

# THE EPISCOPAL CHURCH FOUNDATION

Financial Statements  
With Independent Auditors' Report

December 31, 2018

# 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 statement of financial position as of December 31, 2018, and the related statements of activities and cash flows for the year then ended, the statement of functional expenses for the year ended December 31, 2018, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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, 2018, and the changes in its net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

***Emphasis of Matter***

As discussed in Note 2 to the financial statements, The Episcopal Church Foundation has adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statement of Not-for-Profit Entities*. This has had a material effect on the presentation of the December 31, 2018, financial statements. Our opinion is not modified with respect to this matter.

*Capin Crouse LLP*

New York, New York  
June 7, 2019

# THE EPISCOPAL CHURCH FOUNDATION

## Statement of Financial Position

December 31, 2018

### ASSETS:

Cash and cash equivalents	\$ 25,387
Contributions receivable	27,875
Other assets	1,136,317
Investments held under split-interest agreements	30,843,537
Investments managed on behalf of others	321,392,930
Investments	42,676,144
Property and equipment, net	<u>301,583</u>

Total Assets \$ 396,403,773

### LIABILITIES AND NET ASSETS:

#### Liabilities:

Accounts payable and accrued expenses	\$ 223,442
Refundable advance	500,000
Liabilities under split-interest agreements and discount for future interest - pooled income fund	29,478,489
Funds managed on behalf of others	<u>321,392,930</u>
Total liabilities	<u>351,594,861</u>

#### Net assets:

Net assets without donor restrictions	37,782,540
Net assets with donor restrictions - time and purpose	2,755,986
Net assets with donor restrictions - in perpetuity	<u>4,270,386</u>

Total net assets 44,808,912

Total Liabilities and Net Assets \$ 396,403,773

See notes to financial statements

# EPISCOPAL CHURCH FOUNDATION

## Statement of Activities Year Ended December 31, 2018

	Net Assets without Donor Restrictions	Net Assets with Donor Restrictions	Total
<b>OPERATING REVENUES AND SUPPORT:</b>			
Contributions and legacies	\$ 510,270	\$ 540,958	\$ 1,051,228
Fees for services	1,930,676	-	1,930,676
Publication and other fees	35,165	-	35,165
Investment income authorized for use in operations	1,696,000	-	1,696,000
Net assets released from restrictions for operating activity	507,123	(507,123)	-
<b>Total Operating Revenues and Support</b>	<b>4,679,234</b>	<b>33,835</b>	<b>4,713,069</b>
<b>OPERATING EXPENSES:</b>			
Program services (Note 2):			
Leadership resources	1,551,050	-	1,551,050
Financial resources	2,163,317	-	2,163,317
<b>Total program services</b>	<b>3,714,367</b>	<b>-</b>	<b>3,714,367</b>
Supporting services:			
Management and general	279,408	-	279,408
Fundraising	232,636	-	232,636
<b>Total supporting services</b>	<b>512,044</b>	<b>-</b>	<b>512,044</b>
<b>Total Expenses</b>	<b>4,226,411</b>	<b>-</b>	<b>4,226,411</b>
<b>Change in operating activity</b>	<b>452,823</b>	<b>33,835</b>	<b>486,658</b>
<b>NONOPERATING ACTIVITY:</b>			
Investment loss in excess of amounts authorized for use in operations	(4,039,407)	(166,727)	(4,206,134)
Change in value of split-interest agreements	-	(544,750)	(544,750)
Change in value of beneficial interest in perpetual trusts	-	(187,142)	(187,142)
Net assets released from restrictions for nonoperating activities	94,000	(94,000)	-
<b>Change in nonoperating activity</b>	<b>(3,945,407)</b>	<b>(992,619)</b>	<b>(4,938,026)</b>
<b>Total change in Net Assets</b>	<b>(3,492,584)</b>	<b>(958,784)</b>	<b>(4,451,368)</b>
<b>Net Assets, Beginning of Year</b>	<b>41,275,124</b>	<b>7,985,156</b>	<b>49,260,280</b>
<b>Net Assets, End of Year</b>	<b>\$ 37,782,540</b>	<b>\$ 7,026,372</b>	<b>\$ 44,808,912</b>

