

EISNERAMPER

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

FINANCIAL STATEMENTS

JULY 31, 2017 and 2016



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 financial statements of The Fund for the Diaconate of the Episcopal Church in the United States (the "Fund") which comprise the statements of financial position as of July 31, 2017 and 2016, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from 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 auditors' judgments, 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 Fund for the Diaconate of the Episcopal Church in the United States as of July 31, 2017 and 2016, 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.



EISNERAMPER LLP
New York, New York
June 11, 2018



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

Statements of Financial Position

	July 31,	
	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 28,629	\$ 18,400
Interest and dividends receivable	804	900
Investments	<u>7,404,925</u>	<u>6,906,152</u>
	<u>\$ 7,434,358</u>	<u>\$ 6,925,452</u>
LIABILITIES		
Accrued expenses	<u>\$ 33,569</u>	<u>\$ 30,087</u>
NET ASSETS		
Unrestricted	7,385,493	6,880,069
Permanently restricted	<u>15,296</u>	<u>15,296</u>
	<u>7,400,789</u>	<u>6,895,365</u>
Total net assets	<u>\$ 7,434,358</u>	<u>\$ 6,925,452</u>

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

Statement of Activities

Year Ended July 31, 2017

(with summarized information for 2016)

	Year Ended July 31, 2017			Year Ended July 31, 2016
	Unrestricted	Permanently Restricted	Total	
Public support and revenue:				
Contributions and grants	\$ 3,750		\$ 3,750	\$ 4,460
Interest and dividends from investments	74,438		74,438	73,833
Trust fund income	761		761	825
Net realized and unrealized gains/(losses) on investments	<u>605,392</u>		<u>605,392</u>	<u>(76,004)</u>
Total public support and revenue	<u>684,341</u>		<u>684,341</u>	<u>3,114</u>
Expenses:				
Grants paid	111,450		111,450	125,833
General and administrative	65,594		65,594	70,860
Fundraising	<u>1,873</u>		<u>1,873</u>	<u>4,000</u>
Total expenses	<u>178,917</u>		<u>178,917</u>	<u>200,693</u>
Change in net assets	505,424		505,424	(197,579)
Net assets, beginning of year	<u>6,880,069</u>	<u>\$ 15,296</u>	<u>6,895,365</u>	<u>7,092,944</u>
Net assets, end of year	<u>\$ 7,385,493</u>	<u>\$ 15,296</u>	<u>\$ 7,400,789</u>	<u>\$ 6,895,365</u>

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

Statement of Activities
Year Ended July 31, 2016

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public support and revenue:			
Contributions and grants	\$ 4,460		\$ 4,460
Interest and dividends from investments	73,833		73,833
Trust fund income	825		825
Net realized and unrealized loss on investments	<u>(76,004)</u>		<u>(76,004)</u>
Total public support and revenue	<u>3,114</u>		<u>3,114</u>
Expenses:			
Grants paid	125,833		125,833
General and administrative	70,860		70,860
Fundraising	<u>4,000</u>		<u>4,000</u>
Total expenses	<u>200,693</u>		<u>200,693</u>
Decrease in net assets	(197,579)		(197,579)
Net assets, beginning of year	<u>7,077,648</u>	<u>\$ 15,296</u>	<u>7,092,944</u>
Net assets, end of year	<u>\$ 6,880,069</u>	<u>\$ 15,296</u>	<u>\$ 6,895,365</u>

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

Statements of Cash Flows

	Year Ended July 31,	
	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ 505,424	\$ (197,579)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized and unrealized (gains) losses on investments	(605,392)	76,004
Changes in:		
Interest and dividends receivable	96	(1)
Accrued expenses	<u>3,482</u>	<u>1,366</u>
Net cash used in operating activities	<u>(96,390)</u>	<u>(120,210)</u>
Cash flows from investing activities:		
Proceeds from sales of investments	466,097	540,439
Purchases of investments	<u>(359,478)</u>	<u>(441,565)</u>
Net cash provided by investing activities	<u>106,619</u>	<u>98,874</u>
Net change in cash and cash equivalents	10,229	(21,336)
Cash and cash equivalents, beginning of year	<u>18,400</u>	<u>39,736</u>
Cash and cash equivalents, end of year	<u>\$ 28,629</u>	<u>\$ 18,400</u>

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

Notes to Financial Statements July 31, 2017 and 2016

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. On May 1, 2018, the Internal Revenue Service ("IRS") responded favorably to the Fund's request for a reclassification under Section 501(c)(3) from a public charity described in IRC Section 509(a)(2) to one described in IRC Section 509(a)(3). Further, the IRS has specifically determined that the Fund meets the definition of a Type 1 supporting organization under IRC Section 509(a)(3).

