

**EPISCOPAL DIOCESE OF ALBANY
FINANCIAL STATEMENTS
DECEMBER 31, 2014**

EPISCOPAL DIOCESE OF ALBANY

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Kevin J. McCoy, CPA
Thomas W. Donovan, CPA
Frank S. Venezia, CPA
James E. Amell, CPA
Carol A. Hausamann, CPA
Daniel J. Litz, CPA
Karl F. Newton, CPA
Kevin P. O'Leary, CPA
Timothy A. Reynolds, CPA
Martin D. Hull, CPA

Thomas J. Ross, CPA
Heather D. Patten, CPA

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Episcopal Diocese of Albany, which comprise the statements of financial position as of December 31, 2014 and 2013, 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, 2014 and 2013, 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.

Correction of Error

As described in Note 17 to the financial statements, errors in the amounts released from temporarily restricted net assets were discovered by management during the current year. These errors resulted in the overstatement of amounts previously reported as temporarily restricted net assets as of December 31, 2013 and an understatement of amounts previously reported as unrestricted net assets available for general activities as of December 31, 2013. Accordingly, amounts reported for temporarily restricted net assets and unrestricted net assets available for general activities have been restated in the December 31, 2013 financial statements now presented. Our opinion is not modified with respect to that matter.

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 18 and 19 and the schedules 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 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 13, 2015

**EPISCOPAL DIOCESE OF ALBANY
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2014 AND 2013**

ASSETS	<u>2014</u>	<u>Restated 2013</u>
ASSETS		
Cash	\$ 1,161,045	\$ 855,720
Accounts Receivable	13,178	18,497
Other Receivables	65,438	74,852
Prepaid Expenses	12,507	20,592
Investments	5,944,489	5,692,921
Loans Receivable from Parishes	276,617	361,369
Net Property and Equipment	9,064,748	9,478,548
Other Assets	<u>106,400</u>	<u>100,560</u>
TOTAL ASSETS	<u><u>\$ 16,644,422</u></u>	<u><u>\$ 16,603,059</u></u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Accrued Liabilities	\$ 320,829	\$ 311,667
Shareholder Deposits	5,502	2,756
Post-Retirement Health Care Liability	<u>989,364</u>	<u>1,179,033</u>
TOTAL LIABILITIES	<u>1,315,695</u>	<u>1,493,456</u>
NET ASSETS		
Unrestricted		
Available for General Activities	9,959,727	9,971,705
Board Designated - Bishop's Residence	119,318	-
Temporarily Restricted	1,727,414	1,615,630
Permanently Restricted	<u>3,522,268</u>	<u>3,522,268</u>
TOTAL NET ASSETS	<u>15,328,727</u>	<u>15,109,603</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 16,644,422</u></u>	<u><u>\$ 16,603,059</u></u>

