



**THE FUND FOR THE DIACONATE
OF THE EPISCOPAL CHURCH
IN THE UNITED STATES**

FINANCIAL STATEMENTS

JULY 31, 2014 and 2013

INDEPENDENT AUDITORS' REPORT

Board of Directors
The Fund for the Diaconate
of the Episcopal Church in the United States
New York, New York

Report on the Financial Statements

We have audited the accompanying statements of financial position of The Fund for the Diaconate of the Episcopal Church in the United States (the "Fund") as of July 31, 2014 and 2013, the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

The Fund's 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 from material misstatement.

An audit involves performing procedures to obtain 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 organization'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 organization'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 Fund for the Diaconate of the Episcopal Church in the United States as of July 31, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

New York, New York
January 20, 2015

THE FUND FOR THE DIACONATE OF THE EPISCOPAL CHURCH IN THE UNITED STATES

Statements of Financial Position

	July 31,	
	<u>2014</u>	<u>2013</u>
ASSETS		
Cash and cash equivalents	\$ 73,255	\$ 89,740
Interest and dividends receivable	1,025	1,724
Investments	<u>6,999,846</u>	<u>6,543,461</u>
Total assets	<u>\$ 7,074,126</u>	<u>\$ 6,634,925</u>
LIABILITIES		
Accrued expenses	<u>\$ 26,707</u>	<u>\$ 20,615</u>
NET ASSETS		
Unrestricted	7,032,123	6,599,014
Permanently restricted	<u>15,296</u>	<u>15,296</u>
	<u>7,047,419</u>	<u>6,614,310</u>
Total liabilities and net assets	<u>\$ 7,074,126</u>	<u>\$ 6,634,925</u>

THE FUND FOR THE DIACONATE OF THE EPISCOPAL CHURCH IN THE UNITED STATES

Statement of Activities

Year Ended July 31, 2014

(with summarized information for 2013)

	Year Ended July 31, 2014			Year Ended July 31, 2013
	Unrestricted	Permanently Restricted	Total	
Public support and revenue:				
Contributions and grants	\$ 4,045		\$ 4,045	\$ 3,645
Interest and dividends from investments	111,386		111,386	110,874
Trust Fund income	600		600	622
Net realized and unrealized gains on investments	<u>527,733</u>		<u>527,733</u>	<u>503,145</u>
Total public support and revenue	<u>643,764</u>		<u>643,764</u>	<u>618,286</u>
Expenses:				
Grants paid	143,800		143,800	133,457
General and administrative	<u>66,855</u>		<u>66,855</u>	<u>66,605</u>
Total expenses	<u>210,655</u>		<u>210,655</u>	<u>200,062</u>
Increase in net assets	433,109		433,109	418,224
Net assets - beginning of year	<u>6,599,014</u>	<u>\$ 15,296</u>	<u>6,614,310</u>	<u>6,196,086</u>
Net assets - end of year	<u>\$ 7,032,123</u>	<u>\$ 15,296</u>	<u>\$ 7,047,419</u>	<u>\$ 6,614,310</u>

THE FUND FOR THE DIACONATE OF THE EPISCOPAL CHURCH IN THE UNITED STATES

**Statement of Activities
Year Ended July 31, 2013**

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public support and revenue:			
Contributions and grants	\$ 3,645		\$ 3,645
Interest and dividends from investments	110,874		110,874
Trust Fund income	622		622
Net realized and unrealized gains on investments	<u>503,145</u>		<u>503,145</u>
Total public support and revenue	<u>618,286</u>		<u>618,286</u>
Expenses:			
Grants paid	133,457		133,457
General and administrative	<u>66,605</u>		<u>66,605</u>
Total expenses	<u>200,062</u>		<u>200,062</u>
Increase in net assets	418,224		418,224
Net assets - beginning of year	<u>6,180,790</u>	<u>\$ 15,296</u>	<u>6,196,086</u>
Net assets - end of year	<u>\$ 6,599,014</u>	<u>\$ 15,296</u>	<u>\$ 6,614,310</u>

THE FUND FOR THE DIACONATE OF THE EPISCOPAL CHURCH IN THE UNITED STATES

Statements of Cash Flows

	Year Ended July 31,	
	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Increase in net assets	\$ 433,109	\$ 418,224
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized and unrealized gains on investments	(527,733)	(503,145)
Changes in:		
Interest and dividends receivable	699	3,048
Accrued expenses	<u>6,092</u>	<u>(939)</u>
Net cash used in operating activities	<u>(87,833)</u>	<u>(82,812)</u>
Cash flows from investing activities:		
Proceeds from sales of investments	941,766	2,127,194
Purchases of investments	<u>(870,418)</u>	<u>(2,176,043)</u>
Net cash provided by (used in) investing activities	<u>71,348</u>	<u>(48,849)</u>
Net decrease in cash and cash equivalents	(16,485)	(131,661)
Cash and cash equivalents - beginning of year	<u>89,740</u>	<u>221,401</u>
Cash and cash equivalents - end of year	<u>\$ 73,255</u>	<u>\$ 89,740</u>

