

The Episcopal Diocese of Pittsburgh

Financial Statements

Years Ended December 31, 2023 and 2022
with Independent Auditor's Report

MaherDuessel

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THE EPISCOPAL DIOCESE OF PITTSBURGH

YEARS ENDED DECEMBER 31, 2023 AND 2022

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Independent Auditor's Report

**Diocesan Council and Board of Trustees
The Episcopal Diocese of Pittsburgh**

Report on the Audit of the Financial Statements

Opinion

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, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2023 and 2022, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Diocese, and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Diocese's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Diocese's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Diocese's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Maher Duessel

Pittsburgh, Pennsylvania
October 10, 2024

THE EPISCOPAL DIOCESE OF PITTSBURGH

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2023 AND 2022

	2023	2022
Assets		
Cash and cash equivalents	\$ 2,047,741	\$ 1,979,756
Assessments receivable:		
Parishes	1,617,165	1,509,354
Less allowance for doubtful accounts	(1,617,165)	(1,509,354)
Total assessments receivable, net	-	-
Loans receivable:		
Parishes and missions - growth fund	777,043	445,962
Less allowance for loan losses	(128,274)	(156,274)
Total loans receivable, net	648,769	289,688
Other receivable	40,815	41,866
Notes receivable	645,249	739,225
Operating lease right-of-use asset	150,836	-
Accrued interest receivable	28,380	34,601
Prepaid expenses	14,179	20,454
Trusts held by others at fair value	5,361,908	5,112,747
Investments at fair value	33,080,615	30,391,816
Fixed assets (net of accumulated depreciation)	146,922	177,367
Total Assets	\$ 42,165,414	\$ 38,787,520
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 145,830	\$ 241,555
Mortgage payable	1,139,876	1,180,024
Lease liability	152,836	-
Funds held for others	4,112,814	3,854,261
Total Liabilities	5,551,356	5,275,840
Net Assets:		
Without donor restrictions:		
Undesignated	6,097,961	4,851,255
Board-designated	14,939,728	14,014,187
Total net assets without donor restrictions	21,037,689	18,865,442
With donor restrictions	15,576,369	14,646,238
Total Net Assets	36,614,058	33,511,680
Total Liabilities and Net Assets	\$ 42,165,414	\$ 38,787,520

See accompanying notes to financial statements.

THE EPISCOPAL DIOCESE OF PITTSBURGH

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
Net Assets without Donor Restrictions:		
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Operating revenues and other support:		
Parish assessments	\$ 637,923	\$ 673,446
Investment returns designated for current operations	528,351	300,000
Contributions and grants	196,788	268,609
Gain (loss) on property transactions	(69)	409,486
Total operating revenues and other support	1,362,993	1,651,541
Operating expenses:		
Beyond the Diocese	193,313	176,899
Formation and mission	442,541	253,406
Office of the Bishop	231,704	221,105
Financial assistance - Parishes	165,242	114,927
Administration and Support	488,955	468,481
Total operating expenses	1,521,755	1,234,818
Net gain (loss) from operations	(158,762)	416,723
Other revenues (expenses):		
Spending policy transfers	369,111	248,498
Released from restriction	275,914	139,698
Other revenues	653,325	260,296
Grants and contributions to others	(682,299)	(655,435)
Other trustee expenses	(56,704)	(73,798)
Investment (loss) income	1,802,107	(2,743,703)
Depreciation	(30,445)	(29,371)
Total other revenues (expenses)	2,331,009	(2,853,815)
Change in Net Assets without Donor Restrictions	2,172,247	(2,437,092)
Net Assets with Donor Restrictions:		
<hr/>		
Contributions and grants	163,577	133,517
Investment (loss) income	1,411,579	(1,864,060)
Spending policy transfers	(369,111)	(248,498)
Released from restriction	(275,914)	(139,698)
Change in Net Assets with Donor Restrictions	930,131	(2,118,739)
Total Change in Net Assets	3,102,378	(4,555,831)
Net Assets:		
<hr/>		
Beginning of year	33,511,680	38,067,511
End of year	\$ 36,614,058	\$ 33,511,680

See accompanying notes to financial statements.

