may not be recoverable. For assets that are to be held and used, impairment is recognized when the estimated undiscounted cash flows associated with the asset or group of assets is less than their carrying value. If impairment exists, an adjustment is made to write the asset down to its fair value, and a loss is recorded as the difference between the carrying value and fair value. Fair values are determined based on quoted market values, discounted cash flows, or internal and external appraisals, as applicable. Assets to be disposed of are carried at the lower of carrying value or estimated net realizable value. The Diocese did not recognize impairment of any of their long-lived assets in 2013 and 2012.

### Trusts Held by Others

The Diocese has been designated the beneficiary for certain income from funds held in trust, the assets of which are neither in the possession of, nor under the control of, the Diocese. The estimated portion of the fair value of the underlying assets of these trusts and the net realized and unrealized gain (loss) of funds held in trust by others are reported as permanently restricted net assets. Under the terms of these split-interest trust agreements, the Diocese receives periodic payments from the trusts.

### Income Taxes

The Diocese is exempt from federal income tax under the provisions of Section 501(a) of the Internal Revenue Code. In addition, the Diocese qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as a Diocese that is not a private foundation under Section 509(a)(2).

### Contingencies

Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Diocese, but which will only be resolved when one or more future events occur or fail to occur. Management of the Diocese and its legal counsel assess such

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contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to any legal proceedings that are pending against the Diocese or unasserted claims that may result in such proceedings, the Diocese's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed.

Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the guarantees would be disclosed.

### Fair Value Measurement

The Diocese has adopted the Fair Value Measurement topic of Accounting Standards Codification (ASC), including all applicable updates, which establish a framework for measuring fair value under accounting principles generally accepted in the United States of America and expanded disclosure about fair value measurement (see Note 5).

### Subsequent Events

Subsequent events have been evaluated through the Independent Auditor's Report date, which is the date the financial statements were available to be issued.

## **3. PARISH ASSESSMENTS AND LOAN LOSSES**

The provision for parish assessment and loan losses, which is charged to current operations, reflects the amount necessary, in management's judgement, to establish an adequate allowance to absorb possible losses on assessments and loans. Management's judgement is based on a continuing review of the parish assessments and loan portfolios, past collection experience, and current economic conditions. While management uses available information to recognize losses, future additions to the allowance may be necessary based on changes in economic conditions. No interest had been accrued on assessments or loans receivable balances as of December 31, 2013 and 2012.

# THE EPISCOPAL DIOCESE OF PITTSBURGH

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### 4. NOTE RECEIVABLE

In August 2011, the Diocese finalized a court-approved agreement with an unaffiliated congregation to sell a parish property in exchange for a promissory note. The sale was recognized in 2011 and the resulting note receivable held is due in 120 monthly installments of \$4,307 each, which includes interest at the rate of 3.0% per annum, followed by 60 installments of \$4,415 each, which includes interest at the rate of 4.0% per annum. The final payment is due in August 2026. The balance outstanding is \$543,907 and \$578,686 at December 31, 2013 and 2012, respectively.

### 5. INVESTMENTS

Investments consist of the following at December 31:

	2013	2012
Cash and cash equivalents	\$ 2,261,803	\$ 1,321,020
Certificates of deposit	288,375	294,388
Mutual funds, fixed income	1,138,212	3,033,594
Equity securities:		
Basic materials	1,822,486	775,222
Consumer goods	990,734	1,005,775
Energy	1,764,575	950,735
Financial	2,153,135	1,037,361
Healthcare	1,736,384	1,071,749
Industrial goods	1,441,757	811,763
Materials	1,235,280	588,002
Technology	2,222,844	1,452,118
Telecommunication services	117,838	76,895
Utilities	176,474	125,744
Other	122,820	437,661
Corporate debt securities	2,499,757	2,848,178
U.S. government obligations	3,226,542	4,552,670
Limited partnership	<u>1,407,663</u>	<u>1,414,055</u>
Total investments	<u>\$ 24,606,679</u>	<u>\$ 21,796,930</u>

# THE EPISCOPAL DIOCESE OF PITTSBURGH

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Investments were held in the following accounts at December 31:

