EPISCOPAL DIOCESE OF ROCHESTER

Financial Statements as of
December 31, 2014
Together with
Independent Auditor's Report

Bonadio & Co., LLP
Certified Public Accountants

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Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

August 18, 2015

To the Diocesan Trustees of the
Episcopal Diocese of Rochester:

Report on Financial Statements
We have audited the accompanying financial statements of the Episcopal Diocese of Rochester (the Diocese), which comprise the balance sheet as of December 31, 2014, and the related statements of revenue, expenses and changes 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.

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(Continued)

INDEPENDENT AUDITOR'S REPORT
(Continued)

Basis for Qualified Opinion
As more fully described in Note 2 to the financial statements, 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 effect of this departure is not reasonably determinable.

Qualified Opinion
In our opinion, except for the effects of the matters discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Episcopal Diocese of Rochester as of December 31, 2014, 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.

Report on Summarized Comparative Information
We have previously audited the Episcopal Diocese of Rochester's 2013 financial statements, and we expressed a qualified audit opinion, for the matters described above, on those audited financial statements in our report dated August 15, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Supplementary Information
Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental Comparison of Budget to Actual Operating Revenue and Expenses in Exhibit I, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information, except for that portion marked "unaudited," was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. That 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 Exhibit of the qualified opinion on the financial statements as described above, such 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.

Bonadio & Co., LLP

EPISCOPAL DIOCESE OF ROCHESTER

BALANCE SHEET
DECEMBER 31, 2014
(With Comparative Totals for 2013)

	2014								
	Unrestricted				Restricted				
	Operating	Special Purpose	Real Estate	Total	Endowment	By Donors	Total	Total All Funds	2013 Total All Funds
ASSETS									
CASH	$ 222,323	$ 5,570	$ -	$ 227,893	$ -	$ 23,113	$ 23,113	$ 251,006	$ 254,774
MORTGAGES AND LOANS RECEIVABLE	-	318,809	-	318,809	-	810,457	810,457	1,129,266	1,467,731
PREPAIDS AND OTHER ASSETS	31,325	11,084	-	42,409	-	-	-	42,409	44,349
BOOK STORE INVENTORIES	-	-	-	-	-	-	-	-	13,318
INVESTMENTS	-	13,924,648	-	13,924,648	3,774,133	2,235,967	6,010,100	19,934,748	29,020,311
DUE (TO) FROM OTHER FUNDS	609,430	183,528	-	792,958	-	(792,958)	(792,958)	-	-
LAND, BUILDINGS AND EQUIPMENT, net	-	-	615,829	615,829	-	-	-	615,829	950,002
	$ 863,078	$ 14,443,639	$ 615,829	$ 15,922,546	$ 3,774,133	$ 2,276,579	$ 6,050,712	$ 21,973,258	$ 31,750,485
LIABILITIES AND NET ASSETS									
LIABILITIES:									
ACCOUNTS PAYABLE	$ 43,381	$ 12,933	$ -	$ 56,314	$ -	$ 638	$ 638	$ 56,952	$ 53,037
ACCRUED LIABILITIES AND OTHER	36,399	-	-	36,399	-	2,768	2,768	39,167	77,378
FUNDS HELD FOR OTHERS	-	-	-	-	-	-	-	-	9,047,572
	79,780	12,933	-	92,713	-	3,406	3,406	96,119	9,177,987
NET ASSETS:									
Unrestricted	783,298	14,430,706	615,829	15,829,833	-	-	-	15,829,833	16,272,412
Restricted	-	-	-	-	3,774,133	2,273,173	6,047,306	6,047,306	6,300,086
Total net assets	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
	$ 863,078	$ 14,443,639	$ 615,829	$ 15,922,546	$ 3,774,133	$ 2,276,579	$ 6,050,712	$ 21,973,258	$ 31,750,485

The accompanying notes are an integral part of these statements.

