The Episcopal Diocese of Pittsburgh

Financial Statements

Years Ended December 31, 2012 and 2011
with Independent Auditor's Report

MaherDuessel
Certified Public Accountants

Pittsburgh | Harrisburg | Butler

Pursuing the profession while promoting the public good®
www.md-cpas.com

THE EPISCOPAL DIOCESE OF PITTSBURGH

YEARS ENDED DECEMBER 31, 2012 AND 2011

TABLE OF CONTENTS

MaherDuessel
Certified Public Accountants

Pittsburgh
503 Martindale Street
Suite 600
Pittsburgh, PA 15212
Main 412.471.5500
Fax 412.471.5508

Harrisburg
3003 North Front Street
Suite 101
Harrisburg, PA 17110
Main 717.232.1230
Fax 717.232.8230

Butler
112 Hollywood Drive
Suite 204
Butler, PA 16001
Main 724.285.6800
Fax 724.285.6875

Independent Auditor's Report

Diocesan Council and Board of Trustees
The Episcopal Diocese of Pittsburgh

We have audited the accompanying financial statements of The Episcopal Diocese of Pittsburgh (Diocese), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities and cash flows for the year then ended, and the related notes to financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Diocese's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Diocese's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Diocese as of December 31, 2012, and the changes in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of the Diocese as of December 31, 2011, were audited by other auditors whose report dated September 20, 2012 expressed an unmodified opinion on those statements.

Maher Duessel

Pittsburgh, Pennsylvania
October 4, 2013

THE EPISCOPAL DIOCESE OF PITTSBURGH

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2012 AND 2011

	2012	2011
Assets		
Cash and cash equivalents	$ 356,905	$ 713,224
Investments at fair value	21,796,930	21,719,737
Assessments receivable:		
Parishes	3,094,113	2,287,683
Less allowance for doubtful accounts	(2,994,249)	(2,271,518)
Total assessments receivable, net	99,864	16,165
Loans receivable:		
Parishes and missions - growth fund	1,120,319	965,268
Bishop's residence fund	12,000	109,630
Less allowance for loan losses	(543,663)	(601,580)
Total loans receivable, net	588,656	473,318
Note receivable	578,686	612,387
Fixed assets (net of accumulated depreciation)	1,804,858	1,893,008
Property held for sale	960,031	85,031
Trusts held by others at fair value	3,367,918	3,056,062
Accrued interest receivable	76,456	92,432
Prepaid expenses	22,983	5,297
Total Assets	$ 29,653,287	$ 28,666,661
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$ 116,135	$ 138,479
Mortgage payable	952,631	-
Funds held for others	2,711,977	2,645,134
Total Liabilities	3,780,743	2,783,613
Net Assets:		
Unrestricted:		
Undesignated	2,642,312	3,858,778
Board designated	11,264,048	10,628,540
Total unrestricted	13,906,360	14,487,318
Temporarily restricted	531,681	485,900
Permanently restricted	11,434,503	10,909,830
Total Net Assets	25,872,544	25,883,048
Total Liabilities and Net Assets	$ 29,653,287	$ 28,666,661

See accompanying notes to financial statements.

THE EPISCOPAL DIOCESE OF PITTSBURGH

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Unrestricted Revenues and Expenses:		
Operating Revenues and other support:		
Parish assessments	$ 565,885	$ 540,304
Investment returns designated for current operations	864,284	484,148
Contributions and grants	107,632	189,691
Total operating revenues and other support	1,537,801	1,214,143
Operating Expenses:		
Office of Administration	434,802	372,732
Legal expense	123,030	288,515
Office of the Bishop	279,336	247,100
Reopened parish, property, and other expenses	416,816	152,863
Beyond the Diocese	158,521	123,133
Transformational networks	129,494	122,614
Congregational mission	85,862	99,259
Real property third party consulting expenses	47,936	-
Total operating expenses	1,675,797	1,406,216
Net loss from operations	(137,996)	(192,073)
Other revenues (expenses):		
Transfer in of parish property	875,000	623,397
Spending policy transfers	141,818	305,866
Released from restriction	7,854	61,424
Other revenues	69,495	55,634
Grants and contributions to others	(610,456)	(509,372)
Investment (loss) income	102,975	(388,127)
Loss on assumption of mortgage	(1,005,781)	-
Gain (loss) on sale of property	64,283	-
Depreciation	(88,150)	(88,150)
Total other revenues (expenses)	(442,962)	60,672
Change in Unrestricted Net Assets	(580,958)	(131,401)
Temporarily Restricted Net Assets:		
Investment (loss) income	53,635	(8,143)
Released from restriction	(7,854)	(61,424)
Change in Temporarily Restricted Net Assets	45,781	(69,567)
Permanently Restricted Net Assets:		
Contributions and grants	-	25,243
Spending policy transfers	(141,818)	(305,866)
Investment (loss) income	666,491	(204,048)
Change in Permanently Restricted Net Assets	524,673	(484,671)
Total Change in Net Assets	(10,504)	(685,639)
Net Assets:		
Beginning of year	25,883,048	26,568,687
End of year	$ 25,872,544	25,883,048

