Appendix

2020 Policies for Clergy and Lay Participation in the Denominational Health Plan of the Episcopal Church

Episcopal Diocese of Pittsburgh

Adopted by Diocesan Council
September 23, 2019

Episcopal Diocese of Pittsburgh
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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 was 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, Clergy and Lay Employees of parishes and other organizations under the authority of the Episcopal Diocese of Pittsburgh working fewer than 1,500 hours per year but at least 1,000 hours per year are eligible to participate in the Medical Trust's health insurance coverage voluntarily and at their own expense. Parishes and other organizations may, but are not required to, participate in the cost of the health plan if the employee chooses to participate. Those persons working less than 1,000 hours per year are not eligible for these benefits.

Each year the Bishop, with the advice of the Compensation Committee appointed by the President of Diocesan Council, will recommend one or more plans from the Denomination Health Plan offerings to be approved by Diocesan Council. Each eligible participant, clergy or lay, then selects a plan from that diocesan menu during the Open Enrollment period. 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 comparable medical benefits through dependent coverage in a parent or spouse’s plan or through another employer or retirement benefit (e.g., Tricare). A Waiver of Health Benefits form must be completed by the employee and submitted to the diocesan office by the end of the Open Enrollment period. 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 Plan Offerings and Premiums: All Clergy and Lay Employees scheduled to work 1,500 hours per year or more shall be offered the choice of the medical and dental Denominational Health Plan programs approved by Diocesan Council and in the appropriate tier of coverage necessary for the Employee’s family situation. This year’s offerings are as follows:

Medical & Dental Plans / Monthly Rates	Single	Employee + Spouse	Employee + Children	Family
1) Anthem BCBS CDHP-20 w/ HSA (MHDE) Consumer Directed Health Plan (also known as HDHP)	$ 714	$1,428	$1,285	$2,142
2) Cigna CDHP-20 w/ HSA (MHDC) Consumer Directed Health Plan (also known as HDHP)	714	1,428	1,285	2,142
3) Anthem BCBS BlueCard PPO 80 (MPP3)	815	1,630	1,467	2,445
4) Cigna Open Access Plus PPO 80 (MG03) UPMC in-network plan comparable to Anthem PPO 80 plan	815	1,630	1,467	2,445
5) Anthem BCBS BlueCard PPO 90 (MPP2)	899	1,798	1,618	2,697
6) Cigna Open Access Plus PPO 90 (MG02) UPMC in-network plan comparable to Anthem PPO 90 plan	899	1,798	1,618	2,697
7) Anthem BCBS BlueCard PPO 100 (MPP1)	1,015	2,030	1,827	3,045
8) Cigna Open Access Plus PPO 100 (MG01) UPMC in-network plan comparable to Anthem PPO 100 plan	1,015	2,030	1,827	3,045
9) Anthem BCBS BlueCard MSP PPO 90 (MS10) For employees age 65 or older enrolled in Medicare	719	1,438	1,294	2,157
10) Cigna Open Access Plus MSP PPO 90 (MGM2) UPMC in-network MSP plan for employees age 65 or older	618	1,438	1,294	2,157
11) Anthem BCBS BlueCard MSP PPO 100 (MSG9)	780	1,560	1,404	2,340
12) Cigna Open Access Plus MSP PPO 100 (MGM1) UPMC in-network MSP plan for employees age 65 or older	780	1,560	1,404	2,340
13) DENTAL & ORTHO – 25/75 (DD25)	45	90	81	135

Minimum Medical Premium Allowance (MPA): Each parish or other employing organization is required to allocate and fund a minimum Medical Premium Allowance ("MPA") of $815 per month to provide medical coverage for the Employee. In circumstances where the Employee elects a medical coverage which is less expensive than the MPA, the difference in cost is to be provided to the Employee in the form of a contribution to a Health Savings Account ("HSA") which can then be used by the Employee to cover medical deductibles and copays required by the plan design chosen. In circumstances where the Employee elects a medical coverage which is more expensive than the MPA, the Employee will be responsible to pay the cost difference through a pre-tax payroll deduction each month unless the parish reaches a negotiated arrangement with the Employee to provide a higher MPA above the minimum requirement stated above, up to and including full premium payment covered by the parish. MPAs set by the parish may be negotiated at higher levels of allowance as long as there is parity between all Clergy and Lay Employees.

