EPISCOPAL DIOCESE OF NORTH CAROLINA AND RELATED ENTITY

Combined Financial Statements

December 31, 2022 and 2021

(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 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, 2022 and 2021, 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, 2022 and 2021, 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 2022 or 2021 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 2022 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 29, 2023

EPISCOPAL DIOCESE OF NORTH CAROLINA AND RELATED ENTITY

Combined Statements of Financial Position

December 31, 2022 and 2021

		2022	2021
Assets			
Cash and cash equivalents	$	8,565,500	7,854,721
Accounts receivable, net:			
Churches		25,142	12,017
Other		137,706	2,307
Prepaid expenses		34,543	24,360
Installment notes receivable-churches		178,747	228,029
Investments, at fair value		46,162,861	55,813,274
Investments - other		586,902	582,670
Property and equipment, net		1,987,392	2,056,408
	$	57,678,793	66,573,786
Liabilities and Net Assets			
Liabilities:			
Accounts payable		55,961	110,689
Grants payable		-	68,000
Custodian funds		21,570,341	24,775,979
Postretirement benefit obligation		4,554,838	4,613,497
Other liabilities		650,000	650,000
Total liabilities		26,831,140	30,218,165
Net assets:			
Without donor restrictions - board designated		10,325,609	11,954,088
Without donor restrictions		8,725,956	10,210,089
		19,051,565	22,164,177
With donor restrictions		11,796,088	14,191,444
Total net assets		30,847,653	36,355,621
	$	57,678,793	66,573,786

See accompanying notes to combined financial statements.

EPISCOPAL DIOCESE OF NORTH CAROLINA AND RELATED ENTITY

Combined Statements of Activities

Year ended December 31, 2022, with Comparative Totals for 2021

	2022			
	Without Donor Restrictions	With Donor Restrictions	Total	2021
Revenues, gains, and other support:				
Shares, net	$ 4,708,888	-	4,708,888	4,777,038
Investment return	(2,554,127)	(1,706,516)	(4,260,643)	3,045,122
Rental income	11,314	-	11,314	5,277
Chaplaincy income	58,143	-	58,143	29,804
Convention	84,623	-	84,623	-
Postretirement adjustment	58,659	-	58,659	518,127
Youth program revenue	30,016	-	30,016	5,359
Other income	908,602	-	908,602	582,858
	3,306,118	(1,706,516)	1,599,602	8,963,585
Net assets released from restrictions	688,840	(688,840)	-	-
Total revenues, gains, and other support	3,994,958	(2,395,356)	1,599,602	8,963,585
Expenses:				
Program services	4,806,850	-	4,806,850	5,042,760
Supporting services:				
Management and general	2,284,788	-	2,284,788	1,936,256
Fundraising	15,932	-	15,932	15,700
Total expenses	7,107,570	-	7,107,570	6,994,716
Change in net assets	(3,112,612)	(2,395,356)	(5,507,968)	1,968,869
Net assets, beginning of year	22,164,177	14,191,444	36,355,621	34,386,752
Net assets, end of year	$ 19,051,565	11,796,088	30,847,653	36,355,621

(Continued)

EPISCOPAL DIOCESE OF NORTH CAROLINA AND RELATED ENTITY

Combined Statements of Activities, Continued

Year ended December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains, and other support:			
Shares, net	$ 4,777,038	-	4,777,038
Investment return	1,917,880	1,127,242	3,045,122
Rental income	5,277	-	5,277
Chaplaincy income	29,804	-	29,804
Postretirement adjustment	518,127	-	518,127
Youth program revenue	5,359	-	5,359
Other income	582,858	-	582,858
	7,836,343	1,127,242	8,963,585
Net assets released from restrictions	622,410	(622,410)	-
Total revenues, gains, and other support	8,458,753	504,832	8,963,585
Expenses:			
Program services	5,042,760	-	5,042,760
Supporting services:			
Management and general	1,936,256	-	1,936,256
Fundraising	15,700	-	15,700
Total expenses	6,994,716	-	6,994,716
Change in net assets	1,464,037	504,832	1,968,869
Net assets, beginning of year	20,700,140	13,686,612	34,386,752
Net assets, end of year	$ 22,164,177	14,191,444	36,355,621

See accompanying notes to combined financial statements.

