

THE EPISCOPAL CHURCH FOUNDATION

Financial Statements
With Independent Auditors' Report

December 31, 2017 and 2016

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, 2017 and 2016, 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.

Auditors' 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, 2017 and 2016, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



New York, New York
June 8, 2018

THE EPISCOPAL CHURCH FOUNDATION

Statements of Financial Position

	December 31,	
	2017	2016
ASSETS:		
Cash and cash equivalents	\$ 85,894	\$ 27,323
Contributions receivable, net	32,559	59,132
Other assets	1,423,780	1,087,523
Investments held under split-interest agreements	37,657,240	32,687,336
Investments managed on behalf of others	322,826,260	251,297,922
Investments	46,274,276	41,340,424
Property and equipment, net	386,174	463,449
Total Assets	\$ 408,686,183	\$ 326,963,109
LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable and accrued expenses	\$ 412,523	\$ 391,856
Deferred grant revenue	357,819	738,656
Liabilities under split-interest agreements and discount for future interest - pooled income fund	35,829,301	31,586,607
Funds managed on behalf of others	322,826,260	251,297,922
Total liabilities	359,425,903	284,015,041
Net assets:		
Unrestricted	41,275,124	35,972,243
Temporarily restricted (Note 7)	3,527,628	2,602,976
Permanently restricted (Note 8)	4,457,528	4,372,849
Total net assets	49,260,280	42,948,068
Total Liabilities and Net Assets	\$ 408,686,183	\$ 326,963,109

See notes to financial statements

EPISCOPAL CHURCH FOUNDATION

Statement of Activities

Year Ended December 31,

	2017			Total	2016 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
OPERATING REVENUES AND SUPPORT:					
Contributions and legacies	\$ 588,409	\$ 808,630	\$ -	\$ 1,397,039	\$ 810,728
Fees for services	1,813,143	-	-	1,813,143	1,809,139
Publication fees and other	42,133	-	-	42,133	38,039
Investment return authorized for use in operations	1,787,000	-	-	1,787,000	1,828,000
Net assets released from restrictions	476,150	(476,150)	-	-	-
Total Operating Revenues and Support	4,706,835	332,480	-	5,039,315	4,485,906
OPERATING EXPENSES:					
Program services (Note 2):					
Leadership resources	1,417,685	-	-	1,417,685	1,255,760
Financial resources	2,108,770	-	-	2,108,770	2,088,329
Total program services	3,526,455	-	-	3,526,455	3,344,089
Supporting services:					
Management and general	291,464	-	-	291,464	364,303
Fundraising	268,736	-	-	268,736	300,564
Total supporting services	560,200	-	-	560,200	664,867
Total Expenses	4,086,655	-	-	4,086,655	4,008,956
Excess of operating revenues and support over operating expenses	620,180	332,480	-	952,660	476,950
NONOPERATING REVENUES, SUPPORT AND GAINS:					
Dividends and interest income, net	558,713	36,960	-	595,673	655,755
Investment return (realized and unrealized gains) in excess of amounts authorized for use in operations	3,534,209	350,920	-	3,885,129	442,641
Change in value of split-interest agreements	-	794,071	-	794,071	(6,372)
Change in value of beneficial interest in perpetual trusts	-	-	84,679	84,679	(161,157)
Net assets released from restrictions for nonoperating activities	589,779	(589,779)	-	-	-
Change in Net Assets	5,302,881	924,652	84,679	6,312,212	1,407,817
Net Assets, Beginning of Year	35,972,243	2,602,976	4,372,849	42,948,068	41,540,251
Net Assets, End of Year	\$ 41,275,124	\$ 3,527,628	\$ 4,457,528	\$ 49,260,280	\$ 42,948,068

