



# 2024 Treasurer's Report to Convention

NOVEMBER 23, 2024

# Diocesan Treasurer's Responsibilities

## ▶ Treasurer is:

- ▶ Appointed by the Bishop annually at Convention
- ▶ Responsible for all of the financial aspects of the Diocese

## ▶ Also serves as Corporate Treasurer for:

- ▶ Trustees of the Diocese
- ▶ Church Foundation of the Diocese of Southern Ohio
- ▶ Procter Camp & Conference Center

# Diocesan Treasurer's Responsibilities

- ▶ Provides leadership and advice to the CFO and Finance Office
- ▶ Works with the Diocesan Council, Finance Committee & Budget Committee overseeing the Diocesan Budget

## Diocesan Audit



Required by Canon to be completed annually by a CPA firm



2023 audit was completed by Clark Schaefer and Hackett

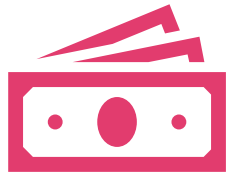
**\* No findings \***

# Summary of Financial Operations of the Diocese

These 5 entities comprise the financials of the diocese: DSO Convention Budget – Diocesan Trustees (WCP Budget & Other Funds) - Church Foundation of DSO – Procter Camp & Conference Center – Bishop's Discretionary Fund

Each has its own record keeping and where applicable a budget

# Diocese of Southern Ohio



**Consolidated  
budget**



**Governing  
Board:  
Convention  
and Diocesan  
Council**



**2024 Budget:  
\$5,917,865**

Includes W.C.  
Procter Budget and  
Other Funds

# Church Foundation

- ▶ Governing Board
  - ▶ 5 Trustees elected by Convention
- ▶ Financial Highlights
  - ▶ Receives annual funding from the Bishop through the Wm. Cooper Procter fund - \$300,000
    - ▶ \$200,000 is set aside to fund church facility grants
    - ▶ \$100,000 is for expenses related to properties owned by Church Foundation

# Trustees of the DSO

- ▶ Governing Board
  - ▶ 5 Trustees elected by Convention
- ▶ Financial Highlights
  - ▶ Oversee \$107,733,057 in investments for the diocese as of September 2024 .
  - ▶ Oversee \$28,768,351 for other entities (MP Lee)

# **Bishop's Discretionary Fund**

- ▶ Governance: Diocesan Bishop
- ▶ Financial Highlights
  - ▶ 2024 Budget: varies based on annual needs
  - ▶ Funded by endowed gifts to the Bishop
    - ▶ Used primarily for clergy assistance, professional development, and outreach

# Procter Camp & Conference Center

- ▶ Governing Board
  - ▶ 13 members and the Diocesan Bishop
- ▶ Financial Highlights
  - ▶ Direct funding from WCP - \$387,395
  - ▶ Farm Acreage Lease - \$339,900
  - ▶ Total passive income \$727,295
  - ▶ Includes farming, conferences, meetings, summer camp and youth programs
  - ▶ Currently operating at a loss



# 2023 Treasurer's Report to Convention

NOVEMBER 23, 2024



**CLARK SCHAEFER HACKETT**  
BUSINESS ADVISORS

## **Diocese of Southern Ohio**

Financial Statements

December 31, 2023 and 2022

with Independent Auditors' Report

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## **INDEPENDENT AUDITORS' REPORT**

To the Bishop and Trustees  
Diocese of Southern Ohio:

### **Opinion**

We have audited the accompanying financial statements of Diocese of Southern Ohio (a not-for-profit corporation) which comprise the statements of financial position as of December 31, 2023 and 2022, and the related statements of activities, functional expenses and cash flows for the years then ended and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Diocese of Southern Ohio 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 Opinion**

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 financial statements section of our report. We are required to be independent of Diocese of Southern Ohio 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 audit opinion.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

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

### **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 Diocese of Southern Ohio'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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Diocese of Southern Ohio'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 audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Clark, Schaefer, Hackett & Co.*

Cincinnati, Ohio  
July 3, 2024

Diocese of Southern Ohio  
Statements of Financial Position  
December 31, 2023 and 2022

	2023	2022
<b>Assets</b>		
Cash and cash equivalents	\$ 4,805,169	4,411,417
Accounts and interest receivable, net	74,214	289,608
Notes receivable, net of allowance of \$1,041,169 and \$1,046,169, respectively	2,169,968	2,169,729
Investments	107,793,187	96,777,436
Investment funds held for the benefit of others	26,445,454	23,981,733
Prepaid expenses	92,230	51,152
Property and equipment, net	<u>4,324,995</u>	<u>4,526,624</u>
Total assets	\$ <u>145,705,217</u>	<u>132,207,699</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 403,389	259,641
Contributions payable	141,098	204,369
Note payable	97,205	168,447
Postretirement benefits accrued other than pensions	1,865,169	1,602,973
Funds held for the benefit of Marjorie P. Lee Retirement Community	26,345,296	23,895,947
Funds held for the benefit of St. Luke's Episcopal Church, Cincinnati	<u>100,158</u>	<u>85,786</u>
Total liabilities	<u>28,952,315</u>	<u>26,217,163</u>
<b>Net assets</b>		
Without donor restrictions	78,110,641	67,454,768
With donor restrictions	<u>38,642,261</u>	<u>38,535,768</u>
Total net assets	<u>116,752,902</u>	<u>105,990,536</u>
Total liabilities and net assets	\$ <u>145,705,217</u>	<u>132,207,699</u>

See accompanying notes to the financial statements.