	2013	2012
Morgan Stanley, Pool 1	\$ 22,986,525	\$ 20,070,992
Morgan Stanley, Pool 2	1,351,901	1,453,487
Ameriserv	209,211	210,988
Mellon Pooled Income Fund	47,255	49,201
Mellon Seed Account	<u>11,787</u>	<u>12,262</u>
	<u>\$ 24,606,679</u>	<u>\$ 21,796,930</u>

Investment income consists of the following for the years ended December 31:

	2013	2012
Interest and dividend income	\$ 405,234	\$ 723,742
Net realized and unrealized (losses) gains	<u>2,825,646</u>	<u>963,643</u>
Total	<u>\$ 3,230,880</u>	<u>\$ 1,687,385</u>

The Fair Value Measurements topic (topic) of the ASC establishes a fair value hierarchy that prioritizes the inputs used to determine fair value and requires the Diocese to classify assets and liabilities carried at fair value based on observability of these inputs. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of fair value hierarchy defined by the topic are:

Level 1: Quoted prices are available in active markets for identical assets or liabilities as of the reported date. Financial assets utilizing Level 1 inputs include active exchange-traded equity securities.

Level 2: Pricing inputs are other than the quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these assets and liabilities includes items for which quoted prices are available but traded less frequently and items that are fair-valued using other financial instruments, the parameters of which can be directly observed.

Level 3: Assets and liabilities that have little to no pricing observability as of reported date. These items do not have two-way markets and are measured using management's best estimate of fair value, where the inputs into the determination of fair value require

# THE EPISCOPAL DIOCESE OF PITTSBURGH

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significant management judgment or estimation. Level 3 inputs include all inputs that do not meet the requirements of Level 1 or Level 2.

### Determination of Fair Value

The Diocese measures fair value based upon market price, where available. For Level 3 items, the Diocese's valuation is determined in good faith by the General Partner of the custodian and information from the limited partnership as provided by the custodian and the limited partnership and by the market value of the underlying investments for interests in charitable remainder and perpetual trusts provided by the trustee as they have no significant observable inputs. For the limited partnership, fair value is based on the best information available and is determined by reference to information including, but not limited to, the following: projected sales, net earnings, earnings before interest, taxes, depreciation and amortization, balance sheets, public or private transactions, valuations for publicly-traded comparable companies, and/or other measures, and consideration of any other pertinent information including the types of securities held and restrictions on disposition. Quantitative unobservable inputs of Level 3 items are not developed by the Diocese for measuring fair value. Due to the absence of readily determinable fair values and the inherent uncertainty of valuations, the estimated fair values for private investments may differ significantly from values that would have been used had a ready market for the securities existed. For Level 2 items, fair value estimates include (1) the market approach, (2) the income approach, and (3) cost for a period of time after an acquisition. These valuation methodologies involve significant degree of judgment.

The following represents the fair value hierarchy of the Diocese's financial assets that were recognized at fair value on a recurring basis as of December 31, 2013:

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	Fair Value Measurements at Reporting Date Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Investments:				
Cash and cash equivalents	\$ 2,261,803	\$ -	\$ -	\$ 2,261,803
Certificates of deposit	288,375	-	-	288,375
Mutual funds, fixed income	1,138,212	-	-	1,138,212
Equity securities	13,784,327	-	-	13,784,327
Corporate debt securities	-	2,499,757	-	2,499,757
U.S. government obligations	-	3,226,542	-	3,226,542
Limited partnership	-	-	1,407,663	1,407,663
Total investments:	<u>\$ 17,472,717</u>	<u>\$ 5,726,299</u>	<u>\$ 1,407,663</u>	<u>\$ 24,606,679</u>
Trusts held by others:				
Beneficial interest in remainder trusts	\$ -	\$ -	\$ 597,535	\$ 597,535
Beneficial interest in perpetual trusts	-	-	3,410,359	3,410,359
Total trusts held by others:	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,007,894</u>	<u>\$ 4,007,894</u>

The following represents the fair value hierarchy of the Diocese's financial assets that were recognized at fair value on a recurring basis as of December 31, 2012:

	Fair Value Measurements at Reporting Date Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs Level 3	Total
Investments:				
Cash and cash equivalents	\$ 1,321,020	\$ -	\$ -	\$ 1,321,020
Certificates of deposit	294,388	-	-	294,388
Mutual funds, fixed income	3,033,594	-	-	3,033,594
Equity securities	8,333,025	-	-	8,333,025
Corporate debt securities	-	2,848,178	-	2,848,178
U.S. government obligations	-	4,552,670	-	4,552,670
Limited partnership	-	-	1,414,055	1,414,055
Total Investments	<u>\$ 12,982,027</u>	<u>\$ 7,400,848</u>	<u>\$ 1,414,055</u>	<u>\$ 21,796,930</u>
Trusts held by others:				
Beneficial interest in remainder trusts	\$ -	\$ -	\$ 500,943	\$ 500,943
Beneficial interest in perpetual trusts	-	-	2,866,975	2,866,975
Total Trusts held by others:	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,367,918</u>	<u>\$ 3,367,918</u>

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A reconciliation for years ended December 31 of fair value measures categorized as Level 3 follows:

	2013	2012
Fair value, beginning of year	\$ 4,781,973	\$ 3,965,895
Unrealized (loss) gain on limited partnership	(6,392)	504,222
Investment income from beneficial interest in remainder and perpetual trusts	203,728	99,927
Distributions from beneficial interest in remainder and perpetual trusts	(203,728)	(99,927)
Valuation (loss) gain, beneficial interest in remainder trusts	96,592	52,118
Valuation (loss) gain, beneficial interest in perpetual trusts	<u>543,384</u>	<u>259,738</u>
Balance, end of year	<u>\$ 5,415,557</u>	<u>\$ 4,781,973</u>

The valuation (loss) gain on the trusts held by others is included in the statements of activities.

The carrying amounts of cash and cash equivalents, which are included in investments, approximate fair value due to the short-term nature of these instruments.

Certificates of deposit, which are included in investments, are valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the credit-worthiness of the issuer.

Mutual funds and equity securities, which are included in investments, are valued at fair value, which are the amounts reported in the statements of financial position, based on quoted market prices for identical securities in active markets that the Diocese has the ability to access at the measurement date.

Corporate debt securities and U.S. government obligations, which are included in investments, are valued at fair value, which are the amounts reported in the statements of financial position, based on quoted market prices for similar securities in active markets that the Diocese has the ability to access at the measurement date.

The beneficial interest in the remainder trusts are valued at fair value, which is the amount reported in the statement of financial position, based on the Diocese's beneficial interest in the closing prices of the underlying assets of the trusts, with incorporation of the donor's life expectancy in the calculation used to discount the future benefit to present value.

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The beneficial interest in perpetual trusts are valued at fair value, which are the amounts reported in the statement of financial position, based on the Diocese's interest in the fair value of the assets held by the trusts.

The limited partnership is valued at net asset value based on the Diocese's ownership interest and audited financial statements of the partnership at year-end.

The limited partnership investment represents an interest in Emerging CTA Portfolio, L.P. investment fund, which is a commodity pool limited partnership formed under the laws of Delaware. The partnership does not engage directly in trading activities, but invests substantially all of its assets with various trading companies (trading companies), all of which are Delaware limited liability companies organized to invest and trade in futures interests. The trading companies will engage in the speculative trading of commodity contracts including, but not limited to, domestic and foreign commodity futures contracts, forward contracts, swap contracts, futures contracts, foreign exchange commitments, and options on physical commodities, whether traded on an organized exchange or otherwise. These contracts and commodities are collectively referred to as futures interests. The limited partnership investment also represents an interest in LIN Media LLC, which is a limited liability company that owns television stations and formed under the laws of Delaware.

Investments in the managed futures are speculative and involve a high degree of risk. Risks arise from changes in the value of these contracts and the potential inability of counterparties to perform under the terms of the contracts. There are numerous factors which may significantly influence the market value of these contracts, including interest rate volatility. These factors were considered by the Diocese prior to making this investment and it was determined that the investment would be beneficial to leverage risk in the other areas of the investment portfolio.

## 6. ENDOWMENTS

Endowments consist of various investment funds established primarily for operating needs of the Diocese and includes donor-restricted endowment funds. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on Pennsylvania state law and the existence or absence of donor-imposed restrictions.

**Investment Return Objectives, Risk Parameters, and Strategies -** The Diocese has adopted written investment and spending policies, approved by the Board, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-

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# THE EPISCOPAL DIOCESE OF PITTSBURGH

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term. Investment risk is measured in terms of the total endowment fund. Investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk. Endowment assets are managed by a committee of the Board and are invested in a well-diversified asset mix, which includes equity and debt securities.