Medical Plan Options with Health Savings Accounts (HSA): Placing money into an HSA, in conjunction with a CDHP, is an effective way to manage out-of-pocket costs because employees can set aside funds to be used for qualifying medical expenses, such as deductibles and copays, on a pre-tax basis. For parishes that choose to provide more than the minimum coverage, such a parish-provided contribution is possible with no added cost since a CDHP option has a lower cost than other plans. Family coverage in a CDHP plan results in annual savings of $10,836 ($903 per month) as compared to the PPO 100 plans and $6,660 ($555 per month) as compared to the PPO 90 plans. As an example, the parish could contribute $5,450, the full amount of the family deductible, to the employee's HSA for an employee enrolling in the CDHP, and the parish would still save $5,386 per year in medical premium cost. The employee benefits because he/she pays less since their deductible is paid in full, and keeps any unused HSA balance at year-end. The parish benefits by saving in annual medical premium expense. Parishes should consider making the parish contribution to the HSA early in the calendar year so that medical expenses incurred can be paid with available HSA funds.

Insurance Plan Cost Sharing: All Employees selecting a medical plan are subject to consideration by the parish for a premium cost-sharing arrangement. No cost sharing is permitted for a plan costing less than the MPA indicated above.

Medicare Secondary Payer – Small Employer Exception: Employees who are 65 years old and eligible for Medicare may enroll in a Medicare Secondary Payer (MSP) plan. In most cases, Medicare is the secondary payer of healthcare claims for employees covered under Medicare Part A and Part B, and the Medical Trust's health plan is the first, or primary payer. However, Medicare allows for an exception to the "secondary payer" rule for small employers (including all employers in the Diocese of Pittsburgh) who may request that Medicare serve as the primary payer for eligible Medicare beneficiaries by submitting an Employee Certification Form for each eligible participant seeking a "small employer exception."

When Medicare becomes the primary payer of medical claims, the cost of providing medical coverage is lower because the Medical Trust's health plan becomes the secondary payer. The reduction in cost may reduce premiums compared to plans in which Medicare is not the primary payer. An employee's out-of-pocket medical costs may be lower, too. For an employee or their eligible dependent(s) to be approved for these plans, they must first be enrolled in Medicare Part A (hospital insurance). Individuals who opt for an MSP plan will continue to have access to the value-added benefits included in the Medical Trust plans. Please contact the Diocesan Office for additional information or to request a copy of the Member Fact Sheet.

Dental Coverage: Dental coverage is made available through the Denominational Health Plan and as approved by Diocesan Council. There is no requirement of parish funding for this benefit.

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, 2018, and have issued our report thereon dated August 19, 2019. 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 Audit Committee member about planning matters on June 19, 2019. 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 January 15, 2019, 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 Accounting 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. During 2018, the Diocese adopted Accounting Standard Update (ASU) 2016-14, *"Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities."* No other accounting policies were adopted, and the application of existing policies was not changed during 2018 other than those impacted by ASU 2016-14, noted above. 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 parishes' loan payments in Note 9;
- The Diocese's assumed payments for guaranteed mortgages in Note 10; and
- The Diocese's legal matters in Note 16.

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 misstatements identified during the audit, other than those that are clearly 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, a disagreement with management is 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 August 19, 2019.

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

Matters involving internal control and other operational matters are communicated in our management letter dated August 19, 2019.

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
August 19, 2019

The Episcopal Diocese of Pittsburgh

Financial Statements

Years Ended December 31, 2018 and 2017
with Independent Auditor's Report

MaherDuessel

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THE EPISCOPAL DIOCESE OF PITTSBURGH

YEARS ENDED DECEMBER 31, 2018 AND 2017

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MaherDuessel

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, 2018 and 2017, and the related statements of activities, and cash flows for the years then ended, the statement of functional expenses for the year ended December 31, 2018, 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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 2 to the financial statements, the Diocese adopted ASU 2016-14, *"Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities,"* which amends the requirements for financial statements for nonprofit entities. The amendment changes how a nonprofit organization classifies net assets and provides information in its financial statements and notes about its financial performance, cash flow, and liquidity, among other requirements. Our opinion is not modified with respect to this matter.

