

THE EPISCOPAL
CHURCH
FOUNDATION

Financial Statements
With Independent Auditors' Report

December 31, 2015 and 2014

THE EPISCOPAL CHURCH FOUNDATION

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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, 2015 and 2014, 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, 2015 and 2014, 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.

A handwritten signature in cursive script that reads "Capin Crouse LLP".

New York, New York
June 15, 2016

THE EPISCOPAL CHURCH FOUNDATION
Statements of Financial Position
As of December 31, 2015 and 2014

ASSETS	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$ 26,911	\$ 35,384
Contribution receivables	33,519	49,131
Other assets	988,640	1,177,019
Investments held under split-interest agreements	32,740,749	35,406,977
Investments managed on behalf of others	186,765,766	150,229,668
Investments	40,647,411	41,926,104
Property and equipment, net	<u>229,163</u>	<u>67,723</u>
Total assets	<u>\$ 261,432,159</u>	<u>\$ 228,892,006</u>
 LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 421,307	\$ 655,454
Deferred grant revenue	1,000,000	-
Liabilities under split-interest agreements and discount for future interest - pooled income fund	31,704,835	34,190,186
Funds managed on behalf of others	<u>186,765,766</u>	<u>150,229,668</u>
Total liabilities	<u>219,891,908</u>	<u>185,075,308</u>
 NET ASSETS		
Unrestricted	34,564,020	36,614,498
Temporarily restricted (Note 7)	2,442,225	2,880,710
Permanently restricted (Note 8)	<u>4,534,006</u>	<u>4,321,490</u>
Total net assets	<u>41,540,251</u>	<u>43,816,698</u>
Total liabilities and net assets	<u>\$ 261,432,159</u>	<u>\$ 228,892,006</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, 2015, with summarized total information for 2014

	2015			2014 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
OPERATING REVENUES AND SUPPORT				
Contributions and legacies	\$ 697,693	\$ 160,562	\$ 301,589	\$ 1,159,844
Fees for services	1,585,139	-	-	1,585,139
Publication fees and other	40,614	-	-	40,614
Donated space	271,800	-	-	271,800
Investment return budgeted for operations	1,894,000	-	-	1,894,000
Net assets released from restrictions	346,128	(346,128)	-	-
Total revenues and support	<u>4,835,374</u>	<u>(185,566)</u>	<u>301,589</u>	<u>3,697,485</u>
OPERATING EXPENSES				
Program services:				
Leadership resources	1,124,685	-	-	1,124,685
Financial resources	2,151,147	-	-	2,151,147
Total program services	<u>3,275,832</u>	<u>-</u>	<u>-</u>	<u>3,074,418</u>
Supporting services:				
Management and general	337,560	-	-	337,560
Fundraising	316,556	-	-	316,556
Total supporting services	<u>654,116</u>	<u>-</u>	<u>-</u>	<u>645,537</u>
Total expenses	<u>3,929,948</u>	<u>-</u>	<u>-</u>	<u>3,719,955</u>
(Deficiency) excess of operating revenues and support over operating expenses	905,426	(185,566)	301,589	(22,470)
NONOPERATING REVENUES, SUPPORT, AND GAINS				
Dividend and interest income, net	335,320	22,396	-	357,716
Investment return (realized and unrealized gains/ losses) in excess of amounts budgeted for operations	(3,291,224)	(93,325)	-	(3,384,549)
Change in value of split-interest agreements	-	(181,990)	-	(181,990)
Change in value of beneficial interest in perpetual trust	-	-	(89,073)	(89,073)
Change in net assets	<u>(2,050,478)</u>	<u>(438,485)</u>	<u>212,516</u>	<u>(983,253)</u>
Net assets, beginning of year	<u>36,614,498</u>	<u>2,880,710</u>	<u>4,321,490</u>	<u>43,816,698</u>
Net assets, end of year	<u>\$ 34,564,020</u>	<u>\$ 2,442,225</u>	<u>\$ 4,534,006</u>	<u>\$ 43,816,698</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, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
OPERATING REVENUES AND SUPPORT				
Contributions and legacies	\$ 137,235	\$ 130,864	\$ -	\$ 268,099
Fees for services	1,378,233	-	-	1,378,233
Publication fees and other	36,013	-	-	36,013
Donated space	172,140	-	-	172,140
Investment return budgeted for operations	1,843,000	-	-	1,843,000
Net assets released from restrictions	<u>316,906</u>	<u>(316,906)</u>	<u>-</u>	<u>-</u>
Total revenues and support	<u>3,883,527</u>	<u>(186,042)</u>	<u>-</u>	<u>3,697,485</u>
OPERATING EXPENSES				
Program services:				
Leadership resources	1,076,302	-	-	1,076,302
Financial resources	<u>1,998,116</u>	<u>-</u>	<u>-</u>	<u>1,998,116</u>
Total program services	<u>3,074,418</u>	<u>-</u>	<u>-</u>	<u>3,074,418</u>
Supporting services:				
Management and general	319,145	-	-	319,145
Fundraising	<u>326,392</u>	<u>-</u>	<u>-</u>	<u>326,392</u>
Total supporting services	<u>645,537</u>	<u>-</u>	<u>-</u>	<u>645,537</u>
Total expenses	<u>3,719,955</u>	<u>-</u>	<u>-</u>	<u>3,719,955</u>
Excess of operating revenues and support over operating expenses	163,572	(186,042)	-	(22,470)
NONOPERATING REVENUES, SUPPORT, AND GAINS				
Dividend and interest income, net	568,000	36,704	-	604,704
Investment return (realized and unrealized gains) in excess of amounts budgeted for operations	(1,580,306)	16,975	-	(1,563,331)
Change in value of split-interest agreements	-	(10,418)	-	(10,418)
Change in value of beneficial interest in perpetual trust	<u>-</u>	<u>-</u>	<u>8,262</u>	<u>8,262</u>
Change in net assets	(848,734)	(142,781)	8,262	(983,253)
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>
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>