**Spending Policy** - The Diocese is governed by the Commonwealth of Pennsylvania's Act 141. Act 141 is a total return policy that allows a nonprofit to treat a percentage of the average market value of the endowment's investments as income each year. The Diocese established a policy of appropriating for distribution each year 4.5% of the average monthly value of the endowment assets over the prior four years. In establishing these policies, the Diocese considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation.

The following schedules represent the change in donor restricted endowment funds by net asset type for the years ended December 31, 2013 and 2012:

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, beginning of year	\$ -	\$ -	\$ 8,567,528	\$ 8,567,528
Investment return	-	-	979,836	979,836
Amounts appropriated for expenditures	209,735	-	(209,735)	-
Amounts expended	<u>(209,735)</u>	<u>-</u>	<u>-</u>	<u>(209,735)</u>
Endowment assets, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,337,629</u>	<u>\$ 9,337,629</u>

  

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, beginning of year	\$ -	\$ 4,946	\$ 8,302,593	\$ 8,307,539
Investment return	-	-	406,753	406,753
Amounts appropriated for expenditures	141,818	-	(141,818)	-
Amounts expended	<u>(141,818)</u>	<u>(4,946)</u>	<u>-</u>	<u>(146,764)</u>
Endowment assets, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,567,528</u>	<u>\$ 8,567,528</u>

# THE EPISCOPAL DIOCESE OF PITTSBURGH

## NOTES TO FINANCIAL STATEMENTS

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### 7. FIXED ASSETS

Fixed assets as of December 31, 2013 and 2012 include:

	2013	2012
Land and buildings	\$ 2,328,414	\$ 2,328,414
Vehicles	11,715	11,715
	<hr/> 2,340,129	<hr/> 2,340,129
Accumulated depreciation	<hr/> (622,250)	<hr/> (535,271)
	<hr/> \$ 1,717,879	<hr/> \$ 1,804,858

### 8. BISHOP'S RESIDENCE

During 2007, the Diocese constructed a residence for its then incumbent Bishop, and entered into an agreement with that Bishop and his wife, which provides that the residence may be utilized by the Bishop and his wife until death. The agreement contains provisions requiring the Bishop to make 360 monthly payments of \$1,597, which began on December 16, 2007. The agreement is being accounted for as an operating lease. The agreement contains put and call provisions that give the Bishop the right and option to require the Diocese to reimburse certain amounts if he and his wife vacate the property prior to 2037.

### 9. COMMITMENTS

The Diocese guaranteed multiple debts in the original principal amount of \$4,710,000 for certain parishes within the Diocese. These notes mature through 2031 and interest rates range from approximately 5% to 7%. Each parish's building serves as underlying collateral for the loans. The amount of guaranteed debt outstanding as of December 31, 2013 and 2012 is \$2,233,393 and \$2,287,364, respectively. The Diocese is liable to the third party lenders related to the guarantees in 2013 and 2012. Beginning in April 2012, the Diocese came forward to make the monthly payments for a guaranteed mortgage; during the time that the parish was unable to make the payments directly. As required by accounting principles generally accepted in the United States of America, the Diocese recorded that debt on its balance sheet as described in Note 10.

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## NOTES TO FINANCIAL STATEMENTS

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### **10. MORTGAGE PAYABLE**

During 2012, the Diocese began to make the payments on a parish's mortgage with a balance of \$1,005,781 that is payable to First National Bank. The interest rate on the mortgage was 5.06% and the principal balance was \$952,631 at December 31, 2012. However, the debt was refinanced in March 2013 when the principal amount owed was \$947,246. The interest rate is 3.90% and monthly payments are \$5,718. As of December 31, 2013, the principal balance is \$919,375. The future scheduled debt payments (which the Diocese expects the parish to resume as soon as it is able to do so) are as follows:

2014	\$	33,304
2015		34,626
2016		36,001
2017		37,431
2018		38,917
Thereafter		<u>739,096</u>
Total	\$	<u><u>919,375</u></u>

### **11. OPERATING LEASE**

In July 2011, the Diocese entered into an operating lease for office space for a term of six months, expiring January 31, 2012. The lease has continued on a month-to-month basis. Rental expenses for the years ended December 31, 2013 and 2012 were \$27,872.

