

EPISCOPAL DIOCESE OF ROCHESTER

ROCHESTER, NEW YORK

AUDITED FINANCIAL STATEMENTS

OTHER FINANCIAL INFORMATION

AND

INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2023

(With Comparative Totals for 2022)



BUSINESS
ADVISORS
AND CPAS

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BUSINESS
ADVISORS
AND CPAS

INDEPENDENT AUDITOR’S REPORT

To the Diocesan Trustees of the
Episcopal Diocese of Rochester

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the financial statements of the Episcopal Diocese of Rochester (the “Diocese”), which comprise the statement of financial position as of December 31, 2023, 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.

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, 2023, 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.

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.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Episcopal Diocese of Rochester and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Change in Accounting Principle

As discussed in Note A to the financial statements, in 2023, the entity adopted new accounting guidance related to accounting for credit losses. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Episcopal Diocese of Rochester's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Episcopal Diocese of Rochester's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The other financial information (page 31), for the year ended December 31, 2023, 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 effect on the supplementary information as described in the Basis for Qualified Opinion section of our 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, 2022 financial statements, and we expressed a qualified opinion on those audited financial statements in our report dated August 22, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2022 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Mengel, Metzger, Barw & Co. LLP

Rochester, New York
August 12, 2024

EPISCOPAL DIOCESE OF ROCHESTER

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2023
(With Comparative Totals for 2022)

<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>2023</u>	<u>2022</u>
						<u>Donors</u>	<u>Total</u>	<u>Total All Funds</u>	<u>Total All Funds</u>
Cash and cash equivalents	\$ 430,511	\$ -	\$ -	\$ 430,511	\$ -	\$ 340,286	\$ 340,286	\$ 770,797	\$ 517,996
Mortgage and loans receivable, net	-	409,686	-	409,686	-	275,859	275,859	685,545	894,755
Prepays and other assets	25,407	-	-	25,407	-	-	-	25,407	24,198
Investments	-	20,025,959	-	20,025,959	1,149,846	3,514,371	4,664,217	24,690,176	22,178,590
Due from (to) other funds	(8,252)	2,827	-	(5,425)	-	5,425	5,425	-	-
Land, buildings and equipment, net	-	-	436,906	436,906	-	-	-	436,906	80,347
TOTAL ASSETS	\$ 447,666	\$ 20,438,472	\$ 436,906	\$ 21,323,044	\$ 1,149,846	\$ 4,135,941	\$ 5,285,787	\$ 26,608,831	\$ 23,695,886
 <u>LIABILITIES AND NET (DEFICIENCY) ASSETS</u>									
<u>LIABILITIES</u>									
Accounts payable	\$ 11,183	\$ -	\$ -	\$ 11,183	\$ -	\$ -	\$ -	\$ 11,183	\$ 5,649
Accrued liabilities and other	535,242	-	-	535,242	-	-	-	535,242	559,646
TOTAL LIABILITIES	546,425	-	-	546,425	-	-	-	546,425	565,295
 <u>NET (DEFICIENCY) ASSETS</u>									
Without donor restrictions	(98,759)	20,438,472	436,906	20,776,619	-	-	-	20,776,619	18,172,272
With donor restrictions	-	-	-	-	1,149,846	4,135,941	5,285,787	5,285,787	4,958,319
TOTAL NET (DEFICIENCY) ASSETS	(98,759)	20,438,472	436,906	20,776,619	1,149,846	4,135,941	5,285,787	26,062,406	23,130,591
TOTAL LIABILITIES AND NET (DEFICIENCY) ASSETS	\$ 447,666	\$ 20,438,472	\$ 436,906	\$ 21,323,044	\$ 1,149,846	\$ 4,135,941	\$ 5,285,787	\$ 26,608,831	\$ 23,695,886

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, 2023

(With Comparative Totals for 2022)

