

EPISCOPAL DIOCESE OF ROCHESTER

ROCHESTER, NEW YORK

AUDITED FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2015

(With Comparative Totals for 2014)



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

To the Diocesan Trustees of the
Episcopal Diocese of Rochester

Report on the Financial Statements

We have audited the accompanying financial statements of the Episcopal Diocese of Rochester (the "Diocese"), which comprise the statement of financial position as of December 31, 2015, and the related statements of activities and change in net assets and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Basis for Qualified Opinion

The Diocese has not adopted the accounting or disclosure requirements for donor restricted gifts including endowments. In our opinion, all donor restricted gifts should be accounted for as temporarily or permanently restricted to conform with accounting principles generally accepted in the United States of America. The effects of this departure from accounting principles generally accepted in the United States of America on the accompanying financial statements could not be determined.

Qualified Opinion

In our opinion, except for the effects on the matters discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Episcopal Diocese of Rochester as of December 31, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The other financial information (page 22), for the year ended December 31, 2015, 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 audit 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, except for the effects on the other financial information as explained in the Basis for Qualified Opinion paragraph of this report, the information is fairly stated in all material respects in relation to the financial statements as a whole. The information marked “unaudited” has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Report on Summarized Comparative Information

The financial statements of the Episcopal Diocese of Rochester for the year ended December 31, 2014, were audited by another auditor whose report dated August 18, 2015 expressed a qualified opinion on those statements, for the matters described above. The 2014 summarized comparative information presented herein is derived from those audited financial statements.

Mengel, Metzger, Barw & Co. LLP

Rochester, New York
August 2, 2016

EPISCOPAL DIOCESE OF ROCHESTER
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2015
(With Comparative Totals for 2014)

	Unrestricted				Restricted			December 31,	
	Operating	Special Purpose	Real Estate	Total	Endowment	By		Total All Funds	Total All Funds
						Donors	Total		
<u>ASSETS</u>									
Cash and cash equivalents	\$ 243,793	\$ -	\$ -	\$ 243,793	\$ -	\$ 22,305	\$ 22,305	\$ 266,098	\$ 251,006
Mortgage and loans receivable, net	-	297,486	-	297,486	-	728,124	728,124	1,025,610	1,129,266
Prepays and other assets	53,328	-	-	53,328	-	-	-	53,328	42,409
Investments	-	13,186,491	-	13,186,491	3,475,567	2,213,278	5,688,845	18,875,336	19,934,748
Due from (to) other funds	554,083	283,480	-	837,563	-	(837,563)	(837,563)	-	-
Land, buildings and equipment, net	-	-	565,471	565,471	-	-	-	565,471	615,829
TOTAL ASSETS	<u>\$ 851,204</u>	<u>\$ 13,767,457</u>	<u>\$ 565,471</u>	<u>\$ 15,184,132</u>	<u>\$ 3,475,567</u>	<u>\$ 2,126,144</u>	<u>\$ 5,601,711</u>	<u>\$ 20,785,843</u>	<u>\$ 21,973,258</u>
<u>LIABILITIES AND NET ASSETS</u>									
<u>LIABILITIES</u>									
Accounts payable	\$ 17,453	\$ -	\$ -	\$ 17,453	\$ -	\$ -	\$ -	\$ 17,453	\$ 56,952
Accrued liabilities and other	-	-	-	-	-	834	834	834	39,167
TOTAL LIABILITIES	<u>17,453</u>	<u>-</u>	<u>-</u>	<u>17,453</u>	<u>-</u>	<u>834</u>	<u>834</u>	<u>18,287</u>	<u>96,119</u>
<u>NET ASSETS</u>									
Unrestricted	833,751	13,767,457	565,471	15,166,679	-	-	-	15,166,679	15,829,833
Restricted	-	-	-	-	3,475,567	2,125,310	5,600,877	5,600,877	6,047,306
TOTAL NET ASSETS	<u>833,751</u>	<u>13,767,457</u>	<u>565,471</u>	<u>15,166,679</u>	<u>3,475,567</u>	<u>2,125,310</u>	<u>5,600,877</u>	<u>20,767,556</u>	<u>21,877,139</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 851,204</u>	<u>\$ 13,767,457</u>	<u>\$ 565,471</u>	<u>\$ 15,184,132</u>	<u>\$ 3,475,567</u>	<u>\$ 2,126,144</u>	<u>\$ 5,601,711</u>	<u>\$ 20,785,843</u>	<u>\$ 21,973,258</u>