EPISCOPAL DIOCESE OF ALBANY
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014				Restated 2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	TOTAL	Unrestricted	Temporarily Restricted	Permanently Restricted	TOTAL
REVENUES								
Dividends and Interest	\$ 95,224	\$ 153,276	\$ -	\$ 248,500	\$ 95,438	\$ 148,087	\$ -	\$ 243,525
Fees and Related Income	1,240,780	-	-	1,240,780	1,167,746	-	-	1,167,746
Contributions and Bequests	562,361	47,112	-	609,473	1,097,789	-	-	1,097,789
Fitch Gilbert Trust Distributions	204,193	-	-	204,193	94,915	-	-	94,915
Extinct Parishes - Net	43,305	-	-	43,305	458	-	-	458
Parish Assessments	1,289,666	22,336	-	1,312,002	1,224,049	-	-	1,224,049
Releases from Restrictions	105,524	(105,524)	-	-	190,633	(190,633)	-	-
TOTAL REVENUES	3,541,053	117,200	-	3,658,253	3,871,028	(42,546)	-	3,828,482
EXPENSES								
Program								
Distributions from Trust Accounts	82,507	-	-	82,507	78,874	-	-	78,874
Ministries and New Initiatives	630,625	-	-	630,625	652,697	-	-	652,697
Clergy Benefits and Education	91,011	-	-	91,011	122,645	-	-	122,645
Special Facilities Costs	1,639,094	-	-	1,639,094	1,695,322	-	-	1,695,322
Management and General								
Diocesan Headquarters Operations	916,512	-	-	916,512	946,694	-	-	946,694
Professional Fees	62,803	-	-	62,803	36,682	-	-	36,682
Depreciation	297,290	-	-	297,290	280,771	-	-	280,771
TOTAL EXPENSES	3,719,842	-	-	3,719,842	3,813,685	-	-	3,813,685
INCREASE (DECREASE) IN NET ASSETS BEFORE OTHER ITEMS	(178,789)	117,200	-	(61,589)	57,343	(42,546)	-	14,797
OTHER ITEMS								
Net Realized and Unrealized Gain (Loss) on Investments	(524)	(5,416)	-	(5,940)	90,964	325,117	-	416,081
Post-Retirement Health Care (Expense) Recovery	189,669	-	-	189,669	196,876	-	-	196,876
Gain (Loss) on Sale of Property	96,984	-	-	96,984	450	-	-	450
INCREASE IN NET ASSETS	107,340	111,784	-	219,124	345,633	282,571	-	628,204
NET ASSETS								
Beginning of Year	9,971,705	1,615,630	3,522,268	15,109,603	9,626,072	1,333,059	3,522,268	14,481,399
End of Year	\$ 10,079,045	\$ 1,727,414	\$ 3,522,268	\$ 15,328,727	\$ 9,971,705	\$ 1,615,630	\$ 3,522,268	\$ 15,109,603

See accompanying notes to financial statements.

EPISCOPAL DIOCESE OF ALBANY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES		
Change in Net Assets	\$ 219,124	\$ 628,204
Adjustments to Reconcile Increase in Net Assets to Cash Provided by Operating Activities:		
Depreciation	297,290	280,771
Realized and Unrealized (Gain) Loss on Investments	5,940	(416,081)
(Gain) Loss on Disposition of Property and Equipment	(96,984)	(450)
Post Retirement Health Care Liability	(189,669)	(196,876)
Donation of Equipment	(1,600)	-
Changes In		
Accounts Receivable	5,319	(5,999)
Other Receivables	9,414	(18,218)
Prepaid Expenses	8,085	15,046
Other Assets	(5,840)	48,486
Accounts Payable and Accrued Liabilities	9,162	(67,988)
Shareholder Deposits	2,746	(2,132)
NET CASH PROVIDED BY OPERATING ACTIVITIES	262,987	264,763
 CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES		
Purchase of Property and Equipment	(54,611)	(274,084)
Proceeds from Sale of Property and Equipment	269,705	450
Proceeds from Sale of Investments	123,100	38,555
Purchase of Investments	(380,608)	(37,096)
NET CASH USED BY INVESTING ACTIVITIES	(42,414)	(272,175)
 CASH FLOWS PROVIDED (USED) BY FINANCING ACTIVITIES		
Loans to Parishes	-	(172,425)
Parish Loan Repayments	84,752	41,105
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	84,752	(131,320)
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ 305,325	\$ (138,732)
 CASH AND CASH EQUIVALENTS		
Beginning of Year	855,720	994,452
End of Year	\$ 1,161,045	\$ 855,720
 SCHEDULE OF NONCASH INVESTING TRANSACTIONS		
Donation of equipment	\$ 1,600	\$ -

See accompanying notes to financial statements.

EPISCOPAL DIOCESE OF ALBANY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

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 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 and certain special facilities (see Note 4 and 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.

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.

Net Asset Classifications

In the accompanying financial statements, the Diocese maintains its net assets 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, 2014 and 2013, all of the temporarily restricted net assets were purpose restrictions.

EPISCOPAL DIOCESE OF ALBANY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

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. Such expenditures are included in distributions from trust accounts on the statements of activities.

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 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, 2014 and 2013, 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, 2014 and 2013, there were no contributed services recognized as revenue.

EPISCOPAL DIOCESE OF ALBANY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

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 2014 and 2013, Charities and ADIT provided the Diocese with reimbursement for certain allocated administrative costs of \$158,641 and \$161,633, 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 statement of activities.