Diocese of Southern Ohio  
Statement of Activities  
Year Ended December 31, 2023

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues, gains and losses:			
Congregation assessments	\$ 2,386,129	-	2,386,129
Net investment return	15,309,535	354,030	15,663,565
Rental income	399,344	-	399,344
Gifts/principal additions	202,161	128,445	330,606
Camp, tuition, farm sales	62,060	-	62,060
Programs, Conference Center use	173,475	-	173,475
Other	154,489	-	154,489
Release of restrictions	<u>375,982</u>	<u>(375,982)</u>	<u>-</u>
Total revenues, gains and losses	<u>19,063,175</u>	<u>106,493</u>	<u>19,169,668</u>
Expenses:			
Program	4,987,128	-	4,987,128
Management and general	3,143,381	-	3,143,381
Fundraising	<u>119</u>	<u>-</u>	<u>119</u>
Total expenses	<u>8,130,628</u>	<u>-</u>	<u>8,130,628</u>
Non-operating gains (losses)			
Post retirement benefits loss	(262,196)	-	(262,196)
Loss on disposal of assets	<u>(14,478)</u>	<u>-</u>	<u>(14,478)</u>
Total non-operating gains (losses)	<u>(276,674)</u>	<u>-</u>	<u>(276,674)</u>
Change in net assets	10,655,873	106,493	10,762,366
Net assets, beginning of year	<u>67,454,768</u>	<u>38,535,768</u>	<u>105,990,536</u>
Net assets, end of year	\$ <u>78,110,641</u>	<u>38,642,261</u>	<u>116,752,902</u>

See accompanying notes to the financial statements.

Diocese of Southern Ohio  
Statement of Activities  
Year Ended December 31, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues, gains and losses:			
Congregation assessments	\$ 2,524,988	-	2,524,988
Net investment return	(21,216,941)	1,476,724	(19,740,217)
Rental income	375,894	-	375,894
Gifts/principal additions	165,994	79,140	245,134
Camp, tuition, farm sales	87,370	-	87,370
Programs, Conference Center use	194,592	-	194,592
Other	41,280	-	41,280
Release of restrictions	<u>368,276</u>	<u>(368,276)</u>	<u>-</u>
Total revenues, gains and losses	<u>(17,458,547)</u>	<u>1,187,588</u>	<u>(16,270,959)</u>
Expenses:			
Program	5,315,267	-	5,315,267
Management and general	2,536,064	-	2,536,064
Fundraising	<u>9,402</u>	<u>-</u>	<u>9,402</u>
Total expenses	<u>7,860,733</u>	<u>-</u>	<u>7,860,733</u>
Non-operating gains (losses)			
Post retirement benefits gain	496,950	-	496,950
Loss on disposal of assets	<u>(206,949)</u>	<u>-</u>	<u>(206,949)</u>
Total non-operating gains (losses)	<u>290,001</u>	<u>-</u>	<u>290,001</u>
Change in net assets	(25,029,279)	1,187,588	(23,841,691)
Net assets, beginning of year	<u>92,484,047</u>	<u>37,348,180</u>	<u>129,832,227</u>
Net assets, end of year	\$ <u>67,454,768</u>	<u>38,535,768</u>	<u>105,990,536</u>

See accompanying notes to the financial statements.

Diocese of Southern Ohio  
Statement of Functional Expenses  
Year Ended December 31, 2023

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Payroll, taxes and benefits	\$ 1,856,349	1,438,048	-	3,294,397
Grants to others	1,435,520	366,014	-	1,801,534
National Episcopal Church	440,430	-	-	440,430
Professional fees	205,560	717,260	-	922,820
Advertising and promotion	2,976	17,148	-	20,124
Programs and educational	365,497	9,435	119	375,051
Office expenses	5,295	112,310	-	117,605
Maintenance	116,005	202,138	-	318,143
Information technology	900	108,431	-	109,331
Occupancy	99,765	59,646	-	159,411
Depreciation	340,335	64,449	-	404,784
Insurance	50,698	20,712	-	71,410
Credit loss recovery	(5,000)	-	-	(5,000)
Other	67,816	27,251	-	95,067
Interest	4,982	539	-	5,521
	<u>\$ 4,987,128</u>	<u>3,143,381</u>	<u>119</u>	<u>8,130,628</u>

See accompanying notes to the financial statements.

Diocese of Southern Ohio  
Statement of Functional Expenses  
Year Ended December 31, 2022

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Payroll, taxes and benefits	\$ 1,925,528	1,355,681	7,500	3,288,709
Grants to others	1,570,013	246,188	-	1,816,201
National Episcopal Church	456,725	-	-	456,725
Professional fees	64,983	409,948	-	474,931
Advertising and promotion	-	12,864	-	12,864
Programs and educational	423,963	15,903	-	439,866
Office expenses	8,229	123,634	1,902	133,765
Maintenance	279,219	26,171	-	305,390
Information technology	26,865	85,323	-	112,188
Occupancy	182,968	67,980	-	250,948
Depreciation	337,578	100,415	-	437,993
Insurance	35,231	31,249	-	66,480
Credit loss recovery	(5,000)	-	-	(5,000)
Other	-	60,708	-	60,708
Interest	8,965	-	-	8,965
	<u>\$ 5,315,267</u>	<u>2,536,064</u>	<u>9,402</u>	<u>7,860,733</u>

See accompanying notes to the financial statements.

Diocese of Southern Ohio  
Statements of Cash Flows  
Years Ended December 31, 2023

	2023	2022
Cash flow from operating activities:		
Change in net assets	\$ 10,762,366	(23,841,691)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Credit loss recovery	(5,000)	(5,000)
Depreciation	404,784	437,993
Loss on disposal of property and equipment	14,478	206,949
Donated property	-	(55,889)
Realized and unrealized (gain) loss on investments	(13,256,060)	22,208,057
Postretirement benefit change in coverage	293,014	(455,598)
Effects of change in operating assets and liabilities:		
Accounts and interest receivable	215,394	(29,338)
Prepaid expenses	(41,078)	(20,814)
Accounts payable and accrued liabilities	143,748	56,686
Contributions payable	(63,271)	(135,993)
Postretirement benefits paid	(30,818)	(41,352)
	(1,562,443)	(1,675,990)
Net cash used by operating activities		
Cash flows from investing activities:		
Proceeds from investments and funds held	62,929,547	37,161,599
Purchases of investments and funds held	(60,689,238)	(35,858,260)
Purchases of property and equipment	(217,633)	(178,967)
Issuance of notes receivable	(110,328)	(328,734)
Collections of notes receivable	115,089	132,743
	2,027,437	928,381
Net cash provided by investing activities		
Cash flows from financing activities:		
Repayment on note payable	(71,242)	(67,259)
Net change in cash and cash equivalents	393,752	(814,868)
Cash and cash equivalents, at beginning of year	4,411,417	5,226,285
Cash and cash equivalents, at end of year	\$ 4,805,169	4,411,417
Supplemental disclosure:		
Interest paid	\$ 5,521	8,965

See accompanying notes to the financial statements.