The accompanying notes are an integral part of the financial statements

EPISCOPAL DIOCESE OF ROCHESTER

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2015

(With Comparative Totals for 2014)

	Unrestricted				Restricted			December 31,	
	Operating	Special Purpose	Real Estate	Total	Endowment	By Donors	Total	2015	2014
								Total All Funds	Total All Funds
REVENUE									
Parish Support	\$ 970,888	\$ -	\$ -	\$ 970,888	\$ -	\$ -	\$ -	\$ 970,888	\$ 991,652
Interest on mortgages and loans	69,598	-	-	69,598	-	-	-	69,598	74,468
Other	3,000	-	-	3,000	-	-	-	3,000	20,937
TOTAL REVENUE	1,043,486	-	-	1,043,486	-	-	-	1,043,486	1,087,057
EXPENSES									
Mission outside the Diocese	240,679	-	-	240,679	-	-	-	240,679	242,371
Mission within the Diocese	212,300	-	-	212,300	-	-	-	212,300	255,425
Congregational development	262,841	-	-	262,841	-	-	-	262,841	295,238
Communications	87,871	-	-	87,871	-	-	-	87,871	96,487
Leadership development	88,063	-	-	88,063	-	-	-	88,063	66,616
Governance, committees and missionaries	109,297	-	-	109,297	-	-	-	109,297	95,994
Executive staff	448,701	-	-	448,701	-	-	-	448,701	463,314
Support staff	328,056	-	-	328,056	-	-	-	328,056	420,596
Office Expense	127,674	-	-	127,674	-	-	-	127,674	141,395
Clergy and lay benefits	121,567	-	-	121,567	-	-	-	121,567	125,814
Distributions to beneficiaries	-	-	-	-	-	79,147	79,147	79,147	52,667
Depreciation	-	-	24,316	24,316	-	-	-	24,316	22,748
	<u>2,027,049</u>	<u>-</u>	<u>24,316</u>	<u>2,051,365</u>	<u>-</u>	<u>79,147</u>	<u>79,147</u>	<u>2,130,512</u>	<u>2,278,665</u>
EXPENSES IN EXCESS OF REVENUE	(983,563)	-	(24,316)	(1,007,879)	-	(79,147)	(79,147)	(1,087,026)	(1,191,608)
Loss on disposal of assets	-	-	(60,614)	(60,614)	-	-	-	(60,614)	(3,718)
Loans written off	-	-	-	-	-	(17,500)	(17,500)	(17,500)	-
Transfer of property	-	-	54,078	54,078	-	-	-	54,078	-
Non-operating income (expense)	36,532	-	-	36,532	-	-	-	36,532	(29,856)
Transfer to non-trusteed funds	-	-	-	-	-	-	-	-	(254,644)
Investment income (loss), net	-	122,251	-	122,251	(116,468)	(40,836)	(157,304)	(35,053)	796,056
CHANGE IN NET ASSETS FROM CONTINUING OPERATIONS	(947,031)	122,251	(30,852)	(855,632)	(116,468)	(137,483)	(253,951)	(1,109,583)	(683,770)
Loss on discontinued operations	-	-	-	-	-	-	-	-	(11,589)
CHANGE IN NET ASSETS	(947,031)	122,251	(30,852)	(855,632)	(116,468)	(137,483)	(253,951)	(1,109,583)	(695,359)
Net assets at beginning of year	783,298	14,430,706	615,829	15,829,833	3,774,133	2,273,173	6,047,306	21,877,139	22,572,498
Spending policy transfer	987,880	(805,500)	-	182,380	(172,000)	(10,380)	(182,380)	-	-
Inter-fund transfers	9,604	20,000	(19,506)	10,098	(10,098)	-	(10,098)	-	-
NET ASSETS AT END OF YEAR	\$ 833,751	\$ 13,767,457	\$ 565,471	\$ 15,166,679	\$ 3,475,567	\$ 2,125,310	\$ 5,600,877	\$ 20,767,556	\$ 21,877,139

The accompanying notes are an integral part of the financial statements

EPISCOPAL DIOCESE OF ROCHESTER

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2015

(With Comparative Totals for 2014)