See accompanying notes to financial statements.

THE EPISCOPAL DIOCESE OF PITTSBURGH

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Cash Flows From Operating Activities:		
Change in net assets	$ (10,504)	$ (685,639)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Transfer in of parish property	(875,000)	(623,397)
Parish mortgage assumed by Diocese	1,005,781	-
Realized (gains) loss on investments	(963,643)	539,452
Allowance for uncollectible assessments	722,731	696,615
Allowance for loan loss	(57,917)	-
Depreciation expense	88,150	88,150
Change in operating assets and liabilities:		
Assessment receivables	(806,430)	(710,387)
Prepaid expense	(17,686)	(4,647)
Accrued interest receivable	15,976	(4,528)
Accounts payable and accrued expenses	(22,344)	5,166
Net cash provided by (used in) operating activities	(920,886)	(699,215)
Cash Flows From Investing Activities:		
Net proceeds from sale of investments	886,450	770,587
Change in trusts held by others	(311,856)	(80,934)
Increase in Growth Fund loans receivable	(155,051)	(31,898)
Payments received on Bishop's Fund loan receivable	109,630	8,739
Issuance of Bishop's Fund loan recivable	(12,000)	-
Payments received on note receivable	33,701	11,010
Net cash provided by (used in) investing activities	550,874	677,504
Cash Flows From Financing Activities:		
Change in funds held for others	66,843	(218,077)
Payments on mortgage	(53,150)	-
Net cash provided by (used in) financing activities	13,693	(218,077)
Net Increase (Decrease) in Cash and Cash Equivalents	(356,319)	(239,788)
Cash and Cash Equivalents:		
Beginning of year	713,224	953,012
End of year	$ 356,905	$ 713,224
Schedule of Non-Cash Activities:		
Mortgage payable assumed by Diocese	$ 1,005,781	$ -
Property held for sale - parish transfer	$ 875,000	$ -

See accompanying notes to financial statements.

1. NATURE OF OPERATIONS

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

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

Method of Accounting

The financial statements of the Diocese are presented on the accrual basis of accounting and are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC).

Basis of Presentation

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Net Assets

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

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

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

Temporarily Restricted Net Assets – Net assets that are subject to donor-imposed stipulations that may or will be met either by actions of the Diocese and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

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

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

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

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Contributions subject to donor-imposed stipulations that are met in the same reporting period are reported as unrestricted support. 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.

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 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 advice and activities are regularly monitored by the Finance Committee of the Board.

Concentrations

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

Fixed Assets

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

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

The estimated useful lives are as follows:

Building	20 Years
Vehicles	5 Years

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

Property Held for Sale

The Diocese has recorded property from closed parishes that are being held for sale at net realizable value, which represents the estimated fair value of the properties less estimated costs to sell at $960,031 and $85,031 as of December 31, 2012 and 2011, respectively.

Donated Property and Equipment

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

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment when circumstances indicate the carrying value of an asset may not be recoverable. For assets that are to be held and used, impairment is recognized when the estimated undiscounted cash flows associated with the asset or group of assets is less than their carrying value. If impairment exists, an adjustment is made to write the asset down to its fair value, and a loss is recorded as the difference between the carrying value and fair value. Fair values are determined based on quoted market values, discounted cash flows, or internal and external appraisals, as applicable. Assets to be disposed of are carried at the lower of carrying value or estimated net realizable value. The Diocese did not recognize impairment of any of their long-lived assets in 2012 and 2011.

