EPISCOPAL DIOCESE OF NORTH CAROLINA AND RELATED ENTITY

Combined Financial Statements

December 31, 2023 and 2022

(With Independent Auditors' Report Thereon)

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Independent Auditors' Report

The Bishop and Diocesan Council
Episcopal Diocese of North Carolina:

Qualified Opinion

We have audited the accompanying combined financial statements of Episcopal Diocese of North Carolina and related entity, the North Carolina Episcopal Church Foundation, Inc. (collectively the "Diocese" and each a nonprofit organization), which comprise the combined statements of financial position as of December 31, 2023 and 2022, and the related combined statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the combined financial statements.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the combined financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Diocese as of December 31, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion

As more fully described in note 1(q) to the combined financial statements, we were unable to opine on the postretirement benefit obligation and change in postretirement plan obligation other than net periodic postretirement expense in the 2023 and 2022 combined financial statements because the Diocese elected to not have an actuarial valuation of this plan performed on an annual basis. Due to the limitations noted here, we were unable to obtain sufficient appropriate audit evidence about the postretirement benefit obligation and change in postretirement plan obligation other than net periodic postretirement expense by other auditing procedures.

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

Responsibilities of Management for the Combined Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Combined Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the combined financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the combined financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Diocese's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the combined financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Diocese's ability to continue as a going concern for a reasonable period of time.

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

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The accompanying schedules of combining statements of financial position and combining statements of activities are presented for purposes of additional analysis of the 2023 combined financial statements rather than to present the financial position and change in net assets of the individual entities, and are not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, except for the effects on the schedules of the matter described in the Basis for Qualified Opinion section of our report, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

Batchelor, Tillery & Roberts, LLP

August 13, 2024

EPISCOPAL DIOCESE OF NORTH CAROLINA AND RELATED ENTITY

Combined Statements of Financial Position

December 31, 2023 and 2022

	2023	2022
Assets		
Cash and cash equivalents	$ 18,568,013	8,565,500
Accounts receivable, net:		
Churches	163,113	25,142
Other	21,208	137,706
Prepaid expenses	32,408	34,543
Installment notes receivable-churches	163,647	178,747
Investments, at fair value	57,691,058	46,162,861
Investments - other	603,003	586,902
Property and equipment, net	146,631	1,987,392
Operating lease right-of-use asset	1,340,808	-
	$ 78,729,889	57,678,793
Liabilities and Net Assets		
Liabilities:		
Accounts payable	176,914	55,961
Custodian funds	25,091,271	21,570,341
Postretirement benefit obligation	4,496,179	4,554,838
Operating lease liability	1,349,556	-
Other liabilities	650,000	650,000
Total liabilities	31,763,920	26,831,140
Net assets:		
Without donor restrictions - board designated	10,354,567	10,325,609
Without donor restrictions	18,978,338	8,725,956
	29,332,905	19,051,565
With donor restrictions	17,633,064	11,796,088
Total net assets	46,965,969	30,847,653
	$ 78,729,889	57,678,793

See accompanying notes to combined financial statements.

EPISCOPAL DIOCESE OF NORTH CAROLINA AND RELATED ENTITY

Combined Statements of Activities

Year ended December 31, 2023, with Comparative Totals for 2022

	2023			
	Without Donor Restrictions	With Donor Restrictions	Total	2022
Revenues, gains, and other support:				
Shares, net	$ 4,777,159	-	4,777,159	4,708,888
Investment return	2,998,082	1,572,952	4,571,034	(4,260,643)
Rental income	-	-	-	11,314
Chaplaincy income	94,523	-	94,523	58,143
Convention	84,094	-	84,094	84,623
Postretirement adjustment	58,659	-	58,659	58,659
Youth program revenue	57,856	-	57,856	30,016
In-kind revenues	191,724	-	191,724	-
Gain on sale of administrative building	7,362,864	-	7,362,864	-
Income from liquidation of trust	-	4,755,417	4,755,417	-
Proceeds from sale of parish building	1,090,550	-	1,090,550	-
Other income	930,350	-	930,350	908,602
	17,645,861	6,328,369	23,974,230	1,599,602
Net assets released from restrictions	491,393	(491,393)	-	-
Total revenues, gains, and other support	18,137,254	5,836,976	23,974,230	1,599,602
Expenses:				
Program services	5,382,349	-	5,382,349	4,806,850
Supporting services:				
Management and general	2,456,843	-	2,456,843	2,284,788
Fundraising	16,722	-	16,722	15,932
Total expenses	7,855,914	-	7,855,914	7,107,570
Change in net assets	10,281,340	5,836,976	16,118,316	(5,507,968)
Net assets, beginning of year	19,051,565	11,796,088	30,847,653	36,355,621
Net assets, end of year	$ 29,332,905	17,633,064	46,965,969	30,847,653

(Continued)