Maher Duessel

Pittsburgh, Pennsylvania
August 19, 2019

THE EPISCOPAL DIOCESE OF PITTSBURGH

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2018 AND 2017

	2018	2017
Assets		
Cash and cash equivalents	$ 808,454	$ 705,945
Assessments receivable:		
Parishes	1,334,179	1,264,443
Less allowance for doubtful accounts	(1,331,620)	(1,259,820)
Total assessments receivable, net	2,559	4,623
Loans receivable:		
Parishes and missions - growth fund	523,103	882,068
Bishop's residence fund	27,000	27,000
Less allowance for loan losses	(156,274)	(463,724)
Total loans receivable, net	393,829	445,344
Grants and bequests receivable	-	1,130,127
Other receivable	163,601	-
Notes receivable	1,340,878	1,555,856
Accrued interest receivable	86,745	8,581
Prepaid expenses	7,291	10,776
Property held for sale	727,500	87,800
Trusts held by others at fair value	4,403,921	4,771,421
Investments at fair value	24,492,984	26,321,417
Fixed assets (net of accumulated depreciation)	588,651	1,498,596
Total Assets	$ 33,016,413	$ 36,540,486
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$ 319,876	$ 365,468
Mortgage payable	1,353,692	1,393,969
Funds held for others	2,931,412	3,284,673
Total Liabilities	4,604,980	5,044,110
Net Assets:		
Without donor restrictions:		
Undesignated	3,606,547	3,923,602
Board-designated	11,866,923	13,130,602
Total net assets without donor restrictions	15,473,470	17,054,204
With donor restrictions	12,937,963	14,442,172
Total Net Assets	28,411,433	31,496,376
Total Liabilities and Net Assets	$ 33,016,413	$ 36,540,486

See accompanying notes to financial statements.

THE EPISCOPAL DIOCESE OF PITTSBURGH

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Net Assets without Donor Restrictions:		
Operating revenues and other support:		
Parish assessments	$ 639,359	$ 643,117
Investment returns designated for current operations	516,000	477,831
Contributions and grants	216,062	154,533
Total operating revenues and other support	1,371,421	1,275,481
Operating expenses:		
Office of Administration	412,919	501,618
Office of the Bishop	239,673	248,655
Reopened parish, property, and other expenses	85,610	101,072
Beyond the Diocese	163,613	168,457
Formation and mission	323,533	318,907
Total operating expenses	1,225,348	1,338,709
Net gain (loss) from operations	146,073	(63,228)
Other revenues (expenses):		
Spending policy transfers	174,794	172,760
Released from restriction	124,110	160,271
Other revenues	96,042	78,234
Other non-operating contributions	169,694	1,000,000
Grants and contributions to others	(594,606)	(668,450)
Other trustee expenses	(17,410)	-
Investment (loss) income	(1,460,307)	1,191,881
Gain (loss) on property transactions	(83,739)	6,022
Depreciation	(135,385)	(130,515)
Total other revenues (expenses)	(1,726,807)	1,810,203
Change in Net Assets without Donor Restrictions	(1,580,734)	1,746,976
Net Assets with Donor Restrictions:		
Contributions and grants	22,752	25,381
Investment (loss) income	(1,228,057)	1,422,909
Spending policy transfers	(174,794)	(172,760)
Released from restriction	(124,110)	(160,271)
Change in Net Assets with Donor Restrictions	(1,504,209)	1,115,259
Total Change in Net Assets	(3,084,943)	2,862,235
Net Assets:		
Beginning of year	31,496,376	28,634,141
End of year	$ 28,411,433	$ 31,496,376

See accompanying notes to financial statements.