EPISCOPAL DIOCESE OF NORTH CAROLINA AND RELATED ENTITY

Combined Statements of Functional Expenses

Year ended December 31, 2022, with Comparative Totals for 2021

	2022				
	Program	Management and general	Fund-raising	Total	2021
Salaries and benefits	$ 2,521,994	1,221,905	15,932	3,759,831	3,388,937
Annual commitment	668,335	-	-	668,335	649,292
Outreach	664,732	-	-	664,732	989,173
Mission grants	423,544	-	-	423,544	399,976
Office expense	-	340,477	-	340,477	130,936
Chaplaincy	328,098	-	-	328,098	396,176
Travel and convention	200,147	68,408	-	268,555	49,283
Maintenance	-	231,318	-	231,318	327,908
Depreciation	-	128,527	-	128,527	120,104
Foundation grants	-	-	-	-	353,715
Publication and network	-	-	-	-	57,055
Professional services	-	-	-	-	24,774
Other	-	294,153	-	294,153	107,387
	$ 4,806,850	2,284,788	15,932	7,107,570	6,994,716

(Continued)

Combined Statements of Functional Expenses, Continued

Year ended December 31, 2021

		Program	Management and general	Fund-raising	Total
Salaries and benefits	$	2,169,309	1,203,928	15,700	3,388,937
Outreach		989,173	-	-	989,173
Annual commitment		649,292	-	-	649,292
Mission grants		399,976	-	-	399,976
Chaplaincy		396,176	-	-	396,176
Foundation grants		353,715	-	-	353,715
Maintenance		21,384	306,524	-	327,908
Office expense		-	130,936	-	130,936
Depreciation		-	120,104	-	120,104
Publication and network		54,842	2,213	-	57,055
Travel and convention		8,893	40,390	-	49,283
Professional services		-	24,774	-	24,774
Other		-	107,387	-	107,387
	$	5,042,760	1,936,256	15,700	6,994,716

See accompanying notes to combined financial statements.

EPISCOPAL DIOCESE OF NORTH CAROLINA AND RELATED ENTITY

Combined Statements of Cash Flows

Years ended December 31, 2022 and 2021

		2022	2021
Cash flows from operating activities:			
Change in net assets	$	(5,507,968)	1,968,869
Adjustments to reconcile change in net assets to net cash used in operating activities:			
Depreciation		128,527	120,104
Realized and unrealized losses (gains) on investments		4,275,295	(3,093,837)
Changes in operating assets and liabilities:			
Grants and other receivables		(148,524)	33,940
Prepaid expenses		(10,183)	(8,501)
Other assets		45,050	(17,379)
Accounts payable		(54,728)	25,620
Grants payable		(68,000)	68,000
Deferred revenue		-	(33,218)
Postretirement benefit obligation		(58,659)	(518,127)
Other liabilities		-	650,000
Net cash used in operating activities		(1,399,190)	(804,529)
Cash flows from investing activities:			
Purchases of property and equipment		(59,511)	2,736
Purchases of investments		(10,590)	(6,193)
Proceeds from sales of investments		1,589,486	833,214
Proceeds from (repayments of) custodian funds, net		590,584	(129,336)
Net cash provided by investing activities		2,109,969	700,421
Net increase (decrease) in cash and cash equivalents		710,779	(104,108)
Cash and cash equivalents, beginning of year		7,854,721	7,958,829
Cash and cash equivalents, end of year	$	8,565,500	7,854,721

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 doubtful accounts. 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 uncollectible accounts was $5,000 as of December 31, 2022 and 2021.

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 uncollectible amounts. 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 uncollectible amounts 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 uncollectible accounts was deemed necessary as of December 31, 2022 and 2021.