Combined Statements of Activities, Continued

Year ended December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains, and other support:			
Shares, net	$ 4,708,888	-	4,708,888
Investment return	(2,554,127)	(1,706,516)	(4,260,643)
Rental income	11,314	-	11,314
Chaplaincy income	58,143	-	58,143
Convention	84,623	-	84,623
Postretirement adjustment	58,659	-	58,659
Youth program revenue	30,016	-	30,016
Other income	908,602	-	908,602
	3,306,118	(1,706,516)	1,599,602
Net assets released from restrictions	688,840	(688,840)	-
Total revenues, gains, and other support	3,994,958	(2,395,356)	1,599,602
Expenses:			
Program services	4,806,850	-	4,806,850
Supporting services:			
Management and general	2,284,788	-	2,284,788
Fundraising	15,932	-	15,932
Total expenses	7,107,570	-	7,107,570
Change in net assets	(3,112,612)	(2,395,356)	(5,507,968)
Net assets, beginning of year	22,164,177	14,191,444	36,355,621
Net assets, end of year	$ 19,051,565	11,796,088	30,847,653

See accompanying notes to combined financial statements.

Combined Statements of Functional Expenses

Year ended December 31, 2023, with Comparative Totals for 2022

	2023				
	Program	Management and general	Fund-raising	Total	2022
Salaries and benefits	$ 1,757,927	1,279,430	16,722	3,054,079	3,759,831
Outreach	1,686,464	-	-	1,686,464	664,732
Annual commitment	678,655	-	-	678,655	668,335
Maintenance	-	474,990	-	474,990	231,318
Mission grants	396,648	-	-	396,648	423,544
Office expense	-	337,970	-	337,970	340,477
Travel and convention	257,959	77,889	-	335,848	268,555
Chaplaincy	332,779	-	-	332,779	328,098
In-kind expenses - rent	-	191,724		191,724	-
Depreciation	-	94,840	-	94,840	128,527
Publication and network	40,805	-	-	40,805	-
Other	231,112	-	-	231,112	294,153
	$ 5,382,349	2,456,843	16,722	7,855,914	7,107,570

(Continued)

Combined Statements of Functional Expenses, Continued

Year ended December 31, 2022

		Program	Management and general	Fund-raising	Total
Salaries and benefits	$	2,521,994	1,221,905	15,932	3,759,831
Annual commitment		668,335	-	-	668,335
Outreach		664,732	-	-	664,732
Mission grants		423,544	-	-	423,544
Office expense		-	340,477	-	340,477
Chaplaincy		328,098	-	-	328,098
Travel and convention		200,147	68,408	-	268,555
Maintenance		-	231,318	-	231,318
Depreciation		-	128,527	-	128,527
Other		-	294,153	-	294,153
	$	4,806,850	2,284,788	15,932	7,107,570

See accompanying notes to combined financial statements.

EPISCOPAL DIOCESE OF NORTH CAROLINA AND RELATED ENTITY

Combined Statements of Cash Flows

Years ended December 31, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Change in net assets	$ 16,118,316	(5,507,968)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	94,840	128,527
Realized and unrealized (gains) losses on investments	(4,078,900)	4,275,295
Gain on disposal of assets	(7,335,754)	-
Reduction in carrying amount of operating lease right-of-use assets	26,594	-
Changes in operating assets and liabilities:		
Grants and other receivables	(21,473)	(148,524)
Prepaid expenses	2,135	(10,183)
Other assets	(1,001)	45,050
Accounts payable	120,953	(54,728)
Grants payable	-	(68,000)
Postretirement benefit obligation	(58,659)	(58,659)
Operating lease liabilities	(17,846)	-
Net cash provided by (used in) operating activities	4,849,205	(1,399,190)
Cash flows from investing activities:		
Purchases of property and equipment	(18,325)	(59,511)
Purchases of investments	(4,761,724)	(10,590)
Proceeds from sale of property and equipment	9,100,000	-
Proceeds from sales of investments	1,028,333	1,589,486
(Repayments of) proceeds from custodian funds, net	(194,976)	590,584
Net cash provided by investing activities	5,153,308	2,109,969
Net increase in cash and cash equivalents	10,002,513	710,779
Cash and cash equivalents, beginning of year	8,565,500	7,854,721
Cash and cash equivalents, end of year	$ 18,568,013	8,565,500

See accompanying notes to combined financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

The Episcopal Diocese of North Carolina (the "Episcopal Diocese") is a nonprofit organization that serves as an administrative division of the Episcopal Church. It is a geographical area under the jurisdiction of a Bishop and is made up of parishes, missions, chaplaincies and other entities. The Diocese collects share revenue from member churches based on an equal flat rate for each church based on previous year's income. The staff offers support for local stewardship efforts, congregational development, outreach ministry, youth work, Christian education, and financial and business concerns. These combined financial statements do not include the individual activities of the parishes, missions, chaplaincies and other entities.

The North Carolina Episcopal Church Foundation, Inc. (the "Church Foundation") makes loans and grants to churches within the Episcopal Diocese of North Carolina.

