

**EPISCOPAL DIOCESE OF ALBANY
FINANCIAL STATEMENTS
DECEMBER 31, 2017**

EPISCOPAL DIOCESE OF ALBANY

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INDEPENDENT AUDITOR'S REPORT

To the Bishop, Trustees and Council of the
Episcopal Diocese of Albany

We have audited the accompanying financial statements of Episcopal Diocese of Albany, which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and changes in net assets, and cash flows 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 Episcopal Diocese of Albany as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of financial position by fund on pages 17 and 18 and the schedules of activities and changes in net assets by fund on pages 19 and 20 are presented for purposes of additional analysis and are 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, 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, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Marvin and Company, P.C.

Queensbury, NY

May 14, 2018

**EPISCOPAL DIOCESE OF ALBANY
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016**

ASSETS	<u>2017</u>	<u>2016</u>
ASSETS		
Cash	\$ 1,319,376	\$ 1,340,476
Accounts receivable	5,796	15,157
Other receivables	94,308	79,405
Prepaid expenses	11,319	22,703
Investments	6,474,964	6,097,552
Loans receivable from parishes	215,502	284,298
Net property and equipment	8,856,091	8,910,304
Cash - agency funds	53,244	46,182
Other assets	<u>10,051</u>	<u>15,244</u>
TOTAL ASSETS	<u>\$ 17,040,651</u>	<u>\$ 16,811,321</u>
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	\$ 171,408	\$ 176,264
Shareholder deposits	1,379	29,131
Agency funds payable	<u>53,244</u>	<u>46,182</u>
TOTAL LIABILITIES	<u>226,031</u>	<u>251,577</u>
NET ASSETS		
Unrestricted		
Available for general activities	10,805,920	10,917,707
Board designated - Bishop's residence	141,919	130,008
Temporarily restricted	2,344,513	1,989,761
Permanently restricted	<u>3,522,268</u>	<u>3,522,268</u>
TOTAL NET ASSETS	<u>16,814,620</u>	<u>16,559,744</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 17,040,651</u>	<u>\$ 16,811,321</u>

EPISCOPAL DIOCESE OF ALBANY
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	TOTAL	Unrestricted	Temporarily Restricted	Permanently Restricted	TOTAL
REVENUES								
Dividends and interest	\$ 95,242	\$ 167,565	\$ -	\$ 262,807	\$ 103,819	\$ 166,656	\$ -	\$ 270,475
Fees and related income	1,275,646	-	-	1,275,646	1,444,342	-	-	1,444,342
Contributions and bequests	423,171	-	-	423,171	325,647	54,600	-	380,247
Fitch gilbert trust distributions	82,404	-	-	82,404	112,526	-	-	112,526
Extinct parishes - net	-	-	-	-	251,486	-	-	251,486
Parish assessments	1,322,022	11,785	-	1,333,807	1,259,210	9,692	-	1,268,902
Releases from restrictions	102,691	(102,691)	-	-	107,459	(107,459)	-	-
TOTAL REVENUES	3,301,176	76,659	-	3,377,835	3,604,489	123,489	-	3,727,978
EXPENSES								
Program								
Distributions from trust accounts	51,858	-	-	51,858	86,623	-	-	86,623
Ministries and new initiatives	348,614	-	-	348,614	342,277	-	-	342,277
Clergy benefits and education	25,130	-	-	25,130	38,208	-	-	38,208
Special facilities costs	1,670,729	-	-	1,670,729	1,742,226	-	-	1,742,226
Management and General								
Diocesan headquarters operations	989,110	-	-	989,110	956,591	-	-	956,591
Professional fees	45,462	-	-	45,462	60,658	-	-	60,658
Depreciation	310,556	-	-	310,556	311,275	-	-	311,275
TOTAL EXPENSES	3,441,459	-	-	3,441,459	3,537,858	-	-	3,537,858
INCREASE (DECREASE) IN NET ASSETS BEFORE OTHER ITEMS	(140,283)	76,659	-	(63,624)	66,631	123,489	-	190,120
OTHER ITEMS								
Net realized and unrealized gain on investments	34,114	278,093	-	312,207	30,291	233,120	-	263,411
Gain on sale of property	6,293	-	-	6,293	-	-	-	-
Gain on termination of post-retirement health plan	-	-	-	-	734,044	-	-	734,044
TOTAL OTHER ITEMS	40,407	278,093	-	318,500	764,335	233,120	-	997,455
INCREASE (DECREASE) IN NET ASSETS	(99,876)	354,752	-	254,876	830,966	356,609	-	1,187,575
NET ASSETS								
Beginning of Year	11,047,715	1,989,761	3,522,268	16,559,744	10,216,749	1,633,152	3,522,268	15,372,169
End of Year	<u>\$ 10,947,839</u>	<u>\$ 2,344,513</u>	<u>\$ 3,522,268</u>	<u>\$ 16,814,620</u>	<u>\$ 11,047,715</u>	<u>\$ 1,989,761</u>	<u>\$ 3,522,268</u>	<u>\$ 16,559,744</u>

See accompanying notes to financial statements.

