

# Appendix

### **Communication to Those Charged with Governance**

Diocesan Council and Board of Trustees  
The Episcopal Diocese of Pittsburgh

We have audited the financial statements of The Episcopal Diocese of Pittsburgh (Diocese) for the year ended December 31, 2016, and have issued our report thereon dated August 7, 2017. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our conversations with the Board of Trustees President, Audit Committee Chair, and Audit Committee member about planning matters on June 7, 2017. Professional standards also require that we communicate to you the following information related to our audit.

#### **Our Responsibility under Auditing Standards Generally Accepted in the United States of America**

As stated in our engagement letter dated February 10, 2016, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

In addition, our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the Diocese. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

#### **Significant Accounting Policies**

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Diocese are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2016. We noted no transactions entered into by the Diocese during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

#### **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

The Diocese is a beneficiary of ten irrevocable charitable remainder trusts. The estimation of the fair value of the Diocese's interest in these trusts is subjective and requires significant judgment.

Management's valuation of investments is based on the investment's fair value. The Diocese's investments are exposed to various risks, such as interest rate, market, and credit risk. Due to the level of risk associated with investments and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that significant changes in risks in the near-term may materially affect the amounts reported in the financial statements. We evaluated the key factors and assumptions used to develop the valuation of investments in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimates of the allowance for uncollectable assessments and allowance for loan loss are based on past history with the related organizations and the Diocese's expectations of future payments. The allowance estimates are reviewed and approved by management of the Diocese. We evaluated the key factors and assumptions used to develop the allowances for uncollectable assessments and loan receivable in determining that they are reasonable in relation to the financial statements taken as a whole.

The Diocese and various parishes have pooled their investments in order to obtain a better rate of return on the investments. The Diocese calculates a net asset value and per share price for the pooled investments and allocates on a per share basis the income, realized and unrealized gains and losses to the individual accounts held by the Diocese and the various parishes.

### Disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- The Diocese's investments and their valuation in Note 5;
- The Diocese's guarantee of parish loans and their commitment to make a parish's loan payments in Note 9;
- The Diocese's assumed payments for a guaranteed mortgage in Note 10; and
- The Diocese's legal matters in Note 17.

The financial statement disclosures are neutral, consistent, and clear.

### Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Our audit did not result in the identification of any material adjustments or any significant waived adjustments.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated August 7, 2017.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Diocese's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Diocese's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

Matters involving internal control and other operational matters are communicated in our management letter dated August 7, 2017.

\* \* \* \* \*

This information is intended solely for the use of the Diocesan Council, Board of Trustees, and management of the Diocese, and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

*Maher Duessel*

Pittsburgh, Pennsylvania  
August 7, 2017

# **The Episcopal Diocese of Pittsburgh**

## **Financial Statements**

**Years Ended December 31, 2016 and 2015  
with Independent Auditor's Report**

**MaherDuessel**  
Certified Public Accountants

Pittsburgh | Harrisburg | Butler

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# **THE EPISCOPAL DIOCESE OF PITTSBURGH**

YEARS ENDED DECEMBER 31, 2016 AND 2015

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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, 2016 and 2015, 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

#### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Diocese as of December 31, 2016 and 2015, 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  
August 7, 2017

# THE EPISCOPAL DIOCESE OF PITTSBURGH

## STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2016 AND 2015

	2016	2015
<b>Assets</b>		
Cash and cash equivalents	\$ 954,098	\$ 342,258
Assessments receivable:		
Parishes	5,607,506	4,927,010
Less allowance for doubtful accounts	(5,587,562)	(4,893,688)
Total assessments receivable, net	19,944	33,322
Loans receivable:		
Parishes and missions - growth fund	920,060	1,015,119
Bishop's residence fund	27,000	27,000
Less allowance for loan losses	(464,897)	(465,301)
Total loans receivable, net	482,163	576,818
Grants and bequests receivable	185,767	497,185
Note receivable	1,505,791	471,140
Accrued interest receivable	54,099	15,831
Prepaid expenses	7,751	9,281
Property held for sale	556,500	646,454
Trusts held by others at fair value	4,251,676	4,017,680
Investments at fair value	23,853,668	22,321,448
Fixed assets (net of accumulated depreciation)	1,613,860	1,743,592
<b>Total Assets</b>	<b>\$ 33,485,317</b>	<b>\$ 30,675,009</b>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 393,987	\$ 129,368
Mortgage payable	1,432,922	852,333
Funds held for others	3,024,267	2,797,798
Total Liabilities	4,851,176	3,779,499
Net Assets:		
Unrestricted:		
Undesignated	4,679,925	3,938,968
Board-designated	10,627,303	10,467,053
Total unrestricted	15,307,228	14,406,021
Temporarily restricted	974,358	676,173
Permanently restricted	12,352,555	11,813,316
Total Net Assets	28,634,141	26,895,510
<b>Total Liabilities and Net Assets</b>	<b>\$ 33,485,317</b>	<b>\$ 30,675,009</b>

See accompanying notes to financial statements.



# THE EPISCOPAL DIOCESE OF PITTSBURGH

## STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
<b>Unrestricted Net Assets:</b>		
Operating revenues and other support:		
Parish assessments	\$ 622,914	\$ 598,410
Investment returns designated for current operations	460,000	453,000
Contributions and grants	140,420	106,457
Total operating revenues and other support	1,223,334	1,157,867
Operating expenses:		
Office of Administration	305,432	311,713
Legal expense	14,783	12,400
Office of the Bishop	249,794	242,977
Reopened parish, property, and other expenses	133,857	209,290
Beyond the Diocese	179,788	168,696
Transformational networks	184,742	165,253
Congregational mission	71,474	45,390
Total operating expenses	1,139,870	1,155,719
Net gain (loss) from operations	83,464	2,148
Other revenues (expenses):		
Spending policy transfers	172,722	213,895
Released from restriction	61,489	27,007
Other revenues	71,617	47,385
Other non-operating contributions	1,646	529,573
Grants and contributions to others	(407,874)	(428,145)
Other trustee expenses	(16,927)	(26,740)
Investment (loss) income	574,752	(764,558)
Gain (loss) on property transactions	496,218	561,423
Depreciation	(135,900)	(107,732)
Total other revenues (expenses)	817,743	52,108
Change in Unrestricted Net Assets	901,207	54,256
<b>Temporarily Restricted Net Assets:</b>		
Contributions and grants	263,295	5,171
Investment (loss) income	47,030	(21,693)
Spending policy transfers	49,349	34,083
Released from restriction	(61,489)	(27,007)
Change in Temporarily Restricted Net Assets	298,185	(9,446)
<b>Permanently Restricted Net Assets:</b>		
Contributions and grants	54,473	6,232
Spending policy transfers	(222,071)	(247,978)
Investment (loss) income	706,837	(712,516)
Change in Permanently Restricted Net Assets	539,239	(954,262)
Total Change in Net Assets	1,738,631	(909,452)
<b>Net Assets:</b>		
Beginning of year	26,895,510	27,804,962
End of year	\$ 28,634,141	\$ 26,895,510

See accompanying notes to financial statements.

# THE EPISCOPAL DIOCESE OF PITTSBURGH

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

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### 1. NATURE OF OPERATIONS

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

Parish churches and the capital assets of affiliated institutions returned to the Diocese subsequent to 2010 are not included in the Diocese financial statements, with the exception of when the sale of a closed parish is approved. At that time, the parish property is recorded on the books of the Diocese. Land, buildings, and equipment, including property recorded by the Diocese from closed parishes are recorded at cost or appraised value at the date of donation or return to the Diocese (for closed parishes). Fixed assets include the Donegal property and equipment, the Avalon property and 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.

# THE EPISCOPAL DIOCESE OF PITTSBURGH

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

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### 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 in 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

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# THE EPISCOPAL DIOCESE OF PITTSBURGH

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

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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 and 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.

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# THE EPISCOPAL DIOCESE OF PITTSBURGH

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

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### Investments, Risks, and Uncertainties

Investments are carried at fair value and consist primarily of equity and fixed income securities. Gains and investment income are recognized in the period earned and are classified as 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 and Investment Committee of the Board. On the statements of financial position, funds held for others are included in the investments.

### Concentrations

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

### Grants Receivable

Grants receivable for the years ended December 31, 2016 and 2015 are \$133,333 and \$0, respectively.

### Bequest Receivable

Bequest receivable for the years ended December 31, 2016 and 2015 are \$52,434 and \$497,185, respectively.

### Fixed Assets

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

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

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# THE EPISCOPAL DIOCESE OF PITTSBURGH

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

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The estimated useful lives are as follows:

Building	20 Years
Vehicles	5 Years
Lease Improvements	5 Years

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

### Property Held for Sale

The Diocese has recorded property from closed parishes that are being held for sale at net realizable value, which represents the estimated fair value of the property less estimated costs to sell at \$556,500 and \$646,454, respectively, as of December 31, 2016 and 2015. Prince of Peace was approved for sale in December of 2016 for \$200,000, All Saints Church and rectory approved for sale for \$85,000 and \$70,000, respectively, St. Andrew's rectory approved for sale for \$85,000, Good Samaritan was approved for sale for \$29,000, and Trinity was approved for sale for \$20,000.

### 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. The Diocese did not recognize impairment of any of their long-lived assets in 2016 and 2015.

# THE EPISCOPAL DIOCESE OF PITTSBURGH

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

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### 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

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# THE EPISCOPAL DIOCESE OF PITTSBURGH

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

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measuring fair value under accounting principles generally accepted in the United States of America and expanded disclosure about fair value measurement (see Note 5).

