

**EPISCOPAL DIOCESE OF ALBANY
FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

EPISCOPAL DIOCESE OF ALBANY

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**Marvin and
company, p.c.**

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITORS' REPORT

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

Report on Financial Statements

We have audited the accompanying financial statements of Episcopal Diocese of Albany ("Diocese") (a nonprofit organization), which comprise of the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities, 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Episcopal Diocese of Albany ("the Diocese") as of December 31, 2012 and 2011, 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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The statements of financial position by fund on pages 18 and 19 and the statements of activities and changes in net assets by fund on pages 20 and 21 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 U.S. generally accepted auditing standards. 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.

April 30, 2013

Queensbury, NY

EPISCOPAL DIOCESE OF ALBANY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2012 AND 2011

ASSETS	<u>2012</u>	<u>2011</u>
ASSETS		
Cash	\$ 994,452	\$ 1,091,295
Accounts Receivable	12,498	13,575
Other Receivables	56,634	58,398
Diocesan Cash Receivable	341,693	384,225
Prepaid Expenses	35,638	27,552
Investments	5,278,298	5,030,794
Loans Receivable from Parishes	230,049	250,189
Net Property and Equipment	9,485,235	9,651,115
Other Assets	149,046	75,621
	<hr/>	<hr/>
TOTAL ASSETS	<u><u>\$ 16,583,543</u></u>	<u><u>\$ 16,582,764</u></u>
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Accrued Liabilities	\$ 379,655	\$ 343,477
Shareholder Deposits	346,581	384,225
Post-Retirement Health Care Liability	1,375,908	1,539,435
	<hr/>	<hr/>
TOTAL LIABILITIES	<u>2,102,144</u>	<u>2,267,137</u>
 NET ASSETS		
Unrestricted	9,569,899	9,617,500
Temporarily Restricted	1,389,232	1,176,529
Permanently Restricted	3,522,268	3,521,598
	<hr/>	<hr/>
TOTAL NET ASSETS	<u>14,481,399</u>	<u>14,315,627</u>
 TOTAL LIABILITIES AND NET ASSETS		
	<u><u>\$ 16,583,543</u></u>	<u><u>\$ 16,582,764</u></u>

EPISCOPAL DIOCESE OF ALBANY
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012				2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	TOTAL	Unrestricted	Temporarily Restricted	Permanently Restricted	TOTAL
REVENUES								
Dividends and Interest	\$ 202,287	\$ 149,639	\$ -	\$ 351,926	\$ 187,674	\$ 148,065	\$ -	\$ 335,739
Fees and Related Income	1,118,190	-	-	1,118,190	1,009,313	-	-	1,009,313
Contributions and Bequests	1,017,039	-	670	1,017,709	937,782	-	790	938,572
Fitch Gilbert Trust Distributions	-	4,947	-	4,947	151,932	-	-	151,932
Extinct Parishes - Net	794	-	-	794	45	36,105	-	36,150
Parish Assessments	1,107,063	-	-	1,107,063	1,110,284	-	-	1,110,284
Releases from Restrictions	128,402	(128,402)	-	-	98,270	(98,270)	-	-
TOTAL REVENUES	3,573,775	26,184	670	3,600,629	3,495,300	85,900	790	3,581,990
EXPENSES								
Program								
Distributions from Trust Accounts	82,563	-	-	82,563	181,336	43,082	-	224,418
Ministries and New Initiatives	662,258	-	-	662,258	641,956	-	-	641,956
Clergy Benefits and Education	140,365	-	-	140,365	114,268	-	-	114,268
Special Facilities Costs	1,690,047	-	-	1,690,047	1,721,814	-	-	1,721,814
Management and General								
Diocesan Headquarters Operations	904,401	-	-	904,401	852,597	-	-	852,597
Professional Fees	39,553	-	-	39,553	31,849	-	-	31,849
Other Expenses	1,203	-	-	1,203	3,745	-	-	3,745
Depreciation and Amortization	259,202	-	-	259,202	305,181	-	-	305,181
TOTAL EXPENSES	3,779,592	-	-	3,779,592	3,852,746	43,082	-	3,895,828
INCREASE (DECREASE) IN NET ASSETS BEFORE OTHER ITEMS	(205,817)	26,184	670	(178,963)	(357,446)	42,818	790	(313,838)
OTHER ITEMS								
Realized and Unrealized Gain (Loss) on Investments	18,308	186,519	-	204,827	(29,410)	(319,209)	-	(348,619)
Post-Retirement Health Care	163,527	-	-	163,527	342,863	-	-	342,863
Gain (Loss) on Sale of Property	(23,619)	-	-	(23,619)	10,551	-	-	10,551
INCREASE (DECREASE) IN NET ASSETS	\$ (47,601)	\$ 212,703	\$ 670	\$ 165,772	\$ (33,442)	\$ (276,391)	\$ 790	\$ (309,043)
NET ASSETS								
Beginning of Year	\$ 9,617,500	\$ 1,176,529	\$ 3,521,598	\$ 14,315,627	\$ 9,650,942	\$ 1,452,920	\$ 3,520,808	\$ 14,624,670
End of Year	<u>\$ 9,569,899</u>	<u>\$ 1,389,232</u>	<u>\$ 3,522,268</u>	<u>\$ 14,481,399</u>	<u>\$ 9,617,500</u>	<u>\$ 1,176,529</u>	<u>\$ 3,521,598</u>	<u>\$ 14,315,627</u>

