

THE EPISCOPAL CHURCH FOUNDATION

Financial Statements  
With Independent Auditors' Report

December 31, 2014 and 2013

# THE EPISCOPAL CHURCH FOUNDATION

## TABLE OF CONTENTS

---

	<b>Page</b>
Independent Auditors' Report	1
Financial Statements:	
Statements of Financial Position as of December 31, 2014 and 2013	2
Statement of Activities for the year ended December 31, 2014, with summarized total information for 2013	3
Statement of Activities for the year ended December 31, 2013	4
Statement of Functional Expenses for the year ended December 31, 2014, with summarized total information for 2013	5
Statement of Functional Expenses for the year ended December 31, 2013	6
Statements of Cash Flows for the years ended December 31, 2014 and 2013	7
Notes to Financial Statements	8 - 23

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
The Episcopal Church Foundation  
New York, New York

We have audited the accompanying financial statements of The Episcopal Church Foundation ("ECF"), a New York not-for-profit corporation, which comprise the statements of financial position as of December 31, 2014 and 2013, and the related statements of activities, functional expenses 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 audits to obtain reasonable assurance about whether the financial statements are free of 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 The Episcopal Church Foundation 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.

*Capin Crouse LLP*

New York, New York  
May 15, 2015

**THE EPISCOPAL CHURCH FOUNDATION**  
**Statements of Financial Position**  
As of December 31, 2014 and 2013

---

<b>ASSETS</b>	<u><b>2014</b></u>	<u><b>2013</b></u>
Cash and cash equivalents	\$ 35,384	\$ 37,831
Contribution receivables	49,131	2,825
Other assets	1,177,019	1,002,701
Investments held under split-interest agreements	35,406,977	36,628,869
Investments managed on behalf of others	150,229,668	131,461,385
Investments	41,926,104	42,966,491
Property and equipment, net	<u>67,723</u>	<u>54,914</u>
Total assets	<u>\$ 228,892,006</u>	<u>\$ 212,155,016</u>
 <b>LIABILITIES AND NET ASSETS</b>		
Accounts payable and accrued expenses	\$ 655,454	\$ 537,297
Liabilities under split-interest agreements and discount for future interest - pooled income fund	34,190,186	35,356,383
Funds managed on behalf of others	<u>150,229,668</u>	<u>131,461,385</u>
Total liabilities	<u>185,075,308</u>	<u>167,355,065</u>
 <b>NET ASSETS</b>		
Unrestricted	36,614,498	37,463,232
Temporarily restricted (Note 7)	2,880,710	3,023,491
Permanently restricted (Note 8)	<u>4,321,490</u>	<u>4,313,228</u>
Total net assets	<u>43,816,698</u>	<u>44,799,951</u>
Total liabilities and net assets	<u>\$ 228,892,006</u>	<u>\$ 212,155,016</u>

The accompanying notes are an integral part of these financial statements.