THE EPISCOPAL DIOCESE OF PITTSBURGH

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2018 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2017)

	Program Expenses							
	Beyond the Diocese	Formation and Mission	Office of the Bishop	Reopened Churches	Total Program Expenses	Administration and Support	2018 Total	2017 Total
Salaries and cash housing	$ -	$ 105,393	$ 164,424	$ -	$ 269,817	$ 128,956	$ 398,773	$ 395,290
Employee benefits and allowances	-	8,577	30,642	-	39,219	27,729	66,948	36,384
Pension	-	28,358	29,596	-	57,954	19,055	77,009	61,998
SECA and FICA taxes	-	5,180	-	-	5,180	11,004	16,184	14,662
Consultants/communications expense	-	-	-	-	-	42,714	42,714	37,710
Employee travel and ministry expenses	-	17,192	11,391	-	28,583	3,681	32,264	41,994
Grants/support to parishes	-	100,179	-	85,610	185,789	-	185,789	197,028
National Church (TEC) assessment	136,740	-	-	-	136,740	-	136,740	138,918
Legal expenses	-	-	-	-	-	51,091	51,091	133,198
Outreach and ecumenical support	6,424	44,500	-	-	50,924	-	50,924	77,881
Rent/cleaning for office space	-	-	-	-	-	37,544	37,544	37,564
Insurance	-	-	-	-	-	28,578	28,578	31,818
Deputies - Gen'l Convention/Province 3	20,449	-	-	-	20,449	-	20,449	21,158
Formation and ministry support	-	14,154	3,620	-	17,774	1,137	18,911	18,183
Returned property expenses	-	-	-	-	-	18,625	18,625	41,593
Audit fee	-	-	-	-	-	14,800	14,800	14,375
Website/IT services	-	-	-	-	-	11,326	11,326	19,005
Other office supplies/expenses	-	-	-	-	-	9,051	9,051	11,954
Employee transportation fringe tax expense	-	-	-	-	-	1,352	1,352	-
Employee transportation fringe benefit	-	-	-	-	-	6,276	6,276	7,996
	$ 163,613	$ 323,533	$ 239,673	$ 85,610	$ 812,429	$ 412,919	$ 1,225,348	$ 1,338,709

See accompanying notes to financial statements.

THE EPISCOPAL DIOCESE OF PITTSBURGH

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Cash Flows From Operating Activities:		
Change in net assets	$ (3,084,943)	$ 2,862,235
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Change related to property transactions	-	468,700
Realized and unrealized (gains) loss on investments	2,677,440	(2,659,607)
Loss (gain) on trusts held by others	367,500	(519,745)
Gain (loss) on funds held for others	(353,261)	260,406
Allowance for uncollectible assessments	71,800	139,980
Write-off of uncollectible assessments	-	(4,467,722)
Depreciation expense	135,385	130,514
Loss on sale of asset	83,739	-
Change in operating assets and liabilities:		
Assessment receivables	(69,736)	(124,659)
Write off of assessment receivables	-	4,467,722
Change in allowance	(307,450)	(1,173)
Grants and bequest receivable	1,130,127	(944,360)
Other receivable	(163,601)	-
Prepaid expense	3,485	(3,025)
Accrued interest receivable	(78,164)	45,518
Accounts payable and accrued expenses	(45,592)	(28,519)
Net cash provided by (used in) operating activities	366,729	(373,735)
Cash Flows From Investing Activities:		
Purchase of investments	(16,138,194)	(7,118,207)
Sale of investments	15,289,187	7,310,065
Decrease in Growth Fund loans receivable	358,965	37,992
Issuance of notes receivable	(32,000)	(260,000)
Payments received on note receivable	246,978	209,935
Sale of asset held for sale	51,121	-
Payments for leasehold improvements	-	(15,250)
Net cash provided by (used in) investing activities	(223,943)	164,535
Cash Flows From Financing Activities:		
Payments on mortgage	(40,277)	(38,953)
Net Increase (Decrease) in Cash and Cash Equivalents	102,509	(248,153)
Cash and Cash Equivalents:		
Beginning of year	705,945	954,098
End of year	$ 808,454	$ 705,945

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, which is classified as held for sale at December 31, 2018, and related equipment, the Avalon property and related 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.