See notes to financial statements

# THE EPISCOPAL CHURCH FOUNDATION

## Statement of Functional Expenses

Year Ended December 31, 2018

	Program Services			Supporting Activities			Total
	Leadership Resources	Finance Resources	Totals	Management and General	Fundraising	Totals	2018
Salaries	\$ 637,079	\$ 1,276,273	\$ 1,913,352	\$ 165,329	\$ 73,510	\$ 238,839	\$ 2,152,191
Payroll taxes	55,338	94,270	149,608	5,260	1,597	6,857	156,465
Employee benefits	122,750	194,426	317,176	37,681	16,754	54,435	371,611
	<u>815,167</u>	<u>1,564,969</u>	<u>2,380,136</u>	<u>208,270</u>	<u>91,861</u>	<u>300,131</u>	<u>2,680,267</u>
Grants to other organizations	251,906	-	251,906	-	-	-	251,906
Fellowship grants	113,000	-	113,000	-	-	-	113,000
Professional fees and honoraria	131,666	57,443	189,109	38,991	24,838	63,829	252,938
Travel and conferences	130,818	215,309	346,127	6,915	5,077	11,992	358,119
Office expenses	33,862	176,086	209,948	5,798	29,715	35,513	245,461
Occupancy costs	37,299	74,721	112,020	9,679	4,304	13,983	126,003
Insurance	8,327	16,683	25,010	2,161	961	3,122	28,132
Public relations and advertising	-	-	-	-	59,056	59,056	59,056
Depreciation	29,005	58,106	87,111	7,527	3,347	10,874	97,985
Other expenses	-	-	-	67	13,477	13,544	13,544
	<u>815,167</u>	<u>1,564,969</u>	<u>2,380,136</u>	<u>208,270</u>	<u>91,861</u>	<u>300,131</u>	<u>2,680,267</u>
Total expenses	<u>\$ 1,551,050</u>	<u>\$ 2,163,317</u>	<u>\$ 3,714,367</u>	<u>\$ 279,408</u>	<u>\$ 232,636</u>	<u>\$ 512,044</u>	<u>\$ 4,226,411</u>

See notes to financial statements

# EPISCOPAL CHURCH FOUNDATION

## Statement of Cash Flows Year Ended December 31, 2018

### CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ (4,451,368)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:	
Depreciation	97,985
Allowance for doubtful accounts	67
Change in value of split-interest agreements	544,750
Change in value of beneficial interest in perpetual trusts	187,142
Contribution income from split-interest agreements	(175,859)
Net realized and unrealized losses in investments	3,450,237
Change in operating assets and liabilities:	
Contributions receivable	4,617
Other assets	287,463
Accounts payable and accrued expenses	(189,081)
Deferred grant revenue	142,181
Net Cash Used by Operating Activities	<u>(101,866)</u>

### CASH FLOWS FROM INVESTING ACTIVITIES:

Purchases of property and equipment	(13,394)
Proceeds from sale of investments	6,132,056
Purchase of investments	(6,171,303)
Net Cash Used by Investing Activities	<u>(52,641)</u>

### CASH FLOWS FROM FINANCING ACTIVITIES:

Payments of annuity obligations	(4,497,142)
Proceeds from contributions and transfers restricted for investment subject to annuity obligations	4,591,142
Net Cash Provided by Financing Activities	<u>94,000</u>

Change in Cash and Cash Equivalents (60,507)

Cash and Cash Equivalents, Beginning of Year 85,894

Cash and Cash Equivalents, End of Year \$ 25,387

See notes to financial statements

# THE EPISCOPAL CHURCH FOUNDATION

## Notes to Financial Statements

December 31, 2018

### 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:

*Net Assets Without Donor Restrictions* - resources which are available for carrying out ECF's operations and that are not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by ECF's Board of Directors or may be limited by contractual agreements with outside parties.

*Net Assets With Donor Restrictions* - 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. Net asset with donor restriction also include resources whereby the donors have stipulated that the principal contributed be invested and maintained in perpetuity, with investment return available for expenditure according to restrictions, if any, imposed by those donors.

#### CASH AND CASH EQUIVALENTS

Cash consists of cash on hand, checking, and money market funds. 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, 2018

### 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, net assets with donor restrictions, time and purpose are reclassified to net assets without donor restrictions and presented in the accompanying statement of activities as net assets released from restrictions.