# THE EPISCOPAL CHURCH FOUNDATION

## Statement of Activities

For the year ended December 31, 2014, with summarized total information for 2013

	2014			2013 Total	
	Unrestricted	Temporarily Restricted	Permanently Restricted		
<b>OPERATING REVENUES AND SUPPORT</b>					
Contributions and legacies	\$ 137,235	\$ 130,864	\$ -	\$ 268,099	\$ 517,680
Fees for services	1,378,233	-	-	1,378,233	1,560,305
Publication fees and other	36,013	-	-	36,013	36,324
Donated space	172,140	-	-	172,140	172,140
Investment return budgeted for operations	1,843,000	-	-	1,843,000	1,678,000
Net assets released from restrictions	316,906	(316,906)	-	-	-
Total revenues and support	<u>3,883,527</u>	<u>(186,042)</u>	<u>-</u>	<u>3,697,485</u>	<u>3,964,449</u>
<b>OPERATING EXPENSES</b>					
Program services:					
Leadership resources	1,076,302	-	-	1,076,302	957,421
Financial resources	1,998,116	-	-	1,998,116	1,953,737
Total program services	<u>3,074,418</u>	<u>-</u>	<u>-</u>	<u>3,074,418</u>	<u>2,911,158</u>
Supporting services:					
Management and general	319,145	-	-	319,145	325,770
Fundraising	326,392	-	-	326,392	331,541
Total supporting services	<u>645,537</u>	<u>-</u>	<u>-</u>	<u>645,537</u>	<u>657,311</u>
Total expenses	<u>3,719,955</u>	<u>-</u>	<u>-</u>	<u>3,719,955</u>	<u>3,568,469</u>
(Deficiency) excess of operating revenues and support over operating expenses	163,572	(186,042)	-	(22,470)	395,980
<b>NONOPERATING REVENUES, SUPPORT, AND GAINS</b>					
Dividend and interest income, net	568,000	36,704	-	604,704	537,997
Investment return (realized and unrealized gains/ losses) in excess of amounts budgeted for operations	(1,580,306)	16,975	-	(1,563,331)	3,822,872
Change in value of split-interest agreements	-	(10,418)	-	(10,418)	275,747
Change in value of beneficial interest in perpetual trust	-	-	8,262	8,262	172,755
Change in net assets	<u>(848,734)</u>	<u>(142,781)</u>	<u>8,262</u>	<u>(983,253)</u>	<u>5,205,351</u>
Net assets, beginning of year	<u>37,463,232</u>	<u>3,023,491</u>	<u>4,313,228</u>	<u>44,799,951</u>	<u>39,594,600</u>
Net assets, end of year	<u>\$ 36,614,498</u>	<u>\$ 2,880,710</u>	<u>\$ 4,321,490</u>	<u>\$ 43,816,698</u>	<u>\$ 44,799,951</u>

The accompanying notes are an integral part of this financial statement.

# THE EPISCOPAL CHURCH FOUNDATION

## Statement of Activities

For the year ended December 31, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>OPERATING REVENUES AND SUPPORT</b>				
Contributions and legacies	\$ 354,944	\$ 162,686	\$ 50	\$ 517,680
Fees for services	1,560,305	-	-	1,560,305
Publication fees and other	36,324	-	-	36,324
Donated space	172,140	-	-	172,140
Investment return budgeted for operations	1,678,000	-	-	1,678,000
Net assets released from restrictions	340,411	(340,411)	-	-
Total revenues and support	<u>4,142,124</u>	<u>(177,725)</u>	<u>50</u>	<u>3,964,449</u>
<b>OPERATING EXPENSES</b>				
Program services:				
Leadership resources	957,421	-	-	957,421
Financial resources	1,953,737	-	-	1,953,737
Total program services	<u>2,911,158</u>	<u>-</u>	<u>-</u>	<u>2,911,158</u>
Supporting services:				
Management and general	325,770	-	-	325,770
Fundraising	331,541	-	-	331,541
Total supporting services	<u>657,311</u>	<u>-</u>	<u>-</u>	<u>657,311</u>
Total expenses	<u>3,568,469</u>	<u>-</u>	<u>-</u>	<u>3,568,469</u>
Excess of operating revenues and support over operating expenses	573,655	(177,725)	50	395,980
<b>NONOPERATING REVENUES, SUPPORT, AND GAINS</b>				
Dividend and interest income, net	506,135	31,862	-	537,997
Investment return (realized and unrealized gains) in excess of amounts budgeted for operations	3,497,093	325,779	-	3,822,872
Change in value of split-interest agreements	-	275,747	-	275,747
Change in value of beneficial interest in perpetual trust	-	-	172,755	172,755
Change in net assets	<u>4,576,883</u>	<u>455,663</u>	<u>172,805</u>	<u>5,205,351</u>
Net assets, beginning of year	<u>32,886,349</u>	<u>2,567,828</u>	<u>4,140,423</u>	<u>39,594,600</u>
Net assets, end of year	<u>\$ 37,463,232</u>	<u>\$ 3,023,491</u>	<u>\$ 4,313,228</u>	<u>\$ 44,799,951</u>

The accompanying notes are an integral part of this financial statement.

