The Episcopal Diocese of Pittsburgh

Financial Statements

Years Ended December 31, 2016 and 2015
with Independent Auditor's Report

MaherDuessel
Certified Public Accountants

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THE EPISCOPAL DIOCESE OF PITTSBURGH

YEARS ENDED DECEMBER 31, 2016 AND 2015

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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, 2016 and 2015, 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 audits 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, 2016 and 2015, 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 Duessel

Pittsburgh, Pennsylvania
August 7, 2017

THE EPISCOPAL DIOCESE OF PITTSBURGH

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2016 AND 2015

	2016	2015
Assets		
Cash and cash equivalents	$ 954,098	$ 342,258
Assessments receivable:		
Parishes	5,607,506	4,927,010
Less allowance for doubtful accounts	(5,587,562)	(4,893,688)
Total assessments receivable, net	19,944	33,322
Loans receivable:		
Parishes and missions - growth fund	920,060	1,015,119
Bishop's residence fund	27,000	27,000
Less allowance for loan losses	(464,897)	(465,301)
Total loans receivable, net	482,163	576,818
Grants and bequests receivable	185,767	497,185
Note receivable	1,505,791	471,140
Accrued interest receivable	54,099	15,831
Prepaid expenses	7,751	9,281
Property held for sale	556,500	646,454
Trusts held by others at fair value	4,251,676	4,017,680
Investments at fair value	23,853,668	22,321,448
Fixed assets (net of accumulated depreciation)	1,613,860	1,743,592
Total Assets	$ 33,485,317	$ 30,675,009
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$ 393,987	$ 129,368
Mortgage payable	1,432,922	852,333
Funds held for others	3,024,267	2,797,798
Total Liabilities	4,851,176	3,779,499
Net Assets:		
Unrestricted:		
Undesignated	4,679,925	3,938,968
Board-designated	10,627,303	10,467,053
Total unrestricted	15,307,228	14,406,021
Temporarily restricted	974,358	676,173
Permanently restricted	12,352,555	11,813,316
Total Net Assets	28,634,141	26,895,510
Total Liabilities and Net Assets	$ 33,485,317	$ 30,675,009

See accompanying notes to financial statements.

THE EPISCOPAL DIOCESE OF PITTSBURGH

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Unrestricted Net Assets:		
Operating revenues and other support:		
Parish assessments	$ 622,914	$ 598,410
Investment returns designated for current operations	460,000	453,000
Contributions and grants	140,420	106,457
Total operating revenues and other support	1,223,334	1,157,867
Operating expenses:		
Office of Administration	305,432	311,713
Legal expense	14,783	12,400
Office of the Bishop	249,794	242,977
Reopened parish, property, and other expenses	133,857	209,290
Beyond the Diocese	179,788	168,696
Transformational networks	184,742	165,253
Congregational mission	71,474	45,390
Total operating expenses	1,139,870	1,155,719
Net gain (loss) from operations	83,464	2,148
Other revenues (expenses):		
Spending policy transfers	172,722	213,895
Released from restriction	61,489	27,007
Other revenues	71,617	47,385
Other non-operating contributions	1,646	529,573
Grants and contributions to others	(407,874)	(428,145)
Other trustee expenses	(16,927)	(26,740)
Investment (loss) income	574,752	(764,558)
Gain (loss) on property transactions	496,218	561,423
Depreciation	(135,900)	(107,732)
Total other revenues (expenses)	817,743	52,108
Change in Unrestricted Net Assets	901,207	54,256
Temporarily Restricted Net Assets:		
Contributions and grants	263,295	5,171
Investment (loss) income	47,030	(21,693)
Spending policy transfers	49,349	34,083
Released from restriction	(61,489)	(27,007)
Change in Temporarily Restricted Net Assets	298,185	(9,446)
Permanently Restricted Net Assets:		
Contributions and grants	54,473	6,232
Spending policy transfers	(222,071)	(247,978)
Investment (loss) income	706,837	(712,516)
Change in Permanently Restricted Net Assets	539,239	(954,262)
Total Change in Net Assets	1,738,631	(909,452)
Net Assets:		
Beginning of year	26,895,510	27,804,962
End of year	$ 28,634,141	$ 26,895,510

See accompanying notes to financial statements.

