The Episcopal Diocese of Pittsburgh

Financial Statements

Years Ended December 31, 2013 and 2012
with Independent Auditor's Report

MaherDuessel
Certified Public Accountants

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THE EPISCOPAL DIOCESE OF PITTSBURGH

YEARS ENDED DECEMBER 31, 2013 AND 2012

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Independent Auditor's Report

Diocesan Council and Board of Trustees
The Episcopal Diocese of Pittsburgh

We have audited the accompanying financial statements of The Episcopal Diocese of Pittsburgh (Diocese), which comprise the statements of financial position as of December 31, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Diocese as of December 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Maher Duessel

Pittsburgh, Pennsylvania
September 3, 2014

THE EPISCOPAL DIOCESE OF PITTSBURGH

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2013 AND 2012

	2013	2012
Assets		
Cash and cash equivalents	$ 517,022	$ 356,905
Investments at fair value	24,606,679	21,796,930
Assessments receivable:		
Parishes	3,628,389	3,094,113
Less allowance for doubtful accounts	(3,608,883)	(2,994,249)
Total assessments receivable, net	19,506	99,864
Loans receivable:		
Parishes and missions - growth fund	1,218,023	1,120,319
Bishop's residence fund	27,000	12,000
Less allowance for loan losses	(540,782)	(543,663)
Total loans receivable, net	704,241	588,656
Note receivable	543,907	578,686
Fixed assets (net of accumulated depreciation)	1,717,879	1,804,858
Property held for sale	85,031	960,031
Trusts held by others at fair value	4,007,894	3,367,918
Accrued interest receivable	58,091	76,456
Prepaid expenses	3,728	22,983
Total Assets	$ 32,263,978	$ 29,653,287
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$ 208,397	$ 116,135
Mortgage payable	919,375	952,631
Funds held for others	2,975,096	2,711,977
Total Liabilities	4,102,868	3,780,743
Net Assets:		
Unrestricted:		
Undesignated	3,863,294	2,642,312
Board-designated	10,865,331	11,264,048
Total unrestricted	14,728,625	13,906,360
Temporarily restricted	684,497	531,681
Permanently restricted	12,747,988	11,434,503
Total Net Assets	28,161,110	25,872,544
Total Liabilities and Net Assets	$ 32,263,978	$ 29,653,287

See accompanying notes to financial statements.

THE EPISCOPAL DIOCESE OF PITTSBURGH

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
Unrestricted Revenues and Expenses:		
Operating revenues and other support:		
Parish assessments	$ 565,189	$ 565,885
Investment returns designated for current operations	680,128	864,284
Contributions and grants	122,353	107,632
Total operating revenues and other support	1,367,670	1,537,801
Operating expenses:		
Office of Administration	386,627	434,802
Legal expense	37,252	123,030
Office of the Bishop	241,192	279,336
Reopened parish, property, and other expenses	326,306	416,816
Beyond the Diocese	153,635	158,521
Transformational networks	108,635	129,494
Congregational mission	90,187	85,862
Real property third party consulting expenses	3,400	47,936
Total operating expenses	1,347,234	1,675,797
Net gain (loss) from operations	20,436	(137,996)
Other revenues (expenses):		
Transfer in of parish property	-	875,000
Spending policy transfers	177,035	141,818
Released from restriction	84,803	7,854
Other revenues	42,693	69,495
Grants and contributions to others	(320,812)	(610,456)
Investment (loss) income	836,827	102,975
Loss on assumption of mortgage	-	(1,005,781)
Gain (loss) on sale of property	65,380	64,283
Bad debt recovery	2,882	-
Depreciation	(86,979)	(88,150)
Total other revenues (expenses)	801,829	(442,962)
Change in Unrestricted Net Assets	822,265	(580,958)
Temporarily Restricted Net Assets:		
Contributions and grants	78,497	-
Investment (loss) income	126,422	53,635
Spending policy transfers	32,700	-
Released from restriction	(84,803)	(7,854)
Change in Temporarily Restricted Net Assets	152,816	45,781
Permanently Restricted Net Assets:		
Spending policy transfers	(209,735)	(141,818)
Investment (loss) income	1,523,220	666,491
Change in Permanently Restricted Net Assets	1,313,485	524,673
Total Change in Net Assets	2,288,566	(10,504)
Net Assets:		
Beginning of year	25,872,544	25,883,048
End of year	$ 28,161,110	25,872,544

See accompanying notes to financial statements.

