

EPISCOPAL DIOCESE OF ROCHESTER

**Financial Statements
as of December 31, 2011
Together with
Independent Auditors' Report**

Bonadio & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

August 13, 2012

To the Diocesan Trustees of the
Episcopal Diocese of Rochester:

We have audited the accompanying balance sheet of the Episcopal Diocese of Rochester (the Diocese) as of December 31, 2011, and the related statements of revenue, expenses and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Diocese's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Diocese's 2010 financial statements and, in our report dated July 13, 2011, we expressed a qualified opinion on those financial statements because of the departure from generally accepted accounting principles described in the third paragraph.

We conducted our audit 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As more fully described in Note 2 to the financial statements, the Diocese does not depreciate buildings and equipment related to improvement and replacement of property and equipment. Also, only certain expenditures, as authorized by the Diocesan Trustees, have been capitalized. In our opinion, all capital expenditures should be capitalized and depreciated over their estimated useful lives to conform with accounting principles generally accepted in the United States of America. Additionally, the Diocese has not adopted the accounting or disclosure requirements for donor restricted gifts including endowments. In our opinion, all donor restricted gifts should be accounted for as temporarily or permanently restricted to conform with accounting principles generally accepted in the United States of America. The effects on the financial statements of the preceding practices are not reasonably determinable.

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(Continued)

INDEPENDENT AUDITORS' REPORT

(Continued)

In our opinion, except for the effects of the matters discussed in the preceding paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Episcopal Diocese of Rochester as of December 31, 2011, and the change in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental Comparison of Budget to Actual Operating Revenue and Expenses in Exhibit I, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information, except for that portion marked "unaudited," was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. That information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, except for the effects on the Exhibit of the qualified opinion on the financial statements as described above, such information is fairly stated in all material respects in relation to the financial statements as a whole. The information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

EPISCOPAL DIOCESE OF ROCHESTER

**BALANCE SHEET
DECEMBER 31, 2011**

(With Comparative Totals for 2010)

	2011									2010 Total All Funds
	Unrestricted				Restricted			Total All Funds		
	Operating	Special Purpose	Real Estate	Total	Endowment	By Donors	Total			
ASSETS										
CASH	\$ 405,442	\$ 50	\$ -	\$ 405,492	\$ -	\$ 18,812	\$ 18,812	\$ 424,304	\$ 120,591	
MORTGAGES AND LOANS RECEIVABLE	-	431,194	-	431,194	-	650,555	650,555	1,081,749	1,039,211	
MORTGAGES AND LOANS RECEIVABLE - Related parties	163,584	108,257	-	271,841	-	-	-	271,841	279,041	
PREPAIDS AND OTHER ASSETS	43,173	572	-	43,745	-	-	-	43,745	21,786	
BOOK STORE INVENTORIES	-	24,171	-	24,171	-	-	-	24,171	17,611	
INVESTMENTS	-	13,155,290	-	13,155,290	3,368,923	8,781,780	12,150,703	25,305,993	28,355,794	
DUE (TO) FROM OTHER FUNDS	121,264	154,265	-	275,529	-	(275,529)	(275,529)	-	-	
LAND, BUILDINGS AND EQUIPMENT	-	-	2,802,110	2,802,110	-	-	-	2,802,110	2,802,110	
	<u>\$ 733,463</u>	<u>\$ 13,873,799</u>	<u>\$ 2,802,110</u>	<u>\$ 17,409,372</u>	<u>\$ 3,368,923</u>	<u>\$ 9,175,618</u>	<u>\$ 12,544,541</u>	<u>\$ 29,953,913</u>	<u>\$ 32,636,144</u>	
LIABILITIES AND NET ASSETS										
ACCOUNTS PAYABLE	\$ 19,587	\$ 5,941	\$ -	\$ 25,528	\$ -	\$ -	\$ -	\$ 25,528	\$ 47,982	
ACCRUED LIABILITIES	92,038	-	-	92,038	-	15,492	15,492	107,530	59,298	
FUNDS HELD FOR OTHERS	-	-	-	-	-	6,393,596	6,393,596	6,393,596	7,228,454	
	<u>111,625</u>	<u>5,941</u>	<u>-</u>	<u>117,566</u>	<u>-</u>	<u>6,409,088</u>	<u>6,409,088</u>	<u>6,526,654</u>	<u>7,335,734</u>	
NET ASSETS:										
Unrestricted	621,838	13,867,858	2,802,110	17,291,806	-	-	-	17,291,806	18,630,337	
Restricted	-	-	-	-	3,368,923	2,766,530	6,135,453	6,135,453	6,670,073	
Total net assets	<u>621,838</u>	<u>13,867,858</u>	<u>2,802,110</u>	<u>17,291,806</u>	<u>3,368,923</u>	<u>2,766,530</u>	<u>6,135,453</u>	<u>23,427,259</u>	<u>25,300,410</u>	
	<u>\$ 733,463</u>	<u>\$ 13,873,799</u>	<u>\$ 2,802,110</u>	<u>\$ 17,409,372</u>	<u>\$ 3,368,923</u>	<u>\$ 9,175,618</u>	<u>\$ 12,544,541</u>	<u>\$ 29,953,913</u>	<u>\$ 32,636,144</u>	