(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, 2022 and 2021.

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 2022. As such, the postretirement benefit obligation as of December 31, 2022 and the change in the postretirement plan obligation other than net periodic postretirement expense for 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 2022.

Furthermore, the enhanced disclosures required by GAAP are not available for disclosure for 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 welfare plan was estimated to be $4,554,838 of December 31, 2022, 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) Adoption of New Accounting Standard

The Financial Accounting Standards Board ("FASB") has issued Accounting Standards Update ("ASU") 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets (ASC 958).* This ASU enhances presentation and disclosure requirements for gifts-in-kind, but does not change the recognition and measurement requirements for such contributions. ASU 2020-07 is effective as of and for the year ended December 31, 2022. There were no changes to net assets or the change in net assets 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, 2022 and 2021 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:

		2022	2021
Financial assets, at year end:			
Cash and cash equivalents	$	8,565,500	7,854,721
Investments		46,749,763	56,395,944
Accounts receivable		162,848	14,324
Total financial assets		55,478,111	64,264,989
Less:			
Appropriated funds		(6,437,009)	(8,255,481)
Board designated		(10,325,609)	(11,954,088)
Custodian funds		(21,570,341)	(24,775,979)
Donor-restricted funds		(11,796,088)	(14,191,444)
Financial assets not available to be used within one year		(50,129,047)	(59,176,992)
Financial assets available to meet cash needs for general expenditures within one year	$	5,349,064	5,087,997

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:

		2022	2021
Money market and short-term reserves	$	3,295,496	3,253,674
Mutual funds		23,924,997	30,862,868
Equities		18,942,368	21,696,732
	$	46,162,861	55,813,274

Other investments totaling $586,902 and $582,670 as of December 31, 2022 and 2021, respectively, consist of time deposits that mature in 2023.

Custodian funds (which include custodial accounts and trust funds held for others) are included in total investments above. Custodian funds totaled $21,570,341 and $24,775,979 as of December 31, 2022 and 2021, 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, 2022 and 2021. Individual securities exceeding 10% of net assets are separately identified below.

(4) Investments, Continued

	2022 Total	2022 Level 1	2021 Total	2021 Level 1
Investments:				
Money market and short-term reserve funds	$ 3,295,496	3,295,496	$ 3,253,674	3,253,674
Mutual funds:				
Vanguard short-term bond fund	5,644,221	5,644,221	6,440,717	6,440,717
Vanguard S&P 500 ETF	5,077,566	5,077,566	5,988,729	5,988,729
Other	12,269,716	12,269,716	17,443,817	17,443,817
	22,991,503	22,991,503	29,873,263	29,873,263
Equities	18,942,368	18,942,368	21,696,732	21,696,732
Total investments at fair value	45,229,367	45,229,367	54,823,669	54,823,669
Investments measured at NAV, not in fair value hierarchy	933,494		989,605	
Total investments at fair value and NAV	$ 46,162,861		$ 55,813,274	

The cost of investments totaled $46,614,233 and $42,073,109 as of December 31, 2022 and 2021, respectively.

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

	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)

	2021 Diocese	2021 Custodian funds	2021 Total
Interest and dividends	$ 1,357,676	704,178	2,061,854
Realized and unrealized gains	1,782,189	1,651,288	3,433,477
	3,139,865	2,355,466	5,495,331
Less management fees	(94,743)	(83,001)	(177,744)
Investment return	$ 3,045,122	2,272,465	5,317,587

(4) Investments, Continued

The table below sets forth a summary of changes in investments, the values of which are estimated using NAV per share as of 2022 and 2021, respectively.

	2022	2021
Balance, beginning of year	$ 989,605	982,777
Investment income, net of expenses	(10,290)	(7,694)
Unrealized and realized gains	104,813	82,946
Sales	(150,634)	(68,424)
Balance, end of year	$ 933,494	989,605

As of December 31, 2022 and 2021, 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, 2022.