# THE EPISCOPAL CHURCH FOUNDATION

## Statement of Functional Expenses

For the year ended December 31, 2014, with summarized total information for 2013

	Program services			Supporting services			Total	
	Leadership resources	Financial resources	Total	Management and general	Fundraising	Total	2014	2013
Salaries	\$ 562,323	\$ 1,197,107	\$ 1,759,430	\$ 196,526	\$ 127,559	\$ 324,085	\$ 2,083,515	\$ 1,918,713
Payroll taxes	42,032	91,432	133,464	13,569	8,314	21,883	155,347	140,613
Employee benefits	91,404	180,022	271,426	44,027	28,576	72,603	344,029	294,694
	695,759	1,468,561	2,164,320	254,122	164,449	418,571	2,582,891	2,354,020
Grants	19,500	-	19,500	-	-	-	19,500	20,000
Fellowships	111,500	-	111,500	-	-	-	111,500	130,500
Field representatives	-	110,523	110,523	-	-	-	110,523	101,564
Professional fees and honoraria	74,625	53,849	128,474	32,703	6,681	39,384	167,858	169,400
Travel and conferences	66,478	83,256	149,734	3,555	16,699	20,254	169,988	169,694
Annual report and annual appeal	-	-	-	-	26,489	26,489	26,489	27,908
Office expenses	9,957	27,291	37,248	2,571	3,174	5,745	42,993	47,777
Occupancy costs	46,459	98,905	145,364	16,237	10,539	26,776	172,140	172,140
Telecom and networking	19,011	51,112	70,123	2,625	3,125	5,750	75,873	66,711
Postage	3,206	12,253	15,459	600	681	1,281	16,740	19,157
Insurance	8,053	17,144	25,197	2,814	1,827	4,641	29,838	29,533
Public relations and advertising	-	-	-	-	44,955	44,955	44,955	30,472
Printing, production and publications	10,543	51,355	61,898	-	45,230	45,230	107,128	178,578
Depreciation and amortization	11,211	23,867	35,078	3,918	2,543	6,461	41,539	51,015
Total expenses	<u>\$ 1,076,302</u>	<u>\$ 1,998,116</u>	<u>\$ 3,074,418</u>	<u>\$ 319,145</u>	<u>\$ 326,392</u>	<u>\$ 645,537</u>	<u>\$ 3,719,955</u>	<u>\$ 3,568,469</u>

The accompanying notes are an integral part of this financial statement.

# THE EPISCOPAL CHURCH FOUNDATION

## Statement of Functional Expenses

For the year ended December 31, 2013

	Program services			Supporting services			2013 Total
	Leadership resources	Financial resources	Total	Management and general	Fundraising	Total	
Salaries	\$ 466,652	\$ 1,121,231	\$ 1,587,883	\$ 192,813	\$ 138,017	\$ 330,830	\$ 1,918,713
Payroll taxes	34,021	84,318	118,339	13,352	8,922	22,274	140,613
Employee benefits	80,857	149,715	230,572	37,295	26,827	64,122	294,694
	<u>581,530</u>	<u>1,355,264</u>	<u>1,936,794</u>	<u>243,460</u>	<u>173,766</u>	<u>417,226</u>	<u>2,354,020</u>
Grants	20,000	-	20,000	-	-	-	20,000
Fellowships	130,500	-	130,500	-	-	-	130,500
Field representatives	-	101,564	101,564	-	-	-	101,564
Professional fees and honoraria	44,088	63,548	107,636	47,856	13,908	61,764	169,400
Travel and conferences	46,976	92,941	139,917	3,928	25,849	29,777	169,694
Annual report and annual appeal	-	-	-	-	27,908	27,908	27,908
Office expenses	9,162	31,747	40,909	2,830	4,038	6,868	47,777
Occupancy costs	41,866	100,593	142,459	17,299	12,382	29,681	172,140
Telecom and networking	14,073	47,654	61,727	1,466	3,518	4,984	66,711
Postage	2,439	15,136	17,575	836	746	1,582	19,157
Insurance	7,183	17,258	24,441	2,968	2,124	5,092	29,533
Public relations and advertising	-	-	-	-	30,472	30,472	30,472
Printing, production and publications	47,197	98,221	145,418	-	33,160	33,160	178,578
Depreciation and amortization	12,407	29,811	42,218	5,127	3,670	8,797	51,015
	<u>957,421</u>	<u>1,953,737</u>	<u>2,911,158</u>	<u>325,770</u>	<u>331,541</u>	<u>657,311</u>	<u>3,568,469</u>
Total expenses	\$ 957,421	\$ 1,953,737	\$ 2,911,158	\$ 325,770	\$ 331,541	\$ 657,311	\$ 3,568,469

The accompanying notes are an integral part of this financial statement.