### Pending Pronouncements

ASU-2016-02, "*Leases (Topic 842)*," effective for the Diocese's financial statements for the year ending December 31, 2020. This standard will require lessees to recognize assets and liabilities on the statement of financial position for the rights and obligations created by all leases with terms of more than twelve months. Disclosures also will be required by lessees to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

ASU No. 2016-14, "*Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*," effective for the Diocese's financial statements for the year ending December 31, 2018. This standard aims to improve how a nonprofit organization classifies its net assets and provides information in its financial statements and notes about its financial performance, cash flow, and liquidity. The ASU changes the net asset classification, requires presentation of expenses both by nature and function, requires investment return reported net of investment expenses, requires placed-in-service approach for gifts of/for long-lived assets and provides enhanced disclosures for: governing body restrictions; composition of net assets with donor restrictions; qualitative and quantitative information on liquidity; methods to allocate costs among program and support functions; and underwater donor-restricted endowment.

### Subsequent Events

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

## **3. PARISH ASSESSMENTS AND LOAN LOSSES**

The provision for parish assessment and loan losses, which is charged to current operations, reflects the amount necessary, in management's judgment, to establish an adequate allowance to absorb possible losses on assessments and loans. Management's judgment is based on a continuing review of the parish assessments and loan portfolios, past collection experience, and current economic conditions. While management uses available information to recognize losses, future additions to the allowance may be necessary based on changes in economic conditions. Once loans have been determined to be not performing, management will estimate the allowance for loan loss. At this point, interest on the loan stops accruing. During the years ended December 31, 2016 and 2015, the Diocese charged \$693,874 and

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# THE EPISCOPAL DIOCESE OF PITTSBURGH

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

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\$695,195, respectively, to the allowance for doubtful accounts relating to the parishes in the Anglican Church in North America (ACNA Diocese) that have not settled with the Diocese. No interest had been accrued on assessments or loans receivable balances as further described in Note 17 as of December 31, 2016 and 2015.

Interest rates on parish loans range from 3.00% to 3.75% and the loans have maturity dates ranging from 2018 to 2031.

### 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 was originally due in August 2026. After principal prepayments in June 2016 and January 2017, the final payment is due in May 2024.

In June 2016, the Diocese finalized an agreement with an unaffiliated congregation to sell a parish property in exchange for mortgage note. The sale was recognized in 2016 and the resulting note receivable held is due in 60 monthly installments of \$3,574 each, which includes interest at the rate of 3.0% per annum, followed by 60 installments of \$3,747 each, which includes interest at the rate of 4.0% per annum, followed by 60 installments of \$3,793 each, which includes interest at the rate of 4.5% per annum. The final payment is due in April 2032.

In April 2016, the Diocese finalized an agreement with a parish related to a mortgage loan guaranteed by the Diocese and a growth fund loan for a total amount of \$612,858. Interest only payments will be made at a rate of one and three quarters percent (1.75%) above the then current one-month London Interbank Offered Rate (LIBOR). On or about April 30, 2018, the parties will review the financing arrangements and will decide whether, (a) these current arrangements should be continued for an additional period of time, (b) whether the borrower should commence monthly payments of principal and interest based upon an agreed amortization period, or (c) whether a permanent mortgage loan with a third party lender should be negotiated.

# THE EPISCOPAL DIOCESE OF PITTSBURGH

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

### 5. INVESTMENTS

Investments consist of the following at December 31:

	2016	2015
Cash and cash equivalents	\$ 1,509,335	\$ 1,529,427
Mutual funds, fixed income	2,873,172	2,603,591
Equity securities:		
Basic materials	1,284,609	1,429,344
Consumer goods	1,190,563	1,545,780
Energy	1,643,257	1,428,480
Financial	1,208,656	1,502,812
Healthcare	1,993,842	1,681,508
Industrial goods	1,962,839	813,583
Materials	742,269	527,851
Real Estate	26,235	-
Technology	1,695,172	1,916,090
Telecommunication services	729,639	504,745
Utilities	841,743	502,028
Other	402,014	339,410
Corporate debt securities	2,728,360	2,601,935
U.S. government obligations	3,021,963	3,394,864
Total investments	<u>\$ 23,853,668</u>	<u>\$ 22,321,448</u>

Investments were held in the following accounts at December 31:

	2016	2015
Morgan Stanley, Pool 1	\$ 22,136,969	\$ 20,871,337
Morgan Stanley, Pool 2	1,657,622	1,391,087
Mellon Pooled Income Fund	47,220	47,220
Mellon Seed Account	11,857	11,804
	<u>\$ 23,853,668</u>	<u>\$ 22,321,448</u>

# THE EPISCOPAL DIOCESE OF PITTSBURGH

## NOTES TO FINANCIAL STATEMENTS

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

	2016	2015
Interest and dividend income	\$ 390,956	\$ 403,325
Net realized and unrealized (losses) gains	1,397,663	(1,448,496)
Total	<u>\$ 1,788,619</u>	<u>\$ (1,045,171)</u>

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

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

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

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

### Determination of Fair Value

The Diocese measures fair value based upon market price, where available. For Level 3 items, the Diocese's valuation is determined by the market value of the underlying investments for interests in charitable remainder and perpetual trusts provided by the trustee as they have no significant observable inputs. Quantitative unobservable inputs of Level 3 items are not developed by the Diocese for measuring fair value. Due to the absence of readily determinable fair values and the inherent uncertainty of valuations, the estimated fair values for private investments may differ significantly from values that would have been

# THE EPISCOPAL DIOCESE OF PITTSBURGH

## NOTES TO FINANCIAL STATEMENTS

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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, 2016:

	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	\$ 1,492,375	\$ -	\$ -	\$ 1,492,375
Mutual funds, fixed income	3,823,442	-	-	3,823,442
Equity securities	12,787,528	-	-	12,787,528
Corporate debt securities	-	2,728,360	-	2,728,360
U.S. government obligations	-	3,021,963	-	3,021,963
Total investments	<u>\$ 18,103,345</u>	<u>\$ 5,750,323</u>	<u>\$ -</u>	<u>\$ 23,853,668</u>
Trusts held by others:				
Beneficial interest in remainder trusts	\$ -	\$ -	\$ 653,909	\$ 653,909
Beneficial interest in perpetual trusts	-	-	3,597,767	3,597,767
Total trusts held by others	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,251,676</u>	<u>\$ 4,251,676</u>

# THE EPISCOPAL DIOCESE OF PITTSBURGH

## NOTES TO FINANCIAL STATEMENTS

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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, 2015:

	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	\$ 1,406,128	\$ -	\$ -	\$ 1,406,128
Mutual funds, fixed income	1,818,483	-	-	1,818,483
Equity securities	13,100,038	-	-	13,100,038
Corporate debt securities	-	2,601,935	-	2,601,935
U.S. government obligations	-	3,394,864	-	3,394,864
Total investments	<u>\$ 16,324,649</u>	<u>\$ 5,996,799</u>	<u>\$ -</u>	<u>\$ 22,321,448</u>
Trusts held by others:				
Beneficial interest in remainder trusts	\$ -	\$ -	\$ 606,879	\$ 606,879
Beneficial interest in perpetual trusts	-	-	3,410,801	3,410,801
Total trusts held by others	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,017,680</u>	<u>\$ 4,017,680</u>

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

	2016	2015
Fair value, beginning of year	\$ 4,017,680	\$ 4,282,409
Investment income from beneficial interest in remainder and perpetual trusts	129,003	105,365
Distributions from beneficial interest in remainder and perpetual trusts	(129,003)	(105,365)
Valuation (loss) gain, beneficial interest in remainder trusts	47,030	(24,245)
Valuation (loss) gain, beneficial interest in perpetual trusts	186,966	(240,484)
Balance, end of year	<u>\$ 4,251,676</u>	<u>\$ 4,017,680</u>

# THE EPISCOPAL DIOCESE OF PITTSBURGH

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

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

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

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

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

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

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

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

For Level 3 investments of the beneficial interest in perpetual trusts as of December 31, 2016 and 2015, the principal valuation technique utilized is market value of the underlying investments, with an unobservable input of percentage share, and a significant input value ranging from 5% to 100%.

## **6. ENDOWMENTS**

Endowments consist of various investment funds established primarily for operating needs of the Diocese and includes donor-restricted endowment funds. As required by accounting principles generally accepted in the United States of America, net assets associated with

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# THE EPISCOPAL DIOCESE OF PITTSBURGH

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

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, 2016 and 2015:

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment assets, beginning of year	\$ -	\$ -	\$ 8,402,515	\$ 8,402,515
Investment return	-	-	523,557	523,557
Amounts appropriated for expenditures	172,722	49,349	(222,071)	-
Amounts expended	(172,722)	(49,349)	-	(222,071)
Endowment assets, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,704,001</u>	<u>\$ 8,704,001</u>

# THE EPISCOPAL DIOCESE OF PITTSBURGH

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

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	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, beginning of year	\$ -	\$ -	\$ 9,115,507	\$ 9,115,507
Investment return	-	-	(465,014)	(465,014)
Amounts appropriated for expenditures	213,895	34,083	(247,978)	-
Amounts expended	(213,895)	(34,083)	-	(247,978)
Endowment assets, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,402,515</u>	<u>\$ 8,402,515</u>

### 7. FIXED ASSETS

Fixed assets as of December 31, 2016 and 2015 include:

	2016	2015
Land and buildings	\$ 2,328,414	\$ 2,328,414
Vehicles	11,715	11,715
Leasehold Improvements	<u>225,420</u>	<u>219,252</u>
	2,565,549	2,559,381
Accumulated depreciation	<u>(951,689)</u>	<u>(815,789)</u>
	<u>\$ 1,613,860</u>	<u>\$ 1,743,592</u>

### 8. BISHOP'S RESIDENCE

During 2007, the Diocese constructed a residence for its then incumbent Bishop, and entered into an agreement with that Bishop and his wife, which provides that the residence may be utilized by the Bishop and his wife until death. The agreement contains provisions requiring the Bishop to make 360 monthly payments of \$1,597, which began on December 16, 2007. The agreement 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.