	Without Donor Restrictions				With Donor Restrictions			December 31,	
	Operating	Special Purpose	Real Estate	Total	Endowment	By Donors	Total	2023	2022
								Total All Funds	Total All Funds
REVENUE									
Parish Support	\$ 991,850	\$ -	\$ -	\$ 991,850	\$ -	\$ -	\$ -	\$ 991,850	\$ 987,595
Interest on mortgages and loans	14,211	-	-	14,211	-	9,129	9,129	23,340	29,768
Other	12,404	-	-	12,404	-	-	-	12,404	21,592
TOTAL REVENUE	1,018,465	-	-	1,018,465	-	9,129	9,129	1,027,594	1,038,955
EXPENSES									
Mission outside the Diocese	268,698	-	-	268,698	-	-	-	268,698	266,457
Mission within the Diocese	172,460	-	-	172,460	-	-	-	172,460	175,000
Congregational development	312,833	-	-	312,833	-	-	-	312,833	297,515
Leadership development	121,447	-	-	121,447	-	-	-	121,447	179,927
Governance, committees and missionaries	114,379	-	-	114,379	-	-	-	114,379	108,923
Executive staff	354,607	-	-	354,607	-	-	-	354,607	339,022
Support staff	524,036	-	-	524,036	-	-	-	524,036	469,307
Office Expense	85,812	-	-	85,812	-	-	-	85,812	80,671
Distributions to beneficiaries	-	28,813	-	28,813	-	71,370	71,370	100,183	56,385
Loan forgiveness	-	-	-	-	-	-	-	-	8,126
Depreciation	-	-	941	941	-	-	-	941	811
	<u>1,954,272</u>	<u>28,813</u>	<u>941</u>	<u>1,984,026</u>	<u>-</u>	<u>71,370</u>	<u>71,370</u>	<u>2,055,396</u>	<u>1,982,144</u>
EXPENSES IN EXCESS OF REVENUE	(935,807)	(28,813)	(941)	(965,561)	-	(62,241)	(62,241)	(1,027,802)	(943,189)
Transfer of property from third parties	-	-	397,500	397,500	-	-	-	397,500	-
Non-operating income (expenses)	180,737	-	-	180,737	-	-	-	180,737	(37,994)
Change in post retirement benefit obligation	(18,013)	-	-	(18,013)	-	-	-	(18,013)	123,718
Investment income (loss), net	-	2,766,502	-	2,766,502	-	632,891	632,891	3,399,393	(4,049,393)
CHANGE IN NET ASSETS	(773,083)	2,737,689	396,559	2,361,165	-	570,650	570,650	2,931,815	(4,906,858)
Net (deficiency) assets at beginning of year	(289,043)	18,380,968	80,347	18,172,272	1,149,846	3,808,473	4,958,319	23,130,591	28,037,449
Spending policy transfer	1,024,267	(769,267)	-	255,000	-	(255,000)	(255,000)	-	-
Inter-fund transfers	(60,900)	89,082	(40,000)	(11,818)	-	11,818	11,818	-	-
NET (DEFICIENCY) ASSETS AT END OF YEAR	\$ (98,759)	\$ 20,438,472	\$ 436,906	\$ 20,776,619	\$ 1,149,846	\$ 4,135,941	\$ 5,285,787	\$ 26,062,406	\$ 23,130,591

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, 2023

(With Comparative Totals for 2022)