The Diocese adopted ASU 2016-14, *"Not-for-Profit Entities (Topic 958): Presentation of Financial Statement of Not-for-Profit Entities."* 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.

	Unrestricted	Temporarily Restricted	Permanently Restricted	With Donor Restrictions	Without Donor Restrictions	Total
January 1, 2017 net assets before adoption	$ 15,307,228	$ 974,358	$ 12,352,555	$ -	$ -	$ 28,634,141
Transfers between classes as a result of adoption	(15,307,228)	(974,358)	(12,352,555)	13,326,913	15,307,228	-
January 1, 2017 net assets	-	-	-	13,326,913	15,307,228	28,634,141
Change in net assets, December 31, 2017	-	-	-	1,115,259	1,746,976	2,862,235
January 1, 2018 net assets	$ -	$ -	$ -	$ 14,442,172	$ 17,054,204	$ 31,496,376

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 two classes as follows: net assets without donor restrictions and net assets with donor restrictions.

Net Assets without Donor Restrictions – Net assets that are not subject to donor-imposed stipulations over which the Board has discretionary control.

Net Assets with Donor Restrictions – 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. Also included in net assets with donor restrictions are amounts subject to donor-imposed or other legal restrictions that the principal be held in perpetuity by the Diocese. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

The statements of activities present changes in net assets without donor restrictions from operations separately from other changes in net assets without donor restrictions. 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 net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Expirations of 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 support without donor restrictions. Contributions to give that are scheduled to be received after the financial position date are shown as increases in net assets with donor restrictions and are reclassified to net assets without donor restrictions when the purpose and time restrictions are met. Contributions to give subject to donor-imposed stipulations that the corpus be maintained in perpetuity are recognized as increases in net assets with donor restrictions held in perpetuity. 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.

Liquidity and Availability

The Diocese regularly monitors the availability of liquid resources required to meet its operating needs and other commitments while striving to maximize the investment of its available funds. The Diocese operates with a balanced budget and anticipates collecting sufficient revenue to cover operating and other expenditures.

The following reflects the Diocese's financial assets (cash and cash equivalents, net assessments receivable, grants and bequests receivable, and investments) as of December 31, 2018 expected to be available within one year to meet the cash needs for general expenditures.

	2018	2017
Financial assets, at year-end	$ 25,303,997	$ 28,162,112
Less: those unavailable for general expenditures within one year, due to:		
Restricted by donor with time or purpose restrictions	(843,674)	(972,117)
Investments held in perpetuity	(12,094,289)	(13,470,055)
Financial assets available to meet cash needs for general expenditures within one year	$ 12,366,034	$ 13,719,940

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 net assets without donor restrictions and net assets with donor restrictions 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, 2018 and 2017 are $0 and $130,127, respectively.

Bequests Receivable

Bequests receivable for the years ended December 31, 2018 and 2017 are $0 and $1,000,000, respectively.

Other Receivable

The Diocese receives settlement payments from the parishes in the Anglican Church in North America (ACNA Diocese) (see Note 17). Other receivable for the years ended December 31, 2018 and 2017 are $163,601 and $0, 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 $727,500 and $87,800, respectively, as of December 31, 2018 and 2017.

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 net assets with donor restrictions to net assets without donor restrictions 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 2018 and 2017.

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 net assets with donor restrictions. 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). The Diocese is not required to file a Form 990 but can be subject to unrelated business income tax that must be filed on a Form 990-T. The Diocese does not believe it has any uncertain tax positions at December 31, 2018 and 2017.

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.

Statement of Functional Expenses Comparative Information

The statement of functional expenses includes prior year summarized comparative information by natural expense classification but not by functional category. Prior year functional expense totals are presented on the statements of activities.

Pending Pronouncements

ASU 2016-02, *"Leases (Topic 842),"* is 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 2016-13, "*Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*," is effective for the Diocese's financial statements for the year ending December 31, 2021. This amendment requires a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. This includes loans, debt securities, trade receivables, net investments in leases, off-balance-sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash.

ASU 2016-18, "*Statement of Cash Flows (Topic 230): Restricted Cash*," is effective for the financial statements for the year beginning ending December 31, 2019. This amendment requires that the statement of cash flows explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents.

