Episcopal Diocese of Pittsburgh

Financial Statements

December 31, 2011 and 2010

ParenteBeard

CONFIDENCE THROUGH CLARITY

Table of Contents
December 31, 2011 and 2010

ParenteBeard

Independent Auditors' Report

Diocesan Council and Board of Trustees
Episcopal Diocese of Pittsburgh

We have audited the accompanying statement of financial position of Episcopal Diocese of Pittsburgh (a not-for-profit diocese) as of December 31, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of Diocese management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Episcopal Diocese of Pittsburgh as of December 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

ParenteBeard LLC

Pittsburgh, Pennsylvania
September 20, 2012

Episcopal Diocese of Pittsburgh

Statement of Financial Position
December 31, 2011 and 2010

	2011	2010
Assets		
Cash	$ 713,224	$ 953,012
Assessments receivable		
Parishes	2,287,683	1,577,296
Less allowance for doubtful accounts	(2,271,518)	(1,574,903)
Assessments receivable, net	16,165	2,393
Loans receivable		
Growth Fund	965,268	933,370
Bishop's Residence Fund	109,630	118,369
Total	1,074,898	1,051,739
Less allowance for loan losses	(601,580)	(601,580)
Loans receivable, net	473,318	450,159
Note receivable	612,387	-
Investments	21,719,737	23,029,776
Property and equipment		
Land	612,272	612,272
Buildings and improvements	1,716,142	1,716,142
Vehicles	11,715	11,715
	2,340,129	2,340,129
Less accumulated depreciation	(447,121)	(358,971)
Property and equipment, net	1,893,008	1,981,158
Other assets		
Prepaid expenses	5,297	650
Property held for sale	85,031	85,031
Trusts held by others	3,056,062	2,975,128
Accrued interest receivable	92,432	87,904
Total other assets	3,238,822	3,148,713
Total assets	$ 28,666,661	$ 29,565,211
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$ 138,479	$ 133,313
Funds held for others	2,645,134	2,863,211
Total liabilities	2,783,613	2,996,524
Net Assets		
Unrestricted, including board designated amounts	14,487,318	14,618,719
Temporarily restricted	485,900	555,467
Permanently restricted	10,909,830	11,394,501
Total net assets	25,883,048	26,568,687
Total liabilities and net assets	$ 28,666,661	$ 29,565,211

See notes to financial statements

Episcopal Diocese of Pittsburgh

Statement of Activities
Years Ended December 31, 2011 and 2010

	2011	2010
Unrestricted Revenues and Expenses		
Operating Revenues and Other Support		
Parish assessments	$ 540,304	$ 492,775
Investment returns designated for current operations	484,148	257,910
Contributions and grants	189,691	96,483
Total operating revenues and other support	1,214,143	847,168
Operating Expenses		
Office of administration	372,732	246,057
Legal expense	288,515	249,841
Office of the Bishop	247,100	218,111
Reopened parish, property, and other expense	152,863	17,232
Beyond the diocese	123,133	77,776
Transformational networks	122,614	56,582
Congregational mission	99,259	92,714
Total operating expenses	1,406,216	958,313
Net loss from operations	(192,073)	(111,145)
Other Revenue (Expenses)		
Transfer in of parish property	623,397	-
Spending policy transfers	305,866	375,516
Released from restriction	61,424	47,761
Other revenue	55,634	203,740
Grants and contributions to others	(509,372)	(522,545)
Provision for loan losses	-	(301,742)
Investment (loss) income	(388,127)	977,608
Depreciation	(88,150)	(88,150)
Total other revenue (expenses)	60,672	692,188
Change in Unrestricted Net Assets	(131,401)	581,043
Temporarily Restricted Net Assets		
Contributions and grants	-	33,840
Investment (loss) income	(8,143)	115,077
Released from restriction	(61,424)	(47,761)
Change in Temporarily Restricted Net Assets	(69,567)	101,156
Permanently Restricted Net Assets		
Contributions and grants	25,243	83,701
Spending policy transfers	(305,866)	(375,516)
Investment (loss) income	(204,048)	921,247
Change in Permanently Restricted Net Assets	(484,671)	629,432
Total Change in Net Assets	(685,639)	1,311,631
Net Assets, Beginning of Year	26,568,687	25,257,056
Net Assets, End of Year	$ 25,883,048	$ 26,568,687

