

EPISCOPAL DIOCESE OF ROCHESTER

ROCHESTER, NEW YORK

AUDITED FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2020

(With Comparative Totals for 2019)



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, 2020, and the related statements of activities and changes in net (deficiency) 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 functional expenses. Generally Accepted Accounting Principles require the disclosure of functional expenses in the financial statements. The Diocese has also elected to recognize grant revenue in the year received, disregarding any unconditional gifts which have not been received. As a result, for the year ended December 31, 2020, revenue is overstated by \$45,000 and net assets are understated by \$95,000 and for the year ended December 31, 2019, revenue is overstated by \$35,000 and net assets are understated by \$140,000. In 2018, the Diocese had also excluded a liability regarding their post retirement benefit plan, (Note H, page 18). In 2020 and 2019, the Diocese properly recorded the liability related to clergy and lay employees, however rather than restating prior years amounts as required by Generally Accepted Accounting Principles, the Diocese has presented the initial liabilities as of January 1, 2020 and 2019 as a separate line in the statement of activities and changes in net (deficiency) assets in the amount of \$209,930 and \$488,478, respectively.

Qualified Opinion

In our opinion, except for the effects on the financial statements relating to 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, 2020, 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 30), for the year ended December 31, 2020, 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

We have previously audited Episcopal Diocese of Rochester's December 31, 2019 financial statements, and we expressed a qualified opinion on those audited financial statements in our report dated August 6, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Mengel, Metzger, Baw & Co. LLP

Rochester, New York
August 3, 2021

EPISCOPAL DIOCESE OF ROCHESTER
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2020
(With Comparative Totals for 2019)

<u>ASSETS</u>	<u>Without Donor Restrictions</u>				<u>With Donor Restrictions</u>			<u>December 31,</u>	
	<u>Operating</u>	<u>Special Purpose</u>	<u>Real Estate</u>	<u>Total</u>	<u>Endowment</u>	<u>By</u>		<u>2020</u>	<u>2019</u>
						<u>Donors</u>	<u>Total</u>	<u>Total All Funds</u>	<u>Total All Funds</u>
Cash and cash equivalents	\$ 250,588	\$ -	\$ -	\$ 250,588	\$ -	\$ 124,525	\$ 124,525	\$ 375,113	\$ 1,784,362
Mortgage and loans receivable, net	-	762,210	-	762,210	-	436,287	436,287	1,198,497	1,306,080
Prepays and other assets	28,810	-	-	28,810	-	-	-	28,810	30,475
Investments	-	18,887,417	-	18,887,417	1,149,846	4,028,423	5,178,269	24,065,686	21,559,192
Due from (to) other funds	(18,323)	11,551	-	(6,772)	-	6,772	6,772	-	-
Land, buildings and equipment, net	-	-	108,910	108,910	-	-	-	108,910	109,827
TOTAL ASSETS	<u>\$ 261,075</u>	<u>\$ 19,661,178</u>	<u>\$ 108,910</u>	<u>\$ 20,031,163</u>	<u>\$ 1,149,846</u>	<u>\$ 4,596,007</u>	<u>\$ 5,745,853</u>	<u>\$ 25,777,016</u>	<u>\$ 24,789,936</u>
<u>LIABILITIES AND NET (DEFICIENCY) ASSETS</u>									
<u>LIABILITIES</u>									
Accounts payable	\$ 12,247	\$ -	\$ -	\$ 12,247	\$ -	\$ -	\$ -	\$ 12,247	\$ 12,758
Accrued liabilities and other	732,231	-	-	732,231	-	-	-	732,231	555,775
TOTAL LIABILITIES	<u>744,478</u>	<u>-</u>	<u>-</u>	<u>744,478</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>744,478</u>	<u>568,533</u>
<u>NET (DEFICIENCY) ASSETS</u>									
Without donor restrictions	(483,403)	19,661,178	108,910	19,286,685	-	-	-	19,286,685	18,537,009
With donor restrictions	-	-	-	-	1,149,846	4,596,007	5,745,853	5,745,853	5,684,394
TOTAL NET (DEFICIENCY) ASSETS	<u>(483,403)</u>	<u>19,661,178</u>	<u>108,910</u>	<u>19,286,685</u>	<u>1,149,846</u>	<u>4,596,007</u>	<u>5,745,853</u>	<u>25,032,538</u>	<u>24,221,403</u>
TOTAL LIABILITIES AND NET (DEFICIENCY) ASSETS	<u>\$ 261,075</u>	<u>\$ 19,661,178</u>	<u>\$ 108,910</u>	<u>\$ 20,031,163</u>	<u>\$ 1,149,846</u>	<u>\$ 4,596,007</u>	<u>\$ 5,745,853</u>	<u>\$ 25,777,016</u>	<u>\$ 24,789,936</u>

The accompanying notes are an integral part of the financial statements

EPISCOPAL DIOCESE OF ROCHESTER

STATEMENT OF ACTIVITIES AND CHANGES IN NET (DEFICIENCY) ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2020
(With Comparative Totals for 2019)