See accompanying notes to financial statements.

**EPISCOPAL DIOCESE OF ALBANY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
CASH FLOWS PROVIDED BY (USED FOR)		
OPERATING ACTIVITIES		
Change in Net Assets	\$ 165,772	\$ (309,043)
Adjustments to Reconcile Increase in Net Assets to Cash Used in Operating Activities:		
Depreciation and Amortization	259,202	305,181
Realized and Unrealized (Gains) Losses on Investments	(204,827)	348,619
Gain on Disposition of Assets	23,619	(10,551)
Post Retirement Health Care Liability	(163,527)	(342,863)
Changes In		
Accounts Receivable	1,077	5,827
Other Receivables	1,764	(17,916)
Prepaid Expenses	(8,086)	6,607
Loans Receivable	20,140	35,707
Other Assets	(73,425)	(30,993)
Accounts Payable and Accrued Liabilities	36,178	106,762
	<u>57,887</u>	<u>97,337</u>
NET CASH PROVIDED BY (USED FOR)		
OPERATING ACTIVITIES		
	<u>57,887</u>	<u>97,337</u>
CASH PROVIDED BY (USED FOR)		
INVESTING ACTIVITIES		
Purchase of Property and Equipment	(116,941)	(29,667)
Proceeds from Sale of Investments	78,833	35,641
Purchase of Investments	(116,622)	(63,686)
	<u>(154,730)</u>	<u>(57,712)</u>
NET CASH PROVIDED BY (USED FOR)		
INVESTING ACTIVITIES		
	<u>(154,730)</u>	<u>(57,712)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
	\$ (96,843)	\$ 39,625
CASH AND CASH EQUIVALENTS:		
Beginning of Year	1,091,295	1,041,362
Net Asset Additions (Reductions)	<u>-</u>	<u>10,308</u>
End of Year	<u>\$ 994,452</u>	<u>\$ 1,091,295</u>

EPISCOPAL DIOCESE OF ALBANY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

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 Organization'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 average interest rate on these loans approximates 6.5%. 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, the Spiritual Life Center and certain special facilities (see Note 5), 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.

Net Asset Classifications

In the accompanying financial statements, The Diocese maintains its net assets under the following three classes:

- Unrestricted – represents resources over which Board of Trustees of the Diocese has 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, 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 market value appreciation of those investments, and related dividends and interest for those funds held as permanently restricted. At December 31, 2012 and 2011, all of the temporarily restricted net assets were purpose restrictions.