THE EPISCOPAL DIOCESE OF PITTSBURGH

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
Cash Flows From Operating Activities:		
Change in net assets	$ 2,288,566	$ (10,504)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Transfer in of parish property	-	(875,000)
Parish mortgage assumed by Diocese	-	1,005,781
Gain on sale of asset held for sale	(64,570)	-
Realized (gains) loss on investments	(2,952,792)	(963,643)
Allowance for uncollectible assessments	614,634	722,731
Allowance for loan loss	(2,881)	(57,917)
Depreciation expense	86,979	88,150
Change in operating assets and liabilities:		
Assessment receivables	(534,276)	(806,430)
Prepaid expense	19,255	(17,686)
Accrued interest receivable	18,365	15,976
Accounts payable and accrued expenses	92,262	(22,344)
Net cash provided by (used in) operating activities	(434,458)	(920,886)
Cash Flows From Investing Activities:		
Net proceeds from sale of investments	143,043	886,450
Change in trusts held by others	(639,976)	(311,856)
Increase in Growth Fund loans receivable	(97,704)	(155,051)
Payments received on Bishop's Fund loan receivable	-	109,630
Issuance of Bishop's Fund loan receivable	(15,000)	(12,000)
Payments received on note receivable	34,779	33,701
Sale of asset held for sale	939,570	-
Net cash provided by (used in) investing activities	364,712	550,874
Cash Flows From Financing Activities:		
Change in funds held for others	263,119	66,843
Payments on mortgage	(33,256)	(53,150)
Net cash provided by (used in) financing activities	229,863	13,693
Net Increase (Decrease) in Cash and Cash Equivalents	160,117	(356,319)
Cash and Cash Equivalents:		
Beginning of year	356,905	713,224
End of year	$ 517,022	$ 356,905
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 the activities of the Diocese. Accordingly, revenues are recorded when earned and expenses are recognized when the liabilities are incurred. The financial operations of individual parishes and institutions distinct from the Diocese are not reflected in these financial statements.

Use of Estimates

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

Basis of Net Assets

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

Statements of Cash Flows

For purposes of the statements of cash flows, cash and cash equivalents include all highly liquid instruments with maturities of three months or less when purchased.

Investments, Risks, and Uncertainties

Investments are carried at fair value and consist 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 $85,031 and $960,031 as of December 31, 2013 and 2012, 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 2013 and 2012.

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, 2013 and 2012.

4. Note Receivable

In August 2011, the Diocese finalized a court-approved agreement with an unaffiliated congregation to sell a parish property in exchange for a promissory note. The sale was recognized in 2011 and the resulting note receivable held is due in 120 monthly installments of $4,307 each, which includes interest at the rate of 3.0% per annum, followed by 60 installments of $4,415 each, which includes interest at the rate of 4.0% per annum. The final payment is due in August 2026. The balance outstanding is $543,907 and $578,686 at December 31, 2013 and 2012, respectively.

5. Investments

Investments consist of the following at December 31:

	2013	2012
Cash and cash equivalents	$ 2,261,803	$ 1,321,020
Certificates of deposit	288,375	294,388
Mutual funds, fixed income	1,138,212	3,033,594
Equity securities:		
Basic materials	1,822,486	775,222
Consumer goods	990,734	1,005,775
Energy	1,764,575	950,735
Financial	2,153,135	1,037,361
Healthcare	1,736,384	1,071,749
Industrial goods	1,441,757	811,763
Materials	1,235,280	588,002
Technology	2,222,844	1,452,118
Telecommunication services	117,838	76,895
Utilities	176,474	125,744
Other	122,820	437,661
Corporate debt securities	2,499,757	2,848,178
U.S. government obligations	3,226,542	4,552,670
Limited partnership	1,407,663	1,414,055
Total investments	$ 24,606,679	$ 21,796,930

Investments were held in the following accounts at December 31:

	2013	2012
Morgan Stanley, Pool 1	$ 22,986,525	$ 20,070,992
Morgan Stanley, Pool 2	1,351,901	1,453,487
Ameriserv	209,211	210,988
Mellon Pooled Income Fund	47,255	49,201
Mellon Seed Account	11,787	12,262
	$ 24,606,679	$ 21,796,930

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

	2013	2012
Interest and dividend income	$ 405,234	$ 723,742
Net realized and unrealized (losses) gains	2,825,646	963,643
Total	$ 3,230,880	$ 1,687,385

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 the limited partnership and 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. 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. Due to the absence of readily determinable fair values and the inherent uncertainty of valuations, the estimated fair values for private investments may differ significantly from values that would have been used had a ready market for the securities existed. For Level 2 items, fair value estimates include (1) the market approach, (2) the income approach, and (3) cost for a period of time after an acquisition. These valuation methodologies involve significant degree of judgment.