# THE EPISCOPAL DIOCESE OF PITTSBURGH

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

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### 9. COMMITMENTS

The Diocese guaranteed multiple debts in the original principal amount of \$4,848,516 for certain parishes within the Diocese. These notes mature through 2033 and interest rates range from approximately 3% to 5%. Each parish's building serves as underlying collateral for the loans. The amount of guaranteed debt outstanding as of December 31, 2016 and 2015 is \$2,089,753 and \$2,082,147, respectively, and the debt to one of the parishes in the amount of \$656,831 at December 31, 2016 is not reported per the Diocese financial statements.

Beginning in April 2012, the Diocese came forward to make the monthly payments for a guaranteed mortgage as one parish was unable to make the payments directly. See Note 10. In November 2016, this mortgage loan was refinanced with Morgan Stanley through the Diocese's variable rate line of credit in the amount of \$823,628. The Diocese has continued to guarantee the debt which will mature in 2023.

In April 2016, the Diocese financed a parish mortgage loan for a parish that was previously guaranteed, along with a Growth Fund loan, with Morgan Stanley through the Diocese's variable rate line of credit in the amount of \$612,858. The Diocese has continued to guarantee the debt and interest-only payments are being made. Effective March 1, 2017, the note was amended with the following payment terms: During the first 36 months of the 7-year term the borrower will make monthly payments of interest only. During the fourth year, beginning March 1, 2020 through February 1, 2021, the borrower will make monthly payments of interest plus 25% of the principal that would be due if the principal sum of the amended note was being fully amortized at an interest rate of 3.59% and a 20 year amortization schedule. During the fifth, sixth, and seventh years of the term, the borrower will make monthly payments of interest plus 50%, 75%, and 100%, respectively, of the principal amount that would be due if the principal sum of the amended note was being fully amortized at an interest rate of 3.59% and a 20 year amortization schedule.

Prior to February 2020, the parties will review the financing arrangements of this note and discuss if it is possible for the borrower to make additional principal payments in excess of the financing arrangement. Additionally, on or before January 2024, the parties will review the financing arrangements and determine whether to negotiate another loan with Morgan Stanley or whether the lender and borrower should negotiate a permanent mortgage with another third-party lender.

As required by accounting principles generally accepted in the United States of America, the Diocese has recorded these two debt transactions on its statements of financial position as further described in Note 10.

# THE EPISCOPAL DIOCESE OF PITTSBURGH

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

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### 10. MORTGAGE PAYABLE AND LINE OF CREDIT

During 2012, the Diocese began to make the payments on a parish's mortgage with a balance of \$1,005,781 that was payable to First National Bank. The debt was refinanced in March 2013 when the principal amount owed was \$947,246. The interest rate was 3.90% and monthly payments were \$5,718. As of December 31, 2016 and 2015, the principal balance is \$0 and \$852,333, respectively.

In November 2016, the mortgage was refinanced with Morgan Stanley using the portfolio loan account. The interest rate is 2.96% and monthly payments are \$5,263. The proceeds from the Morgan Stanley note were used to pay off the First National Bank mortgage. The future scheduled debt payments (which the Diocese expects the parish to resume as soon as it is able to do so) are as follows:

2017	\$	38,953
2018		40,277
2019		41,501
2020		42,704
2021		44,061
Thereafter		612,696
Total	\$	<u>820,192</u>

During 2014, the Diocese obtained a portfolio loan account with Morgan Stanley. The loan account allows for borrowings to a maximum of \$14,943,000 for the years ended December 31, 2016 and 2015. The loan account is secured by the Diocese's investments at Morgan Stanley. In addition to the financed amount noted above, the Diocese also borrowed \$612,858 on behalf of a parish with \$612,730 outstanding as of December 31, 2016. The parish began making interest-only payments at a rate of 1.75% above the current one-month London Interbank Offered Rate beginning in June 2016. In March 2017, an amended note was signed as discussed in Note 9. The future debt payments are as follows:

2017	\$	-
2018		-
2019		-
2020		4,308
2021		9,477
Thereafter		598,945
Total	\$	<u>612,730</u>

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# THE EPISCOPAL DIOCESE OF PITTSBURGH

## NOTES TO FINANCIAL STATEMENTS

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The amount outstanding on the portfolio loan account at December 31, 2016 and 2015 was \$1,432,922 and \$0, respectively.

### 11. OPERATING LEASE

The Diocese leased one vehicle under a non-cancelable operating lease, which requires monthly payments. Future minimum rentals under the non-cancelable operating lease are \$2,756 and \$2,756 for 2017 and 2018, respectively.

In 2015, the Diocesan offices moved to space within Trinity Episcopal Cathedral. The formal lease agreement was signed May 2015 and is effective until June 30, 2020. Beginning January 1, 2016 and continuing until June 30, 2020, the Diocese will pay \$2,916.67 per month (\$35,000 annually) for rent of the space. The future rent payments are as follows:

2017	\$	35,000
2018		35,000
2019		35,000
2020		17,500
Total	\$	<u>122,500</u>

### 12. FUNCTIONAL EXPENSES

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

	<u>2016</u>	<u>2015</u>
Program	\$ 549,971	\$ 585,897
Administrative	<u>589,899</u>	<u>569,822</u>
Total functional expenses	<u>\$ 1,139,870</u>	<u>\$ 1,155,719</u>

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

# THE EPISCOPAL DIOCESE OF PITTSBURGH

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

### 13. PENSION PLANS

The Diocese contributes to a church-wide defined contribution pension plan for eligible lay employees called The Episcopal Church Lay Employees' Retirement Plan (Retirement Plan). The Diocese contributes 11% of the participant's eligible compensation with an additional 4% match. Pension expense under this Retirement Plan was \$22,811 and \$16,456 for the years ended December 31, 2016 and 2015, respectively.

The Diocese also contributes to a church-wide defined benefit pension plan for the clergy called the Church Pension Fund Clergy Pension Plan (Plan). This Plan's EIN number is 13-5562193 and does not have a separate plan number. A funded status ratio in excess of 100% indicates that there are sufficient reserves as of the reporting date to pay currently accumulated benefits. The Diocese contributes 18% of the clergy's eligible compensation. Total pension expense under this Plan, as assessed by the administrator of the church-wide defined benefit pension plan, was \$51,065 and \$59,706 for the years ended December 31, 2016 and 2015, respectively, which does not exceed 5% of total Plan contributions from all employers.

Actuarial Valuation *:	March 31, 2017	March 31, 2016
Actuarial Value of Assets	\$ 9,300,000,000	\$ 8,300,000,000
Actuarial Accrued Liability	\$ 6,500,000,000	\$ 6,700,000,000
Excess of Assets Over Liabilities	\$ 2,800,000,000	\$ 1,600,000,000
Funded Ratio	143%	124%
Expiration of Collective-bargaining Agreement	N/A	N/A
Implemented rehabilitation plan	N/A	N/A
Employer surcharge	N/A	N/A
Future minimum contributions	18% of salary annually	18% of salary annually

\* - Amounts represent the Church Pension Fund Clergy Pension Plan

Participation in multi-employer benefit plans includes the risk that the Diocese contributions could be used to provide benefit payments of other participating employers or for unfunded obligations of the plan.

Additional information for the Church Pension fund is available in The Church Pension Group Annual Report - 2016 at: <https://www.cpg.org>.

# THE EPISCOPAL DIOCESE OF PITTSBURGH

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

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### 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:

	2016	2015
Community Service Fund	\$ 2,813,624	\$ 2,717,221
Plant Fund	2,545,920	2,861,186
Growth Fund	2,256,601	1,973,704
Bishop's Fund	1,381,282	1,395,810
Church Multiplication Fund	415,399	415,302
Bishop's Residence Fund	407,251	394,065
Clergy Relief	261,362	253,519
Seminarian Aid	112,268	103,990
Other	433,596	352,256
Total	<u>\$ 10,627,303</u>	<u>\$ 10,467,053</u>

### 15. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	2016	2015
Beneficial interest in charitable remainder trusts	\$ 653,909	\$ 606,879
Bishop's discretionary and other funds	112,116	65,034
Grants receivable	133,333	-
Other mission support	75,000	4,260
	<u>\$ 974,358</u>	<u>\$ 676,173</u>

# THE EPISCOPAL DIOCESE OF PITTSBURGH

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

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### 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:

	2016	2015
Episcopal support	\$ 5,325,199	\$ 5,058,671
Parish and mission support	3,444,206	3,284,543
Bishop's Fund	703,800	682,450
Chaplaincy programs	603,335	585,230
Episcopal Church Women	554,120	535,752
Parish and mission grants and loans	516,129	499,271
Seminarian support	314,572	305,133
Charitable and religious purposes	296,260	287,370
Other	594,934	574,896
	<u>\$ 12,352,555</u>	<u>\$ 11,813,316</u>

### 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 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 EPISCOPAL DIOCESE OF PITTSBURGH

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

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

These now final court rulings apply, among other property, to the real property used by 24 congregations that had identified themselves as part of the ACNA Diocese rather than the Diocese. In 2011 and 2012, the Diocese and two of these 24 congregations signed agreements for the acquisition of the property from the Diocese on terms reviewed by the Office of the Attorney General and approved by the Board and the Court of Common Pleas. Since 2011, congregations at seven of the affected parishes have returned to active participation in the Diocese. The Diocese has encouraged the rest of the affected congregations to remain in the property pending further study, but some have elected to leave. Where this has occurred, the Diocese is seeking alternative short-term uses of the property, or has decided to sell the property. In addition, there are approximately 14 parishes that have identified themselves as part of the ACNA Diocese where the existing court rulings are not fully dispositive because the real estate was titled in the name of the respective parish. The Diocese 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.