THE EPISCOPAL DIOCESE OF PITTSBURGH

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2023

	Program Expenses				Total Program Expenses	Administration and Support	Total
	Beyond the Diocese	Formation and Mission	Office of the Bishop	Financial Support to Parishes			
Salaries and cash housing	\$ -	\$ 279,078	\$ 160,580	\$ 52,921	\$ 492,579	\$ 222,655	\$ 715,234
Employee benefits and allowances	-	21,361	32,656	-	54,017	34,410	88,427
Pension	-	40,108	28,904	6,423	75,435	28,907	104,342
SECA and FICA taxes	-	907	-	-	907	16,964	17,871
Consultants/communications expense	-	-	-	-	-	8,987	8,987
Employee travel and ministry expenses	-	16,643	8,431	-	25,074	14,101	39,175
Grants/support to parishes	-	-	-	105,899	105,899	-	105,899
National Church (TEC) assessment	177,915	-	-	-	177,915	-	177,915
Legal expenses	-	-	-	-	-	37,108	37,108
Outreach and ecumenical support	6,969	20,350	-	-	27,319	-	27,319
Rent/cleaning for office space	-	-	-	-	-	40,000	40,000
Insurance	-	-	-	-	-	18,312	18,312
Deputies - Gen'l Convention/Province 3	8,429	-	-	-	8,429	-	8,429
Formation and ministry support	-	64,094	1,133	-	65,227	3,502	68,729
Returned property expenses	-	-	-	-	-	12,854	12,854
Audit fee	-	-	-	-	-	16,200	16,200
Website/IT services	-	-	-	-	-	17,363	17,363
Other office supplies/expenses	-	-	-	-	-	17,592	17,592
	<u>\$ 193,313</u>	<u>\$ 442,541</u>	<u>\$ 231,704</u>	<u>\$ 165,242</u>	<u>\$ 1,032,800</u>	<u>\$ 488,955</u>	<u>\$ 1,521,755</u>

See accompanying notes to financial statements.

THE EPISCOPAL DIOCESE OF PITTSBURGH

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2022

	Program Expenses				Total Program Expenses	Administration and Support	Total
	Beyond the Diocese	Formation and Mission	Office of the Bishop	Financial Support to Parishes			
Salaries and cash housing	\$ -	\$ 135,615	\$ 155,000	\$ -	\$ 290,615	\$ 208,427	\$ 499,042
Employee benefits and allowances	-	25,149	29,406	-	54,555	40,395	94,950
Pension	-	42,463	27,900	-	70,363	28,617	98,980
SECA and FICA taxes	-	7,021	-	-	7,021	16,505	23,526
Consultants/communications expense	-	-	-	-	-	7,065	7,065
Employee travel and ministry expenses	-	7,559	8,280	-	15,839	9,045	24,884
Grants/support to parishes	-	-	-	114,927	114,927	-	114,927
National Church (TEC) assessment	151,727	-	-	-	151,727	-	151,727
Legal expenses	-	-	-	-	-	37,210	37,210
Outreach and ecumenical support	7,032	20,150	-	-	27,182	-	27,182
Rent/cleaning for office space	-	-	-	-	-	37,511	37,511
Insurance	-	-	-	-	-	16,704	16,704
Deputies - Gen'l Convention/Province 3	18,140	-	-	-	18,140	-	18,140
Formation and ministry support	-	15,449	519	-	15,968	5,221	21,189
Returned property expenses	-	-	-	-	-	8,450	8,450
Audit fee	-	-	-	-	-	15,700	15,700
Website/IT services	-	-	-	-	-	18,293	18,293
Other office supplies/expenses	-	-	-	-	-	19,338	19,338
	<u>\$ 176,899</u>	<u>\$ 253,406</u>	<u>\$ 221,105</u>	<u>\$ 114,927</u>	<u>\$ 766,337</u>	<u>\$ 468,481</u>	<u>\$ 1,234,818</u>

See accompanying notes to financial statements.