The Diocese also leases four vehicles under non-cancelable operating leases, which require monthly payments. Future minimum rentals under the non-cancelable operating leases are as follows:

2014	\$	3,718
2015		3,718
2016		<u>1,737</u>
	\$	<u><u>9,173</u></u>

# THE EPISCOPAL DIOCESE OF PITTSBURGH

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### 12. FUNCTIONAL EXPENSES

The Diocese's expenses are summarized on a functional basis as follows:

	2013	2012
Program	\$ 657,999	\$ 803,008
Administrative	689,235	872,789
Total functional expenses:	<u>\$ 1,347,234</u>	<u>\$ 1,675,797</u>

The costs of providing the various programs and other activities have been allocated among program and administrative based primarily upon direct charges.

### 13. PENSION PLANS

The Diocese contributes to a church-wide defined benefit pension plan for eligible lay employees called The Episcopal Church Lay Employees' Retirement Plan (Plan). The Plan's EIN number is 13-5562193 and does not have a separate plan number. A funded status ratio under 100% indicates there are insufficient reserves as of the reporting date to pay currently accumulated benefits. The Diocese contributes 15% of the participant's eligible compensation. Pension expense under this plan was \$21,557 and \$22,338 for the years ended December 31, 2013 and 2012, respectively, which does not exceed the 5% of total plan contributions from all employers.

Actuarial Valuation *:	March 31, 2014	March 31, 2013
Actuarial Value of Assets	\$ 146,000,000	\$ 122,000,000
Actuarial Accrued Liability	\$ 163,000,000	\$ 160,000,000
Excess of Assets Over Liabilities	\$ (17,000,000)	\$ (38,000,000)
Funded Ratio	89%	76%
Expiration of Collective-bargaining Agreement	N/A	N/A
Implemented rehabilitation plan	No	No
Employer surcharge	No	No
Future minimum contributions	15% of salary annually	15% of salary annually

\* - Amounts represent The Episcopal Church Lay Employees' Retirement Plan

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The Diocese also contributes to a church-wide defined benefit pension plan for the clergy called the Church Pension Fund Clergy Pension Plan. This Plan's EIN number is 13-5562193 and does not have a separate plan number. A funded status ratio in excess of 100% indicates that there are sufficient reserves as of the reporting date to pay currently accumulated benefits. The Diocese contributes 18% of the clergy's eligible compensation. Total pension expense under this plan, as assessed by the administrator of the church-wide plan, was \$54,199 and \$61,996 for the years ended December 31, 2013 and 2012, respectively, which does not exceed 5% of total plan contributions from all employers.

Actuarial Valuation *:	March 31, 2014	March 31, 2013
Actuarial Value of Assets	\$ 8,600,000,000	\$ 7,600,000,000
Actuarial Accrued Liability	\$ 5,800,000,000	\$ 6,000,000,000
Excess of Assets Over Liabilities	\$ 2,800,000,000	\$ 1,600,000,000
Funded Ratio	148%	126%
Expiration of Collective-bargaining Agreement	N/A	N/A
Implemented rehabilitation plan	N/A	N/A
Employer surcharge	N/A	N/A
Future minimum contributions	18% of salary annually	18% of salary annually

\* - Amounts represent the Church Pension Fund Clergy Pension Plan

Participation in multi-employer benefit plans includes the risk that the Diocese contributions could be used to provide benefit payments of other participating employers or for unfunded obligations of the plan.

Additional information for The Episcopal Church Lay Employees' Retirement Plan and Church Pension fund is available in The Church Pension Group Annual Report - 2013 at: <https://www.cpg.org>.

## 14. BOARD-DESIGNATED NET ASSETS

Board-designated net assets and certain income derived therefrom have been designated by the Board or General Convention for the following purposes at December 31:

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	2013	2012
Community Service Fund	\$ 3,114,616	\$ 2,834,133
Plant Fund	2,346,817	3,343,576
Growth Fund	2,268,451	2,293,306
Bishop's Fund	1,528,424	1,397,108
Church Multiplication Fund	482,467	418,641
Bishop's Residence Fund	419,251	364,706
Clergy Relief	239,001	210,676
Seminarian Aid	105,296	89,984
Other	<u>361,008</u>	<u>311,918</u>
Total	<u><u>\$ 10,865,331</u></u>	<u><u>\$ 11,264,048</u></u>