	Without Donor Restrictions				With Donor Restrictions			December 31,	
	Operating	Special Purpose	Real Estate	Total	Endowment	By Donors	Total	2023	2022
								Total All Funds	Total All Funds
<u>CASH FLOWS - OPERATING ACTIVITIES</u>									
Change in net assets	\$ (773,083)	\$ 2,737,689	\$ 396,559	\$ 2,361,165	\$ -	\$ 570,650	\$ 570,650	\$ 2,931,815	\$ (4,906,858)
Adjustments to reconcile change in net (deficiency) assets to net cash used for operating activities:									
Depreciation	-	-	941	941	-	-	-	941	811
Realized and unrealized (gain) loss on investments, net	-	(2,766,502)	-	(2,766,502)	-	(632,891)	(632,891)	(3,399,393)	4,049,393
Changes in certain assets and liabilities affecting operations:									
Due to (from) other funds	6,785	(1,611)	-	5,174	-	(5,174)	(5,174)	-	-
Transfer of property from third parties	-	-	(397,500)	(397,500)	-	-	-	(397,500)	-
Prepays and other assets	(1,209)	-	-	(1,209)	-	-	-	(1,209)	(988)
Accounts payable	5,534	-	-	5,534	-	-	-	5,534	(8,205)
Accrued liabilities	(24,404)	-	-	(24,404)	-	-	-	(24,404)	(123,718)
NET CASH USED FOR OPERATING ACTIVITIES	(786,377)	(30,424)	-	(816,801)	-	(67,415)	(67,415)	(884,216)	(989,565)
<u>CASH FLOWS - INVESTING ACTIVITIES</u>									
Changes in mortgages and loans receivable, net	-	137,345	-	137,345	-	71,865	71,865	209,210	169,623
Sales of investments	-	753,141	-	753,141	-	348,971	348,971	1,102,112	1,114,284
Purchase of investments	-	(179,877)	-	(179,877)	-	(34,428)	(34,428)	(214,305)	(208,807)
Proceeds from the sale of buildings and equipment	-	-	40,000	40,000	-	-	-	40,000	-
Spending policy transfer	1,024,267	(769,267)	-	255,000	-	(255,000)	(255,000)	-	-
Inter-fund transfer	(60,900)	89,082	(40,000)	(11,818)	-	11,818	11,818	-	-
NET CASH PROVIDED FROM INVESTING ACTIVITIES	963,367	30,424	-	993,791	-	143,226	143,226	1,137,017	1,075,100
NET INCREASE IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	176,990	-	-	176,990	-	75,811	75,811	252,801	85,535
Cash and cash equivalents and restricted cash at beginning of year	253,521	-	-	253,521	-	264,475	264,475	517,996	432,461
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AT END OF YEAR	\$ 430,511	\$ -	\$ -	\$ 430,511	\$ -	\$ 340,286	\$ 340,286	\$ 770,797	\$ 517,996

The accompanying notes are an integral part of the financial statements.

EPISCOPAL DIOCESE OF ROCHESTER

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023
(With Comparative Totals for 2022)

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.

EPISCOPAL DIOCESE OF ROCHESTER

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2023
(With Comparative Totals for 2022)

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.

Mortgages and loans receivable and allowance for credit losses

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 credit 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 credit losses is necessary at December 31, 2023 and 2022.

Loans are placed on nonaccrual status when management believes collection of interest is doubtful. As of December 31, 2023 and 2022, the Diocese did not have any loans on nonaccrual status.

EPISCOPAL DIOCESE OF ROCHESTER

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2023
(With Comparative Totals for 2022)

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

The allowance for credit losses is derived from a review of the Diocese's historical losses of mortgages and loans receivable. This estimate is adjusted for management's assessment of current conditions, reasonable and supportable forecasts regarding future events, and any other factors deemed relevant by the Diocese. The Diocese believes historical loss information is a reasonable starting point in which to calculate the expected allowance for credit losses. Since the mortgage and loans receivable are with active congregations, in addition to the historical loss information, the Diocese also considers the congregation's assets in determining if an allowance for credit losses is required. In the event a congregation closes, their assets would revert back to the Diocese. The allowance for credit losses for the year ended December 31, 2023 was not material to the financial statements.

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

The Diocese periodically reviews its land, buildings and equipment for impairment. When there is an impairment indicator, the Diocese determines whether the land, buildings or equipment are impaired. In performing this analysis, potential alternatives and probabilities thereof are considered. Should these considerations change, an impairment could occur which could impact the results of operations. In cases where the Diocese does not expect to recover carrying costs, the Diocese recognizes an impairment loss.

EPISCOPAL DIOCESE OF ROCHESTER

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2023
(With Comparative Totals for 2022)

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

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.

Transfer of property from third parties

Transfer of property from third parties represent properties that have reverted back to the Diocese due to financial hardship of the applicable congregation. During 2023, three properties (St. John's Church, Sodus – moved to mission status; St. Stephen's Church, Rochester; Trinity Church, Canaseraga) totaling \$397,500 reverted back to the Diocese and are recognized in the accompanying statement of activities under Other Revenue.