## 1. ORGANIZATION:

The Diocese of Southern Ohio (Diocese) is the Episcopal Church Headquarters for seventy-one congregations in Southern Ohio. The congregations' financial activities are not included in the accompanying financial statements.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

### Basis of presentation

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

- *Net assets without donor restrictions:* Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Diocese. These net assets may be used at the discretion of the Diocese's management and the Board of Trustees.
- *Net assets with donor restrictions:* Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions that are likely to be met by the actions of the Diocese or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity and only the related investment income is without donor restriction.

Revenues are reported as increases in net assets without restrictions unless use of the related assets is limited by donor-imposed restrictions. Contributions in which the donor-imposed restrictions were met within the same period are recorded in net assets without restrictions. All expenses are reported as decreases in net assets without restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without restrictions unless their use is restricted by explicit donor stipulation or by law. Investment income in which the donor-imposed restrictions were met within the same period are recorded in net assets without restrictions.

### Adoption of new accounting standard

On January 1, 2023, the Diocese adopted Financial Accounting Standards Board (FASB) Accounting Standard Update (ASU) 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended. Topic 326 modified the measurement of expected credit losses on certain financial instruments. The Diocese adopted this new guidance utilizing the modified retrospective transition method. The adoption of this standard did not have a material impact on the Diocese's financial statements but did change how the allowance for credit losses is determined.

### Investments and investments held

Investments in marketable securities with readily determinable fair values and all investments in debt securities and alternative investments are valued at their fair values in the statements of financial position. Realized and unrealized appreciation (depreciation) on investments, along with interest, dividends and direct investment expenses are reported as net investment return on the statements of activities.

The Diocese holds investments in trust for others and for the benefit of others. The investments are managed in accordance with the Diocese's investment policy. Liabilities for amounts held have been established as these investments are due to others.

**Property and equipment**

Property and equipment are stated at cost as of the date of acquisition or fair value as of the date of donation in the case of gifts. The Diocese maintains a capitalization threshold of \$5,000. Depreciation is provided over the estimated useful lives of the respective assets on a straight-line basis. Estimated useful lives are as follows:

Buildings	20 - 31.5 years
Building and leasehold improvements	15 years
Equipment, furniture and fixtures	3 - 10 years

**Use of estimates**

Management of the Diocese has made estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities, as well as the reported amounts of revenues and expenses, to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

**Cash and cash equivalents**

Cash and cash equivalents consist primarily of investments in money market funds. At times, cash and money market balances may be in excess of the insurance coverage provided by the Federal Deposit Insurance Corporation. The Diocese has not experienced any losses in such accounts. The Diocese believes it is not exposed to any significant credit risk on cash and cash equivalents.

**Receivables and allowance for credit losses**

The Diocese carries its accounts receivable and notes receivable at the amount expected to be collected less an allowance for credit losses. Included in notes receivable are mortgages on churches due from the church congregations. On a periodic basis, the Diocese evaluates its accounts receivable and notes receivable and establishes an allowance for credit losses, based on a history of past write-offs and collections and current and expected credit conditions.

**Functional expense allocations**

The financial statements report certain categories of expenses that are attributable to one or more programs or supporting functions of the Diocese. Expenses are directly applied when applicable and are allocated to programs or support services based on the table shown below. The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. Such allocations are determined by management on an equitable basis. Allocated expenses include the following:

Expense	Allocation Method
Payroll, taxes and benefits	Time and effort
Maintenance	Full time equivalents
Information technology	Full time equivalents
Occupancy	Full time equivalents
Depreciation	Square footage
Insurance	Full time equivalents
Other	Full time equivalents

**Income taxes**

The Episcopal Diocese of Southern Ohio is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code (Code). The Diocese is not required to file returns with the IRS under a religious exemption.

The Financial Accounting Standards Board (FASB) has issued guidance which clarifies generally accepted accounting principles (GAAP) for recognition, measurement, presentation and disclosure relating to uncertain tax position. This guidance clarifies the accounting and recognition for income tax position taken or expected to be taken in the Diocese’s income tax return. While the Diocese is not required to file an annual information return due to its religious origin it is subject to tax on any unrelated business income. The Diocese has determined that no liability for unrelated business income tax exists as of December 31, 2023 and 2022. The Diocese’s policy with regards to interest and penalties is to recognize interest through interest expense and penalties through other expense. In evaluating the Diocese’s tax provision and tax-exempt status, interpretations and tax planning strategies were considered. The Diocese believes its estimates are appropriate based on the current facts and circumstances.

**Subsequent events**

The Diocese evaluates events and transactions occurring subsequent to the date of the financial statements for matters requiring recognition or disclosure in the financial statements. The accompanying financial statements consider events through July 3, 2024, the date on which the financial statements were available to be issued.

**Reclassifications**

Certain items from the 2022 financial statements have been reclassified to conform to the current year presentation.

**3. NOTES RECEIVABLE:**

Notes receivable, secured by mortgages, and other notes receivable are comprised of the following as of December 31, 2023:

	<u>2023</u>	<u>2022</u>
Notes receivable	\$ 3,211,137	3,215,898
Allowance for loan losses	<u>(1,041,169)</u>	<u>(1,046,169)</u>
Total notes receivable	\$ <u>2,169,968</u>	<u>2,169,729</u>

The interest rates on the notes receivable range from 0.0% to 5.0%. Based on current market rates, the carrying value of notes receivable approximate fair value.