### 15. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	2013	2012
Beneficial interest in charitable remainder trusts	\$ 597,535	\$ 500,943
Bishop's discretionary and other funds	50,725	29,946
Other mission support	<u>36,237</u>	<u>792</u>
	<u><u>\$ 684,497</u></u>	<u><u>\$ 531,681</u></u>

### 16. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets are restricted to investment and reinvestment in perpetuity, and certain portions of the income are available to support various programs. Permanently restricted net assets are held to support the following purposes:

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	2013	2012
Episcopal support	\$ 5,284,804	\$ 4,641,441
Parish and mission support	3,548,592	3,204,764
Bishop's Fund	759,776	703,747
Chaplaincy programs	645,091	584,226
Episcopal Church Women	595,730	544,180
Parish and mission grants and loans	572,372	509,950
Seminarian support	339,715	314,828
Charitable and religious purposes	319,939	297,162
Other	<u>681,969</u>	<u>634,205</u>
	<u><u>\$ 12,747,988</u></u>	<u><u>\$ 11,434,503</u></u>

## 17. LEGAL MATTERS

In October 2008, a vote led by certain former leaders of the Diocese at the annual Diocesan convention resulted in resolutions to amend the Diocesan constitution and canons to withdraw the Diocese from The Episcopal Church and align it with the Anglican Province of the Southern Cone. The validity and legal effect of this withdrawal vote remains in dispute. The former leaders, identifying themselves as the Anglican Diocese of Pittsburgh, a member of the Anglican Church in North America (ACNA Diocese), retained control of Diocesan assets and asserted their position that a 2005 stipulation required the ACNA Diocese to continue to hold and administer the Diocesan property even though its members had left The Episcopal Church. In October 2009, the Court of Common Pleas of Allegheny County, Pennsylvania disagreed with the ACNA Diocese's contention and ruled that the Episcopal Diocese of Pittsburgh of The Episcopal Church of the United States of America is the rightful trustee of the stipulated property and ordered the appointment of a special master to identify the real and personal property subject to the stipulation. The court did not need to rule on the validity or legal effect of the 2008 withdrawal vote, but did rule that even if the withdrawal vote was valid, it could not extinguish the diocese created and recognized by the Episcopal Church. On January 27, 2010, the Court of Common Pleas of Allegheny County, Pennsylvania accepted and adopted the report of the special master regarding the scope of the property to be held and administered by the Diocese.

The ACNA Diocese filed an appeal with the Commonwealth Court of Pennsylvania and on February 2, 2011, the Commonwealth Court of Pennsylvania affirmed the order of the Court of Common Pleas of Allegheny County, Pennsylvania in all respects. The ACNA Diocese filed a petition for re-argument which the Commonwealth Court of Pennsylvania denied on March 29, 2011. On April 28, 2011, the ACNA Diocese filed a petition for allowance of an

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appeal to the Supreme Court of Pennsylvania, which that Court denied by an order dated October 17, 2011. There are no further rights of appeal.

These now final court rulings apply, among other property, to the real property used by 23 congregations that had identified themselves as part of the ACNA Diocese rather than the Diocese. In 2011 and 2012, the Diocese and two of these 23 congregations signed agreements for the acquisition of the property from the Diocese on terms reviewed by the Office of the Attorney General and approved by the Board and the Court of Common Pleas. In 2012, three parishes returned to active participation in the Diocese. The Diocese has encouraged the rest of the affected congregations to remain in the property pending further study, but some have elected to leave. In several locations where this has occurred, the Diocese is financially supporting the rebuilding of the parish as an active parish of the Diocese. In other locations where this has occurred, the Diocese is seeking alternative short-term uses of the property. In addition, there are approximately 15 parishes that have identified themselves as part of the ACNA Diocese where the existing court rulings are not fully dispositive because the real estate was titled in the name of the respective parish. The Diocese maintains that these parishes and each of these properties remains with the Episcopal Diocese of Pittsburgh, and that both the parishes and the properties (real and personal) are subject to the authority and canons of the Diocese and a trust interest for the benefit of the Diocese and Episcopal Church. The Diocese has extended a "without prejudice" invitation to these congregations to negotiate regarding the parish property and has entered into a standstill and tolling agreement with the majority of the congregations to facilitate such discussions. Currently, management is unable to evaluate the likelihood of an unfavorable outcome to these negotiations regarding parish property or the possibility that litigation will become necessary in the future.