**EPISCOPAL DIOCESE OF ALBANY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 254,876	\$ 1,187,575
Adjustments to reconcile increase in net assets to cash provided by operating activities:		
Depreciation	310,556	311,275
Realized and unrealized gain on investments	(312,207)	(263,411)
Gain on disposition of property and equipment	(600)	-
Gain on termination of post-retirement health care plan	-	(734,044)
Changes In		
Accounts receivable	9,361	3,050
Other receivables	(14,903)	(14,967)
Prepaid expenses	11,384	4,728
Other assets	5,193	21
Accounts payable and accrued liabilities	(4,856)	(567)
Post-retirement health care liability	-	(57,936)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>258,804</u>	<u>435,724</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(256,343)	(353,616)
Proceeds from sale of property and equipment	600	-
Proceeds from sale of investments	175,388	256,550
Purchase of investments	(240,593)	(25,366)
Change in shareholder deposits	(27,752)	25,584
NET CASH USED BY INVESTING ACTIVITIES	<u>(348,700)</u>	<u>(96,848)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES		
Loans to parishes	(24,000)	(113,000)
Parish loan repayments	92,796	26,964
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>68,796</u>	<u>(86,036)</u>
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	 \$ (21,100)	 \$ 252,840
 CASH AND CASH EQUIVALENTS		
Beginning of Year	<u>1,340,476</u>	<u>1,087,636</u>
End of Year	<u>\$ 1,319,376</u>	<u>\$ 1,340,476</u>
 SCHEDULE OF NONCASH INVESTING TRANSACTIONS		
Gain on trade in of vehicle	<u>\$ 5,693</u>	<u>\$ -</u>

See accompanying notes to financial statements.

EPISCOPAL DIOCESE OF ALBANY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Episcopal Diocese of Albany (the "Diocese") is presented to assist in understanding the Diocese's financial statements. The Episcopal Diocese of Albany is the governing entity of the Episcopal Church in Northeast New York State. The financial operations of the Diocese are directed by the Bishop and the Diocesan Convention. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

Programs and Funds

The financial statements include all programs, funds and activities under the management of the Diocese. The following is a brief description of the various activities of the Diocese.

Trust Funds – These funds are comprised of trusts, legacies and certain other accounts, some of which are restricted to a specific use. The trust funds are managed by the Trustees of the Diocese.

Diocesan Development – This fund is used principally to make loans to parishes within the Diocese. The interest rate on these loans is 5.5%. The fund is managed by the Diocesan Development Fund Committee.

Diocesan Operations – Revenues are received from Parishes in the form of annual apportionments and contributions. Funds are disbursed primarily for administrative costs and to support various ministries of the Diocese. The net cost of real property and equipment owned by the Diocese (see Note 4), are also included in Diocesan operations. The operations of the Diocese are managed by the Bishop, the Diocesan Council and the Standing Committee of the Diocese.

Spiritual Life Center – Revenues are derived primarily from fees related to services provided at the Spiritual Life Center and donations. Expenses related to the operations and providing services by the Spiritual Life Center are included in special facilities costs. The operations of the Spiritual Life Center are managed by the Bishop and management of the Spiritual Life Center and Diocese.

All interfund transactions have been eliminated.

Net Asset Classifications

In the accompanying financial statements, net assets are reported under the following three classes:

- Unrestricted – represents resources over which the Trustees of the Diocese have full discretion with respect to use.
- Temporarily restricted – represents donor-imposed restrictions that permit the Diocese to use or expend the assets as specified. Donor-imposed restrictions for temporarily restricted net assets include restrictions for the funding of clergy sabbaticals, retired clergy, seminarians, counseling, new parish development, and other Diocesan programs and expenditures. The restrictions are satisfied either by the passage of time or by the actions of the Diocese. Temporarily restricted net assets also include the fair value appreciation of those investments, and related dividends and interest for those funds, held as permanently restricted. At December 31, 2017 and 2016, all of the temporarily restricted net assets were purpose restrictions.

EPISCOPAL DIOCESE OF ALBANY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Net Asset Classifications (Continued)

- Permanently restricted – represents endowment funds which contain donor-imposed restrictions that stipulate that the principal be maintained in perpetuity, but permit the Diocese to expend part or all of the income derived from the donated assets for either specified or unspecified purposes. Permanently restricted net assets are comprised of restricted trusts and funds, with each providing for the expenditure of current income for board designated purposes. Donor-imposed restrictions for permanently restricted net assets include, among other things, restrictions for the funding of clergy sabbaticals, educational programs, certain parish operations, and other Diocesan programs and expenditures.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Diocese considers all highly liquid debt instruments with an initial maturity of three months or less to be cash equivalents.