Activity in the allowance for credit losses is as follows for the years ended December 31:

	<u>2023</u>	<u>2022</u>
Balance at beginning of year	\$ 1,046,169	1,051,169
Recovery of loan losses	<u>(5,000)</u>	<u>(5,000)</u>
Balance at end of year	\$ <u>1,041,169</u>	<u>1,046,169</u>

**4. INVESTMENTS:**

Investments of the Diocese at fair value as follows at December 31:

	<u>2023</u>	<u>2022</u>
Cash equivalents	\$ 3,944,851	2,784,496
Common stocks	53,129,832	44,690,958
United States government and agency securities	11,401,508	9,415,899
Proportionate share of assets in:		
Consolidated I fund	10,504,481	10,071,718
Consolidated G fund	27,245,685	23,776,445
Corporate bonds	7,273,925	7,201,632
Mutual funds	<u>20,738,359</u>	<u>22,818,021</u>
	<u>\$ 134,238,641</u>	<u>120,759,169</u>

The investments noted above are summarized on the statements of financial positions as follows at December 31:

	<u>2023</u>	<u>2022</u>
Investments	\$ 107,793,187	96,777,436
Investment funds held for the benefit of others	<u>26,445,454</u>	<u>23,981,733</u>
	<u>\$ 134,238,641</u>	<u>120,759,169</u>

The Consolidated Income (I) and Consolidated Growth (G) funds are assets maintained on deposit in a bank's pooled funds. These funds consist primarily of United States government and agency securities (I fund) and common stocks of major corporations (G fund), and are being administered as open-end investment trusts. The Diocese has included its proportionate share of the assets based upon current fair values. See Note 12 for fair value disclosures.

**5. PROPERTY AND EQUIPMENT:**

Property and equipment consist of the following as of December 31:

	<u>2023</u>	<u>2022</u>
Congregation properties	\$ 2,824,251	2,793,075
Procter farm	8,572,446	8,575,643
Other properties	890,968	894,612
Furniture and equipment	257,303	196,595
Construction-in-progress	<u>15,405</u>	<u>-</u>
	12,560,373	12,459,925
Less accumulated depreciation	<u>8,235,378</u>	<u>7,933,301</u>
	<u>\$ 4,324,995</u>	<u>4,526,624</u>

**6. NOTE PAYABLE - BANK:**

The Diocese has a note payable with a bank in the amount of \$251,323 with a fixed interest rate of 4% per year. The note calls for principal and interest payments of \$3,435 per month and the final payment due at maturity in June 2028. The Diocese has made extra payments and does not have a required payment within the next year. The amount outstanding under this note payable was \$97,205 and \$168,447 at December 31, 2023 and 2022, respectively.

Aggregate maturities of the note payable for the years subsequent to December 31, 2023, are as follows:

2024	\$ -
2025	-
2026	37,826
2027	39,546
2028	<u>19,833</u>
	<u>\$ 97,205</u>

**7. NET ASSETS WITH DONOR RESTRICTIONS:**

Net assets with donor restrictions are restricted for the following purposes at December 31:

	<u>2023</u>	<u>2022</u>
Subject to expenditure for a specific purpose:		
Purpose restrictions	\$ <u>109,464</u>	<u>212,238</u>
Subject to spending policy and appropriation:		
Unappropriated endowment	2,767,031	2,557,764
Endowment held in perpetuity	<u>35,137,082</u>	<u>35,137,082</u>
Donor - restricted endowment	<u>37,904,113</u>	<u>37,694,846</u>
Other funds restricted by donor in perpetuity:		
Loan funds	<u>628,684</u>	<u>628,684</u>
Total net assets with donor restrictions:	\$ <u>38,642,261</u>	<u>38,535,768</u>

Net assets released from donor restrictions during 2023 and 2022 were \$375,982 and \$368,276, respectively.

**8. ENDOWMENT AND QUASI-ENDOWMENT FUNDS:**

Generally accepted accounting principles require that the net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments (quasi-endowments), are classified and reported based on the existence or absence of donor-imposed restrictions. The Diocese's endowment and quasi-endowment funds were established to provide income to operations and are both donor-restricted (endowment) and board-designated.

The Diocese has interpreted the State of Ohio Prudent Management of Institutional Funds Act (SPMIFA) 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 classifies as net assets with donor restrictions (a) the original value of gifts donated to the endowment in perpetuity, (b) the original value of subsequent gifts to the endowment in perpetuity, (c) accumulations to the endowment in perpetuity made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in endowment in perpetuity is classified as unappropriated endowment assets until those amounts are appropriated for expenditure by the Diocese in a manner consistent with the standard of prudence prescribed by SPMIFA.

In accordance with SPMIFA, 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 fund
2. The purposes of the Diocese and the donor-restricted endowment fund
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
7. The investment policies of the Diocese

The Diocese classifies the unappropriated portion of the donor-restricted endowment fund that is not classified in endowment in perpetuity as without donor restrictions when donor stipulations have been satisfied through expenditures from other Diocesan resources.