Trusts Held by Others

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

Income Taxes

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

Contingencies

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

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

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

Fair Value Measurement

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

Subsequent Events

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

3. PARISH ASSESSMENTS AND LOAN LOSSES

The provision for parish assessment and loan losses, which is charged to current operations, reflects the amount necessary, in management’s judgement, to establish an adequate allowance to absorb possible losses on assessments and loans. Management’s judgement is based on a continuing review of the parish assessments and loan portfolios, past collection experience, and current economic conditions. While management uses available information to recognize losses, future additions to the allowance may be necessary based on changes in economic conditions. No interest had been accrued on assessments or loans receivable balances as of December 31, 2012 and 2011.

4. NOTE RECEIVABLE

In August 2011, the Diocese finalized a court-approved agreement with an unaffiliated congregation to sell a parish property in exchange for a promissory note. The recording on the books of the Diocese of the closed parish property at fair value immediately prior to the sale in 2011 is shown on the 2011 statement of activities as part of other revenues, transfer in of parish property, totaling $623,397. The sale was recognized in 2011 and the resulting note receivable held is due in 120 monthly installments of $4,307 each, which includes interest at the rate of 3.0% per annum followed by 60 installments of $4,415 each, which includes interest at the rate of 4.0% per annum. The final payment is due in August 2026. The balance outstanding is $578,686 and $612,387 at December 31, 2012 and 2011, respectively.

5. INVESTMENTS

Investments consist of the following at December 31:

	2012	2011
Cash and cash equivalents	$ 1,321,020	$ 2,536,918
Certificates of deposit	294,388	680,818
Mutual funds, fixed income	3,033,594	1,730,858
Equity securities:		
Basic materials	775,222	420,921
Consumer goods	1,005,775	1,491,872
Energy	950,735	949,525
Financial	1,037,361	812,818
Healthcare	1,071,749	923,384
Industrial goods	811,763	883,828
Materials	588,002	-
Technology	1,452,118	1,160,421
Telecommunication Services	76,895	-
Utilities	125,744	203,954
Other	437,661	507,178
Corporate debt sercurities	2,848,178	2,866,418
U.S. government obligations	4,552,670	5,640,991
Limited partnership	1,414,055	909,833
Total investments	$ 21,796,930	$ 21,719,737

Investments were held in the following accounts at December 31:

	2012	2011
Morgan Stanley, Pool 1	$ 20,070,992	$ 19,912,989
Morgan Stanley, Pool 2	1,453,487	1,541,053
Ameriserv	210,988	206,441
Mellon Pooled Income Fund	49,201	47,059
Mellon Seed Account	12,262	12,195
	$ 21,796,930	$ 21,719,737

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

	2012	2011
Interest and dividend income	$ 723,742	$ 423,282
Net realized and unrealized (losses) gains	963,643	(539,452)
Total	$ 1,687,385	$ (116,170)

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

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

Level 2: Pricing inputs are other than the quoted princes 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 quoted prices are available but traded less frequently and items that are fair-valued using other financial instruments, the parameters of which can be directly observed.

Level 3: Assets and liabilities that have little to no pricing observability as of reported date. These items do not have two-way markets and are measured using management's best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation. Level 3 inputs include all inputs that do not meet the requirements of Level 1 or Level 2.

Determination of Fair Value

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

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

	Fair Value Measurements at Reporting Date Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Investments:				
Cash and cash equivalents	$ 1,321,020	$ -	$ -	$ 1,321,020
Certificates of deposit	-	294,388	-	294,388
Mutual funds, fixed income	3,033,594	-	-	3,033,594
Equity securities	8,333,025	-	-	8,333,025
Corportate debt securities	-	2,848,178	-	2,848,178
U.S. government obligations	-	4,552,670	-	4,552,670
Limited partnership	-	-	1,414,055	1,414,055
Total investments:	$ 12,687,639	$ 7,695,236	$ 1,414,055	$ 21,796,930
Trusts held by others:				
Beneficial interest in remainder trusts	$ -	$ -	$ 500,943	$ 500,943
Beneficial interest in perpetual trusts	-	-	2,866,975	2,866,975
Total trusts held by others:	$ -	$ -	$ 3,367,918	$ 3,367,918