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, 2015, with summarized total information for 2014

	Program Services			Supporting Services			Total	
	Leadership Resources	Financial Resources	Total	Management and General	Fundraising	Total	2015	2014
Salaries	\$ 572,405	\$ 1,210,753	\$ 1,783,158	\$ 198,785	\$ 109,239	\$ 308,024	\$ 2,091,182	\$ 2,083,515
Payroll taxes	41,816	89,467	131,283	13,372	6,871	20,243	151,526	155,347
Employee benefits	73,987	187,715	261,702	46,067	25,315	71,382	333,084	344,029
	688,208	1,487,935	2,176,143	258,224	141,425	399,649	2,575,792	2,582,891
Grants	13,000	-	13,000	-	-	-	13,000	19,500
Fellowships	145,000	-	145,000	-	-	-	145,000	111,500
Field representatives	-	107,171	107,171	-	-	-	107,171	110,523
Professional fees and honoraria	61,429	87,069	148,498	34,047	7,224	41,271	189,769	167,858
Travel and conferences	74,496	100,798	175,294	5,806	3,899	9,705	184,999	169,988
Annual report and annual appeal	-	-	-	-	63,117	63,117	63,117	26,489
Office expenses	9,357	44,926	54,283	2,764	2,757	5,521	59,804	42,993
Occupancy costs	74,398	157,367	231,765	25,837	14,198	40,035	271,800	172,140
Telecom and networking	17,660	46,721	64,381	4,723	2,596	7,319	71,700	75,873
Postage	2,596	10,699	13,295	599	538	1,137	14,432	16,740
Insurance	8,953	18,937	27,890	3,109	1,709	4,818	32,708	29,838
Public relations and advertising	-	-	-	-	50,312	50,312	50,312	44,955
Printing, production and publications	22,530	74,592	97,122	-	27,434	27,434	124,556	107,128
Depreciation and amortization	7,058	14,932	21,990	2,451	1,347	3,798	25,788	41,539
Total expenses	\$ 1,124,685	\$ 2,151,147	\$ 3,275,832	\$ 337,560	\$ 316,556	\$ 654,116	\$ 3,929,948	\$ 3,719,955

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

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

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, 2015 and 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (2,276,447)	\$ (983,253)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	25,788	41,539
Permanently restricted contributions	(301,589)	-
Change in value of split-interest agreements	181,990	10,418
Change in value of beneficial interest in perpetual trusts	89,073	(8,261)
Contribution income from split-interest agreements	(81,464)	(41,469)
Net realized and unrealized (gains)/losses in investments	1,490,549	(279,669)
Changes in operating assets and liabilities:		
Contributions receivable	15,612	(46,306)
Other assets	21,638	(174,319)
Deferred grant revenue	1,000,000	-
Accounts payable and accrued expenses	(234,147)	118,157
Net cash used in operating activities	<u>(68,997)</u>	<u>(1,363,163)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(20,486)	(54,347)
Proceeds from sales of investments	8,837,256	14,245,589
Purchases of investments	(6,777,904)	(10,380,760)
Net cash provided by investing activities	<u>2,038,866</u>	<u>3,810,482</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Permanently restricted contributions	301,589	-
Payments of annuity obligations	(4,539,500)	(4,604,514)
Proceeds from contributions and transfers restricted for investment subject to annuity obligations	2,259,569	2,154,748
Net cash used in financing activities	<u>(1,978,342)</u>	<u>(2,449,766)</u>
Net decrease in cash and cash equivalents	(8,473)	(2,447)
Cash and cash equivalents, beginning of year	<u>35,384</u>	<u>37,831</u>
Cash and cash equivalents, end of year	<u>\$ 26,911</u>	<u>\$ 35,384</u>