EPISCOPAL DIOCESE OF ALBANY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Net Asset Classifications (Continued)

- Permanently restricted - represents endowment funds which contain donor-imposed restrictions that stipulate that the resources 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. Such expenditures are included in distributions from trust accounts on the statements of activities.

Cash and Cash Equivalents

The Diocese deposits its cash with high credit quality financial institutions. Occasionally, such deposits exceed FDIC insurance limits. 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 and 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, 2012 and 2011, there were no contributions due in more than one year.

The Diocese records contributions as either permanently or 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, 2012 and 2011, there were no contributed services.

EPISCOPAL DIOCESE OF ALBANY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 2012 and 2011, Charities and ADIT provided the Diocese with reimbursement for certain allocated administrative costs of approximately \$162,826 and \$145,452, respectively, shown as a reduction of related expenses on the statement of activities and changes in net assets. Similar reimbursements were also provided in prior years. Other services, which have not been quantified and have been deemed immaterial by the Diocese, have not been recorded as either revenue or expense in the accompanying consolidated statement of activities.

Investments

Investments in marketable securities with readily determinable fair values are comprised of investments in Albany Diocesan Investment Trust and are valued at fair value in the consolidated statement of financial position. 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's revenue or expense. Depreciation is provided using the straight-line method over the estimated useful lives of the respective assets.

Post Retirement Health Care Costs

Post-retirement health care costs are based on the most recent actuarial calculations and charged to employee benefits expense.

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, 2012 AND 2011

2. INVESTMENTS

The Diocese invests all available funds with the Albany Diocesan Investment Trust (ADIT), which operates under the direction of the Trustees of the Diocese. The Trustees have engaged the professional services of J.P. Morgan Chase Bank and have implemented performance objectives that seek a sustainable, balanced return of growth and income.

The combined realized and unrealized (losses) gains on investments totaled \$204,827 and \$(348,619) for the years ended December 31, 2012 and 2011, respectively.

The Diocese owned 189,526 and 187,927 shares of ADIT at December 31, 2012 and 2011, respectively, or approximately 27% of total ADIT shares outstanding each year. At December 31, 2012, the net asset value per ADIT share was \$27.85, an increase of \$1.08 compared with the net asset value at December 31, 2011 of \$26.77.

ADIT made annual distributions, paid quarterly, of \$1.12 per share in 2012 and 2011. Distributions are received as either cash payments or reinvested in ADIT shares.

ADIT follows the practice of recording the quarterly distribution to shareholders as of the last day of each calendar quarter. Accordingly, the December 31st distribution paid in January is reflected on the Statement of Financial Position under the caption "Other Receivables."

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

	December 31, 2012			December 31, 2011		
	<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	\$3,926,198	\$355,839	\$4,282,037	\$3,883,927	\$355,839	\$4,239,766
Unrealized gain/(loss)	\$1,010,130	\$(13,869)	\$996,261	\$818,158	\$(27,130)	\$791,028
Fair Value of Shares	<u>\$4,936,328</u>	<u>\$341,970</u>	<u>\$5,278,298</u>	<u>\$4,702,085</u>	<u>\$328,709</u>	<u>\$5,030,794</u>

**EPISCOPAL DIOCESE OF ALBANY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

3. DIOCESAN CASH RESERVES

The Albany Diocesan Investment Trust holds funds in an interest bearing savings account for the Episcopal Diocese of Albany. Until received by the Diocese, the funds are reflected as "Diocesan Cash Receivable" and "Shareholder Deposits" on the Statements of Financial Position.

4. 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, 2012 and 2011, 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, 2012 and 2011 was \$165,748 and \$193,777, respectively.