#### CONTRIBUTIONS RECEIVABLE

Unconditional promises to give that are expected to be collected within one year are reported at net realizable value. Unconditional promises to give that are expected to be collected in future years are reported at the present value of their estimated future cash flows. When applicable, the discounts on those amounts are computed using risk adjusted interest rates applicable to the years in which the promises are expected to be received. At December 31, 2018, the amounts due in greater than one year are not significant. Therefore, a discount was not recorded. Additionally, all balances are deemed fully collectible, therefore no allowance for doubtful accounts was recognized.

#### OTHER ASSETS

Other assets consist of prepaid expenses and accounts receivable. Prepaid expenses consist of expense paid for future services not yet incurred. Accounts receivable from clients are reported at their full values, with no allowance for uncollectible amounts. All accounts receivable are due within the next year.

#### INVESTMENTS

ECF carries investments in equity securities, mutual funds and beneficial interest in perpetual trust with readily determinable market values, at fair value. Money market funds are held at cost and equity unit investment trusts and hedge funds are held at net asset value. Investment returns appropriated for operating activities and nonoperating activities during the year are reported in the accompanying statement 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 contributions without donor restrictions and designated net assets.

# THE EPISCOPAL CHURCH FOUNDATION

## Notes to Financial Statements

December 31, 2018

### 2. SIGNIFICANT ACCOUNTING POLICIES, continued:

#### 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. The types of investments included in Level 1 are equity securities, and mutual funds (equity and fixed income).

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.

*Common trust funds (CTF's)* – The fair value of these financial instruments is based on the underlying market values of the pooled assets.

*U.S. government and corporate obligations and mortgage-backed securities* - The fair value is based on yields currently available on comparable securities.

Level 3 - Inputs that are unobservable.

*Beneficial interest in perpetual trusts* – The fair value of beneficial interest in perpetual trusts is determined by using the ECF's percentage interest in the trust and the fair value of the trust as determined by the trustee.

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 judgement 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 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).

# THE EPISCOPAL CHURCH FOUNDATION

## Notes to Financial Statements

December 31, 2018

### 2. SIGNIFICANT ACCOUNTING POLICIES, continued:

#### FAIR VALUE MEASUREMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS, continued

Since hedge funds and equity unit investment trusts may not be readily marketable, the estimated net asset value (NAV) 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 net asset 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 funds and equity unit investment trusts held at NAV at December 31, 2018, consisted of investments in fund of hedge funds of approximately \$8.9 million and equity unit investment trusts of approximately \$11.7 million.

#### PROPERTY AND EQUIPMENT, NET

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.

#### 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 \$500,000 for the year ended December 31, 2018, 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, 2021) shall be repaid to the grantor. The \$500,000 received in advance is recorded in investments in the statement of financial position.

#### 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.

#### 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 the program services and supporting activities have been summarized on a functional basis in the statement of activities. Certain costs not directly attributable to specific program services or functions have been allocated to program services and supporting activities. Management allocates costs based on an average of the programs budget, full time equivalents, and staff time attributed to the function. Management considers its method of allocation to be equitable. ECF incurred no joint costs for the year ended December 31, 2018.

Total advertising costs incurred during the year ended December 31, 2018, was approximately \$59,000.

# THE EPISCOPAL CHURCH FOUNDATION

## Notes to Financial Statements

December 31, 2018

### 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 statement of activities distinguish between operating and non-operating activities. ECF has defined operating activities to include contributions and legacies; fees for services, publication and other fees; and investment returns authorized for use in operations. Investment returns authorized for use in operations represents the estimated amount appropriated by the board. All other investment activities, including changes in split interest agreements, change in beneficial interest in trust, investment returns in excess of amounts authorized for use in operations, are presented as non-operating activities.

#### ADOPTION OF RECENTLY ISSUED ACCOUNTING STANDARDS

In 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ECF adopted the provisions of this new standard during the year ended December 31, 2018.

- Temporarily restricted and permanently restricted net asset classes are now referred to as net assets with donor restrictions.
- Unrestricted net asset class is now referred to as net assets without donor restrictions.
- The financial statements include a new disclosure regarding liquidity and the availability of resources.
- Disclosures related to functional allocation of expenses were expanded.

# THE EPISCOPAL CHURCH FOUNDATION

## Notes to Financial Statements

December 31, 2018

### 3. LIQUIDITY AND AVAILABILITY OF RESOURCES:

The following reflects ECF's financial assets as of December 31, 2018, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statement of financial position date.