# THE EPISCOPAL CHURCH FOUNDATION

## Statements of Cash Flows

For the years ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (983,253)	\$ 5,205,351
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	41,539	51,015
Permanently restricted contributions	-	(50)
Change in value of split-interest agreements	10,418	(275,747)
Change in value of beneficial interest in perpetual trusts	(8,261)	(172,755)
Contribution income from split-interest agreements	(41,469)	(95,171)
Net realized and unrealized gains in investments	(279,669)	(5,500,872)
Changes in operating assets and liabilities:		
Contributions receivable	(46,306)	13,043
Other assets	(174,319)	(321,441)
Accounts payable and accrued expenses	118,157	176,589
Net cash used in operating activities	<u>(1,363,163)</u>	<u>(920,038)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(54,347)	(15,299)
Proceeds from sales of investments	14,245,589	9,509,441
Purchases of investments	<u>(10,380,760)</u>	<u>(6,317,103)</u>
Net cash provided by investing activities	<u>3,810,482</u>	<u>3,177,039</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Permanently restricted contributions	-	50
Payments of annuity obligations	(4,604,514)	(3,796,637)
Payments of deposits held for others	-	(4,626)
Proceeds from contributions and transfers restricted for investment subject to annuity obligations	<u>2,154,748</u>	<u>1,491,382</u>
Net cash used in financing activities	<u>(2,449,766)</u>	<u>(2,309,831)</u>
Net decrease in cash and cash equivalents	(2,447)	(52,830)
Cash and cash equivalents, beginning of year	<u>37,831</u>	<u>90,661</u>
Cash and cash equivalents, end of year	<u>\$ 35,384</u>	<u>\$ 37,831</u>

The accompanying notes are an integral part of these financial statements.

# THE EPISCOPAL CHURCH FOUNDATION

## Notes to Financial Statements

December 31, 2014 and 2013

---

### 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 (the “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, 2014 and 2013, 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 (Note 7).

*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, 2014 and 2013

---

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

#### Contributions, continued

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. The fair value represented on the financial statements for the beneficial interest in third-party trusts included in Level 3 are measured using the ECF’s percentage interest in the trust and the fair value of the trust determined by the trustee.

# THE EPISCOPAL CHURCH FOUNDATION

## Notes to Financial Statements

December 31, 2014 and 2013

---

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

#### **Fair Value Measurements, continued**

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.

#### **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 Space**

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 \$172,000 for each of the years ended December 31, 2014 and 2013.

#### **Leadership Resources**

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

ECF provided \$5,000 for each of the years ended December 31, 2014 and 2013, to support the collaborative initiatives of the CREDO Institute, Inc., a subsidiary of the Church Pension Fund, specifically the College for Bishops. The College for Bishops provides leadership development and continuing education for bishops in the Episcopal Church. The President of ECF serves on the Board of Directors of the College for Bishops.

#### **Financial Resources**

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 broader mission.

# THE EPISCOPAL CHURCH FOUNDATION

## Notes to Financial Statements

December 31, 2014 and 2013

---

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

#### 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 and consistently applied by management. ECF incurred no joint costs for the year ended December 31, 2014.

Total advertising costs incurred during the years ended December 31, 2014 and 2013, were approximately \$52,000 and \$53,000, respectively.

#### Accounting for Uncertainty in Tax Provisions

ECF adopted the provisions of the *Income Tax* topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). These provisions clarify the accounting for uncertainty in tax positions and prescribe guidance related to recognition and measurement of a tax position taken or expected to be taken in a tax return. The tax benefit from an uncertain tax position is only recognized in the statements of financial position if the tax position is more likely than not to be sustained upon an examination, based on the technical merits of the position. Interest and penalties, if any, are included in expenses in the statements of activities. As of December 31, 2014 and 2013, ECF had no uncertain tax positions that qualify for 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.

#### Operating Measure

The accompanying statements of activities distinguish between operating and non-operating activities. ECF has defined operating activities to include contributions, donated space and other support; fees for services, publication and other fees; and investment returns budgeted for operations. All other investment activities, including changes in split interest agreements, as well as other non-recurring items, if any, are presented as non-operating activities.

