

Financial Statements Together with
Report of Independent Certified Public Accountants

THE EPISCOPAL CHURCH FOUNDATION

December 31, 2010 and 2009

THE EPISCOPAL CHURCH FOUNDATION

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Audit • Tax • Advisory

Grant Thornton LLP
666 Third Avenue, 13th Floor
New York, NY 10017-4011

T 212.599.0100
F 212.370.4520
www.GrantThornton.com

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of
The Episcopal Church Foundation:

We have audited the accompanying statements of financial position of The Episcopal Church Foundation (“ECF”), a New York not-for-profit corporation, as of December 31, 2010 and 2009, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of ECF’s management. 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 established by the American Institute of Certified Public Accountants. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ECF’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Episcopal Church Foundation as of December 31, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

GRANT THORNTON LLP
New York, New York
July 22, 2011

THE EPISCOPAL CHURCH FOUNDATION
Statements of Financial Position
As of December 31, 2010 and 2009

ASSETS	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	\$ 122,707	\$ 37,529
Contribution receivables	17,605	26,387
Other assets	819,300	1,260,526
Investments held under split-interest agreements	33,420,635	31,825,957
Investments managed on behalf of others	116,063,061	93,310,570
Long-term investments	37,357,366	34,585,140
Property and equipment, net	<u>173,633</u>	<u>140,898</u>
Total assets	<u>\$ 187,974,307</u>	<u>\$ 161,187,007</u>
 LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 529,071	\$ 913,232
Deposits held for others	146,970	10,005
Liabilities under split-interest agreements and discount for future interest - pooled income fund	32,468,021	31,019,946
Funds managed on behalf of others	<u>116,063,061</u>	<u>93,310,570</u>
Total liabilities	<u>149,207,123</u>	<u>125,253,753</u>
Commitments and contingencies		
 NET ASSETS		
Unrestricted	33,128,811	30,701,996
Temporarily restricted	1,496,926	1,044,860
Permanently restricted	<u>4,141,447</u>	<u>4,186,398</u>
Total net assets	<u>38,767,184</u>	<u>35,933,254</u>
Total liabilities and net assets	<u>\$ 187,974,307</u>	<u>\$ 161,187,007</u>

The accompanying notes are an integral part of these statements.

THE EPISCOPAL CHURCH FOUNDATION

Statement of Activities

For the year ended December 31, 2010, with summarized total information for 2009

	2010			2009 Total	
	Unrestricted	Temporarily Restricted	Permanently Restricted		
OPERATING REVENUES AND SUPPORT					
Contributions and legacies (net of direct donor benefit of \$2,000 and \$11,620 in 2010 and 2009, respectively)	\$ 583,269	\$ 110,746	\$ -	\$ 694,015	\$ 306,490
Fees for services	907,448	-	-	907,448	784,543
Publication fees and other	53,811	-	-	53,811	78,693
Donated services	123,120	-	-	123,120	123,120
Investment return authorized for use in operations	1,993,325	-	-	1,993,325	2,293,500
Net assets released from restrictions	127,127	(127,127)	-	-	-
Total revenues and support	<u>3,788,100</u>	<u>(16,381)</u>	<u>-</u>	<u>3,771,719</u>	<u>3,586,346</u>
OPERATING EXPENSES					
Program services (Note 2):					
Leadership, training and information resources	553,915	-	-	553,915	613,980
Stewardship and Capital Campaign services	1,554,322	-	-	1,554,322	1,511,180
Total program services	<u>2,108,237</u>	<u>-</u>	<u>-</u>	<u>2,108,237</u>	<u>2,125,160</u>
Supporting services:					
Management and general	630,757	-	-	630,757	613,212
Fundraising	380,176	-	-	380,176	535,237
Total supporting services	<u>1,010,933</u>	<u>-</u>	<u>-</u>	<u>1,010,933</u>	<u>1,148,449</u>
Total expenses	<u>3,119,170</u>	<u>-</u>	<u>-</u>	<u>3,119,170</u>	<u>3,273,609</u>
Excess (deficiency) of operating revenues and support over operating expenses	668,930	(16,381)	-	652,549	312,737
NONOPERATING REVENUES AND SUPPORT, (EXPENSES), GAINS AND (LOSSES)					
Dividend and interest income, net	626,352	59,808	-	686,160	617,982
Investment return (realized and unrealized gains (losses)) in excess of amounts authorized for use in operations	1,297,644	99,612	-	1,397,256	4,193,233
Change in value of split-interest agreements	-	142,916	-	142,916	-
Redesignation of perpetual trust	-	-	(184,361)	(184,361)	-
Change in value of beneficial interest in perpetual trust	-	-	139,410	139,410	290,704
Recovery income from settlement	-	-	-	-	339,056
Change in net assets	<u>2,592,926</u>	<u>285,955</u>	<u>(44,951)</u>	<u>2,833,930</u>	<u>5,753,712</u>
Net assets, beginning of year	30,701,996	1,044,860	4,186,398	35,933,254	30,179,542
Cumulative effect of NYPMIFA adoption (Note 8)	(166,111)	166,111	-	-	-
Net assets, end of year	<u>\$ 33,128,811</u>	<u>\$ 1,496,926</u>	<u>\$ 4,141,447</u>	<u>\$ 38,767,184</u>	<u>\$ 35,933,254</u>

The accompanying notes are an integral part of this statement.