Contributions

Contributions, including legally enforceable promises to give, are recognized as revenue when received and are considered to be available for use unless specifically restricted by the donor. Conditional contributions, when applicable, are recognized as revenue when the conditions on which they depend have been substantially met. Contributions receivable are recorded at their net realizable value. At December 31, 2017 and 2016, there were no contributions due in more than one year.

The Diocese records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions. When a donor time restriction ends or a purpose restriction is fulfilled, the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Contributed Services and Facilities

When applicable, contributed services are recognized as revenue if the services create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and typically would need to be purchased if not provided by donation. Contributed services that do not meet the above criteria or are not quantifiable are not recognized as revenue and are not reported in the accompanying financial statements. During the years ended December 31, 2017 and 2016, there were no contributed services recognized as revenue.

EPISCOPAL DIOCESE OF ALBANY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Related Parties

The Diocese provides certain office facilities under an arrangement with two affiliates: Episcopal Charities of Albany, Inc. ("Charities") and Albany Diocesan Investment Trust ("ADIT"). These affiliates share some board members in common. During 2017 and 2016, Charities and ADIT provided the Diocese with reimbursement for certain allocated administrative costs of \$178,256 and \$226,104, respectively, shown on the statement of activities as part of fees and related income.

Loans Receivable from Parishes

Loans receivable from parishes represents funds advanced to parishes of the Episcopal Diocese of Albany. Loans are stated at unpaid principal balances and carry a rate of interest of 5.5%. The Diocese accounts for uncollectible loans using the direct charge-off method which Management believes estimates the allowance method. Loans receivable from parishes outstanding at December 31, 2017 and 2016 were \$215,502 and \$284,298, respectively.

Investments

Investments are comprised of shares in Albany Diocesan Investment Trust and are valued at net asset value in the statement of financial position. See Note 9 for further discussion. Unrealized gains and losses are included in the change in net assets.

Property and Equipment

Property and equipment are stated at cost. Expenditures for maintenance and repairs are expensed as incurred. The cost and related accumulated depreciation of property and equipment sold or otherwise disposed of are removed from the accounts and any gain or loss is reported as current year revenue or expense. Depreciation is provided using the straight-line method over the estimated useful lives of the respective assets ranging from three to forty years.

Income Taxes

No provision is made for income taxes as the Diocese is exempt from taxes under the Internal Revenue Code.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

**EPISCOPAL DIOCESE OF ALBANY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

2. INVESTMENTS

The Diocese invests available funds with the Albany Diocesan Investment Trust (ADIT), which operates under the direction of the Trustees of the Diocese. 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 October 2016, the Trust transferred their investment assets into the custody of Charles Schwab and the management of Fenimore Asset Management.

The combined net realized and unrealized gains (losses) on investments totaled \$312,207 and \$263,411 for the years ended December 31, 2017 and 2016, respectively.

The Diocese owned 206,604 and 204,398 shares of ADIT at December 31, 2017 and 2016, respectively, or approximately 29% of total ADIT shares respectively, outstanding each year. At December 31, 2017, the net asset value per ADIT share was \$31.31, an increase of \$1.48 compared with the net asset value at December 31, 2016 of \$29.83.

ADIT made annual distributions, paid quarterly, of approximately \$1.16 and \$1.18 per share in 2017 and 2016, respectively. Distributions are received as either cash payments or reinvested in ADIT shares.

ADIT declares the quarterly distribution to shareholders as of the last day of each calendar quarter. Accordingly, the December 31, 2017 distribution paid in January 2018, is reflected on the December 31, 2017 statement of financial position under the caption "other receivables", and is also recorded in the 2017 statement of activities.

The investment in shares of the Albany Diocesan Investment Trust are as follows:

	<u>December 31, 2017</u>			<u>December 31, 2016</u>		
	<u>Trust Funds</u>	<u>Diocesan Development Fund</u>	<u>Total</u>	<u>Trust Funds</u>	<u>Diocesan Development Fund</u>	<u>Total</u>
Cost of Shares	\$ 4,505,778	\$ 268,996	\$ 4,774,774	\$ 4,435,278	\$ 268,996	\$4,704,274
Unrealized gain	<u>1,680,742</u>	<u>19,448</u>	<u>1,700,190</u>	<u>1,387,711</u>	<u>5,567</u>	<u>1,393,278</u>
Fair Value of Shares	<u>\$ 6,186,520</u>	<u>\$ 288,444</u>	<u>\$6,474,964</u>	<u>\$ 5,822,989</u>	<u>\$ 274,563</u>	<u>\$6,097,552</u>

**EPISCOPAL DIOCESE OF ALBANY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

3. LOAN GUARANTEES

From time to time, ADIT may purchase Diocesan Development Fund loans. Loans are purchased from the Diocese at face value (the unamortized amount of principal) with a guarantee of full recourse, by the Diocese, including interest, in the event of a default. For the years ended December 31, 2017 and 2016, no such losses have been recorded. The balance of outstanding loans plus accrued interest held by ADIT and guaranteed by the Diocese on December 31, 2017 and 2016, was \$32,493 and \$39,093, respectively.