# THE EPISCOPAL CHURCH FOUNDATION

## Notes to Financial Statements

December 31, 2014 and 2013

---

### 3. INVESTMENTS:

Investments are comprised of the following:

	<u>2014</u>	<u>2013</u>
Equity unit investment trusts	\$ 16,316,019	\$ 16,375,344
Mutual funds:		
Equity	7,990,731	9,389,516
Fixed income	7,322,930	7,213,590
Hedge funds	8,275,767	8,067,227
Beneficial interest in perpetual trusts	1,788,870	1,780,609
Money market funds	<u>231,787</u>	<u>140,205</u>
Total	<u>\$ 41,926,104</u>	<u>\$ 42,966,491</u>

Investment management fees for the years ended December 31, 2014 and 2013, approximated \$181,200 and \$177,100, respectively, and were netted against dividend and interest income in the accompanying statements of activities.

Since hedge fund 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. Hedge fund investments at December 31, 2014 and 2013, consisted of investments in fund of funds of approximately \$8.3 million and \$8.1 million, respectively.

# THE EPISCOPAL CHURCH FOUNDATION

## Notes to Financial Statements

December 31, 2014 and 2013

### 3. INVESTMENTS, continued:

Investments at fair value presented by level of input used to measure fair value consisted of the following at December 31, 2014:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity unit investment trusts	\$ -	\$ 16,316,019	\$ -	\$ 16,316,019
Mutual funds:				
Equity	7,990,731	-	-	7,990,731
Fixed income	7,322,930	-	-	7,322,930
Hedge funds	-	5,662,279	2,613,488	8,275,767
Beneficial interest in perpetual trusts	-	-	1,788,870	1,788,870
Money market funds	231,787	-	-	231,787
	<u>\$ 15,545,448</u>	<u>\$ 21,978,298</u>	<u>\$ 4,402,358</u>	<u>\$ 41,926,104</u>

Investments valued at NAV as of December 31, 2014, consisted of the following:

	<u>Fair Value</u>	<u>Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>	<u>Level</u>
Hedge funds:					
Long-term growth	\$ 5,662,279	\$ -	Quarterly	90 days	2
Long-term growth	2,613,488	-	Annually	90 days	3
	<u>\$ 8,275,767</u>				

A reconciliation of investments utilizing Level 3 inputs for the year ended December 31, 2014, is as follows:

	<u>Beneficial Interest In Perpetual Trusts</u>	<u>Hedge Funds</u>
<b>Balance at December 31, 2013</b>	\$ 1,780,609	\$ 2,539,113
Purchases	-	-
Redemptions	-	-
Realized gain (loss)	-	-
Unrealized gains	8,261	74,375
<b>Balance at December 31, 2014</b>	<u>\$ 1,788,870</u>	<u>\$ 2,613,488</u>

# THE EPISCOPAL CHURCH FOUNDATION

## Notes to Financial Statements

December 31, 2014 and 2013

### 3. INVESTMENTS, continued:

Investments at fair market value presented by level of input used to measure fair value consisted of the following at December 31, 2013:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity unit investment trusts	\$ -	\$ 16,375,344	\$ -	\$ 16,375,344
Mutual Funds:				
Equity	9,389,516	-	-	9,389,516
Fixed income	7,213,590	-	-	7,213,590
Hedge funds	-	5,528,114	2,539,113	8,067,227
Beneficial interest in perpetual trusts	-	-	1,780,609	1,780,609
Money market funds	140,205	-	-	140,205
	<u>\$ 16,743,311</u>	<u>\$ 21,903,458</u>	<u>\$ 4,319,722</u>	<u>\$ 42,966,491</u>

Investments valued at NAV as of December 31, 2013, consisted of the following:

	<u>Fair Value</u>	<u>Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>	<u>Level</u>
Hedge funds:					
Long-term growth	\$ 5,528,114	\$ -	Quarterly	90 days	2
Long-term growth	<u>2,539,113</u>	-	Annually	90 days	3
	<u>\$ 8,067,227</u>				

A reconciliation of investments utilizing Level 3 inputs for the year ended December 31, 2013, is as follows:

	<u>Beneficial Interest In Perpetual Trusts</u>	<u>Hedge Funds</u>
<b>Balance at December 31, 2012</b>	\$ 1,607,853	\$ 2,176,442
Purchases	-	-
Redemptions	-	-
Realized gain (loss)	-	-
Unrealized gains	172,756	362,671
<b>Balance at December 31, 2013</b>	<u>\$ 1,780,609</u>	<u>\$ 2,539,113</u>