Use of estimates

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

Comparative totals as of December 31, 2022

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, 2022, from which the summarized information was derived.

Adoption of new accounting standard – Credit losses

In June 2016, the FASB issued guidance (FASB ASC 326) which significantly changed how entities will measure credit losses for most financial assets and certain other instruments that aren't measured at fair value through net income. The most significant change in this standard is a shift from the incurred loss model to the expected loss model. Under the standard, disclosures are required to provide users of the financial statements with useful information in analyzing an entity's exposure to credit risk and the measurement of credit losses. Financial assets held by the Diocese that are subject to the guidance in FASB ASC 326 were mortgage and loans receivable.

The Diocese adopted the standard effective January 1, 2023. The impact of adoption was not considered material to the financial statements and primarily resulted in enhanced disclosures only.

EPISCOPAL DIOCESE OF ROCHESTER

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2023
(With Comparative Totals for 2022)

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

Subsequent events

The Diocese has conducted an evaluation of potential subsequent events occurring after the statement of financial position date through August 12, 2024, which is the date the financial statements are available to be issued. No subsequent events requiring disclosure were noted.

NOTE B: MORTGAGES AND LOANS RECEIVABLE

Mortgages and loans receivable consisted of the following:

	<u>December 31,</u>	
	<u>2023</u>	<u>2022</u>
<u>Without Donor Restrictions</u>		
Clergy housing loan fund	\$ 52,415	\$ 86,972
Community development loans	<u>357,271</u>	<u>460,059</u>
	409,686	547,031
<u>With Donor Restrictions</u>		
Sibley revolving loan fund	271,359	338,724
Bishop loan fund	<u>4,500</u>	<u>9,000</u>
	<u>275,859</u>	<u>347,724</u>
	<u>\$ 685,545</u>	<u>\$ 894,755</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 \$317,000 and \$367,000 of the balance of the receivables outstanding at December 31, 2023 and 2022, respectively, are secured by first and second mortgages. All remaining amounts outstanding are unsecured.

There were no discounts related to early payment discount as of December 31, 2023. The Diocese approved one parish to pay their outstanding loan balance in a lump sum and receive a discount as of December 31, 2022. The discount related to the early payment of the loan was approximately \$8,000 for the year ended December 31, 2022, and is included as loan forgiveness on the accompanying statement of activities and changes in net (deficiency) assets.

EPISCOPAL DIOCESE OF ROCHESTER

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2023
(With Comparative Totals for 2022)

NOTE B: MORTGAGES AND LOANS RECEIVABLE, Cont'd

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

<u>For the year ending December 31,</u>	<u>Amount</u>
2024	\$ 132,986
2025	75,661
2026	67,614
2027	67,227
2028	62,764
Thereafter	<u>279,293</u>
	<u>\$ 685,545</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. The Diocese has also invested additional Diocesan controlled funds in a separate account with CNB which are 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, 2023
(With Comparative Totals for 2022)

NOTE C: INVESTMENTS, Cont'd

The composition of the investments at CNB is as follows:

	December 31,	
	2023	2022
Diocesan funds	\$ 20,973,098	\$ 18,866,691
Parishes and other organizations for which the Diocese is Trustee	2,551,361	2,298,202
Total Diocesan Trusteed Combined Endowment	23,524,459	21,164,893
Non-Trusteed funds belonging to other parishes in the Diocese	9,161,025	8,517,753
Total Combined Endowment	32,685,484	29,682,646
Diocesan funds - not included in Combined Endowment	1,165,717	1,013,697
Total Investments at CNB	\$ 33,851,201	\$ 30,696,343

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

	December 31,	
	2023	2022
Investments, stated at fair value:		
Money market funds	\$ 914,178	\$ 1,092,503
U.S. government obligations	958,190	819,420
Corporate bonds	2,004,663	1,827,761
Fixed income funds	4,448,563	4,405,710
Large cap mutual funds	1,965,721	1,347,993
Mid cap mutual funds	2,207,175	2,168,081
Equity mutual funds	491,365	431,610
Common stock	14,931,118	13,484,292
Investments measured at net asset value	5,930,228	5,118,973
Total investments at CNB	\$ 33,851,201	\$ 30,696,343

The Diocese owns approximately a 72% pro-rata share of each individual investment class included in the Combined Endowment Fund as of December 31, 2023 and 2022.