4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2017</u>	<u>2016</u>
Buildings and Improvements	\$ 10,671,730	\$ 10,187,803
Furniture, Equipment and Other	201,837	157,127
Land	2,018,658	2,018,658
Construction In Progress	-	291,697
Total Property and Equipment	<u>12,892,225</u>	<u>12,655,285</u>
Less: Accumulated Depreciation	<u>4,036,134</u>	<u>3,744,981</u>
Net Property and Equipment	<u><u>\$ 8,856,091</u></u>	<u><u>\$ 8,910,304</u></u>

Construction in progress is related to the administrative building expansion which began in 2016 and was completed during 2017.

Depreciation expense was \$310,556 and \$311,275 for the years ended December 31, 2017 and 2016, respectively.

5. AGENCY FUNDS

Agency funds are contributions held by the Diocese for unrelated ministries and are only used for their benefit.

Agency funds at December 31, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Oaks of Righteousness Ministry	\$ 51,975	\$ 44,308
Foreign Ministries	1,269	1,874
Total Agency Funds	<u>\$ 53,244</u>	<u>\$ 46,182</u>

6. SPECIAL FACILITIES

The Diocese owns and operates certain special facilities which are primarily included under Spiritual Life Center on the supplementary schedule of activities and changes in net assets by fund on pages 19 and 20. The Spiritual Life Center, located in the Adirondack region of upstate New York, is a conference and meeting facility which began operations in 2004. A schedule of special facilities operating revenues and expenses, the substantial portion of which relates to the Spiritual Life Center, follows:

**EPISCOPAL DIOCESE OF ALBANY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

6. SPECIAL FACILITIES

	<u>2017</u>	<u>2016</u>
<u>Revenues:</u>		
Dividends and Interest	\$ 14,192	\$ 14,539
Fees and Related Income	974,949	1,094,837
Contributions	373,174	284,009
Interfund Contributions	274,000	274,000
	1,636,315	1,667,385
Total Revenues:		
 <u>Expenses:</u>		
Program Expenses:		
Beaver Cross Camp	223,397	189,966
Healing Ministry	164,709	150,111
Kitchen	271,376	298,390
Lodging and Activities	220,981	248,781
Youth Ministry	46,424	152,395
Daycare	233,102	227,309
Gift Shop	12,746	16,056
	1,172,735	1,283,008
Total Program Expenses:		
 Management and General Expenses:		
Facility Operations	225,523	268,199
Administration and Development	218,462	137,338
	443,985	405,537
Total Management and General Expenses:		
	443,985	405,537
Total Expenses:		
	1,616,720	1,688,545
 Net Increase (Decrease) in Net Assets From Operations		
	\$ (19,595)	\$ (13,184)

The interfund contribution of \$274,000 for the years ended December 31, 2017 and 2016, is eliminated in the statement of activities.

For the years ended December 31, 2017 and 2016, temporarily restricted contributions to the Spiritual Life Center were \$-0- and \$25,000, respectively. These amounts are included in revenue on the schedule of activities and changes in net assets by fund but is not included in the operating revenues above.

EPISCOPAL DIOCESE OF ALBANY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

7. POST-RETIREMENT HEALTH CARE BENEFITS

The Church Pension Group offered post-retirement medical and dental benefits to all eligible retired Episcopal clergy, spouses, and surviving spouses through an unfunded plan. The Diocese elected to provide a Medicare Part D Supplemental insurance premium subsidy to eligible participants. Effective December 31, 2016, the Diocese terminated this subsidy. The gain of \$734,044 from this termination is reported as a component of other items in the statement of activities.

8. PENSION PLAN

The Diocese maintains two pension plans (the "Plans") which cover substantially all clergy and lay employees of Diocesan Headquarters. One of the Plans is a non-contributory defined benefit plan; the other is a defined contribution plan which allows employee contributions. The fiduciaries of the Plans are The Church Life Insurance Company and The Church Pension Fund. Total pension plan expense for 2017 and 2016 was \$170,147 and \$163,097, respectively.