# THE EPISCOPAL CHURCH FOUNDATION

## Notes to Financial Statements

December 31, 2014 and 2013

### 4. PROPERTY AND EQUIPMENT, NET:

Property and equipment, net, consisted of the following at December 31, 2014 and 2013, respectively:

	<b>Beginning Balance 2013</b>	<b>Additions</b>	<b>Disposals</b>	<b>Ending Balance 2014</b>
Computer and equipment	\$ 385,771	\$ 54,347	\$ -	\$ 440,118
Furniture and fixtures	<u>132,568</u>	<u>-</u>	<u>-</u>	<u>132,568</u>
	518,339	54,347	-	572,686
Less: accumulated depreciation and amortization	<u>(463,425)</u>	<u>(41,538)</u>	<u>-</u>	<u>(504,963)</u>
Total property and equipment	<u>\$ 54,914</u>	<u>\$ 12,809</u>	<u>\$ -</u>	<u>\$ 67,723</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. 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.

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, 2014 and 2013, ranged from 1.2% to 8.2%. State-mandated insurance reserves related to these arrangements are maintained at \$15.0 million and \$16.2 million at December 31, 2014 and 2013, 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:

	<b>December 31,</b>	
	<b>2014</b>	<b>2013</b>
Pooled income fund	\$ 2,000,318	\$ 2,052,720
Charitable remainder trusts	13,862,673	14,042,621
Charitable gift annuities	<u>19,543,986</u>	<u>20,533,528</u>
	<u>\$ 35,406,977</u>	<u>\$ 36,628,869</u>

# THE EPISCOPAL CHURCH FOUNDATION

## Notes to Financial Statements

December 31, 2014 and 2013

### 5. INVESTMENTS HELD UNDER SPLIT-INTEREST AGREEMENTS AND INVESTMENTS MANAGED ON BEHALF OF OTHERS, continued:

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

	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
U.S. government and corporate obligations	\$ 956,018	\$ 2,906,219
Mutual funds	33,280,719	31,275,865
Mortgage-backed securities	611,274	1,705,509
Cash and cash equivalents	558,966	741,276
Total	<u>\$ 35,406,977</u>	<u>\$ 36,628,869</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, 2014:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
U.S. government and corporate obligations	\$ 956,018	\$ -	\$ -	\$ 956,018
Mutual funds	16,283,663	16,997,056	-	33,280,719
Mortgage-backed securities	611,274	-	-	611,274
Cash and cash equivalents	558,966	-	-	558,966
	<u>\$ 18,409,921</u>	<u>\$ 16,997,056</u>	<u>\$ -</u>	<u>\$ 35,406,977</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, 2013:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
U.S. government and corporate obligations	\$ 2,906,219	\$ -	\$ -	\$ 2,906,219
Mutual funds	16,150,090	15,125,775	-	31,275,865
Mortgage-backed securities	1,705,509	-	-	1,705,509
Cash and cash equivalents	741,276	-	-	741,276
	<u>\$ 21,503,094</u>	<u>\$ 15,125,775</u>	<u>\$ -</u>	<u>\$ 36,628,869</u>

In addition, ECF manages certain investments on behalf of parishes and other Episcopal entities. Such investments, which are reported at fair value, approximated \$150,230,000 and \$131,460,000 at December 31, 2014 and 2013, 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.

# THE EPISCOPAL CHURCH FOUNDATION

## Notes to Financial Statements

December 31, 2014 and 2013

---

### 5. INVESTMENTS HELD UNDER SPLIT-INTEREST AGREEMENTS AND INVESTMENTS MANAGED ON BEHALF OF OTHERS, continued:

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, 2014 and 2013, the fair value of such funds was approximately \$8.8 million and \$9.0 million, respectively, and was included within investments managed on behalf of others, with a corresponding liability reflected in funds managed on behalf of others in the accompanying statements of financial position.

In situations where ECF acts as an agent on behalf of others, the related investments are included in investments managed on behalf of others, with a related liability reflected in the accompanying statements of financial position.