EPISCOPAL DIOCESE OF ROCHESTER

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2014
(With Comparative Totals for 2013)

	2014								
	Unrestricted				Restricted				2013
	Operating	Special Purpose	Real Estate	Total	Endowment	By Donors	Total	Total All Funds	Total All Funds
REVENUE:									
Parish support	$ 991,652	$ -	$ -	$ 991,652	$ -	$ -	$ -	$ 991,652	$ 1,008,258
Contributions	-	-	-	-	-	-	-	-	4,598
Book store	-	-	-	-	-	-	-	-	84,467
Interest on mortgages and loans	74,468	-	-	74,468	-	-	-	74,468	84,504
Other	20,937	-	-	20,937	-	-	-	20,937	60,907
	1,087,057	-	-	1,087,057	-	-	-	1,087,057	1,242,734
EXPENSES:									
Mission outside the Diocese	242,371	-	-	242,371	-	-	-	242,371	240,047
Mission within the Diocese	255,425	-	-	255,425	-	-	-	255,425	289,395
Congregational Development	295,238	-	-	295,238	-	-	-	295,238	361,974
Communications	96,487	-	-	96,487	-	-	-	96,487	97,279
Leadership Development	66,616	-	-	66,616	-	-	-	66,616	48,662
Governance, Committees and Missioners	95,994	-	-	95,994	-	-	-	95,994	116,436
Executive staff	463,314	-	-	463,314	-	-	-	463,314	450,603
Support staff	420,596	-	-	420,596	-	-	-	420,596	423,918
Office expense	141,395	-	-	141,395	-	-	-	141,395	141,316
Clergy and Lay benefits	125,814	-	-	125,814	-	-	-	125,814	138,325
Nonoperating expense	29,856	-	-	29,856	-	-	-	29,856	131,487
Distributions to parishes	-	-	-	-	-	52,667	52,667	52,667	45,020
Depreciation	-	-	22,748	22,748	-	-	-	22,748	26,794
Book store	-	-	-	-	-	-	-	-	85,166
	2,233,106	-	22,748	2,255,854	-	52,667	52,667	2,308,521	2,596,422
EXCESS OF REVENUE OVER EXPENSES	(1,146,049)	-	(22,748)	(1,168,797)	-	(52,667)	(52,667)	(1,221,464)	(1,353,688)
LOSS ON IMPAIRMENT OF ASSET	-	-	(3,718)	(3,718)	-	-	-	(3,718)	(118,499)
TRANSFER TO NON-TRUSTEED FUNDS	-	-	-	-	-	(254,644)	(254,644)	(254,644)	(587,798)
INVESTMENT INCOME, net	-	572,259	-	572,259	103,318	120,479	223,797	796,056	3,277,798
CHANGE IN NET ASSETS FROM CONTINUING OPERATIONS	(1,146,049)	572,259	(26,466)	(600,256)	103,318	(186,832)	(83,514)	(683,770)	1,217,813
LOSS ON DISCONTINUED OPERATIONS (NOTE 3)	-	(11,589)	-	(11,589)	-	-	-	(11,589)	-
CHANGE IN NET ASSETS	(1,146,049)	560,670	(26,466)	(611,845)	103,318	(186,832)	(83,514)	(695,359)	1,217,813
NET ASSETS - beginning of year	418,693	14,903,717	950,002	16,272,412	3,806,671	2,493,415	6,300,086	22,572,498	21,354,685
INTER-FUND TRANSFERS	307,707	-	(307,707)	-	-	-	-	-	-
SPENDING POLICY TRANSFER	1,202,947	(1,033,681)	-	169,266	(135,856)	(33,410)	(169,266)	-	-
NET ASSETS - end 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

The accompanying notes are an integral part of these statements.

EPISCOPAL DIOCESE OF ROCHESTER

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2014
(With Comparative Totals for 2013)