There is one employee covered by, "The Episcopal Church Lay Employees' Retirement Plan", the defined benefit plan, and the Diocese is not permitting new participants to this plan. This plan is a multiemployer plan and provides retirement benefits to employees based on years of service to the Diocese. This plan is managed by a board of trustees and is audited annually. Contributions of approximately \$3,150 and \$3,500 were charged to expense for the ongoing participation in this pension plan for the years ended December 31, 2017 and 2016, respectively.

The risks of participating in multiemployer defined benefit pension plans are different from single-employer plans because: (a) assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers, (b) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be required to be borne by the remaining participating employers, and (c) if an organization chooses to stop participating in one of its multiemployer plans, it may be required to pay a withdrawal liability to the plan. In connection with ongoing renegotiation of participation agreements, the organization may discuss and negotiate for the complete or partial withdrawal from one or more multiemployer pension plan. Depending on the number of employees withdrawn in any future period and the financial condition of the multiemployer plan at the time of withdrawal, the associated withdrawal liabilities could be material to the Diocese's change in net assets in the period of the withdrawal.

The Diocese's portion of the projected benefit obligation, plan assets and unfunded liability of the multiemployer pension plan is not material to its financial position; however, the failure of participating employers to remain solvent could affect its portion of the plan's unfunded liability. The plan is currently funded approximately 82% and is considered to be in the "green zone" according to the Pension Protection Act of 2006.

**EPISCOPAL DIOCESE OF ALBANY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

9. FAIR VALUE MEASUREMENTS

The asset's or liability's fair value measurement level within the hierarchy is based on the lowest level of any input that is significant to the fair value measurement. 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. 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.

The Diocese has adopted the provisions of Accounting Standards Update (ASU) 2009-12, *Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalents)*. ASU 2009-12 allows for the estimation of fair value of certain investments which do not have readily determinable value by using net asset value (NAV) per share or its equivalent as a practical expedient.

All of the Diocese's investments are shares of the Albany Diocesan Investment Trust (See Note 2), the net asset value of which is the total fair value of ADIT's assets, less liabilities, divided by outstanding shares as of the balance sheet date. This method of valuation uses observable inputs such as fair value of underlying investments and shares outstanding. Assets valued using the NAV method described are not recognized within the fair value hierarchy. Since all of the Diocese's investments are investments in ADIT, there are no assets to report within the three levels of the fair value hierarchy.

The following table sets forth a summary of the Diocese's investments with a reported estimated fair value using net asset per share as of December 31, 2017 and 2016.

	Fair Value		Unfunded	Redemption	Redemption
	At December 31,				
	<u>2017</u>	<u>2016</u>			<u>Notice</u>
Investment in ADIT	<u>\$ 6,474,964</u>	<u>\$ 6,097,552</u>	None	Monthly	3 Days Prior to Month End

10. CLERGY DISCRETIONARY FUNDS

Included in cash are certain amounts designated by the Diocese to be spent at the direction of specific Clergy. These amounts may be spent for charitable purposes by the designated Clergy and total \$34,314 and \$46,101 at December 31, 2017 and 2016, respectively.

**EPISCOPAL DIOCESE OF ALBANY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

11. UNCERTAIN INCOME TAX POSITIONS

The Diocese is a religious organization exempt from income tax filing requirements.

Under ASC Section 740, *Income Taxes*, the tax status of tax-exempt entities is an uncertain tax position, since events could potentially occur that jeopardize tax-exempt status. Management of the Diocese is not aware of any events that could jeopardize the tax-exempt status. Therefore, no liability or provision for income tax has been reflected in the financial statements.

12. EXTINCT PARISHES

Upon the closure of a parish, the assets and liabilities of that extinct parish revert to the stewardship of the Trustees of the Diocese and are maintained in a reserve account until sold or otherwise disposed. When the property of the extinct parish is disposed the Diocese reports the proceeds, net of expenses, as revenue on the statements of activities. A summary of proceeds, net of expenses from the disposal of extinct parishes is as follows:

	<u>2017</u>	<u>2016</u>
Proceeds from sale of building and property	\$ <u>-</u>	\$ <u>251,486</u>

13. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets restricted for purposes described below as of December 31, 2017 and 2016 consists of the following:

	<u>2017</u>	<u>2016</u>
Earnings from Permanently Restricted Net Assets	\$ 2,207,625	\$ 1,821,076
New Parish Development	45,040	45,040
Missions	20,706	18,620
Capital Reserve	71,142	100,025
SLC Director Search	-	5,000
TOTAL	<u>\$ 2,344,513</u>	<u>\$ 1,989,761</u>

14. ENDOWMENTS

The Diocese's endowment consists of individual funds established for a variety of purposes and includes funds that, under the terms of the relevant donor gift instruments, are restricted (i.e. not wholly expendable by the Diocese on a current basis) and funds that are not restricted under donor gift instruments. A description of the nature of the Diocese's endowment funds and related restrictions is found in Note 1, under the caption "Net Asset Classifications."