EPISCOPAL DIOCESE OF ROCHESTER

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2023
(With Comparative Totals for 2022)

NOTE C: INVESTMENTS, Cont'd

Investment income (loss)

The Diocese recorded the following investment income (loss) for the years ended:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
December 31, 2023:			
Interest and dividend income	\$ 433,216	\$ 101,200	\$ 534,416
Gain on investments	2,446,961	556,947	3,003,908
Investment related expenses	<u>(113,675)</u>	<u>(25,256)</u>	<u>(138,931)</u>
	<u>\$ 2,766,502</u>	<u>\$ 632,891</u>	<u>\$ 3,399,393</u>
December 31, 2022:			
Interest and dividend income	\$ 361,320	\$ 84,670	\$ 445,990
Loss on investments	(3,516,262)	(837,879)	(4,354,141)
Investment related expenses	<u>(114,306)</u>	<u>(26,936)</u>	<u>(141,242)</u>
	<u>\$ (3,269,248)</u>	<u>\$ (780,145)</u>	<u>\$ (4,049,393)</u>

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.

EPISCOPAL DIOCESE OF ROCHESTER

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2023
(With Comparative Totals for 2022)

NOTE D: FAIR VALUE MEASUREMENTS, Cont'd

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, 2023 and 2022:

Money market funds, U.S. government obligations, fixed income funds, mid cap mutual funds, large 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.

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.

EPISCOPAL DIOCESE OF ROCHESTER

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2023
(With Comparative Totals for 2022)

NOTE D: FAIR VALUE MEASUREMENTS, Cont'd

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, 2023 and 2022:

	December 31, 2023			Total
	Level 1	Level 2	Level 3	
Money market funds	\$ 914,178	\$ -	\$ -	\$ 914,178
U.S. government obligations	958,190	-	-	958,190
Corporate bonds	-	2,004,663	-	2,004,663
Fixed income funds	4,448,563	-	-	4,448,563
Large cap mutual funds	1,965,721	-	-	1,965,721
Mid cap mutual funds	2,207,175	-	-	2,207,175
Equity mutual funds	491,365	-	-	491,365
Common stock	14,931,118	-	-	14,931,118
Investments measured at net asset value	-	-	-	5,930,228
	<u>\$ 25,916,310</u>	<u>\$ 2,004,663</u>	<u>\$ -</u>	<u>\$ 33,851,201</u>

	December 31, 2022			Total
	Level 1	Level 2	Level 3	
Money market funds	\$ 1,092,503	\$ -	\$ -	\$ 1,092,503
U.S. government obligations	819,420	-	-	819,420
Corporate bonds	-	1,827,761	-	1,827,761
Fixed income funds	4,405,710	-	-	4,405,710
Large cap mutual funds	1,347,993	-	-	1,347,993
Mid cap mutual funds	2,168,081	-	-	2,168,081
Equity mutual funds	431,610	-	-	431,610
Common stock	13,484,292	-	-	13,484,292
Investments measured at net asset value	-	-	-	5,118,973
	<u>\$ 23,749,609</u>	<u>\$ 1,827,761</u>	<u>\$ -</u>	<u>\$ 30,696,343</u>

EPISCOPAL DIOCESE OF ROCHESTER

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2023
(With Comparative Totals for 2022)

NOTE E: LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consists of the following:

	<u>December 31,</u>	
	<u>2023</u>	<u>2022</u>
Land	\$ 240,262	\$ 56,758
Buildings and improvements	554,449	455,453
Equipment	<u>33,353</u>	<u>33,353</u>
	828,064	545,564
Less accumulated depreciation	(391,158)	(390,217)
Less impairment reserve	<u>-</u>	<u>(75,000)</u>
	<u>\$ 436,906</u>	<u>\$ 80,347</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 \$27,700 and \$27,900 for the years ended December 31, 2023 and 2022, 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 \$52,100 and \$51,800 for the years ended December 31, 2023 and 2022, respectively.