	Without Donor Restrictions				With Donor Restrictions			December 31,	
	Operating	Special Purpose	Real Estate	Total	Endowment	By		Total All Funds	Total All Funds
						Donors	Total		
REVENUE									
Parish Support	\$ 967,640	\$ -	\$ -	\$ 967,640	\$ -	\$ -	\$ -	\$ 967,640	\$ 1,014,641
Interest on mortgages and loans	22,844	-	-	22,844	-	12,529	12,529	35,373	38,951
Other	63,316	-	-	63,316	-	-	-	63,316	71,897
TOTAL REVENUE	1,053,800	-	-	1,053,800	-	12,529	12,529	1,066,329	1,125,489
EXPENSES									
Mission outside the Diocese	287,814	-	-	287,814	-	-	-	287,814	269,150
Mission within the Diocese	176,150	-	-	176,150	-	-	-	176,150	163,880
Congregational development	278,950	-	-	278,950	-	-	-	278,950	270,859
Leadership development	238,614	-	-	238,614	-	-	-	238,614	186,319
Governance, committees and missionaries	89,651	-	-	89,651	-	-	-	89,651	108,996
Executive staff	347,703	-	-	347,703	-	-	-	347,703	465,065
Support staff	424,194	-	-	424,194	-	-	-	424,194	432,317
Office Expense	86,411	-	-	86,411	-	-	-	86,411	92,358
Clergy and lay benefits	-	-	-	-	-	-	-	-	55,726
Distributions to beneficiaries	-	14,435	-	14,435	-	33,505	33,505	47,940	35,565
Loan forgiveness	-	20,131	-	20,131	-	-	-	20,131	10,612
Depreciation	-	-	917	917	-	-	-	917	1,674
	<u>1,929,487</u>	<u>34,566</u>	<u>917</u>	<u>1,964,970</u>	<u>-</u>	<u>33,505</u>	<u>33,505</u>	<u>1,998,475</u>	<u>2,092,521</u>
EXPENSES IN EXCESS OF REVENUE	(875,687)	(34,566)	(917)	(911,170)	-	(20,976)	(20,976)	(932,146)	(967,032)
Gain on disposal of assets	-	-	-	-	-	-	-	-	58,422
Non-operating expenses	(3,509)	-	-	(3,509)	-	-	-	(3,509)	(25,018)
Change in post retirement benefit obligation	(20,581)	-	-	(20,581)	-	-	-	(20,581)	(11,914)
Investment income (loss), net	-	1,919,837	-	1,919,837	(408,980)	466,444	57,464	1,977,301	3,753,905
CHANGE IN NET ASSETS	(899,777)	1,885,271	(917)	984,577	(408,980)	445,468	36,488	1,021,065	2,808,363
Net assets at beginning of year	323,339	18,103,843	109,827	18,537,009	1,149,846	4,534,548	5,684,394	24,221,403	21,901,518
Spending policy transfer	862,580	(577,030)	-	285,550	(41,500)	(244,050)	(285,550)	-	-
Other post retirement benefit transition obligation	(209,930)	-	-	(209,930)	-	-	-	(209,930)	(488,478)
Inter-fund transfers	(559,615)	249,094	-	(310,521)	450,480	(139,959)	310,521	-	-
NET (DEFICIENCY) ASSETS AT END OF YEAR	\$ (483,403)	\$ 19,661,178	\$ 108,910	\$ 19,286,685	\$ 1,149,846	\$ 4,596,007	\$ 5,745,853	\$ 25,032,538	\$ 24,221,403

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, 2020

(With Comparative Totals for 2019)

	Without Donor Restrictions				With Donor Restrictions			December 31,	
	Operating	Special Purpose	Real Estate	Total	Endowment	By Donors	Total	2020	2019
								Total All Funds	Total All Funds
<u>CASH FLOWS - OPERATING ACTIVITIES</u>									
Change in net assets	\$ (899,777)	\$ 1,885,271	\$ (917)	\$ 984,577	\$ (408,980)	\$ 445,468	\$ 36,488	\$ 1,021,065	\$ 2,808,363
Adjustments to reconcile change in net (deficiency) assets to net cash used for operating activities:									
Depreciation	-	-	917	917	-	-	-	917	1,674
Realized and unrealized (gain) loss on investments, net	-	(1,919,837)	-	(1,919,837)	408,980	(466,444)	(57,464)	(1,977,301)	(3,753,905)
Gain on disposal of assets	-	-	-	-	-	-	-	-	(58,422)
Changes in certain assets and liabilities affecting operations:									
Due to (from) other funds	555,607	(494,129)	-	61,478	-	(61,478)	(61,478)	-	-
Prepays and other assets	1,665	-	-	1,665	-	-	-	1,665	30,044
Accounts payable	(511)	-	-	(511)	-	-	-	(511)	(3,437)
Accrued liabilities	(33,474)	-	-	(33,474)	-	-	-	(33,474)	16,791
NET CASH USED FOR OPERATING ACTIVITIES	(376,490)	(528,695)	-	(905,185)	-	(82,454)	(82,454)	(987,639)	(958,892)
<u>CASH FLOWS - INVESTING ACTIVITIES</u>									
Changes in mortgages and loans receivable, net	-	54,333	-	54,333	-	53,250	53,250	107,583	69,009
Sales of investments	-	984,763	-	984,763	41,500	488,893	530,393	1,515,156	1,316,136
Purchase of investments	-	(1,588,010)	-	(1,588,010)	(450,480)	(5,859)	(456,339)	(2,044,349)	(79,010)
Proceeds from the sale of buildings and equipment	-	-	-	-	-	-	-	-	112,500
Spending policy transfer	862,580	(577,030)	-	285,550	(41,500)	(244,050)	(285,550)	-	-
Inter-fund transfer	(559,615)	249,094	-	(310,521)	450,480	(139,959)	310,521	-	-
NET CASH PROVIDED FROM (USED FOR) INVESTING ACTIVITIES	302,965	(876,850)	-	(573,885)	-	152,275	152,275	(421,610)	1,418,635
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	(73,525)	(1,405,545)	-	(1,479,070)	-	69,821	69,821	(1,409,249)	459,743
Cash and cash equivalents and restricted cash at beginning of year	324,113	1,405,545	-	1,729,658	-	54,704	54,704	1,784,362	1,324,619
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AT END OF YEAR	\$ 250,588	\$ -	\$ -	\$ 250,588	\$ -	\$ 124,525	\$ 124,525	\$ 375,113	\$ 1,784,362
<u>NON-CASH OPERATING ACTIVITY</u>									
Increase in accrued liabilities due to other post retirement benefit transition obligation	\$ 209,930	\$ -	\$ -	\$ 209,930	\$ -	\$ -	\$ -	\$ 209,930	\$ 488,478