	Unrestricted				Restricted			December 31,	
	Operating	Special Purpose	Real Estate	Total	Endowment	By Donors	Total	2015	2014
								Total All Funds	Total All Funds
<u>CASH FLOWS - OPERATING ACTIVITIES</u>									
Change in net assets	\$ (947,031)	\$ 122,251	\$ (30,852)	\$ (855,632)	\$ (116,468)	\$ (137,483)	\$ (253,951)	\$ (1,109,583)	\$ (695,359)
Adjustments to reconcile change in net assets to net cash used for operating activities:									
Depreciation	-	-	24,316	24,316	-	-	-	24,316	22,748
Realized and unrealized loss (gain) on investments, net	-	(122,251)	-	(122,251)	116,468	40,836	157,304	35,053	(796,056)
Loss on disposal of assets	-	-	60,614	60,614	-	-	-	60,614	3,718
Transfer of property	-	-	(54,078)	(54,078)	-	-	-	(54,078)	-
Changes in certain assets and liabilities affecting operations:									
Inventory	-	-	-	-	-	-	-	-	24,907
Due to (from) other funds	55,347	(99,952)	-	(44,605)	-	44,605	44,605	-	-
Prepays and other assets	(22,003)	11,084	-	(10,919)	-	-	-	(10,919)	1,490
Accounts payable	(25,928)	(12,933)	-	(38,861)	-	(638)	(638)	(39,499)	3,727
Accrued liabilities	(36,399)	-	-	(36,399)	-	(1,934)	(1,934)	(38,333)	(37,573)
NET CASH USED FOR OPERATING ACTIVITIES	(976,014)	(101,801)	-	(1,077,815)	-	(54,614)	(54,614)	(1,132,429)	(1,472,398)
<u>CASH FLOWS - INVESTING ACTIVITIES</u>									
Changes in mortgages and loans receivable, net	-	21,323	-	21,323	-	82,333	82,333	103,656	338,465
Sales (purchases) of investments, net	-	880,408	-	880,408	182,098	(18,147)	163,951	1,044,359	9,870,030
(Purchases) sales of buildings and equipment	-	-	(7,839)	(7,839)	-	-	-	(7,839)	307,707
Proceeds from the sale of buildings and equipment	-	-	7,345	7,345	-	-	-	7,345	-
Spending policy transfer	987,880	(805,500)	-	182,380	(172,000)	(10,380)	(182,380)	-	-
Inter-fund transfer	9,604	-	494	10,098	(10,098)	-	(10,098)	-	-
Change in funds held for others, net	-	-	-	-	-	-	-	-	(9,047,572)
NET CASH PROVIDED FROM INVESTING ACTIVITIES	997,484	96,231	-	1,093,715	-	53,806	53,806	1,147,521	1,468,630
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	21,470	(5,570)	-	15,900	-	(808)	(808)	15,092	(3,768)
Cash and cash equivalents at beginning of year	222,323	5,570	-	227,893	-	23,113	23,113	251,006	254,774
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 243,793	\$ -	\$ -	\$ 243,793	\$ -	\$ 22,305	\$ 22,305	\$ 266,098	\$ 251,006
<u>NON-CASH INVESTING AND FINANCING ACTIVITIES</u>									
Issuance of community development loan receivable associated with sale of buildings and equipment	\$ 20,000	\$ -							

The accompanying notes are an integral part of the financial statements

EPISCOPAL DIOCESE OF ROCHESTER

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015
(With Comparative Totals for 2014)

NOTE A: THE DIOCESE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Diocese

The Episcopal Diocese of Rochester (the “Diocese”) was formed in December 1931. It stretches from Lake Ontario south to Pennsylvania, its east and west borders are formed by the Diocese of Central New York and the Diocese of Western New York. The Diocese comprises Episcopal congregations throughout eight counties in the State of New York. These are Steuben, Allegany, Schuyler, Yates, Livingston, Ontario, Wayne and Monroe Counties. It includes 46 active congregations and several summer and institutional chapels. The Diocesan House, located on East Avenue in Rochester, New York is the administrative center of the Diocese and houses the office of the Bishop.

The vision and mission of the Diocese are described as follows:

- Vision – “Joy in Christ, as a way of life”
- Mission – “Grow and develop congregations spiritually, numerically and in missional leadership”

The Diocese is rich in material and spiritual resources and in people able and willing to use them.