As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds are classified and reported by the Diocese as restricted or unrestricted based on the existence or absence of donor-imposed restrictions. Within the restricted category, the Diocese classifies as permanently restricted net assets the original value of gifts donated to the endowment. The portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets.

**EPISCOPAL DIOCESE OF ALBANY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

14. ENDOWMENTS

The New York Prudent Management of Institutional Funds Act (NYPMIFA), effective September 17, 2010, applies to the Diocese and sets forth, among other things, rules governing appropriation for expenditure or accumulation of donor-restricted endowment funds. Under those rules (a) the Diocese may, subject to the intent of the donor expressed in the gift instrument, appropriate for expenditure or accumulate so much of a donor-restricted endowment fund as it determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established and (b) in making a decision to appropriate or accumulate, the Diocese must act prudently and in good faith and must consider, if relevant, the following factors:

- (1) the duration and preservation of the endowment fund;
- (2) the purposes of the Diocese and the endowment fund;
- (3) general economic conditions;
- (4) the possible effect of inflation or 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 have on the Diocese; and
- (8) the investment policy of the Diocese.

The Diocese has investment and spending practices for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets.

The Diocese has invested all of its endowment assets in shares of ADIT (described in Note 2), and therefore, has effectively adopted the investment policy of ADIT. ADIT's investment policy seeks to generate a sustainable level of quarterly income, achieve long-term growth of principal, and achieve a long-term average annualized rate of total return that exceeds inflation by 5%.

Endowment net assets are reflected in Note 2 under the "Trust Funds" column. Changes in donor-restricted net assets are reflected on the statements of activities.

15. BOARD DESIGNATED NET ASSETS – BISHOP'S RESIDENCE

The composition of and changes in board-designated net assets for the years ended December 31, 2017 and 2016, were as follows:

	<u>2017</u>	<u>2016</u>
Board-designated funds, beginning of year	\$ 130,008	\$ 119,415
Dividends	5,108	5,007
Net appreciation (depreciation)	6,803	5,586
Board-designated funds, end of year	<u>\$ 141,919</u>	<u>\$ 130,008</u>

EPISCOPAL DIOCESE OF ALBANY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

16. CONCENTRATIONS OF RISK

The Diocese's investments consist solely of shares in ADIT, which are subject to various risks, such as interest rate, credit, and overall market volatility risks. Further, because of the significance of the investments to the Diocese's financial position and the level of risk inherent in most investments, it is reasonably possible that changes in the values of these investments could occur in the near term and such changes could materially affect the amounts reported in the financial statements. Management is of the opinion that ADIT's diversified portfolio should mitigate the impact of changes.

At times the Diocese maintains deposits in excess of federally insured limits. 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 at, or close to, the Federal Deposit Insurance Corporation insured limit.

17. RECLASSIFICATION OF PRIOR YEAR'S FINANCIAL STATEMENTS

Certain items in the prior year financial statements have been reclassified to conform to the current year's presentation. The reclassifications have no effect on previously reported net assets or changes in net assets.

18. SUBSEQUENT EVENTS

The Diocese 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.

**EPISCOPAL DIOCESE OF ALBANY
SCHEDULE OF FINANCIAL POSITION BY FUND
DECEMBER 31, 2017**

ASSETS	TRUST FUNDS	DIOCESAN DEVELOPMENT	DIOCESAN OPERATIONS	SPIRITUAL LIFE	INTERFUND ELIMINATION	TOTAL
ASSETS						
Cash	\$ 186,994	\$ 272,270	\$ 724,904	\$ 135,208	\$ -	\$ 1,319,376
Accounts receivable	-	-	-	5,796	-	5,796
Other receivables	45,888	3,163	41,081	4,219	(43)	94,308
Prepaid expenses	-	-	10,018	1,301	-	11,319
Investments	6,186,520	288,444	-	-	-	6,474,964
Loans receivable from parishes	-	579,275	-	-	(363,773)	215,502
Net property and equipment	-	-	8,856,091	-	-	8,856,091
Cash - agency funds	-	-	53,244	-	-	53,244
Other assets	-	-	61,454	39,342	(90,745)	10,051
TOTAL ASSETS	\$ 6,419,402	\$ 1,143,152	\$ 9,746,792	\$ 185,866	\$ (454,561)	\$ 17,040,651
LIABILITIES AND NET ASSETS						
LIABILITIES						
Accounts payable and accrued liabilities	\$ -	\$ -	\$ 292,712	\$ 333,257	\$ (454,561)	\$ 171,408
Shareholder deposits	1,379	-	-	-	-	1,379
Agency funds payable	-	-	53,244	-	-	53,244
TOTAL LIABILITIES	1,379	-	345,956	333,257	(454,561)	226,031
NET ASSETS						
Unrestricted net assets						
Available for general activities	546,211	1,143,152	9,331,624	(215,067)	-	10,805,920
Board designated - Bishop's residence	141,919	-	-	-	-	141,919
Temporarily restricted	2,207,625	-	69,212	67,676	-	2,344,513
Permanently restricted	3,522,268	-	-	-	-	3,522,268
TOTAL NET ASSETS	6,418,023	1,143,152	9,400,836	(147,391)	-	16,814,620
TOTAL LIABILITIES AND NET ASSETS	\$ 6,419,402	\$ 1,143,152	\$ 9,746,792	\$ 185,866	\$ (454,561)	\$ 17,040,651