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2012</u>	<u>2011</u>
Buildings and Improvements	\$1,342,343	\$1,329,701
Furniture, Equipment and Other	424,806	419,037
Spiritual Life Center	<u>11,246,080</u>	<u>11,185,361</u>
 Total Property and Equipment	 \$13,013,229	 \$12,934,099
 Less: Accumulated Depreciation	 <u>3,527,994</u>	 <u>3,282,984</u>
 Net Property and Equipment	 <u><u>\$9,485,235</u></u>	 <u><u>\$9,651,115</u></u>

Depreciation expense was \$259,202 and \$305,181 for the years ended December 31, 2012 and 2011, respectively. The cost of land held by the Diocese was \$2,262,192 at December 31, 2012 and 2011. This amount is included in the figures above and is not subject to depreciation.

**EPISCOPAL DIOCESE OF ALBANY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

6. SPECIAL FACILITIES

The Diocese owns and operates certain special facilities which are primarily included under Spiritual Life Center on the statements of activities. The Spiritual Life Center, located in the Adirondack region of upstate New York, is a conference and meeting facility which began operations in late 2004. A schedule of special facilities revenues and expenses, the substantial portion of which relates to the Spiritual Life Center, follows:

	<u>2012</u>	<u>2011</u>
Revenues:		
Dividends and Interest	\$13,679	\$13,679
Fees and Related Income	940,984	865,490
Contributions	736,072	666,407
	<hr/>	<hr/>
Total Revenues:	\$1,690,735	\$1,545,576
Expenses:		
Program Expenses:		
Beaver Cross Camp	\$198,065	\$185,862
Healing Ministry	225,591	230,596
Kitchen	349,367	356,111
Lodging & Activities	254,636	317,298
Youth Ministry	9,006	9,181
Daycare	163,981	122,934
Gift Shop	30,866	31,921
	<hr/>	<hr/>
Total Program Expenses:	\$1,231,512	\$1,253,903
Management and General Expenses:		
Facility Operations	\$210,570	\$202,938
Administration & Development	214,308	264,973
	<hr/>	<hr/>
Total Management and General Expenses:	424,878	467,911
	<hr/>	<hr/>
Total Expenses:	\$1,656,390	\$1,721,814
	<hr/>	<hr/>
Net Increase (Decrease) in Net Assets	\$15,279	\$(176,238)

In addition, depreciation related to special facilities for the years December 31, 2012 and 2011 was \$214,488 and \$253,378 respectively. Depreciation is included in "Depreciation and Amortization" on the Statements of Activities and Changes in Net Assets.

**EPISCOPAL DIOCESE OF ALBANY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

7. POST-RETIREMENT HEALTH CARE BENEFITS

The Diocese provides post-retirement health care benefits covering substantially all clergy of the Diocese and their spouses through an unfunded plan. The following table, as determined by the Diocese's actuaries as of December 31, 2011 (the most recently completed actuarial analysis), sets forth the plan's status and amounts shown in the Diocese's financial statements.

Benefit Obligation at beginning of year	\$ 711,165
Service Cost	13,762
Interest Cost	39,507
Actuarial loss	130,241
Benefits Paid	<u>(60,279)</u>
Benefit Obligation at end of year	<u>\$834,396</u>
Funded Status	\$ (834,396)
Unrecognized actuarial gain	1,025,258
Unrecognized prior service cost	<u>(1,730,297)</u>
Accrued benefit cost December 31, 2011	(1,539,435)
Estimated change in liability 2012	<u>163,527</u>
Estimated liability December 31, 2012	<u>(\$1,375,908)</u>

The estimated change in liability reflected above is based on the average decrease of the liability recognized over the preceding five years. Actual results could differ from this estimate.

The weighted average assumptions as of December 31, 2011 are as follows:

Discount rate	4.00%
Expected return on plan assets	0.00%

The following table provides information related to the unrecognized prior service cost for the fiscal year ended December 31, 2011:

Unrecognized amount beginning of year	\$1,995,681
Amount recognized	<u>(265,384)</u>
Unrecognized prior service cost at end of year	<u>\$1,730,297</u>

The following table provides the components of net periodic benefit for the fiscal year ended December 31, 2012:

Service cost	\$ 13,762
Interest Cost	39,507
Amortization of net loss from prior periods	90,465
Amortization of unrecognized prior service costs	<u>(265,384)</u>
Net periodic benefit	<u>(\$135,412)</u>

**EPISCOPAL DIOCESE OF ALBANY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

7. POST-RETIREMENT HEALTH CARE BENEFITS (CONTINUED)

The following estimated benefit payments, which reflect expected future service, are expected to be paid:

2012	\$61,622
2013	60,521
2014	59,857
2015	58,383
2016	57,685
Thereafter	280,292

Since the Diocese's cost is limited as described below, the assumed health care cost trend rates may not have a significant effect on the future amounts reported.