Basis of accounting

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"), except for the items noted below:

	<u>Generally Accepted Accounting Principles</u>	<u>Diocese Accounting Principles</u>
Recording of furniture and fixtures	Capitalized and depreciated	Expensed (or charged to special funds) at time of purchase
Other fixed assets	Capitalized and depreciated	Capitalized, but not depreciated – until 2012
Donor restricted contributions	Donor restricted contributions are to be recorded as temporarily or permanently restricted at the time of donation. Net assets are released from restriction when the donor restriction is satisfied.	Use of Fund Accounting
Endowments	The composition of, and activity related to, endowment funds are required to be disclosed, as well as the related spending policy, investment return objectives and other information related to managing the endowment.	Disclosure is omitted

EPISCOPAL DIOCESE OF ROCHESTER

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2015
(With Comparative Totals for 2014)

NOTE A: THE DIOCESE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

The Diocese has not adopted financial reporting practices to reflect the classification of its net assets and activities as unrestricted, temporarily restricted or permanently restricted in conformity with GAAP. Rather, it uses the principles of fund accounting consistent with its historical practice. In addition, the financial statements do not include a disclosure providing the composition of, and activity related to endowment funds, as well as the related spending policy, investment return objectives and other information related to managing the endowment which are required by GAAP. The effects of these departures from GAAP in the accompanying financial statements could not be determined.

Financial statement presentation

The assets, liabilities, and net assets of the Diocese are classified as follows:

Unrestricted: Represents net assets available for use without any donor-imposed restrictions. The following unrestricted funds are maintained by the Diocese:

Operating: This fund is used to account for all resources which are intended for current operating activities. In addition, a significant portion of the income from investments held in other funds is transferred to the operating fund to support operations.

Special Purpose: This fund includes the General Endowment investments and Housing Loan Fund.

Real Estate: This fund includes the Diocese's net investment in land, buildings and equipment.

Restricted: Represents net assets that have donor-imposed restrictions that require the Diocese to treat the donated asset as specified. The following restricted funds are maintained by the Diocese:

Endowment: This fund consists of permanent endowments contributed to the Diocese, the earnings from which are available to support operating activities.

By Donors: This fund consists of amounts that are restricted by the donor for a specified purpose, as well as amounts belonging to parishes in the Diocese deposited with the Diocese for investment management purposes

Cash and cash equivalents

Cash balances are maintained at various financial institutions located in Upstate New York and are insured by the FDIC up to \$250,000 at each institution. In the normal course of business, the cash account balances at any given time may exceed insured limits. However, the Diocese has not experienced any losses in such accounts and does not believe it is exposed to significant risk in cash.

EPISCOPAL DIOCESE OF ROCHESTER

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2015
(With Comparative Totals for 2014)

NOTE A: THE DIOCESE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

Mortgages and loans receivable

Mortgages and loans receivable represent amounts due to the Diocese under loan agreements with parishes. Loans are stated at unpaid principal balances, less an allowance for loan losses. The Diocese periodically evaluates the loan for collectability based on inherent collection risks and adverse situations that may affect the borrower's ability to repay. Loans for which no contractual payments have been received for a period of time are considered delinquent. After all collection efforts are exhausted, any amounts deemed uncollectible based upon an assessment of the debtor's financial condition are written off. The Diocese believes that no allowance for loan loss is necessary at December 31, 2015 and 2014.

Loans are placed on nonaccrual status when management believes collection of interest is doubtful. As of December 31, 2015 and 2014, the Diocese did not have any loans on nonaccrual status.

Investments

Investments are stated at fair value. The fair value of all debt and equity securities with readily determinable fair values are based on quotations obtained from national security agencies. The alternative investments, which are not readily marketable, are carried at estimated fair values as provided by the investment managers. The Diocese reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments. Those estimated fair values may differ significantly from the values that would have been used had a market for these securities existed. The Diocese's investment in Community Development mortgages and loans receivable are carried at historical cost. Due to the risk associated with certain investment securities, it is at least reasonably possible that changes in the fair value of investment securities will occur in the near-term and that such changes could materially affect the amounts reported in the accompanying financial statements.