The accompanying notes are an integral part of the financial statements

EPISCOPAL DIOCESE OF ROCHESTER

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020
(With Comparative Totals for 2019)

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 45 active congregations and several summer and institutional chapels.

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 ("U.S. GAAP"), except for the items noted below:

	<u>Generally Accepted Accounting Principles</u>	<u>Diocese Accounting Principles</u>
Functional expense schedule including cost allocation disclosure	A schedule of functional expenses, by program, is required to be presented along with a disclosure for the method of allocating costs to the programs.	Schedule and disclosure are omitted.
Grant revenue and related receivable	Unconditional grants are required to be fully recognized in the period which the Organization received notification and a related receivable should also be recorded.	Grant revenue is recognized when payment is received from the grantor.

EPISCOPAL DIOCESE OF ROCHESTER

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2020
(With Comparative Totals for 2019)

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

Financial statement presentation

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

Without Donor Restrictions: Represents net assets available for use without any donor-imposed restrictions. The following funds without donor restrictions 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 Board Endowment investments and Housing Loan Fund.

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

With Donor Restrictions: 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 amounts contributed to the Diocese that are both perpetually restricted, the earnings from which are available to support operating activities and amounts restricted to specific purposes.

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. Cash equivalents include money market accounts and certificates of deposit which have maturity dates of 12 months or less.

Mortgages and loans receivable

Mortgages and loans receivable represent amounts due to the Diocese under loan agreements with parishes, clergy and buyers of closed church properties. 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, 2020 and 2019.

Loans are placed on nonaccrual status when management believes collection of interest is doubtful. As of December 31, 2020 and 2019, the Diocese did not have any loans on nonaccrual status.

EPISCOPAL DIOCESE OF ROCHESTER

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2020
(With Comparative Totals for 2019)

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

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. 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 \$2,500, which have a useful life of greater than three years. 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.

Revenue recognition

A majority of the Diocesan revenue is generated through parish support through annual appropriations. Appropriations are established annually by the Diocesan Council and are based on the parishes normal operating income submitted on the Annual Parochial Report. The parishes make monthly payments equal to one-twelve of the annual amount and the Diocese recognizes the revenue evenly throughout the year.

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 described under the basis of accounting, the Diocese recognizes unconditional contributions and grants when payment is received.

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.

EPISCOPAL DIOCESE OF ROCHESTER

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2020
(With Comparative Totals for 2019)

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

Comparative totals as of December 31, 2019

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 U.S. GAAP. Accordingly, such information should be read in conjunction with The Diocese's financial statements that the year ended December 31, 2019, from which the summarized information was derived.

New accounting pronouncement - leases

In February 2016, the FASB issued a new standard related to leases to increase transparency and comparability among entities by requiring the recognition of right-of-use ("ROU") assets and lease liabilities on the statement of financial position. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases under current U.S. GAAP. For nonpublic entities, the FASB voted on May 20, 2020, to extend the guidance in this new standard to be effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. The Diocese is currently evaluating the provisions of this standard to determine the impact the new standard will have on the Diocese's financial position or results of operations.

Subsequent events

The Diocese has conducted an evaluation of potential subsequent events occurring after the statement of financial position date through August 3, 2021, which is the date the financial statements are available to be issued. See Note H.

NOTE B: MORTGAGES AND LOANS RECEIVABLE

Mortgages and loans receivable consisted of the following:

	<u>December 31,</u>	
	<u>2020</u>	<u>2019</u>
<u>Without Donor Restrictions</u>		
Clergy housing loan fund	\$ 154,706	\$ 194,579
Community development loans	<u>607,504</u>	<u>621,964</u>
	762,210	816,543
<u>With Donor Restrictions</u>		
Sibley revolving loan fund	436,277	488,787
Bishop loan fund	<u>10</u>	<u>750</u>
	<u>436,287</u>	<u>489,537</u>
	<u>\$ 1,198,497</u>	<u>\$ 1,306,080</u>

Mortgages and loans receivable bear interest at rates ranging from 0.0% to 5.0% and mature at various dates through January 2042. Approximately \$493,000 and \$606,000 of the balance of the receivables outstanding at December 31, 2020 and 2019, respectively, are secured by first and second mortgages. All remaining amounts outstanding are unsecured.