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

	<u>2014</u>	<u>2013</u>
U.S. government and corporate obligations	\$ 1,061,065	\$ 10,981,276
Mutual funds	144,379,671	114,141,922
Mortgage-backed securities	626,494	3,539,966
Cash and cash equivalents	4,162,438	2,798,221
Total	<u>\$ 150,229,668</u>	<u>\$ 131,461,385</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, 2014:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
U.S. government and corporate obligations	\$ 1,061,065	\$ -	\$ -	\$ 1,061,065
Mutual funds	45,438,596	98,941,075	-	144,379,671
Mortgage-backed securities	626,494	-	-	626,494
Cash and cash equivalents	4,162,438	-	-	4,162,438
	<u>\$ 51,288,593</u>	<u>\$ 98,941,075</u>	<u>\$ -</u>	<u>\$ 150,229,668</u>

# THE EPISCOPAL CHURCH FOUNDATION

## Notes to Financial Statements

December 31, 2014 and 2013

---

### 5. INVESTMENTS HELD UNDER SPLIT-INTEREST AGREEMENTS AND INVESTMENTS MANAGED ON BEHALF OF OTHERS, continued:

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, 2013:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
U.S. government and corporate obligations	\$ 10,981,276	\$ -	\$ -	\$ 10,981,276
Mutual funds	32,310,781	81,831,141	-	114,141,922
Mortgage-backed securities	3,539,966	-	-	3,539,966
Cash and cash equivalents	2,798,221	-	-	2,798,221
	<u>\$ 49,630,244</u>	<u>\$ 81,831,141</u>	<u>\$ -</u>	<u>\$ 131,461,385</u>

### 6. CONTRIBUTIONS RECEIVABLE:

ECF reports pledges expected to be collected within one year at the estimated amount to be ultimately realized. At December 31, 2014 and 2013, pledges receivable totaled \$19,854 and \$2,825, 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, 2014 and 2013, ECF multi-year pledges receivable totaled \$29,277 and \$0, respectively.

### 7. TEMPORARILY RESTRICTED NET ASSETS:

At December 31, 2014 and 2013, temporarily restricted net assets were available for the following purposes:

	<u>2014</u>	<u>2013</u>
Leadership resources	\$ 1,663,919	\$ 1,751,004
Charitable gift annuities	853,681	904,509
Charitable annuity trusts	289,835	293,795
Pooled income funds	73,275	74,183
	<u>\$ 2,880,710</u>	<u>\$ 3,023,491</u>

# THE EPISCOPAL CHURCH FOUNDATION

## Notes to Financial Statements

December 31, 2014 and 2013

---

### 7. TEMPORARILY RESTRICTED NET ASSETS, continued:

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, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Leadership resources	\$ 230,159	\$ 252,432
Charitable gift annuities matured	71,762	59,338
Pooled income funds matured	7,941	361
Charitable annuity trusts matured	7,044	28,280
	<u>\$ 316,906</u>	<u>\$ 340,411</u>

### 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 until those amounts are appropriated for expenditure by the ECF in a manner consistent with the standard of prudence prescribed by NYPMIFA, except with respect to the Graduate Fellowship Fund, the Bromwell-Ault-Burchenal Fellowship Fund and the George Allen Fowlkes Intern program:

General endowment	\$ 1,828,090	\$ 1,828,090
Third-party perpetual trusts	1,788,870	1,780,609
Graduate Fellowship Fund	315,669	315,669
Revolving loan	315,443	315,443
Bromwell-Ault-Burchenal Fellowship Fund	39,075	39,075
George Allen Fowlkes Intern program	23,768	23,767
R.G. Curtis Memorial	5,575	5,575
L.B. Moorman	5,000	5,000
	<u>\$ 4,321,490</u>	<u>\$ 4,313,228</u>

ECF follows the *Reporting Endowment Funds* topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). This topic provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization and enhanced disclosure information to enable users of financial statements to understand the net asset classification, net asset composition, changes in net asset composition, and spending policy of its endowment funds.