THE EPISCOPAL DIOCESE OF PITTSBURGH

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
Cash Flows from Operating Activities:		
Change in net assets	\$ 3,102,378	\$ (4,555,831)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Realized and unrealized (gain) loss on investments	(3,024,975)	4,846,449
Loss (gain) on trusts held by others	(249,161)	553,705
Change in funds held for others	258,553	(590,045)
Change in allowance for doubtful accounts	107,811	107,811
Change in allowance for loans losses	(28,000)	-
Reduction in the carrying amount of lease right-of-use assets - operating leases	35,041	-
Depreciation expense	30,445	29,371
Loss (gain) on sale of asset	69	(409,486)
Change in operating assets and liabilities:		
Assessment receivables	(107,811)	(107,811)
Other receivable	1,051	(16,095)
Prepaid expense	6,275	(15,493)
Accrued interest receivable	6,221	19,584
Accounts payable and accrued expenses	(95,725)	(65,309)
Lease liability	(33,041)	-
Net cash provided by (used in) operating activities	9,131	(203,150)
Cash Flows From Investing Activities:		
Purchase of investments	(14,863,019)	(11,458,940)
Sale of investments	15,227,126	11,008,140
Decrease in loans receivable	(359,081)	30,964
Payments received on note receivable	93,976	187,573
Proceeds from the sale of asset held for sale	-	431,486
Purchase of fixed assets	-	(18,052)
Net cash provided by (used in) investing activities	99,002	181,171
Cash Flows From Financing Activities:		
Payments on mortgage payable	(40,148)	(45,401)
Net Increase (Decrease) in Cash and Cash Equivalents	67,985	(67,380)
Cash and Cash Equivalents:		
Beginning of year	1,979,756	2,047,136
End of year	\$ 2,047,741	\$ 1,979,756
Supplemental Disclosures:		
Interest paid	\$ 39,892	\$ 40,099
Addition of right-of-use asset for operating lease	\$ 185,877	\$ -

See accompanying notes to financial statements.

THE EPISCOPAL DIOCESE OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2023 AND 2022

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 of the Diocese 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 lower of costs or appraised value at the date of donation or return to the Diocese (for closed parishes). Closed parishes that the Diocese intends to sell are recorded as property held for sale. At December 31, 2023 and 2022, there were no properties 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.

THE EPISCOPAL DIOCESE OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2023 AND 2022

Basis of Presentation and Method of Accounting

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.

Net Assets

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

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2023 AND 2022

not include items such as grants paid directly from endowments or other restricted non-operating accounts, provisions for loan losses, investment 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.

Revenue, Receivables, and Revenue Recognition

Parish assessment income is recorded as revenue in the year the parishes are assessed. Such revenue is calculated and assessed based upon the lower of the parish's most recent year's normal operating income or the average of the preceding three years. The required assessments are remitted to the Diocese on a monthly basis. The Diocese invoices parishes for their annual parish assessments. The receivables are stated at their unpaid balances less estimated allowances for credit losses.

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. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. There were no conditional grants to the Diocese at December 31, 2023 or 2022. 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

THE EPISCOPAL DIOCESE OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2023 AND 2022

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, and investments) as of December 31, 2023 and 2022 expected to be available within one year to meet the cash needs for general expenditures:

	<u>2023</u>	<u>2022</u>
Financial assets, at year-end	\$ 35,128,356	\$ 32,371,572
Less: those unavailable for general expenditures within one year, due to:		
Board-designated	(14,939,728)	(14,014,187)
Funds held for others	(4,112,814)	(3,854,261)
Restricted by donor with time or purpose restrictions	(422,659)	(509,528)
Investments held in perpetuity less trusts held by others	<u>(9,879,463)</u>	<u>(9,100,142)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 5,773,692</u>	<u>\$ 4,893,454</u>

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

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2023 AND 2022

statements of financial position, the investments include invested amounts by other entities (primarily parishes) with an offsetting liability of funds held for others.

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.

Other Receivable

The Diocese receives settlement payments from the parishes in the Anglican Church in North America (ACNA Diocese) (see Note 16). The portion of other receivable related to these settlement payments for the years ended December 31, 2023 and 2022 is \$40,815 and \$39,910, 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 lower of costs or appraised value at the date of donation.