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

THE EPISCOPAL CHURCH FOUNDATION

Notes to Financial Statements

December 31, 2015 and 2014

1. NATURE OF OPERATION:

The Episcopal Church Foundation (ECF) is an independent, lay-led organization that helps congregations, dioceses and other Episcopal communities of faith engage in visioning and planning, develop leadership and raise 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, consulting services for visioning and strategy planning, 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 (Church).

ECF is classified as a publicly supported 501(c)(3) organization under Section 170(b)(1)(a)(vi) of the Internal Revenue Code (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, 2015 and 2014, 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, 2015 and 2014

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 and Fair Value of Financial Instruments

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, 2015 and 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

Fair Value Measurements and Fair Value of Financial Instruments, 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. Respective carrying value approximates the fair value for each financial instrument asset (cash and cash equivalents, contribution receivables, and investments) and financial instrument liability (liabilities under split instrument agreements and discounts for future interest – pooled income fund and funds managed on the behalf of others).

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.

Deferred Grant Revenue

Grant revenue is recognized as earned as the eligible expenses are incurred. Grant money received in excess of that earned is recorded as deferred revenue. The deferred grant revenue, totaling \$1,000,000 and \$-0- for the years ended December 31, 2015 and 2014, respectively, is restricted on behalf of the Lilly Endowment grant to provide ECF the ability to support the National Initiative to Address the Economic Challenges Facing Pastoral Leaders. Any portion of the grant unexpended at the end of the grant period (December 31, 2018) shall be repaid to the grantor. Total grant related expenses incurred and recognized as revenue were \$-0- and \$-0- as of December 31, 2015 and 2014, respectively.

Donated Space

In 2015 and prior years ECF occupied 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 \$272,000 and \$172,000 for the years ended December 31, 2015 and 2014, respectively.

THE EPISCOPAL CHURCH FOUNDATION

Notes to Financial Statements

December 31, 2015 and 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

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, 2015 and 2014, 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.

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, 2015.

Total advertising costs incurred during the years ended December 31, 2015 and 2014, were approximately \$73,000 and \$52,000, 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, 2015 and 2014, 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.

THE EPISCOPAL CHURCH FOUNDATION

Notes to Financial Statements

December 31, 2015 and 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

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.

3. INVESTMENTS:

Investments are comprised of the following:

	2015	2014
Equity unit investment trusts	\$ 16,136,706	\$ 16,316,019
Mutual funds:		
Equity	6,700,012	7,990,731
Fixed income	6,994,766	7,322,930
Hedge funds	7,212,849	8,275,767
Beneficial interest in perpetual trusts	1,699,797	1,788,870
Money market funds	1,153,281	231,787
Total	<u>39,897,411</u>	<u>41,926,104</u>
Plus: Redemption receivable due from broker	<u>750,000</u>	<u>-</u>
Total	<u>\$ 40,647,411</u>	<u>\$ 41,926,104</u>

During fiscal year 2015, ECF redeemed \$750,000 and received the funds in January 2016. Investment management fees for the years ended December 31, 2015 and 2014, approximated \$185,300 and \$181,200, 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, 2015 and 2014, consisted of investments in fund of funds of approximately \$7.2 million and \$8.3 million, respectively.