	2014								2013
	Unrestricted				Restricted				
	Operating	Special Purpose	Real Estate	Total	Endowment	By Donors	Total	Total All Funds	Total All Funds
CASH FLOW FROM OPERATING ACTIVITIES:									
Change in net assets	$ (1,146,049)	$ 572,259	$ (26,466)	$ (600,256)	$ 103,318	$ (186,832)	$ (83,514)	$ (683,770)	$ 1,217,813
Adjustments to reconcile change in net assets to net cash flow from operating activities:									
Depreciation	-	-	22,748	22,748	-	-	-	22,748	26,794
Loss (gain) on investments, net	-	(572,259)	-	(572,259)	(103,318)	(120,479)	(223,797)	(796,056)	(3,277,798)
Loss on disposal of asset	-	-	3,718	3,718	-	-	-	3,718	120,317
Changes in:									
Book store inventories	-	13,318	-	13,318	-	-	-	13,318	3,004
Due to (from) other funds	(481,823)	558,245	-	76,422	-	(76,422)	(76,422)	-	-
Prepaids and other assets	11,811	(10,321)	-	1,490	-	-	-	1,490	13,011
Accounts payable	(2,980)	6,707	-	3,727	-	-	-	3,727	(4,682)
Accrued liabilities	(40,881)	-	-	(40,881)	-	3,308	3,308	(37,573)	(15,716)
Net cash flow from operating activities	(1,659,922)	567,949	-	(1,091,973)	-	(380,425)	(380,425)	(1,472,398)	(1,917,257)
CASH FLOW FROM INVESTING ACTIVITIES:									
Change in mortgages and loans receivable, net	147,378	114,662	-	262,040	-	76,425	76,425	338,465	58,737
Sales (purchases) of investments, net	-	349,192	-	349,192	135,856	9,384,982	9,520,838	9,870,030	(686,485)
Sales (purchases) of buildings and equipment	-	-	307,707	307,707	-	-	-	307,707	(1,060)
Spending policy transfer	1,202,947	(1,033,681)	-	169,266	(135,856)	(33,410)	(169,266)	-	-
Inter-fund transfers	307,707	-	(307,707)	-	-	-	-	-	-
Change in funds held for others, net	-	-	-	-	-	(9,047,572)	(9,047,572)	(9,047,572)	2,519,499
Net cash flow from investing activities	1,658,032	(569,827)	-	1,088,205	-	380,425	380,425	1,468,630	1,890,691
CHANGE IN CASH	(1,890)	(1,878)	-	(3,768)	-	-	-	(3,768)	(26,566)
CASH - beginning of year	224,213	7,448	-	231,661	-	23,113	23,113	254,774	281,340
CASH - end of year	$ 222,323	$ 5,570	$ -	$ 227,893	$ -	$ 23,113	$ 23,113	$ 251,006	$ 254,774

The accompanying notes are an integral part of these statements.

1. ORGANIZATION

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, 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting
The Diocese follows the accounting principles generally accepted in the United States, except for the items described below.

	Generally Accepted Accounting Principles	Diocese Accounting Principles
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
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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

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. Rather, it uses the principles of fund accounting consistent with its historical practice. Accounting principles generally accepted in the United States requires that the classification of net assets and activities be based on donor wishes and include unrestricted, temporarily and permanently restricted classifications. The effect of this departure from generally accepted accounting principles is not reasonably determinable.

Financial Reporting

The Diocese's assets, liabilities and net assets are classified as follows:

- **Unrestricted**

  Unrestricted net assets are 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, Housing Loan Fund and book store operations.

  - **Real Estate**

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

- **Restricted**

  Restricted net assets 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.

Comparative Information

The financial statements include certain prior year summarized comparative information in total but not by net asset category. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Diocese's financial statements for the year ended December 31, 2013, from which the summarized information was derived.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash

Cash consists of bank demand deposit and money market accounts which, at times, may exceed federally insured limits. The Diocese has not experienced any losses related to cash and believes it is not exposed to any significant credit risk with respect to these balances.

Mortgages and Loans Receivable

Mortgages and loans receivable represent amounts due to the Diocese under loan agreements. 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. As of December 31, 2014 and 2013, the Diocese determined that an allowance is not necessary.

Loans are placed on nonaccrual status when management believes collection of interest is doubtful. As of December 31, 2014 and 2013, the Diocese did not have any loans on nonaccrual status.

Book Store Inventories

Inventory was stated at the lower of cost, as determined on the first-in, first-out basis, or market.

Investments

Investments consist of various items stated at fair value as well as certain money market funds that are stated at cost, which approximate fair value. The Diocese's investment in Community Development mortgages and loans receivable are carried at historical cost.