See notes to financial statements

Episcopal Diocese of Pittsburgh

Statement of Cash Flows
Years Ended December 31, 2011 and 2010

	2011	2010
Cash Flows from Operating Activities		
Change in net assets	$ (685,639)	$ 1,311,631
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Transfer in of parish property	(623,397)	-
Depreciation	88,150	88,150
Net realized and unrealized loss (gain) on investments	539,452	(1,937,092)
Allowance for uncollectible assessments	696,615	749,860
Allowance for loan loss	-	301,742
Changes in assets and liabilities:		
Assessments receivable	(710,387)	(705,551)
Prepaid expenses	(4,647)	(650)
Accrued interest receivable	(4,528)	(25,023)
Accounts payable and accrued expenses	5,166	(96,721)
Net cash used in operating activities	(699,215)	(313,654)
Cash Flows from Investing Activities		
Increase in Growth Fund loans receivable	(31,898)	(27,128)
Payments received on Bishop's Residence Fund loan receivable	8,739	8,482
Payments received on note receivable	11,010	-
Net proceeds from sales of investments	770,587	447,866
Net increase in trusts held by others	(80,934)	(184,913)
Net cash provided by investing activities	677,504	244,307
Cash Flows from Financing Activities		
Change in funds held for others	(218,077)	134,156
Net (Decrease) Increase in Cash	(239,788)	64,809
Cash, Beginning of Year	953,012	888,203
Cash, End of Year	$ 713,224	$ 953,012

See notes to financial statements

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The Episcopal Diocese of Pittsburgh (the "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.

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 Fund, 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 publicly-traded equities and 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 (the "Board") must consider these factors in the administration of the affairs of the Diocese.

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

Basis of Accounting and Presentation

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

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

> Unrestricted Net Assets - Net assets not subject to donor-imposed stipulations. Substantial portions of the unrestricted net assets have been designated by the Board for specific uses.
>
> Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that may or will be met by actions of the Diocese and/or the passage of time.

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

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

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

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

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 statement and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Assessments and Loans Receivable

Assessments and loans receivable are recorded at net realizable value due from member parishes that are actively participating in the Diocese, as well as parishes that maintain the position that they are realigned with the Anglican Church of North America (“ACNA”) and that are not actively participating in the Diocese, and include an allowance for doubtful accounts.

Investments and Risks and Uncertainties

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

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

Property and Equipment

Property and equipment are recorded at cost. The Diocese capitalizes all new assets with a cost greater than $5,000 and a useful life over 3 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:

Buildings and improvements	20 Years
Vehicles	5 Years

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

Property Held for Sale

The Diocese has recorded a property from a closed parish that is being held for sale at net realizable value, which represents the estimated fair value of the property at $85,031 as of December 31, 2011 and 2010.

Donated Property and Equipment

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

Impairment of Long-Lived Assets

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

Trusts Held by Others

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

Endowments

Accounting principles generally accepted in the United States of America provide guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). Currently, the Commonwealth of Pennsylvania has not enacted UPMIFA; therefore, certain provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958 are not applicable to the Diocese. However, FASB ASC 958 also improves disclosures about an organization's endowment funds (both donor-restricted and board designated endowment funds). The disclosure provisions are included in Note 6.

Income Taxes

The Diocese is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Diocese qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as a Diocese that is not a private foundation under Section 509(a)(2).

Contingencies

Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Diocese, but which will only be resolved when one or more future events occur or fail to occur. Management of the Diocese and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to any legal proceedings that are pending against the Diocese or unasserted claims that may result in such proceedings, the Diocese's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

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

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

New Accounting Pronouncement

In May 2011, the FASB issued Accounting Standards Update No. 2011-04 "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs," ("ASU 2011-04") which amends FASB ASC Topic 820, "Fair Value Measurements," to bring accounting principles generally accepted in the United States of America for fair value measurements in line with International Accounting Standards by clarifying existing guidance for items such as: the application of the highest and best use concept to non-financial assets and liabilities; the application of fair value measurement to financial instruments classified in a reporting entity's stockholder's equity; and disclosure requirements regarding quantitative information about unobservable inputs used in the fair value measurements of Level 3 assets. ASU 2011-04 is effective for fiscal years and interim reporting periods beginning after December 15, 2011. Management is evaluating the impact of adopting ASU 2011-04 and believes it will not be material to the financial statements but will provide additional disclosures.