The following represents the fair value hierarchy of the Diocese's financial assets that were recognized at fair value on a recurring basis as of December 31, 2013:

	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	$ 2,261,803	$ -	$ -	$ 2,261,803
Certificates of deposit	288,375	-	-	288,375
Mutual funds, fixed income	1,138,212	-	-	1,138,212
Equity securities	13,784,327	-	-	13,784,327
Corporate debt securities	-	2,499,757	-	2,499,757
U.S. government obligations	-	3,226,542	-	3,226,542
Limited partnership	-	-	1,407,663	1,407,663
Total investments:	$ 17,472,717	$ 5,726,299	$ 1,407,663	$ 24,606,679
Trusts held by others:				
Beneficial interest in remainder trusts	$ -	$ -	$ 597,535	$ 597,535
Beneficial interest in perpetual trusts	-	-	3,410,359	3,410,359
Total trusts held by others:	$ -	$ -	$ 4,007,894	$ 4,007,894

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	$ 12,982,027	$ 7,400,848	$ 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

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

	2013	2012
Fair value, beginning of year	$ 4,781,973	$ 3,965,895
Unrealized (loss) gain on limited partnership	(6,392)	504,222
Investment income from beneficial interest in remainder and perpetual trusts	203,728	99,927
Distributions from beneficial interest in remainder and perpetual trusts	(203,728)	(99,927)
Valuation (loss) gain, beneficial interest in remainder trusts	96,592	52,118
Valuation (loss) gain, beneficial interest in perpetual trusts	543,384	259,738
Balance, end of year	$ 5,415,557	$ 4,781,973

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. The limited partnership investment also represents an interest in LIN Media LLC, which is a limited liability company that owns television stations and formed under the laws of Delaware.

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, 2013 and 2012:

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, beginning of year	$ -	$ -	$ 8,567,528	$ 8,567,528
Investment return	-	-	979,836	979,836
Amounts appropriated for expenditures	209,735	-	(209,735)	-
Amounts expended	(209,735)	-	-	(209,735)
Endowment assets, end of year	$ -	$ -	$ 9,337,629	$ 9,337,629

	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
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

7. FIXED ASSETS

Fixed assets as of December 31, 2013 and 2012 include:

	2013	2012
Land and buildings	$ 2,328,414	$ 2,328,414
Vehicles	11,715	11,715
	2,340,129	2,340,129
Accumulated depreciation	(622,250)	(535,271)
	$ 1,717,879	$ 1,804,858

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, 2013 and 2012 is $2,233,393 and $2,287,364, respectively. The Diocese is liable to the third party lenders related to the guarantees in 2013 and 2012. 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. 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. As of December 31, 2013, the principal balance is $919,375. 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:

2014	$	33,304
2015		34,626
2016		36,001
2017		37,431
2018		38,917
Thereafter		739,096
Total	$	919,375

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, 2013 and 2012 were $27,872.

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

2014	$	3,718
2015		3,718
2016		1,737
	$	9,173

12. Functional Expenses

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

	2013	2012
Program	$ 657,999	$ 803,008
Administrative	689,235	872,789
Total functional expenses:	$ 1,347,234	$ 1,675,797

The costs of providing the various programs and other activities have been allocated among program and administrative based primarily upon direct charges.

13. Pension Plans

The Diocese contributes to a church-wide defined benefit pension plan for eligible lay employees called The Episcopal Church Lay Employees' Retirement Plan (Plan). The Plan's EIN number is 13-5562193 and does not have a separate plan number. A funded status ratio under 100% indicates there are insufficient reserves as of the reporting date to pay currently accumulated benefits. The Diocese contributes 15% of the participant's eligible compensation. Pension expense under this plan was $21,557 and $22,338 for the years ended December 31, 2013 and 2012, respectively, which does not exceed the 5% of total plan contributions from all employers.