THE EPISCOPAL CHURCH FOUNDATION
Statement of Activities
For the year ended December 31, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
OPERATING REVENUES AND SUPPORT				
Contributions and legacies	\$ 199,737	\$ 106,753	\$ -	\$ 306,490
Fees for services	784,543	-	-	784,543
Publication fees and other	78,693	-	-	78,693
Donated services	123,120	-	-	123,120
Investment return authorized for use in operations	2,293,500	-	-	2,293,500
Net assets released from restrictions	224,410	(224,410)	-	-
	<u>3,704,003</u>	<u>(117,657)</u>	<u>-</u>	<u>3,586,346</u>
OPERATING EXPENSES				
Program services (Note 2):				
Leadership, Training and Information Resources	613,980	-	-	613,980
Stewardship and Capital Campaign Services	1,511,180	-	-	1,511,180
Total program services	<u>2,125,160</u>	<u>-</u>	<u>-</u>	<u>2,125,160</u>
Supporting services:				
Management and general	613,212	-	-	613,212
Fundraising	535,237	-	-	535,237
Total supporting services	<u>1,148,449</u>	<u>-</u>	<u>-</u>	<u>1,148,449</u>
Total expenses	<u>3,273,609</u>	<u>-</u>	<u>-</u>	<u>3,273,609</u>
Excess (deficiency) of operating revenues and support over operating expenses	430,394	(117,657)	-	312,737
NONOPERATING REVENUES AND SUPPORT, (EXPENSES), GAINS AND (LOSSES)				
Dividend and interest income, net	612,682	5,300	-	617,982
Investment return (realized and unrealized gains (losses)) in excess of amounts authorized for use in operations	4,193,233	-	-	4,193,233
Change in value of split-interest agreements	-	290,704	-	290,704
Recovery income from settlement	339,056	-	-	339,056
Change in net assets	<u>5,575,365</u>	<u>178,347</u>	<u>-</u>	<u>5,753,712</u>
Net assets, beginning of year	25,126,631	866,513	4,186,398	30,179,542
Net assets, end of year	<u>\$ 30,701,996</u>	<u>\$ 1,044,860</u>	<u>\$ 4,186,398</u>	<u>\$ 35,933,254</u>

The accompanying notes are an integral part of this statement.

THE EPISCOPAL CHURCH FOUNDATION

Statement of Functional Expenses

For the year ended December 31, 2010, with summarized total information for 2009

	Program Services			Supporting Services			Total	
	Leadership Training and Information	Stewardship and Capital Campaign	Total	Management and General	Fundraising	Total	2010	2009
Salaries	\$ 213,854	\$ 872,736	\$ 1,086,590	\$ 311,899	\$ 152,578	\$ 464,477	\$ 1,551,067	\$ 1,556,745
Payroll taxes	9,393	76,691	86,084	30,810	10,562	41,372	127,456	121,047
Employee benefits	<u>38,267</u>	<u>115,992</u>	<u>154,259</u>	<u>55,811</u>	<u>27,302</u>	<u>83,113</u>	<u>237,372</u>	<u>323,154</u>
	261,514	1,065,419	1,326,933	398,520	190,442	588,962	1,915,895	2,000,946
Grants	50,000	-	50,000	-	-	-	50,000	85,000
Fellowships	92,000	-	92,000	-	-	-	92,000	100,000
Program development	-	-	-	-	-	-	-	2,000
Field representatives	-	84,954	84,954	-	-	-	84,954	73,808
Professional fees and honoraria	30,021	49,609	79,630	167,039	70,547	237,586	317,216	319,524
Travel and conferences	28,265	93,140	121,405	5,348	11,812	17,160	138,565	107,878
Annual report and annual appeal	-	-	-	-	7,575	7,575	7,575	8,128
Office expenses	4,754	28,014	32,768	7,656	3,825	11,481	44,249	66,910
Occupancy costs	16,128	63,151	79,279	23,834	20,007	43,841	123,120	123,120
Telecom and networking	6,978	38,601	45,579	8,637	7,250	15,887	61,466	59,833
Postage	1,572	10,825	12,397	2,071	1,870	3,941	16,338	17,060
Insurance	3,683	15,000	18,683	5,610	2,682	8,292	26,975	29,244
Public relations and advertising	-	-	-	-	6,280	6,280	6,280	5,171
Printing, production and publications	50,852	73,703	124,555	-	47,778	47,778	172,333	231,812
Depreciation and Amortization	<u>8,148</u>	<u>31,906</u>	<u>40,054</u>	<u>12,042</u>	<u>10,108</u>	<u>22,150</u>	<u>62,204</u>	<u>43,175</u>
Total expenses	<u>\$ 553,915</u>	<u>\$ 1,554,322</u>	<u>\$ 2,108,237</u>	<u>\$ 630,757</u>	<u>\$ 380,176</u>	<u>\$ 1,010,933</u>	<u>\$ 3,119,170</u>	<u>\$ 3,273,609</u>