The accompanying notes are an integral part of these statements.

EPISCOPAL DIOCESE OF ROCHESTER

**STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2011
(With Comparative Totals for 2010)**

	2011									
	Unrestricted				Restricted				Total All Funds	2010 Total All Funds
	Operating	Special Purpose	Real Estate	Total	Endowment	By Donors	Total	Eliminations		
REVENUE:										
Parish support	\$ 1,016,685	\$ -	\$ -	\$ 1,016,685	\$ -	\$ -	\$ -	\$ -	\$ 1,016,685	\$ 970,609
Contributions	-	-	-	-	-	21,457	21,457	-	21,457	28,955
Book store	-	92,791	-	92,791	-	-	-	-	92,791	94,918
Interest on mortgages and loans	92,372	-	-	92,372	-	-	-	-	92,372	89,731
Other	3,392	-	-	3,392	-	-	-	-	3,392	64,535
	<u>1,112,449</u>	<u>92,791</u>	<u>-</u>	<u>1,205,240</u>	<u>-</u>	<u>21,457</u>	<u>21,457</u>	<u>-</u>	<u>1,226,697</u>	<u>1,248,748</u>
EXPENSES:										
Program -										
National Church support	194,817	-	-	194,817	-	-	-	-	194,817	209,673
Other grants and support	817,296	-	-	817,296	-	88,926	88,926	-	906,222	1,039,291
Diocesan operations -										
Payroll and benefits	1,307,468	-	-	1,307,468	-	-	-	-	1,307,468	1,181,219
Occupancy	99,411	-	-	99,411	-	-	-	-	99,411	128,241
Other	90,714	2,485	-	93,199	-	-	-	-	93,199	85,349
Book store	-	94,841	-	94,841	-	-	-	-	94,841	96,513
	<u>2,509,706</u>	<u>97,326</u>	<u>-</u>	<u>2,607,032</u>	<u>-</u>	<u>88,926</u>	<u>88,926</u>	<u>-</u>	<u>2,695,958</u>	<u>2,740,286</u>
EXCESS OF REVENUE OVER EXPENSES BEFORE INVESTMENT INCOME	(1,397,257)	(4,535)	-	(1,401,792)	-	(67,469)	(67,469)	-	(1,469,261)	(1,491,538)
INVESTMENT INCOME, net	-	(194,747)	-	(194,747)	(136,710)	(72,433)	(209,143)	-	(403,890)	2,049,460
CHANGE IN NET ASSETS	(1,397,257)	(199,282)	-	(1,596,539)	(136,710)	(139,902)	(276,612)	-	(1,873,151)	557,922
NET ASSETS - beginning of year	537,692	15,290,535	2,802,110	18,630,337	3,733,261	2,936,812	6,670,073	-	25,300,410	24,742,488
SPENDING POLICY TRANSFER	1,481,403	(1,223,395)	-	258,008	(227,628)	(30,380)	(258,008)	-	-	-
NET ASSETS - end of year	<u>\$ 621,838</u>	<u>\$ 13,867,858</u>	<u>\$ 2,802,110</u>	<u>\$ 17,291,806</u>	<u>\$ 3,368,923</u>	<u>\$ 2,766,530</u>	<u>\$ 6,135,453</u>	<u>\$ -</u>	<u>\$ 23,427,259</u>	<u>\$ 25,300,410</u>

The accompanying notes are an integral part of these statements.