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December 31, 2015 and 2014

3. INVESTMENTS, continued:

As described in Note 2, ECF follows the fair value measurements and fair value of financial instruments topic of the FASB ASC, which prescribes three levels of fair-value measurement. Investments at fair value presented by level of input used to measure fair value consisted of the following at December 31, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity unit investment trusts	\$ -	\$ 16,136,706	\$ -	\$ 16,136,706
Mutual funds:				
Equity	6,700,012	-	-	6,700,012
Fixed income	6,994,766	-	-	6,994,766
Hedge funds	-	4,712,088	2,500,760	7,212,848
Beneficial interest in perpetual trusts	-	-	1,699,798	1,699,798
Money market funds	1,153,281	-	-	1,153,281
	<u>\$ 14,848,059</u>	<u>\$ 20,848,794</u>	<u>\$ 4,200,558</u>	<u>\$ 39,897,411</u>
Plus: Receivable due from broker				750,000
				<u>\$ 40,647,411</u>

Investments valued at NAV as of December 31, 2015, 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	\$ 4,712,088	\$ -	Quarterly	90 days	2
Long-term growth	<u>2,500,760</u>	-	Annually	90 days	3
	<u>\$ 7,212,848</u>				

A reconciliation of investments utilizing Level 3 inputs for the year ended December 31, 2015, is as follows:

	<u>Beneficial Interest In Perpetual Trusts</u>	<u>Hedge Funds</u>
Balance at December 31, 2014	\$ 1,788,870	\$ 2,613,488
Unrealized losses	(89,073)	(112,728)
Balance at December 31, 2015	<u>\$ 1,699,797</u>	<u>\$ 2,500,760</u>

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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, 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>
Balance at December 31, 2013	\$ 1,780,608	\$ 2,539,113
Unrealized gains	8,262	74,375
Balance at December 31, 2014	<u>\$ 1,788,870</u>	<u>\$ 2,613,488</u>

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Notes to Financial Statements

December 31, 2015 and 2014

4. PROPERTY AND EQUIPMENT, NET:

Property and equipment, net, consisted of the following at December 31, 2015 and 2014, respectively:

	Beginning Balance 2014	Additions	Disposals	Ending Balance 2015
Computer and equipment	\$ 440,118	\$ 48,104	\$ -	\$ 488,222
Furniture and fixtures	132,568	139,124	-	271,692
	<u>572,686</u>	<u>187,228</u>	-	<u>759,914</u>
Less: accumulated depreciation and amortization	(504,963)	(25,788)	-	(530,751)
Total property and equipment	<u>\$ 67,723</u>	<u>\$ 161,440</u>	<u>\$ -</u>	<u>\$ 229,163</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, 2015 and 2014, ranged from 1.2% to 8.2%. State-mandated insurance reserves related to these arrangements are maintained at both \$15.0 million at December 31, 2015 and 2014, 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,	
	2015	2014
Pooled income fund	\$ 1,562,013	\$ 2,000,318
Charitable remainder trusts	12,908,671	13,862,673
Charitable gift annuities	18,270,065	19,543,986
	<u>\$ 32,740,749</u>	<u>\$ 35,406,977</u>

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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:

	December 31,	
	2015	2014
U.S. government and corporate obligations	\$ 1,024,873	\$ 956,018
Mutual funds	30,413,758	33,280,719
Mortgage-backed securities	534,273	611,274
Cash and cash equivalents	767,845	558,966
Total	<u>\$ 32,740,749</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, 2015:

	Level 1	Level 2	Level 3	Total
U.S. government and corporate obligations	\$ 1,024,873	\$ -	\$ -	\$ 1,024,873
Mutual funds	15,424,327	14,989,431	-	30,413,758
Mortgage-backed securities	534,273	-	-	534,273
Cash and cash equivalents	767,845	-	-	767,845
	<u>\$ 17,751,318</u>	<u>\$ 14,989,431</u>	<u>\$ -</u>	<u>\$ 32,740,749</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:

	Level 1	Level 2	Level 3	Total
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>

In addition, ECF manages certain investments on behalf of parishes and other Episcopal entities. Such investments, which are reported at fair value, approximated \$186,766,000 and \$150,230,000 at December 31, 2015 and 2014, 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.

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December 31, 2015 and 2014

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, 2015 and 2014, the fair value of such funds was approximately \$7.7 million and \$8.8 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>2015</u>	<u>2014</u>
U.S. government and corporate obligations	\$ 1,123,108	\$ 1,061,065
Mutual funds	176,114,475	144,379,671
Mortgage-backed securities	400,754	626,494
Cash and cash equivalents	<u>9,127,429</u>	<u>4,162,438</u>
Total	<u>\$ 186,765,766</u>	<u>\$ 150,229,668</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, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
U.S. government and corporate obligations	\$ 1,123,108	\$ -	\$ -	\$ 1,123,108
Mutual funds	48,597,947	127,516,528	-	176,114,475
Mortgage-backed securities	400,754	-	-	400,754
Cash and cash equivalents	<u>9,127,429</u>	<u>-</u>	<u>-</u>	<u>9,127,429</u>
	<u>\$ 59,249,238</u>	<u>\$ 127,516,528</u>	<u>\$ -</u>	<u>\$ 186,765,766</u>

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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, 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>

6. CONTRIBUTIONS RECEIVABLE:

ECF reports pledges expected to be collected within one year at the estimated amount to be ultimately realized. At December 31, 2015 and 2014, pledges receivable totaled \$33,519 and \$19,854, 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, 2015 and 2014, ECF multi-year pledges receivable totaled \$-0- and \$29,277, respectively.