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 rates of interest ranging from approximately 3% to 6%. 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, 2014 and 2013 were \$276,617 and \$361,369, respectively.

Investments

Investments are comprised of investments in Albany Diocesan Investment Trust and are valued at net asset value in the statement of financial position. See note 8 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 five to thirty-nine years.

Post Retirement Health Care Costs

Post-retirement health care costs, are estimated, and are based on the most recent actuarial calculations.

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, 2014 AND 2013**

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. 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 net realized and unrealized gains (losses) on investments totaled \$(5,940) and \$416,081 for the years ended December 31, 2014 and 2013, respectively.

The Diocese owned 200,489 and 191,810 shares of ADIT at December 31, 2014 and 2013, respectively, or approximately 28% of total ADIT shares outstanding each year. At December 31, 2014, the net asset value per ADIT share was \$29.65, a decrease of \$0.03 compared with the net asset value at December 31, 2013 of \$29.68.

ADIT made annual distributions, paid quarterly, of \$1.12 per share in 2014 and 2013. 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, 2014 distribution paid in January 2015 is reflected on the December 31, 2014 statement of financial position under the caption "other receivables", and is also recorded in the 2014 statement of activities.

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

	<u>December 31, 2014</u>			<u>December 31, 2013</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	\$4,242,146	\$ 355,839	\$4,597,985	\$3,984,682	\$ 355,839	\$4,340,521
Unrealized gain/(loss)	<u>1,338,271</u>	<u>8,233</u>	<u>1,346,504</u>	<u>1,343,798</u>	<u>8,602</u>	<u>1,352,400</u>
Fair Value of Shares	<u>\$5,580,417</u>	<u>\$ 364,072</u>	<u>\$5,944,489</u>	<u>\$5,328,480</u>	<u>\$ 364,441</u>	<u>\$5,692,921</u>

**EPISCOPAL DIOCESE OF ALBANY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

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, 2014 and 2013, 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, 2014 and 2013 was \$78,354 and \$121,179, respectively.

4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2014</u>	<u>2013</u>
Buildings, Improvements and Equipment	\$ 1,403,816	\$ 1,532,249
Furniture, Equipment and Other	451,605	447,874
Spiritual Life Center	<u>11,095,610</u>	<u>11,279,912</u>
 Total Property and Equipment	 12,951,031	 13,260,035
 Less: Accumulated Depreciation	 <u>3,886,283</u>	 <u>3,781,487</u>
 Net Property and Equipment	 <u>\$ 9,064,748</u>	 <u>\$ 9,478,548</u>

Depreciation expense was \$297,290 and \$280,771 for the years ended December 31, 2014 and 2013, respectively. The cost of land held by the Diocese was \$2,139,282 and \$2,262,192 at December 31, 2014 and 2013, respectively. 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, 2014 AND 2013

5. 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 20 and 21. 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>2014</u>	<u>2013</u>
<u>Revenues:</u>		
Dividends and Interest	\$ 13,679	\$ 13,679
Fees and Related Income	947,889	997,537
Contributions	<u>441,047</u>	<u>850,770</u>
Total Revenues:	<u>1,402,615</u>	<u>1,861,986</u>
<u>Expenses:</u>		
Program Expenses:		
Beaver Cross Camp	128,116	107,942
Healing Ministry	181,224	210,615
Kitchen	316,079	359,778
Lodging and Activities	292,348	293,435
Youth Ministry	166,341	136,919
Daycare	221,702	227,950
Gift Shop	<u>18,468</u>	<u>27,678</u>
Total Program Expenses:	<u>1,324,278</u>	<u>1,364,317</u>
Management and General Expenses:		
Facility Operations	194,437	246,709
Administration and Development	<u>41,345</u>	<u>49,722</u>
Total Management and General Expenses:	<u>235,782</u>	<u>296,431</u>
Total Expenses:	<u>1,560,060</u>	<u>1,660,748</u>
Net Increase (Decrease) in Net Assets From Operations	<u>\$ (157,445)</u>	<u>\$ 201,238</u>

In addition, depreciation related to special facilities for the years ended December 31, 2014 and 2013 was \$237,551 and \$221,850, respectively, and is included in the statement of activities.