Subsequent Events

The Diocese has evaluated subsequent events through September 20, 2012, which is the date the financial statements were available to be issued, and has determined, with the exception of the matters described in Note 14, there are no subsequent events that require disclosure.

2. Parish Assessments and Loan Losses

The provisions for parish assessment and loan losses, which are 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 adjustments to the allowances may be necessary based upon changes in conditions. No interest had been accrued on assessments or loans receivable balances as of December 31, 2011 and 2010.

3. Note Receivable

In August 2011, the Diocese finalized a court-approved agreement with an unaffiliated congregation to sell a parish property in exchange for a promissory note. The recording on the books of the Diocese of the closed parish property at fair value immediately prior to the sale is shown on the statement of activities as part of other revenue totaling $623,397. The note is due in 120 monthly installments of $4,307 each, which includes interest at the rate of 3.0% per annum followed by 60 monthly installments of $4,415 each, which includes interest at the rate of 4.0% per annum. The final payment is due in August 2026. The balance outstanding is $612,387 at December 31, 2011.

4. Investments

Investments consist of the following at December 31:

	2011	2010
Cash and cash equivalents	$ 2,536,918	$ 1,692,098
Certificates of deposit	680,818	974,473
Mutual funds, fixed income	1,730,858	243,019
Equity securities:		
Basic materials	420,921	855,052
Consumer goods	1,491,872	2,781,552
Energy	949,525	1,659,114
Financial	812,818	1,800,674
Healthcare	923,384	1,738,715
Industrial Goods	883,828	1,248,725
Technology	1,160,421	2,072,329
Utilities	203,954	339,679
Other	507,178	553,943
Corporate debt securities	2,866,418	3,030,817
U.S. government obligations	5,640,991	3,040,150
Limited partnership	909,833	999,436
Total investments	$ 21,719,737	$ 23,029,776

Investments were held in the following accounts at December 31:

	2011	2010
Morgan Stanley, Pool I	$ 19,912,989	$ 21,239,277
Morgan Stanley, Pool II	1,541,053	1,528,247
Ameriserv	206,441	203,301
Mellon Pooled Income Fund	47,059	46,756
Mellon Seed Account	12,195	12,195
Total	$ 21,719,737	$ 23,029,776

Funds held for others represent parish investments amounting to $2,645,134 at December 31, 2011 and $2,863,211 at December 31, 2010 that have been pooled with Diocesan funds for investment purposes.

Investment income consists of the following for the years ended June 30:

	2011	2010
Interest and dividend income	$ 423,282	$ 334,750
Net realized and unrealized (losses) gains	(539,452)	1,937,092
Total	$ (116,170)	$ 2,271,842

5. Fair Value Measurements

The Diocese measures its investments and trusts held by others at fair value on a recurring basis in accordance with accounting principles generally accepted in the United States of America.

Fair value is defined as the price that would be received to sell an asset or the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. The framework that accounting principles generally accepted in the United States of America establishes for measuring fair value includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs used in determining valuations into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement.

The levels of the fair value hierarchy are as follows:

Level 1 - Fair value is based on unadjusted quoted prices in active markets that are accessible to the Diocese for identical assets. These generally provide the most reliable evidence and are used to measure fair value whenever available.

Level 2 - Fair value is based on significant inputs, other than Level 1 inputs, that are observable either directly or indirectly for substantially the full term of the asset through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets, quoted market prices in markets that are not active for identical or similar assets, and other observable inputs.

Level 3 - Fair value is based on significant unobservable inputs. Examples of valuation methodologies that would result in Level 3 classification include option pricing models, discounted cash flows, and other similar techniques.

The fair value of the Diocese's investments and trusts held by others was measured using the following inputs at December 31:

	2011			
	Quoted Prices in Active Markets (Level 1)	**Other Observable Inputs (Level 2)**	**Unobservable Inputs (Level 3)**	**Total**
Investments:				
Cash and cash equivalents	$ 2,536,918	$ -	$ -	$ 2,536,918
Certificates of deposit	-	680,818	-	680,818
Mutual funds, fixed income	1,730,858	-	-	1,730,858
Equity securities	7,353,890	-	-	7,353,890
Corporate debt securities	-	2,866,429	-	2,866,429
U.S. government obligations	-	5,640,991	-	5,640,991
Limited partnership	-	-	909,833	909,833
Trusts held by others:				
Beneficial interest in remainder trusts	-	-	448,825	448,825
Beneficial interest in perpetual trusts	-	-	2,607,237	2,607,237
Total	$ 11,621,666	$ 9,188,238	$ 3,965,895	$ 24,775,799