Land, buildings and equipment

Land, buildings and equipment of the Diocese are stated at cost. However, missions (parish churches, which are not self-supporting) and other properties which were reverted back to the Diocese are recorded at the appraised value or estimated fair value at the time the Diocese obtained possession of the property. The Diocese's policy is to capitalize property and equipment in excess of \$1,000 which have a useful life of greater than three years. Beginning in 2012, depreciation expense is computed using the straight-line method over the estimated useful lives of the related assets, which are as follows:

Buildings and building improvements	40 Years
Equipment	3-10 Years

Tax exempt status

The Diocese is a not-for-profit corporation and is exempt from income taxes as a religious organization. The Diocese has also been classified by the Internal Revenue Service as an entity that is not a private foundation.

EPISCOPAL DIOCESE OF ROCHESTER

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2015
(With Comparative Totals for 2014)

NOTE A: THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

Revenue

The Diocese recognizes revenue when it is realized or realizable and has been earned. Investment gain (loss) includes interest and dividends earned during the period as well as realized and unrealized gains and losses on investment, net of investment expense.

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from these estimates.

Comparative totals as of December 31, 2014

The accompanying financial statements include certain prior year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with The Diocese's financial statements that the year ended December 31, 2014, from which the summarized information was derived.

Subsequent events

The Diocese has conducted an evaluation of potential subsequent events occurring after the statement of financial position date through August 2, 2016, which is the date the financial statements are available to be issued. No subsequent events requiring disclosure were noted.

NOTE B: MORTGAGES AND LOANS RECEIVABLE

Mortgages and loans receivable consisted of the following as of December 31:

	<u>2015</u>	<u>2014</u>
<u>Unrestricted</u>		
Clergy housing loan fund	<u>\$ 297,486</u>	<u>\$ 318,809</u>
 <u>Restricted</u>		
Sibley revolving loan fund	728,124	792,957
Bishop's revolving loan fund	-	17,500
	<u>728,124</u>	<u>810,457</u>
	<u>\$ 1,025,610</u>	<u>\$ 1,129,266</u>

EPISCOPAL DIOCESE OF ROCHESTER

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2015
(With Comparative Totals for 2014)

NOTE B: MORTGAGES AND LOANS RECEIVABLE, Cont'd

Mortgages and loans receivable bear interest at rates ranging from 2.5% to 3.75% and mature at various dates through August 2032. Approximately \$297,000 and \$319,000 of the balance of the receivables outstanding at December 31, 2015 and 2014, respectively, are secured by first and second mortgages. All remaining amounts outstanding are unsecured.

Interest on mortgages and loans is recognized over the term of the mortgage or loan and is calculated using the simple-interest method on principal amounts outstanding.

Principal payments due to be received on mortgages and loans receivable are as follows:

<u>For the year ended December 31,</u>	<u>Amount</u>
2016	\$ 124,754
2017	76,387
2018	77,133
2019	77,455
2020	78,233
Thereafter	<u>591,648</u>
	<u>\$ 1,025,610</u>

NOTE C: INVESTMENTS

Investments in the accompanying statement of financial position consisted of the following:

	<u>December 31,</u>	
	<u>2015</u>	<u>2014</u>
Diocesan Trusteed portion of Combined Endowment at GVT	\$ 17,479,249	\$ 15,303,365
Cutler Trust Investment:		
Money market fund	-	3,189,168
Other Investments, not at fair value:		
Community development loans	<u>1,396,087</u>	<u>1,442,215</u>
	<u>\$ 18,875,336</u>	<u>\$ 19,934,748</u>

EPISCOPAL DIOCESE OF ROCHESTER

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2015
(With Comparative Totals for 2014)

NOTE C: INVESTMENTS, Cont'd

Other investments are carried at cost and represent the Diocese's investment in community development initiatives in the form of interest-bearing loans that have been approved by the Diocesan Trustees. The Diocese is authorized by the Trustees to loan up to 10% of its unrestricted endowment fund in fixed rate loans for community development purposes. These loans are considered investments for purposes of the Diocese's investment spending policy and bear interest at 2.5%.

Prior to January 2014, the Diocese served as the intermediary custodian of funds held for the benefit of certain congregations and other organizations. As intermediary custodian, the Diocese served as a fiscal intermediary for the parishes to administratively transact their funds. These funds are invested with Genesee Valley Trust (GVT), the custodian of the Diocesan Combined Endowment, with investment income allocated to the benefit of each congregation or organization. Prior to January 2014, the Diocesan balance sheet included the entire asset value of the GVT Combined Endowment. Effective January 2014, GVT moved to direct administration of investment deposits, withdrawals and other transactions with the congregations in the Diocesan Combined Endowment, and as such, the Diocese did not serve as intermediary custodian of the funds subsequent to this change. The Diocese removed the investments of these parishes and congregations, and the related Funds Held for Others liability, from their financial statements. In 2014, and there was no effect on net assets. However, these funds continue to be invested together at GVT. The following investment and fair value disclosures pertain to the total fund at GVT.