EPISCOPAL DIOCESE OF ROCHESTER

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2020
(With Comparative Totals for 2019)

NOTE B: MORTGAGES AND LOANS RECEIVABLE, Cont'd

Effective February 2018, The Trustees of the Diocese authorized an early payment discount on the Community Development Loans (CDL) of up to 35% (to be calculated with a discount rate of 9% over the remaining term of the loan). This early payment discount was offered to the nine parishes with CDL loans if they wish to partially or fully pay-off these low interest loans by December 31, 2018. The Diocese extended the early payment discount twice through December 31, 2020. Since authorization, eight of the parishes have paid their discounted loan in full or made partial payments, totaling approximately \$372,000. One parish refinanced two outstanding loans. The discounts related to the early payment discount was approximately \$20,000 and \$11,000 as of December 31, 2020 and 2019, respectively, and are included as loan forgiveness on the accompanying statement of activities and changes in net (deficiency) assets.

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>
2021	\$ 150,371
2022	152,750
2023	147,743
2024	136,782
2025	118,259
Thereafter	<u>492,592</u>
	<u>\$ 1,198,497</u>

NOTE C: INVESTMENTS

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 Canandaigua National Bank (CNB), 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 statement of financial position included the entire asset value of the CNB Combined Endowment. Effective January 2014, CNB 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. In 2014, the Diocese removed the investments of these parishes and congregations, and the related Funds Held for Others liability, from their financial statements and there was no effect on net assets. However, these funds continue to be invested together at CNB. During 2020, the Diocese invested additional Diocesan controlled funds in a separate account with CNB but not included in the combined endowment. The following investment and fair value disclosures pertain to the total fund and all accounts at CNB.

EPISCOPAL DIOCESE OF ROCHESTER

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2020
(With Comparative Totals for 2019)

NOTE C: INVESTMENTS, Cont'd

The composition of the investments at CNB is as follows:

	<u>December 31,</u>	
	<u>2020</u>	<u>2019</u>
Diocesan funds	\$ 20,355,291	\$ 19,374,657
Parishes and other organizations for which the Diocese is Trustee	<u>2,287,421</u>	<u>2,184,535</u>
Total Diocesan Trusteed Combined Endowment	22,642,712	21,559,192
Non-Trusteed funds belonging to other parishes in the Diocese	<u>9,385,617</u>	<u>9,043,196</u>
Total Combined Endowment	32,028,329	30,602,388
Diocesan funds - not included in Combined Endowment	<u>1,422,974</u>	-
Total Investments at CNB	<u>\$ 33,451,303</u>	<u>\$ 30,602,388</u>

The fair value of investments at CNB consisted of the following:

	<u>December 31,</u>	
	<u>2020</u>	<u>2019</u>
Investments, stated at fair value:		
Money market funds	\$ 1,494,663	\$ 756,583
Certificates of deposit	250,000	-
U.S. government obligations	619,330	1,903,700
Corporate bonds	2,161,759	1,033,428
Fixed income mutual funds	4,532,758	3,650,546
Mid cap mutual funds	2,174,869	2,355,649
Equity mutual funds	658,938	561,900
Common stock	14,631,226	13,197,715
Investments measured at net asset value	<u>6,927,760</u>	<u>7,142,867</u>
Total investments at CNB	<u>\$ 33,451,303</u>	<u>\$ 30,602,388</u>

The Diocese owns approximately a 71% and 70% pro-rata share of each individual investment class included in the Combined Endowment Fund as of December 31, 2020 and 2019, respectively.

EPISCOPAL DIOCESE OF ROCHESTER

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2020
(With Comparative Totals for 2019)

NOTE C: INVESTMENTS, Cont'd

Investment income

The Diocese recorded the following investment income for the years ended:

	<u>December 31, 2020</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Interest and dividend income	\$ 306,398	\$ 92,699	\$ 399,097
Gain on investments	1,707,170	(2,387)	1,704,783
Investment related expenses	<u>(93,731)</u>	<u>(32,848)</u>	<u>(126,579)</u>
	<u>\$ 1,919,837</u>	<u>\$ 57,464</u>	<u>\$ 1,977,301</u>
	<u>December 31, 2019</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Interest and dividend income	\$ 324,480	\$ 138,708	\$ 463,188
Gain on investments	2,343,522	1,074,776	3,418,298
Investment related expenses	<u>(87,057)</u>	<u>(40,524)</u>	<u>(127,581)</u>
	<u>\$ 2,580,945</u>	<u>\$ 1,172,960</u>	<u>\$ 3,753,905</u>

EPISCOPAL DIOCESE OF ROCHESTER

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2020
(With Comparative Totals for 2019)

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.

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.

Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

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, 2020 and 2019:

Money market funds, U.S. government obligations, fixed income mutual funds, mid cap mutual funds, equity mutual funds and common stock: Valued at the closing price reported on the active market on which the individual funds are traded.

EPISCOPAL DIOCESE OF ROCHESTER

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2020
(With Comparative Totals for 2019)

NOTE D: FAIR VALUE MEASUREMENTS, Cont'd

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.

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 CNB Combined Endowment Fund at fair value at December 31, 2020 and 2019:

	December 31, 2020			
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 1,494,663	\$ -	\$ -	\$ 1,494,663
Certificates of deposit	250,000	-	-	250,000
U.S. government obligations	619,330	-	-	619,330
Corporate bonds	-	2,161,759	-	2,161,759
Fixed income mutual funds	4,532,758	-	-	4,532,758
Mid cap mutual funds	2,174,869	-	-	2,174,869
Equity mutual funds	658,938	-	-	658,938
Common stock	14,631,226	-	-	14,631,226
Investments measured at net asset value	-	-	-	6,927,760
	\$ 24,361,784	\$ 2,161,759	\$ -	\$ 33,451,303
	December 31, 2019			
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 756,583	\$ -	\$ -	\$ 756,583
U.S. government obligations	1,903,700	-	-	1,903,700
Corporate bonds	-	1,033,428	-	1,033,428
Fixed income mutual funds	3,650,546	-	-	3,650,546
Mid cap mutual funds	2,355,649	-	-	2,355,649
Equity mutual funds	561,900	-	-	561,900
Common stock	13,197,715	-	-	13,197,715
Investments measured at net asset value	-	-	-	7,142,867
	\$ 22,426,093	\$ 1,033,428	\$ -	\$ 30,602,388

EPISCOPAL DIOCESE OF ROCHESTER

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2020
(With Comparative Totals for 2019)

NOTE E: LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consists of the following:

	<u>December 31,</u>	
	<u>2020</u>	<u>2019</u>
Land	\$ 51,662	\$ 51,662
Buildings and improvements	412,489	412,489
Equipment	<u>33,353</u>	<u>33,353</u>
	497,504	497,504
Less accumulated depreciation	<u>388,594</u>	<u>387,677</u>
	<u>\$ 108,910</u>	<u>\$ 109,827</u>

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 \$64,600 and \$57,800 for the years ended December 31, 2020 and 2019, 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 \$48,900 and \$48,800 for the years ended December 31, 2020 and 2019, respectively.

EPISCOPAL DIOCESE OF ROCHESTER

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2020
(With Comparative Totals for 2019)

NOTE G: COMMITMENTS

The Diocese leases office equipment under a lease agreement, which expires in August 2023, and requires monthly payments of \$178. The Diocese leases office space under an agreement that required monthly payments of \$2,045 through January 2019. During 2019, the Diocese extended this lease agreement through December 2020 with the monthly payment increasing to \$2,250 effective January 2020. During 2020, the lease was extended once again through December 2021. The Diocese recognized approximately \$29,100 and \$26,700 in lease expense for the years ended December 31, 2020 and 2019, respectively.

The future minimum payments on these agreements are as follows:

<u>For the year ended December 31,</u>	<u>Amount</u>
2021	\$ 29,140
2022	2,140
2023	<u>1,427</u>
	<u>\$ 32,707</u>

NOTE H: POSTRETIREMENT BENEFITS/HEALTH REIMBURSEMENT ACCOUNTS

The Diocese provides certain health care and life insurance benefits for retired clergy that meet certain requirements such as age and employment history. Effective January 1, 2020, the Diocese added a new post retirement benefit plan for lay employees. The benefit level provided is a maximum of \$900 per year. The contribution amount is determined by the Trustees of the Diocese. The amount expensed related to these accounts was \$55,726 for the year ended December 31, 2019. Beginning January 1, 2020, the contribution amount is included in the annual calculation of the postretirement benefit. The Diocese has recorded an obligation related to the postretirement benefits at December 31, 2020 and 2019 in the amounts of \$732,081 and \$500,392, respectively, which are included in accrued liabilities and other in the accompanying statement of financial position.

EPISCOPAL DIOCESE OF ROCHESTER

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2020
(With Comparative Totals for 2019)

NOTE H: POSTRETIREMENT BENEFITS/HEALTH REIMBURSEMENT ACCOUNTS, Cont'd

Certain information involving Postretirement Benefits is summarized as follows:

	December 31,	
	2020	2019
Benefit obligation	\$ 732,081	\$ 500,392
Fair value of plan assets	-	-
Funded Status	<u>\$ (732,081)</u>	<u>\$ (500,392)</u>
Accumulated benefit obligation	<u>\$ 732,081</u>	<u>\$ 500,392</u>
Amounts recognized in the statement of financial position, included in accrued liabilities and other	<u>\$ (732,081)</u>	<u>\$ (500,392)</u>
	Year Ended	
	December 31,	
	2020	2019
Benefit cost	\$ 39,033	\$ 63,911
Employer contributions	53,475	53,100
Benefits paid	53,475	53,100
Weighted average assumptions as of December 31, 2020 and 2019		
Discount rate for benefit obligations	3.00%	4.00%

For measurement purposes, an annual rate of increase for the per capita cost of health care benefits was not used due to the benefits being capped at \$900 per year.