Investment securities are exposed to various risks, such as interest rate, market economic conditions, world affairs and credit risks. Due to the level of risk associated with certain investment securities, it is possible that changes in their values could occur in the near term and such changes could materially affect the net assets of the Diocese.

Fair Value Measurement - Definition and Hierarchy

The Diocese uses various valuation techniques in determining fair value. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Diocese. Unobservable inputs are inputs that reflect the Diocese's assumptions about the estimates market participants would use in pricing the asset or liability, developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

- Level 1 - Valuations based on quoted prices in active markets for identical assets or liabilities that the Diocese has the ability to access. Valuation adjustments are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurement - Definition and Hierarchy (Continued)

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. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Land, Buildings, and Equipment

In addition to the Diocesan House, the Diocese owns certain missions (parish churches, which are not self-supporting) and other properties. These properties were brought under general ledger control of the Diocese on January 1, 1973, and were recorded on its balance sheet at their appraised replacement value. The appraisal included only buildings and equipment. Land has been recorded at cost.

The Diocese capitalizes additional land, buildings, and equipment purchases greater than $1,000 with an estimated useful life exceeding three (3) years. Beginning in 2012, depreciation expense is recognized over the assets estimated useful lives which range from 3-40 years.

Income Taxes

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.

For tax-exempt entities, their tax-exempt status itself is deemed to be an uncertainty, since events could potentially occur to jeopardize their tax-exempt status. As of December 31, 2014 and 2013, the Diocese does not have a liability for unrecognized tax benefits.

Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Reclassifications

Certain 2013 amounts have been reclassified to conform to the 2014 presentation.

3. DISCONTINUED OPERATION

In 2014, the Diocese made a decision to discontinue the operations of the Good Book Store. The related inventory and other assets and liabilities of the book store have been disposed of. The accompanying financial statements reflect the operating loss of the book store in 2014. In addition the Diocese subsidized the operations of the book store in the amount of $32,000 in 2014.

4. MORTGAGES AND LOANS RECEIVABLE

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

	2014	2013
Unrestricted:		
Clergy Housing loan fund	$ 318,809	$ 580,849
Restricted:		
Sibley revolving loan fund	792,957	869,382
Bishop's revolving loan fund	17,500	17,500
Total restricted funds	810,457	886,882
	$ 1,129,266	$ 1,467,731

Mortgages and loans receivable bear interest at rates ranging from 2.5% to 3.75% and mature at various dates through June 2032. Approximately $318,000 and $581,000 of the balance of the receivables outstanding at December 31, 2014 and 2013, 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.

As of December 31, 2014 and 2013, there were no other receivables that were past due or on non-accrual status.

Principal payments due to be received on mortgages and loans receivable are as follows for the years ending December 31:

2015	$ 150,459
2016	92,512
2017	76,437
2018	72,994
2019	68,312
Thereafter	668,552
	$ 1,129,266

5. INVESTMENTS

The Diocese's investments in the accompanying balance sheet are as follows at December 31, 2014:

Diocesan Trusteed portion of Combined Endowment at GVT	$ 15,303,365
Cutler Trust Investments:	
Money market fund	3,189,168
Other Investments, not at fair value:	
Community development loans	1,442,215
	$ 19,934,748

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:

	2014	2013
Diocesan funds	$ 13,599,295	$ 13,263,267
Parishes and other organizations for which the Diocese is Trustee	1,704,070	1,948,668
Total Diocesan Trusteed Combined Endowment at GVT	15,303,365	15,211,935
Non-Trusteed funds belonging to other parishes in the Diocese	8,026,465	9,047,572
Total Combined Endowment at GVT	$ 23,329,830	$ 24,259,507

5. INVESTMENTS (Continued)

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 at December 31:

	2014	2013
Investments, stated at fair value:		
Money market funds	$ 898,100	$ 675,828
U.S. government obligations	1,507,638	1,242,489
Common trust funds	3,903,078	4,485,377
Corporate bonds	1,412,981	1,341,171
Fixed income mutual funds	859,805	1,421,498
Equity mutual funds	448,636	524,677
Common stock	12,475,078	13,165,887
REITS	164,113	-
Alternative investments	1,660,401	1,402,580
Total GVT Combined Endowment	$ 23,329,830	$ 24,259,507

The Diocese owns a pro-rata share (66%) of each individual investment class above.