EPISCOPAL DIOCESE OF ALBANY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

6. 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, 2014 and 2013 (the most recently completed actuarial analysis), sets forth the plan's status and amounts shown in the Diocese's financial statements.

	<u>2014</u>	<u>2013</u>
Benefit Obligation at beginning of year	\$ 803,627	\$ 826,458
Service cost	16,888	17,082
Interest cost	33,419	32,390
Actuarial loss (gain)	3,439	(14,580)
Benefits paid	<u>(56,658)</u>	<u>(57,723)</u>
 Benefit Obligation at end of year	 <u>\$ 800,715</u>	 <u>\$ 803,627</u>
 Funded status	 \$ (800,715)	 \$ (803,627)
Unrecognized actuarial gain	745,496	824,123
Unrecognized prior service cost	<u>(934,145)</u>	<u>(1,199,529)</u>
 Accrued benefit cost December 31,	 <u>\$ (989,364)</u>	 <u>\$ (1,179,033)</u>

The weighted average assumption as of December 31, 2014 and 2013 is as follows:

Discount rate	4.32%
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The following table provides information related to the unrecognized prior service cost for the fiscal year ended December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Unrecognized amount beginning of year	\$ 1,199,529	\$ 1,464,913
Amount recognized	<u>(265,384)</u>	<u>(265,384)</u>
 Unrecognized prior service cost at end of year	 <u>\$ 934,145</u>	 <u>\$ 1,199,529</u>

The following table provides the components of net periodic benefit for the fiscal year ended December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Service cost	\$ 16,888	\$ 17,082
Interest cost	33,419	32,390
Amortization of net loss from prior periods	82,066	95,257
Amortization of unrecognized prior service costs	<u>(265,384)</u>	<u>(265,384)</u>
 Net periodic benefit	 <u>\$ (133,011)</u>	 <u>\$ (120,655)</u>

EPISCOPAL DIOCESE OF ALBANY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

6. POST-RETIREMENT HEALTH CARE BENEFITS

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

2015	\$ 58,853
2016	58,769
2017	58,420
2018	57,925
Thereafter	281,889

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 the 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.

7. 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 2014 and 2013 was \$166,338 and \$161,593, 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, 2014 AND 2013**

7. PENSION PLAN

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 90% and is considered to be in the "green zone" according to the Pension Protection Act of 2006.

8. 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 following is a description of the valuation methodologies used for the years ended December 31, 2014 and 2013.

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 Diocese has adopted the provisions of Accounting Standards Update (ASU) 2009-12, *Investments in Certain Entities that Calculated 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 of its equivalents 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. For this reason, the fair value measurements of Diocese investment in ADIT are considered level 2.

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, 2014 and 2013.

	Fair Value		Unfunded	Redemption	Redemption
	At December 31,				
	<u>2014</u>	<u>2013</u>			<u>Notice</u>
Investment in ADIT	<u>\$ 5,944,489</u>	<u>\$ 5,692,921</u>	None	Monthly	3 Days Prior to Month End

**EPISCOPAL DIOCESE OF ALBANY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

9. 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 \$75,611 and \$62,042 at December 31, 2014 and 2013, respectively.

10. 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. Management believes that the Diocese is no longer subject to review by the Internal Revenue Service for years prior to 2011.

11. 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>2014</u>	<u>2013</u>
Proceeds from sale of building and property	\$ <u>43,305</u>	\$ <u>458</u>

12. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets restricted for purposes described below as of December 31, 2014 and 2013 consists of the following:

	<u>2014</u>	Restated <u>2013</u>
Earnings from Permanently Restricted Net Assets	\$ 1,657,966	\$ 1,615,630
New Parish Development	45,040	-
Missions	18,539	-
Other	5,869	-
TOTAL	<u>\$ 1,727,414</u>	<u>\$ 1,615,630</u>

EPISCOPAL DIOCESE OF ALBANY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

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."

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 donor-restricted net assets are reflected on the statements of activities.