(5) Property and Equipment

Property and equipment is as follows:

	2022	2021
Land and buildings:		
Recorded at cost:		
NCSU Chaplaincy House	$ 94,915	94,915
Duke Student Center	74,837	74,837
Land-Kernersville	43,215	43,215
200 W. Morgan Street	2,758,236	2,758,236
Recorded at January 1, 1978 appraised values:		
Holding Land	13,140	13,140
St. Mary's House	63,476	63,476
Caswell County property	28,760	28,760
Other property:		
Recorded at cost:		
Leasehold improvements - Diocesan House	623,168	571,809
Vehicles	78,491	58,661
Equipment and furniture	333,448	367,022
	4,111,686	4,074,071
Less accumulated depreciation	(2,124,294)	(2,017,663)
	$ 1,987,392	2,056,408

(5) Property and Equipment, Continued

Depreciation expense for 2022 and 2021 was $128,527 and $120,104, respectively.

Rental income is 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:

		2022	2021
Subject to expenditure for specified purpose:			
Mission and Ministry Fund	$	533,320	622,874
Thriving in Pastorial Ministry		552,035	552,853
Diocesan Trusts Programs		3,733,981	4,183,288
		4,819,336	5,359,015
Endowments:			
Subject to Diocese spending policy and appropriation		6,976,752	8,832,429
	$	11,796,088	14,191,444

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

		2022	2021
Satisfaction of purpose restrictions:			
Diocesan Trust Programs	$	688,840	622,410

Changes in endowment net assets during 2022 and 2021 are as follows:

		Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, December 31, 2020	$	-	8,236,054	8,236,054
Interest and dividend income, net		-	235,797	235,797
Realized and unrealized gains, net		-	641,285	641,285
Amounts appropriated for expenditure		-	(280,707)	(280,707)
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

(6) Net Assets, Continued

Board designated net assets totaling $10,325,609 and $11,954,088 as of December 31, 2022 and 2021, 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 $308,660 and $173,080 for 2022 and 2021, 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 performed for the year ended December 31, 2022, but did have an actuarial valuation performed for the year ended December 31, 2021.

Postretirement Benefits Other Than Pension

Components of net periodic pension (benefit) cost are summarized below:

		2021
Service cost	$	21,084
Interest cost		235,210
Amortization of unrecognized net loss		247,097
Cummulative valuation adjustment		(1,021,518)
Net periodic pension (benefit) cost	$	(518,127)

The net periodic pension (benefit) cost was determined using the following weighted average assumptions:

	2021
Discount rate on the benefit obligation	2.75%

(7) Postretirement Benefit Obligation, Continued

The expected long-term rate of return on plan assets assumption of 2.75% for 2021 was selected using an approach set forth by the Actuarial Standards Board. Based on the Diocese's investment allocation for the pension plan in effect as of the beginning of each fiscal year, a best estimate range was determined for both the real rate of return (net of inflation and investment expense) and for inflation based on a long-term historical return on the applicable asset classes.

As of December 31, 2021, the accumulated benefit obligation was $4,613,497. Accumulated benefit obligation represents the actuarial present value of benefits owed for service to date if the employees continue in employment until normal retirement age at current wage rates, but since June 30, 2002, this amount now equals the projected benefit obligation due to the curtailment of the pension plan.

The changes in projected benefit obligation, plan assets and the net amount recognized on the statements of financial position are as follows:

	2021
Projected benefit obligation:	
Balance, beginning of year	$ 5,131,624
Service cost	21,084
Interest cost	235,210
Actuarial loss	(669,221)
Benefits disbursed	(105,200)
Balance, end of year	$ 4,613,497

The plan held no assets as of December 31, 2022 or 2021.