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, 2018 and 2017, the Diocese charged $71,800 and $139,980, respectively, to the allowance for doubtful accounts, and wrote off $0 and $4,467,722, relating to the parishes in the Anglican Church in North America (ACNA Diocese) (see Note 17). No interest had been accrued on assessments or loans receivable balances as further described in Note 17 as of December 31, 2018 and 2017.

Interest rates on parish loans range from 3.00% to 3.75% and the loans have maturity dates ranging from 2019 to 2031.

4. Notes 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. The loan was repaid at an accelerated rate. As of December 31, 2018 and 2017, the balance was $0 and $189,173, respectively.

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. As of December 31, 2018 and 2017, the balance was $453,345 and $499,100, respectively.

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. Effective March 1, 2017, the note was amended with the following payment terms: During the first 36 months of the seven-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. As of December 31, 2018 and 2017, the balance was $612,730.

In March 2017, the Diocese finalized an agreement with an unaffiliated congregation to sell a parish property in exchange for a promissory note. The sale was recognized in 2016 and the resulting note receivable of $170,000. Principal and interest payments began in May 2017, with interest being paid at a rate of 3% for the first two years, increasing to 3.5% for the following three years, and then increasing to 4% for the following two years. The note concludes with a payment of all remaining principal after 84 months. As of December 31, 2018 and 2017, the balance was $164,025 and $167,348, respectively.

In May 2017, the Diocese finalized an agreement with an unaffiliated congregation to sell a parish property in exchange for a promissory note. The sale was recognized in 2016 and the resulting note receivable of $90,000. Principal and interest payments began in May 2017, with interest being paid at a rate of 4.5% for the ten-year life of the note. As of December 31, 2018 and 2017, the balance was $82,598 and $87,505, respectively.

In March 2018, the Diocese finalized an agreement with an unaffiliated congregation to sell a parish property in exchange for a promissory note. The sale was recognized in 2018 and the resulting note receivable of $32,000. Principal and interest payments began in April 2018, with interest being paid at a rate of 5.0% for the five-year life of the note. As of December 31, 2018 and 2017, the balance was $28,180 and $0, respectively.

5. Investments

Investments consist of the following at December 31:

	2018	2017
Cash and cash equivalents	$ 1,466,483	$ 1,389,590
Equity securities:		
Basic materials	703,520	1,376,594
Consumer goods	1,488,325	1,383,454
Energy	1,425,480	1,714,760
Financial	1,585,097	1,748,182
Healthcare	1,695,883	2,018,659
Industrial goods	950,148	1,369,687
Materials	674,532	1,008,092
Real Estate	13,935	15,432
Technology	1,371,804	2,109,483
Telecommunication services	1,510,409	921,734
Utilities	841,205	757,550
Other	1,636,743	1,579,844
Fixed Income and Preferreds:		
Ultra Short Term Fixed Income	317,356	90,651
Short Term Fixed Income	777,534	1,488,266
US Fixed Income Taxable	4,071,209	3,670,491
International Fixed Income	856,988	-
High Yield Fixed Income	-	1,523,253
Preferred Securities	115,815	68,478
Global Fixed Income	1,110,482	249,801
Alternative Investments	1,880,036	1,837,416
Total investments	$ 24,492,984	$ 26,321,417

Investments were held in the following accounts at December 31:

	2018	2017
Morgan Stanley, Pool 1	$ 22,133,631	$ 24,334,095
Morgan Stanley, Pool 2	2,301,748	1,927,440
Mellon Pooled Income Fund	45,780	47,654
Mellon Seed Account	11,825	12,228
	$ 24,492,984	$ 26,321,417

Net investment income consists of the following for the years ended December 31:

	2018	2017
Interest and dividend Income	$ 505,076	$ 433,014
Net realized and unrealized (losses) gains	(2,677,440)	2,659,607
Total net investment income	$ (2,172,364)	$ 3,092,621

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, 2018:

	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	$ 1,466,483	$ -	$ -	$ 1,466,483
Equity securities	13,897,081	-	-	13,897,081
Fixed income and preferreds	-	7,249,384	-	7,249,384
Alternative investments	-	1,880,036	-	1,880,036
Total investments	$ 15,363,564	$ 9,129,420	$ -	$ 24,492,984
Trusts held by others:				
Beneficial interest in remainder trusts	$ -	$ -	$ 666,258	$ 666,258
Beneficial interest in perpetual trusts	-	-	3,737,663	3,737,663
Total trusts held by others	$ -	$ -	$ 4,403,921	$ 4,403,921

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, 2017:

	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	$ 1,389,590	$ -	$ -	$ 1,389,590
Equity securities	16,003,471	-	-	16,003,471
Fixed income and preferreds	-	7,090,940	-	7,090,940
Alternative investments	-	1,837,416	-	1,837,416
Total investments	$ 17,393,061	$ 8,928,356	$ -	$ 26,321,417
Trusts held by others:				
Beneficial interest in remainder trusts	$ -	$ -	$ 740,165	$ 740,165
Beneficial interest in perpetual trusts	-	-	4,031,256	4,031,256
Total trusts held by others	$ -	$ -	$ 4,771,421	$ 4,771,421

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

	2018	2017
Fair value, beginning of year	$ 4,771,421	$ 4,251,676
Investment income from beneficial interest in remainder and perpetual trusts	153,273	111,493
Distributions from beneficial interest in remainder and perpetual trusts	(153,273)	(111,493)
Valuation (loss) gain, beneficial interest in remainder trusts	(73,906)	86,254
Valuation (loss) gain, beneficial interest in perpetual trusts	(293,594)	433,491
Balance, end of year	$ 4,403,921	$ 4,771,421

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, 2018 and 2017, 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, 2018 and 2017:

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment assets, beginning of year	$ -	$ 9,438,799	$ 9,438,799
Investment return, net	-	(860,511)	(860,511)
Amounts appropriated for expenditures	174,794	(174,794)	-
Amounts expended	(174,794)	(46,868)	(221,662)
Endowment assets, end of year	$ -	$ 8,356,626	$ 8,356,626

	2017		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment assets, beginning of year	$ -	$ 8,704,001	$ 8,704,001
Investment return, net	-	951,992	951,992
Amounts appropriated for expenditures	170,589	(170,589)	-
Amounts expended	(170,589)	(46,605)	(217,194)
Endowment assets, end of year	$ -	$ 9,438,799	$ 9,438,799

7. Fixed Assets

Fixed assets as of December 31, 2018 and 2017 include:

	2018	2017
Land and buildings	$ 1,553,854	$ 2,328,414
Vehicles	11,715	11,715
Leasehold Improvements	240,670	240,670
	1,806,239	2,580,799
Accumulated depreciation	(1,217,588)	(1,082,203)
	$ 588,651	$ 1,498,596

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, 2018 and 2017 is $1,353,692 and $2,025,689, respectively, and the debt to one of the parishes in the amount of $0 and $631,720 at December 31, 2018 and 2017 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 portfolio loan account in the amount of $823,628. The Diocese has continued to make monthly payments and 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 seven-year term the borrower (parish) 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, St. Brendan's Episcopal Church, 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 payment terms of this note and determine whether it is possible for the borrower to make additional principal payments in excess of the note's payment terms. Additionally, on or before January 2024, the parties will review possible financing options 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.

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. 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, with a balloon payment due in 2023. 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:

2019	$	41,501
2020		42,704
2021		44,061
2022		45,401
2023		567,295
Total	$	740,962

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, 2018 and 2017. 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, 2018. 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 February 2017, a fixed rate of 3.59% was locked in as indicated in the amended agreement dated March 1, 2017 (see Note 9).

2019	$	-
2020		4,308
2021		9,477
2022		14,647
2023		19,816
Thereafter		564,482
Total	$	612,730

The amount outstanding on the portfolio loan account at December 31, 2018 and 2017 was $1,353,692 and $1,393,969, 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 for 2017 and 2018, and $1,148 for 2019.