7. TEMPORARILY RESTRICTED NET ASSETS:

At December 31, 2015 and 2014, temporarily restricted net assets were available for the following purposes:

	<u>2015</u>	<u>2014</u>
Leadership resources	\$ 1,406,310	\$ 1,663,919
Charitable gift annuities	701,392	853,681
Charitable annuity trusts	262,552	289,835
Pooled income funds	71,971	73,275
	<u>\$ 2,442,225</u>	<u>\$ 2,880,710</u>

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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 are as follows:

	December 31,	
	2015	2014
Leadership resources	\$ 265,778	\$ 230,159
Charitable gift annuities matured	77,261	71,762
Charitable annuity trusts matured	3,089	7,044
Pooled income funds matured	-	7,941
	<u>\$ 346,128</u>	<u>\$ 316,906</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:

	2015	2014
Donor restricted endowment:		
General endowment	\$ 1,828,090	\$ 1,828,090
Revolving loan	617,032	315,443
Graduate Fellowship Fund	315,669	315,669
Bromwell-Ault-Burchenal Fellowship	39,075	39,075
George Allen Fowlkes Intern program	23,768	23,768
R.G. Curtis Memorial	5,575	5,575
L.B. Moorman	5,000	5,000
	<u>\$ 2,834,209</u>	<u>\$ 2,532,620</u>
Third-party perpetual trusts	1,699,797	1,788,870
Total permanently restricted net assets	<u>\$ 4,534,006</u>	<u>\$ 4,321,490</u>

While the above third party perpetual trust is a permanently restricted net asset, it is not part of ECF's endowment portfolio. Therefore, it is not included as part of the NYPMIFA disclosure below.

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8. PERMANENTLY RESTRICTED NET ASSETS, continued:

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 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 2015 and 2014 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, 2015, was:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 392,634	\$ 2,834,209	\$ 3,226,843

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December 31, 2015 and 2014

8. PERMANENTLY RESTRICTED NET ASSETS, continued:

Changes in endowment net assets for the year ended December 31, 2015, were:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, January 1, 2015	\$ -	\$ 576,909	\$ 2,532,620	\$ 3,109,529
Investment return:				
Interest and dividend income	-	19,050	-	19,050
Realized and unrealized losses	-	(93,325)	-	(93,325)
Total investment return	-	(74,275)	-	(74,275)
Contributions	-	-	301,589	301,589
Appropriation of endowment assets for expenditure	-	(110,000)	-	(110,000)
Endowment net assets, December 31, 2015	<u>\$ -</u>	<u>\$ 392,634</u>	<u>\$ 2,834,209</u>	<u>\$ 3,226,843</u>

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

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

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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	\$ -	\$ 576,909	\$ 2,532,620	\$ 3,109,529

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 2015 and 2014. In establishing this policy, ECF considered the long-term expected return on its endowment.

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9. EMPLOYEE BENEFIT PLANS:

The lay employees of ECF are covered under a multi-employer 403(b) plan (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 (Pension Plan) sponsored by the Church. Contributions to the Pension Plan are based on 18% of each covered clergy's compensation in 2015 and 2014. For the years ended December 31, 2015 and 2014, ECF contributed approximately \$133,000 and \$132,000, 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. COMMITMENT AND FUTURE LEASE PAYMENTS UNDER OPERATING LEASE:

ECF entered into a new operating lease effective September 30, 2015 expiring December 31, 2021. Since the office space was not occupied during 2015 the total rent expense for the year ended December 31, 2015, was \$-0-. Estimated minimum lease payments for the office space under the multi-year lease is determined on an annual basis as an estimated amount of the Landlord's total cost of ownership multiplied by ECF's proportionate share of the costs. At the close of each year there will be either a payment due or refund owed to adjust to the actual proportionate share of the costs. Based on this calculation no future minimum lease payments can be accurately reflected in the footnotes of the financial statements.

12. 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.