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 returned to the Diocese subsequent to 2010 are not included in the Diocese financial statements, with the exception of when the sale of a closed parish is approved. 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 Donegal property and equipment, the Avalon property and 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 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 in 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.

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 and 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.

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 and Investment Committee of the Board. On the statements of financial position, funds held for others are included in the investments.

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.

Grants Receivable

Grants receivable for the years ended December 31, 2016 and 2015 are $133,333 and $0, respectively.

Bequest Receivable

Bequest receivable for the years ended December 31, 2016 and 2015 are $52,434 and $497,185, respectively.

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
Lease Improvements	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 property less estimated costs to sell at $556,500 and $646,454, respectively, as of December 31, 2016 and 2015. Prince of Peace was approved for sale in December of 2016 for $200,000, All Saints Church and rectory approved for sale for $85,000 and $70,000, respectively, St. Andrew’s rectory approved for sale for $85,000, Good Samaritan was approved for sale for $29,000, and Trinity was approved for sale for $20,000.

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. The Diocese did not recognize impairment of any of their long-lived assets in 2016 and 2015.

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 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).

Pending Pronouncements

ASU-2016-02, *"Leases (Topic 842),"* effective for the Diocese's financial statements for the year ending December 31, 2020. This standard will require lessees to recognize assets and liabilities on the statement of financial position for the rights and obligations created by all leases with terms of more than twelve months. Disclosures also will be required by lessees to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

ASU No. 2016-14, *"Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities,"* effective for the Diocese's financial statements for the year ending December 31, 2018. This standard aims to improve how a nonprofit organization classifies its net assets and provides information in its financial statements and notes about its financial performance, cash flow, and liquidity. The ASU changes the net asset classification, requires presentation of expenses both by nature and function, requires investment return reported net of investment expenses, requires placed-in-service approach for gifts of/for long-lived assets and provides enhanced disclosures for: governing body restrictions; composition of net assets with donor restrictions; qualitative and quantitative information on liquidity; methods to allocate costs among program and support functions; and underwater donor-restricted endowment.

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 judgment, to establish an adequate allowance to absorb possible losses on assessments and loans. Management's judgment 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. Once loans have been determined to be not performing, management will estimate the allowance for loan loss. At this point, interest on the loan stops accruing. During the years ended December 31, 2016 and 2015, the Diocese charged $693,874 and

$695,195, respectively, to the allowance for doubtful accounts relating to the parishes in the Anglican Church in North America (ACNA Diocese) that have not settled with the Diocese. No interest had been accrued on assessments or loans receivable balances as further described in Note 17 as of December 31, 2016 and 2015.

Interest rates on parish loans range from 3.00% to 3.75% and the loans have maturity dates ranging from 2018 to 2031.

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 was originally due in August 2026. After principal prepayments in June 2016 and January 2017, the final payment is due in May 2024.

In June 2016, the Diocese finalized an agreement with an unaffiliated congregation to sell a parish property in exchange for mortgage note. The sale was recognized in 2016 and the resulting note receivable held is due in 60 monthly installments of $3,574 each, which includes interest at the rate of 3.0% per annum, followed by 60 installments of $3,747 each, which includes interest at the rate of 4.0% per annum, followed by 60 installments of $3,793 each, which includes interest at the rate of 4.5% per annum. The final payment is due in April 2032.

In April 2016, the Diocese finalized an agreement with a parish related to a mortgage loan guaranteed by the Diocese and a growth fund loan for a total amount of $612,858. Interest only payments will be made at a rate of one and three quarters percent (1.75%) above the then current one-month London Interbank Offered Rate (LIBOR). On or about April 30, 2018, the parties will review the financing arrangements and will decide whether, (a) these current arrangements should be continued for an additional period of time, (b) whether the borrower should commence monthly payments of principal and interest based upon an agreed amortization period, or (c) whether a permanent mortgage loan with a third party lender should be negotiated.