EPISCOPAL DIOCESE OF ROCHESTER

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011**

(With Comparative Totals for 2010)

	2011								2010 Total All Funds
	Unrestricted				Restricted				
	Operating	Special Purpose	Real Estate	Total	Endowment	By Donors	Total	Total All Funds	
CASH FLOW FROM OPERATING ACTIVITIES:									
Change in net assets	\$ (1,397,257)	\$ (199,282)	\$ -	\$ (1,596,539)	\$ (136,710)	\$ (139,902)	\$ (276,612)	\$ (1,873,151)	\$ 557,922
Adjustments to reconcile change in net assets to net cash flow from operating activities:									
Loss (gain) on investments, net	-	266,810	-	266,810	189,107	105,652	294,759	561,569	(1,901,723)
Changes in:									
Book store inventories	-	(6,560)	-	(6,560)	-	-	-	(6,560)	1,832
Due to (from) other funds	215,216	(99,778)	-	115,438	-	(115,438)	(115,438)	-	-
Prepays and other assets	(10,655)	291	-	(10,364)	-	-	-	(10,364)	190,228
Accounts payable	(26,829)	4,375	-	(22,454)	-	3,897	3,897	(18,557)	41,053
Accrued liabilities	32,740	-	-	32,740	-	-	-	32,740	(10,178)
Net cash flow from operating activities	<u>(1,186,785)</u>	<u>(34,144)</u>	<u>-</u>	<u>(1,220,929)</u>	<u>52,397</u>	<u>(145,791)</u>	<u>(93,394)</u>	<u>(1,314,323)</u>	<u>(1,120,866)</u>
CASH FLOW FROM INVESTING ACTIVITIES:									
Change in mortgages and loans receivable, net	-	6,433	-	6,433	-	(48,971)	(48,971)	(42,538)	(225,527)
Change in mortgages and loans receivable-Related parties, net	8,446	(1,246)	-	7,200	-	-	-	7,200	20,194
(Purchases) sales of investments, net	-	1,248,406	-	1,248,406	175,231	1,064,595	1,239,826	2,488,232	838,923
Purchases of land, buildings, and equipment	-	-	-	-	-	-	-	-	(18,011)
Spending policy transfer	1,481,403	(1,223,395)	-	258,008	(227,628)	(30,380)	(258,008)	-	-
Change in funds held for others, net	-	-	-	-	-	(834,858)	(834,858)	(834,858)	478,475
Net cash flow from investing activities	<u>1,489,849</u>	<u>30,198</u>	<u>-</u>	<u>1,520,047</u>	<u>(52,397)</u>	<u>150,386</u>	<u>97,989</u>	<u>1,618,036</u>	<u>1,094,054</u>
CHANGE IN CASH	303,064	(3,946)	-	299,118	-	4,595	4,595	303,713	(26,812)
CASH - beginning of year	<u>102,378</u>	<u>3,996</u>	<u>-</u>	<u>106,374</u>	<u>-</u>	<u>14,217</u>	<u>14,217</u>	<u>120,591</u>	<u>147,403</u>
CASH - end of year	<u>\$ 405,442</u>	<u>\$ 50</u>	<u>\$ -</u>	<u>\$ 405,492</u>	<u>\$ -</u>	<u>\$ 18,812</u>	<u>\$ 18,812</u>	<u>\$ 424,304</u>	<u>\$ 120,591</u>

The accompanying notes are an integral part of these statements.

