

**ALBANY DIOCESAN INVESTMENT TRUST
FINANCIAL STATEMENTS
DECEMBER 31, 2017**

ALBANY DIOCESAN INVESTMENT TRUST

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INDEPENDENT AUDITOR'S REPORT

To the Trustees
Albany Diocesan Investment Trust

We have audited the accompanying financial statements of Albany Diocesan Investment Trust, which comprise the statements of assets and liabilities as of December 31, 2017 and 2016, and the related statements of operations and changes in net assets, for the years 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 audits. We conducted our audits 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 audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Albany Diocesan Investment Trust as of December 31, 2017 and 2016, and the changes in its net assets for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Marvin and Company, P.C.

Queensbury, NY
May 14, 2018

ALBANY DIOCESAN INVESTMENT TRUST
STATEMENTS OF ASSETS AND LIABILITIES
DECEMBER 31, 2017 AND 2016

ASSETS	<u>2017</u>	<u>2016</u>
ASSETS		
Cash	\$ 198,646	\$ 284,463
Cash - savings	95,592	152,478
Investments, at fair value (cost \$18,432,104 in 2017; \$18,006,077 in 2016)	21,287,606	19,888,334
Money market funds	692,999	847,052
Loans receivable	32,493	39,093
Dividends/Interest receivable	<u>37,481</u>	<u>53,582</u>
 TOTAL ASSETS	 <u><u>\$ 22,344,817</u></u>	 <u><u>\$ 21,265,002</u></u>
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Distributions payable	\$ 204,127	\$ 205,085
Administrative fees payable	18,326	9,071
Shareholder deposits	<u>119,378</u>	<u>283,096</u>
 TOTAL LIABILITIES	 <u>341,831</u>	 <u>497,252</u>
 NET ASSETS	 <u>22,002,986</u>	 <u>20,767,750</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u><u>\$ 22,344,817</u></u>	 <u><u>\$ 21,265,002</u></u>
 Net Asset Value Per Share	 <u><u>\$ 31.31</u></u>	 <u><u>\$ 29.83</u></u>

ALBANY DIOCESAN INVESTMENT TRUST
STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

INVESTMENT INCOME AND EXPENSES	<u>2017</u>	<u>2016</u>
INCOME EARNED		
Interest	\$ 130,283	\$ 122,363
Dividends	341,320	289,580
	<u>471,603</u>	<u>411,943</u>
 EXPENSES		
Investment management fees	140,628	64,653
Administrative expenses	109,956	99,868
Foreign taxes paid	475	-
Other expenses	80,969	27,447
	<u>332,028</u>	<u>191,968</u>
 TOTAL EXPENSES	<u>332,028</u>	<u>191,968</u>
 NET INVESTMENT INCOME	<u>139,575</u>	<u>219,975</u>
 REALIZED AND UNREALIZED GAINS (LOSSES) ON INVESTMENTS		
Net realized gain	734,819	304,959
Net unrealized gain (loss)	973,248	1,325,626
	<u>1,708,067</u>	<u>1,630,585</u>
 TOTAL GAIN (LOSS) ON INVESTMENTS	<u>1,708,067</u>	<u>1,630,585</u>
 INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS	<u>1,847,642</u>	<u>1,850,560</u>
 DISTRIBUTIONS TO SHAREHOLDERS		
Distributions paid	(812,638)	(825,366)
 INCREASE (DECREASE) IN NET ASSETS BEFORE SHARE TRANSACTIONS	<u>1,035,004</u>	<u>1,025,194</u>
 SHARE TRANSACTIONS		
Increase in net assets from sales of shares, including dividend reinvestments	537,111	424,758
Decrease in net assets from redemption of shares	(336,879)	(912,710)
	<u>200,232</u>	<u>(487,952)</u>
 INCREASE (DECREASE) IN NET ASSETS RESULTING FROM SHARE TRANSACTIONS	<u>200,232</u>	<u>(487,952)</u>
 NET INCREASE (DECREASE) IN NET ASSETS	1,235,236	537,242
 NET ASSETS		
Beginning of Year	<u>20,767,750</u>	<u>20,230,508</u>
End of Year	<u>\$ 22,002,986</u>	<u>\$ 20,767,750</u>

See accompanying notes to financial statements.

**ALBANY DIOCESAN INVESTMENT TRUST
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Albany Diocesan Investment Trust (the "Trust") is presented to assist in understanding the Trust's financial statements. The Albany Diocesan Investment Trust was established in 1942, operates under a stated declaration that allows the Episcopal Diocese of Albany, (the "Diocese"), along with its associated parishes and institutions, to purchase and redeem shares of beneficial interest in the pooled net asset value on specified dates.