# **2018 Compensation Guide for Clergy and Lay Employees**

**Episcopal Diocese of Pittsburgh**



**Recommended by Diocesan Council  
October 3, 2017**

**Episcopal Diocese of Pittsburgh**

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## INTRODUCTION

The purpose of this Compensation Guide is to provide – for the Bishop’s Wellness Committee, Parish Vestries, and Institutional Boards – standards for the proper compensation, including cash salary, allowances, and benefits, of clergy and lay employees in the Episcopal Diocese of Pittsburgh.

The Guide is applicable to the diocese, to all congregations in the diocese, and to any other institution under the authority of the Constitution and Canons of the Episcopal Diocese of Pittsburgh.

The terms of compensation of the Bishop are to be reviewed annually and recommended to the Diocesan Council for the Budget of the Diocese by a Bishop’s Wellness Committee. The Committee is to be comprised of the President of the Standing Committee, the President of the Board of Trustees, the President of Diocesan Council, and the previous President of the Standing Committee. The Committee is to meet with the Bishop at least annually to review compensation and wellness issues with the Bishop.

The terms of compensation of other clergy and of lay employees serving in the Diocesan Office are recommended to the Diocesan Council by the Bishop for inclusion in the annual diocesan budget.

For parishes, other congregations, and other institutions under diocesan authority it is the responsibility of each Vestry, Board, or similar governing body to use these minimum and recommended Compensation Guidelines, approved by Diocesan Council and authorized by the Annual Convention of the Diocese, in determining the compensation levels for clergy and for lay employees for whom that body may be responsible.

Both clergy and vestries or similar bodies have access to the Bishop’s Office and to the Compensation Committee of Diocesan Council to seek clarification of elements of the guide or to seek resolution of conflicts that may arise in applying the guide to particular situations.

Respectfully Submitted,

The Compensation Committee of Diocesan Council:

The Rev. Dr. Michelle Boomgaard  
Ms. Suzanne DeWalt  
Mr. James Neral  
The Rev. Dr. Bruce Robison

Ex officio: The Rev. Lou Hays; The Rev. Canon Dr. Ted Babcock; The Rt. Rev. Dorsey McConnell; and Ms. Kathi Workman

## **CLERGY AND LAY EMPLOYEE COMPENSATION: DEFINITIONS AND POLICIES**

### **TOTAL COMPENSATION, CLERGY**

Clergy Compensation is appropriately guided by the resources available in the ministry situation in which the ministry is offered and by the level of responsibility and commensurate skill and experience required.

Clergy Compensation Letters of Agreement and subsequent specification of clergy compensation will specify and limit the figure of Total Compensation to include only those elements of compensation subject to assessment by the Church Pension Fund – the total of: (1) Cash Salary, (2) Housing/Utility Allowance or the amount specified in this guide to calculate the value of Housing/Utilities Provided (with additional Housing/Utility Allowance, (3) Equity Allowance, and (4) recommended Self-Employment Tax Allowance, as described and treated in this Guide.

Additional elements of compensation, such as the costs of pension assessments and contributions, health insurance, travel and professional allowances, and discretionary and benevolence funds are not included in the Total Compensation calculation.

### **TOTAL COMPENSATION: CASH SALARY**

For the purpose of this Guide, “Cash Salary” refers to that portion of Total Compensation in addition to provided Housing and Utilities, Housing Allowance, Equity Allowance, and/or Social Security/Medicare Self-Employment Tax Allowance.

### **TOTAL COMPENSATION: HOUSING AND HOUSING ALLOWANCES**

When church-owned housing and utilities are provided for the use of ordained clergy, the Internal Revenue Service currently allows their value to be excluded from the calculation of income subject to Federal Income Tax. In such situations, the Minimum and Recommended Total Compensation amounts designated in this Guide may be reduced by 25%.

When church-owned housing and utilities are not provided, clergy are permitted to designate in advance a portion of their income no greater than the fair market rental value of house, furnishings, and utilities, as a Housing Allowance, and this designated portion of their income is not subject to Federal Income Tax. A Designated Housing Allowance must be recorded in the official records of the congregation or other employer and should be identified on budget forms.

When housing and utilities are provided, an additional amount of Clergy Compensation may be designated as Housing Allowance (see below) to the extent allowable by the Tax Code. Two model Housing Allowance provisions are provided in this Guide at Appendix D. *It is important to remind Clergy that the fair market rental value of provided furnished housing and utilities, and/or of any Housing /Utility Allowance, are subject to Self-Employment Tax and are to be reported on Schedule SE of IRS Form 1040.*

## **TOTAL COMPENSATION: OTHER INCLUDED ALLOWANCES** **SOCIAL SECURITY SELF-EMPLOYMENT TAX ALLOWANCE**

For the purposes of Payroll Taxes related to Social Security and Medicare, all ordained clergy are considered self-employed. When desired and by negotiation, an allowance for clergy's social security self-employment tax (SECA), currently 15.3%, may be paid directly to the member of the clergy as an additional compensation.

The recommended method of administration of IRS-required and SECA taxes is through payroll withholding. NOTE: This income is fully taxable and reportable as income to the clergy. The amount of any Self-Employment Tax Allowance is included within, not in addition to, the Minimum and Recommended Total Compensation figures in this Guide.

## **EQUITY ALLOWANCE**

The 133rd Annual Convention of the Diocese of Pittsburgh adopted a resolution stating that effective January 1, 1999, Letters of Agreement *for all clergy living in church-provided housing* shall include an additional category of compensation entitled "Housing Equity Allowance," and it was further resolved that the specific amount of the Housing Equity Allowance shall be calculated by using a percentage of the value designated for housing on the assessment form of the Church Pension Fund (30 percent of cash stipend plus utilities) or an amount agreed upon between the clergy and the parish. NOTE: This income is fully taxable and reportable as income to the clergy. The amount of any Equity Allowance is included within, not in addition to, the Minimum and Recommended Total Compensation figures in this Guide.

## **LAY EMPLOYEE COMPENSATION**

*Canonically mandatory pension benefits for lay employees regularly scheduled to work 1,000 hours per year or more are described in Appendix C of this Guide. Canonically mandatory Denominational Health Plan benefits for lay employees regularly scheduled to work 1,500 hours per year or more are described in "2018 Policies for Clergy and Lay Participation in the Denominational Health Plan of the Episcopal Church," available from the diocese.*

Parishes and other employers subject to the authority of the Episcopal Diocese of Pittsburgh shall comply with applicable Federal and State employment law, including Federal, State, and Local Minimum Wage and Occupational Health and Safety regulations. FORMA, the American Guild of Organists, the Association of Anglican Musicians, and other organizations serving Lay Professional Ministers of the Episcopal Church may offer recommended guidelines for Lay Professional compensation. The 2017 Bayer Wage and Benefit Survey of Southwestern Pennsylvania can be found at the following web address:

<https://bcnm.rmu.edu/ProgramsServices/cmp-media/docs/BayerCenter/2017swpasurvey.pdf> and may be helpful for Administrative, Accounting/Finance, HR, IT, and Maintenance/Janitorial salary information.

**MANDATORY ALLOWANCES  
NOT INCLUDED WITHIN “TOTAL COMPENSATION”  
FOR CLERGY AND LAY EMPLOYEES**

**TRAVEL (JOB-RELATED)**

Each congregation or other institution subject to this Guide shall provide clergy and lay employees either a monthly, job-related Travel Allowance or an accountable reimbursement plan utilizing the IRS per mile reimbursement rate set annually by the Diocesan Council. It is recommended that the vestry adopt an accountable reimbursement plan. Reimbursements paid under an accountable plan are not reportable by the employer or employee as taxable income, unlike the monthly allowance which is taxable. The accountable plan is a significant advantage to the clergy. Note: When the accountable reimbursement plan is adopted by the vestry it applies to all employees – clergy or lay.

If employees are paid at a rate in excess of the IRS per mile reimbursement rate, under IRS revenue ruling 84-127, the entire reimbursement must be added to the wages reported on form W-2. The clergy can then claim a deduction of the IRS per mile rate on IRS Form 2106 for the business mileage. This is not recommended.

Clergy and lay employees should keep in mind that travel expenses either reimbursed as an allowance or under an accountable reimbursement plan must be documented. See APPENDIX E for a sample documentation form. In the event of an audit, the IRS may request the documentation of these expenses.

**RELOCATION (MOVING) ALLOWANCE**

When a congregation or other institution issues a call following the election of a clergy person to a full-time, settled position of ministry, the calling congregation or other institution shall pay the negotiated expenses associated with the relocation.

**CONTINUING EDUCATION ALLOWANCE**

All clergy, as required by canon and all lay ministry professionals are encouraged to engage in regular continuing education to strengthen their ministries. Parishes are expected to provide both time and money to make such study possible. Continuing education should be focused on vocational development, workshops, courses or intentional study in areas that undergird present or future ministry and develop or strengthen talents and skills. This time is not to be used as additional vacation or leisure time.

Congregations and other institutions shall designate a stated allowance amount in the annual budget (in previous years the Continuing Education Subcommittee of the Commission on Ministry recommended \$500 to \$1,000 for each full-time clergy person or lay employee) toward the expenses of continuing education.