# THE EPISCOPAL CHURCH FOUNDATION

## Notes to Financial Statements

December 31, 2014 and 2013

---

### 8. PERMANENTLY RESTRICTED NET ASSETS, continued:

The state of New York enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) effective September 17, 2010, and ECF's Board of Trustees has interpreted the full provisions of New York states own version of UPMIFA ("NYPMIFA"), 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 which was applied to ECF's 2014 and 2013 financial statements. 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 direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted until those amounts are appropriated for expenditure by ECF in a manner consistent with the standard of prudence prescribed by NYPMIFA. In accordance with NYPMIFA, ECF considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of ECF and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of ECF
7. The investment policies of ECF
8. In appropriate situations (i.e. underwater) to curtail or eliminate spending

Endowment net asset composition by type of fund as of December 31, 2014, was:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 576,909	\$ 2,532,620	\$ 3,109,529

Included in permanently restricted net assets is the change in value for ECF's beneficial interest in perpetual trusts of \$8,261 and \$172,755 for the years ended December 31, 2014 and 2013, respectively, that are not part of ECF's endowment. Further, ECF does not have any board-designated endowment funds.

# THE EPISCOPAL CHURCH FOUNDATION

## Notes to Financial Statements

December 31, 2014 and 2013

---

### 8. PERMANENTLY RESTRICTED NET ASSETS, continued:

Changes in endowment net assets for the year ended December 31, 2014, were:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, January 1, 2014	\$ -	\$ 635,715	\$ 2,532,620	\$ 3,168,335
Investment return:				
Interest and dividend income	-	31,219	-	31,219
Realized and unrealized gains	-	16,975	-	16,975
Total investment return	-	48,194	-	48,194
Contributions	-	-	-	-
Appropriation of endowment assets for expenditure	-	(107,000)	-	(107,000)
Endowment net assets, December 31, 2014	<u>\$ -</u>	<u>\$ 576,909</u>	<u>\$ 2,532,620</u>	<u>\$ 3,109,529</u>

Endowment net asset composition by type of fund as of December 31, 2013, was:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ 635,715</u>	<u>\$ 2,532,620</u>	<u>\$ 3,168,335</u>

# THE EPISCOPAL CHURCH FOUNDATION

## Notes to Financial Statements

December 31, 2014 and 2013

### 8. PERMANENTLY RESTRICTED NET ASSETS, continued:

Changes in endowment net assets for the year ended December 31, 2013, were:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 1, 2013	\$ -	\$ 391,836	\$ 2,532,570	\$ 2,924,406
Investment return:				
Interest and dividend income	-	27,099	-	27,099
Realized and unrealized gains	-	325,780	-	325,780
Total investment return	-	352,879	-	352,879
Contributions	-	-	50	50
Appropriation of endowment assets for expenditure	-	(109,000)	-	(109,000)
Endowment net assets, December 31, 2013	\$ -	\$ 635,715	\$ 2,532,620	\$ 3,168,335

#### RETURN OBJECTIVES AND RISK PARAMETERS

ECF has adopted investment and spending policies for endowment assets that attempt to (a) maintain the historical value of the endowment fund assets and (b) provide a predictable stream of funding to programs supported by its endowment. Endowment assets include those assets of donor-restricted funds that ECF must hold in perpetuity, or for donor-specified periods. The investment policy also attempts to maximize the stream of funding within accepted prudent standards. The current long term return objective is to attain a 5% inflation adjusted total return (net of direct investment management fees). Actual returns in any given year may vary from this amount.

#### STRATEGIES EMPLOYED FOR ACHIEVING OBJECTIVES

To satisfy its long-term rate-of-return objectives, ECF relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). There is an allocation of assets in diversified, equity-based and fixed income investments to help maximize the long-term rate of return and maintain the purchasing power of the endowment assets

#### SPENDING POLICY

ECF appropriates for distribution a percentage of the five-year, un-weighted rolling average of the endowment fund's fair value. The rate established for distribution was between 4.0 and 5.0 percent for fiscal years 2014 and 2013. In establishing this policy, ECF considered the long-term expected return on its endowment.



# **THE EPISCOPAL CHURCH FOUNDATION**

## **Notes to Financial Statements**

**December 31, 2014 and 2013**

---

### **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 are 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 2014 and 2013. For the years ended December 31, 2014 and 2013, ECF contributed approximately \$132,000 and \$124,000, 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:**

Subsequent events have been evaluated through the report date, which represents the date the financial statements were available to be issued. Subsequent events after that date have not been evaluated. No additional subsequent events were discovered that require disclosure.