**EPISCOPAL DIOCESE OF ALBANY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

14. BOARD DESIGNATED NET ASSETS – BISHOP’S RESIDENCE

The composition of and changes in board-designated net assets for the years ended December 31, 2014 and 2013 were as follows:

	<u>2014</u>	<u>2013</u>
Board-designated funds, beginning of year	\$ -	\$ -
Contributions	118,955	-
Net appreciation	363	-
Board-designated funds, end of year	<u>\$ 119,318</u>	<u>\$ -</u>

15. 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.

16. 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 changes in net assets or net assets.

17. PRIOR YEAR RESTATEMENT

Releases from restrictions on the December 31, 2013 statement of activities and changes in net assets has been restated to reflect \$62,323 of additional releases from temporarily restricted net assets to unrestricted net assets. The overall effect of this change is the reduction of temporarily restricted net assets and increase of unrestricted net assets available for general activities of \$62,323. Total net assets did not change as a result of this restatement.

18. SUBSEQUENT EVENTS

The Diocese has evaluated events and transactions that occurred between December 31, 2014 and May 13, 2015, 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
SCHEDULE OF FINANCIAL POSITION BY FUND
DECEMBER 31, 2014**

ASSETS	TRUST FUNDS	DIOCESAN DEVELOPMENT	DIOCESAN OPERATIONS	SPIRITUAL LIFE	ELIMINATION	TOTAL
ASSETS						
Cash	\$ 427,706	\$ 399,478	\$ 280,530	\$ 53,331	\$ -	\$ 1,161,045
Accounts Receivable	-	-	-	13,178	-	13,178
Other Receivables	41,656	5,383	14,979	3,420	-	65,438
Diocesan Cash Receivable	-	-	422,204	-	(422,204)	-
Prepaid Expenses	-	-	11,944	563	-	12,507
Investments	5,580,417	364,072	-	-	-	5,944,489
Loans Receivable from Parishes	-	276,617	-	-	-	276,617
Net Property and Equipment	-	-	252,269	8,812,479	-	9,064,748
Other Assets	-	-	83,870	22,530	-	106,400
TOTAL ASSETS	\$ 6,049,779	\$ 1,045,550	\$ 1,065,796	\$ 8,905,501	\$ (422,204)	\$ 16,644,422
LIABILITIES AND NET ASSETS						
LIABILITIES						
Accounts Payable and Accrued Liabilities	\$ -	\$ -	\$ 134,213	\$ 186,616	\$ -	\$ 320,829
Shareholder Deposits	427,706	-	-	-	(422,204)	5,502
Post-Retirement Health Care Liability	-	-	989,364	-	-	989,364
TOTAL LIABILITIES	427,706	-	1,123,577	186,616	(422,204)	1,315,695
NET ASSETS						
Unrestricted net assets						
Available for General Activities	322,521	1,045,550	(127,229)	8,718,885	-	9,959,727
Board Designated - Bishop's Residence	119,318	-	-	-	-	119,318
Temporarily Restricted	1,657,966	-	69,448	-	-	1,727,414
Permanently Restricted	3,522,268	-	-	-	-	3,522,268
TOTAL NET ASSETS	5,622,073	1,045,550	(57,781)	8,718,885	-	15,328,727
TOTAL LIABILITIES AND NET ASSETS	\$ 6,049,779	\$ 1,045,550	\$ 1,065,796	\$ 8,905,501	\$ (422,204)	\$ 16,644,422