	2010			
	Quoted Prices in Active Markets (Level 1)	**Other Observable Inputs (Level 2)**	**Unobservable Inputs (Level 3)**	**Total**
Investments:				
Cash and cash equivalents	$ 1,692,098	$ -	$ -	$ 1,692,098
Certificates of deposit	-	974,473	-	974,473
Mutual funds, fixed income	243,019	-	-	243,019
Equity securities	13,049,784	-	-	13,049,784
Corporate debt securities	-	3,030,816	-	3,030,816
U.S. government obligations	-	3,040,150	-	3,040,150
Limited partnership	-	-	999,436	999,436
Trusts held by others:				
Beneficial interest in remainder trusts	-	-	466,789	466,789
Beneficial interest in perpetual trusts	-	-	2,508,339	2,508,339
Total	$ 14,984,901	$ 7,045,439	$ 3,974,564	$ 26,004,904

The changes in the beneficial interest in remainder trusts, beneficial interest in perpetual trusts and limited partnerships included in Level 3 are summarized as follows for the years ended December 31:

	2011	**2010**
Balance, beginning of year	$ 3,974,564	$ 3,752,259
Unrealized loss (gain) on limited partnership	(89,603)	37,392
Investment income from beneficial interest in remainder and perpetual trusts	92,232	82,414
Distributions from beneficial interest in remainder and perpetual trusts	(92,232)	(82,414)
Valuation (loss) gain, beneficial interest in remainder trusts	(17,964)	57,858
Valuation gain, beneficial interest in perpetual trusts	98,898	127,055
Balance, end of year	$ 3,965,895	$ 3,974,564

The valuation (loss) gain on the trusts held by others is included in the statement 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 statement 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 statement of financial position, based on quoted market prices for similar securities in active markets that the Diocese has the ability to access at the measurement date.

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

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

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

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

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

6. Endowments

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

Investment Return Objectives, Risk Parameters and Strategies - The Diocese has adopted written investment and spending policies, approved by the Board of Trustees, 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 of Trustees 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 represents the change in donor restricted endowment funds by net asset type for the year ended December 31, 2011 and 2010:

	2011			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Endowment assets, beginning of year	$ -	$ 25,966	$ 8,886,162	$ 8,912,128
Investment return	-	-	(302,946)	(302,946)
Contributions	-	-	25,243	25,243
Amounts appropriated for expenditures	305,866	-	(305,866)	-
Amounts expended	(305,866)	(21,020)	-	(326,886)
Endowment net assets, end of year	$ -	$ 4,946	$ 8,302,593	$ 8,307,539

	2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, beginning of year	$ -	$ 57,962	$ 8,359,798	$ 8,417,760
Investment return	-	-	818,179	818,179
Contributions	-	-	83,701	83,701
Amounts appropriated for expenditures	375,516	-	(375,516)	-
Amounts expended	(375,516)	(31,996)	-	(407,512)
Endowment net assets, end of year	$ -	$ 25,966	$ 8,886,162	$ 8,912,128

7. Board Designated Net Assets

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

	2011	2010
Community Service Fund	$ 2,953,304	$ 3,136,081
Plant Fund	2,590,426	2,066,189
Growth Fund	2,282,250	2,211,741
Bishop's Fund	1,427,394	1,517,647
Church Multiplication Fund	390,501	414,669
Bishop's Residence Fund	325,993	307,175
Clergy Relief	196,869	209,728
Seminarian Aid	84,086	89,578
Other	377,717	351,253
Total	$ 10,628,540	$ 10,304,061

8. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at December 31:

	2011	2010
Beneficial interest in charitable remainder trusts	$ 448,825	$ 466,789
Sheldon Calvary Camp building fund	26,370	28,303
Bishop's discretionary and other funds	8,331	26,082
Clergy relief - Widow's Corp	1,582	23,074
Theological student aid	-	10,676
Other mission support	792	543
Total	$ 485,900	$ 555,467

9. Permanently Restricted Net Assets

Permanently restricted net assets are restricted to investment and reinvestment in perpetuity, and certain portions of the income are available to support various programs. The following are permanently restricted net assets at December 31:

	2011	2010
Episcopal support	$ 4,393,474	$ 4,434,388
Parish and mission support	3,069,794	3,274,009
Bishop's Fund, Inc.	695,772	741,218
Chaplaincy programs	544,956	578,683
Episcopal Church Women	530,318	576,284
Parish and mission grants and loans	489,817	521,759
Seminarian support	294,192	313,409
Charitable and religious purposes	277,686	295,824
Other	613,821	658,927
Total	$ 10,909,830	$ 11,394,501

10. Pension Plans

The Diocese sponsors a defined contribution pension plan for eligible lay employees. Pension expense under this plan was $12,624 and $7,031 for the years ended December 31, 2011 and 2010, respectively.