Prior to 2005, the Diocese paid a maximum of 80% of the Medicare Supplement cost, and elective enhanced premium plan. The plan was subsequently amended and, under this amendment, the Diocese's cost is limited to a \$71 monthly premium for those retirees and spouses that elect the enhanced premium plan. As a result of this plan amendment, the accumulated post-retirement benefit obligation was reduced by approximately \$3.7 million. This reduction in benefit obligation is being amortized into the net periodic post-retirement benefit cost over a 14 year period and, as such, a reduction in future years benefit expense will likely be realized.

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 2012 and 2011 was \$123,022 and \$103,088, 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 \$3,800 were charged to expense for the ongoing participation in this pension plan.

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.

**EPISCOPAL DIOCESE OF ALBANY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

8. PENSION PLAN (CONTINUED)

Our portion of projected benefit obligation, plan assets and unfunded liability of the multiemployer pension plan is not material to our financial position; however, the failure of participating employers to remain solvent could affect our portion of the plan's unfunded liability. The plan is currently funded approximately 72% and is considered to be in the "yellow zone" according to the Pension Protection Act of 2006.

9. FAIR VALUE MEASUREMENTS

Effective January 1, 2009, the Diocese adopted FASB ASC 820, *Fair Value Measurements and Disclosures*, which provides a framework for measuring fair value under GAAP. FASB 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.

All of the Diocese's investments are comprised of shares of the Albany Diocesan Investment Trust (ADIT) (See Note 2), the net asset value of which is the total fair market value of ADIT's assets, less liabilities, divided by outstanding shares as of the balance sheet date. ADIT uses various inputs in determining the fair market value of its holdings, such as quoted prices in active markets (Level 1) for the valuation of stock, bond, money market and mutual fund holdings, and other observable inputs (Level 2) for the valuation of structured investment notes. At December 31, 2012 and 2011, approximately 86%, of ADIT assets were valued using Level 1 inputs, and 14% of ADIT assets were valued using Level 2 inputs. Accordingly, the Diocese utilizes these ratios in reporting the inputs used in valuing its investment in ADIT.

Fair values of assets and liabilities measured on a recurring basis at December 31, 2012 and 2011, 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/Liabilities (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Unobservable Inputs (Level 3)</u>
December 31, 2012:				
Marketable Securities	\$5,278,298	\$4,539,336	\$738,962	\$0
December 31, 2011:				
Marketable Securities	\$5,030,794	\$4,326,783	\$704,311	\$0

**EPISCOPAL DIOCESE OF ALBANY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

10. CLERGY DISCRETIONARY FUNDS

Management has elected to include certain clergy discretionary cash account balances as part of the audited financial statements for the years ended December 31, 2012 and 2011. The account balances are included in "Cash" on the Statements of Financial Position. Activity for these accounts is recorded as "Net Asset Additions (Reductions)" on the Statements of Activities for 2011.

11. UNCERTAIN INCOME TAX POSITIONS

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

Under FASB Accounting Standards Codification 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. Management believes that the Diocese is no longer subject to review by the Internal Revenue Service for years prior to 2008.

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 and expenses from the disposal of extinct parishes is as follows:

	<u>2012</u>	<u>2011</u>
Proceeds from sale of building and property	\$ 794	\$44,365
Expenses (taxes, maintenance, commissions)	0	(8,215)
Net Proceeds:	\$ 794	\$36,150

Reserves associated with extinct parish properties held at December 31, 2012 and 2011 totaled \$5,616 and \$14,675, respectively.