THE FUND FOR THE DIACONATE OF THE EPISCOPAL CHURCH IN THE UNITED STATES

Notes to Financial Statements July 31, 2014 and 2013

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

[1] Organization:

The Fund for the Diaconate of the Episcopal Church in the United States (the "Fund") was organized in New York in 1927. The Fund is operated for the benefit of the Episcopal Church in the United States to provide allowances to those ordained to the ministry of the Episcopal Church who have insufficient provisions for their needs.

The Fund is exempt from federal income taxes under Section 501(c)(3), is not a private foundation under Section 509(a) of the U.S. Internal Revenue Code, and is exempt from state and local taxes under comparable laws.

[2] Basis of accounting:

The accompanying financial statements of the Fund have been prepared using the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America, as applicable to not-for-profit organizations.

[3] Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses and the disclosure of commitments and contingencies. Actual results could differ from those estimates.

[4] Applicability of NYPMIFA:

The New York Prudent Management of Institutional Funds Act ("NYPMIFA") addresses (i) the management and investment of all of a not-for-profit entity's "institutional funds" (which are mainly the financial assets of the entity and which exclude programmatic assets such as buildings or operating facilities), and (ii) the appropriations by the entity's governing board of earnings derived from donor-restricted endowment funds. In essence, NYPMIFA requires all of the financial resources of the entity to be used in a "prudent" fashion, with the express approval and action of the governing board.

[5] Fair-value measurements:

The Fund reports a fair-value measurement of all applicable financial assets and liabilities.

[6] Cash and cash equivalents:

For financial-reporting purposes, the Fund considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents, with the exception of cash and short-term investments which are held as part of the Fund's long term investment portfolio.

[7] Investments:

Investments are reported at their fair values at fiscal year-end and consisted primarily of invested cash, common stocks, and equity and fixed-income mutual funds. Realized and unrealized investment gains and losses are determined using the average cost of the investments. Net investment income and realized and unrealized gains and losses on investments are reported in the accompanying statements of activities.

THE FUND FOR THE DIACONATE OF THE EPISCOPAL CHURCH IN THE UNITED STATES

Notes to Financial Statements July 31, 2014 and 2013

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[8] Net assets:

The net assets of the Fund and changes therein are classified and reported as follows:

(i) *Unrestricted:*

Unrestricted net assets represent those resources for which there are no donor restrictions as to their use.

(ii) *Temporarily restricted:*

Temporarily restricted net assets represent those resources the use of which has been restricted for appropriation by the Board of Directors. After appropriation by the Board has been made, temporarily restricted net assets are reclassified to unrestricted net assets. Temporarily restricted contributions received in the same fiscal year in which the restrictions are satisfied are reported as unrestricted contributions.

(iii) *Permanently restricted:*

The Fund is the substituted trustee of the St. Faith's Pension and Benefit Fund (the "Trust Fund"), which is held in perpetuity to assist deacons who have insufficient provisions for their needs. Under the terms of NYPMIFA, income from the Trust Fund is first classified as temporarily restricted in the accompanying statements of activities and is then appropriated by the Board of Directors and reclassified to unrestricted net assets.

[9] Revenue recognition:

Contributions are recorded as revenue upon the receipt of cash or pledges. Contributions are considered available for unrestricted use unless specifically restricted by the donor.

[10] Income taxes:

Management has analyzed the tax positions taken by the Fund and has concluded that, as of July 31, 2014 and 2013, there were no uncertain tax positions taken or expected to be taken that would require the recognition of a liability or disclosure in the financial statements. The Fund recognizes accrued interest and penalties associated with uncertain tax positions, if any. There were no tax-related interest or penalties recorded for fiscal years 2014 and 2013. The income tax returns of the Fund for fiscal years 2013, 2012 and 2011 are subject to examination by the Internal Revenue Service and other taxing authorities, generally for three years after they were filed.

[11] Subsequent events:

The Fund considers the accounting treatments, and the related disclosures in the current fiscal year's financial statements, that may be required as the result of all events or transactions that occur after the fiscal year-end through January 20, 2015, the date the financial statements were available to be issued.