The accompanying notes are an integral part of this statement.

THE EPISCOPAL CHURCH FOUNDATION
Statement of Functional Expenses
For the year ended December 31, 2009

	Program Services			Supporting Services			2009
	Leadership Training and Information	Stewardship and Capital Campaign	Total	Management and General	Fundraising	Total	
Salaries	\$ 200,462	\$ 807,728	\$ 1,008,190	\$ 297,013	\$ 251,542	\$ 548,555	\$ 1,556,745
Payroll taxes	15,109	69,243	84,352	21,407	15,288	36,695	121,047
Employee benefits	<u>45,981</u>	<u>151,349</u>	<u>197,330</u>	<u>68,127</u>	<u>57,697</u>	<u>125,824</u>	<u>323,154</u>
	261,552	1,028,320	1,289,872	386,547	324,527	711,074	2,000,946
Grants	85,000	-	85,000	-	-	-	85,000
Fellowships	100,000	-	100,000	-	-	-	100,000
Program development	2,000	-	2,000	-	-	-	2,000
Field representatives	-	73,808	73,808	-	-	-	73,808
Professional fees and honoraria	32,794	99,446	132,240	148,544	38,740	187,284	319,524
Travel and conferences	3,582	69,031	72,613	15,909	19,356	35,265	107,878
Annual report and annual appeal	-	-	-	-	8,128	8,128	8,128
Office expenses	4,901	28,496	33,397	9,607	23,906	33,513	66,910
Occupancy costs	16,100	63,260	79,360	23,790	19,970	43,760	123,120
Telecom and networking	6,521	35,514	42,035	10,784	7,014	17,798	59,833
Postage	1,772	8,806	10,578	3,921	2,561	6,482	17,060
Insurance	3,832	14,999	18,831	5,661	4,752	10,413	29,244
Public relations and advertising	-	-	-	-	5,171	5,171	5,171
Printing, production and publications	90,270	67,355	157,625	91	74,096	74,187	231,812
Depreciation and Amortization	<u>5,656</u>	<u>22,145</u>	<u>27,801</u>	<u>8,358</u>	<u>7,016</u>	<u>15,374</u>	<u>43,175</u>
Total expenses	<u>\$ 613,980</u>	<u>\$ 1,511,180</u>	<u>\$ 2,125,160</u>	<u>\$ 613,212</u>	<u>\$ 535,237</u>	<u>\$ 1,148,449</u>	<u>\$ 3,273,609</u>

The accompanying notes are an integral part of this statement.

THE EPISCOPAL CHURCH FOUNDATION
Statements of Cash Flows
For the years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,833,930	\$ 5,753,712
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	62,204	43,175
Change in value of split-interest agreements	(142,916)	(290,704)
Change in value of beneficial interest in perpetual trusts	139,410	238,520
Contribution income from split-interest agreements	(93,496)	(71,554)
Net realized and unrealized losses (gains) in investments	(3,485,040)	(6,725,253)
Changes in operating assets and liabilities:		
Contributions receivable	8,782	62,678
Other assets	441,226	(745,020)
Accounts payable and accrued expenses	(384,161)	399,516
Net cash used in operating activities	<u>(620,061)</u>	<u>(1,334,930)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(94,939)	(41,528)
Proceeds from sales of investments	8,664,621	6,746,470
Purchases of investments	<u>(6,653,363)</u>	<u>(3,871,009)</u>
Net cash provided by investing activities	<u>1,916,319</u>	<u>2,833,933</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of annuity obligations	(3,394,409)	(3,867,068)
Deposits held for others	136,965	(19,995)
Proceeds from contributions and transfers restricted for investment subject to annuity obligations	<u>2,046,364</u>	<u>2,401,688</u>
Net cash used in financing activities	<u>(1,211,080)</u>	<u>(1,485,375)</u>
Net increase in cash and cash equivalents	85,178	13,628
Cash and cash equivalents, beginning of year	<u>37,529</u>	<u>23,901</u>
Cash and cash equivalents, end of year	<u>\$ 122,707</u>	<u>\$ 37,529</u>

The accompanying notes are an integral part of these statements.