EPISCOPAL DIOCESE OF ROCHESTER

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2011

1. ORGANIZATION

The Episcopal Diocese of Rochester (the Diocese) was formed in December 1931. It stretches from Lake Ontario south to Pennsylvania, its east and west borders are formed by the Diocese of Central New York and the Diocese of Western New York. The Diocese comprises Episcopal congregations throughout eight counties in the State of New York. These are Steuben, Allegany, Schuyler, Yates, Livingston, Ontario, Wayne and Monroe Counties. It includes 48 active congregations and 8 summer and institutional chapels. The Diocesan House, on East Avenue in Rochester, New York is the administrative center of the Diocese and houses the office of the Bishop.

The mission of the Diocese is described as follows:

“God calls us through our Baptism to grow and be transformed spiritually to be God’s voice and hands engaging and renewing the world in which we live.”

The Diocese is rich in material and spiritual resources and in people able and willing to use them.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States, except for the items described below.

	<u>Generally Accepted Accounting Principles</u>	<u>Diocese Accounting Principles</u>
Recording of furniture and fixtures	Capitalized and depreciated	Expensed (or charged to special funds) at time of purchase
Other fixed assets	Capitalized and depreciated	Capitalized, but not depreciated
Donor restricted contributions	Donor restricted contributions are to be recorded as temporarily or permanently restricted at the time of donation. Net assets are released from restriction when the donor restriction is satisfied.	Use of Fund Accounting
Endowments	The composition of, and activity related to, endowment funds are required to be disclosed, as well as the related spending policy, investment return objectives and other information related to managing the endowment.	Disclosure is omitted

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Reporting

The Diocese's assets, liabilities and net assets are classified as follows:

- **Unrestricted**

Unrestricted net assets are available for use without any donor-imposed restrictions. The following unrestricted funds are maintained by the Diocese:

- **Operating**

This fund is used to account for all resources which are intended for current operating activities. In addition, a significant portion of the income from investments held in other funds is transferred to the operating fund to support operations.

- **Special Purpose**

This fund includes the General Endowment investments, Housing Loan Fund and book store operations.

- **Real Estate**

This fund includes the Diocese's investment in land, buildings and equipment.

- **Restricted**

Restricted net assets have donor-imposed restrictions that require the Diocese to treat the donated asset as specified. The following restricted funds are maintained by the Diocese:

- **Endowment**

This fund consists of permanent endowments contributed to the Diocese, the earnings from which are available to support operating activities.

- **By Donors**

This fund consists of amounts that are restricted by the donor for a specified purpose, as well as amounts belonging to parishes in the Diocese deposited with the Diocese for investment management purposes.

Comparative Information

The financial statements include certain prior year summarized comparative information in total but not by net asset category. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Diocese's financial statements for the year ended December 31, 2010, from which the summarized information was derived.

Cash

Cash consists of bank demand deposit and money market accounts which, at times, may exceed federally insured limits. The Diocese has not experienced any losses related to cash and believes it is not exposed to any significant credit risk with respect to these balances.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Mortgages and Loans Receivable

Mortgages and loans receivable represent amounts due to the Diocese under loan agreements. Loans are stated at unpaid principal balances, less an allowance for loan losses. The Diocese periodically evaluates the loan for collectability based on inherent collection risks and adverse situations that may affect the borrower's ability to repay. Loans for which no contractual payments have been received for a period of time are considered delinquent. After all collection efforts are exhausted, any amounts deemed uncollectible based upon an assessment of the debtor's financial condition are written off. As of December 31, 2011 and 2010, the Diocese determined that an allowance is not necessary.

Loans are placed on nonaccrual status when management believes collection of interest is doubtful. As of December 31, 2011 and 2010, the Diocese did not have any loans on nonaccrual status.

Book Store Inventories

Inventory is stated at the lower of cost, as determined on the first-in, first-out basis, or market.

Investments

Investments consist of various items stated at fair value as well as certain money market funds that are stated at costs, which approximate fair value. The Diocese's investment in Community Development mortgages and loans receivable are carried at historical cost.

Investment securities are exposed to various risks, such as interest rate, market economic conditions, world affairs and credit risks. Due to the level of risk associated with certain investment securities, it is possible that changes in their values could occur in the near term and such changes could materially affect the net assets of the Diocese.