EPISCOPAL DIOCESE OF ROCHESTER

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2023
(With Comparative Totals for 2022)

NOTE G: POSTRETIREMENT BENEFITS

The Diocese provides certain health care and life insurance benefits for retired clergy and lay employees that meet certain requirements such as age and employment history. The contribution amounts are included in the annual calculation of the postretirement benefit. The Diocese has recorded an obligation related to the postretirement benefits at December 31, 2023 and 2022 in the amounts of \$535,242 and \$559,646, respectively, which are included in accrued liabilities and other in the accompanying statement of financial position.

Certain information involving Postretirement Benefits is summarized as follows:

	<u>December 31,</u>	
	<u>2023</u>	<u>2022</u>
Benefit obligation	\$ 535,242	\$ 559,646
Fair value of plan assets	-	-
Funded Status	<u>\$ (535,242)</u>	<u>\$ (559,646)</u>
Accumulated benefit obligation	<u>\$ 535,242</u>	<u>\$ 559,646</u>
Amounts recognized in the statement of financial position, included in accrued liabilities and other	<u>\$ (535,242)</u>	<u>\$ (559,646)</u>
	<u>Year Ended</u> <u>December 31,</u>	
	<u>2023</u>	<u>2022</u>
Benefit cost	\$ 30,756	\$ 36,431
Employer contributions	45,862	48,228
Benefits paid	45,862	48,228
Weighted average assumptions as of December 31, 2023 and 2022		
Discount rate for benefit obligations	5.00%	3.00%

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, 2024 is expected to be approximately \$49,000.

EPISCOPAL DIOCESE OF ROCHESTER

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2023
(With Comparative Totals for 2022)

NOTE G: POSTRETIREMENT BENEFITS, Cont'd

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.

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>
2024	\$ 49,017
2025	47,852
2026	48,678
2027	47,740
2028	47,394
2029-2032	<u>217,178</u>
	<u>\$ 457,859</u>

The total estimated future benefit payments, \$457,859, varies from accumulated benefit obligation, \$535,242 at December 31, 2023, because the estimated future benefit payments do not include amounts paid beyond ten years and are not discounted to present value.

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

EPISCOPAL DIOCESE OF ROCHESTER

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2023
(With Comparative Totals for 2022)

NOTE H: 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>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 770,797	\$ 517,996
Mortgage and loans receivable, due in 2024 and 2023, respectively	132,986	153,598
Other assets - prior year parish apportionments	8,823	9,444
Investments	<u>24,690,176</u>	<u>22,178,590</u>
Total financial assets available within one year	25,602,782	22,859,628
Less:		
Amounts unavailable for general expenditures within one year, due to:		
Restricted by donors with purpose restrictions	(4,135,941)	(3,808,473)
Restricted by donors in perpetuity	<u>(1,149,846)</u>	<u>(1,149,846)</u>
Total amounts unavailable for general expenditures within one year	(5,285,787)	(4,958,319)
Amounts unavailable to management without Trustees' approval	<u>(20,438,472)</u>	<u>(18,380,968)</u>
	(121,477)	(479,659)
Plus:		
Approved draw from investments for 2024 and 2023, respectively	<u>1,229,600</u>	<u>1,058,445</u>
Total financial assets available to management for general expenditures within one year	<u>\$ 1,108,123</u>	<u>\$ 578,786</u>

Overall, draws from investments account for approximately 48% of the funding for operations over the past five years. The remaining funding has come almost entirely from parish apportionment.

The Trustees of the Diocese have worked to reduce the overall draw from investments from an average of 6.8% in the years following the recessions (2008 to 2012) to an average of 4.6% over recent years (2019-2023). For 2023, the net draw was 4.4% (of the trailing five-year average balance) and for 2024 Trustees authorized draws of approximately 5.4% (including cash & cash equivalents), with an overall target for future draws of 4.0%.

EPISCOPAL DIOCESE OF ROCHESTER

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2023
(With Comparative Totals for 2022)

NOTE H: 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. With very low recent returns on cash equivalents, Trustees have moved a portion of the assets into ultra-short term bond funds in 2021. With increasing interest rates, these funds were moved back to cash equivalents in 2022.