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	10 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.

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2023 AND 2022

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.

Leases

The Diocese determines if an arrangement is or contains a lease at inception. Operating leases are included in operating right-of-use (ROU) assets and operating lease liabilities in the statements of financial position.

ROU assets represent the Diocese's right to use an underlying asset for the lease term and lease liabilities represent the Diocese's obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. The Diocese's lease terms may include options to extend or terminate the lease when it is reasonably certain that they will exercise that option. Operating lease expense for lease payments is recognized on a straight-line basis over the lease term. The Diocese does not report ROU assets and lease liabilities for its short-term leases (leases with a term of 12 months or less). Instead, the lease payments of those leases are reported as lease expense as incurred.

In evaluating contracts to determine if they qualify as a lease, the Diocese considers factors such as if they have obtained substantially all of the rights to the underlying asset through exclusivity, if they can direct the use of the asset by making decisions about how and for what purpose the asset will be used, and if the lessor has substantive substitution rights. This evaluation may require significant judgment.

In determining the discount rate used to measure the ROU asset and lease liability, the Diocese uses rates implicit in the lease, or if not readily available, they use their incremental borrowing rate.

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2023 AND 2022

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 2023 and 2022.

Trusts Held by Others

The Diocese has been named as an irrevocable beneficiary of several perpetual trusts held and administered by independent trustees. Perpetual trusts provide for the distribution of the net income of the trusts to the Diocese; however, the Diocese will never receive the assets of the trusts. At the date the Diocese receives notice of a beneficial interest, a contribution with donor restrictions of a perpetual nature is recorded in the statements of activities and a beneficial interest in perpetual trust is recorded in the statements of financial position at the fair value of the underlying trust assets. Thereafter, beneficial interests in the trusts are reported at the fair value of the trusts' assets in the statements of financial position, with trust distributions and change in fair value recognized in the statement of activities.

The Diocese is also the beneficiary of several small remainder trusts held and administered by independent trustees. These trusts were created independently by donors and are administered by outside agents designated by the donors. The Diocese has neither possession nor control over the assets of the trusts. Beneficial interests in the trusts are reported at fair value in the statements of financial position, with changes in fair value recognized in the statements of activities.

Upon receipt of trust distributions or expenditures, or both, in satisfaction of the donor-restricted purpose, if any, net assets with donor-imposed time or purpose restrictions are released to net assets without donor restrictions.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2023 AND 2022

present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the program(s) and supporting services benefited. The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and related benefits, ministry expenses, and formation and support. These expenses are allocated based on actual time spent.

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 an organization 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, 2023 and 2022.

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.

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Adopted Accounting Standard

The provisions of this Standards Update have been adopted and incorporated into these financial statements:

ASU 2016-13, *“Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,”* is effective, as delayed, for the financial statements for the year beginning after December 15, 2022. These amendments and related amendments require 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. The impact of the adoption was not considered material to the financial statements and primarily resulted in new/enhanced disclosures only.

Pending Accounting Standards Update

The Financial Accounting Standards Board (FASB) has issued Accounting Standards Updates (individually and collectively, ASU) that will become effective in future years as outlined below. Management has not yet determined the impact of this update on the financial statements.

ASU 2022-03, *“Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions,”* is effective for fiscal years beginning after December 15, 2024. The amendments in this update clarify that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value.

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.

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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. Parish assessments receivable relate primarily to charges to parishes that consider themselves no longer affiliated with the Diocese as described in Note 16. The Diocese continues to assess those parishes based on information prior to the self declared disaffiliation but fully allows for non-collection of those assessments due to the high level of uncertainty that the amounts will be collected. During the years ended December 31, 2023 and 2022, the Diocese charged \$(107,811) and \$(107,811), respectively, to the allowance for doubtful accounts related to parish assessment, and had no write-offs.

The Diocese makes loans to its related parishes for a variety of reasons. With a small number of loans, based on specific, identified review, and when 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. No unpaid interest had been accrued on assessments or loans receivable balances as further described in Note 16.