See notes to financial statements

EPISCOPAL CHURCH FOUNDATION

Statement of Activities

Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUES AND SUPPORT:				
Contributions and legacies	\$ 327,896	\$ 482,832	\$ -	\$ 810,728
Fees for services	1,809,139	-	-	1,809,139
Publication fees and other	38,039	-	-	38,039
Investment return authorized for use in operations	1,828,000	-	-	1,828,000
Net assets released from restrictions	352,636	(352,636)	-	-
Total Operating Revenues and Support	4,355,710	130,196	-	4,485,906
OPERATING EXPENSES:				
Program services (Note 2):				
Leadership resources	1,255,760	-	-	1,255,760
Financial resources	2,088,329	-	-	2,088,329
Total program services	3,344,089	-	-	3,344,089
Supporting services:				
Management and general	364,303	-	-	364,303
Fundraising	300,564	-	-	300,564
Total supporting services	664,867	-	-	664,867
Total Expenses	4,008,956	-	-	4,008,956
Excess of operating revenues and support over operating expenses	346,754	130,196	-	476,950
NONOPERATING REVENUES, SUPPORT AND GAINS:				
Dividends and interest income, net	610,540	45,215	-	655,755
Investment return (realized and unrealized gains) in excess of amounts authorized for use in operations	286,188	156,453	-	442,641
Change in value of split-interest agreements	-	(6,372)	-	(6,372)
Change in value of beneficial interest in perpetual trusts	-	-	(161,157)	(161,157)
Net assets released from restrictions for nonoperating activities	164,741	(164,741)	-	-
Change in Net Assets	1,408,223	160,751	(161,157)	1,407,817
Net Assets, Beginning of Year	34,564,020	2,442,225	4,534,006	41,540,251
Net Assets, End of Year	\$ 35,972,243	\$ 2,602,976	\$ 4,372,849	\$ 42,948,068

See notes to financial statements

THE EPISCOPAL CHURCH FOUNDATION

Statement of Functional Expenses

Year Ended December 31, 2017

	Program Services			Supporting Activities			Total	
	Leadership Resources	Finance Resources	Total	Management and General	Fundraising	Total	2017	2016
Salaries	\$ 653,731	\$ 1,245,957	\$ 1,899,688	\$ 172,280	\$ 106,437	\$ 278,717	\$ 2,178,405	\$ 2,164,861
Payroll taxes	47,966	92,885	140,851	11,465	6,736	18,201	159,052	157,027
Employee benefits	117,518	184,180	301,698	39,058	24,183	63,241	364,939	381,845
	819,215	1,523,022	2,342,237	222,803	137,356	360,159	2,702,396	2,703,733
Grants	107,081	-	107,081	-	-	-	107,081	105,336
Fellowships	137,450	-	137,450	-	-	-	137,450	135,000
Field representatives	-	89,836	89,836	-	-	-	89,836	112,658
Professional fees and honoraria	126,660	74,561	201,221	38,879	10,879	49,758	250,979	181,355
Travel and conferences	107,582	97,504	205,086	4,556	4,853	9,409	214,495	168,840
Annual report and annual appeal	-	-	-	-	21,449	21,449	21,449	32,793
Office expenses	12,240	23,299	35,539	2,183	3,663	5,846	41,385	64,618
Occupancy costs	38,548	73,469	112,017	10,159	6,276	16,435	128,452	120,368
Telecom and networking	10,489	32,083	42,572	1,755	1,084	2,839	45,411	52,095
Postage	4,644	11,801	16,445	609	1,060	1,669	18,114	17,431
Insurance	8,250	15,725	23,975	2,175	1,343	3,518	27,493	28,591
Public relations and advertising	-	-	-	-	59,129	59,129	59,129	44,864
Printing, production and publications	17,000	113,101	130,101	-	17,000	17,000	147,101	120,271
Depreciation	28,526	54,369	82,895	7,518	4,644	12,162	95,057	94,211
Allowance for doubtful accounts	-	-	-	827	-	827	827	26,792
Total expenses	\$ 1,417,685	\$ 2,108,770	\$ 3,526,455	\$ 291,464	\$ 268,736	\$ 560,200	\$ 4,086,655	\$ 4,008,956