THE FUND FOR THE DIACONATE OF THE EPISCOPAL CHURCH IN THE UNITED STATES

Notes to Financial Statements July 31, 2014 and 2013

NOTE B - INVESTMENTS

At each fiscal year-end, investments consisted of the following:

	July 31,			
	2014		2013	
	Cost	Fair Value	Cost	Fair Value
Common stock	\$ 788,831	\$ 964,719	856,131	964,999
Equity mutual funds	4,063,905	4,473,168	3,932,510	4,006,821
Fixed-income mutual funds	1,537,530	1,561,959	1,534,267	1,571,641
	<u>\$ 6,390,266</u>	<u>\$ 6,999,846</u>	<u>\$ 6,322,908</u>	<u>\$ 6,543,461</u>

During each fiscal year, investment income was composed of the following:

	Year Ended July 31,	
	2014	2013
Interest and dividends	\$ 111,386	\$ 110,874
Trust fund income	600	622
Realized gains	138,706	208,146
Unrealized gains	<u>389,027</u>	<u>294,999</u>
	<u>\$ 639,719</u>	<u>\$ 614,641</u>

ASC Topic 820, "Fair Value Measurements and Disclosures," establishes a three-level valuation hierarchy of fair-value measurements. These valuation techniques are based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect market assumptions. These two types of inputs create the following fair-value hierarchy:

- Level 1 Valuations are based on observable inputs that reflect quoted market prices in active markets for those investments, or similar investments, at the reporting date.
- Level 2 Valuations are based on (i) quoted prices for those investments, or similar investments, in active markets, or (ii) quoted prices for those investments, or similar investments, in markets that are not active, or (iii) pricing inputs other than quoted prices that are directly or indirectly observable at the reporting date. Level 2 assets include those investments that are redeemable at or near the balance sheet date and for which a model was derived for valuation.
- Level 3 Valuations are based on pricing inputs that are unobservable and include situations where (i) there is little, if any, market activity for the investments, or (ii) the investments cannot be independently valued, or (iii) the investments cannot be immediately redeemed at or near the fiscal year-end.

The classification of investments in the fair-value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.

All of the Fund's investments are classified as Level 1.

THE FUND FOR THE DIACONATE OF THE EPISCOPAL CHURCH IN THE UNITED STATES

**Notes to Financial Statements
July 31, 2014 and 2013**

NOTE C - GRANT PAYMENTS AND GENERAL AND ADMINISTRATIVE EXPENSES

[1] During each fiscal year, payments were made to the following recipients:

	Year Ended July 31,	
	2014	2013
The Rev. [REDACTED]	\$ 8,400	\$ 7,950
The Rev. [REDACTED]	12,600	7,400
The Rev. [REDACTED]		4,050
The Rev. [REDACTED]	10,500	9,600
The Rev. [REDACTED]	291	2,132
The Rev. [REDACTED]		9,000
The Rev. [REDACTED]	9,675	9,600
The Rev. [REDACTED]	13,000	11,000
The Rev. [REDACTED]	3,600	9,450
The Rev. [REDACTED]		5,000
The Rev. [REDACTED]	5,250	4,875
The Rev. [REDACTED]	9,800	10,650
The Rev. [REDACTED]	24,225	23,550
The Rev. [REDACTED]		1,350
The Rev. [REDACTED]	28,834	
The Rev. [REDACTED]	6,000	6,900
The Rev. [REDACTED]	<u>11,625</u>	<u>10,950</u>
	<u>\$ 143,800</u>	<u>\$ 133,457</u>

[2] During each fiscal year, administrative expenses were composed of the following:

	Year Ended July 31,	
	2014	2013
Meeting costs	\$ 23,960	\$ 16,114
Professional fees	14,000	14,000
Investment advisory fees	1,753	8,258
Accounting services	12,000	12,000
Grant coordinator services	10,000	10,000
Other expenses	<u>5,142</u>	<u>6,233</u>
	<u>\$ 66,855</u>	<u>\$ 66,605</u>

Note: Names were redacted.

THE FUND FOR THE DIACONATE OF THE EPISCOPAL CHURCH IN THE UNITED STATES

Notes to Financial Statements July 31, 2014 and 2013

NOTE D - ENDOWMENT

[1] The endowment:

The Fund's endowment consists of a donor-restricted fund established to exist in perpetuity and to provide income to be used for the Fund's purposes. The Fund does not have any funds designated by the Board of Directors to function as endowment. There were no contributions to endowment net assets during either fiscal year 2014 or 2013, and all investment income earned on the endowment fund is appropriated for expenditure by the Board of Directors, in the fiscal year it is earned.

[2] Interpretation of relevant law:

As discussed in Note A[2](c), NYPMIFA is applicable to all of the Fund's institutional funds, including its donor-restricted fund. The Board of Directors will continue to adhere to NYPMIFA's requirements.

[3] Return objectives, risk parameters and strategies employed for achieving objectives:

The Board of Directors evaluates the long-term asset allocation in meeting its fiduciary responsibilities for funding programs and protecting its endowment resources. To satisfy long-term rate-of-return objectives, the Fund 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). The Fund maintains a diversified asset base within prudent risk constraints.