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, 2011:

	Fair Value Measurements at Reporting Date Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs Level 3	Total
Investments:				
Cash and cash equivalents	$ 2,536,918	$ -	$ -	$ 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
Corportate debt securities	-	2,866,429	-	2,866,429
U.S. government obligations	-	5,640,991	-	5,640,991
Limited partnership	-	-	909,833	909,833
Total Investments	$ 11,621,666	$ 9,188,238	$ 909,833	$ 21,719,737
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 Trusts held by others:	$ -	$ -	$ 3,056,062	$ 3,056,062

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

	2012	2011
Fair value, beginning of year	$ 3,965,895	$ 3,974,564
Unrealized loss (gain) on limited partnership	504,222	(89,603)
Investment income from beneficial interest in remainder and perpetual trusts	99,927	92,232
Distributions from beneficial interest in remainder and perpetual trusts	(99,927)	(92,232)
Valuation (loss) gain, beneficial interest in remainder trusts	52,118	(17,964)
Valuation gain, beneficial interest in perpetual trusts	259,738	98,898
Balance, end of year	$ 4,781,973	$ 3,965,895

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

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

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

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

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

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

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

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

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

Investments in the managed futures are speculative and involve a high degree of risk. Risks arise from changes in the value of these contracts and the potential inability of counterparties to perform under the terms of the contracts. There are numerous factors which may significantly influence the market value of these contracts, including interest rate volatility.

These factors were considered by the Diocese prior to making this investment and it was determined that the investment would be beneficial to leverage risk in the other areas of the investment portfolio.

6. ENDOWMENTS

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

Investment Return Objectives, Risk Parameters, and Strategies - The Diocese has adopted written investment and spending policies, approved by the Board, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-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, 2012 and 2011:

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

	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 assets, end of year	$ -	$ 4,946	$ 8,302,593	$ 8,307,539

7. FIXED ASSETS

Fixed assets as of December 31, 2012 and 2011 include:

	2012	2011
Land and buildings	$ 2,328,414	$ 2,328,414
Vehicles	11,715	11,715
	2,340,129	2,340,129
Accumulated depreciation	(535,271)	(447,121)
Total	$ 1,804,858	$ 1,893,008

8. Bishop's Residence

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

9. Commitments

The Diocese guaranteed multiple debts in the original principal amount of $4,710,000 for certain parishes within the Diocese. These notes mature through 2031 and interest rates range from approximately 5% to 7%. Each parish's building serves as underlying collateral for the loans. The amount of guaranteed debt outstanding as of December 31, 2012 is $2,287,364. The Diocese is liable to the third party lenders related to the guarantees in 2012 and 2011. No payments were required from the Diocese to the third party lenders related to the guarantees in 2011. Beginning in April 2012, the Diocese came forward to make the monthly payments for a guaranteed mortgage; during the time that the parish was unable to make the payments directly. As required by accounting principles generally accepted in the United States of America, the Diocese recorded that debt on its balance sheet as described in Note 10.

10. Mortgage Payable

During 2012, the Diocese began to make the payments on a parish's mortgage with a balance of $1,005,781 that is payable to First National Bank in monthly installments of $9,538 that is secured by the land and the church building. The interest rate on the mortgage was 5.06% and the principal balance was $952,631 at December 31, 2012. However, the debt was refinanced in March 2013 when the principal amount owed was $947,246. The interest rate is 3.90% and monthly payments are $5,718. After a first quarter payment of $5,385, the future refinanced scheduled debt payments (which the Diocese expects the parish to resume as soon as it is able to do so) are as follows:

2013	$	26,780
2014		33,304
2015		34,626
2016		36,001
2017		37,431
Thereafter		779,104
Total	$	947,246

11. OPERATING LEASE

In July 2011, the Diocese entered into an operating lease for office space for a term of six months, expiring January 31, 2012. The lease has continued on a month to month basis. Rental expenses for the years ended December 31, 2012 and 2011 were $27,872 and $25,445, respectively.