The Church Foundation is an organization of the Episcopal Diocese and is, therefore, combined with the Episcopal Diocese. The combined entities are collectively referred to as the "Diocese".

(b) Basis of Accounting

The combined financial statements of the Diocese have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America (GAAP), except for the effects of the GAAP departure described in note 1(q).

(c) Basis of Combination

The combined financial statements include the accounts of the Episcopal Diocese and the Church Foundation. All significant intercompany accounts and transactions have been eliminated in the combination.

(d) Basis of Presentation

The Diocese presents its net assets and its support and revenue based upon the absence or existence of donor-imposed restrictions as follows:

Net assets without donor restrictions – net assets that are not restricted by donors or for which donor-imposed restrictions have expired.

Net assets with donor restrictions – net assets that contain donor-imposed time or purpose restrictions that have not currently been met or net assets that contain donor-imposed restrictions stipulating that amounts be maintained in perpetuity. The Diocese may expend part or all of the income earned according to donor stipulations.

(1) Organization and Summary of Significant Accounting Policies, Continued

(d) Basis of Presentation, Continued

Expenses are reported as decreases in net assets without donor restrictions. Expirations of net assets with donor restrictions (i.e., the stipulated time period has elapsed, or purpose was satisfied) are reported as net assets released from restrictions.

(e) Grants and Contributions

Grants and contributions are generally recorded when received or when an unconditional promise to give to the Diocese is received. Contributions of assets other than cash are recorded at their estimated fair value.

(f) Cash and Cash Equivalents

The Diocese considers cash on hand, deposits in banks, and all highly liquid temporary cash instruments purchased with an initial maturity of three months or less to be cash equivalents.

The Diocese holds cash receipt and disbursement records open for approximately one week after the end of the year in order to record year-end transactions with member churches which are postmarked as of December 31.

(g) Grants and Other Receivables

The Diocese periodically evaluates the balances in the various aging categories as well as the status of any significant past due accounts to determine the need for an allowance for credit losses. Changes in the allowance are charged to the period in which management determines the change to be necessary.

When management determines that a receivable is uncollectible, the balance is removed from the receivables balance and is charged against the allowance. Subsequent recoveries of amounts previously written off are credited directly to revenues. The allowance for credit losses was $5,000 as of December 31, 2023 and 2022.

Installment notes receivable represents funds advanced to churches within the Episcopal Diocese through the Church Foundation. Loans are stated at unpaid principal balances less an allowance for credit losses. Principal and interest on notes are due quarterly. These notes bear interest at 2%, with maturities through 2033. The loans are unsecured. The amount of the allowance for credit losses is based on management's evaluation of the collectability of specific notes. The allowance is increased by a provision for uncollectible accounts, which is charged to expense. No allowance for credit losses was deemed necessary as of December 31, 2023 and 2022.

(1) Organization and Summary of Significant Accounting Policies, Continued

(h) Property and Equipment

Property and equipment are stated at cost at the date of acquisition, appraised value for assets for which original cost cannot be determined, or fair value at the date of donation in the case of gifts. Depreciation is computed over the estimated useful lives of the related assets using the straight-line method, generally as follows:

Buildings and building improvements	31.5 - 39 years
Leasehold improvements	15 years
Furniture and equipment	5 - 7 years
Land	nondepreciable

In accordance with the Diocese's policy, property and equipment are included in net assets without donor restrictions. The Diocese capitalizes expenditures for such items in excess of $1,500, and lesser amounts are expensed.

The Diocese also holds title to mission properties and vacant churches. This arrangement is for canonical purposes rather than for actual utilization; therefore, the properties are not included in the accompanying combined financial statements.

(i) Investments

The Diocese carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair market values in the combined statements of financial position. Realized and unrealized gains and losses are included in the change in net assets in the accompanying combined statements of activities. Net unrealized gains and losses on investments, whose income is without donor restrictions or with donor restrictions as to use, is reported as without donor restrictions or with donor restrictions net assets as restricted by donor or by law.

The Diocese maintains investment accounts for its invested funds, which have been pooled with funds held for other Episcopal churches and institutions, under the direction of a professional investment manager. Realized and unrealized gains and losses from securities in the pooled investment fund account are allocated to the individual funds.

Expenses relating to investment income, including custodial fees and investment advisory fees, have been netted against investment income or custodian funds in the combined financial statements.

(1) Organization and Summary of Significant Accounting Policies, Continued

(j) Fair Value Measurements

Financial assets and liabilities required to be measured on a recurring basis (at least annually) are classified under a three-tier hierarchy. Fair value is the amount that would be received to sell an asset, or paid to settle a liability, in an orderly transaction between market participants at the measurement date.

The classification of assets and liabilities within the hierarchy is based on whether inputs to the valuation methodology used for measurement are observable or unobservable. Observable inputs reflect market-derived or market-based information obtained from independent sources while unobservable inputs reflect estimates about market data. See note 4 for assets of the Diocese measured at fair value on a recurring basis.