The following table reflects loans receivable as of December 31, 2023 and 2022, presented at amortized cost, net of allowance for credit losses:

	2023	2022
Principal balance, beginning of year	\$ 445,962	\$ 476,926
Additions	396,299	9,300
Principal payments	(65,218)	(40,264)
Principal balance, end of year	777,043	445,962
Less allowance for credit losses	(128,274)	(156,274)
Net amortized cost, end of year	<u>\$ 648,769</u>	<u>\$ 289,688</u>

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The following table reflects the allowance for credit losses for loans at December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Allowance for credit losses, beginning of year	\$ 156,274	\$ 156,274
Additional provision for credit losses	<u>(28,000)</u>	<u>-</u>
Allowance for credit losses, end of year	<u>\$ 128,274</u>	<u>\$ 156,274</u>

As of December 31, 2023 and 2022, the Diocese had six and seven loans outstanding, respectively, which carry interest rates ranging from 1.5% to 3.0%. Original repayment periods range from two to thirty years, with notes outstanding at December 31, 2023 maturing between 2024 and 2054.

As of December 31, 2023 and 2022, past due amounts (30+ days outstanding) for loan payments were of an immaterial amount. Loans are considered to be performing if they are less than 90 days delinquent and still accruing interest. As of December 31, 2023 and 2022, no loans were nonperforming or on non-accrual status.

Credit Quality Indicators

As part of the ongoing monitoring of the credit quality of the loan portfolio, the Diocese reviews loans on an annual basis based on the borrower's financial condition criteria. A watch list is created of borrowers that represent a credit risk to the Diocese. Criteria for loan issuances include project budget and projected cash flow, credit reports and references, evaluation of collateral, community assessment, and historical financial statements as appropriate.

Loan Modifications

An assessment of whether a borrower is experiencing financial difficulty is made on the date of modification. Because the effect of most modifications made to borrowers experiencing financial difficulty is already included in the allowance for credit losses methodology, a change to the allowance for credit losses is generally not recorded upon modification. Typical concessions of loan modification include extension of loan term and extension of interest-only payment period.

As of December 31, 2023 and 2022, there were no loan modifications.

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If the Diocese were to determine that a modified loan (or portion of a loan) has subsequently been deemed uncollectible, the loan (or a portion of the loan) would be written off. Therefore, the amortized cost basis of the loan is reduced by the uncollectible amount and the allowance for credit losses is adjusted by the same amount.

4. Notes Receivable

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, 2023 and 2022, the balance was \$115,646 and \$183,968, respectively, as payments were made at an accelerated rate in 2023 and 2022.

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 notes receivable 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, 2023 and 2022, the balance was \$529,603 and \$552,866, respectively.

Management's review of credit quality indicators of the notes receivable outstanding at December 31, 2023 and 2022 determined that an immaterial allowance would be required that was waived.

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

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2018, with interest being paid at a rate of 5.0% for the five-year life of the note. As of December 31, 2023 and 2022, the balance was \$0 and \$2,391, respectively.

5. Investments

Investments consist of the following at December 31:

	2023	2022
Cash and cash equivalents	\$ 2,145,106	\$ 2,880,225
Equity securities:		
Basic materials	1,552,544	1,242,561
Consumer goods	1,510,521	1,382,677
Energy	2,293,445	2,086,139
Financial	3,276,844	2,750,687
Healthcare	2,937,049	2,901,434
Industrial goods	2,472,662	1,845,201
Materials	1,009,356	932,895
Real Estate	371,434	381,798
Technology	3,559,537	2,830,423
Telecommunication services	1,201,783	1,211,124
Utilities	1,262,389	960,131
Other	677,710	367,119
Fixed income and preferreds:		
Ultra Short-Term Fixed Income	84,787	-
Short-Term Fixed Income	1,048,141	-
US Fixed Income Taxable	5,309,493	4,847,756
Preferred Securities	90,853	135,833
Global Fixed Income	765,233	2,234,545
Alternative investments	1,511,728	1,401,268
Total investments	<u>\$ 33,080,615</u>	<u>\$ 30,391,816</u>

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Investments were held in the following accounts at December 31:

	<u>2023</u>	<u>2022</u>
Morgan Stanley, Pool 1	\$ 29,744,029	\$ 27,459,845
Morgan Stanley, Pool 2	3,294,566	2,890,673
Mellon Pooled Income Fund	42,020	41,004
Mellon Seed Account	-	294
Morgan Stanley, Donegal Property Sale Proceeds	-	-
PNC - Baur Trust Balance	-	-
	<u>\$ 33,080,615</u>	<u>\$ 30,391,816</u>

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

	<u>2023</u>	<u>2022</u>
Interest and dividend Income	\$ 717,062	\$ 538,686
Net realized and unrealized gains (losses)	<u>3,024,975</u>	<u>(4,846,449)</u>
Total net investment income (loss)	<u>\$ 3,742,037</u>	<u>\$ (4,307,763)</u>

Investment fees are embedded in the investment returns.

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

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

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

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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 observable inputs related to (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, 2023:

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	Fair Value Measurements at Reporting Date Using			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Investments:				
Equity securities	\$ 22,125,274	\$ -	\$ -	\$ 22,125,274
Fixed income and preferreds	-	7,298,507	-	7,298,507
Alternative investments	-	1,511,728	-	1,511,728
Total	22,125,274	8,810,235	-	30,935,509
Cash and cash equivalents	-	-	-	2,145,106
Total Investments	\$ 22,125,274	\$ 8,810,235	\$ -	\$ 33,080,615
Trusts held by others:				
Beneficial interest in remainder trusts	\$ -	\$ -	\$ 87,661	\$ 87,661
Beneficial interest in perpetual trusts	-	-	5,274,247	5,274,247
Total trusts held by others	\$ -	\$ -	\$ 5,361,908	\$ 5,361,908

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, 2022:

	Fair Value Measurements at Reporting Date Using			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Investments:				
Equity securities	\$ 18,892,189	\$ -	\$ -	\$ 18,892,189
Fixed income and preferreds	-	7,218,134	-	7,218,134
Alternative investments	-	1,401,268	-	1,401,268
Total	18,892,189	8,619,402	-	27,511,591
Cash and cash equivalents	-	-	-	2,880,225
Total investments	\$ 18,892,189	\$ 8,619,402	\$ -	\$ 30,391,816
Trusts held by others:				
Beneficial interest in remainder trusts	\$ -	\$ -	\$ 76,178	\$ 76,178
Beneficial interest in perpetual trusts	-	-	5,036,569	5,036,569
Total trusts held by others	\$ -	\$ -	\$ 5,112,747	\$ 5,112,747

There were transfers of \$122,882 and \$135,464 out of level 3 assets during the years ended December 31, 2023 and 2022, respectively.

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The valuation (loss) gain on the trusts held by others is included in the investment income under net assets with donor restrictions on 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.

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, 2023 and 2022, the principal valuation technique utilized is market value of the underlying investments, with an unobservable input of percentage share of each trust, and a significant input value ranging from 5% to 100%.

For Level 3 investments of the beneficial interest in remainder trusts as of December 31, 2023 and 2022, the principal valuation technique utilized is market value of the underlying investments, with an unobservable input of donor's life expectancy.

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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, 2023 and 2022:

	2023		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment assets, beginning of year	\$ -	\$ 9,100,142	\$ 9,100,142
Investment return, net	-	1,100,291	1,100,291
Amounts appropriated for expenditures	369,111	(369,111)	-
Amounts expended	(369,111)	-	(369,111)
Endowment assets, end of year	\$ -	\$ 9,831,322	\$ 9,831,322

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	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment assets, beginning of year	\$ -	\$ 10,696,845	\$ 10,696,845
Investment return, net	-	(1,348,205)	(1,348,205)
Amounts appropriated for expenditures	248,498	(248,498)	-
Amounts expended	(248,498)	-	(248,498)
Endowment assets, end of year	<u>\$ -</u>	<u>\$ 9,100,142</u>	<u>\$ 9,100,142</u>

7. Fixed Assets

Fixed assets as of December 31, 2023 and 2022 include:

	2023	2022
Land and buildings	\$ 564,878	\$ 564,878
Vehicles	18,052	18,052
Leasehold Improvements	240,670	240,670
	<u>823,600</u>	<u>823,600</u>
Accumulated depreciation	(676,678)	(646,233)
	<u>\$ 146,922</u>	<u>\$ 177,367</u>

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 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.