## **SABBATICAL LEAVE**

After five years of continuous service in a parish or in the service of the Diocese, clergy in full-time ministry appointments are eligible for a period of paid sabbatical leave, accrued at the rate of two weeks per year of service, up to a maximum of three months (14 weeks) of paid leave. (Some slightly longer sabbaticals have been negotiated, with the additional leave paid or unpaid, depending on terms of the negotiation.) It is recommended that full-time lay ministry professionals be offered a similar sabbatical opportunity. Parishes should build provision into their budgets to cover the expenses of a sabbatical, which include program and travel costs as well as liturgical and pastoral care coverage for the parish. Limited diocesan aid may be available to help defray the cost of supply clergy and other expenses for the parish during the priest's sabbatical. The purposes of the sabbatical are to promote personal, spiritual, professional, and academic enrichment for continued ministry. A written description of the sabbatical plan should be submitted to the Bishop no less than 90 days before it commences. *NOTE: Reimbursements to clergy for sabbatical program and/or travel costs are typically taxable income to the clergy under IRC Section 274 and 162.*

### **DESCRIPTION OF MANDATORY AND RECOMMENDED BENEFITS: CLERGY AND LAY EMPLOYEES**

*Note that any costs to the parish or other employer of the mandatory and recommended benefits required below are **not** included in the calculation of Minimum or Recommended "Total Clergy Compensation."*

## **CHURCH PENSION FUND: CLERGY AND LAY EMPLOYEES**

Title I, Canon 8, Section 3 of the Constitution and Canons of the Protestant Episcopal Church in the United States of America requires the diocese, parish, mission, and other ecclesiastical organizations to pay the Church Pension Fund Assessment for the Bishop and clergy, and to pay the contribution for lay employees scheduled to work 1,000 hours or more each year. See Appendix C for more information on this topic.

## **DENOMINATIONAL HEALTH PLAN: CLERGY AND LAY EMPLOYEES**

Medical/Dental group insurance as provided by the Denominational Health Plan of The Episcopal Church is required to be offered to clergy and lay employees scheduled to work 1,500 hours or more each year. Policies governing this matter are found in a separate document available from the diocese entitled "2018 Policies for Clergy and Lay Participation in the Denominational Health Plan of the Episcopal Church."

## **SHORT-TERM/LONG-TERM DISABILITY**

Parishes and other employers of full-time active clergy members are expected to continue the clergy member's salary and benefits during any period of disability that does not exceed one year. At no additional cost to the parish or employer, The Church Pension Fund provides a subsidy of up to 70% of the clergy member's total compensation, capped at \$1,000 per week for a maximum period of 52 weeks, to the parish/employer while the clergyperson recovers. This subsidy becomes available after 30 consecutive days of total or partial disability, except for childbirth. In the case of childbirth, the subsidy is immediately available without a 30-day wait period, but the subsidy is limited to twelve (12) weeks.

This subsidy is available to parishes/employers *only* when the disabled clergy member's pension assessments are fully paid and up-to-date *and* the parish/employer is continuing to pay the clergy member. Where a parish/employer terminates the employment of a clergy member during a period of short-term disability, the subsidy is instead paid to the clergy member. Liberty Mutual Insurance Company is the administrator for the clergy benefit which is managed and funded by The Church Pension Fund.

*Addressing a disability properly will usually require help and guidance. Therefore, as soon as a clergy member or senior warden of any parish becomes aware of a condition that might trigger entitlement to a disability subsidy, the diocesan office must be notified immediately.*

The Church Pension Fund also provides long-term disability benefits for clergy at no additional cost. *If the clergy member's illness is prolonged beyond 360 days, or is expected to last beyond 360 days, the clergyperson or his/her representative should initiate a claim for Long-Term Disability Benefits through The Church Pension Fund.* The diocesan office can provide the forms necessary to make a claim for long-term disability plan benefits and assist in the completion of those forms.

Congregations and other employers within the diocese are encouraged to provide short-term and long-term disability insurance benefits for full-time lay employees. These benefits can be made available for purchase by either the employer or lay employee. Liberty Mutual Insurance Company is the provider and administrator for the lay benefits. Parishes and employers are strongly encouraged to discuss short- and long-term disability benefits with all employees at the beginning of employment so that each employee can take appropriate measures to secure adequate disability coverage.

## **SUPPLEMENTAL LIFE INSURANCE BENEFITS**

All clergy listed in Active Status with The Church Pension Fund are provided with a Group Term Life Insurance Benefit equal to four times total annual compensation, up to \$100,000. Clergy and their spouses have the ability to purchase additional insurance coverage from the Church Life Insurance Corporation and the Pennsylvania Widows Corporation. Please contact the diocesan office for additional information. Supplemental Life Insurance may be included as an additional negotiated benefit in Clergy or Lay Employee Letters of Agreement. Congregations and other employers within the diocese are *encouraged* to provide life insurance benefits for full-time lay employees.

## **ADVOCACY FOR CLERGY AND LAY EMPLOYEES DURING COMPENSATION/BENEFIT NEGOTIATIONS**

At the time of determining the annual budget in congregations, clergy and lay employees often find it difficult to negotiate for an adjustment in compensation and benefits. Negotiation is not a skill that everyone possesses. In response to this reality, the Compensation Committee notes that clergy and lay employees may ask an advocate to represent his or her needs and desires to the vestry or budget committee.

## **LETTERS OF AGREEMENT**

For Clergy, the Bishop requires that prior to beginning a compensated ministry within the Diocese of Pittsburgh, a Letter of Agreement, specifying Terms of Call and Compensation, has been signed by the Clergy Person, the Senior Warden or other officer of the Parish or employing Organization, and the Bishop. An original, signed copy of the Letter of Agreement is to be maintained in the files of the Diocesan Office. Terms of compensation within the Letter of Agreement are to be reviewed annually, and the entire Letter of Agreement should be reviewed and updated periodically. See APPENDIX F for a recommended Letter of Agreement template.

It is strongly recommended that similar, periodically updated Letters of Agreement be created/updated for all Lay Employees as well.



## **CLERGY AND CONGREGATIONS: SITUATIONS OF MINISTRY AND DEPLOYMENT**

### **PARISH “TYPE” DESCRIPTIONS**

The descriptions of each congregational situation, and particularly of the clergy responsibility level, are provided to help the congregation assess their level of functioning and ministry development. The “types” are determined by a mix of factors, including size of active congregation, available financial resources, and style of ministry.

TYPE 1 – May include lay-led parishes, diocesan church plants or “restart” congregations, and missions utilizing part-time clergy, shared clergy, supply clergy, or deacons

TYPE 2 – Smaller parishes with settled full or part-time clergy and lay volunteers filling most other staff roles

TYPE 3 – Mid-sized parishes with settled full or part-time clergy and a mix of paid and volunteer staff

TYPE 4 – Larger parishes with complex programming and some paid lay and clergy staffing

TYPE 5 – Larger parishes with complex programming and multiple paid lay and clergy staffing

See Appendix A for the 2018 breakdown of Diocesan parishes by Type.

## **CLERGY MINISTRY DEPLOYMENT DEFINITIONS**

### **CLERGY DEPLOYED IN FULL-TIME MINISTRY SITUATIONS**

Full-time clergy may either hold canonically elected and tenured positions (Rectors) or be non-tenured Priests-in-Charge and other Associate or Assistant positions. Appendix B of the Compensation Guide relates the five patterns or “types” of deployment situations with minimum and recommended Total Compensation guidelines for full-time ministry in these situations. The location of a ministry situation within these guidelines is somewhat flexible and takes into account a number of factors including the size of the active congregation, available resources (both human and financial), and the scope and complexity of the ministry and parish programs. Parishes and settled full-time and part-time clergy are to have a signed Letter of Agreement that is regularly updated. Clergy serving in a shared situation shall be paid as full-time if their time commitment total among all participating parishes is 100% or 48 hours per week.

### **FULL TIME CALCULATION, DAYS OFF, AND VACATION**

For the purposes of this Guide, a work week for full-time clergy will average approximately 48 hours.

Full-time clergy are expected to have at least one continuous 24-hour period each week reserved for personal and family use, and may have up to 48 hours of such time. Full-time clergy shall have a minimum of one full month of paid vacation time per year, to include at least four Sundays. Arrangements for designated days-off and paid vacation time for Settled Part-Time Clergy are to be negotiated and included in the Letter of Agreement.

### **CLERGY DEPLOYED IN PART-TIME MINISTRY SITUATIONS**

#### **Time Commitment Calculations for Part-Time Clergy Appointments:**

1/4 Time	Sermon Preparation, Sunday Service, plus equivalent of 7-8 hours/week pastoral care/groups/meetings/other services
1/2 Time	Sermon Preparation, Sunday Service, plus equivalent of 18-20 hours/week pastoral care/groups/meetings/other services
3/4 Time	Sermon Preparation, Sunday Service, plus equivalent of 28-30 hours/week pastoral care/groups/meetings/other services

## **CLERGY ASSISTANTS (FULL- AND PART-TIME)**

Parishes with a full-time Rector or Priest-in-Charge may also be served by additional stipendiary clergy on a full or part-time basis. Minimum Compensation for Full-Time Assistant Clergy shall conform to the minimum stipend levels established for Full-Time Clergy in Type II Parishes in Appendix B and shall include mandatory health and pension benefits. Part-Time Clergy Assistants shall receive a Letter of Agreement defining their duties and specifying the “percentage of full time” of the ministry appointment.

Minimum compensation for Part-Time Assistant Clergy shall be calculated on a percentage basis using the Minimum Full Time Compensation standard for Type II parishes. If the percentage assignment meets qualifying hours, such clergy shall also be accorded health and pension benefits.

## **SUPPLY CLERGY**

Supply Clergy provide liturgical leadership on occasional instances – as when parish clergy may be away on vacation or study leave – or during short-term intervals when there is a vacancy in a parish. Supply Clergy provide liturgical leadership and preaching at Sunday or designated weekday services only, and are not expected to attend to additional or on-going pastoral or administrative duties. If a Supply position is expected to extend beyond a single three-month period or to involve duties beyond liturgical leadership and preaching, the position should be redefined as Settled Part-Time.