Valuation techniques used to measure fair value are prioritized in the following hierarchy:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Diocese can access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The Diocese diversifies its investments both by asset class and within asset classes. As a general practice, all investments of the Diocese are managed by external investment management firms and monitored by the Investment Committee. The following is a description of the valuation methodologies used by the Diocese for assets measured at fair value:

- Common Stocks, certain Mutual Funds, and Money Market and Short-Term Reserve Funds: Valued at the closing price reported on the active markets on which the individual securities are traded (Level 1).

(1) Organization and Summary of Significant Accounting Policies, Continued

(j) Fair Value Measurements, Continued

- Alternative Investments: Alternative investments are composed of real estate funds (investments in real estate related assets). These investments are recorded at fair value based on relevant information available to the investment advisor such as type and nature of the investment, cost of the investment at the acquisition date, size of the investment, information from analysts, brokers, agents and market participants, and changes in market indicators. These investments are reported at their net asset values (NAV) as calculated by the investment managers.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Diocese believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

(k) Endowment Funds

The endowment funds of the Diocese consist of donor-restricted funds included in investments in the accompanying combined statements of financial position. The Diocese accounts for the endowment funds in accordance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and GAAP.

The Diocese has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Diocese retains in perpetuity (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the funds. The remaining portion of the amounts not retained in perpetuity are appropriated for expenditure by the Diocese in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Diocese considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Diocese, and (7) the investment policies of the Diocese.

(1) Business Operations and Summary of Significant Accounting Policies, Continued

(k) Endowment Funds, Continued

Funds with Deficiencies. From time to time, the fair value of the assets associated with the donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Diocese to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in net assets with donor restrictions. There were no endowment fund deficiencies as of December 31, 2023 and 2022.

Investment Return Objectives, Risk Parameters, and Strategies. The Diocese has adopted investment and spending policies, approved by the Diocesan Council, 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. Accordingly, the investment process seeks to achieve a rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix that is intended to result in a consistent rate of return that has sufficient liquidity to make an annual distribution of 4%, while growing the fund, if possible. Investment risk is measured in terms of the total endowment funds; investment assets and allocation between asset classes, and strategies are managed to not expose the funds to unacceptable levels of risk.

Spending Policy. The Diocese has a policy of appropriating for distribution each year 4% of its endowment fund's average fair value of the prior rolling three-year average through September 30th of the preceding fiscal year in which the distribution is planned. In establishing this policy, the Diocese considered the long-term expected return on its investment assets, the nature and duration of the endowment funds, a portion of which must be maintained in perpetuity because of donor restrictions, and the possible effect of inflation. The Diocese expects the current spending policy to allow its endowment funds to grow at a rate consistent with the Diocese's objective to maintain the purchasing power of the endowment assets as well as to provide additional growth through investment return.

(l) Deferred Revenue

Deferred revenue consists of share amounts received related to a future period, which will be recognized as revenue in the following year.

(m) Custodian Funds

Custodian funds represent resources received on behalf of other organizations by the Diocese. These funds do not represent revenues and expenditures which are under Diocesan control. However, the Diocese is responsible for the custody of these funds until such funds have been used.

(1) Business Operations and Summary of Significant Accounting Policies, Continued

(m) Custodian Funds, Continued

Also, the Diocese acts as delegate agent for various groups receiving grants. As delegate agent, the Diocese can be held responsible for the grant if the recipient group does not comply with all grant requirements.

(n) Vacation Pay and Sick Leave

The Diocese's policy provides for a maximum accumulation of unused vacation leave of 34 days, depending on an employee's years of service, which can be carried forward at the end of each year, or for which an employee can be paid upon termination of employment with the Diocese.

The Diocese records the cost of sick leave when taken and paid rather than when the leave is earned. The maximum allowance accumulation of sick leave is 65 days. However, employees are not compensated for any unused sick leave upon termination of employment.

(o) Use of Estimates

The preparation of combined financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(p) Income Tax Status

The Episcopal Diocese and the Church Foundation are exempt from income taxes under Section 501(a) as organizations described in Section 501(c)(3) of the Internal Revenue Code. Accordingly, income tax expense is limited to activities that are deemed by the Internal Revenue Service to be unrelated to their exempt purpose. Each entity's primary tax positions relate to its status as a not-for-profit entity exempt from income taxes and classification of activities related to its exempt purpose. Each entity is not required to file a federal exempt organization tax return (Form 990) annually to retain its exempt status. However, the Diocese would be required to file an exempt organization business income tax return (federal and state) for any unrelated business income.

(q) Postretirement Benefit Obligation

Postretirement Benefits Other Than Pension. At retirement, Diocesan clergy and certain other employees who were employed as of June 30, 2002 receive lifetime family health insurance coverage if they have served full time continuously for their last ten years of service and remain enrolled in the plan. For employees retiring after attaining age 65, the Diocese will pay the Medicare supplement that would be paid if a person were age 65 and covered by Medicare. In the event retirement is necessary before age 65 as a result of medical disability, the Diocese will pay the full amount of insurance premiums until age 65 at which time it will pay the Medicare supplement. All spouses of deceased clergy who were already enrolled in the health coverage under Diocesan health and dental coverage can continue coverage at no cost to the spouse unless they remarry.