Benefit payments were expected to be paid as follows as of December 31, 2021:

Year ending December 31,	
2022	$ 25,164
2023	334,900
2024	340,914
2025	341,944
2026	338,737
Thereafter	1,587,517
	$ 2,969,176

(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 2022 and 2021 are as follows:

		Custodial Accounts	Held for Churches/ Institutions	Total
Balance, December 31, 2020	$	1,092,297	21,179,163	22,271,460
Receipts		2,391,537	1,524,783	3,916,320
Investment income		-	704,178	704,178
Realized and unrealized gains		-	1,651,286	1,651,286
Disbursements		(2,533,704)	(1,233,561)	(3,767,265)
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

(9) Paycheck Protection Program

In April 2020, the Diocese received a loan from the Small Business Administration under the Paycheck Protection Program ("PPP"), which authorizes forgivable loans to small businesses to pay their employees during the COVID-19 crisis (see note 10). This loan, in the amount of $514,290, was forgiven when loan proceeds were used for payroll and certain other allowed costs over the 24-week period, and certain other conditions were met. The loan accrued interest at 1% and was due in 2 years from origination if not forgiven.

The Diocese met the eligibility criteria of the loan (which occurs when the Diocese is legally released from being the loan's primary obligor). During December 31, 2021, the remaining $505,201 of income under this program was recognized as other income.

(10) Impact of COVID-19

In March 2020, the World Health Organization declared the global novel coronavirus disease 2019 (COVID-19) outbreak a pandemic. The extent of COVID-19's effect on the Diocese's operational and financial performance will depend on future developments, including the duration, spread and intensity of the pandemic, all of which are uncertain and difficult to predict considering the rapidly evolving landscape. As a result, it is not currently possible to ascertain the overall impact of COVID-19 on the Diocese's operations.

(11) Subsequent Events

Subsequent to year end, the Diocese entered into a contract for the sale of its administrative office building in Raleigh, N.C.

The date to which events occurring after December 31, 2022, 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 29, 2023, 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, 2022

		Episcopal Diocese	Church Foundation	Combined
Assets				
Cash and cash equivalents	$	8,230,838	334,662	8,565,500
Accounts receivable, net:				
Churches		25,142	-	25,142
Other		137,706	-	137,706
Prepaid expenses		34,543	-	34,543
Installment notes receivable-churches		-	178,747	178,747
Investments, at fair value		42,759,769	3,403,092	46,162,861
Investments - other		586,902	-	586,902
Property and equipment, net		1,987,392	-	1,987,392
	$	53,762,292	3,916,501	57,678,793
Liabilities and Net Assets				
Liabilities:				
Accounts payable		55,961	-	55,961
Custodian funds		21,570,341	-	21,570,341
Postretirement benefit obligation		4,554,838	-	4,554,838
Other liabilities		650,000	-	650,000
Total liabilities		26,831,140	-	26,831,140
Net assets:				
Without donor restrictions- board designated		10,325,609	-	10,325,609
Without donor restrictions		4,809,455	3,916,501	8,725,956
With donor restrictions		11,796,088	-	11,796,088
Total net assets		26,931,152	3,916,501	30,847,653
	$	53,762,292	3,916,501	57,678,793

EPISCOPAL DIOCESE OF NORTH CAROLINA AND RELATED ENTITY

Schedule of Combining Statements of Activities

Year ended December 31, 2022

	Episcopal Diocese	Church Foundation	Combined
Revenues, gains, and other support:			
Shares, net	$ 4,708,888	-	4,708,888
Investment return	(3,595,017)	(665,626)	(4,260,643)
Rental income	11,314	-	11,314
Chaplaincy income	58,143	-	58,143
Postretirement adjustment	58,659	-	58,659
Youth program revenue	30,016	-	30,016
Other income	904,643	3,959	908,602
Total revenues, gains, and other support	2,261,269	(661,667)	1,599,602
Expenses:			
Program services	4,589,026	217,824	4,806,850
Supporting services:			
Management and general	2,284,788	-	2,284,788
Fundraising	15,932	-	15,932
Total expenses	6,889,746	217,824	7,107,570
Change in net assets	(4,628,477)	(879,491)	(5,507,968)
Net assets, beginning of year	31,559,629	4,795,992	36,355,621
Net assets, end of year	$ 26,931,152	3,916,501	30,847,653