## APPENDIX A

### REGISTER OF PARISH TYPES AND MINISTRY SITUATIONS

*The location of a parish situation within these guidelines may be somewhat intuitive, taking into account a number of factors including the size of the active congregation, available resources (both human and financial), and the scope and complexity of the ministry and parish programs.*

#### ***Type 1***

Blairsville, St. Peter's  
 Brackenridge, St. Barnabas  
 Brighton Heights, All Saints  
 Brookline, Advent  
 Carnegie, Atonement  
 Donora, St. John's  
 Hazelwood, Good Shepherd  
 Homestead, St. Matthew's  
 Jeannette, Advent  
 Monongahela, St. Paul's  
 North Versailles, All Souls  
 Northern Cambria, St. Thomas  
 Penn Hills, St. James  
 Scottdale, St. Bartholomew's  
 Wayne Township, St. Michael's

#### ***Type 2***

Canonsburg, St. Thomas  
 Crafton, Nativity  
 Homewood, Holy Cross  
 Indiana, Christ Church  
 Johnstown, St. Mark's  
 Kittanning, St. Paul's  
 McKeesport, St. Stephen's  
 North Side, Emmanuel  
 Somerset, St. Francis  
 Wilkinsburg, St. Stephen's

#### ***Type 3***

Brentwood, St. Peter's  
 Franklin Park, St. Brendan's  
 Highland Park, St. Andrew's  
 Ligonier, St. Michael's  
 Oakmont, St. Thomas  
 Peters Township, St. David's  
 Pittsburgh, Trinity Cathedral  
 Squirrel Hill, Redeemer

#### ***Type 4***

North Hills, Christ Church

#### ***Type 5***

East Liberty, Calvary  
 Mt. Lebanon, St. Paul's

## APPENDIX B

### CLERGY COMPENSATION

#### MINIMUM AND RECOMMENDED GUIDELINES

##### Clergy in Settled Appointments, Full Time

Guideline figures include ONLY: Cash Stipend and Allowances designated for Housing, Utilities, Housing Equity, and Self-Employment Tax. If Housing and Utilities are supplied by the parish, the Guideline figures may be reduced by 25%. (Figures are for Compensation as defined in the Rules of the Church Pension Fund and do not include allowances for Travel, Professional Expenses, Benevolence and Discretionary Funds, and Continuing Education or Sabbatical allowances.)

Guideline figures ranging above the Minimum/Initial figures at each level represent a standard of normal compensation for full-time clergy with good performance. When resources are available and in accordance with advancing tenure and performance clergy are appropriately compensated above the indicated Guideline figures at each level. Compensation for clergy in parishes shall not fall below the Minimum/Initial range for the designated Parish Type (see Appendix A) and the Minimum “Type 1” figure shall be an Absolute Minimum for all full-time clergy, including those who have positions in other diocesan institutions or ministries. The Absolute Minimum for full-time Assistant or Associate Rectors shall be the Minimum “Type 2” figure.

##### ABSOLUTE MINIMUM COMPENSATION, BY PARISH TYPE (See pg. 13)

PARISH TYPE	FULL TIME PRIMARY	FULL-TIME ASSOCIATE	OCCASIONAL SUPPLY
Type 1	\$50,450	N/A	See supply clergy policies on page 16
Type 2	\$53,725	N/A	Same as above.
Type 3	\$62,600	\$53,725	Same as above.
Type 4	\$72,175	\$53,725	Same as above.
Type 5	\$99,500	\$53,725	Same as above.

**RECOGNITION OF EXPERIENCE:  
MINIMUM AND TARGET RANGES, BY PARISH TYPE**

It is appropriate to recognize ordained experience of clergy by setting target Compensation above Parish Type Minimums for higher experience levels of Full-time Primary clergy assuming good performance and in accordance with the table below. Full-time Associate clergy may be reviewed annually for Compensation above the Parish Type II Minimum based on performance and Parish financial support.

PARISH TYPE	0-4 Years (Absolute Minimum)	5-9 Years Target	10-14 Years Target	15-19 Years Target	20+ Years Target
Type 1	\$50,450	\$ 52,950	\$ 54,500	\$ 56,150	\$ 57,850
Type 2	\$53,725	\$ 61,150	\$ 67,500	\$ 86,700	\$ 89,250
Type 3	\$62,600	\$ 72,950	\$ 82,500	\$103,150	\$106,250
Type 4	\$72,175	\$ 85,975	\$ 98,325	\$122,925	\$126,625
Type 5	\$99,500	\$114,575	\$129,675	\$162,075	\$166,925

**Clergy in Settled Appointments, Part-Time**

Clergy serving congregations by diocesan appointment as “clergy-in-charge,” with pastoral and administrative duties, and other clergy serving parishes or other diocesan institutions as Parish Assistants in long-term, part-time positions shall have a Letter of Agreement defining the position as a percentage of full-time (e.g., 25%, 50%, 75%), and with a narrative description outlining the extent of ministerial responsibilities. See Table on Page 14 for specific guidance. Minimum Compensation in these positions will apply the percentage of full-time service to the figure for the diocesan Absolute Minimum for the Parish Type. (Thus, e.g., a long-term 25% position in a “Type 2” Parish would have a Minimum Compensation of \$13,431 (\$53,725 x .25).

## **Clergy in Supply Appointments, Single-Event or Short-Term**

Clergy Minimum Supply Compensation Rates are intended to apply to occasional instances – as when parish clergy may be away on vacation or study leave – or short-term intervals when there is a vacancy in a parish. “Supply Rates” are intended to apply to liturgical leadership and preaching at Sunday or designated Weekday services only, and do not include additional on-going pastoral or administrative duties. If a Supply position is expected to extend beyond a single three-month period or to involve duties beyond liturgical leadership and preaching, the position should be redefined as Part-Time, with Compensation Guidelines as indicated above.

1. One Sunday Service, with Sermon – \$150
2. Two Sunday Services, with Sermon – \$175  
*An additional \$50 is to be paid for each additional service on the same weekend.*
3. Midweek Service, with Informal Homily – \$ 60

Supply Clergy are to be reimbursed for round-trip travel costs from their home to the Church at the current IRS reimbursable mileage rate.

## **APPENDIX C**

### **2018 PENSION BENEFITS POLICY CLERGY AND LAY EMPLOYEES**

#### **Clergy Pensions**

In all cases parishes and other employers under the authority of The Episcopal Church shall comply with the canons of the Episcopal Church and of the Episcopal Diocese of Pittsburgh by enrolling all eligible Clergy in the Clergy Pension Plan of The Church Pension Fund of The Episcopal Church and by paying all Pension Fund assessments and contributions in a timely manner. Treasurers and other Administrators are encouraged to consult with the Director of Administration to assure compliance.

#### **Lay Employee Pensions**

As of January 1, 2013, parishes and other employers under the authority of the canons of The Episcopal Church and of the Episcopal Diocese of Pittsburgh shall enroll all Lay Employees scheduled to work 1,000 hours per year or more in the Lay Employee Pension Plan of The Church Pension Fund of The Episcopal Church and shall pay all Pension Fund assessments in a timely manner.

While it is not canonically mandatory, parishes and other employers are encouraged to provide Lay Employee Pension Benefits as well to those Lay Employees scheduled to work fewer than 1,000 hours per year. Treasurers and other Administrators are encouraged to consult with the Director of Administration to assure compliance.

Note: Participation in the Lay Employee Pension Plan of The Church Pension Fund was mandated by the 76th General Convention of The Episcopal Church in 2009, Resolution A138, amending Canon I.8. The Plan includes two programs – one “Defined Benefit” and the other “Defined Contribution.” Each employing parish or organization determines which one of these two programs to provide for all its employees. The Defined Benefit program requires an Employer Contribution of 9% of the employee’s compensation. The Defined Contribution program requires a base Employer Contribution of 5% of the Employee’s compensation. Employees are able to contribute to their account as well in the Defined Contribution program, and the employer is required to match the employee’s contribution up to an additional 4% of the employee’s compensation. If the employee contributes 4% or more of total compensation to the Pension account, the maximum mandatory Employer contribution is 9%. Experience to date indicates that most Employers and Employees prefer the Defined Contribution program.



## APPENDIX D

### TWO EXAMPLES OF VESTRY HOUSING RESOLUTIONS FROM THE 2015 EPISCOPAL MINISTERS TAX GUIDE PUBLISHED BY THE CHURCH PENSION FUND

#### 1. Sample housing allowance resolution for a priest or deacon who lives in a church-provided rectory:

The following resolution was duly adopted by the Vestry of \_\_\_\_\_ Church at a regularly scheduled meeting held on \_\_\_\_\_ a quorum being present:

Whereas, the Reverend \_\_\_\_\_ is compensated by \_\_\_\_\_ Church exclusively for services as a minister of the gospel; and

Whereas, \_\_\_\_\_ Church provides \_\_\_\_\_ with rent free use of a church-owned rectory as compensation for services that (he or she) renders to the church in the exercise of (his or her) ministry; and

Whereas, \_\_\_\_\_ incurs expenses for living in church provided housing; therefore it is hereby

Resolved, that the annual compensation paid to \_\_\_\_\_ for calendar year \_\_\_\_\_ shall be \$ \_\_\_\_\_, of which, \$ \_\_\_\_\_ is hereby designated to be a housing allowance pursuant to Section 107 of the Internal Revenue Code; and it is further

Resolved, that the designation of \$ \_\_\_\_\_ as a housing allowance shall apply to calendar year \_\_\_\_\_ and all future years unless otherwise provided by the Vestry; and it is further

Resolved, that as additional compensation to \_\_\_\_\_ for calendar year \_\_\_\_\_ and for all future years unless otherwise provided for by this Vestry, \_\_\_\_\_ shall be permitted to live in the church-owned rectory located at \_\_\_\_\_, and that no rent or other fee shall be payable by \_\_\_\_\_ for such occupancy and use.