(1) Business Operations and Summary of Significant Accounting Policies, Continued

(q) Postretirement Benefit Obligation, Continued

GAAP requires an employer that sponsors a defined benefit postretirement plan to report the current economic status (the overfunded or underfunded status) of the plan in its statement of financial position, to measure the plan assets and plan obligations as of the statement of financial position date, and to include enhanced disclosures about the plan. Management of the Diocese elected to not have an actuarial valuation of this plan performed from 2014 to 2020. As such, the postretirement benefit obligation for that time period and the change in the postretirement plan obligation other than net periodic postretirement expense were estimated and/or adjusted based on the Diocese's actuarial valuation performed as of December 31, 2013. This treatment was a GAAP departure during that time period.

Management of the Diocese elected to have an actuarial valuation of this plan performed for the year ended December 31, 2021. The accrued post-retirement benefit obligation of the Diocese's post-retirement welfare plan was $4,613,497 as of December 31, 2021.

Management of the Diocese elected to not have an actuarial valuation of this plan performed in 2023 or 2022. As such, the postretirement benefit obligation as of December 31, 2023 and 2022 and the change in the postretirement plan obligation other than net periodic postretirement expense for 2023 and 2022 are estimated and/or adjusted based on the Diocese's actuarial valuation performed as of December 31, 2021. This treatment was a GAAP departure in 2023 and 2022.

Furthermore, the enhanced disclosures required by GAAP are not available for disclosure for 2023 or 2022. Disclosure of this information is also required to conform to GAAP. The effects of these departures from GAAP on the combined financial statements have not been determined.

The accrued post retirement benefit obligation of the Diocese's post retirement health and welfare plan was estimated to be $4,496,179 and $4,554,838 of December 31, 2023 and 2022, respectively, using actuarial assumptions from the December 31, 2021 actuarial valuation.

(r) Functional Allocation of Expenses

Management estimates the costs of providing the various programs and other activities on a functional basis in the combined statements of activities. The combined statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenditures are allocated to programs or supporting services by management based on what is considered to be the best available objective criteria, such as allocation of time of relevant personnel.

(1) Business Operations and Summary of Significant Accounting Policies, Continued

(s) Leases

The Financial Accounting Standards Board ("FASB") has issued Accounting Standards Update ("ASU") 2016-02, *Leases (Topic 842)*, which, among other things, requires the recognition of lease assets and lease liabilities by lessees, including for those leases previously classified as operating leases, along with the disclosure of key information about leasing arrangements. ASU 2016-02 was effective for the Diocese as of and for the year ended December 31, 2022. The Diocese applied the *effective date method* of adoption, whereby previous periods were not required to be adjusted.

At the inception of a contract, the Diocese determines whether the arrangement is or contains a lease. Leases are classified as either operating or finance, based on an evaluation of certain criteria. With the exception of short-term leases (leases with an initial term of 12 months or less), the Diocese records right-of-use assets and corresponding lease liabilities on the statement of financial position for all leases with contractual fixed payments. Lease liabilities are measured at the present value of remaining lease payments, while right-of-use assets are initially set equal to the lease liability, as adjusted for any payments made prior to lease commencement, lease incentives, and any initial direct costs incurred by the Diocese.

For operating leases, rent expense is recognized on a straight-line basis over the term of the lease, and right-of-use assets are subsequently remeasured to reflect the effect of uneven lease payments. Refer to note 9 - Leases of the notes to financial statements for additional information.

(t) Donated Assets and Services

In-kind contributions of services, materials, or facilities that meet the recording criteria as defined by accounting guidance are recorded at their estimated fair market value on the date of the donation. Such contributions are recorded as in-kind contributions and a corresponding expense on the combined statements of activities. The Diocese recognizes the fair market of contributed services received if such a) create or enhance nonfinancial assets or b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not contributed.

(u) Adoption of New Accounting Standard

FASB has issued ASU 2016-13 *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Statements* which, among other things, requires an estimate of credit losses for the remaining estimated life of the financial asset using historical experience, current conditions, and reasonable and supportable forecasts. ASU 2016-13 was effective for the Diocese for the fiscal year ended December 31, 2023. There were no changes to the statements of financial position or statements of activities as previously reported as a result of the adoption of this ASU.

(2) Information Regarding Liquidity and Availability of Resources

The Diocese regularly monitors the availability of resources required to meet its operating needs and other contractual commitments. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Diocese considers all expenditures related to its ongoing activities, as well as the conduct of services undertaken to support those activities, to be general expenditures.