#### Financial Assets:

Cash and cash equivalents	\$ 25,387
Accounts receivable (included in other assets)	1,136,317
Contributions receivable	27,875
Investments	42,676,144
Investments managed on behalf of others	321,392,930
Investments managed under split-interest agreements	<u>30,843,537</u>
Financial Assets, at year end	<u>396,102,190</u>

#### Less those not available for general expenditure within one year:

Restrictions by donor held in perpetuity	(4,270,386)
Subject to appropriation or satisfaction of donor restrictions	(2,636,986)
Investments designated for donor advised funds	(569,247)
Investments managed on behalf of others	(321,392,929)
Investments managed under split-interest agreements	<u>(30,843,537)</u>
	<u>(359,713,085)</u>

Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 36,389,105</u></u>
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ECF is substantially supported by contributions, service fees, and investment income for which a substantial portion does not carry restrictions. As part of ECF's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

# THE EPISCOPAL CHURCH FOUNDATION

## Notes to Financial Statements

December 31, 2018

### 4. INVESTMENTS:

Investments are comprised of the following as of December 31, 2018:

Equity unit investment trusts	\$ 11,662,376
Mutual funds:	
Equity	9,240,415
Fixed income	7,024,940
Hedge funds	8,851,535
Equity securities	3,397,550
Beneficial interest in perpetual trusts	1,436,177
Money market funds	<u>1,063,151</u>
Total	<u>\$ 42,676,144</u>

Investment loss for the year ended December 31, 2018, consists of:

Dividend and interest	\$ 1,085,913
Realized and unrealized losses	(3,407,731)
Change in value of split-interest agreements	(544,750)
Change in value of beneficial interest in perpetual trusts	(187,142)
Investment management fees	<u>(188,316)</u>
	<u>\$ (3,242,026)</u>

Reconciliation to the statement of activities:

Investment income authorized for use in operations	\$ 1,696,000
Investment loss in excess of amounts authorized for use in operations	(4,206,134)
Change in value of split-interest agreements	(544,750)
Change in value of beneficial interest in perpetual trusts	<u>(187,142)</u>
	<u>\$ (3,242,026)</u>

# THE EPISCOPAL CHURCH FOUNDATION

## Notes to Financial Statements

December 31, 2018

4. INVESTMENTS, continued:

Investment portfolio by valuation hierarchy as of December 31, 2018, is as follows:

	Fair Value Measurements			Total
	Level 1	Level 2	Level 3	
Equity securities	\$ 3,397,550	\$ -	\$ -	\$ 3,397,550
Mutual funds:				
Equity	9,240,415	-	-	9,240,415
Fixed income	7,024,940	-	-	7,024,940
Beneficial interest in perpetual trusts	-	-	1,436,177	1,436,177
	<u>\$ 19,662,905</u>	<u>\$ -</u>	<u>\$ 1,436,177</u>	21,099,082
Investments held at NAV:				
Hedge funds				8,851,535
Equity unit investment trusts				11,662,376
				<u>20,513,911</u>
Money market funds held at cost				1,063,151
				<u>\$ 42,676,144</u>

Investments valued at NAV as of December 31, 2018, consisted of the following:

	Net Asset Value	Commitments	Redemption Frequency/ Restrictions	Redemption Notice Period
Hedge funds	\$ 8,851,535	\$ -	Quarterly/ None	100 days
Equity unit investment trusts	<u>11,662,376</u>	\$ -	Monthly/ None	None
	<u>\$ 20,513,911</u>			

Investment strategies for investments held at NAV:

*Hedge funds* - Long/short equity investing, event-driven investing, and specialized equity or debt investments.

*Equity unit investment trusts* - Long/short diversified portfolio of equity securities of companies located in any country other than the United States and Long term return in excess of the S&P 500.