5. Investments

Investments consist of the following at December 31:

	2016	2015
Cash and cash equivalents	$ 1,509,335	$ 1,529,427
Mutual funds, fixed income	2,873,172	2,603,591
Equity securities:		
Basic materials	1,284,609	1,429,344
Consumer goods	1,190,563	1,545,780
Energy	1,643,257	1,428,480
Financial	1,208,656	1,502,812
Healthcare	1,993,842	1,681,508
Industrial goods	1,962,839	813,583
Materials	742,269	527,851
Real Estate	26,235	-
Technology	1,695,172	1,916,090
Telecommunication services	729,639	504,745
Utilities	841,743	502,028
Other	402,014	339,410
Corporate debt securities	2,728,360	2,601,935
U.S. government obligations	3,021,963	3,394,864
Total investments	$ 23,853,668	$ 22,321,448

Investments were held in the following accounts at December 31:

	2016	2015
Morgan Stanley, Pool 1	$ 22,136,969	$ 20,871,337
Morgan Stanley, Pool 2	1,657,622	1,391,087
Mellon Pooled Income Fund	47,220	47,220
Mellon Seed Account	11,857	11,804
	$ 23,853,668	$ 22,321,448

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

	2016	2015
Interest and dividend income	$ 390,956	$ 403,325
Net realized and unrealized (losses) gains	1,397,663	(1,448,496)
Total	$ 1,788,619	$ (1,045,171)

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 observablity 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 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 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. 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, 2016:

	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	$ 1,492,375	$ -	$ -	$ 1,492,375
Mutual funds, fixed income	3,823,442	-	-	3,823,442
Equity securities	12,787,528	-	-	12,787,528
Corporate debt securities	-	2,728,360	-	2,728,360
U.S. government obligations	-	3,021,963	-	3,021,963
Total investments	$ 18,103,345	$ 5,750,323	$ -	$ 23,853,668
Trusts held by others:				
Beneficial interest in remainder trusts	$ -	$ -	$ 653,909	$ 653,909
Beneficial interest in perpetual trusts	-	-	3,597,767	3,597,767
Total trusts held by others	$ -	$ -	$ 4,251,676	$ 4,251,676

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, 2015:

	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	$ 1,406,128	$ -	$ -	$ 1,406,128
Mutual funds, fixed income	1,818,483	-	-	1,818,483
Equity securities	13,100,038	-	-	13,100,038
Corporate debt securities	-	2,601,935	-	2,601,935
U.S. government obligations	-	3,394,864	-	3,394,864
Total investments	$ 16,324,649	$ 5,996,799	$ -	$ 22,321,448
Trusts held by others:				
Beneficial interest in remainder trusts	$ -	$ -	$ 606,879	$ 606,879
Beneficial interest in perpetual trusts	-	-	3,410,801	3,410,801
Total trusts held by others	$ -	$ -	$ 4,017,680	$ 4,017,680

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

	2016	2015
Fair value, beginning of year	$ 4,017,680	$ 4,282,409
Investment income from beneficial interest in remainder and perpetual trusts	129,003	105,365
Distributions from beneficial interest in remainder and perpetual trusts	(129,003)	(105,365)
Valuation (loss) gain, beneficial interest in remainder trusts	47,030	(24,245)
Valuation (loss) gain, beneficial interest in perpetual trusts	186,966	(240,484)
Balance, end of year	$ 4,251,676	$ 4,017,680

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 is valued at fair value, which is the amount reported in the statements 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.

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

For Level 3 investments of the beneficial interest in perpetual trusts as of December 31, 2016 and 2015, the principal valuation technique utilized is market value of the underlying investments, with an unobservable input of percentage share, and a significant input value ranging from 5% to 100%.