The composition of the Combined Endowment Fund at GVT is as follows at December 31:

	<u>December 31,</u>	
	<u>2015</u>	<u>2014</u>
Diocesan funds	\$ 15,794,908	\$ 13,599,295
Parishes and other organizations for which the Diocese is Trustee	<u>1,684,341</u>	<u>1,704,070</u>
Total Diocesan Trusteed Combined Endowment at GVT	17,479,249	15,303,365
 Non-Trusteed funds belonging to other parishes in the Diocese	<u>7,278,580</u>	<u>8,026,465</u>
Total Combined Endowment at GVT	<u>\$ 24,757,829</u>	<u>\$ 23,329,830</u>

EPISCOPAL DIOCESE OF ROCHESTER

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2015
(With Comparative Totals for 2014)

NOTE C: INVESTMENTS, Cont'd

The fair value of investments in the Combined Endowment Fund held by the GVT on behalf of the Diocese and Individual parishes in the Diocese consisted of the following:

	December 31,	
	<u>2015</u>	<u>2014</u>
Investments, stated at fair value:		
Money market funds	\$ 734,413	\$ 898,100
U.S. government obligations	1,253,856	1,507,638
Common trust funds	3,951,353	3,903,078
Corporate bonds	1,724,354	1,412,981
Fixed income mutual funds	1,506,269	859,805
Small cap mutual funds	898,792	-
Equity mutual funds	460,589	448,636
Common stock	11,364,888	12,475,078
REITS	187,691	164,113
Alternative institutional fund	915,451	-
Alternative investments	<u>1,760,173</u>	<u>1,660,401</u>
 Total GVT Combined Endowment	 <u>\$ 24,757,829</u>	 <u>\$ 23,329,830</u>

The Diocese owns a 71% and 66% pro-rata share of each individual investment class above as of December 31, 2015 and 2014, respectively.

EPISCOPAL DIOCESE OF ROCHESTER

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2015
(With Comparative Totals for 2014)

NOTE C: INVESTMENTS, Cont'd

Investment income (loss)

The Diocese recorded the following investment income (loss) on both the Diocesan Trusteed GVT Combined Endowment and Cutler Trust for the years ended:

	<u>December 31, 2015</u>		
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Interest and dividend income	\$ 205,608	\$ 97,831	\$ 303,439
Gain (loss) on investments	85,438	(202,243)	(116,805)
Investment related expenses	<u>(168,795)</u>	<u>(52,892)</u>	<u>(221,687)</u>
	<u>\$ 122,251</u>	<u>\$ (157,304)</u>	<u>\$ (35,053)</u>

	<u>December 31, 2014</u>		
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Interest and dividend income	\$ 183,587	\$ 99,371	\$ 282,958
Gain on investments	535,822	225,864	761,686
Investment related expenses	<u>(147,150)</u>	<u>(101,438)</u>	<u>(248,588)</u>
	<u>\$ 572,259</u>	<u>\$ 223,797</u>	<u>\$ 796,056</u>

The Trustees of the Diocese intend to reduce the spending rate over the next 5 years to approximately 5% of the trailing, 5-year average of the audited, year-end, market value of endowment assets. The market value of these assets is inclusive of the Cutler Trusts, as well as the year-end balance of the Diocesan loan and mortgage assets.

EPISCOPAL DIOCESE OF ROCHESTER

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2015
(With Comparative Totals for 2014)

NOTE D: FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are as follows:

- Level 1* Financial assets valued using level 1 inputs are based on unadjusted quoted market prices within active markets. Investments included in level 1 may include equity securities, mutual funds, and exchange traded funds.
- 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 that are unobservable and significant to the fair value measurement. The asset 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 maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at December 31, 2015 and 2014:

Money market funds, U.S government obligations, fixed income mutual funds, equity mutual funds, common stock and real estate investment trusts (REITS): Valued at the closing price reported on the active market on which the individual funds are traded.

Corporate bonds: Valued by third party brokers based on terms and conditions using trades, bid price or spread, two sided markets, quotes, benchmark curves, discount rates, financial statements and trustee reports.