THE EPISCOPAL CHURCH FOUNDATION

Notes to Financial Statements

December 31, 2010 and 2009

1. NATURE OF OPERATION

The Episcopal Church Foundation (“ECF”) is an independent, lay led organization that helps congregations and other Episcopal groups develop leadership and raise financial resources for ministry. ECF’s practical, innovative and spiritually-grounded programs, products and services include leadership training and development, the Fellowship Partners Program, publications and web-based resources, annual stewardship support, planned giving, capital campaigns and endowment management services. ECF is also involved in a variety of collaborative projects and partnerships to provide new kinds of solutions to help address the changing needs of the Episcopal Church.

ECF is classified as a publicly supported 501(c)(3) organization under Section 170(b)(1)(a)(vi) of the Internal Revenue Code (the “Code”) and is exempt from federal income tax under Section 501(a) of the Code. ECF is also exempt from New York State and New York City income and sales taxes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“US GAAP”).

ECF’s net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of ECF and changes therein are classified and reported as follows:

Unrestricted - resources which are available for carrying out ECF’s operations and that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by ECF’s Board of Directors or may be limited by contractual agreements with outside parties. At December 31, 2010 and 2009, ECF had no Board-designated net assets.

Temporarily Restricted - net assets which have been limited by donor-imposed stipulations that either expire with the passage of time or can be fulfilled by the actions of ECF pursuant to those stipulations.

Permanently Restricted Net Assets - include resources whereby the donors have stipulated that the principal contributed be invested and maintained permanently, with investment return available for expenditure according to restrictions, if any, imposed by those donors (Note 8).

Cash and Cash Equivalents

ECF considers all highly liquid investments with an original maturity of three months or less, other than those held in the investment portfolio and under split-interest agreements, to be cash equivalents.

Contributions

Contributions are recognized in the year an unconditional promise to give is received from a donor. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets, other than cash, are recorded at their estimated fair value at date of gift.

THE EPISCOPAL CHURCH FOUNDATION

Notes to Financial Statements

December 31, 2010 and 2009

ECF reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted and presented in the accompanying statements of activities as net assets released from restrictions.

ECF reports pledges expected to be collected within one year at the estimated amount to be ultimately realized. Pledges to be paid to ECF over a period of years, when received, are recorded at the present value of their estimated future cash flows using credit-adjusted rates of return.

Investments

ECF carries investments in equity and debt securities with readily determinable market values, at fair value, with any related realized and unrealized gains or losses reported in the accompanying statements of activities.

Fair Value Measurements

ECF measures fair value as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date. ECF also prioritizes, within the measurement of fair value, the use of market based information over entity-specific information and establishes a three-level hierarchy for fair value measurements based on the transparency of information used in the valuation of an asset or liability as of the measurement date.

The three levels of the fair value hierarchy follow:

- Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that ECF has the ability to access at the measurement date.
- Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active. Also included in Level 2 are investments measured using a net asset value (“NAV”) per share, or its equivalent, that may be redeemed at that NAV at the date of the statements of financial position or in the near term, which is generally considered to be within 90 days.
- Level 3 - Inputs that are unobservable. Also included in Level 3 are investments measured using a NAV per share, or its equivalent, that can never be redeemed at the NAV or for which redemption at NAV is uncertain due to lockup periods or other investment restrictions.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument’s level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes “observable” requires significant judgment by ECF’s management. ECF considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to ECF’s perceived risk of that instrument.

THE EPISCOPAL CHURCH FOUNDATION

Notes to Financial Statements

December 31, 2010 and 2009

Property and Equipment

Property and equipment are carried at their acquisition cost or, if received as a gift, at fair market value at the date of contribution. ECF capitalizes fixed assets that have a useful life of more than three years. Depreciation of property and equipment is provided using the straight-line method over the estimated useful lives of five to seven years.

Donated Services

ECF occupies certain facilities at no cost under a rental arrangement with The Domestic and Foreign Missionary Society of the Protestant Episcopal Church in the United States of America and Affiliates (“DFMS”). The cost savings associated with such arrangements are recorded as donated services and are recognized as revenues and expense in the accompanying financial statements based on the fair value of the premises, which totaled approximately \$123,000 for each of the years ended December 31, 2010 and 2009.

Leadership, Training and Information Resources

To lead effectively, church leaders must be fully equipped. ECF’s comprehensive leadership, training and information resources help empower lay and ordained leaders with the tools they need to strengthen and grow their congregations.