Endowment and quasi-endowments fund net asset composition by type of fund is as follows at December 31, 2023:

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Donor – restricted endowment	\$ -	37,904,113	37,904,113
Board – designated endowment	<u>72,655,566</u>	<u>-</u>	<u>72,655,566</u>
Total	<u>\$ 72,655,566</u>	<u>37,904,113</u>	<u>110,559,679</u>

Changes in endowment and quasi-endowments fund net assets are as follows for the year ended December 31, 2023:

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Endowment and quasi-endowments fund net assets at beginning of year	\$ 60,442,410	37,694,846	98,137,256
Transfers in	290,477	109,233	399,710
Investment returns, net	12,357,000	350,030	12,707,030
Spending appropriation	<u>(434,321)</u>	<u>(249,996)</u>	<u>(684,317)</u>
Endowments and quasi endowments fund net assets at end of year	<u>\$ 72,655,566</u>	<u>37,904,113</u>	<u>110,559,679</u>

Reconciliation of endowments and quasi-endowments fund net assets to total net assets for the year ended December 31, 2023:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment and quasi-endowments fund net assets	\$ 72,655,566	37,904,113	110,559,679
Other funds net assets	<u>5,455,075</u>	<u>738,148</u>	<u>6,193,223</u>
Total net assets at end of year	\$ <u>78,110,641</u>	<u>38,642,261</u>	<u>116,752,902</u>

Reconciliation of endowments and quasi-endowments fund net assets to total net assets for the year ended December 31, 2022:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor – restricted endowment	\$ -	37,694,846	37,694,846
Board – designated endowment	<u>60,442,410</u>	<u>-</u>	<u>60,442,410</u>
Total	\$ <u>60,442,410</u>	<u>37,694,846</u>	<u>98,137,256</u>

Changes in endowment and quasi-endowments fund net assets are as follows for the year ended December 31, 2022:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment and quasi-endowments fund net assets at beginning of year	\$ 81,204,607	35,620,964	116,825,571
Transfers in	3,593,940	758,317	4,352,257
Investment returns, net	(23,979,148)	1,476,724	(22,502,424)
Spending appropriation	<u>(376,989)</u>	<u>(161,159)</u>	<u>(538,148)</u>
Endowments and quasi endowments fund net assets at end of year	\$ <u>60,442,410</u>	<u>37,694,846</u>	<u>98,137,256</u>

Reconciliation of endowments and quasi-endowments fund net assets to total net assets for the year ended December 31, 2022:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment and quasi-endowments fund net assets	\$ 60,442,410	37,694,846	98,137,256
Other funds net assets	<u>7,012,358</u>	<u>840,922</u>	<u>7,853,280</u>
Total net assets at end of year	\$ <u>67,454,768</u>	<u>38,535,768</u>	<u>105,990,536</u>

**Return objectives and risk parameters**

The Diocese has adopted investment and spending policies for endowment assets that attempt to provide long-term portfolio growth and the desired annual payout as specified in the applicable spending policy. Under this policy as approved by the Board of Trustees, the endowment assets are invested as follows:

Equity	60% to 80%
Fixed income	20% to 40%
Alternatives	0% to 5%
Cash equivalents	0% to 10%

The performance objectives will be measured against appropriate industry benchmarks such as the MSCI ACWI Index for equities, the Bloomberg US Aggregate Bond Index for its fixed income and HFRI Fund of Funds Index for its alternative endowment investments.

**Strategies employed for achieving objectives**

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 that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

**Spending policy and how the investment objectives relate to spending policy**

The Diocese has a policy of appropriating for distribution up to 5.00% of its endowment funds' average fair value over the prior 12 quarters through the December 31 fiscal years in which the distribution is planned. In establishing this policy, the Diocese considered the long-term expected return on its endowment. Accordingly, this spending policy should, over time, protect the inflation-adjusted value of the endowment and, consequently, allow inflation-adjusted spending to occur into the distant future. This is consistent with the Diocese's objective to maintain the purchasing power of the endowment in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

**9. CONTRIBUTIONS PAYABLE:**

The Diocese has made unconditional promises to give to various charitable organizations with terms payable from one to seven years. These unconditional promises to give have not been discounted because the amount is not material. The following summarizes these unconditional promises to give at December 31:

	<u>2023</u>	<u>2022</u>
Amounts due in:		
Less than one year	\$ 121,098	179,369
One to five years	20,000	20,000
More than five years	<u>          -</u>	<u>    5,000</u>
Contributions payable	\$ <u>141,098</u>	<u>204,369</u>

**10. EMPLOYEE BENEFIT PLANS:**

The Diocese contributed \$213,112 and \$188,022 during the years ended December 31, 2023 and 2022, respectively, to multi-employer defined benefit plans. All clergy and lay employees of the Diocese are covered by multi-employer defined benefit plans. These plans are not administered by the Diocese. The plans are provided as part of the Church Pension Group. These plans require Diocese contributions equal to 18% of cash compensation for clergy and 9% of cash compensation for lay employees. The Diocese may be liable, in the event of plan terminations or its withdrawal from the plans, for a portion of the plans' unfunded vested benefits. Currently there is no unfunded withdrawal liability nor does the Diocese have any present intentions to withdraw from the plans.

Information on the Diocese specific plans is detailed below:

<u>Fund name</u>	<u>Clergy Pension Plan</u>	<u>Episcopal Church Lay Employees' Retirement Plan</u>
Employee identification number	13-5562193	13-5562193
Plan number	DSOH CLER F982 CLER	DSOH LAYO F982 LAYO
Pension protection act zone status	Not Available	Not Available
Rehabilitation plan	No	No
Surcharge	No	No
Expiration of labor contract	Not Applicable	Not Applicable
Diocese contributions > 5% of the plan	No	No
Diocese contributions for 2023	\$ 114,025	\$ 99,087

The pension protection act certified zone status was not available for the plans. The following table represents the plan assets, accumulated benefit obligations and funded status as of March 31, 2023 (the most recent information available):

<u>March 31, 2023 (in thousands)</u>	<u>Clergy Pension Plan</u>	<u>Episcopal Church Lay Employees' Retirement Plan</u>
Plan net assets	\$ 14,016,095	269,462
Accumulated plan benefit obligations	<u>6,044,892</u>	<u>198,603</u>
Surplus (deficit)	\$ <u>7,971,203</u>	<u>70,859</u>
Funded Status	>100%	>100%

The pension protection act certified zone status was not available for the plans. The following table represents the plan assets, accumulated benefit obligations and funded status as of March 31, 2022 (the most recent information available):

<u>March 31, 2022 (in thousands)</u>	<u>Clergy Pension Plan</u>	<u>Episcopal Church Lay Employees' Retirement Plan</u>
Plan net assets	\$ 14,822,517	265,795
Accumulated plan benefit obligations	<u>6,683,016</u>	<u>222,546</u>
Surplus (deficit)	\$ <u>8,139,501</u>	<u>43,249</u>
Funded Status	>100%	>100%

#### **11. POSTRETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS:**

The Diocese provides certain health care and life insurance benefits for retired lay employees based on the number of years of service rendered. Lay employees will become eligible for those benefits if they reach retirement while employed in or by the Diocese. The Diocese funds these benefits on a current basis which totaled \$41,328 and \$41,352 in 2023 and 2022, respectively.