See notes to financial statements

THE EPISCOPAL CHURCH FOUNDATION

Statement of Functional Expenses

Year Ended December 31, 2016

	Program Services			Supporting Activities			Total
	Leadership Resources	Finance Resources	Total	Management and General	Fundraising	Total	2016
Salaries	\$ 623,033	\$ 1,227,277	\$ 1,850,310	\$ 195,480	\$ 119,071	\$ 314,551	\$ 2,164,861
Payroll taxes	44,411	91,867	136,278	13,203	7,546	20,749	157,027
Employee benefits	92,667	198,984	291,651	55,989	34,205	90,194	381,845
	760,111	1,518,128	2,278,239	264,672	160,822	425,494	2,703,733
Grants	105,336	-	105,336	-	-	-	105,336
Fellowships	135,000	-	135,000	-	-	-	135,000
Field representatives	-	112,658	112,658	-	-	-	112,658
Professional fees and honoraria	75,679	54,997	130,676	39,833	10,846	50,679	181,355
Travel and conferences	77,553	84,134	161,687	4,271	2,882	7,153	168,840
Annual report and annual appeal	-	-	-	-	32,793	32,793	32,793
Office expenses	16,545	39,803	56,348	3,786	4,484	8,270	64,618
Occupancy costs	34,421	68,413	102,834	10,897	6,637	17,534	120,368
Telecom and networking	11,602	36,895	48,497	2,236	1,362	3,598	52,095
Postage	3,641	12,585	16,226	699	506	1,205	17,431
Insurance	8,176	16,250	24,426	2,588	1,577	4,165	28,591
Public relations and advertising	-	-	-	-	44,864	44,864	44,864
Printing, production and publications	755	90,920	91,675	-	28,596	28,596	120,271
Depreciation	26,941	53,546	80,487	8,529	5,195	13,724	94,211
Allowance for doubtful accounts	-	-	-	26,792	-	26,792	26,792
	\$ 1,255,760	\$ 2,088,329	\$ 3,344,089	\$ 364,303	\$ 300,564	\$ 664,867	\$ 4,008,956

See notes to financial statements

EPISCOPAL CHURCH FOUNDATION

Statements of Cash Flows

	Year Ended December 31,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 6,312,212	\$ 1,407,817
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	95,057	94,211
Allowance for doubtful accounts	827	26,792
Change in value of split-interest agreements	(794,069)	6,372
Change in value of beneficial interest in perpetual trusts	(84,679)	161,157
Contribution income from split-interest agreements	(406,918)	(122,926)
Net realized and unrealized gains in investments	(5,663,344)	(2,270,641)
Change in operating assets and liabilities:		
Contributions receivable	25,746	(52,405)
Other assets	(336,257)	(98,883)
Deferred grant revenue	(380,837)	(261,344)
Accounts payable and accrued expenses	20,667	(29,451)
Net Cash Used by Operating Activities	(1,211,595)	(1,139,301)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(17,782)	(328,497)
Proceeds from sale of investments	15,635,922	5,394,536
Purchase of investments	(14,821,751)	(2,051,122)
Net Cash Provided by Investing Activities	796,389	3,014,917
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments of annuity obligations	(4,497,142)	(3,433,908)
Proceeds from contributions and transfers restricted for investment subject to annuity obligations	4,970,919	1,558,704
Net Cash Used by Financing Activities	473,777	(1,875,204)
Change in Cash and Cash Equivalents	58,571	412
Cash and Cash Equivalents, Beginning of Year	27,323	26,911
Cash and Cash Equivalents, End of Year	\$ 85,894	\$ 27,323

See notes to financial statements

THE EPISCOPAL CHURCH FOUNDATION

Notes to Financial Statements

December 31, 2017 and 2016

1. NATURE OF OPERATIONS:

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 NYS and NYC income and sales tax. However, ECF is subject to federal income tax on any unrelated business taxable income. Currently ECF does not have any income subject to unrelated business income. In addition the organization is not classified as a private foundation within the meaning of Section 509(a) of the code.

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, 2017 and 2016, 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.

THE EPISCOPAL CHURCH FOUNDATION

Notes to Financial Statements

December 31, 2017 and 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

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.

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.

DONOR ADVISED FUNDS

Charitable fund agreements allow donors to make outright charitable contributions to this fund which is used to provide charitable donations (grants) to qualified charitable organizations whose purposes, programs and practices are not inconsistent with the Christian character of ECF. The funds are under the complete control of ECF, but donors are allowed to make recommendations as to their distribution. These types of gift agreements are commonly referred to as donor advised funds and are reported as unrestricted contributions and designated net assets.

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.

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Notes to Financial Statements

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2. SIGNIFICANT ACCOUNTING POLICIES, continued:

FAIR VALUE MEASUREMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS, continued

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.

Level 3 - Inputs that are unobservable.

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 expenditures greater than \$250. Depreciation of property and equipment is provided using the straight-line method, over the useful lives ranging from five to seven years.

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Notes to Financial Statements

December 31, 2017 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

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 \$357,819 and \$738,656 for the years ended December 31, 2017 and 2016, 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 \$380,837 and \$261,344 as of December 31, 2017 and 2016, respectively.

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 both the years ended December 31, 2017 and 2016, to support the leadership development and continuing education for bishops in the Episcopal Church, specifically the College for Bishops. 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, 2017.