13. 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."

EPISCOPAL DIOCESE OF ALBANY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

13. ENDOWMENTS (CONTINUED)

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.

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 net assets are reflected on the Consolidated Statements of Activities.

EPISCOPAL DIOCESE OF ALBANY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

14. 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.

The Diocese occasionally maintains deposits in excess federally insured limits. FASB 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.

15. RECLASSIFICATION OF PRIOR YEAR'S FINANCIAL STATEMENTS

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

16. SUBSEQUENT EVENTS

The Diocese has evaluated events and transactions that occurred between December 31, 2012 and April 30, 2013, which is the date the financial statements were available to be issued, for possible disclosure and recognition in the financial statements.

EPISCOPAL DIOCESE OF ALBANY
STATEMENTS OF FINANCIAL POSITION BY FUND
DECEMBER 31, 2012

ASSETS	<u>TRUST FUNDS</u>	<u>DIOCESAN DEVELOPMENT</u>	<u>DIOCESAN OPERATIONS</u>	<u>SPIRITUAL LIFE</u>	<u>TOTAL</u>
ASSETS					
Cash	\$ 352,197	\$ 379,965	\$ 145,048	\$ 117,242	\$ 994,452
Accounts Receivable	-	-	90	12,408	12,498
Other Receivables	38,585	4,923	9,705	3,421	56,634
Diocesan Cash Receivable	-	-	341,693	-	341,693
Prepaid Expenses	-	-	14,729	20,909	35,638
Investments	4,936,328	341,970	-	-	5,278,298
Loans Receivable from Parishes	-	230,049	-	-	230,049
Net Property and Equipment	-	-	170,093	9,315,142	9,485,235
Other Assets	-	-	101,127	47,919	149,046
TOTAL ASSETS	<u>\$ 5,327,110</u>	<u>\$ 956,907</u>	<u>\$ 782,485</u>	<u>\$ 9,517,041</u>	<u>\$ 16,583,543</u>
LIABILITIES AND NET ASSETS					
LIABILITIES					
Accounts Payable and Accrued Liabilities	\$ 5,616	\$ -	\$ 153,685	\$ 220,354	\$ 379,655
Shareholder Deposits	346,581	-	-	-	346,581
Post-Retirement Health Care Liability	-	-	1,375,908	-	1,375,908
TOTAL LIABILITIES	<u>352,197</u>	<u>-</u>	<u>1,529,593</u>	<u>220,354</u>	<u>2,102,144</u>
NET ASSETS					
Unrestricted	114,639	956,907	(798,334)	9,296,687	9,569,899
Temporarily Restricted	1,338,006	-	51,226	-	1,389,232
Permanently Restricted	3,522,268	-	-	-	3,522,268
TOTAL NET ASSETS	<u>4,974,913</u>	<u>956,907</u>	<u>(747,108)</u>	<u>9,296,687</u>	<u>14,481,399</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,327,110</u>	<u>\$ 956,907</u>	<u>\$ 782,485</u>	<u>\$ 9,517,041</u>	<u>\$ 16,583,543</u>

See accompanying notes to financial statements.