The Diocese's financial assets as of December 31, 2023 and 2022 consist of cash, investments, and accounts receivable, reduced by appropriated funds, board designated, custodian and donor restricted funds, resulting in net financial assets, all of which are available to meet general expenditures within one year of the financial statement date, as follows:

	2023	2022
Financial assets, at year end:		
Cash and cash equivalents	$ 18,568,013	8,565,500
Investments	58,294,061	46,749,763
Accounts receivable	184,321	162,848
Total financial assets	77,046,395	55,478,111
Less:		
Appropriated funds	(16,487,314)	(6,437,009)
Board designated	(10,354,567)	(10,325,609)
Custodian funds	(25,091,271)	(21,570,341)
Donor-restricted funds	(17,633,064)	(11,796,088)
Financial assets not available to be used within one year	(69,566,216)	(50,129,047)
Financial assets available to meet cash needs for general expenditures within one year	$ 7,480,179	5,349,064

In addition to financial assets available to meet general expenditures over the next 12 months, the Diocese operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures. See further discussion of donor restricted funds in note 6.

(3) Concentrations of Credit and Market Risk

Financial instruments that potentially expose the Diocese to concentrations of credit and market risk consist primarily of cash, cash equivalents, receivables and investments.

The Diocese maintains its deposited cash balances in several financial institutions, and amounts held may at times exceed federally insured limits of $250,000. The Diocese has not experienced any losses on these accounts. The Diocese's investments are mostly maintained in a pooled investment fund held by various custodians. This pooled investment portfolio is diversified among issuers. Receivables are discussed in note 1(g).

(4) Investments

Investments, at fair value, consist of the following:

		2023	2022
Money market and short-term reserves	$	4,641,498	3,295,496
Mutual funds		28,110,550	23,924,997
Equities		24,939,010	18,942,368
	$	57,691,058	46,162,861

Other investments totaling $603,003 and $586,902 as of December 31, 2023 and 2022, respectively, consist of time deposits that mature in 2024 through 2027.

Custodian funds (which include custodial accounts and trust funds held for others) are included in total investments above. Custodian funds totaled $25,091,271 and $21,570,341 as of December 31, 2023 and 2022, respectively. See note 8 for detailed activity of these custodian funds.

The following table sets forth by level, within the fair value hierarchy, the Diocese's assets measured at fair value on a recurring basis as of December 31, 2023 and 2022. Individual securities exceeding 10% of net assets are separately identified below.

	2023		2022	
	Total	Level 1	Total	Level 1
Investments:				
Money market and short-term reserve funds	$ 4,641,498	4,641,498	$ 3,295,496	3,295,496
Mutual funds:				
Vanguard short-term bond fund	5,992,282	5,992,282	5,644,221	5,644,221
Vanguard S&P 500 ETF	7,127,702	7,127,702	5,077,566	5,077,566
Other	14,245,204	14,245,204	12,269,716	12,269,716
	27,365,188	27,365,188	22,991,503	22,991,503
Equities	24,939,010	24,939,010	18,942,368	18,942,368
Total investments at fair value	56,945,696	56,945,696	45,229,367	45,229,367
Investments measured at NAV, not in fair value hierarchy	745,362		933,494	
Total investments at fair value and NAV	$ 57,691,058		$ 46,162,861	

The cost of investments totaled $52,074,435 and $46,614,233 as of December 31, 2023 and 2022, respectively.

(4) Investments, Continued

Investment return consists of the following (investment return included in custodian funds is not included in the combined statements of activities):

	2023 Diocese	2023 Custodian funds	2023 Total
Interest and dividends	$ 1,423,550	606,639	2,030,189
Realized and unrealized gains	3,234,478	2,524,242	5,758,720
	4,658,028	3,130,881	7,788,909
Less management fees	(86,994)	(70,369)	(157,363)
Investment return	$ 4,571,034	3,060,512	7,631,546

	2022 Diocese	2022 Custodian funds	2022 Total
Interest and dividends	$ 738,164	567,787	1,305,951
Realized and unrealized losses	(4,917,716)	(4,069,173)	(8,986,889)
	(4,179,552)	(3,501,386)	(7,680,938)
Less management fees	(81,091)	(74,593)	(155,684)
Investment return	$ (4,260,643)	(3,575,979)	(7,836,622)

The table below sets forth a summary of changes in investments, the values of which are estimated using NAV per share as of 2023 and 2022, respectively.

	2023	2022
Balance, beginning of year	$ 933,494	989,605
Investment income, net of expenses	(6,443)	(10,290)
Unrealized and realized gains	(118,766)	104,813
Sales	(62,923)	(150,634)
Balance, end of year	$ 745,362	933,494

As of December 31, 2023 and 2022, this investment consisted of the MA Real Estate Fund 2 Limited Partnership, which is a private equity fund. The Diocese has a remaining capital commitment of $275,086 as of December 31, 2023.