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 December 31:

	2014			2013		
	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
Interest and dividend income	$ 183,587	$ 99,371	$ 282,958	$ 169,996	$ 106,157	$ 276,153
Gain (loss) on investments	535,822	225,864	761,686	2,206,444	998,703	3,205,147
Investment related expenses	(147,150)	(101,438)	(248,588)	(134,859)	(68,643)	(203,502)
	$ 572,259	$ 223,797	$ 796,056	$ 2,241,581	$ 1,036,217	$ 3,277,798

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.

6. FAIR VALUE MEASUREMENTS

Fair value of the Diocese's U.S. government obligations, fixed income mutual funds, equity mutual funds, common stock and REITS is determined based on quoted market prices.

Fair value of the Diocese's commodities and corporate bonds is determined by entering standard inputs into a pricing model. These inputs include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, and industry and economic events. Fair value of the Diocese's common trust funds is determined using the closing price reported by the primary market in which they are traded and translated at each valuation date from the local currency into U.S. dollars using the mean between the bid and ask market exchange rates from WM/Reuters for such currencies, when applicable.

The investment in common trust funds consist of funds that are stated at fair market value utilizing the net asset valuations provided by the underlying fund managers.

The alternative investments consist of investments in hedge funds and real estate trusts and are 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 Diocese utilized the net asset value (NAV) reported by the hedge funds, as a practical expedient for determining the fair value of these investments. These investments are redeemable at NAV under the original terms of the subscription agreements and operations of the underlying funds. However, it is possible that these redemption rights may be restricted or eliminated by the funds in the future in accordance with the underlying fund agreements. In 2014 and 2013, alternative investments that could be redeemed at NAV or its equivalent as of the balance sheet date are classified as Level 2, while those that could not be redeemed at NAV or its equivalent as of the balance sheet date are classified as Level 3.

Due to the nature of the investments held by these funds, changes in market conditions and the economic environment may significantly impact the NAV of the funds and, consequently, the fair value of the Diocese's interests in the funds. Furthermore, changes to the liquidity provisions of the funds may significantly impact the fair value of the Diocese's interest in the funds.

The following investments held in the GVT Combined Endowment are measured at fair value at December 31, 2014:

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
U.S. government obligations	$ 1,507,638	$ -	$ -
Common trust funds	-	3,903,078	-
Commodities	-	-	-
Corporate bonds	-	1,412,981	-
Fixed income mutual funds	859,805	-	-
Equity mutual funds	448,636	-	-
Common stock	12,475,078	-	-
REITS	164,113	-	-
Alternative investments	-	-	1,660,401
	$ 15,455,270	$ 5,316,059	$ 1,660,401

6. FAIR VALUE MEASUREMENTS (Continued)

The following investments in the Cutler Trust and the GVT Combined Endowment are measured at fair value at December 31, 2013:

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
GVT Combined Endowment:			
U.S. government obligations	$ 1,242,489	$ -	$ -
Common trust funds	-	4,485,377	-
Corporate bonds	-	1,341,171	-
Fixed income mutual funds	1,421,498	-	-
Equity mutual funds	524,677	-	-
Common stocks	13,165,887	-	-
Alternative investments	-	-	1,402,580
	16,354,551	5,826,548	1,402,580
Cutler Trust:			
Commodities	-	124,246	-
Fixed income mutual funds	285,328	-	-
Equity mutual funds	2,048,660	-	-
REITS	218,083	-	-
Alternative investments	-	441,390	-
	$ 2,552,071	$ 565,636	$ -

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):

Alternative Investments	
Balance at January 1, 2013	$ 842,894
Purchases	398,989
Dividends	64,102
Gain on investment	96,595
Balance at December 31, 2013	$1,402,580
Purchases	94,872
Gain on investment	162,949
Balance at December 31, 2014	$1,660,401

Management determines the fair value measurement valuation policies and procedures, including those for Level 3 recurring and nonrecurring measurements. Diocese's Investment Committee assesses these policies and procedures. At least annually, Management and the Committee: (1) determines if the current valuation techniques used in fair value measurements are still appropriate, and (2) evaluates and adjusts the unobservable inputs used in the fair value measurements based on current market conditions and third-party information.