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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, 2023 and 2022 is \$1,139,876 and \$1,180,024, respectively.

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 matured in November 2023. The Diocese made an agreement with Morgan Stanley to extend the loan without requiring the balloon payment until a final decision was made by the Diocese on how to refinance the loan. The only change in the loan was a change from a fixed to variable interest rate. As discussed further in Note 10, this loan is reflected as a Diocese loan payable.

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 were being made. No principal payments have been made, as there is a penalty for prepayment. 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. As discussed further in Note 10, the draw used to finance this note is reflected as a liability of the Diocese.

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10. Loans Payable

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 described below. The interest rate is 2.96% and monthly payments are \$5,263, with a balloon payment scheduled to be due in 2023. The proceeds from the Morgan Stanley note were used to pay off the First National Bank mortgage. The Diocese made an agreement with Morgan Stanley to extend the loan without requiring the balloon payment to be made until a final decision was determined by the Diocese on how to refinance the loan. The only change in the loan was a change from a fixed to variable interest rate. 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:

2024	<u>\$ 527,146</u>
Total	<u><u>\$ 527,146</u></u>

During 2014, the Diocese obtained a portfolio loan account with Morgan Stanley. The loan account allows for borrowings to a maximum of \$1,225,000 and \$1,225,000 for the years ended December 31, 2023 and 2022, respectively. The loan account is secured by a pledged account included in the Diocese's investments at Morgan Stanley. In addition to the financed amount noted above, the Diocese also borrowed \$612,730 on behalf of a parish with \$612,730 still outstanding as of December 31, 2023. 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 to repay the Diocesan draw. 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).

2024	<u>\$ 612,730</u>
Total	<u><u>\$ 612,730</u></u>

The amount outstanding on the portfolio loan account at December 31, 2023 and 2022 was \$1,139,876 and \$1,180,024, respectively.

Subsequent to year-end, in April 2024, the Diocese refinanced both loans for a term of 7 years with a fixed interest rate of 5.9327%.

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11. Leases

In 2015, the Diocesan offices moved to space within Trinity Episcopal Cathedral, a parish of the Diocese. The formal lease agreement was signed May 2015 and was effective until June 30, 2020. As of December 31, 2021, no new lease agreement had been signed; however, the Diocese and Trinity Episcopal Cathedral reached an agreement to extend the lease until December 31, 2022. The Diocese paid \$2,917 per month (\$35,000 annually) for rent of the space. Short-term lease expense recorded for the year ended December 31, 2022 was \$36,187.

In January 2023, the Diocese and Trinity Episcopal Cathedral signed a new five-year agreement for the office space from January 1, 2023 to December 31, 2027 as an operating, non-cancelable lease. The Diocese will pay \$3,167 per month (\$38,000 annually) for rent of the space and the annual payment will increase by \$1,000 each succeeding year. The weighted-average discount rate applied to calculate the lease liability as of December 31, 2023 was 3.0%.

For the years ended December 31, 2023 and 2022, total operating (non-short term) lease cost was \$40,000 and \$0, respectively. The remaining lease term for the Diocese's operating lease at December 31, 2023 was approximately four years.

Cash paid for operating leases for the years ended December 31, 2023 and 2022 was \$38,000 and \$0, respectively.

Future maturities of lease liabilities are presented in the following table, for the years ending December 31:

	Future Payments
2024	\$ 39,000
2025	40,000
2026	41,000
2027	42,000
Total future minimum lease payments	162,000
Less present value discount	9,164
Total	<u>\$ 152,836</u>

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12. 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 \$30,685 and \$36,301 for the years ended December 31, 2023 and 2022, 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 it 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 \$70,295 and \$74,621 for the years ended December 31, 2023 and 2022, respectively, which does not exceed 5% of total Plan contributions from all employers.