ECF provided \$50,000 and \$85,000 in 2010 and 2009, respectively, to support the collaborative initiatives of the CREDO Institute, Inc. (“CREDO”), a subsidiary of the Church Pension Fund, specifically Fresh Start and the College for Bishops. Fresh Start is a diocesan based program that provides training and networking opportunities for new clergy and congregations in transition. The College for Bishops provides leadership development and continuing education for bishops in the Episcopal Church. Both programs are consistent with ECF’s mission. The President of ECF serves on the Board of Directors of the CREDO Institute, as well as, the College for Bishops.

Stewardship and Capital Campaign Services

ECF provides a holistic approach to financial resource development for Episcopal organizations and a continuum of services and support including annual giving, planned giving, capital campaign consultation and endowment management services. In conjunction with ECF’s leadership initiatives, these programs help congregations raise resources to enhance and grow their local ministries and their wider mission.

Functional Allocation of Expenses

The costs of providing programs and related activities have been summarized on a functional basis in the accompanying statements of activities. Accordingly, certain costs have been allocated among the respective programs and supporting services using methodologies developed by management.

Income Taxes

ECF adopted guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance provide that the tax effects from an uncertain tax position can only be recognized in the financial statements if the position is “more-likely-than-not” to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

THE EPISCOPAL CHURCH FOUNDATION

Notes to Financial Statements

December 31, 2010 and 2009

ECF is exempt from income tax under IRC section 501(c)(3), though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. ECF has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it was nexus; and to identify and evaluate other matters that may be considered tax positions. The tax years ending 2007, 2008, 2009 and 2010 are still open to audit for both federal and state purposes. ECF has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

Use of Estimates

The preparation of financial statements in conformity with US GAAP 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.

3. LONG-TERM INVESTMENTS

Long-term investments are comprised of the following:

	2010		2009	
	Fair Value	Cost	Fair Value	Cost
Equity unit investment trusts	\$ 13,970,323	\$ 9,222,658	\$ 15,155,346	\$ 11,616,690
Mutual funds:				
Equity	7,156,214	6,765,459	5,687,959	6,126,624
Fixed income	7,036,446	7,043,775	6,809,741	6,783,402
Hedge funds	6,896,387	6,650,000	4,988,944	5,150,000
Beneficial interest in perpetual trusts	1,608,878	1,608,878	1,469,468	1,622,116
Cash and cash equivalents	689,118	689,119	473,682	473,682
Total	<u>\$ 37,357,366</u>	<u>\$ 31,979,889</u>	<u>\$ 34,585,140</u>	<u>\$ 31,772,514</u>

Investment management fees for the years ended December 31, 2010 and 2009, approximated \$162,000 and \$154,000, respectively, and were netted against dividend and interest income in the accompanying statements of activities.

Since alternative investments may not be readily marketable, the estimated fair value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed. The values assigned to these holdings do not necessarily represent amounts which might ultimately be realized upon sale or other disposition since such amounts depend on future circumstances and cannot reasonably be determined until the actual liquidation occurs. Because of the inherent uncertainty of such valuations, those estimated fair values may differ significantly from the values that would have been used had a ready market for such investments existed and the differences could be material. Alternative investments at December 31, 2010 and 2009, consisted of investments in fund of funds of approximately \$6.9 million and \$5.0 million, respectively.

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Investments at fair value presented by level of input used to measure fair value consisted of the following at December 31, 2010:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 689,118	\$ -	\$ -	\$ 689,118
Beneficial interest in perpetual trusts	-	-	1,608,878	1,608,878
Equities	7,156,214	13,970,323	-	21,126,537
Fixed income	7,036,446	-	-	7,036,446
Hedge funds	-	5,335,040	1,561,347	6,896,387
	<u>\$ 14,881,778</u>	<u>\$ 19,305,363</u>	<u>\$ 3,170,225</u>	<u>\$ 37,357,366</u>

Investments valued at NAV as of December 31, 2010, consisted of the following:

	<u>Fair Value</u>	<u>Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Hedge Funds - Long-term growth	\$ 5,335,040	\$ -	Quarterly	90 days
	1,561,347	-	Annually	90 days
	<u>\$ 6,896,387</u>			

A reconciliation of investments utilizing Level 3 inputs for the year ended December 31, 2010, follows:

Balance at December 31, 2009	\$ 1,469,468
Purchases	1,500,000
Unrealized gains	200,757
Balance at December 31, 2010	<u>\$ 3,170,225</u>