(5) Property and Equipment

Property and equipment is as follows as of December 31:

		2023	2022
Land and buildings:			
Recorded at cost:			
NCSU Chaplaincy House	$	94,915	94,915
Duke Student Center		76,268	74,837
Land-Kernersville		43,215	43,215
200 W. Morgan Street		-	2,758,236
Recorded at January 1, 1978 appraised values:			
St. Mary's House		63,476	63,476
Caswell County property		28,760	28,760
Holding Land		13,140	13,140
Other property:			
Recorded at cost:			
Leasehold improvements - Diocesan House		-	623,168
Vehicles		78,491	78,491
Equipment and furniture		24,051	333,448
		422,316	4,111,686
Less accumulated depreciation		(275,685)	(2,124,294)
	$	146,631	1,987,392

Depreciation expense for 2023 and 2022 was $94,840 and $128,527, respectively.

In 2022, rental income was generated from a sublease of parking spaces at the Morgan Street building.

(6) Net Assets

Net assets with donor restrictions are restricted for the following purposes or periods:

		2023	2022
Subject to expenditure for specified purpose:			
Mission and Ministry Fund	$	719,823	533,320
Thriving in Pastorial Ministry		556,351	552,035
Diocesan Trust Programs		8,271,378	3,733,981
		9,547,552	4,819,336
Endowments:			
Subject to Diocese spending policy and appropriation		8,085,512	6,976,752
	$	17,633,064	11,796,088

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or other events specified by the donors as follows:

		2023	2022
Satisfaction of purpose restrictions:			
Diocesan Trust Programs	$	491,393	688,840

Changes in endowment net assets during 2023 and 2022 are as follows:

		Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, December 31, 2021	$	-	8,832,429	8,832,429
Interest and dividend income, net		-	178,256	178,256
Realized and unrealized losses, net		-	(1,501,134)	(1,501,134)
Withdrawals		-	(250,000)	(250,000)
Amounts appropriated for expenditure		-	(282,799)	(282,799)
Endowment net assets, December 31, 2022		-	6,976,752	6,976,752
Interest and dividend income, net		-	168,277	168,277
Realized and unrealized gain, net		-	1,205,911	1,205,911
Amounts appropriated for expenditure		-	(265,428)	(265,428)
Endowment net assets, December 31, 2023	$	-	8,085,512	8,085,512

(6) Net Assets, Continued

Board designated net assets totaling \$10,354,567 and \$10,325,609 as of December 31, 2023 and 2022, respectively, may only be used for the purposes expressly assigned as approved by individual Committee boards.

To satisfy its long-term rate-of-return objectives, the Diocese relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Diocese targets a diversified asset allocation for its entire investment portfolio that places an emphasis on equity-based and fixed income investments and cash equivalents to achieve its long-term return objectives within prudent risk constraints. The Committee boards have elected to allow the capital growth and investment income of the Board designated net assets to continue to accumulate within these net assets.

(7) Postretirement Benefit Obligation

The Diocese has a non-contributory pension plan which covers substantially all clergy and lay employees. Total costs to the Diocese amounted to \$287,241 and \$308,660 for 2023 and 2022, respectively. The plan is comprised of individual contracts with The Church Pension Fund.

As described in footnote 1(q), management elected not to have an actuarial valuation of this plan performed for the years ended December 31, 2023 and 2022.

The plan held no assets as of December 31, 2023 or 2022.

(8) Custodian Funds

The Diocese acts as an agent, or custodian, for certain assets owned by churches and other institutions by receiving, investing, and disbursing funds on their behalf. Changes in custodian funds for 2023 and 2022 are as follows:

		Custodial Accounts	Held for Churches/ Institutions	Total
Balance, December 31, 2021	$	950,130	23,825,849	24,775,979
Receipts		1,744,014	769,837	2,513,851
Investment income		-	493,195	493,195
Realized and unrealized losses		-	(4,069,173)	(4,069,173)
Disbursements		(1,156,049)	(987,462)	(2,143,511)
Balance, December 31, 2022		1,538,095	20,032,246	21,570,341
Receipts		3,830,333	1,623,539	5,453,872
Investment income		-	536,270	536,270
Realized and unrealized gains		-	2,524,242	2,524,242
Disbursements		(4,087,600)	(905,854)	(4,993,454)
Balance, December 31, 2023	$	1,280,828	23,810,443	25,091,271

(9) Leases

The Diocese leases office space for its main administrative offices. A lease exists when a contract or part of a contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. In determining whether a lease exists, the Diocese considers whether a contract provides it with both: (a) the right to obtain substantially all of the economic benefits from the use of the identified asset and (b) the right to direct the use of the identified asset. Leases may include base rental periods coupled with options to renew or terminate the lease. In evaluating the lease term, management considers whether it is reasonably certain to exercise such options. The Diocese's lease includes fixed payments. Fixed payments are included when measuring the right-of-use asset and lease liability. The asset and liability under this lease were recorded at the present value of the minimum lease payments.

The measurement of right-of-use assets and lease liabilities requires management to estimate appropriate discount rates. To the extent the rate implicit in the lease is readily determinable, such rate is utilized. However, based on information available at lease commencement, the rate implicit in the lease was not known. In cases where the rate is not implicit in the lease, the Diocese may utilize the incremental borrowing rate of the Diocese, which represents the rate of interest that the Diocese would pay to borrow on a collateralized basis over a similar term, an amount equal to the lease payments. The Diocese made an accounting policy electing to utilize the risk-free rate, determined using a period comparable with that of the lease term. For practical purposes, the Diocese utilized the 10-year US treasury rate at the time of lease commencement.