## **2. Sample housing allowance resolution for a deacon or priest who owns or rents his or her home:**

The following resolution was duly adopted by the Vestry of \_\_\_\_\_ Church at a regularly scheduled meeting held on \_\_\_\_\_ a quorum being present:

Whereas, the Reverend \_\_\_\_\_ is compensated by \_\_\_\_\_ Church exclusively for the services as a minister of the gospel; and

Whereas, \_\_\_\_\_ Church does not provide \_\_\_\_\_ with a rectory; therefore, it is hereby

Resolved, that the total compensation paid to \_\_\_\_\_ for calendar year \_\_\_\_\_ shall be \$\_\_\_\_\_, of which \$ \_\_\_\_\_ is hereby designated to be a housing allowance; and it is further

Resolved, that the designation of \$ \_\_\_\_\_ as a housing allowance shall apply to calendar year \_\_\_\_\_ and all future years unless otherwise provided.

**NOTE:** In order to qualify for the exemption from Federal and local income taxes, clergy housing allowances must be approved in advance, and may not be made retroactive. Thus it is important that the Vestry adopt a resolution for a newly employed clergyperson in advance of his or her start date. Housing allowances may be increased prospectively, if necessary. For further information about the intricacies of housing allowances and the Internal Revenue Code, see the Clergy Tax Guide published annually and available from The Church Pension Fund at [cpg.org](http://cpg.org). Individual consultation by telephone is available, without charge.

## APPENDIX E

### MILEAGE & TRANSPORTATION REPORT

Name: \_\_\_\_\_

Date	Location To/From	Purpose of Travel	Miles	Toll/Parking

Number of miles \_\_\_\_\_ X current IRS Rate = \$ \_\_\_\_\_

Total amount of other expenses \$ \_\_\_\_\_

**Total mileage and transportation expenses** \$ \_\_\_\_\_

**APPENDIX F**

**LETTERS OF AGREEMENT FOR CLERGY**

**EPISCOPAL DIOCESE OF PITTSBURGH**  
**MINISTRY COVENANT AGREEMENT**

between

The Wardens and Vestry of

\_\_\_\_\_ Church,

and

The Reverend \_\_\_\_\_

who has been elected Rector with the understanding that this tenure is to continue until dissolved by mutual consent or by arbitration and decision as provided by the relevant Canons of the Episcopal Diocese of Pittsburgh and of the General Convention.

**Preamble**

The Rector shall lead \_\_\_\_\_ Church as pastor, priest and teacher, sharing in the councils of this congregation and of the whole Church, in communion with our Bishop. By word and action, informed at all times by the Holy Scriptures, the Book of Common Prayer, and the Constitution and Canons of the General Convention and our Diocese, the Rector shall proclaim the Gospel, love and serve Christ's people, nourish them, and strengthen them to glorify God in this life and in the life to come.

This ministry is further described in the Rector Position Description approved by the Rector, Wardens and Vestry on \_\_\_\_\_, which is hereby acknowledged and made part of this Letter of Agreement.

**Section A. Times of Work & Leave**

**(Please choose only the version that is appropriate for your ministry setting)**

*Full Time Version*

1) The Rector's work includes not only activities directed to the parish and its well-being, but also labors on behalf of the Diocese and community. This work for the Diocese will include participation in ordination services, clergy funerals, a yearly clergy retreat/conference, yearly Diocesan Convention and other events deemed important by the Bishop. The Rector's scheduled

workweek is five days. It is estimated that this would be, on average, 48 hours per week. In general, no more than three evenings per week are expected. The Rector is expected to preserve 48 hours (with at least one continuous 24-hour period) each week solely for personal and family use.

2) The Rector will have the following periods of leave at full compensation:

- a) National Holidays, to be taken so as not to interfere with worship for major occasions.
- b) One month Annual Leave, which shall include five Sundays. No more than \_\_\_\_\_ days and one Sunday may be carried forward to succeeding years. Annual Leave consists of Vacation, Sick Leave and Compassion Leave.
- c) Professional Development Leave, at the rate of two weeks per year.
- d) Two weeks per year of service in this parish for Sabbatical Leave, to be available after the fifth year, up to a maximum of three months (14 weeks) may be taken. Sabbatical arrangements shall be made in full consultation with the Vestry, to insure benefits for the parish as well as for the Rector.
- e) \_\_\_\_\_ weeks paid leave of absence upon the birth or adoption of a child.
- f) Twelve weeks of short term disability benefits as provided to the parish by Church Pension Group to hire substitute clergy during this period of medical leave.

### *3/4 Time Version*

1) The Rector's work includes not only activities directed to the parish and its well-being, but also labors on behalf of the Diocese and community. This work for the Diocese will include participation in a yearly clergy retreat, yearly Diocesan Convention and other events deemed important by the Bishop. The Rector's scheduled workweek is for 36 hours. In general, no more than three evenings per week are expected. The Rector is expected to preserve 48 hours (with at least one continuous 24-hour period) each week solely for personal and family use.

2) The Rector will have the following periods of leave at full compensation:

- a) National Holidays, to be taken so as not to interfere with worship for major occasions.
- b) One month Annual Vacation, which shall include four Sundays. No more than \_\_\_\_\_ days and one Sunday may be carried forward to succeeding years. Annual Leave consists of Vacation, Sick Leave and Compassion Leave.
- c) Professional Development Leave, at the rate of two weeks per year.
- d) Two weeks per year of service in this parish for Sabbatical Leave, to be available after the fifth year. Sabbatical arrangements shall be made in full consultation with the Vestry, to insure benefits for the parish as well as for the Rector.
- e) \_\_\_\_\_ weeks paid leave of absence upon the birth or adoption of a child.

#### *1/2 Time Version*

- 1) The Rector's work includes not only activities directed to the parish and its well-being, but also labors on behalf of the Diocese and community. This work for the Diocese will include participation in a yearly clergy retreat, yearly Diocesan Convention and other events deemed important by the Bishop. The Rector's scheduled workweek is for 24 hours. In general, no more than two evenings per week are expected.
- 2) The Rector will have the following periods of leave at full compensation:
  - a) National Holidays, to be taken so as not to interfere with worship for major occasions.
  - b) One month Annual Vacation which shall include three Sundays. No more than \_\_\_\_\_ days and one Sunday may be carried forward to succeeding years. Annual Leave consists of Vacation, Sick Leave and Compassion Leave.
  - c) Professional Development Leave, at the rate of two weeks per year.
  - d) Two weeks per year of service in this parish for Sabbatical Leave, to be available after the fifth year. Sabbatical arrangements shall be made in full consultation with the Vestry, to insure benefits for the parish as well as for the Rector.
  - e) \_\_\_\_\_ weeks paid leave of absence upon the birth or adoption of a child.

#### *1/4 Time Version*

- 1) The Rector's work includes not only activities directed to the parish and its well-being, but also labors on behalf of the Diocese and community. This work for the Diocese will include participation in a yearly clergy retreat, yearly Diocesan Convention and other events deemed important by the Bishop. The Rector's scheduled workweek is for 12 hours. In general, no more than one evening per week is expected.
- 2) The Rector will have the following periods of leave at full compensation:
  - a) National Holidays, to be taken so as not to interfere with worship for major occasions.
  - b) One month Annual Vacation which shall include two Sundays. No more than \_\_\_\_\_ days and one Sunday may be carried forward to succeeding years. Annual Leave consists of Vacation, Sick Leave and Compassion Leave.
  - c) Professional Development Leave, at the rate of two weeks per year.
  - d) One week per year of service in this parish for Sabbatical Leave, to be available after the fifth year. Sabbatical arrangements shall be made in full consultation with the Vestry, to insure benefits for the parish as well as for the Rector.
  - e) \_\_\_\_\_ weeks paid leave of absence upon the birth or adoption of a child.

## Section B. Compensation

### *Housing Allowance Version (Clergy with their own housing)*

1) The Rector's annual cash salary will be \$ \_\_\_\_\_. paid in installments consistent with the Parish's payroll cycle, to be reviewed and adjusted annually in accordance with the current Diocesan minimum clergy compensation standards.

Upon the Rector's request, the Vestry will designate a portion of the total cash salary as "Housing Allowance" under the Federal Internal Revenue Code.

2) The Rector may receive SECA reimbursement payments as a salary supplement.

3) The Vestry shall pay the following benefits:

a) Church Pension Fund Assessment on the sum of the Rector's total annual cash salary (including Housing Allowance), plus the Rector's SECA Reimbursement.

b) Medical Insurance through Episcopal Church Medical Trust (ECMT), plan as required by the Diocesan Compensation Guide.

\*If equivalent or better than the ECMT offering is provided independently through the employment of the Rector's spouse, the Rector may waive participation in the Diocesan ECMT plan. The Vestry will then not provide duplicate coverage but will use the amount of the Diocesan ECMT premium that would have been spent to provide additional income, or fund a 403b for the clergy person. If at any time the Rector revokes the waiver, the Vestry will provide ECMT in accordance with the Diocesan plan.

c) The Church Pension Fund Assessment of 18% paid by the parish entitles clergy to numerous benefits including Life Insurance, Short and Long-Term Disability Insurance, Maternity Leave, etc. Refer to A Guide for Benefits Under the Clergy Pension Plan for additional details.

## Section C. Expenses

The Vestry shall pay the following expenses incurred by the Rector in fulfilling the duties of office:

1) Travel expenses, at the current rate provided by the Internal Revenue Service (to be reviewed annually against the updated IRS rate) plus out-of-pocket costs of parking fees, tolls, bus fares, etc.

2) The normal expenses of the church's office operation, such as telephone, postage, office equipment, supplies, secretarial services, etc.

3) An expense allowance, up to \$ \_\_\_\_\_ annually, for reimbursement of expenses incurred in the course of professional activities on behalf of \_\_\_\_\_ Church.