Over the last five years, monthly draws from investments have averaged approximately \$80,000. Over the next three years, the Diocese projects average monthly draws of approximately \$98,000. The December 31, 2023 level of cash and cash equivalents would fund almost 15 months of current operations. 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 I: NET ASSETS

Net assets without donor restrictions are as follows:

	<u>December 31,</u>	
	<u>2023</u>	<u>2022</u>
Undesignated	\$ (98,759)	\$ (289,043)
Designated by the Trustees for endowment and special purposes	20,438,472	18,380,968
Invested in property and equipment	<u>436,906</u>	<u>80,347</u>
	<u>\$ 20,776,619</u>	<u>\$ 18,172,272</u>

EPISCOPAL DIOCESE OF ROCHESTER

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2023
(With Comparative Totals for 2022)

NOTE I: NET ASSETS, Cont'd

Net assets with donor restrictions at December 31, 2023 and 2022, are restricted for the following purposes:

	December 31,	
	2023	2022
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. John's 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	275,859	347,724
Care for clergy	20,131	50,288
Care and maintenance of cemetery - Allen's Hill Cemetery	96,385	104,994
Women's auxiliary	72,681	62,265
Clergy, church property and Sunday school - Grace Church	38,069	33,318
For general purposes - Church of the Epiphany	20,130	17,777
Swan memorial fund - St. John's Church, Mount Morris	79,994	41,201
Youth programs	80,096	67,614
Theological scholarships	416,169	349,956
Episcopate expenses - Episcopal Diocese of Rochester	2,245,586	2,029,192
Leadership development	434,269	389,679
Loans for clergy or churches - Bishops discretion	96,118	78,587
Scholarships for children of clergy	113,263	102,967
Millennium development	128,997	116,993
Other	18,194	15,918
Total purpose restricted net assets	4,135,941	3,808,473
Total net assets with donor restrictions	\$ 5,285,787	\$ 4,958,319

EPISCOPAL DIOCESE OF ROCHESTER

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2023
(With Comparative Totals for 2022)

NOTE J: 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, 2023 and 2022, the Diocese had restricted investments of \$4,237,281 and \$3,922,372, respectively, which are impacted by NYPMIFA.

EPISCOPAL DIOCESE OF ROCHESTER

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2023
(With Comparative Totals for 2022)

NOTE J: ENDOWMENTS, Cont'd

Endowment net asset composition by type of fund as of December 31, 2023 and 2022:

	Without Donor Restriction	With Donor Restrictions	Total
December 31, 2023:			
Donor-restricted endowment funds	\$ -	\$ 4,237,281	\$ 4,237,281
Trustee-designated	18,514,532	-	18,514,532
Total endowment funds	18,514,532	4,237,281	22,751,813
Diocesan funds - not included in Combined Endowment	1,165,717	-	1,165,717
Investments related to amounts restricted by donors or designated by the trustees not included in the endowment	345,710	426,936	772,646
Total investments	\$ 20,025,959	\$ 4,664,217	\$ 24,690,176
December 31, 2022:			
Donor-restricted endowment funds	\$ -	\$ 3,922,372	\$ 3,922,372
Trustee-designated	16,554,294	-	16,554,294
Total endowment funds	16,554,294	3,922,372	20,476,666
Diocesan funds - not included in Combined Endowment	1,013,697	-	1,013,697
Investments related to amounts restricted by donors not included in the endowment	264,730	423,497	688,227
Total investments	\$ 17,832,721	\$ 4,345,869	\$ 22,178,590

EPISCOPAL DIOCESE OF ROCHESTER

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2023
(With Comparative Totals for 2022)

NOTE J: ENDOWMENTS, Cont'd

For the years ended December 31, 2023 and 2022, the Diocese had the following endowment related activities:

	<u>Without Donor</u> <u>Restrictions</u>	<u>With Donor</u> <u>Restrictions</u>	<u>Total</u>
Balance at January 1, 2022	\$ 19,863,797	\$ 4,970,889	\$ 24,834,686
Investment return:			
Interest and dividends	337,110	80,874	417,984
Net depreciation	<u>(3,479,734)</u>	<u>(845,821)</u>	<u>(4,325,555)</u>
Total investment loss	(3,142,624)	(764,947)	(3,907,571)
Additions	207,707	-	207,707
Withdrawals	(51,723)	(21,670)	(73,393)
Appropriated for expenditure	<u>(322,863)</u>	<u>(261,900)</u>	<u>(584,763)</u>
Total change in funds	<u>(3,309,503)</u>	<u>(1,048,517)</u>	<u>(4,358,020)</u>
Total endowment funds at December 31, 2022	16,554,294	3,922,372	20,476,666
Investment loss:			
Interest and dividends	382,311	87,118	469,429
Net appreciation	<u>2,233,827</u>	<u>513,041</u>	<u>2,746,868</u>
Total investment return	2,616,138	600,159	3,216,297
Additions	179,877	10,000	189,877
Transfers	(15,000)	15,000	-
Withdrawals	(101,646)	(72,510)	(174,156)
Appropriated for expenditure	<u>(719,131)</u>	<u>(237,740)</u>	<u>(956,871)</u>
Total change in funds	<u>1,960,238</u>	<u>314,909</u>	<u>2,275,147</u>
Total endowment funds at December 31, 2023	<u>\$ 18,514,532</u>	<u>\$ 4,237,281</u>	<u>\$ 22,751,813</u>

EPISCOPAL DIOCESE OF ROCHESTER

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2023
(With Comparative Totals for 2022)

NOTE J: 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, 2023 and 2022, 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, 2023
(With Comparative Totals for 2022)

NOTE J: 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 K: LAWSUITS

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 has not been notified of any amount claimed and cannot estimate an amount potentially due. As of the report date, there has been no changes to the aforementioned lawsuit. During 2021, in addition to the lawsuit in 2019, the Diocese was named in two lawsuits involving the Boy Scouts of America that were stayed by the U.S. Bankruptcy Court. The U.S. Bankruptcy Court overseeing the BSA Settlement Plan (the "Plan") has affirmed the proposed settlement (that was previously appealed) and the Plan is now effective as of April 19, 2023. This starts the one-year period in which claimants are barred from prosecuting, but not from filing, non-settled claims against participating organizations (of which the Diocese and some parishes are a part). The stay was lifted, and the Diocese is not aware of any further developments or actions pertaining to these lawsuits. The Diocese expects these suits to move forward slowly.

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, 2023

	Budget Approved by Diocesan Convention as Revised (Unaudited)	Actual Budgetary Basis	Actual Over/Under Budget
<u>REVENUE</u>			
Parish Support	\$ 992,163	\$ 991,850	\$ (313)
Investment spending policy	1,038,445	1,024,267	(14,178)
Interest on mortgages and loans	20,000	14,211	(5,789)
Other	<u>20,000</u>	<u>12,404</u>	<u>(7,596)</u>
	<u>2,070,608</u>	<u>2,042,732</u>	<u>(27,876)</u>
 <u>EXPENSES</u>			
D & F MS Asking	268,698	268,698	-
Mission Partnerships	175,000	172,460	(2,540)
Congregational development	305,000	312,833	7,833
Leadership development	143,870	121,447	(22,423)
Governance	135,500	114,379	(21,121)
Diocesan Staff - Salaries	657,516	646,589	(10,927)
Diocesan Staff - Benefits	225,024	213,119	(11,905)
Diocesan Staff - Expenses	19,000	18,935	(65)
Office Expense	<u>91,000</u>	<u>85,812</u>	<u>(5,188)</u>
Total operating expenses	2,020,608	1,954,272	(66,336)
Change in retirement obligation	-	18,013	18,013
Post retirement health benefits and other non-operating income and expenses	<u>50,000</u>	<u>(180,737)</u>	<u>(230,737)</u>
Total non-operating expenses (income)	<u>50,000</u>	<u>(162,724)</u>	<u>(212,724)</u>
Income from operating fund	<u>\$ -</u>	<u>\$ 251,184</u>	<u>\$ 251,184</u>