**EPISCOPAL DIOCESE OF ALBANY
SCHEDULE OF FINANCIAL POSITION BY FUND
DECEMBER, 31, 2013**

ASSETS	RESTATED TRUST FUNDS	DIOCESAN DEVELOPMENT	DIOCESAN OPERATIONS	SPIRITUAL LIFE	ELIMINATION	RESTATED TOTAL
ASSETS						
Cash	\$ 383,025	\$ 280,302	\$ 137,637	\$ 54,756	\$ -	\$ 855,720
Accounts Receivable	-	-	171	18,326	-	18,497
Other Receivables	39,225	5,462	26,440	3,725	-	74,852
Diocesan Cash Receivable	-	-	380,269	-	(380,269)	-
Prepaid Expenses	-	-	16,095	4,497	-	20,592
Investments	5,328,480	364,441	-	-	-	5,692,921
Loans Receivable from Parishes	-	361,369	-	-	-	361,369
Net Property and Equipment	-	-	295,421	9,183,127	-	9,478,548
Other Assets	-	-	76,052	24,508	-	100,560
TOTAL ASSETS	\$ 5,750,730	\$ 1,011,574	\$ 932,085	\$ 9,288,939	\$ (380,269)	\$ 16,603,059
LIABILITIES AND NET ASSETS						
LIABILITIES						
Accounts Payable and Accrued Liabilities	\$ -	\$ -	\$ 155,297	\$ 156,370	\$ -	\$ 311,667
Shareholder Deposits	383,025	-	-	-	(380,269)	2,756
Post-Retirement Health Care Liability	-	-	1,179,033	-	-	1,179,033
TOTAL LIABILITIES	383,025	-	1,334,330	156,370	(380,269)	1,493,456
NET ASSETS						
Unrestricted						
Available for General Activities	229,807	1,011,574	(402,245)	9,132,569	-	9,971,705
Board Designated - Bishop's Residence	-	-	-	-	-	-
Temporarily Restricted	1,615,630	-	-	-	-	1,615,630
Permanently Restricted	3,522,268	-	-	-	-	3,522,268
TOTAL NET ASSETS	5,367,705	1,011,574	(402,245)	9,132,569	-	15,109,603
TOTAL LIABILITIES AND NET ASSETS	\$ 5,750,730	\$ 1,011,574	\$ 932,085	\$ 9,288,939	\$ (380,269)	\$ 16,603,059

EPISCOPAL DIOCESE OF ALBANY
SCHEDULE OF ACTIVITIES AND CHANGES IN NET ASSETS BY FUND
FOR THE YEAR ENDED DECEMBER 31, 2014

	Trust Funds			Diocesan Development (Unrestricted)	Diocesan Operations		Spiritual Life (Unrestricted)	TOTAL
	Unrestricted	Temporarily Restricted	Permanently Restricted		Unrestricted	Temporarily Restricted		
REVENUES								
Dividends and Interest	\$ 10,041	\$ 153,276	\$ -	\$ 34,345	\$ 37,159	\$ -	\$ 13,679	\$ 248,500
Fees and Related Income	248,292	-	-	-	44,599	-	947,889	1,240,780
Contributions and Bequests	3,201	-	-	-	150,317	47,112	408,843	609,473
Fitch Gilbert Trust Distributions	-	-	-	-	204,193	-	-	204,193
Extinct Parishes - Net	43,305	-	-	-	-	-	-	43,305
Parish Assessments	-	-	-	-	1,257,462	22,336	32,204	1,312,002
Releases from Restrictions	105,524	(105,524)	-	-	-	-	-	-
TOTAL REVENUES	410,363	47,752	-	34,345	1,693,730	69,448	1,402,615	3,658,253
EXPENSES								
Program								
Distributions from Trust Accounts	82,507	-	-	-	-	-	-	82,507
Ministries and New Initiatives	9,625	-	-	-	621,000	-	-	630,625
Clergy Benefits and Education	4,024	-	-	-	86,987	-	-	91,011
Special Facilities Costs	87,710	-	-	-	-	-	1,551,384	1,639,094
Management and General								
Diocesan Headquarters Operations	-	-	-	-	916,512	-	-	916,512
Professional Fees	14,310	-	-	-	39,817	-	8,676	62,803
Depreciation and Amortization	-	-	-	-	59,739	-	237,551	297,290
TOTAL EXPENSES	198,176	-	-	-	1,724,055	-	1,797,611	3,719,842
INCREASE (DECREASE) IN NET ASSETS BEFORE OTHER ITEMS	212,187	47,752	-	34,345	(30,325)	69,448	(394,996)	(61,589)
OTHER ITEMS								
Realized and Unrealized Gain (Loss) on Investments	(155)	(5,416)	-	(369)	-	-	-	(5,940)
Post-Retirement Health Care (Expense) Recovery	-	-	-	-	189,669	-	-	189,669
Gain (Loss) on Sale of Property and Equipment	-	-	-	-	115,672	-	(18,688)	96,984
INCREASE (DECREASE) IN NET ASSETS	212,032	42,336	-	33,976	275,016	69,448	(413,684)	219,124
NET ASSETS								
Beginning of Year	229,807	1,615,630	3,522,268	1,011,574	(402,245)	-	9,132,569	15,109,603
End of Year	\$ 441,839	\$ 1,657,966	\$ 3,522,268	\$ 1,045,550	\$ (127,229)	\$ 69,448	\$ 8,718,885	\$ 15,328,727