Fair Value Measurement – Definition and Hierarchy

The Diocese uses various valuation techniques in determining fair value. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Diocese. Unobservable inputs are inputs that reflect the Diocese's assumptions about the estimates market participants would use in pricing the asset or liability, developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

- Level 1 - Valuations based on quoted prices in active markets for identical assets or liabilities that the Diocese has the ability to access. Valuation adjustments are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation does not entail a significant degree of judgment.
- Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly.
- Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurement – Definition and Hierarchy (Continued)

The availability of observable inputs can vary and is affected by a wide variety of factors. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Land, Buildings, and Equipment

In addition to the Diocesan House, the Diocese owns certain missions (parish churches, which are not self-supporting) and other properties. These properties were brought under general ledger control of the Diocese on January 1, 1973, and were recorded on its balance sheet at their appraised replacement value. The appraisal included only buildings and equipment. Land has been recorded at cost.

The Diocese capitalizes additional land, buildings, and equipment purchases greater than \$500 with an estimated useful life exceeding three (3) years. The Diocese does not record depreciation expense.

Income Taxes

The Diocese is a not-for-profit corporation and is exempt from income taxes as a religious organization. The Diocese has also been classified by the Internal Revenue Service as an entity that is not a private foundation.

For tax-exempt entities, their tax-exempt status itself is deemed to be an uncertainty, since events could potentially occur to jeopardize their tax-exempt status. As of December 31, 2011 and 2010, the Diocese does not have a liability for unrecognized tax benefits.

Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Reclassifications

Certain 2010 amounts have been reclassified to conform to the 2011 presentation.

3. MORTGAGES AND LOANS RECEIVABLE

Mortgages and loans receivable consisted of the following at December 31:

	<u>2011</u>	<u>2010</u>
Unrestricted:		
Mortgages and loans - related parties	\$ 271,841	\$ 279,041
Housing loan fund	<u>431,194</u>	<u>437,627</u>
Total unrestricted funds	<u>703,035</u>	<u>716,668</u>
Restricted:		
Sibley revolving loan fund	650,027	600,381
Bishop's revolving loan fund	<u>528</u>	<u>1,203</u>
Total restricted funds	<u>650,555</u>	<u>601,584</u>
	<u>\$ 1,353,590</u>	<u>\$ 1,318,252</u>

Mortgages and loans receivable bear interest at rates ranging from 2.5% to 5.0% and mature at various dates through October 2031. Approximately \$703,000 and \$717,000 of the balance of the receivables outstanding at December 31, 2011 and 2010, respectively, are secured by first and second mortgages. All remaining amounts outstanding are unsecured. Included in unrestricted mortgages and loans receivable are amounts due from the Bishop, priests and canons which totaled \$271,841 and \$279,041 at December 31, 2011 and 2010, respectively.

Interest on mortgages and loans is recognized over the term of the mortgage or loan and is calculated using the simple-interest method on principal amounts outstanding.

As of December 31, 2011, there were no receivables that were past due or on non-accrual status.

Principal payments due to be received on mortgages and loans receivable are as follows for the years ending December 31:

2012	\$ 85,275
2013	80,086
2014	76,913
2015	78,856
2016	79,729
Thereafter	<u>952,731</u>
	<u>\$ 1,353,590</u>

4. INVESTMENTS

Investments consisted of the following at December 31:

	2011		2010	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Investments, stated at fair value:				
Money market funds	\$ 1,313,449	\$ 1,313,449	\$ 1,537,441	\$ 1,537,441
U.S. government obligations	1,268,770	1,300,221	385,206	406,071
Common trust funds	3,809,885	3,875,401	5,708,572	6,414,376
Commodities	129,710	95,767	137,000	141,572
Corporate bonds	810,735	838,585	2,077,004	2,128,144
Fixed income mutual funds	657,290	1,107,680	1,613,457	1,644,666
Equity mutual funds	1,474,753	2,619,021	696,285	711,885
Common stock	13,017,519	11,790,972	10,968,942	13,004,343
REITS	183,768	194,067	124,438	130,028
Alternative investments	<u>225,000</u>	<u>218,410</u>	<u>225,000</u>	<u>222,661</u>
	22,890,879	23,353,573	23,473,345	26,341,187
Other:				
Community development Loans	<u>1,952,420</u>	<u>1,952,420</u>	<u>2,014,607</u>	<u>2,014,607</u>
	<u>\$24,843,299</u>	<u>\$25,305,993</u>	<u>\$25,487,952</u>	<u>\$28,355,794</u>