The Diocese also contributes to a church-wide defined benefit pension plan for the clergy called the Church Pension Fund. The Diocese contributes 18% of the clergy's eligible compensation. Total pension expense under this plan, as assessed by the administrator of the church-wide plan, was $47,926 and $31,801 for the years ended December 31, 2011 and 2010, respectively.

11. Concentration of Credit Risk

The Diocese maintains its cash in bank deposit accounts, which at times may exceed federally insured limits. The Diocese has not experienced any losses in such accounts. Management believes that the Diocese is not exposed to any significant credit risk related to its cash.

12. Operating Leases

The Diocese leases office space, and two vehicles under non-cancelable operating leases, which require monthly payments. Future minimum rentals under the non-cancelable operating leases are as follows:

December 31:	
2012	$ 7,623
2013	2,432
Total	$ 10,055

13. 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.

14. Commitments and Contingencies

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 Church in North America (ACNA), retained control of Diocesan assets and asserted their position that a 2005 stipulation required ACNA to continue to hold and administer the Diocesan property even though they had left The Episcopal Church. In October 2009, the Court of Common Pleas of Allegheny County, Pennsylvania disagreed with ACNA'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.

ACNA 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. ACNA filed a petition for re-argument which the Commonwealth Court of Pennsylvania denied on March 29, 2011. On April 28, 2011, ACNA filed a petition for allowance of an appeal to the Supreme Court of Pennsylvania, which that Court denied by order dated October 17, 2011. There are no further rights of appeal available to ACNA.

These now final court rulings apply, among other property, to the real property used by 23 congregations that have identified themselves as part of the ACNA rather than the Diocese. In 2011, the Diocese and one of these 23 congregations signed an agreement for the long term purchase of the property from the Diocese on terms reviewed by the Office of the Attorney General and approved by the Board of Trustees and the Court of Common Pleas. The Diocese also announced in 2011 that a special task force would be studying the strategic direction for the Diocese and the role that the remaining parish properties covered by the court rulings could have in that strategic plan. Pending the completion of that study, the affected congregations have been encouraged to remain in the property, but some have elected to leave. In two locations where this has occurred, the Diocese is financially supporting the rebuilding of the parish as an active parish of the Diocese. In other locations where this has occurred, the Diocese is seeking alternative short term uses of the property. In addition, there are approximately 15 parishes that have identified themselves as part of the ACNA where the existing court rulings are not fully dispositive because the real estate was titled in the name of the respective parish. The Diocese maintains that these parishes and each of these properties remains with the Episcopal Diocese of Pittsburgh, and that both the parishes and the properties are subject to the authority and canons of the Diocese and a trust interest for the benefit of the Diocese and Episcopal Church. The Diocese has extended a “without prejudice” invitation to these congregations to negotiate regarding the parish property and has entered into a standstill and tolling agreement with the majority of the congregations to facilitate such discussions. Currently, management is unable to evaluate the likelihood of an unfavorable outcome to these negotiations regarding parish property or the possibility that litigation will become necessary in the future.

Guarantees

The Diocese has guaranteed debt in the original principal amount of $5,659,000 for certain parishes within the Diocese. These notes mature through 2031 and interest rates range from approximately 5% to 7%. Each parish’s building serves as underlying collateral for the loans. The amount of guaranteed debt outstanding as of report issuance was approximately $3,187,000. The Diocese is liable for repayment should the parishes default on these loans. No payments were required from the Diocese to the third party lenders related to the guarantees in 2011 and 2010. However, beginning in April 2012, the Diocese has taken over payments on a mortgage with a current balance of approximately $985,000. Monthly payments are $9,538 with an interest rate of 5.06% and a maturity date of January 1, 2019. The Diocese anticipates that this loan will be refinanced and that the parish will begin to make the monthly payments during 2012.