Postretirement (benefit) expense was (\$17,554) and (\$350,182) in 2023 and 2022, respectively. The components of this (benefit) expense were:

	<u>2023</u>	<u>2022</u>
Service cost of benefits earned	\$ 185,924	174,555
Interest cost on liability	71,213	93,576
Net amortization and deferral of actuarial gain	<u>(274,691)</u>	<u>(618,313)</u>
Net periodic postretirement expense	\$ <u>(17,554)</u>	<u>(350,182)</u>

The accumulated postretirement benefit obligation is as follows at December 31:

	<u>2023</u>	<u>2022</u>
Retirees	\$ 445,570	429,668
Fully eligible active plan participants	853,858	688,023
Ineligible active plan participants	<u>565,741</u>	<u>485,282</u>
Postretirement benefits accrued other than pensions	\$ <u>1,865,169</u>	<u>1,602,973</u>

For measurement purposes, the annual rate of increase in the per capita cost of covered benefits (i.e., healthcare cost trend rate) was assumed to be 7% for 2023.

The rate was assumed to stay at 7% for subsequent years through 2024 and then 6% by the year 2025 and remain at that level thereafter. The healthcare cost trend rate assumption has a significant effect on the amounts reported. For example, increasing the assumed healthcare cost trend rates by one percentage point in each year would increase the accumulated postretirement benefit obligation as of December 31, 2023, by approximately \$406,565, and the aggregate service and interest cost components of net periodic postretirement benefit cost for the year ended December 31, 2023 by approximately \$96,297. The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 4.5% as of December 31, 2023.

Benefits to be paid under the plan over the next ten years are as follows:

2024	\$ 45,768
2025	45,421
2026	49,167
2027	57,352
2028	66,389
2029 – 2033	<u>388,585</u>
	\$ <u>652,682</u>

Because the assumptions used in the accounting for the defined benefit plan are significant estimates, it is at least reasonably possible the amounts may change in the future, and these changes could be significant. Because of the under-funded status of the plan, a change in the assumed discount rate can have a significant impact on the resulting liability recorded on the financial statements.

## 12. FAIR VALUES MEASUREMENTS:

Generally accepted accounting principles defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value as follows:

Level 1 – Valuations based on quoted price in active markets for identical assets or liabilities that the Diocese has the ability to access. Valuation adjustments are not applied for Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these items does not entail a significant degree of judgment.

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of observable inputs can vary and is affected by a wide variety of factors. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3.

Fair value methods and assumptions on investments consisting of equities and US Treasury bond fixed income securities are based on values in public exchange or Level 1 inputs. Investments in fixed income investments that are not quoted on an exchange, but are traded in active markets are valued on Level 2 inputs using prices obtained from our custodian, which used third party data service providers. Investments in funds held in trust for others and investments in funds held for the benefit of others are valued on Level 3 inputs using prices of the underlying assets invested that are obtained from our custodians, which used third party data service providers, without adjustment.

GAAP allows for the use of a practical expedient for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value. The practical expedient used by the Diocese to value alternative investments is the net asset value (NAV) per share, or its equivalent. Because some of these investments are not readily marketable, their estimated value is subject to uncertainty and therefore may be different from the value that would have been used had a ready market for such investments existed. The net asset values provided by fund administrators consider variables such as the financial performance of underlying investments, recent sales prices of underlying investments and other pertinent information. In addition, actual market exchanges at year-end provide additional observable market inputs of the exit price. The Diocese, relying on the work of its investment consultants, reviews valuations and assumptions provided by fund administrators for reasonableness and believes that the carrying amounts of these financial instruments are reasonable estimates of fair value.

The Diocese has a total of 10 alternative investments in hedge funds. All of these funds allow for redemption on either a monthly, quarterly or annual basis with prior written notice between 30-90 days. There were no unfunded commitments as of December 31, 2023 and 2022.

The following table presents the assets as of December 31, 2023 that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy.

	December 31, <u>2023</u>	Quoted prices in active markets for identical assets or liabilities <u>(Level 1)</u>	Significant other observable inputs <u>(Level 2)</u>	Significant unobservable inputs <u>(Level 3)</u>
<u>Investments:</u>				
Equities	\$ 70,533,670	70, 533,670	-	-
Fixed income	28,753,617	10,754,962	17,998,655	-
Investment funds held in trust for others	26,345,296	-	-	26,345,296
Investment funds held for the benefit of others	<u>100,158</u>	<u>-</u>	<u>-</u>	<u>100,158</u>
Total assets in the fair value hierarchy	\$ 125,732,741	<u>81,288,632</u>	<u>17,998,655</u>	<u>26,445,454</u>
Investments measured at net asset value	<u>8,505,900</u>			
Total investments	\$ <u>134,238,641</u>			

The following table presents the assets as of December 31, 2022 that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy.

	December 31, <u>2022</u>	Quoted prices in active markets for identical assets or liabilities <u>(Level 1)</u>	Significant other observable inputs <u>(Level 2)</u>	Significant unobservable inputs <u>(Level 3)</u>
<u>Investments:</u>				
Equities	\$ 62,731,410	62,731,410	-	-
Fixed income	25,734,175	6,874,157	18,860,018	-
Investment funds held in trust for others	23,895,947	-	-	23,895,947
Investment funds held for the benefit of others	<u>85,786</u>	<u>-</u>	<u>-</u>	<u>85,786</u>
Total assets in the fair value hierarchy	\$ 112,447,318	<u>69,605,567</u>	<u>18,860,018</u>	<u>23,981,733</u>
Investments measured at net asset value	<u>8,311,851</u>			
Total investments	\$ <u>120,759,169</u>			

**13. LIQUIDITY DISCLOSURES:**

The Diocese is substantially supported by congregation assessments and investment income. As part of the Diocese's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Diocese invests cash in excess of daily requirements in investments as deemed appropriate.