Investment Valuation

For purposes of determining the fair value, investments in securities traded on national security exchanges are valued at the last reported sales price on the last day of the month; investments that are traded on public markets, but at times are not actively traded, are valued using prices obtained from a pricing source using primarily matrix pricing, which considers observable and unobservable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, credit information, and the instrument's terms and conditions among other things; money market funds are valued at cost, which approximates fair value.

Investment Transactions

Investment transactions are accounted for on the date securities are purchased or sold. The cost of investment securities sold is determined using the average cost method.

Shareholder Deposits

Shareholder deposits, a liability account on the Trust's statements of assets and liabilities, are principally comprised of shareholder funds received by the Trust, but not yet allocated to purchase shares.

Shareholder Distributions

Distributions are recorded to shareholders of record at closing of the last business day of each calendar quarter and paid in the following month. Distributions are generally paid in the form of cash; or, if elected by the shareholder, reinvested in additional shares. Shareholder distributions are calculated based on a 4% of net average October 31st market value per share for the prior three years. The quarterly shareholder distribution payments in 2017 and 2016 were \$0.2905 and \$0.2946 per share, respectively; or \$1.1621 and \$1.1784, respectively each year.

Related Party Transactions

The Trust is related to Episcopal Diocese of Albany (the "Diocese") and Episcopal Charities of Albany, Inc. (Charities), entities which support the overall mission of the Episcopal Church in upstate New York. Through this relationship, these entities share management, personnel and office facilities, although each entity is governed by a separate oversight board. Transactions between these entities are deemed to be related party transactions.

Income Taxes

The Trust is a grantor trust and is, therefore, not subject to federal and state income taxes.

**ALBANY DIOCESAN INVESTMENT TRUST
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Estimates and Assumptions

The preparation of financial statements in conformity with generally accepted accounting principles require management to make estimates and assumptions that affect the reported amounts in the financial statements. Actual results could differ from those estimates.

2. INVESTMENT MANAGEMENT

The Trustees of the Episcopal Diocese of Albany have fiduciary responsibility to define investment objectives, manage securities, monitor risk and evaluate the performance of the Trust's investments.

Through September 2016, custody and management of the Trust's investment assets were overseen by J.P. Morgan Chase Bank, employing a "risk averse" investment strategy with emphasis on institutional class shares of mutual funds. During the remainder of 2016, the Trust transferred their investment assets into the custody of Charles Schwab and the management of Fenimore Asset Management.

The investment policy targeted market allocations of the Trust's investments at December 31, 2017 is as follows:

<u>Market Allocation</u>	<u>% of Trust Assets</u>
Global Fixed Income (including US)	10% - 40%
Global Equity Securities (including US)	60% - 90%
Cash Savings	0% - 20%

At December 31, 2017, the investment portfolio was in compliance with the allocation policy noted above.

For investment management purposes, the fixed income allocation includes Diocesan Development Fund loans receivable totaling \$32,493, or less than 1% of total investments, at December 31, 2017.

Administrative services for the Trust are provided by the Diocese under an arrangement that determines an annual cost not to exceed 1/2 of 1 percent of the net asset value at the end of the calendar year. The total annual costs for these services were \$109,956 and \$99,868 for 2017 and 2016, respectively.

3. SHARE TRANSACTIONS

Shares of the Trust may be issued or redeemed on the first business day of a month, at the per share valuation calculated as of the last business day of the preceding month. Purchases and redemptions may be initiated by submitting an irrevocable written request (for purchases, with a check) no later than three business days before the end of the month.

**ALBANY DIOCESAN INVESTMENT TRUST
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

Share transactions during the years ended December 31, 2017 and 2016 were as follows:

Number of Shares	<u>2017</u>	<u>2016</u>
Balance at beginning of year	696,163	715,881
Shares issued to shareholders, including reinvestments	17,954	15,410
Shares redeemed from shareholders	<u>(11,442)</u>	<u>(35,128)</u>
Balance at end of the year	<u>702,675</u>	<u>696,163</u>

4. LOANS RECEIVABLE, RELATED PARTY TRANSACTIONS AND CONTINGENCIES

From time to time, the Trust may purchase certain loans from the Diocesan Development Fund, a fund of the Episcopal Diocese of Albany. These loans are purchased from the Diocese at face value (the unamortized amount of principal), with a guarantee of full recourse, including interest, in the event of a default.

The cumulative amount of loans in the portfolio at any one time is limited to \$500,000. The balance of the outstanding loan at December 31, 2017 and 2016 was \$32,493 and \$39,093, respectively. The interest rate on this loan was 5.5%. The acquisition of these loans, as disclosed herein, may not have been the same had the Trust operated without such related party affiliations.