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

2013	$	3,622
2014		1,577
2015		1,577
2016		131
	$	6,907

12. PENSION PLANS

The Diocese contributes to a church-wide defined benefit pension plan for eligible lay employees called The Episcopal Church Lay Employees' Retirement Plan. For years ending March 31, 2013 and March 31, 2012, the Plan had funding status ratios of 76% and 72%, respectively. A funded status ratio under 100% indicates there are insufficient reserves as of the reporting date to pay currently accumulated benefits. Plan assets were $122 million and $110 million for March 31, 2013 and 2012, respectively. Accumulated benefit obligations were $160 million and $154 million for March 31, 2013 and 2012, respectively. The Diocese contributes 9% of the participant's eligible compensation. Pension expense under this plan was $22,338 and $12,624 for the years ended December 31, 2012 and 2011, respectively, which does not exceed the 5% of total plan contributions from all employers.

The Diocese also contributes to a church-wide defined benefit pension plan for the clergy called the Church Pension Fund. For years ending March 31, 2013 and 2012, the Plan had funding status ratios of 126% and 109%, respectively. A funded status ratio in excess of 100% indicates that there are sufficient reserves as of the reporting date to pay currently accumulated benefits. Plan assets were $7.6 billion and $6.7 billion for March 31, 2013 and 2012, respectively. Accumulated benefit obligations were $6.0 billion and $6.1 billion for March 31, 2013 and 2012, respectively. 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 $56,302 and $47,926 for the years ended December 31, 2012 and 2011, respectively, which does not exceed 5% of total plan contributions from all employers.

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

13. BOARD DESIGNATED NET ASSETS

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

	2012	2011
Community Service Fund	$ 2,834,133	$ 2,953,304
Plant Fund	3,343,576	2,590,426
Growth Fund	2,293,306	2,282,250
Bishop's Fund	1,397,108	1,427,394
Church Multiplication Fund	418,641	390,501
Bishop's Residence Fund	364,706	325,993
Clergy Relief	210,676	196,869
Seminarian Aid	89,984	84,086
Other	311,918	377,717
Total	$ 11,264,048	$ 10,628,540

14. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	2012	2011
Beneficial interest in charitable remainder trusts	$ 500,943	$ 448,825
Sheldon Calvary Camp building fund	-	26,370
Bishop's discretionary and other funds	29,946	8,331
Clergy relief - Widow's Corp	-	1,582
Other mission support	792	792
	$ 531,681	$ 485,900

15. 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 were permanently restricted net assets:

	2012	2011
Episcopal support	$ 4,641,441	$ 4,393,474
Parish and mission support	3,204,764	3,069,794
Bishop's Fund	703,747	695,772
Chaplaincy programs	584,226	544,956
Episcopal Church Women	544,180	530,318
Parish and mission grants and loans	509,950	489,817
Seminarian support	314,828	294,192
Charitable and religious purposes	297,162	277,686
Other	634,205	613,821
	$ 11,434,503	$ 10,909,830

16. LEGAL MATTERS

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

The ACNA Diocese filed an appeal with the Commonwealth Court of Pennsylvania and on February 2, 2011 the Commonwealth Court of Pennsylvania affirmed the order of the Court of Common Pleas of Allegheny County, Pennsylvania in all respects. The ACNA Diocese filed a petition for re-argument which the Commonwealth Court of Pennsylvania denied on March 29, 2011. On April 28, 2011, the ACNA Diocese filed a petition for allowance of an appeal to the Supreme Court of Pennsylvania, which that Court denied by order dated October 17, 2011. There are no further rights of appeal.

These now final court rulings apply, among other property, to the real property used by 23 congregations that have identified themselves as part of the ACNA Diocese rather than the Diocese. In 2011 and 2012, the Diocese and two of these 23 congregations signed agreements for the acquisition of the property from the Diocese on terms reviewed by the Office of the Attorney General and approved by the Board and the Court of Common Pleas. The Diocese has encouraged the rest of the affected congregations to remain in the property pending further study, but some have elected to leave. In several locations where this has occurred, the Diocese is financially supporting the rebuilding of the parish as an active parish of the Diocese. In other locations where this has occurred, the Diocese is seeking alternative short-term uses of the property. In addition, there are approximately 15 parishes that have identified themselves as part of the ACNA Diocese where the existing court rulings are not fully dispositive because the real estate was titled in the name of the respective parish. The Diocese maintains that these parishes and each of these properties remains with the Episcopal Diocese of Pittsburgh, and that both the parishes and the properties 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.