**EPISCOPAL DIOCESE OF ALBANY
SCHEDULE OF FINANCIAL POSITION BY FUND
DECEMBER 31, 2016**

ASSETS	TRUST FUNDS	DIOCESAN DEVELOPMENT	DIOCESAN OPERATIONS	SPIRITUAL LIFE	INTERFUND ELIMINATION	TOTAL
ASSETS						
Cash	\$ 271,705	\$ 169,061	\$ 785,323	\$ 114,387	\$ -	\$ 1,340,476
Accounts receivable	-	-	-	15,157	-	15,157
Other receivables	45,204	3,532	27,120	3,598	(49)	79,405
Prepaid expenses	-	-	20,202	2,501	-	22,703
Investments	5,822,989	274,563	-	-	-	6,097,552
Loans receivable from parishes	-	655,532	-	-	(371,234)	284,298
Net property and equipment	-	-	527,847	8,382,457	-	8,910,304
Cash - agency funds	-	-	46,182	-	-	46,182
Other assets	-	1,093	48,233	48,926	(83,008)	15,244
TOTAL ASSETS	\$ 6,139,898	\$ 1,103,781	\$ 1,454,907	\$ 8,567,026	\$ (454,291)	\$ 16,811,321
LIABILITIES AND NET ASSETS						
LIABILITIES						
Accounts payable and accrued liabilities	\$ -	\$ -	\$ 322,354	\$ 308,201	\$ (454,291)	\$ 176,264
Shareholder deposits	29,131	-	-	-	-	29,131
Agency funds payable	-	-	46,182	-	-	46,182
TOTAL LIABILITIES	29,131	-	368,536	308,201	(454,291)	251,577
NET ASSETS						
Unrestricted						
Available for general activities	637,416	1,103,781	997,710	8,178,800	-	10,917,707
Board designated - Bishop's residence	130,008	-	-	-	-	130,008
Temporarily restricted	1,821,075	-	88,661	80,025	-	1,989,761
Permanently restricted	3,522,268	-	-	-	-	3,522,268
TOTAL NET ASSETS	6,110,767	1,103,781	1,086,371	8,258,825	-	16,559,744
TOTAL LIABILITIES AND NET ASSETS	\$ 6,139,898	\$ 1,103,781	\$ 1,454,907	\$ 8,567,026	\$ (454,291)	\$ 16,811,321

EPISCOPAL DIOCESE OF ALBANY
SCHEDULE OF ACTIVITIES AND CHANGES IN NET ASSETS BY FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

	Trust Funds			Diocesan Development (Unrestricted)	Diocesan Operations		Spiritual Life Center		Interfund Elimination	TOTAL
	Unrestricted	Temporarily Restricted	Permanently Restricted		Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted		
REVENUES										
Dividends and interest	\$ 17,382	\$ 167,565	\$ -	\$ 25,490	\$ 38,730	\$ -	\$ 14,192	\$ -	\$ (552)	\$ 262,807
Fees and related income	11,808	-	-	-	288,889	-	974,949	-	-	1,275,646
Contributions and bequests	9,110	-	-	-	109,601	-	647,174	-	(342,714)	423,171
Fitch gilbert trust distributions	-	-	-	-	82,404	-	-	-	-	82,404
Parish assessments	-	-	-	-	1,350,252	11,785	-	-	(28,230)	1,333,807
Releases from restrictions	59,108	(59,108)	-	-	31,234	(31,234)	12,349	(12,349)	-	-
TOTAL REVENUES	97,408	108,457	-	25,490	1,901,110	(19,449)	1,648,664	(12,349)	(371,496)	3,377,835
EXPENSES										
Program										
Distributions from trust accounts	51,858	-	-	-	-	-	-	-	-	51,858
Ministries and new initiatives	5,222	-	-	-	645,622	-	-	-	(302,230)	348,614
Clergy benefits and education	5,500	-	-	-	19,630	-	-	-	-	25,130
Special facilities costs	133,159	-	-	-	-	-	1,606,836	-	(69,266)	1,670,729
Management and General										
Diocesan headquarters operations	-	-	-	-	989,110	-	-	-	-	989,110
Professional fees	1,196	-	-	-	34,382	-	9,884	-	-	45,462
Depreciation	-	-	-	-	310,556	-	-	-	-	310,556
TOTAL EXPENSES	196,935	-	-	-	1,999,300	-	1,616,720	-	(371,496)	3,441,459
INCREASE (DECREASE) IN NET ASSETS BEFORE OTHER ITEMS	(99,527)	108,457	-	25,490	(98,190)	(19,449)	31,944	(12,349)	-	(63,624)
OTHER ITEMS										
Net realized and unrealized gain on investments	20,233	278,093	-	13,881	-	-	-	-	-	312,207
Gain on sale of property	-	-	-	-	6,293	-	-	-	-	6,293
Interfund transfer	-	-	-	-	8,425,811	-	(8,425,811)	-	-	-
TOTAL OTHER ITEMS	20,233	278,093	-	13,881	8,432,104	-	(8,425,811)	-	-	318,500
INCREASE (DECREASE) IN NET ASSETS	(79,294)	386,550	-	39,371	8,333,914	(19,449)	(8,393,867)	(12,349)	-	254,876
NET ASSETS										
Beginning of Year	767,424	1,821,075	3,522,268	1,103,781	997,710	88,661	8,178,800	80,025	-	16,559,744
End of Year	\$ 688,130	\$ 2,207,625	\$ 3,522,268	\$ 1,143,152	\$ 9,331,624	\$ 69,212	\$ (215,067)	\$ 67,676	-	\$ 16,814,620