At December 31, 2009, investments at fair market value presented by level of input used to measure fair value consisted of the following:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 1,943,150	\$ -	\$ -	\$ 1,943,150
Beneficial interest in perpetual trusts	-	-	1,469,468	1,469,468
Equities	5,687,959	15,155,346	-	20,843,305
Fixed income	6,809,741	-	-	6,809,741
Hedge funds	-	4,988,944	-	4,988,944
	<u>\$ 14,440,850</u>	<u>\$ 20,144,290</u>	<u>\$ 1,469,468</u>	<u>\$ 34,585,140</u>

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Investments valued at NAV as of December 31, 2009, consisted of the following:

	<u>Fair Value</u>	<u>Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Hedge Fund - Long-term growth	\$ 4,988,944	\$ -	Quarterly	90 days

A reconciliation of investments utilizing Level 3 inputs for the year ended December 31, 2009, follows:

Balance at December 31, 2008	\$ 4,974,730
Purchases	500,000
Unrealized gains	983,682
Transfer to Level 2 inputs	<u>(4,988,944)</u>
Balance at December 31, 2009	<u>\$ 1,469,468</u>

4. PROPERTY AND EQUIPMENT, NET

Property and equipment, net, consisted of the following at December 31, 2010 and 2009, respectively:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Computer and equipment	\$ 240,770	\$ 94,939	\$ -	\$ 335,709
Furniture and fixtures	<u>132,568</u>	<u>-</u>	<u>-</u>	<u>132,568</u>
	373,338	94,939	-	468,277
Less: accumulated depreciation and amortization	<u>(232,440)</u>	<u>(62,204)</u>	<u>-</u>	<u>(294,644)</u>
Total property and equipment	<u>\$ 140,898</u>	<u>\$ 32,735</u>	<u>\$ -</u>	<u>\$ 173,633</u>

5. INVESTMENTS HELD UNDER SPLIT-INTEREST AGREEMENTS AND INVESTMENTS MANAGED ON BEHALF OF OTHERS

ECF is the beneficiary or agent for third-party beneficiaries of a number of split-interest agreements. In situations where ECF is both a beneficiary and where it acts as an agent on behalf of others, the related investments are included in investments held under split-interest agreements and the related obligations are reflected as liabilities under split-interest agreements in the accompanying statements of financial position. Under these agreements, ECF controls the donated assets and distributes to the donor or donor's designee a predetermined amount or percentage or, in the case of pooled income funds, all of the income generated from those assets until such time as stated in the agreement (usually upon the death of the donor or donor's designee). ECF will be able to utilize that portion of the gifts in which it has an interest upon the death of the respective life income beneficiary and will distribute to any third-party beneficiaries their respective remainder interests.

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At the time of the gift and adjusted annually, ECF records contribution income, if any, and a liability for amounts payable to annuitants and third-party beneficiaries using an actuarial calculation based upon estimated mortality rates and other assumptions that could change in the near term. The discount rates used in the calculations at December 31, 2010 and 2009, ranged from 2.0% to 8.2%. State-mandated insurance reserves related to these arrangements are maintained at \$16.5 million and \$16.4 million at December 31, 2010 and 2009, respectively, and are included as a component of unrestricted net assets.

Investments, at fair value, held under split-interest agreements consisted of the following categories:

	December 31,	
	2010	2009
Pooled income fund	\$ 2,224,231	\$ 2,165,970
Charitable remainder trusts	12,772,626	11,799,081
Charitable gift annuities	18,423,778	17,860,906
	<u>\$ 33,420,635</u>	<u>\$ 31,825,957</u>

The type of investments held under split-interest agreements were comprised of the following:

	December 31,	
	2010	2009
U.S. government and corporate obligations	\$ 4,672,484	\$ 4,354,248
Mutual funds	26,242,559	25,048,100
Mortgage-backed securities	1,612,626	1,930,560
Cash and cash equivalents	892,966	493,049
Total	<u>\$ 33,420,635</u>	<u>\$ 31,825,957</u>

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Investments held under split-interest agreements presented at fair value by level of input used to measure fair value consisted of the following at December 31, 2010:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
U.S. government and corporate obligations	\$ 4,672,484	\$ -	\$ -	\$ 4,672,484
Mutual funds	11,524,816	14,717,743	-	26,242,559
Mortgage-backed securities	1,612,626	-	-	1,612,626
Cash and cash equivalents	892,966	-	-	892,966
	<u>\$ 18,702,892</u>	<u>\$ 14,717,743</u>	<u>\$ -</u>	<u>\$ 33,420,635</u>

Investments held under split-interest agreements presented at fair value by level of input used to measure fair value consisted of the following at December 31, 2009:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
U.S. government and corporate obligations	\$ 4,354,248	\$ -	\$ -	\$ 4,354,248
Mutual funds	10,112,443	14,935,657	-	25,048,100
Mortgage-backed securities	1,930,560	-	-	1,930,560
Cash and cash equivalents	493,049	-	-	493,049
	<u>\$ 16,890,300</u>	<u>\$ 14,935,657</u>	<u>\$ -</u>	<u>\$ 31,825,957</u>

In addition, ECF manages certain investments on behalf of parishes and other Episcopal entities. Such investments, which are reported at fair value, approximated \$116,063,000 and \$93,310,000 at December 31, 2010 and 2009, respectively, and are reflected in the accompanying statements of financial position as investments managed on behalf of others. ECF has no ownership of or residual interest in these investments and as such, a liability equal to the fair value of the investments is reflected in the accompanying statements of financial position as funds managed on behalf of others.