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-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, 2016 and 2015:

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, beginning of year	$ -	$ -	$ 8,402,515	$ 8,402,515
Investment return	-	-	523,557	523,557
Amounts appropriated for expenditures	172,722	49,349	(222,071)	-
Amounts expended	(172,722)	(49,349)	-	(222,071)
Endowment assets, end of year	$ -	$ -	$ 8,704,001	$ 8,704,001

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, beginning of year	$ -	$ -	$ 9,115,507	$ 9,115,507
Investment return	-	-	(465,014)	(465,014)
Amounts appropriated for expenditures	213,895	34,083	(247,978)	-
Amounts expended	(213,895)	(34,083)	-	(247,978)
Endowment assets, end of year	$ -	$ -	$ 8,402,515	$ 8,402,515

7. Fixed Assets

Fixed assets as of December 31, 2016 and 2015 include:

	2016	2015
Land and buildings	$ 2,328,414	$ 2,328,414
Vehicles	11,715	11,715
Leasehold Improvements	225,420	219,252
	2,565,549	2,559,381
Accumulated depreciation	(951,689)	(815,789)
	$ 1,613,860	$ 1,743,592

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 $4,848,516 for certain parishes within the Diocese. These notes mature through 2033 and interest rates range from approximately 3% to 5%. Each parish's building serves as underlying collateral for the loans. The amount of guaranteed debt outstanding as of December 31, 2016 and 2015 is $2,089,753 and $2,082,147, respectively, and the debt to one of the parishes in the amount of $656,831 at December 31, 2016 is not reported per the Diocese financial statements.

Beginning in April 2012, the Diocese came forward to make the monthly payments for a guaranteed mortgage as one parish was unable to make the payments directly. See Note 10. In November 2016, this mortgage loan was refinanced with Morgan Stanley through the Diocese's variable rate line of credit in the amount of $823,628. The Diocese has continued to guarantee the debt which will mature in 2023.

In April 2016, the Diocese financed a parish mortgage loan for a parish that was previously guaranteed, along with a Growth Fund loan, with Morgan Stanley through the Diocese's variable rate line of credit in the amount of $612,858. The Diocese has continued to guarantee the debt and interest-only payments are being made. Effective March 1, 2017, the note was amended with the following payment terms: During the first 36 months of the 7-year term the borrower will make monthly payments of interest only. During the fourth year, beginning March 1, 2020 through February 1, 2021, the borrower will make monthly payments of interest plus 25% of the principal that would be due if the principal sum of the amended note was being fully amortized at an interest rate of 3.59% and a 20 year amortization schedule. During the fifth, sixth, and seventh years of the term, the borrower will make monthly payments of interest plus 50%, 75%, and 100%, respectively, of the principal amount that would be due if the principal sum of the amended note was being fully amortized at an interest rate of 3.59% and a 20 year amortization schedule.
Prior to February 2020, the parties will review the financing arrangements of this note and discuss if it is possible for the borrower to make additional principal payments in excess of the financing arrangement. Additionally, on or before January 2024, the parties will review the financing arrangements and determine whether to negotiate another loan with Morgan Stanley or whether the lender and borrower should negotiate a permanent mortgage with another third-party lender.

As required by accounting principles generally accepted in the United States of America, the Diocese has recorded these two debt transactions on its statements of financial position as further described in Note 10.

10. MORTGAGE PAYABLE AND LINE OF CREDIT

During 2012, the Diocese began to make the payments on a parish's mortgage with a balance of $1,005,781 that was payable to First National Bank. The debt was refinanced in March 2013 when the principal amount owed was $947,246. The interest rate was 3.90% and monthly payments were $5,718. As of December 31, 2016 and 2015, the principal balance is $0 and $852,333, respectively.