Lease Position

The following table presents the lease-related assets and liabilities as of December 31, 2023:

	Classification on the Combined Statement of Financial Position	
Assets:		
Operating	Operating lease right-of-use asset	$ 1,340,808
Liabilities:		
Operating	Operating lease liability	$ 1,349,556

Lease Term and Discount Rate

The following table presents certain information related to lease terms and discount rates for leases as of December 31, 2023:

Weighted-average remaining lease term:	
Operating lease	8.75 years
Weighted-average discount rate:	
Operating lease	5.10%

(9) Leases, Continued

Lease Costs

The Diocese incurred operating lease expense of $32,356 for the year ended December 31, 2023.

Maturity of Lease Liabilities

The following table reconciles future minimum lease payments on an undiscounted cash flow basis to the lease liabilities reported in the combined statements of financial position as of December 31:

		Operating Leases
2024	$	142,353
2025		81,765
2026		202,445
2027		208,006
2028		213,710
Thereafter		875,312
Total minimum lease payments		1,723,591
Less amount of lease payments representing interest		(374,035)
Present value of future minimum lease payments	$	1,349,556

Other Information

The following table presents supplemental cash flow information related to leases for the year ended December 31, 2023:

Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows used for operating leases	$	23,608
Right-of-use assets obtained in exchange for new operating lease liabilities	$	1,367,402

(10) In-Kind Contributions

The Diocese was granted the right to occupy office space rent-free from June through December 2023. The Diocese estimated the fair value of benefit received using observable inputs. The Diocese recognized in-kind revenue and associated expense related to this arrangement totaling $191,724 in 2023.

(11) Subsequent Events

The date to which events occurring after December 31, 2023, the date of the most recent combined statement of financial position, have been evaluated for possible adjustment to the combined financial statements or disclosure is August 13, 2024, the date the combined financial statements were available to be issued.

EPISCOPAL DIOCESE OF NORTH CAROLINA AND RELATED ENTITY

Schedule of Combining Statements of Financial Position

December 31, 2023

	Episcopal Diocese	Church Foundation	Combined
Assets			
Cash and cash equivalents	$ 18,256,354	311,659	18,568,013
Accounts receivable, net:			
Churches	163,113	-	163,113
Other	21,208	-	21,208
Prepaid expenses	32,408	-	32,408
Installment notes receivable-churches	-	163,647	163,647
Investments, at fair value	53,921,077	3,769,981	57,691,058
Investments - other	603,003	-	603,003
Property and equipment, net	146,631	-	146,631
Operating lease right-of-use asset	1,340,808	-	1,340,808
	$ 74,484,602	4,245,287	78,729,889
Liabilities and Net Assets			
Liabilities:			
Accounts payable	176,914	-	176,914
Custodian funds	25,091,271	-	25,091,271
Postretirement benefit obligation	4,496,179	-	4,496,179
Operating lease liability	1,349,556	-	1,349,556
Other liabilities	650,000	-	650,000
Total liabilities	31,763,920	-	31,763,920
Net assets:			
Without donor restrictions- board designated	10,354,567	-	10,354,567
Without donor restrictions	14,733,051	4,245,287	18,978,338
With donor restrictions	17,633,064	-	17,633,064
Total net assets	42,720,682	4,245,287	46,965,969
	$ 74,484,602	4,245,287	78,729,889

EPISCOPAL DIOCESE OF NORTH CAROLINA AND RELATED ENTITY

Schedule of Combining Statements of Activities

Year ended December 31, 2023

	Episcopal Diocese	Church Foundation	Combined
Revenues, gains, and other support:			
Shares, net	$ 4,777,159	-	4,777,159
Investment return	4,063,571	507,463	4,571,034
Rental income	-	-	-
Chaplaincy income	94,523	-	94,523
Convention	84,094	-	84,094
Postretirement adjustment	58,659	-	58,659
Youth program revenue	57,856	-	57,856
In-kind revenues - rental fees waived	191,724	-	191,724
Gain on sale of administrative building	7,362,864	-	7,362,864
Income from liquidation of trust	4,755,417	-	4,755,417
Proceeds from sale of parish building	1,090,550	-	1,090,550
Other income	927,528	2,822	930,350
Total revenues, gains, and other support	23,463,945	510,285	23,974,230
Expenses:			
Program services	5,200,850	181,499	5,382,349
Supporting services:			
Management and general	2,456,843	-	2,456,843
Fundraising	16,722	-	16,722
Total expenses	7,674,415	181,499	7,855,914
Change in net assets	15,789,530	328,786	16,118,316
Net assets, beginning of year	26,931,152	3,916,501	30,847,653
Net assets, end of year	$ 42,720,682	4,245,287	46,965,969