Total advertising costs incurred during the years ended December 31, 2017 and 2016, were approximately \$65,500 and \$66,000, respectively.

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Notes to Financial Statements

December 31, 2017 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

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.

3. INVESTMENTS:

Investments are comprised of the following:

	December 31,	
	2017	2016
Equity unit investment trusts	\$ 17,198,194	\$ 16,545,397
Mutual funds:		
Equity	12,451,690	7,378,220
Fixed income	6,804,910	7,395,575
Hedge funds	4,539,252	7,275,979
Beneficial interest in perpetual trusts	1,623,320	1,538,641
Money market funds	3,278,709	1,146,528
Donor advised funds	378,201	60,084
Total	<u>\$ 46,274,276</u>	<u>\$ 41,340,424</u>

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Notes to Financial Statements

December 31, 2017 and 2016

3. INVESTMENTS, continued:

Investment management fees for the years ended December 31, 2017 and 2016, approximated \$191,670 and \$175,370, 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, 2017 and 2016, consisted of investments in fund of funds of approximately \$4.5 million and \$7.3 million, respectively.

As described in Note 2, ECF follows the *Fair Value Measurements and Fair Value of Financial Instruments* topics of the Financial Accounting Standards Board Accounting Standards Codification (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, 2017:

	Level 1	Level 2	Level 3	Total
Equity unit investment trusts	\$ -	\$ 17,198,194	\$ -	\$ 17,198,194
Mutual funds:				
Equity	12,451,690	-	-	12,451,690
Fixed income	6,804,910	-	-	6,804,910
Beneficial interest in perpetual trusts	-	-	1,623,320	1,623,320
Money market funds	3,278,709	-	-	3,278,709
Donor advised funds	-	-	378,201	378,201
	22,535,309	17,198,194	2,001,521	41,735,024
Investments held at other than fair value:				
Hedge funds				4,539,252
				\$ 46,274,276

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Notes to Financial Statements

December 31, 2017 and 2016

3. INVESTMENTS, continued:

Investments valued at NAV as of December 31, 2017, consisted of the following:

	Asset Value	Commitments	Redemption Frequency	Redemption Notice Period
Hedge funds/long-term growth:	<u>\$ 4,539,252</u>	\$ -	Quarterly	100 days

A reconciliation of investments utilizing Level 3 and other than fair value inputs for the year ended December 31, 2017, is as follows:

	Donor Advised Funds	Beneficial Interest in Perpetual Trusts	Hedge Funds
Balance at December 31, 2016	\$ 60,084	\$ 1,538,641	\$ 2,520,817
Unrealized gains	-	84,679	139,252
Realized gains	-	-	224,423
Sale	-	-	(2,745,240)
Purchase	318,117	-	4,400,000
Balance at December 31, 2017	<u>\$ 378,201</u>	<u>\$ 1,623,320</u>	<u>\$ 4,539,252</u>

Investments at fair market value presented by level of input used to measure fair value consisted of the following at December 31, 2016:

	Level 1	Level 2	Level 3	Total
Equity unit investment trusts	\$ -	\$ 16,545,397	\$ -	\$ 16,545,397
Mutual funds:				
Equity	7,378,220	-	-	7,378,220
Fixed income	7,395,575	-	-	7,395,575
Hedge funds	-	4,755,162	-	4,755,162
Beneficial interest in perpetual trusts	-	-	1,538,641	1,538,641
Money market funds	1,146,528	-	-	1,146,528
Donor advised funds	-	-	60,084	60,084
	<u>15,920,323</u>	<u>21,300,559</u>	<u>1,598,725</u>	<u>38,819,607</u>

Investments held at other than fair value:

Hedge funds	<u>2,520,817</u>
	<u>\$ 41,340,424</u>

THE EPISCOPAL CHURCH FOUNDATION

Notes to Financial Statements

December 31, 2017 and 2016

3. INVESTMENTS, continued:

Investments valued at NAV as of December 31, 2016, consisted of the following:

	Asset Value	Commitments	Redemption Frequency	Redemption Notice Period
Hedge funds:				
Long-term growth	\$ 4,755,162	\$ -	Quarterly	90 days
Long-term growth	2,520,817	-	Annually	90 days
	\$ 7,275,979			

A reconciliation of investments utilizing Level 3 and other than fair value inputs for the year ended December 31, 2016, is as follows:

	Donor Advised Funds	Beneficial Interest in Perpetual Trusts	Hedge Funds
Balance at December 31, 2015	\$ -	\$ 1,699,798	\$ 2,500,760
Unrealized (losses) gains	-	(161,157)	20,057
Purchases	60,084	-	-
Balance at December 31, 2016	\$ 60,084	\$ 1,538,641	\$ 2,520,817

4. PROPERTY AND EQUIPMENT, NET:

Property and equipment, net, consisted of the following at December 31, 2017 and 2016:

	Beginning Balance 2016	Additions	Disposals	Ending Balance 2017
Computer and equipment	\$ 567,898	\$ 16,098	\$ -	\$ 583,996
Furniture and fixtures	520,513	1,684	-	522,197
Less: accumulated depreciation and amortization	(624,962)	(95,057)	-	(720,019)
Total property and equipment	\$ 463,449	\$ (77,275)	\$ -	\$ 386,174

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December 31, 2017 and 2016

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, 2017 and 2016, ranged from 1.2% to 8.2%. State-mandated insurance reserves related to these arrangements are maintained at \$14 million and \$15 million at December 31, 2017 and 2016, 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,	
	2017	2016
Pooled income funds	\$ 2,048,211	\$ 1,477,426
Charitable remainder trusts	16,457,150	12,785,252
Charitable gift annuities	19,151,879	18,424,658
	<u>\$ 37,657,240</u>	<u>\$ 32,687,336</u>

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

	December 31,	
	2017	2016
Cash and cash equivalents	\$ 624,805	\$ 557,953
U.S. government and corporate obligations	2,080,349	891,178
Mutual funds	34,355,189	30,808,407
Mortgage-backed securities	596,897	429,798
Total	<u>\$ 37,657,240</u>	<u>\$ 32,687,336</u>

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Notes to Financial Statements

December 31, 2017 and 2016

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

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, 2017:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 624,805	\$ -	\$ -	\$ 624,805
U.S. government and corporate obligations	2,080,349	-	-	2,080,349
Mutual funds	19,614,562	14,740,627	-	34,355,189
Mortgage-backed securities	596,897	-	-	596,897
	\$ 22,916,613	\$ 14,740,627	\$ -	\$ 37,657,240

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, 2016:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 557,953	\$ -	\$ -	\$ 557,953
U.S. government and corporate obligations	891,178	-	-	891,178
Mutual funds	15,838,986	14,969,421	-	30,808,407
Mortgage-backed securities	429,798	-	-	429,798
	\$ 17,717,915	\$ 14,969,421	\$ -	\$ 32,687,336

In addition, ECF manages certain investments on behalf of parishes and other Episcopal entities. Such investments, which are reported at fair value, approximated \$322,826,000 and \$251,298,000 at December 31, 2017 and 2016, respectively, and are reflected in the accompanying statements of financial position as investments managed on behalf of others. ECF has no ownership of or residual interest in these investments and as such, a liability equal to the fair value of the investments is reflected in the accompanying statements of financial position as funds managed on behalf of others.

In April 2004, ECF entered into an agreement with The Domestic and Foreign Missionary Society (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, 2017 and 2016, the fair value of such funds was approximately \$7.1 million and \$7.4 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.

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Notes to Financial Statements

December 31, 2017 and 2016

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

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

	December 31,	
	2017	2016
Cash and cash equivalents	\$ 6,227,757	\$ 4,386,126
Common stock	36,220	-
U.S. government and corporate obligations	826,265	1,062,623
Mutual funds	315,586,193	245,498,866
Mortgage-backed securities	149,825	350,307
	\$322,826,260	\$251,297,922

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, 2017:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 6,227,757	\$ -	\$ -	\$ 6,227,757
Common stock	36,220	-	-	36,220
U.S. government and corporate obligations	826,265	-	-	826,265
Mutual funds	72,023,813	243,562,380	-	315,586,193
Mortgage-backed securities	149,825	-	-	149,825
	\$ 79,263,880	\$243,562,380	\$ -	\$322,826,260

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, 2016:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 4,386,126	\$ -	\$ -	\$ 4,386,126
U.S. government and corporate obligations	1,062,623	-	-	1,062,623
Mutual funds	63,690,879	181,807,987	-	245,498,866
Mortgage-backed securities	350,307	-	-	350,307
	\$ 69,489,935	\$181,807,987	\$ -	\$251,297,922

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Notes to Financial Statements

December 31, 2017 and 2016

6. CONTRIBUTIONS RECEIVABLE:

ECF reports pledges expected to be collected within one year at the estimated amount to be ultimately collected. At December 31, 2017 and 2016, pledges receivable totaled \$32,559 and \$59,132, respectively.

7. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets were available for the following purposes:

	December 31,	
	2017	2016
Leadership resources	\$ 1,699,691	\$ 1,502,248
Charitable gift annuities	898,613	758,356
Pooled income funds	486,867	67,150
Charitable annuity trusts	442,457	275,222
	\$ 3,527,628	\$ 2,602,976

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,	
	2017	2016
Leadership resources	\$ 592,150	\$ 465,636
Charitable annuity trusts matured	325,966	9,004
Charitable gift annuities matured	147,813	35,843
Pooled income funds matured	-	6,894
	\$ 1,065,929	\$ 517,377

Statement of activities reconciliation:

Operating releases from restrictions	\$ 476,150	\$ 352,636
Nonoperating releases from restrictions	589,779	164,741
	\$ 1,065,929	\$ 517,377

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Notes to Financial Statements

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8. PERMANENTLY RESTRICTED NET ASSETS:

Permanently restricted net assets represent contributions made for the following purposes and are restricted to investment in perpetuity. Income from these funds is available for unrestricted use 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:

	December 31,	
	2017	2016
Donor restricted endowment:		
General endowment	\$ 1,828,090	\$ 1,828,090
Revolving loan	617,032	617,032
Graduate Fellowship Fund	315,669	315,669
Bromwell-Ault-Burchenal Fellowship Fund	39,074	39,074
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>\$ 2,834,208</u>	<u>\$ 2,834,208</u>
Third-party perpetual trusts	1,623,320	1,538,641
Total permanently restricted net assets	<u>\$ 4,457,528</u>	<u>\$ 4,372,849</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.

ECF follows the Reporting Endowment Funds topic of the FASB 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 2017 and 2016 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.

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Notes to Financial Statements

December 31, 2017 and 2016

8. PERMANENTLY RESTRICTED NET ASSETS, continued:

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, 2017, was:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 742,208	\$ 2,834,209	\$ 3,576,417

Changes in endowment net assets for the year ended December 31, 2017, were:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 1, 2017	\$ -	\$ 475,264	\$ 2,834,209	\$ 3,309,473
Investment return:				
Interest and dividend income	-	32,024	-	32,024
Realized and unrealized gains	-	350,920	-	350,920
Total investment return	-	382,944	-	382,944
Contributions	-	-	-	-
Appropriation of endowment assets for expenditure	-	(116,000)	-	(116,000)
Endowment net assets, December 31, 2017	\$ -	\$ 742,208	\$ 2,834,209	\$ 3,576,417

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Notes to Financial Statements

December 31, 2017 and 2016

8. PERMANENTLY RESTRICTED NET ASSETS, continued:

Endowment net asset composition by type of fund as of December 31, 2016, was:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 475,264	\$ 2,834,209	\$ 3,309,473

Changes in endowment net assets for the year ended December 31, 2016, were:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 1, 2016	\$ -	\$ 392,634	\$ 2,834,209	\$ 3,226,843
Investment return:				
Interest and dividend income	-	39,177	-	39,177
Realized and unrealized gains	-	156,453	-	156,453
Total investment return	-	195,630	-	195,630
Contributions	-	-	-	-
Appropriation of endowment assets for expenditure	-	(113,000)	-	(113,000)
Endowment net assets, December 31, 2016	\$ -	\$ 475,264	\$ 2,834,209	\$ 3,309,473

RETURN OBJECTIVE 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.

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Notes to Financial Statements

December 31, 2017 and 2016

8. PERMANENTLY RESTRICTED NET ASSETS, continued:

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 both of the years ended December 31, 2017 and 2016. In establishing this policy, ECF considered the long-term expected return on its endowment.

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 2017 and 2016. For the years ended December 31, 2017 and 2016, ECF contributed approximately \$142,000 and \$136,000, 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 an operating lease effective September 30, 2015, expiring December 31, 2021. The total rent expense for the years ended December 31, 2017 and 2016, approximated \$122,000 and \$120,000, respectively. 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:

In February 2018, ECF purchased approximately \$2.7 million of a new alternative investment fund, and in March 2018, an additional \$1.75 million was invested in the fund.

Subsequent events have been evaluated through June 8, 2018, 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.