In November 2016, the mortgage was refinanced with Morgan Stanley using the portfolio loan account. The interest rate is 2.96% and monthly payments are $5,263. The proceeds from the Morgan Stanley note were used to pay off the First National Bank mortgage. 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:

2017	$	38,953
2018		40,277
2019		41,501
2020		42,704
2021		44,061
Thereafter		612,696
Total	$	820,192

During 2014, the Diocese obtained a portfolio loan account with Morgan Stanley. The loan account allows for borrowings to a maximum of $14,943,000 for the years ended December 31, 2016 and 2015. The loan account is secured by the Diocese's investments at Morgan Stanley. In addition to the financed amount noted above, the Diocese also borrowed $612,858 on behalf of a parish with $612,730 outstanding as of December 31, 2016. The parish began making interest-only payments at a rate of 1.75% above the current one-month London Interbank Offered Rate beginning in June 2016. In March 2017, an amended note was signed as discussed in Note 9. The future debt payments are as follows:

2017	$	-
2018		-
2019		-
2020		4,308
2021		9,477
Thereafter		598,945
Total	$	612,730

The amount outstanding on the portfolio loan account at December 31, 2016 and 2015 was $1,432,922 and $0, respectively.

11. Operating Lease

The Diocese leased one vehicle under a non-cancelable operating lease, which requires monthly payments. Future minimum rentals under the non-cancelable operating lease are $2,756 and $2,756 for 2017 and 2018, respectively.

In 2015, the Diocesan offices moved to space within Trinity Episcopal Cathedral. The formal lease agreement was signed May 2015 and is effective until June 30, 2020. Beginning January 1, 2016 and continuing until June 30, 2020, the Diocese will pay $2,916.67 per month ($35,000 annually) for rent of the space. The future rent payments are as follows:

2017	$	35,000
2018		35,000
2019		35,000
2020		17,500
Total	$	122,500

12. Functional Expenses

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

		2016		2015
Program	$	549,971	$	585,897
Administrative		589,899		569,822
Total functional expenses	$	1,139,870	$	1,155,719

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 contribution pension plan for eligible lay employees called The Episcopal Church Lay Employees' Retirement Plan (Retirement Plan). The Diocese contributes 11% of the participant's eligible compensation with an additional 4% match. Pension expense under this Retirement Plan was $22,811 and $16,456 for the years ended December 31, 2016 and 2015, respectively.

The Diocese also contributes to a church-wide defined benefit pension plan for the clergy called the Church Pension Fund Clergy Pension Plan (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 defined benefit pension plan, was $51,065 and $59,706 for the years ended December 31, 2016 and 2015, respectively, which does not exceed 5% of total Plan contributions from all employers.

Actuarial Valuation *:	March 31, 2017	March 31, 2016
Actuarial Value of Assets	$ 9,300,000,000	$ 8,300,000,000
Actuarial Accrued Liability	$ 6,500,000,000	$ 6,700,000,000
Excess of Assets Over Liabilities	$ 2,800,000,000	$ 1,600,000,000
Funded Ratio	143%	124%
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 Church Pension fund is available in The Church Pension Group Annual Report - 2016 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:

	2016	2015
Community Service Fund	$ 2,813,624	$ 2,717,221
Plant Fund	2,545,920	2,861,186
Growth Fund	2,256,601	1,973,704
Bishop's Fund	1,381,282	1,395,810
Church Multiplication Fund	415,399	415,302
Bishop's Residence Fund	407,251	394,065
Clergy Relief	261,362	253,519
Seminarian Aid	112,268	103,990
Other	433,596	352,256
Total	$ 10,627,303	$ 10,467,053

15. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	2016	2015
Beneficial interest in charitable remainder trusts	$ 653,909	$ 606,879
Bishop's discretionary and other funds	112,116	65,034
Grants receivable	133,333	-
Other mission support	75,000	4,260
	$ 974,358	$ 676,173

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:

	2016	2015
Episcopal support	$ 5,325,199	$ 5,058,671
Parish and mission support	3,444,206	3,284,543
Bishop's Fund	703,800	682,450
Chaplaincy programs	603,335	585,230
Episcopal Church Women	554,120	535,752
Parish and mission grants and loans	516,129	499,271
Seminarian support	314,572	305,133
Charitable and religious purposes	296,260	287,370
Other	594,934	574,896
	$ 12,352,555	$ 11,813,316

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 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 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 24 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 24 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. Since 2011, congregations at seven of the affected parishes have 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. Where this has occurred, the Diocese is seeking alternative short-term uses of the property, or has decided to sell the property. In addition, there are approximately 14 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.