The contribution to the postretirement benefits for the year ending December 31, 2021 is expected to be approximately \$53,000.

During 2020, the Trustees of the Diocese have designated funds, to supplement certain donor restricted funds, in order to cover the accumulated benefit obligation for clergy. In 2021, the Trustees designated additional funds to cover the accumulated benefit obligation related to lay employees.

EPISCOPAL DIOCESE OF ROCHESTER

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2020
(With Comparative Totals for 2019)

NOTE H: POSTRETIREMENT BENEFITS/HEALTH REIMBURSEMENT ACCOUNTS, Cont'd

Estimated future benefit payments, which reflect future service, are expected to be paid as follows:

<u>Year ending December 31,</u>	<u>Postretirement benefits</u>
2021	\$ 53,064
2022	51,886
2023	50,577
2024	49,107
2025	49,945
2026-2030	<u>229,914</u>
	<u>\$ 484,493</u>

Effective January 1, 2020, the Diocese no longer accepts new participants into its clergy Health Reimbursement Account (HRA) plan.

EPISCOPAL DIOCESE OF ROCHESTER

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2020
(With Comparative Totals for 2019)

NOTE I: LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	<u>December 31,</u>	
	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 375,113	\$ 1,784,362
Mortgage and loans receivable, due in 2021 and 2020, respectively	150,371	142,430
Other assets - prior year parish apportionments	15,233	14,329
Investments	<u>24,065,686</u>	<u>21,559,192</u>
Total financial assets available within one year	24,606,403	23,500,313
Less:		
Amounts unavailable for general expenditures within one year, due to:		
Restricted by donors with purpose restrictions	(4,596,007)	(4,534,548)
Restricted by donors in perpetuity	<u>(1,149,846)</u>	<u>(1,149,846)</u>
Total amounts unavailable for general expenditures within one year	(5,745,853)	(5,684,394)
Amounts unavailable to management without Trustees' approval	<u>(19,661,178)</u>	<u>(18,103,843)</u>
	(800,628)	(287,924)
Plus:		
Approved draw from investments for 2021 and 2020, respectively	<u>977,056</u>	<u>1,015,000</u>
Total financial assets available to management for general expenditures within one year	<u>\$ 176,428</u>	<u>\$ 727,076</u>

The Trustees of the Diocese have worked to reduce the draw from investments from an average of 6.8% in the years following the recessions (2008 to 2012) to an average of 5.0% over recent years (2016-2020). In 2021, the Trustees authorized draws from unrestricted funds of approximately 4.8%, with an overall target for future draws of 4%.

Draws from investments account for approximately 49% of the funding for operations over the past five years. The remaining funding has come almost entirely from parish apportionment.

EPISCOPAL DIOCESE OF ROCHESTER

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2020
(With Comparative Totals for 2019)

NOTE I: LIQUIDITY AND AVAILABILITY, Cont'd

As a matter of operating practice, the Episcopal Diocese of Rochester has maintained a balance of cash and cash equivalents of 12-15 months of investment draws required to fund operations. This practice provides flexibility for both unexpected expenditures and unpredictable, short term swings of the market value of investments.

Over the last five years, monthly draws from investments have averaged approximately \$82,000. Over the next three years, the Diocese projects average monthly draws of approximately \$84,000. The Diocesan CFO works with the Treasurer, Trustees and Diocesan Council to monitor and update budget and investment draw projections on a quarterly basis. With no debt and very limited fixed assets (real property, business equipment, etc.) that might require unexpected repairs or replacement, the Diocese believes it has more than adequate liquidity to meet normal operating expenses in the current fiscal year.

NOTE J: NET ASSETS

Net assets without donor restrictions are as follows:

	<u>December 31,</u>	
	<u>2020</u>	<u>2019</u>
Undesignated	\$ (483,403)	\$ 323,339
Designated by the Trustees for endowment and special purposes	19,661,178	18,103,843
Invested in property and equipment	<u>108,910</u>	<u>109,827</u>
	<u>\$ 19,286,685</u>	<u>\$ 18,537,009</u>

EPISCOPAL DIOCESE OF ROCHESTER

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2020
(With Comparative Totals for 2019)

NOTE J: NET ASSETS, Cont'd

Net assets with donor restrictions at December 31, 2020 and 2019, are restricted for the following purposes:

	December 31,	
	2020	2019
Subject to perpetual restrictions, income restricted to:		
Care for clergy	\$ 6,600	\$ 6,600
Care and maintenance of cemetery	4,000	4,000
Women's auxiliary	2,500	2,500
Clergy, church property and Sunday school - Grace Church	8,000	8,000
For general purposes - Church of the Epiphany	5,000	5,000
For general purposes - St. John's Church, Sodus	2,868	2,868
For general purposes - St. James' Church, Watkins Glen	1,000	1,000
Swan memorial fund - St. Johns' Church, Mount Morris	200,014	200,014
Youth programs	10,000	10,000
For general purposes - Church of the Good Shepherd, Savona	1,634	1,634
Theological scholarships	278,858	278,858
For general purposes - Episcopal Diocese of Rochester	50,000	50,000
Episcopate expenses - Episcopal Diocese of Rochester	579,372	579,372
Total perpetually restricted net assets	1,149,846	1,149,846
Subject to expenditure for a specified purpose:		
Sibley loan fund	436,277	488,787
Care for clergy	129,084	168,654
Care and maintenance of cemetery - Allen's Hill Cemetery	129,308	127,681
Women's auxiliary	63,338	57,643
Clergy, church property and Sunday school - Grace Church	37,981	35,953
For general purposes - Church of the Epiphany	20,391	19,381
Swan memorial fund - St. John's Church, Mount Morris	46,734	26,287
Youth programs	71,634	65,886
Theological scholarships	402,598	374,376
Episcopate expenses - Episcopal Diocese of Rochester	2,447,106	2,386,255
Leadership development	462,582	453,292
Loans for clergy or churches - Bishops discretion	88,494	80,098
Scholarships for children of clergy	111,981	107,350
Millennium development	130,186	124,856
Other	18,313	18,049
Total purpose restricted net assets	4,596,007	4,534,548
Total net assets with donor restrictions	\$ 5,745,853	\$ 5,684,394

EPISCOPAL DIOCESE OF ROCHESTER

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2020
(With Comparative Totals for 2019)

NOTE K: ENDOWMENTS

The Diocese's endowment consists of both donor-restricted endowment funds and funds designated by the Trustees to function as endowments. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law

Effective September 17, 2010, the New York Prudent Management of Institutional Funds Act (NYPMIFA) was enacted to replace and update the Uniform Management of Institutional Funds Act (UMIFA), which was adopted in New York in 1978. The Trustees of the Diocese has interpreted NYPMIFA 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 perpetually restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment 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 perpetually restricted net assets is classified as donor restricted net assets until those amounts are appropriated for expenditure by the Diocese in a manner consistent with the standard of prudence prescribed by NYPMIFA. In accordance with NYPMIFA, the Diocese considers the following factors:

- (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) Where appropriate and circumstances would otherwise warrant, alternatives to expenditure of the endowment fund, giving due consideration to the effect that such alternatives may have on the Diocese; and
- (8) The investment policies of the Diocese

In accordance with NYPMIFA the Diocese may determine, after consideration of the eight objectives described above, it would be prudent to appropriate funds below the historical dollar value of the perpetual endowment. However, the Diocese must inform all available donors of endowment gifts made pursuant to gift instruments executed before September 17, 2010 to opt out of the new rule permitting institutions to appropriate below the historic dollar value of endowment funds. The donor may or may not permit this additional appropriation. If the donor is unavailable or does not stipulate within 90 days the Diocese may appropriate below the historical dollar value of the perpetual endowment if it is deemed prudent. As of December 31, 2020 and 2019, the Diocese had restricted investments of \$4,516,322 and \$4,429,261, respectively, which are impacted by NYPMIFA.

EPISCOPAL DIOCESE OF ROCHESTER

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2020
(With Comparative Totals for 2019)

NOTE K: ENDOWMENTS, Cont'd

Endowment net asset composition by type of fund as of December 31, 2020 and 2019:

	Without Donor Restriction	With Donor Restrictions	Total
December 31, 2020:			
Donor-restricted endowment funds	\$ -	\$ 4,516,322	\$ 4,516,322
Trustee-designated	17,333,143	-	17,333,143
Total endowment funds	17,333,143	4,516,322	21,849,465
Diocesan funds - not included in Combined Endowment	1,422,974	-	1,422,974
Investments related to amounts restricted by donors or designated by the trustees not included in the endowment	131,300	661,947	793,247
Total investments	\$ 18,887,417	\$ 5,178,269	\$ 24,065,686
December 31, 2019:			
Donor-restricted endowment funds	\$ -	\$ 4,429,261	\$ 4,429,261
Trustee-designated	16,364,333	-	16,364,333
Total endowment funds	16,364,333	4,429,261	20,793,594
Investments related to amounts restricted by donors not included in the endowment	-	765,598	765,598
Total investments	\$ 16,364,333	\$ 5,194,859	\$ 21,559,192

EPISCOPAL DIOCESE OF ROCHESTER

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2020
(With Comparative Totals for 2019)

NOTE K: ENDOWMENTS, Cont'd

For the years ended December 31, 2020 and 2019, the Diocese had the following endowment related activities:

	Without Donor Restrictions	With Donor Restrictions	Total
Balance at January 1, 2019	\$ 14,114,856	\$ 4,257,138	\$ 18,371,994
Investment return:			
Interest and dividends	331,740	88,441	420,181
Net appreciation	2,518,149	677,971	3,196,120
Total investment return	2,849,889	766,412	3,616,301
Additions	78,809	-	78,809
Transfers	297,924	(297,924)	
Withdrawals	(286,465)	-	(286,465)
Appropriated for expenditure	(690,680)	(296,365)	(987,045)
Total change in funds	2,249,477	172,123	2,421,600
Total endowment funds at December 31, 2019	16,364,333	4,429,261	20,793,594
Investment return:			
Interest and dividends	291,685	76,206	367,891
Net appreciation	1,213,848	303,037	1,516,885
Total investment return	1,505,533	379,243	1,884,776
Additions	165,037	5,118	170,155
Transfers	-	-	-
Withdrawals	(127,525)	(6,300)	(133,825)
Appropriated for expenditure	(574,235)	(291,000)	(865,235)
Total change in funds	968,810	87,061	1,055,871
Total endowment funds at December 31, 2020	\$ 17,333,143	\$ 4,516,322	\$ 21,849,465

EPISCOPAL DIOCESE OF ROCHESTER

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2020
(With Comparative Totals for 2019)

NOTE K: ENDOWMENTS, Cont'd

Funds with deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor requires the Diocese to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature are reported in net assets with donor restrictions. As of December 31, 2020 and 2019, the Diocese had no funds with deficiencies.