Actuarial Valuation *:	March 31, 2024	March 31, 2023
Actuarial Value of Assets	\$ 14,000,000,000	\$ 14,000,000,000
Actuarial Accrued Liability	\$ 6,000,000,000	\$ 6,000,000,000
Excess of Assets Over Liabilities	\$ 8,000,000,000	\$ 8,000,000,000
Funded Ratio	233%	233%
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 - 2023 at: <https://www.cpg.org>.

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13. Net Assets without Donor Restrictions

In addition to the undesignated net assets without donor restrictions of \$6,097,961 and \$4,851,255 at December 31, 2023 and 2022, respectively; the net assets and certain income derived therefrom have been designated by the Board or General Convention for the following purposes at December 31:

	<u>2023</u>	<u>2022</u>
Community Service Fund	\$ 3,184,146	\$ 2,964,339
Plant Fund	4,272,343	3,982,521
Growth Fund	3,549,645	3,239,360
Bishop's Fund	1,465,123	1,363,983
Church Multiplication Fund	456,476	424,996
Bishop's Residence Fund	418,387	388,748
Clergy Relief	286,130	266,378
Seminarian Aid	123,739	129,863
Other	1,183,739	1,253,999
Total	<u>\$ 14,939,728</u>	<u>\$ 14,014,187</u>

The majority of these Board designated funds (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 (4.5% per year).

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14. Net Assets with Donor Restrictions

Net assets with donor restrictions at December 31, 2023 and 2022 are available for the following purposes:

	2023	2022
Time and/or purpose:		
Beneficial interest in charitable remainder trusts	\$ 87,661	\$ 76,178
Bishop's discretionary and other funds	334,998	433,350
Total time and/or purpose	<u>422,659</u>	<u>509,528</u>
Perpetual in nature (held in investments and perpetual trusts):		
Episcopal support	7,139,289	6,778,617
Parish and mission support	3,965,746	3,614,652
Bishop's Fund	774,240	717,393
Chaplaincy programs	663,509	614,914
Episcopal Church Women	609,984	564,455
Parish and mission grants and loans	568,435	526,567
Seminarian support	346,947	320,609
Charitable and religious purposes	325,808	301,946
Other	759,752	697,557
Total perpetual in nature	<u>15,153,710</u>	<u>14,136,710</u>
Total Net Assets with Donor Restrictions	<u>\$ 15,576,369</u>	<u>\$ 14,646,238</u>

Net assets released from donor restriction by satisfying the restricted purposes as reflected in the statement of activities are as follows for the years ended December 31:

	2023	2022
Spending policy distributions	\$ 369,111	\$ 248,498
Chaplaincy programs	49,949	36,000
External trust distributions	50,995	37,909
Bishop's discretionary and other funds	174,970	65,789
	<u>\$ 645,025</u>	<u>\$ 388,196</u>

THE EPISCOPAL DIOCESE OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

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15. Related Party Transaction

The individual that provides legal services to the Diocese is also a member of two governing bodies (Diocesan Council and the Commission on Constitution and Canons). During 2023 and 2022, the Diocese paid \$37,108 and \$37,210, respectively, to the member's law firm for legal services.

16. Legal Matters

During 2019, the Diocese reached an agreement with one of the remaining ANCA congregations where the real property had been titled in the name of the parish, resulting in the transfer of title to the property to the Diocese and a release of any further claims against the congregation. The Diocese sold this real property to a third party in early 2020.

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.

The Order of the Court of Common Pleas dated January 29, 2010 had incorporated restrictions that required the Episcopal Diocese to seek Court approval before selling any of the real property identified in the Special Master's Report, removing current occupants from the buildings, or selling or transferring any altar artifacts. On July 19, 2021, the Court granted an Unopposed Motion to Modify the Court Order of January 29, 2010, by removing those restrictions. The Order of January 29, 2010 otherwise remains in effect.

In the normal course of operations, the Diocese is subject to potential claims or lawsuits. In the opinion of management and legal counsel, there are no current potential liabilities to be accrued and no material adverse effect on the Diocese's financial position to be considered.