EPISCOPAL DIOCESE OF ALBANY
STATEMENTS OF FINANCIAL POSITION BY FUND
DECEMBER, 31, 2011

ASSETS	<u>TRUST FUNDS</u>	<u>DIOCESAN DEVELOPMENT</u>	<u>DIOCESAN OPERATIONS</u>	<u>SPIRITUAL LIFE</u>	<u>TOTAL</u>
ASSETS					
Cash	\$ 445,509	\$ 330,191	\$ 243,262	\$ 72,333	\$ 1,091,295
Accounts Receivable	1,367	-	590	11,618	13,575
Other Receivables	38,138	4,739	12,101	3,420	58,398
Diocesan Cash Receivable	-	-	384,225	-	384,225
Prepaid Expenses	-	-	13,646	13,906	27,552
Investments	4,702,085	328,709	-	-	5,030,794
Loans Receivable from Parishes	-	250,189	-	-	250,189
Net Property and Equipment	-	-	186,285	9,464,830	9,651,115
Other Assets	-	-	53,691	21,930	75,621
TOTAL ASSETS	<u>\$ 5,187,099</u>	<u>\$ 913,828</u>	<u>\$ 893,800</u>	<u>\$ 9,588,037</u>	<u>\$ 16,582,764</u>
LIABILITIES AND NET ASSETS					
LIABILITIES					
Accounts Payable and Accrued Liabilities	\$ 18,345	\$ -	\$ 184,811	\$ 140,321	\$ 343,477
Diocesan Cash Payable	384,225	-	-	-	384,225
Post-Retirement Health Care Liability	-	-	1,539,435	-	1,539,435
TOTAL LIABILITIES	<u>402,570</u>	<u>-</u>	<u>1,724,246</u>	<u>140,321</u>	<u>2,267,137</u>
NET ASSETS					
Unrestricted	137,628	913,828	(881,672)	9,447,716	9,617,500
Temporarily Restricted	1,125,303	-	51,226	-	1,176,529
Permanently Restricted	3,521,598	-	-	-	3,521,598
TOTAL NET ASSETS	<u>4,784,529</u>	<u>913,828</u>	<u>(830,446)</u>	<u>9,447,716</u>	<u>14,315,627</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,187,099</u>	<u>\$ 913,828</u>	<u>\$ 893,800</u>	<u>\$ 9,588,037</u>	<u>\$ 16,582,764</u>

See accompanying notes to financial statements.

EPISCOPAL DIOCESE OF ALBANY
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS BY FUND
FOR THE YEAR ENDED DECEMBER 31, 2012

	Trust Funds			Diocesan Development (Unrestricted)	Diocesan Operations		Spiritual Life (Unrestricted)	TOTAL
	Unrestricted	Temporarily Restricted	Permanently Restricted		Unrestricted	Temporarily Restricted		
REVENUES								
Dividends and Interest	\$ 4,609	\$ 149,639	\$ -	\$ 29,971	\$ 154,028	\$ -	\$ 13,679	\$ 351,926
Fees and Related Income	-	-	-	-	177,206	-	940,984	1,118,190
Contributions and Bequests	-	-	670	-	280,967	-	736,072	1,017,709
Fitch Gilbert Trust Distributions	-	4,947	-	-	-	-	-	4,947
Extinct Parishes - Net	794	-	-	-	-	-	-	794
Parish Assessments	-	-	-	-	1,054,026	-	53,037	1,107,063
Releases from Restrictions	128,402	(128,402)	-	-	-	-	-	-
TOTAL REVENUES	133,805	26,184	670	29,971	1,666,227	-	1,743,772	3,600,629
EXPENSES								
Program								
Distributions from Trust Accounts	82,563	-	-	-	-	-	-	82,563
Ministries and New Initiatives	4,300	-	-	-	657,958	-	-	662,258
Clergy Benefits and Education	36,445	-	-	-	103,920	-	-	140,365
Special Facilities Costs	38,533	-	-	-	-	-	1,651,514	1,690,047
Management and General								
Diocesan Headquarters Operations	-	-	-	-	904,401	-	-	904,401
Professional Fees	-	-	-	-	34,677	-	4,876	39,553
Other Expenses	-	-	-	153	1,050	-	-	1,203
Depreciation and Amortization	-	-	-	-	44,714	-	214,488	259,202
TOTAL EXPENSES	161,841	-	-	153	1,746,720	-	1,870,878	3,779,592
INCREASE (DECREASE) IN NET ASSETS BEFORE OTHER ITEMS	(28,036)	26,184	670	29,818	(80,493)	-	(127,106)	(178,963)
OTHER ITEMS								
Realized and Unrealized Gain (Loss) on Investments	5,047	186,519	-	13,261	-	-	-	204,827
Post-Retirement Health Care	-	-	-	-	163,527	-	-	163,527
Gain (Loss) on Sale of Property	-	-	-	-	304.00	-	(23,923)	(23,619)
INCREASE (DECREASE) IN NET ASSETS	\$ (22,989)	\$ 212,703	\$ 670	\$ 43,079	\$ 83,338	\$ -	\$ (151,029)	\$ 165,772
NET ASSETS								
Beginning of Year	\$ 137,628	\$ 1,125,303	\$ 3,521,598	\$ 913,828	\$ (881,672)	\$ 51,226	\$ 9,447,716	\$ 14,315,627
End of Year	\$ 114,639	\$ 1,338,006	\$ 3,522,268	\$ 956,907	\$ (798,334)	\$ 51,226	\$ 9,296,687	\$ 14,481,399