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 $2,917 per month ($35,000 annually) for rent of the space. The future rent payments are as follows:

2019	$ 35,000
2020	17,500
Total	$ 52,500

12. Functional Expenses

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

	2018	2017
Program	$ 812,429	$ 598,477
Administrative	412,919	740,232
Total functional expenses	$ 1,225,348	$ 1,338,709

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 $29,176 and $27,755 for the years ended December 31, 2018 and 2017, 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 $66,957 and $57,954 for the years ended December 31, 2018 and 2017, respectively, which does not exceed 5% of total Plan contributions from all employers.

Actuarial Valuation *:	March 31, 2019	March 31, 2018
Actuarial Value of Assets	$ 10,200,000,000	$ 9,900,000,000
Actuarial Accrued Liability	$ 6,600,000,000	$ 6,500,000,000
Excess of Assets Over Liabilities	$ 3,600,000,000	$ 3,400,000,000
Funded Ratio	155%	152%
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 - 2018 at: https://www.cpg.org.

14. Net Assets without Donor Restrictions

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:

	2018	2017
Community Service Fund	$ 2,675,570	$ 2,985,622
Plant Fund	3,377,798	3,900,675
Growth Fund	2,798,595	2,964,641
Bishop's Fund	1,273,227	1,439,173
Church Multiplication Fund	395,013	447,861
Bishop's Residence Fund	388,789	436,676
Clergy Relief	248,654	281,063
Seminarian Aid	113,733	125,477
Other	595,544	549,414
Total	$ 11,866,923	$ 13,130,602

The funds held in the Endowment Fund (Community Service Fund, Bishop's Fund, Church Multiplication Fund, Clergy Relief Fund, and a portion of the Plant Fund, Bishop's Residence Fund, Seminarian Aid Fund, and Other Funds) and Growth Fund are available for distribution/spending in accordance with the spending policy adopted by the Board of Trustees (4.5% per year). Amounts in the other funds are available for use in any amount pending Board approval.

15. Net Assets with Donor Restrictions

Net assets with donor restrictions at December 31, 2018 and 2017 are available for the following purposes:

	2018	2017
Time and/or purpose:		
Beneficial interest in charitable remainder trusts	$ 666,258	$ 740,165
Bishop's discretionary and other funds	127,416	115,285
Grants receivable	50,000	116,667
Total time and/or purpose:	843,674	972,117
Perpetual in nature:		
Episcopal support	5,334,081	5,858,950
Parish and mission support	3,345,479	3,754,293
Bishop's Fund	669,584	756,992
Chaplaincy programs	573,999	648,811
Episcopal Church Women	526,875	596,516
Parish and mission grants and loans	491,206	555,599
Seminarian support	299,277	338,283
Charitable and religious purposes	281,855	318,591
Other	571,933	642,020
Total perpetual in nature	12,094,289	13,470,055
Total Net Assets with Donor Restrictions	$ 12,937,963	$ 14,442,172

16. Related Party Transaction

A member of the Diocese’s board of trustees provides legal services to the Diocese. During 2018 and 2017, the Diocese paid $51,091 and $133,198 to the member’s law firm for those services.

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, referred to hereafter as 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 has consistently maintained the position 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. On February 28, 2018, the Episcopal Diocese and nine of these parishes announced that they had reached an agreement amicably resolving disputed questions over the ownership and use of the church property that have lingered since the congregations voted to leave the Episcopal Church in October 2008. The agreement was reached with the assistance of two mediators and it defines the respective rights, obligations and expectations of the parties relative to the historic real and personal property of each of the parishes. The parties sought and obtained a “No Objection” letter from the Office of the Attorney General which was issued on October 24, 2018. The parties also sought and obtained approval of the agreement from the Court of Common Pleas of Allegheny County, which was issued in an Order of Court dated December 4, 2018. As a result of the agreement, the parishes and the Episcopal Diocese can now move forward to focus on their respective missions, knowing what is expected from each other in their new relationship under the agreement.

This leaves a small number of parishes where the real property remains in the name of the parish and the issues described above have not been resolved. The Episcopal Diocese remains open to a negotiated resolution of these issues with the remaining parishes. 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.