Actuarial Valuation *:	March 31, 2014	March 31, 2013
Actuarial Value of Assets	$ 146,000,000	$ 122,000,000
Actuarial Accrued Liability	$ 163,000,000	$ 160,000,000
Excess of Assets Over Liabilities	$ (17,000,000)	$ (38,000,000)
Funded Ratio	89%	76%
Expiration of Collective-bargaining Agreement	N/A	N/A
Implemented rehabilitation plan	No	No
Employer surcharge	No	No
Future minimum contributions	15% of salary annually	15% of salary annually

* - Amounts represent The Episcopal Church Lay Employees' Retirement Plan

The Diocese also contributes to a church-wide defined benefit pension plan for the clergy called the Church Pension Fund Clergy Pension Plan. This Plan's EIN number is 13-5562193 and does not have a separate plan number. A funded status ratio in excess of 100% indicates that there are sufficient reserves as of the reporting date to pay currently accumulated benefits. The Diocese contributes 18% of the clergy's eligible compensation. Total pension expense under this plan, as assessed by the administrator of the church-wide plan, was $54,199 and $61,996 for the years ended December 31, 2013 and 2012, respectively, which does not exceed 5% of total plan contributions from all employers.

	March 31, 2014	March 31, 2013
Actuarial Valuation *:		
Actuarial Value of Assets	$ 8,600,000,000	$ 7,600,000,000
Actuarial Accrued Liability	$ 5,800,000,000	$ 6,000,000,000
Excess of Assets Over Liabilities	$ 2,800,000,000	$ 1,600,000,000
Funded Ratio	148%	126%
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 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.

14. BOARD-DESIGNATED NET ASSETS

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

	2013	2012
Community Service Fund	$ 3,114,616	$ 2,834,133
Plant Fund	2,346,817	3,343,576
Growth Fund	2,268,451	2,293,306
Bishop's Fund	1,528,424	1,397,108
Church Multiplication Fund	482,467	418,641
Bishop's Residence Fund	419,251	364,706
Clergy Relief	239,001	210,676
Seminarian Aid	105,296	89,984
Other	361,008	311,918
Total	$ 10,865,331	$ 11,264,048

15. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	2013	2012
Beneficial interest in charitable remainder trusts	$ 597,535	$ 500,943
Bishop's discretionary and other funds	50,725	29,946
Other mission support	36,237	792
	$ 684,497	$ 531,681

16. Permanently Restricted Net Assets

Permanently restricted net assets are restricted to investment and reinvestment in perpetuity, and certain portions of the income are available to support various programs. Permanently restricted net assets are held to support the following purposes:

	2013	2012
Episcopal support	$ 5,284,804	$ 4,641,441
Parish and mission support	3,548,592	3,204,764
Bishop's Fund	759,776	703,747
Chaplaincy programs	645,091	584,226
Episcopal Church Women	595,730	544,180
Parish and mission grants and loans	572,372	509,950
Seminarian support	339,715	314,828
Charitable and religious purposes	319,939	297,162
Other	681,969	634,205
	$ 12,747,988	$ 11,434,503

17. LEGAL MATTERS

In October 2008, a vote led by certain former leaders of the Diocese at the annual Diocesan convention resulted in resolutions to amend the Diocesan constitution and canons to withdraw the Diocese from The Episcopal Church and align it with the Anglican Province of the Southern Cone. The validity and legal effect of this withdrawal vote remains in dispute. The former leaders, identifying themselves as the Anglican Diocese of Pittsburgh, a member of the 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 an order dated October 17, 2011. There are no further rights of appeal.

These now final court rulings apply, among other property, to the real property used by 23 congregations that had identified themselves as part of the ACNA Diocese rather than the Diocese. In 2011 and 2012, the Diocese and two of these 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. In 2012, three parishes returned to active participation in the Diocese. The Diocese has encouraged the rest of the affected congregations to remain in the property pending further study, but some have elected to leave. 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 (real and personal) are subject to the authority and canons of the Diocese and a trust interest for the benefit of the Diocese and Episcopal Church. The Diocese has extended a "without prejudice" invitation to these congregations to negotiate regarding the parish property and has entered into a standstill and tolling agreement with the majority of the congregations to facilitate such discussions. Currently, management is unable to evaluate the likelihood of an unfavorable outcome to these negotiations regarding parish property or the possibility that litigation will become necessary in the future.