# THE EPISCOPAL CHURCH FOUNDATION

## Notes to Financial Statements

December 31, 2018

4. INVESTMENTS, continued:

A reconciliation of investments utilizing Level 3 and NAV inputs for the year ended December 31, 2018, is as follows:

	Level 3	NAV		Total
	Beneficial Interest in Perpetual Trusts	Hedge Funds	Equity Unit Investment Trusts	
Balance at December 31, 2017	\$ 1,623,320	\$ 4,539,252	\$ 14,095,204	\$ 20,257,776
Unrealized gains (losses)	(187,143)	84,981	(2,381,736)	(2,483,898)
Realized gains	-	15,302	948,908	964,210
Sale	-	(200,000)	(1,000,000)	(1,200,000)
Purchase	-	4,412,000	-	4,412,000
Balance at December 31, 2018	<u>\$ 1,436,177</u>	<u>\$ 8,851,535</u>	<u>\$ 11,662,376</u>	<u>\$ 21,950,088</u>

5. PROPERTY AND EQUIPMENT, NET:

Property and equipment, net, consisted of the following at December 31, 2018:

	Beginning Balance	Additions	Disposals	Ending Balance
Computer and equipment	\$ 583,996	\$ 13,394	\$ -	\$ 597,390
Furniture and fixtures	522,197	-	-	522,197
	1,106,193	13,394	-	1,119,587
Less: accumulated depreciation and amortization	(720,019)	(97,985)	-	(818,004)
Total property and equipment, net	<u>\$ 386,174</u>	<u>\$ (84,591)</u>	<u>\$ -</u>	<u>\$ 301,583</u>

# THE EPISCOPAL CHURCH FOUNDATION

## Notes to Financial Statements

December 31, 2018

6. 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 calculation at December 31, 2018, ranged from 1.2% to 8.2%. State-mandated insurance reserves related to these arrangements are maintained at \$14 million at December 31, 2018, and are included as a component of net assets without donor restrictions.

Investments, at fair value, held under split-interest agreements consisted of the following categories as of December 31, 2018:

Pooled income funds	\$ 2,298,812
Charitable remainder trusts	12,288,567
Charitable gift annuities	<u>16,256,158</u>
	<u><u>\$ 30,843,537</u></u>

# THE EPISCOPAL CHURCH FOUNDATION

## Notes to Financial Statements

December 31, 2018

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

Investments held under split-interest agreements by valuation hierarchy as of December 31, 2018, is as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
U.S. government and corporate obligations	\$ -	\$ 951,826	\$ -	\$ 951,826
Mutual funds	14,494,403	-	-	14,494,403
CTF's	-	13,473,766	-	13,473,766
Mortgage-backed securities	-	494,695	-	494,695
	<u>\$ 14,494,403</u>	<u>\$ 14,920,287</u>	<u>\$ -</u>	29,414,690
Cash and cash equivalents, valued at cost				<u>1,428,847</u>
				<u>\$ 30,843,537</u>

In addition, ECF manages certain investments on behalf of parishes and other Episcopal entities. Such investments, which are reported at fair value, NAV or cost, approximated \$321,393,000 at December 31, 2018, and are reflected in the accompanying statement 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, NAV, or cost of the investments is reflected in the accompanying statement 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, 2018, the fair value of such funds was approximately \$6.3 million, 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 statement 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 statement of financial position.

# THE EPISCOPAL CHURCH FOUNDATION

## Notes to Financial Statements

December 31, 2018

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

The composition of investments, at fair value, NAV or cost, managed on behalf of others is as follows as of December 31, 2018:

Cash and cash equivalents	\$ 13,964,654
Common stock	13,795
U.S. government and corporate obligations	578,572
Mutual funds	32,117,557
CTF's	225,755,928
Pooled investments	48,813,223
Mortgage-backed securities	<u>149,201</u>
 Total	 <u><u>\$321,392,930</u></u>

Investments managed on behalf of others by valuation hierarchy as of December 31, 2018, is as follows:

	Level 1	Level 2	Level 3	Total
Common stock	\$ 13,795	\$ -	\$ -	\$ 13,795
U.S. government and corporate obligations	-	578,572	-	578,572
Mutual funds	32,117,557	-	-	32,117,557
CTF's	-	225,755,928	-	225,755,928
Mortgage-backed securities	-	149,201	-	<u>149,201</u>
	<u>\$ 32,131,352</u>	<u>\$226,483,701</u>	<u>\$ -</u>	258,615,053

Investments held at NAV:

Pooled investments	48,813,223
 Cash and cash equivalents, valued at cost	 <u>13,964,654</u>
	<u><u>\$321,392,930</u></u>

# THE EPISCOPAL CHURCH FOUNDATION

## Notes to Financial Statements

December 31, 2018

7. NET ASSETS:

Net assets without donor restrictions, were available as of December 31, 2018:

Undesignated	\$ 22,911,710
Designated for donor advised funds	569,247
State-mandated insurance reserves	14,000,000
Investment in property and equipment	<u>301,583</u>
	<u>\$ 37,782,540</u>

Net assets with donor restrictions, time and purpose were available for the following purposes as of December 31, 2018:

Leadership resources	\$ 942,483
Charitable gift annuities	595,268
Accumulated earnings subject to appropriation	448,456
Pooled income funds	424,947
Charitable annuity trusts	<u>344,832</u>
	<u>\$ 2,755,986</u>

Net assets were released from donor restrictions by incurring expenses, satisfying the purpose of the restriction, the passage of time or by the occurrence of other specific events are as follows as of December 31, 2018:

Leadership resources	\$ 507,123
Charitable annuity trusts matured	56,494
Charitable gift annuities matured	34,414
Pooled income funds matured	<u>3,092</u>

\$ 601,123

Statement of activities reconciliation:

Operating releases from restrictions	\$ 507,123
Nonoperating releases from restrictions	<u>94,000</u>

\$ 601,123

# THE EPISCOPAL CHURCH FOUNDATION

## Notes to Financial Statements

December 31, 2018

7. NET ASSETS, continued:

Net assets with donor restrictions, in perpetuity represent contributions made for the following purposes and are restricted to investment in perpetuity. Income from these funds is available for without donor restrictions 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. Net assets with donor restrictions, in perpetuity consist of the following as of December 31, 2018:

Donor restricted endowment:

General endowment	\$ 1,828,091
Revolving loan	617,032
Graduate Fellowship Fund	315,669
Bromwell-Ault-Burchenal Fellowship Fund	39,074
George Allen Fowlkes Intern Program	23,768
R.G. Curtis Memorial	5,575
L.B. Moorman	5,000
	<hr/>
	2,834,209
Beneficial interest in perpetual trusts	<hr/>
	1,436,177
Total net assets with donor restrictions, in perpetuity	<hr/> <hr/>
	\$ 4,270,386

While the above beneficial interest in perpetual trust is a net asset with donor restrictions, in perpetuity, it is not part of ECF's endowment portfolio. Therefore, it is not included as part of the NYPMIFA disclosure below.

8. ENDOWMENT FUNDS:

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 2018 financial statements. As a result of this interpretation, ECF classifies as net assets with donor restrictions in perpetuity (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 EPISCOPAL CHURCH FOUNDATION

## Notes to Financial Statements

December 31, 2018

8. ENDOWMENT FUNDS:

The remaining portion of the donor-restricted endowment fund that is not classified in net assets with donor restrictions, in perpetuity is classified as net assets with donor restrictions, time and purpose 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, 2018, was:

	With donor restrictions		
	Accumulated Earnings	Original Gift Amount	Total
Donor-restricted endowment funds	\$ 448,456	\$ 2,834,209	\$ 3,282,665

Changes in endowment net assets for the year ended December 31, 2018, were:

	With donor restrictions		
	Accumulated Earnings	Original Gift Amount	Total
Endowment net assets, January 1, 2018	\$ 742,208	\$ 2,834,209	\$ 3,576,417
Investment return:			
Interest and dividend income	52,063	-	52,063
Realized and unrealized losses	(226,815)	-	(226,815)
Total investment return	(174,752)	-	(174,752)
Appropriation of endowment assets for expenditure	(119,000)	-	(119,000)
Endowment net assets, December 31, 2018	\$ 448,456	\$ 2,834,209	\$ 3,282,665

# THE EPISCOPAL CHURCH FOUNDATION

## Notes to Financial Statements

December 31, 2018

### 8. ENDOWMENT FUNDS:

#### FUNDS WITH DEFICIENCIES

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires ECF to retain as a fund of perpetual duration. In accordance with GAAP, no deficiencies of this nature are reported in net assets with donor restrictions as of December 31, 2018.

#### 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.

#### 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 the year ended December 31, 2018. 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 2018. For the year ended December 31, 2018, ECF contributed approximately \$131,000 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.

# THE EPISCOPAL CHURCH FOUNDATION

## Notes to Financial Statements

December 31, 2018

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 year ended December 31, 2018, approximated \$124,000. 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 June 7, 2019, 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.