EPISCOPAL DIOCESE OF ROCHESTER

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2015
(With Comparative Totals for 2014)

NOTE D: FAIR VALUE MEASUREMENTS, Cont'd

Common trust funds (Level two): Valued at net asset value provided by the underlying fund managers. The following is a description of the fund:

Silchester International Investors International Value Equity Trust - The Trust is a Delaware Statutory Trust investing in a diversified portfolio of equity securities of companies ordinarily incorporated in any country other than the United States for an opportunity to obtain long-term capital gains and income. Redemptions are permitted on a monthly basis as of the first business day of each month. As of December 31, 2015 and 2014, the Diocese had no unfunded commitments related to this investment.

Alternative institutional fund (Level two): Valued at the Diocese's share of the net asset value of funds the Diocese is invested in. Management has determined to use the net asset value as a practical expedient to determining fair value. The following is a description of the alternative institutional fund:

Pine Grove Alternative Institutional Fund - The Fund is a Delaware statutory trust registered as a non-diversified, closed end management investment company offering shares of beneficial interest at net asset value per share. The investment objective of the Fund is to seek long-term capital appreciation. Redemptions are permitted on a monthly basis based on a restriction period of up to ten months. As of December 31, 2015, the Diocese had no unfunded commitments related to this investment.

Alternative investments (Level three): Valued at fair value utilizing valuations provided by the underlying fund managers. The market value of the underlying investments in the funds are valued based on unobservable inputs. The following is a description of the alternative investment:

Broadstone Net Lease, LLC - The Company is a real estate investment trust focused on investing in income-producing, net leased commercial properties. The Company owns commercial properties in the United States and leases the properties to businesses under the terms of long-term lease arrangements. As of December 31, 2015 and 2014, the Diocese had no unfunded commitments to this LLC. The Diocese can redeem shares quarterly; however, the investment is subject to redemption restrictions. If the investment has been held for more than 5 years, then the investor can redeem shares at 100% of the determined share value. If the investment has been held for less than 5 years, but greater than 1 year, there is a 5% penalty, (i.e. the investor receives 95% of the determined share value). Investments held for less than 1 year cannot be redeemed (i.e. 1 year lock up). The max redemption per quarter is 1% of shares outstanding at the start of the year PLUS 50% of reinvested dividends in the previous quarter. Broadstone can decide to redeem up to 5% of shareholder's allocation at any time within each calendar year.

Additionally, investors are prohibited from submitting a request to redeem the result of which if honored, would leave a remaining investment by the shareholder of less than (a) 500 shares if the initial investment was made prior to October 1, 2009; or (b) 5,000 shares if the initial investment by the shareholder was made from October 1, 2009 to January 31, 2011; or (c) \$250,000 of shares (pursuant to the Determined Share Value in effect at the time of the transfer) if the initial investment was made after January 31, 2011.

EPISCOPAL DIOCESE OF ROCHESTER

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2015
(With Comparative Totals for 2014)

NOTE D: FAIR VALUE MEASUREMENTS, Cont'd

The preceding methods described 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 instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level within the fair value hierarchy, the assets held in the GVT Combined Endowment Fund at fair value at December 31, 2015 and 2014:

	December 31, 2015			Total
	Level 1	Level 2	Level 3	
Money market funds	\$ 734,413	\$ -	\$ -	\$ 734,413
U.S. government obligations	1,253,856	-	-	1,253,856
Common trust funds	-	3,951,353	-	3,951,353
Corporate bonds	-	1,724,354	-	1,724,354
Fixed income mutual funds	1,506,269	-	-	1,506,269
Small cap mutual funds	898,792	-	-	898,792
Equity mutual funds	460,589	-	-	460,589
Common stock	11,364,888	-	-	11,364,888
REITS	187,691	-	-	187,691
Alternative institutional fund	-	915,451	-	915,451
Alternative investments	-	-	1,760,173	1,760,173
	<u>\$ 16,406,498</u>	<u>\$ 6,591,158</u>	<u>\$ 1,760,173</u>	<u>\$ 24,757,829</u>
	December 31, 2014			Total
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 898,100	\$ -	\$ -	\$ 898,100
U.S. government obligations	1,507,638	-	-	1,507,638
Common trust funds	-	3,903,078	-	3,903,078
Corporate bonds	-	1,412,981	-	1,412,981
Fixed income mutual funds	859,805	-	-	859,805
Equity mutual funds	448,636	-	-	448,636
Common stock	12,475,078	-	-	12,475,078
REITS	164,113	-	-	164,113
Alternative investments	-	-	1,660,401	1,660,401
	<u>\$ 16,353,370</u>	<u>\$ 5,316,059</u>	<u>\$ 1,660,401</u>	<u>\$ 23,329,830</u>