The following table presents the financial assets available to meet cash needs for general expenditures within one year at December 31:

	<u>2023</u>	<u>2022</u>
Financial assets:		
Cash and cash equivalents	\$ 4,805,169	4,411,417
Accounts and interest receivable, net	74,214	289,608
Investments at fair value	<u>134,238,641</u>	<u>120,759,169</u>
Financial assets available at year-end	<u>139,118,024</u>	<u>125,460,194</u>
Less those unavailable for general expenditures within one year due to:		
Restricted by donor with purpose restrictions	109,464	212,238
Donor restricted endowment	37,904,113	37,694,846
Board designated endowment	72,655,566	60,442,410
Funds restricted in perpetuity	<u>628,684</u>	<u>628,684</u>
	<u>111,297,827</u>	<u>98,978,178</u>
Financial assets available to meet cash needs for general expenditures within one year	\$ <u>27,820,197</u>	<u>26,482,016</u>

**14. SUBSEQUENT EVENT:**

In June 2024, the Trustees of the Diocese approved loans to the new Bishop for the purchase and rehabilitation of a primary residence. A loan of approximately \$710,000 was for the purchase of the residence and an additional construction loan up to approximately \$140,000 was approved. Both loans have a stated interest rate of 5% per annum and are due upon the Bishop's separation of service from the Diocese or the sale of the residence.

Diocese of Southern Ohio  
Schedule of Financial Position by Fund Information  
December 31, 2023

	DSO Funds	Church Foundation Fund	Bishop's Discretionary Fund	Procter Conf Ctr Fund	Investments & Endowments Fund	Subtotal	Eliminations	Total
<b>Assets:</b>								
Cash and cash equivalents	\$ 3,883,581	403,387	417,662	100,539	-	4,805,169	-	4,805,169
Accounts and interest receivable, net	8,208	594	14,503	9,726	41,183	74,214	-	74,214
Intercompany receivables	390,445	217,258	-	-	3,588,954	4,196,657	(4,196,657)	-
Notes receivable, net	-	2,169,968	-	-	-	2,169,968	-	2,169,968
Investments	-	384,855	-	-	107,408,332	107,793,187	-	107,793,187
Investment funds held for the benefit of others	-	-	-	-	26,445,454	26,445,454	-	26,445,454
Prepaid expenses	69,978	187	-	22,065	-	92,230	-	92,230
Property and equipment, net	-	4,324,995	-	-	-	4,324,995	-	4,324,995
<b>Total assets</b>	<b>\$ 4,352,212</b>	<b>7,501,244</b>	<b>432,165</b>	<b>132,330</b>	<b>137,483,923</b>	<b>149,901,874</b>	<b>(4,196,657)</b>	<b>145,705,217</b>
<b>Liabilities:</b>								
Accounts payable and accrued liabilities	\$ 208,221	115,346	27,018	52,804	-	403,389	-	403,389
Contributions payable	-	116,098	-	-	25,000	141,098	-	141,098
Note payable	-	97,205	-	-	-	97,205	-	97,205
Postretirement benefits accrued other than pensions	1,865,169	-	-	-	-	1,865,169	-	1,865,169
Funds held for the benefit of MP Lee Retirement Community	-	-	-	-	26,345,296	26,345,296	-	26,345,296
Funds held for the benefit of St. Luke, Cincinnati	-	-	-	-	100,158	100,158	-	100,158
Due to other funds	340,477	3,082,512	266	319,612	453,790	4,196,657	(4,196,657)	-
<b>Total liabilities</b>	<b>2,413,867</b>	<b>3,411,161</b>	<b>27,284</b>	<b>372,416</b>	<b>26,924,244</b>	<b>33,148,972</b>	<b>(4,196,657)</b>	<b>28,952,315</b>
<b>Net assets:</b>								
Without donor restrictions	1,828,881	3,461,399	404,881	(240,086)	72,655,566	78,110,641	-	78,110,641
With donor restrictions	109,464	628,684	-	-	37,904,113	38,642,261	-	38,642,261
<b>Total net assets</b>	<b>1,938,345</b>	<b>4,090,083</b>	<b>404,881</b>	<b>(240,086)</b>	<b>110,559,679</b>	<b>116,752,902</b>	<b>-</b>	<b>116,752,902</b>
<b>Total liabilities and net assets</b>	<b>\$ 4,352,212</b>	<b>7,501,244</b>	<b>432,165</b>	<b>132,330</b>	<b>137,483,923</b>	<b>149,901,874</b>	<b>(4,196,657)</b>	<b>145,705,217</b>

See accompanying notes to the schedule.

Diocese of Southern Ohio  
Schedule of Financial Position by Fund Information  
December 31, 2022