Other investments are carried at cost and represent the Diocese's investment in community development initiatives in the form of interest-bearing loans that have been approved by the Diocesan trustees. The Diocese is authorized by the Trustees to loan up to 10% of its unrestricted endowment fund in fixed rate loans for community development purposes. These loans are considered investments for purposes of the Diocese's investment spending policy and bear interest at 2.5%.

Investment Income (Loss)

Investment income (loss) consisted of the following for the years ended December 31:

	2011			2010		
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Interest and dividend income	\$ 184,850	\$ 139,474	\$ 324,324	\$ 191,828	\$ 126,904	\$ 318,732
Gain (loss) on investments	(197,115)	(294,759)	(491,874)	1,530,488	371,235	1,901,723
Investment related expenses	<u>(182,482)</u>	<u>(53,858)</u>	<u>(236,340)</u>	<u>(134,537)</u>	<u>(36,458)</u>	<u>(170,995)</u>
	<u>\$ (194,747)</u>	<u>\$ (209,143)</u>	<u>\$ (403,890)</u>	<u>\$ 1,587,779</u>	<u>\$ 461,681</u>	<u>\$ 2,049,460</u>

The Diocese has adopted an investment spending policy under which 5% of the average market value of unrestricted investment balances over the previous 13 calendar quarters is allocated to fund operating activities. Investment earnings on restricted balances are allocated for expenditures based on donor restrictions or added to the restricted net assets.

In 2011, the Diocese drew more than standard spending policy due to additional approved expenditures by the Diocesan Trustees, as well as, an error which had been identified in the formula for computing the spending policy calculation in prior years. The additional amount drawn was approximately \$250,000.

5. FAIR VALUE MEASUREMENTS

Fair value of the Diocese's U.S. government obligations, fixed income mutual funds, equity mutual funds, common stocks and REITS is determined based on quoted market prices.

Fair value of the Diocese's commodities and corporate bonds is determined by entering standard inputs into a pricing model. These inputs include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, and industry and economic events. Fair value of the Diocese's common trust funds is determined using the closing price reported by the primary market in which they are traded and translated at each valuation date from the local currency into U.S. dollars using the mean between the bid and ask market exchange rates from WM/Reuters for such currencies, when applicable.

Alternative investments consist of funds of funds and are stated at fair market value utilizing the net asset valuations provided by the underlying fund managers.

The following are measured at fair value at December 31, 2011:

	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>
U.S. government obligations	\$ 1,300,221	\$ -	\$ -
Common trust funds	-	3,875,401	-
Commodities	-	95,767	-
Corporate bonds	-	838,585	-
Fixed income mutual funds	1,107,680	-	-
Equity mutual funds	2,619,021	-	-
Common stocks	11,790,972	-	-
REITS	194,067	-	-
Alternative investments	-	218,410	-
	<u>\$ 17,011,961</u>	<u>\$ 5,028,163</u>	<u>\$ -</u>

The following are measured at fair value at December 31, 2010:

	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>
U.S. government obligations	\$ 406,071	\$ -	\$ -
Common trust funds	-	6,414,376	-
Commodities	-	141,572	-
Corporate bonds	-	2,128,144	-
Fixed income mutual funds	1,644,666	-	-
Equity mutual funds	711,885	-	-
Common stocks	13,004,343	-	-
REITS	130,028	-	-
Alternative investments	-	222,661	-
	<u>\$ 15,896,993</u>	<u>\$ 8,906,753</u>	<u>\$ -</u>

Investments in common trust funds include an investment of \$3,875,401 and \$6,414,376 as of December 31, 2011 and 2010, respectively, in Silchester International Investors International Value Equity Trust, which is a privately offered trust investing in a diversified portfolio of equity securities incorporated in any country other than the United States. The investment objective of this fund is long-term capital gains and income. Redemptions are permitted on a monthly basis, with notification of 6 business days. As of December 31, 2011 and 2010, the Diocese had no unfunded commitments related to this investment.