Return objectives and risk parameters

The investment objective for the assets under this policy is to achieve sum of inflation as measured by the Consumer Price Index plus 5%. The Investment Committee's objective for this investment portfolio is primary emphasis on moderate capital growth with some focus on income, while avoiding excessive risk. Most revenue for operations will come from the planned investment sales based upon a concept of total return and according to the approved annual budget need as determined by the Diocese. The Diocese feels that grants to be made in the future are as important as grants made today. This is consistent with the philosophy that this Endowment is to exist in perpetuity, and therefore, should provide for grant making in perpetuity. To attain this goal, the overriding objective is to maintain purchasing power. That is, net of spending, the objective is to grow the aggregate portfolio value at the rate of inflation over the investment horizon.

The Investment Committee, as directed by the Trustees, desires long-term investment performance sufficient to meet the objectives. The Investment Committee and the Trustees understand that to achieve such performance the portfolio may experience periods of decline. The Investment Committee further understands that in a severe market, the potential recovery period could be extensive. The Investment Committee understands that the managed assets must also be invested so that funds are available to meet the needs of congregations and the Diocese and provide sufficient liquidity to allow reasonable withdrawal by congregations of unrestricted funds.

Although the Investment Committee prefers to limit the portfolio's volatility, they are comfortable with fluctuations in their portfolio, and the possibility of declines in value, in order to seek to grow their portfolio over time. The goal is to allow for risk (as measured by standard deviation) consistent with that of the composite benchmark plus or minus 5% on an average basis.

Strategies employed for achieving objectives

To satisfy its long-term rate-of-return objectives, Episcopal Diocese of Rochester 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.

EPISCOPAL DIOCESE OF ROCHESTER

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2020
(With Comparative Totals for 2019)

NOTE K: ENDOWMENTS, Cont'd

Spending policy and how the investment objectives relate to spending policy

Where applicable, distributions are made using the total return method. Under the total return method, distributions consist of interest, dividends and realized and unrealized gains. In its determination to appropriate or accumulate, the Investment Committee shall act in good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances, and shall consider, if relevant, the following factors: the duration and preservation of the Fund; the purposes the Fund; general economic conditions; the possible effect of inflation or deflation; the expected total return from income and the appreciation of investments; other resources of the organization; where appropriate and circumstances would otherwise warrant, alternatives to expenditure of the Fund, giving due consideration to the effect that such alternatives may have on the organization, and the investment policy of the organization for each determination to appropriate for expenditure, the organization shall keep a contemporaneous record describing the consideration that was given by the Investment Committee to each of the factors enumerated above.

The spending policy target is 4% (of the trailing 5-year average, of the audited year-end market value of endowment assets); while maintaining the purchasing power of these investments. That is, net of spending, the objective is to grow the value of the portfolio at the rate of inflation over the investment horizon.

NOTE L: ACCOUNTING IMPACT OF COVID-19 OUTBREAK

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus (the “COVID-19 outbreak”) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. Management is actively monitoring the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Diocese is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2021.

NOTE M: LAWSUIT

During the year ended December 31, 2019 the Diocese was named in a lawsuit related to alleged child abuse at a Diocesan parish. The Diocese has retained legal counsel but as of the report date has not been notified of any amount claimed and cannot estimate an amount potentially due.

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, 2020

	Budget Approved by Diocesan Convention as Revised (Unaudited)	Actual Budgetary Basis	Actual Over/Under Budget
<u>REVENUE</u>			
Parish Support	\$ 1,015,590	\$ 967,640	\$ (47,950)
Investment spending policy	995,000	862,580	(132,420)
Interest on mortgages and loans	20,000	22,844	2,844
Other	70,000	63,316	(6,684)
	<u>2,100,590</u>	<u>1,916,380</u>	<u>(184,210)</u>
<u>EXPENSES</u>			
D & F MS Asking	287,814	287,814	-
Mission Partnerships	177,150	176,150	(1,000)
Congregational development	282,250	278,950	(3,300)
Leadership development	320,850	238,614	(82,236)
Governance	92,350	89,651	(2,699)
Diocesan Staff - Salaries	554,526	555,188	662
Diocesan Staff - Benefits	218,900	211,579	(7,321)
Diocesan Staff - Expenses	18,750	5,130	(13,620)
Office Expense	90,000	86,411	(3,589)
Health benefits	58,000	20,581	(37,419)
Total operating expenses	2,100,590	1,950,068	(150,522)
Non-operating expense	-	(3,509)	(3,509)
Loss from operating fund	<u>\$ -</u>	<u>\$ (37,197)</u>	<u>\$ (37,197)</u>