EPISCOPAL DIOCESE OF ALBANY
SCHEDULE OF ACTIVITIES AND CHANGES IN NET ASSETS BY FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

	Trust Funds			Diocesan Development (Unrestricted)	Diocesan Operations		Spiritual Life Center		Interfund Elimination	TOTAL
	Unrestricted	Temporarily Restricted	Permanently Restricted		Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted		
REVENUES										
Dividends and interest	\$ 16,752	\$ 166,656	\$ -	\$ 33,208	\$ 40,514	\$ -	\$ 14,539	\$ -	\$ (1,194)	\$ 270,475
Fees and related income	17,878	-	-	-	357,943	-	1,094,837	-	(26,316)	1,470,658
Contributions and bequests	35,728	-	-	-	105,910	29,600	558,009	25,000	(374,000)	380,247
Fitch gilbert trust distributions	-	-	-	-	112,526	-	-	-	-	112,526
Extinct parishes - net	251,486	-	-	-	-	-	-	-	-	251,486
Parish assessments	-	-	-	-	1,285,991	9,692	-	-	(26,781)	1,268,902
Releases from restrictions	98,041	(98,041)	-	-	9,418	(9,418)	-	-	-	-
TOTAL REVENUES	419,885	68,615	-	33,208	1,912,302	29,874	1,667,385	25,000	(428,291)	3,754,294
EXPENSES										
Program										
Distributions from trust accounts	86,623	-	-	-	-	-	-	-	-	86,623
Ministries and new initiatives	5,222	-	-	163	637,673	-	-	-	(300,781)	342,277
Clergy benefits and education	10,707	-	-	-	27,501	-	-	-	-	38,208
Special facilities costs	163,060	-	-	-	-	-	1,680,360	-	(101,194)	1,742,226
Management and General										
Diocesan headquarters operations	-	-	-	-	982,907	-	-	-	(26,316)	982,907
Professional fees	10,756	-	-	-	41,717	-	8,185	-	-	60,658
Depreciation	-	-	-	-	51,770	-	259,505	-	-	311,275
TOTAL EXPENSES	276,368	-	-	163	1,741,568	-	1,948,050	-	(428,291)	3,564,174
INCREASE (DECREASE) IN NET ASSETS BEFORE OTHER ITEMS	143,517	68,615	-	33,045	170,734	29,874	(280,665)	25,000	-	190,120
OTHER ITEMS										
Net realized and unrealized gain on investments	15,662	233,120	-	14,629	-	-	-	-	-	263,411
Gain on termination of post-retirement health plan	-	-	-	-	734,044	-	-	-	-	734,044
TOTAL OTHER ITEMS	15,662	233,120	-	14,629	734,044	-	-	-	-	997,455
INCREASE (DECREASE) IN NET ASSETS	159,179	301,735	-	47,674	904,778	29,874	(280,665)	25,000	-	1,187,575
NET ASSETS:										
Beginning of Year	608,245	1,519,340	3,522,268	1,056,107	92,932	58,787	8,459,465	55,025	-	15,317,144
End of Year	\$ 767,424	\$ 1,821,075	\$ 3,522,268	\$ 1,103,781	\$ 997,710	\$ 88,661	\$ 8,178,800	\$ 80,025	-	\$ 16,559,744