5. FAIR VALUE MEASUREMENTS (Continued)

Alternative investments include an investment of \$218,401 and \$222,661 as of December 31 2011 and 2010, respectively, in Excelsior Multi-Strategy Hedge Fund of Funds, which is a non-diversified, closed-ended management investment company incorporated in Delaware. The investment objective of this fund is to seek capital appreciation. The fund pursues its investment objectives primarily through investing substantially all its assets in additional funds of funds. As of December 31, 2011 and 2010 the Diocese had no unfunded commitments relating to this alternative investment. The redemption liquidity is quarterly per tender offer authorized by the board of directors.

6. LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consisted of the following at December 31:

	<u>2011</u>	<u>2010</u>
Land	\$ 169,600	\$ 169,600
Buildings and building improvements	1,779,800	1,779,800
Equipment	<u>852,710</u>	<u>852,710</u>
	<u>\$ 2,802,110</u>	<u>\$ 2,802,110</u>

7. FUNDS HELD FOR OTHERS

The Diocese serves as the custodian of funds held for the benefit of certain congregations and other organizations. These funds are invested by the Diocese, with investment income allocated to the benefit of each congregation or organization. The total amount held for others was \$6,393,596 and \$7,228,454 at December 31, 2011 and 2010, respectively.

8. PENSION AND POSTRETIREMENT BENEFIT PLANS

Pension Plans

Diocesan clergy participate in the Church Pension Fund of the National Episcopal Church. Under the terms of this plan, the Diocese contributes 18% of each employee's salary to the plan. Contributions of \$71,861 and \$77,862 were made by the Diocese under the terms of this plan in 2011 and 2010, respectively.

The Diocese sponsors a defined contribution plan for full-time lay employees. Under the terms of this plan, the Diocese contributes 12% to 18% of each employee's salary to the plan. In addition, employees are allowed to make elective tax-deferred contributions. Contributions of \$51,297 and \$59,753 were made by the Diocese under the terms of this plan in 2011 and 2010, respectively.

Postretirement Health Insurance Benefits

On an annual basis the Diocese determines what amount, if any, it will make available to pay health insurance benefits on behalf of its retired clergy, partners and Diocesan staff. The Diocese records an expense for these plans as insurance premiums are paid. Expense recognized under these plans totaled \$122,884 and \$107,842 for the years ended December 31, 2011 and 2010, respectively.

9. SUBSEQUENT EVENTS

Subsequent events have been evaluated through August 13, 2012, which is the date the financial statements were available to be issued.

EPISCOPAL DIOCESE OF ROCHESTER

COMPARISON OF BUDGET TO ACTUAL OPERATING REVENUE AND EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2011

	Budget Approved by Diocesan Convention as Revised (Unaudited)	Actual	Actual Over/Under Budget
Revenue:			
Parish support	\$ 1,016,685	\$ 1,016,685	\$ -
Investment spending policy	1,515,172	1,481,403	(33,769)
Interest on mortgages and loans	89,000	92,372	3,372
Contributions (Bishop's Discretionary Fund)	25,000	-	(25,000)
Other	3,000	3,392	392
	<u>2,648,857</u>	<u>2,593,852</u>	<u>(55,005)</u>
Expenses:			
Program -			
Strengthen individual growth and transformation	124,500	86,566	(37,934)
Strengthen ministry of congregations	596,773	553,449	(43,324)
Transform and strengthen mission and structure	387,988	377,005	(10,983)
Strengthen renewal and action in the world	285,593	268,893	(16,700)
	1,394,854	1,285,913	(108,941)
Support of Diocesan objectives	<u>1,254,003</u>	<u>1,223,793</u>	<u>(30,210)</u>
Total expenses	<u>2,648,857</u>	<u>2,509,706</u>	<u>(139,151)</u>
Excess of revenue over expenses	<u>\$ -</u>	<u>\$ 84,146</u>	<u>\$ 84,146</u>

The accompanying notes are an integral part of this exhibit.