EPISCOPAL DIOCESE OF ROCHESTER

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2015
(With Comparative Totals for 2014)

NOTE D: FAIR VALUE MEASUREMENTS, Cont'd

The following is a reconciliation of the beginning and ending balances for the Diocese's investments which are measured at fair value using significant unobservable Inputs (Level 3):

<u>Alternative Investments</u>	
	Balance at January 1, 2014
	\$ 1,402,580
Purchases	94,872
Gain on investment	162,949
	<hr/>
	Balance at December 31, 2014
	1,660,401
Purchases	111,595
Loss on investment	(11,823)
	<hr/>
	Balance at December 31, 2015
	\$ <u>1,760,173</u>

NOTE E: LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consists of the following:

	<u>December 31,</u>	
	<u>2015</u>	<u>2014</u>
Land	\$ 176,216	\$ 169,600
Buildings and improvements	1,743,696	1,971,405
Equipment	180,361	175,194
	<hr/>	<hr/>
	2,100,273	2,316,199
Less accumulated depreciation	1,534,802	1,700,370
	<hr/>	<hr/>
	\$ <u>565,471</u>	\$ <u>615,829</u>

EPISCOPAL DIOCESE OF ROCHESTER

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2015
(With Comparative Totals for 2014)

NOTE F: RETIREMENT AND BENEFIT PLANS

Retirement Plans

Diocesan clergy participate in the Church Pension Fund of the National Episcopal Church. Under the terms of this plan, the Diocese contributes 18% of each employee's salary to the plan. Employer contributions were approximately \$47,607 and \$48,707 for the years ended December 31, 2015 and 2014, respectively.

The Diocese sponsors a defined contribution plan for full-time lay employees. Under the terms of this plan, the Diocese contributes up to 12% of each employee's salary to the plan. In addition, employees are allowed to make elective tax-deferred contributions. Employer contributions were approximately \$45,571 and \$57,620 for the years ended December 31, 2015 and 2014, respectively.

Postretirement Health Insurance Benefits

On an annual basis the Diocese determines what amount, if any, it will make available to pay health insurance benefits on behalf of its retired clergy, partners and Diocesan staff. The Diocese records an expense for these plans as insurance premiums are paid. Expense related to these plans totaled \$95,372 and \$93,290 for the years ended December 31, 2015 and 2014, respectively.

EPISCOPAL DIOCESE OF ROCHESTER

OTHER FINANCIAL INFORMATION

EPISCOPAL DIOCESE OF ROCHESTER

COMPARISON OF BUDGET TO ACTUAL OPERATING REVENUE AND EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2015

	Budget Approved by Diocesan Convention as Revised (Unaudited)	Actual	Actual Over/Under Budget
<u>REVENUE</u>			
Parish Support	\$ 971,203	\$ 970,888	\$ (315)
Investment spending policy	1,092,500	987,880	(104,620)
Interest on mortgages and loans	81,000	69,598	(11,402)
Other	3,000	3,000	-
	<u>2,147,703</u>	<u>2,031,366</u>	<u>(116,337)</u>
<u>EXPENSES</u>			
Mission outside the Diocese	240,663	240,679	16
Mission within the Diocese	211,450	212,300	850
Congregational development	260,500	262,841	2,341
Communications	102,470	87,871	(14,599)
Leadership development	110,500	88,063	(22,437)
Governance, committees and missionaries	103,950	109,297	5,347
Executive staff	447,680	448,701	1,021
Support staff	384,490	328,056	(56,434)
Office Expense	145,000	127,674	(17,326)
Clergy and lay benefits	141,000	121,567	(19,433)
Total operating expenses	2,147,703	2,027,049	(120,654)
Non-operating (expense) income	<u>(57,500)</u>	<u>36,532</u>	<u>94,032</u>
(Loss) income from operating fund	<u>\$ (57,500)</u>	<u>\$ 40,849</u>	<u>\$ 98,349</u>