	DSO Funds	Church Foundation Fund	Bishop's Discretionary Fund	Procter Conf Ctr Fund	Investments & Endowments Fund	Subtotal	Eliminations	Total
<b>Assets:</b>								
Cash and cash equivalents	\$ 3,599,244	175,559	543,633	92,981	-	4,411,417	-	4,411,417
Accounts and interest receivable, net	241,645	8,128	17,941	17,727	4,167	289,608	-	289,608
Intercompany receivables	92,221	119,708	-	26,270	3,651,586	3,889,785	(3,889,785)	-
Notes receivable, net	-	2,169,729	-	-	-	2,169,729	-	2,169,729
Investments	1,523,490	238,959	-	423,484	94,591,503	96,777,436	-	96,777,436
Investment funds held for the benefit of others	-	-	-	-	23,981,733	23,981,733	-	23,981,733
Prepaid expenses	34,077	500	-	16,575	-	51,152	-	51,152
Property and equipment, net	-	4,526,624	-	-	-	4,526,624	-	4,526,624
<b>Total assets</b>	<b>\$ 5,490,677</b>	<b>7,239,207</b>	<b>561,574</b>	<b>577,037</b>	<b>122,228,989</b>	<b>136,097,484</b>	<b>(3,889,785)</b>	<b>132,207,699</b>
<b>Liabilities:</b>								
Accounts payable and accrued liabilities	\$ 103,326	70,894	30,000	55,421	-	259,641	-	259,641
Contributions payable	25,000	149,369	-	-	30,000	204,369	-	204,369
Note payable	-	168,447	-	-	-	168,447	-	168,447
Postretirement benefits accrued other than pensions	1,602,973	-	-	-	-	1,602,973	-	1,602,973
Funds held for the benefit of MP Lee Retirement Community	-	-	-	-	23,895,947	23,895,947	-	23,895,947
Funds held for the benefit of St. Luke, Cincinnati	-	-	-	-	85,786	85,786	-	85,786
Due to other funds	373,702	3,083,313	3,996	348,774	80,000	3,889,785	(3,889,785)	-
<b>Total liabilities</b>	<b>2,105,001</b>	<b>3,472,023</b>	<b>33,996</b>	<b>404,195</b>	<b>24,091,733</b>	<b>30,106,948</b>	<b>(3,889,785)</b>	<b>26,217,163</b>
<b>Net assets:</b>								
Without donor restrictions	3,254,229	3,138,500	527,578	92,051	60,442,410	67,454,768	-	67,454,768
With donor restrictions	131,447	628,684	-	80,791	37,694,846	38,535,768	-	38,535,768
<b>Total net assets</b>	<b>3,385,676</b>	<b>3,767,184</b>	<b>527,578</b>	<b>172,842</b>	<b>98,137,256</b>	<b>105,990,536</b>	<b>-</b>	<b>105,990,536</b>
<b>Total liabilities and net assets</b>	<b>\$ 5,490,677</b>	<b>7,239,207</b>	<b>561,574</b>	<b>577,037</b>	<b>122,228,989</b>	<b>136,097,484</b>	<b>(3,889,785)</b>	<b>132,207,699</b>

See accompanying notes to the schedule.

## SUPPLEMENTARY INFORMATION

The supplementary schedule has been included herein to provide information about funds which make up the statement of financial position. The assets, liabilities and net assets of the Diocese for internal record-keeping purposes are maintained in five self-balancing fund groups as follows:

- DSO Funds include net assets without donor restrictions, designated by Trustees of the Diocese, and restricted resources representing that portion of expendable funds available for the support of Diocesan operations.
- Church Foundation Funds include resources made available by the Trustees of the Diocese for property acquisition, maintenance and improvement, and funds previously expended for property. Church Foundation may award grants to congregations to assist with church property maintenance.
- Bishop's Discretionary Funds are used for Clergy professional development and Clergy emergency assistance. These funds are also used for assisting others experiencing financial hardship, and in support of other charitable efforts and organizations. Funds may be expended on property needs and for other discretionary items.
- Procter Conference Center Funds are used only for the operation of the Diocesan Camp and Conference Center.
- Endowments and Quasi-Endowment Funds represent funds that are subject to restrictions of gift instruments requiring that principal be invested and maintained in perpetuity with only the income and certain appreciation as limited by the donor or the law being available for expenditure. Quasi-endowment funds have been established by the Trustees of the Diocese for the same purposes as endowment funds and are included in this fund group; however, any portion of these funds may be expended.



July 3, 2024

To the Bishop and Trustees  
Diocese of Southern Ohio  
412 Sycamore Street  
Cincinnati, Ohio 45202

We have audited the financial statements of Diocese of Southern Ohio (the Diocese) for the years ended December 31, 2023 and 2022, and we will issue our report thereon dated July 3, 2024. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated March 28, 2024. Professional standards also require that we communicate to you the following information related to our audit.

#### Significant Audit Matters

##### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Diocese of Southern Ohio are described in Note 2 to the financial statements. On January 1, 2023, the Diocese adopted Financial Accounting Standards Board (FASB) Accounting Standard Update (ASU) 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. We noted no transactions entered into by the Diocese during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates relate to actuarial assumptions used for the lay employee benefit plan, the fair value of the Diocese's investments, including the fair value of private equity investments and the collectability of notes receivable. We evaluated the key factors and assumptions used to develop the estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

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

##### *Difficulties Encountered in Performing the Audit*

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

##### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

### *Disagreements with Management*

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

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated July 3, 2024.

### *Management Consultations with Other Independent Accountants*

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

### *Other Audit Findings or Issues*

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

### Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Based on our industry knowledge and observations at the Organization we offer these suggestions for your consideration as the Organization works to continually improve. These observations are not considered to be control deficiencies.

### Artificial Intelligence (AI)

Harnessing AI in your operations could prove to be transformative, offering a myriad of benefits. From enhancing efficiency and accuracy to uncovering invaluable insights from vast datasets, AI is instrumental in optimizing processes, driving innovation, and ultimately, fostering sustainable growth. Its adaptability and ability to automate routine tasks empower teams to focus on strategic initiatives, fostering a culture of creativity and continuous improvement. Embracing AI not only can enhance your competitive edge but also positions you at the forefront of technological advancement in your industry. We recommend committing time to explore the possibilities of AI in your business.

### Internal Controls

As is common in most organizations with a small number of accounting staff, the Diocese has limits to the extent it can segregate duties. We recommend that in this time of transition, that extra attention be applied to the accounting operations from members of management and or the Board of Trustees. Once the accounting team transition is completed, the Diocese should re-evaluate its internal controls to ensure they are operating effectively. Special attention should be made to ensure that duties are properly segregated and that appropriate review controls for financial reporting and journal entries are established.

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

Very truly yours,

*Clark, Schaefer, Hackett & Co.*