In April 2004, ECF entered into an agreement with DFMS whereby DFMS appointed ECF as its agent to act as manager of DFMS's planned giving assets underlying its split-interest trusts and pooled income funds and to manage all future additions to such trusts or funds. At December 31, 2010 and 2009, the fair value of such funds was approximately \$9.5 million and \$9.4 million, respectively, and was included within investments managed on behalf of others, with the related liability reflected in funds managed on behalf of others in the accompanying statements of financial position.

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The composition of investments, at fair value, managed on behalf of others follows:

	December 31,	
	2010	2009
U.S. government and corporate obligations	\$ 11,888,808	\$ 10,428,199
Mutual funds	98,255,532	77,724,515
Mortgage-backed securities	2,789,502	2,316,952
Cash and cash equivalents	3,129,219	2,840,904
Total	<u>\$ 116,063,061</u>	<u>\$ 93,310,570</u>

Investments managed on behalf of others presented at fair value by level of input used to measure fair value consisted of the following at December 31, 2010:

	Level 1	Level 2	Level 3	Total
U.S. government and corporate obligations	\$ 11,888,808	\$ -	\$ -	\$ 11,888,808
Mutual funds	21,748,151	76,507,381	-	98,255,532
Mortgage-backed securities	2,789,502	-	-	2,789,502
Cash and cash equivalents	3,129,219	-	-	3,129,219
	<u>\$ 39,555,680</u>	<u>\$ 76,507,381</u>	<u>\$ -</u>	<u>\$ 116,063,061</u>

Investments managed on behalf of others presented at fair value by level of input used to measure fair value consisted of the following at December 31, 2009:

	Level 1	Level 2	Level 3	Total
U.S. government and corporate obligations	\$ 10,428,199	\$ -	\$ -	\$ 10,428,199
Mutual funds	19,308,371	58,416,144	-	77,724,515
Mortgage-backed securities	2,316,952	-	-	2,316,952
Cash and cash equivalents	2,840,904	-	-	2,840,904
	<u>\$ 34,894,426</u>	<u>\$ 58,416,144</u>	<u>\$ -</u>	<u>\$ 93,310,570</u>

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6. CONTRIBUTIONS RECEIVABLE

ECF reports pledges expected to be collected within one year at the estimated amount to be ultimately realized. At December 31, 2010 and 2009, pledges receivable totaled \$17,605 and \$26,387, respectively. Pledges to be paid to ECF over a period of years, when received, are recorded at the present value of their estimated future cash flows using credit-adjusted rates of return. At December 31, 2010 and 2009, ECF did not have any multi-year pledges.

7. TEMPORARILY RESTRICTED NET ASSETS

At December 31, 2010 and 2009, temporarily restricted net assets were available for the following purposes:

	<u>2010</u>	<u>2009</u>
Learning, training & information	\$ 544,313	\$ 238,850
Charitable gift annuities	673,876	577,115
Pooled income funds	65,576	59,802
Charitable annuity trusts	213,161	169,093
Giving services	-	-
	<u>\$ 1,496,926</u>	<u>\$ 1,044,860</u>

Net assets were released from donor restrictions by incurring expenses, satisfying the purpose of the restriction, the passage of time or by the occurrence of other specific events, as follows, for the years ended December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Charitable annuity trusts matured	\$ -	\$ 3,388
Graduate fellowships and education program	5,068	5,300
Learning, training & information	32,250	50,200
Charitable gift annuities matured	89,809	93,045
Pooled income funds matured	-	2,477
Giving services	-	70,000
	<u>\$ 127,127</u>	<u>\$ 224,410</u>

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8. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets represent contributions made for the following purposes and are restricted to investment in perpetuity. Income from these funds is available for unrestricted use, except with respect to the Graduate Fellowship Fund, the Bromwell-Ault-Burchenal Fellowship Fund and the George Allen Fowlkes Intern program:

	December 31,	
	2010	2009
General endowment	\$ 3,436,918	\$ 3,481,869
R.G. Curtis Memorial	5,575	5,575
L.B. Moorman	5,000	5,000
Bromwell-Ault-Burchenal Fellowship Fund	39,074	39,074
Graduate Fellowship Fund	315,669	315,669
Revolving loan	315,443	315,443
George Allen Fowlkes Intern program	23,768	23,768
	<u>\$ 4,141,447</u>	<u>\$ 4,186,398</u>

Also included in permanently restricted net assets is the change in value for ECF's beneficial interest in perpetual trusts of (\$44,951).