4) The cost of a telephone in the Rector's residence. This telephone number shall be published to insure the Rector's ready accessibility in case of emergencies. The Rector shall pay the cost of all personal long distance calls.

5) A Continuing Education Allowance of \$ \_\_\_\_\_ per year, to be reviewed annually, and paid to or on behalf of the Rector toward expenses incurred in relation to continuing education leave.

## **Section D. Discretionary Fund**

In accordance with the Canons of the General Convention, a Discretionary Fund is to be established as a church checking account under the Rector's sole control, from the following sources: \_\_\_\_\_, and gifts given the Rector for the purposes of the Discretionary Fund. This fund is to be audited annually as part of the church's annual audit.

## **Section E. Supplementary Compensation**

1) The Rector shall not charge fees for performing any rites of the Church (for example, baptisms, marriages, funerals) for members of \_\_\_\_\_ Church.

2) The Rector may, however, receive income from other sources, such as:

- a) Sacramental services on behalf of persons not in any way related to the parish.
- b) Fees and honoraria for professional services performed on personal time for groups unrelated to the parish, or for sermons, books or articles published outside the parish.

## **Section F. Mutual Ministry Review**

1) The Rector, Wardens and Vestry agree to discussions and mutual reviews of the total ministry of the parish, in order to:

- a) Provide the Rector, Wardens, and Vestry opportunity to assess how well they are fulfilling their responsibilities to each other and to the ministries they share.
- b) Establish goals for the work of the whole parish for the coming year.
- c) Isolate areas of conflict or disappointment which have not received adequate attention and may be affecting mutual ministry adversely.
- d) Clarify expectations of all parties to help put any future conflicts in manageable form.

2) A mutually agreed upon third party will be engaged to facilitate the mutual ministry review process. The initial review will occur between six months and one year from the date the Rector



begins ministry with the parish (Section H (2)). Additional mutual ministry reviews will occur on a triennial basis about 18 months after a scheduled Episcopal Visitation.

## Section G. Other Possible Agreements

1) All (or an agreed upon portion of) moving and travel expenses incurred in making the move from \_\_\_\_\_ to \_\_\_\_\_ shall be paid by \_\_\_\_\_ Church. Moving expenses could include family travel, transporting household goods, reasonable temporary accommodations during the move, and an Incidental Expenses Allowance of up to two weeks' compensation.

2) The moving date shall be in the week of \_\_\_\_\_. The Rector shall begin duties in the parish not later than \_\_\_\_\_ unless delayed by adverse circumstances.

3) In the event of the Rector's death, the Vestry agrees to continue payment of the Rector's cash salary, and appropriate Health and Hospital Insurance, to the Rector's surviving direct dependents for a period of \_\_\_\_\_ months.

4) This letter may be revised only by mutual agreement at the time of the annual mutual ministry review, except that compensation and expenses revisions may be mutually agreed upon in a separate budget process.

5) If the Rector and Vestry are in disagreement concerning interpretation of this Letter of Agreement, either party may appeal for mediation to \_\_\_\_\_ or another mutually agreed upon third party, the Bishop remaining the final arbiter.

6) All pay and benefits shall become effective on \_\_\_\_\_.

This Letter of Agreement, and its related Position Description, shall be made part of the minutes of the next Vestry meeting following its signing, and copies shall be given to each new Vestry member.

\_\_\_\_\_  
Date

\_\_\_\_\_  
Rector

\_\_\_\_\_  
Senior Warden

Reviewed \_\_\_\_\_  
Diocesan Transitional Ministry Officer

Approved \_\_\_\_\_  
Bishop

# **2018 Policies for Clergy and Lay Participation in the Denominational Health Plan of the Episcopal Church**

**Episcopal Diocese of Pittsburgh**



**Adopted by Diocesan Council  
October 3, 2017**

**Episcopal Diocese of Pittsburgh**

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Participation in the Denominational Health Plan of the Episcopal Church provided by the Medical Trust of the Church Pension Fund of the Episcopal Church was mandated by the 76th General Convention of the Episcopal Church in 2009, Resolution A177, amending Canon I.8. The effective date of the canonical mandate for participation in the Denominational Health Plan was January 1, 2013.

All parishes, dioceses, and other organizations and institutions subject to the authority of the Constitution and Canons of The Episcopal Church and of the Episcopal Diocese of Pittsburgh are required to offer medical benefits on an equal basis to all Clergy and Lay Employees scheduled to work 1,500 hours per year or more through the Denominational Health Plan, and may not contract to offer such benefits through other providers.

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

Each year the Bishop, with the advice of the Compensation Committee appointed by the President of Diocesan Council, will recommend one or more plans from the Denomination Health Plan offerings to be approved by Diocesan Council. Each eligible participant, clergy or lay, then selects a plan from that diocesan menu during the Open Enrollment period. The parish or other employing organization or institution receives and pays the Insurance Premium invoice.

Individual Clergy and Lay Employees scheduled to work 1,500 hours per year or more (but not parishes or other organizations) may choose to “opt out” of participation in the Denominational Health Plan if they are currently receiving comparable medical benefits through dependent coverage in a parent or spouse’s plan or through another employer or retirement benefit (e.g., Tricare). A Waiver of Health Benefits form must be completed by the employee and submitted to the diocesan office by the end of the Open Enrollment period. Employing parishes or other organizations may provide a financial “premium offset” when eligible Clergy or Lay Employees choose to decline the DHP benefit because they are otherwise covered.

***Insurance Plan Offerings and Premiums:*** All Clergy and Lay Employees scheduled to work 1,500 hours per year or more shall be offered the choice of the medical and dental Denominational Health Plan programs approved by Diocesan Council and in the appropriate tier of coverage necessary for the Employee’s family situation. This year’s offerings are as follows:

<b>Medical &amp; Dental Plans / Monthly Rates</b>	<b>Single</b>	<b>Employee + Spouse</b>	<b>Employee + Children</b>	<b>Family</b>
1) Anthem High Option PPO (MSPH)	\$887	\$1,774	\$1,597	\$2,661
2) Cigna Open Access Plus In-Network (MGIN) UPMC in-network plan comparable to Anthem High Opt PPO	887	1,774	1,597	2,661
3) Anthem PPO 80/60 (MSPZ)	783	1,566	1,409	2,349
4) Cigna Open Access Plus (MGOP) UPMC in-network plan comparable to Anthem 80/60 plan	783	1,566	1,409	2,349
5) Anthem BCBS CDHP-20 w/ HSA (MHDE) Consumer Directed Health Plan (previously known as HDHP)	615	1,230	1,107	1,845
6) Cigna CDHP-20 w/ HSA (MHDC) Consumer Directed Health Plan (previously known as HDHP)	615	1,230	1,107	1,845
7) Anthem PPO MS 80/60 (MSG3) Employees age 65 or older	641	1,282	1,154	1,923
8) DENTAL & ORTHO – 25/75 (DD25)	42	84	76	126

**Minimum Medical Premium Allowance (MPA):** Each parish or other employing organization is required to allocate and fund a minimum Medical Premium Allowance (“MPA”) of \$783 per month to provide medical coverage for the Employee. In circumstances where the Employee elects a medical coverage which is less expensive than the MPA, the difference in cost is to be provided to the Employee in the form of a contribution to a Health Savings Account (“HSA”) which can then be used by the Employee to cover medical deductibles and copays required by the plan design chosen. In circumstances where the Employee elects a medical coverage which is more expensive than the MPA, the Employee will be responsible to pay the cost difference through after-tax payroll deduction each month unless the parish reaches a negotiated arrangement with the Employee to provide a higher MPA above the minimum requirement stated above, up to and including full premium payment covered by the parish. MPAs set by the parish may be negotiated at higher levels of allowance as long as there is parity between Clergy and Lay Employees.

**Medical Plan Options with Health Savings Accounts (HSA):** Placing money into an HSA, in conjunction with a CDHP, is an effective way to manage out-of-pocket costs because employees can set aside funds to be used for qualifying medical expenses, such as deductibles and copays, on a pre-tax basis. For parishes that choose to provide more than the minimum coverage, such a parish-provided contribution is possible with no added cost since a CDHP option has a much lower cost than other plans. Family coverage in the CDHP plans results in savings of \$9,800 (\$816 per month) as compared to the high-option plans and \$6,000 (\$504 per month) as compared to the 80/60 plans. As an example, the parish could contribute \$5,450, the full amount of the family deductible, to the employee’s HSA in exchange for enrolling in the CDHP, and the parish would save \$4,342 per year in medical premium cost. The employee wins because he/she pays less out of own pocket and keeps any unused HSA balance at year-end, and the parish wins by saving annual medical premium expenses. It may also be an attractive option to provide a parish contribution early in the calendar year so that any medical expenses incurred could be managed with available HSA funds.

***Insurance Plan Cost Sharing:*** All Employees selecting a medical plan are subject to consideration by the parish for a premium cost-sharing arrangement wherein the Employee may be required to contribute from 0-10% of the premium cost (and which may not exceed 5% of the employee's total annual compensation). For example, for plans that cost \$783 per month, the parish may require up to \$78.30 per month in cost sharing payments, reducing the net cost to the parish to \$704.70 per month. No cost sharing is permitted for a plan costing less than the MPA indicated above.

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

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

[www.cpg.org/linkservid/2682C7BC-B1BC-B186-34AC2147924BC7B4/showMeta/0/?label=Health-Medicare%20Secondary%20Payer%20SEE%20Member%20Fact%20Sheet](http://www.cpg.org/linkservid/2682C7BC-B1BC-B186-34AC2147924BC7B4/showMeta/0/?label=Health-Medicare%20Secondary%20Payer%20SEE%20Member%20Fact%20Sheet)

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