EPISCOPAL DIOCESE OF ALBANY
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS BY FUND
FOR THE YEAR ENDED DECEMBER, 31, 2011

	Trust Funds			Diocesan Development (Unrestricted)	Diocesan Operations		Spiritual Life (Unrestricted)	TOTAL
	Unrestricted	Temporarily Restricted	Permanently Restricted		Unrestricted	Temporarily Restricted		
REVENUES								
Dividends and Interest	\$ 4,808	\$ 148,065	\$ -	\$ 31,119	\$ 138,068	\$ -	\$ 13,679	\$ 335,739
Fees and Related Income	-	-	-	-	143,873	-	865,440	1,009,313
Contributions and Bequests	-	-	790	-	267,134	-	670,648	938,572
Fitch Gilbert Trust Distributions	101,932	-	-	-	-	-	50,000	151,932
Extinct Parishes - Net	45	36,105	-	-	-	-	-	36,150
Parish Assessments	-	-	-	-	1,088,953	-	21,331	1,110,284
Releases from Restrictions	98,270	(98,270)	-	-	-	-	-	-
TOTAL REVENUES	205,055	85,900	\$ 790	\$ 31,119	\$ 1,638,028	\$ -	\$ 1,621,098	\$ 3,581,990
EXPENSES								
Program								
Distributions from Trust Accounts	131,336	43,082	-	-	50,000	-	-	224,418
Ministries and New Initiatives	1,200	-	-	-	640,756	-	-	641,956
Clery Benefits and Education	14,500	-	-	-	99,768	-	-	114,268
Special Facilities Costs	15,716	-	-	-	-	-	1,706,098	1,721,814
Management and General								
Diocesan Headquarters Operations	-	-	-	-	852,597	-	-	852,597
Professional Fees	-	-	-	-	25,829	-	6,020	31,849
Other Expenses	-	-	-	34	3,711	-	-	3,745
Depreciation and Amortization	-	-	-	-	51,803	-	253,378	305,181
TOTAL EXPENSES	162,752	43,082	-	34	1,724,464	-	1,965,496	3,695,828
INCREASE (DECREASE) IN NET ASSETS BEFORE OTHER ITEMS	42,303	42,818	790	31,085	(86,436)	-	(344,398)	(313,838)
OTHER ITEMS								
Realized and Unrealized Gain (Loss) on Investments	(6,571)	(319,209)	-	(22,839)	-	-	-	(348,619)
Post-Retirement Health Care	-	-	-	-	342,863	-	-	342,863
Gain (Loss) on Sale of Property	-	-	-	-	10,551	-	-	10,551
INCREASE (DECREASE) IN NET ASSETS	\$ 35,732	\$ (276,391)	\$ 790	\$ 8,246	\$ 266,978	\$ -	\$ (344,398)	\$ (309,043)
NET ASSETS:								
Beginning of Year	\$ 101,896	\$ 1,401,694	\$ 3,520,808	\$ 905,582	\$ (1,148,650)	\$ 51,226	\$ 9,792,114	\$ 14,624,670
End of Year	\$ 137,628	\$ 1,125,303	\$ 3,521,598	\$ 913,828	\$ (881,672)	\$ 51,226	\$ 9,447,716	\$ 14,315,627