For the year ended December 31, 2009, ECF only adopted the disclosure provisions of, "Endowments of Not-for-Profit Organizations," as the state of New York had not yet enacted a version of UPMIFA. Among other things, this guidance addressed the net asset classification of donor-restricted endowment funds for organizations subject to an enacted version of the 2006 Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). In September 2010, New York State passed its own version of UPMIFA ("NYPMIFA") which applies to ECF's fiscal 2010 financial statements.

Effective January 1, 2010, ECF adopted the provisions of the new accounting guidance related to the implementation of UPMIFA that was enacted by the State of New York. ECF has interpreted NYPMIFA as requiring the preservation of the fair value of the original gift, as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, ECF classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) the accumulations to the permanent endowment made in accordance with the directions of the applicable donor gift instrument.

A key component of this guidance is a requirement to classify the remaining accumulations related to the donor-restricted endowment fund that are not classified in permanently restricted net asset as temporarily restricted net assets until those amounts are appropriated for expenditure by ECF in a manner consistent with the standard of prudence prescribed by NYPMIFA. ECF recorded the cumulative effect of the adoption as a reclassification of unrestricted net assets to temporarily restricted net assets in the amount of approximately \$166,000 as of January 1, 2010.

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Since ECF does not have board-designated endowment funds, the following presents information relative to donor restricted endowments.

<u>Endowment Composition by Net Asset Category</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2010 Total</u>
Donor-restricted endowment funds	\$ -	\$ -	\$ 4,186,398	\$ 4,186,398

Changes in Endowment Net Assets

Endowment net assets, beginning of year	\$ 166,111	\$ -	\$ 4,186,398	\$ 4,352,509
Investment return:				
Investment income	-	54,740	-	54,740
Net appreciation (depreciation) realized and unrealized	-	99,612	(44,951)	54,661
Contributions	-	-	-	-
NYPMIFA Transfer	(166,111)	166,111	-	-
Appropriation of endowment assets for expenditure	-	-	-	-
Endowment net assets, end of year	\$ -	\$ 320,463	\$ 4,141,447	\$ 4,461,910

<u>Endowment Composition by Net Asset Category</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2009 Total</u>
Donor-restricted endowment funds	\$ -	\$ -	\$ 4,186,398	\$ 4,186,398

Changes in Endowment Net Assets

Endowment net assets, beginning of year	\$ (149,117)	\$ -	\$ 4,186,398	\$ 4,186,398
Investment return:				
Investment income	57,245	5,300	-	62,545
Net depreciation (realized and unrealized)	315,228	-	-	-
Contributions	-	-	-	-
Appropriation of endowment assets for expenditure	(57,245)	(5,300)	-	(62,545)
Endowment net assets, end of year	\$ 166,111	\$ -	\$ 4,186,398	\$ 4,186,398

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9. EMPLOYEE BENEFIT PLANS

The lay employees of ECF are covered under a multi-employer 403(b) plan (the "Plan") sponsored by DFMS. The Plan permits eligible employees to make contributions through salary deductions. ECF contributes a discretionary percentage of each covered employee's salary to be determined by ECF each year. Contributions to the Plan prior to April 2009 were based on 12.5% of each covered employee's salary. Contributions to the Plan from April through December 2010 were based on 7% of each covered employee's salary, with additional contributions up to 2% to match employee voluntary contributions. Ordained clergy of ECF are covered under a multi-employer pension plan (the "Pension Plan") sponsored by the Church. Contributions to the Pension Plan are based on 18% of each covered clergy's compensation in 2010 and 2009. For the years ended December 31, 2010 and 2009, ECF contributed approximately \$103,000 and \$127,000, respectively, to these plans.

10. CONTINGENT AND FUTURE PAYMENTS UNDER ACQUISITION AGREEMENT

In 2005, ECF acquired a consulting business, Holliman Associates, for its expertise in assisting Episcopal churches conduct capital campaigns and related services. The acquisition agreement with Holliman Associates provides guaranteed annual payments of \$9,000 to the two principals of that business for the remainder of their respective lives.

11. SUBSEQUENT EVENTS

ECF evaluated its December 31, 2010 financial statements for subsequent events through July 22, 2011, the date the financial statements were issued. ECF is not aware of any other subsequent events which would require recognition or disclosure in the accompanying financial statements.