6. FAIR VALUE MEASUREMENTS (Continued)

Investments in common trust funds include an investment of $3,903,078 and $4,485,377 as of December 31, 2014 and 2013, respectively, in Silchester International Investors International Value Equity Trust, which is a privately offered trust investing in a diversified portfolio of equity securities incorporated in any country other than the United States. The investment objective of this fund is long-term capital gains and income. Redemptions are permitted on a monthly basis, with notification of 6 business days. As of December 31, 2014 and 2013, the Diocese had no unfunded commitments related to this investment.

Alternative investments include an investment of $441,390 at December 31, 2013, in Excelsior Multi-Strategy Hedge Fund of Funds, which is a non-diversified, closed-ended management investment company incorporated in Delaware. The investment objective of this fund is to seek capital appreciation. The fund pursues its investment objectives primarily through investing substantially all its assets in additional funds of funds. As of December 31, 2014 and 2013 the Diocese had no unfunded commitments relating to this alternative investment. The redemption liquidity is quarterly per tender offer authorized by the board of directors.

Alternative investments include an investment of $1,660,401 and $1,402,580 as of December 31, 2014 and 2013, respectively, in Broadstone Net Lease, LLC, which is real estate investment trust company incorporated in Maryland. The investment objective of this fund is to maximize investor’s cash distributions and preserve investors’ capital through investment in net leased real estate. 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, 2014 and 2013 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 a 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 a 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.

7. LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment consisted of the following at December 31:

	2014	2013
Land	$ 169,600	$ 169,600
Buildings and building improvements	1,971,405	2,336,362
Equipment	175,194	143,392
	2,316,199	2,649,354
Less: Accumulated depreciation	(1,700,370)	(1,699,352)
	$ 615,829	$ 950,002

8. PENSION AND POSTRETIREMENT BENEFIT PLANS

Pension 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. Contributions of $48,707 and $66,258 were made by the Diocese under the terms of this plan in 2014 and 2013, respectively.

The Diocese sponsors a defined contribution plan for full-time lay employees. Under the terms of this plan, the Diocese contributes 12% of each employee's salary to the plan. In addition, employees are allowed to make elective tax-deferred contributions. Contributions of $57,620 and $58,422 were made by the Diocese under the terms of this plan in 2014 and 2013, 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 recognized under these plans totaled $93,290 and $97,297 for the years ended December 31, 2014 and 2013, respectively.

9. SUBSEQUENT EVENTS

Subsequent events have been evaluated through August 18, 2015, which is the date the financial statements were available to be issued.

Exhibit I

EPISCOPAL DIOCESE OF ROCHESTER

COMPARISON OF BUDGET TO ACTUAL OPERATING REVENUE AND EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2014

	Budget Approved by Diocesan Convention as Revised (Unaudited)	Actual	Actual Over/Under Budget
Revenue:			
Parish support	$ 991,653	$ 991,652	$ (1)
Investment spending policy	1,332,450	1,202,947	(129,503)
Interest on mortgages and loans	83,000	74,468	(8,532)
Other	3,000	20,937	17,937
	2,410,103	2,290,004	(120,099)
Expenses:			
Congregational Development	333,597	295,238	(38,359)
Mission within the Diocese	274,500	255,425	(19,075)
Mission outside the Diocese	245,774	242,371	(3,403)
Clergy and Lay Benefits	139,000	125,814	(13,186)
Leadership Development	77,500	66,616	(10,884)
Communications	104,000	96,487	(7,513)
Governance, Committees and Missioners	108,950	95,994	(12,956)
Support staff	423,032	420,596	(2,436)
Executive staff	467,229	463,314	(3,915)
Office expense	146,000	141,395	(4,605)
Total operating expenses	2,319,582	2,203,250	(116,332)
Non-operating expense	89,950	29,856	(60,094)
Excess of revenue over expenses	$ 571	$ 56,898	$ 56,327

The accompanying notes are an integral part of this exhibit.