5. CONCENTRATION OF CREDIT RISK

The Trust occasionally maintains deposits in excess of insured limits. Accounting Standards Codification (ASC) 825, *Financial Instruments* identifies these items as a concentration of credit risk requiring disclosure, regardless of degree of risk. The risk is managed by maintaining all deposits in high quality financial institutions.

6. NET ASSET VALUE PER SHARE

In accordance with the Declaration of Trust, the net asset values per share at December 31, 2017 and 2016 were determined as follows:

Net Asset Value	<u>2017</u>	<u>2016</u>
Net Assets	\$ 22,002,986	\$ 20,767,750
Shares Outstanding	<u>702,675</u>	<u>696,163</u>
Net Asset Value per share	<u>\$ 31.31</u>	<u>\$ 29.83</u>

**ALBANY DIOCESAN INVESTMENT TRUST
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

7. SHARE INFORMATION

A schedule of per share information, based upon the number of shares outstanding at December 31, 2017 and 2016, follows:

	<u>2017</u>	<u>2016</u>
Income earned	\$ 0.67	\$ 0.59
Expense allocation	<u>(0.47)</u>	<u>(0.28)</u>
Net investment income	0.20	0.31
Net gain/(loss) from investment activities (net of expense allocation)	2.43	2.34
Distributions paid to shareholders	<u>(1.16)</u>	<u>(1.19)</u>
Increase (decrease) in net assets before share transactions	<u>\$ 1.47</u>	<u>\$ 1.46</u>
Ratio of expense to Net Assets	<u>1.51%</u>	<u>0.94%</u>
Ratio of net investment income to Net Assets	<u>.63%</u>	<u>1.04%</u>
Ratio of increase (decrease) in Net Assets to Net Assets per Share	<u>4.70%</u>	<u>4.89%</u>
Shares outstanding at December 31	<u>702,675</u>	<u>696,163</u>

8. FAIR VALUE MEASUREMENTS

The Trust has adopted Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, which provides a framework for measuring fair value. ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

**ALBANY DIOCESAN INVESTMENT TRUST
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

8. FAIR VALUE MEASUREMENTS

Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels are described as follows:

Level 1 - Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following is a description of the valuation methodologies used for the years ended December 31, 2017 and 2016.

For purposes of determining the fair value, mutual funds, exchange traded funds, common equities and preferred equities are valued using market prices in active markets; investments in municipal bonds are valued using prices obtained from a pricing source using primarily matrix pricing, which considers observable and unobservable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, credit information, and the instruments terms and conditions among other things; and money market funds are valued at cost, which approximates fair value.

Fair values of assets and liabilities measured on a recurring basis at December 31, 2017 and 2016, are as follows:

Fair Value Measurements at Reporting Date Using Quoted Prices:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Unobservable Inputs (Level 3)</u>
December 31, 2017:				
Money Market Funds	\$ 692,999	\$ 692,999	\$ -	\$ -
Exchange Traded Fund	1,680,417	1,680,417	-	-
Bond Funds	1,761,561	1,761,561	-	-
Domestic Equities	12,765,052	12,765,052	-	-
Foreign Equities	1,283,606	1,283,606	-	-
Government & Corporate Bonds	<u>3,796,970</u>	<u>597,176</u>	<u>3,199,794</u>	<u>-</u>
Total	<u>\$ 21,980,605</u>	<u>\$ 18,780,811</u>	<u>\$ 3,199,794</u>	<u>\$ -</u>

**ALBANY DIOCESAN INVESTMENT TRUST
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8. FAIR VALUE MEASUREMENTS

Fair Value Measurements at Reporting Date Using Quoted Prices:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Unobservable Inputs (Level 3)</u>
December 31, 2016:				
Money Market Funds	\$ 847,052	\$ 847,052	\$ -	\$ -
Exchange Traded Funds	3,687,575	3,687,575	-	-
US Mid Cap Mutual Funds	1,231,122	1,231,122	-	-
Bond Funds	1,744,681	1,744,681	-	-
Domestic Equities	8,249,639	8,249,639	-	-
Foreign Equities	917,178	917,178	-	-
Government & Corporate Bonds	4,058,139	604,259	3,453,880	-
Total	<u>\$ 20,735,386</u>	<u>\$ 17,281,506</u>	<u>\$ 3,453,880</u>	<u>\$ -</u>

For the years ended December 31, 2017 and 2016 there were no transfers in or out of each level and there were no changes in the methods used to determine the levels.

9. RISKS AND UNCERTAINTIES

The Trust invests primarily in equity and debt securities which are exposed to various risks, such as interest rate risk, financial market risk and credit risk. Due to the level of risk associated with investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

10. SUBSEQUENT EVENTS

The Trust has evaluated events and transactions that occurred between December 31, 2017 and May 14, 2018 which is the date the financial statements were available to be issued, for possible recording or disclosure in the financial statements.