EPISCOPAL DIOCESE OF ALBANY
SCHEDULE OF ACTIVITIES AND CHANGES IN NET ASSETS BY FUND
FOR THE YEAR ENDED DECEMBER, 31, 2013

	Restated Trust Funds			Diocesan Development (Unrestricted)	Diocesan Operations		Spiritual Life (Unrestricted)	TOTAL
	Unrestricted	Temporarily Restricted	Permanently Restricted		Unrestricted	Temporarily Restricted		
REVENUES								
Dividends and Interest	\$ 9,743	\$ 148,087	\$ -	\$ 32,196	\$ 39,820	\$ -	\$ 13,679	\$ 243,525
Fees and Related Income	-	-	-	-	170,209	-	997,537	1,167,746
Contributions and Bequests	-	-	-	-	276,575	-	821,214	1,097,789
Fitch Gilbert Trust Distributions	-	-	-	-	94,915	-	-	94,915
Extinct Parishes - Net	458	-	-	-	-	-	-	458
Parish Assessments	-	-	-	-	1,194,493	-	29,556	1,224,049
Releases from Restrictions	190,633	(190,633)	-	-	-	-	-	-
TOTAL REVENUES	<u>200,834</u>	<u>(42,546)</u>	<u>\$ -</u>	<u>\$ 32,196</u>	<u>\$ 1,776,012</u>	<u>\$ -</u>	<u>\$ 1,861,986</u>	<u>\$ 3,828,482</u>
EXPENSES								
Program								
Distributions from Trust Accounts	78,874	-	-	-	-	-	-	78,874
Ministries and New Initiatives	4,000	-	-	-	648,697	-	-	652,697
Clergy Benefits and Education	32,759	-	-	-	89,886	-	-	122,645
Special Facilities Costs	43,473	-	-	-	-	-	1,651,849	1,695,322
Management and General								
Diocesan Headquarters Operations	-	-	-	-	946,694	-	-	946,694
Professional Fees	-	-	-	-	27,783	-	8,899	36,682
Depreciation and Amortization	-	-	-	-	58,921	-	221,850	280,771
TOTAL EXPENSES	<u>159,106</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,771,981</u>	<u>-</u>	<u>1,882,598</u>	<u>3,813,685</u>
INCREASE (DECREASE) IN NET ASSETS BEFORE OTHER ITEMS	41,728	(42,546)	-	32,196	4,031	-	(20,612)	14,797
OTHER ITEMS								
Realized and Unrealized Gain (Loss) on Investments	68,493	325,117	-	22,471	-	-	-	416,081
Post-Retirement Health Care (Expense) Recovery	-	-	-	-	196,876	-	-	196,876
Gain (Loss) on Sale of Property and Equipment	-	-	-	-	-	-	450	450
Related Fund Transfers	-	-	-	-	143,956	-	(143,956)	-
INCREASE (DECREASE) IN NET ASSETS	110,221	282,571	-	54,667	344,863	-	(164,118)	628,204
NET ASSETS:								
Beginning of Year	119,586	1,333,059	3,522,268	956,907	(747,108)	-	9,296,687	14,481,399
End of Year	<u>\$ 229,807</u>	<u>\$ 1,615,630</u>	<u>\$ 3,522,268</u>	<u>\$ 1,011,574</u>	<u>\$ (402,245)</u>	<u>\$ -</u>	<u>\$ 9,132,569</u>	<u>\$ 15,109,603</u>