[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 ("U.S. GAAP"), as applicable to not-for-profit organizations.

[3] Use of estimates:

The preparation of financial statements in conformity with U.S. GAAP 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] 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.

[5] Investments:

Investments in mutual funds are reported at their fair values in the statements of financial position. The Fund's investments, in general, are subject to various risks, such as interest-rate, market, and credit risks. Due to the level of risk associated with certain investment vehicles, it is at least reasonably possible that changes in the values of those securities could occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

Investment transactions are recorded on a trade-date basis. Realized gains and losses on investments sold, and unrealized appreciation and depreciation on investments held, are reported in the statements of activities as increases or decreases in unrestricted net assets unless their use is restricted on a temporary or permanent basis through donor stipulation. Realized gains and losses on investments are determined by comparison of the average cost of acquisition to proceeds at the time of disposition. Unrealized gains and losses on investments are determined by comparing the investment's cost to the fair value at the beginning of each year. The earnings from dividends and interest are recognized when earned.

[6] 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.

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

Notes to Financial Statements July 31, 2017 and 2016

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

[6] Net assets: (continued)

(ii) Temporarily restricted:

Temporarily restricted net assets represent those resources that are subject to the requirements of the New York Prudent Management of Institutional Funds Act ("NYPMIFA") and the use for which has been restricted by donors or to state law to specific purposes and/or the passage of time. When a donor restriction expires, that is when a stipulated time restriction ends, or a purpose restriction is accomplished or funds are appropriated through an action of the Board of Directors, temporarily restricted net assets are reclassified as unrestricted net assets and are reported in the accompanying statements of activities as "net assets released from restrictions". 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.

[7] Revenue recognition:

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

[8] Income taxes:

The Fund is subject to the provisions of the Financial Accounting Standards Board's (the "FASB") Accounting Standards Codification ("ASC") Topic 740, *Income Taxes*, as it relates to the accounting and reporting for uncertainty in income taxes. Because of the Fund's general tax-exempt status, ASC Topic 740 has not had, and is not anticipated to have, a material impact on the Fund's financial statement.

[9] Functional allocation of expenses:

The costs of providing the Fund's various programs and supporting services have been summarized on a functional basis in the accompanying statements of activities. Accordingly, certain costs have been allocated among the various program and supporting-service categories using appropriate and consistent measurement methodologies.

[10] Recent accounting pronouncement:

In August 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 amends financial-statement presentations and disclosures, with the goal of assisting not-for-profit organizations in providing more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. ASU 2016-14 includes qualitative and quantitative requirements in the following areas: (i) net asset classifications, (ii) investment returns, (iii) expense categorizations, (iv) liquidity and the availability of resources, and (v) the presentation of operating cash flows. The new standard will be effective for annual reporting periods beginning after December 15, 2017. The Fund will adopt this pronouncement when it becomes effective.

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

Notes to Financial Statements July 31, 2017 and 2016

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

[11] Subsequent events:

The Fund has considered the accounting treatments, and the related disclosures in the current fiscal year's financial statements, that would be required as a result of all events or transactions that occurred after July 31, 2017 through June 11, 2018, the date on which the financial statements were available to be issued.

NOTE B - INVESTMENTS

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

	July 31,			
	2017		2016	
	Fair Value	Cost	Fair Value	Cost
Equity mutual funds	\$ 5,967,981	\$ 5,038,380	\$ 5,454,903	\$ 5,078,998
Fixed-income mutual fund	<u>1,436,944</u>	<u>1,432,367</u>	<u>1,451,249</u>	<u>1,412,386</u>
	<u>\$ 7,404,925</u>	<u>\$ 6,470,747</u>	<u>\$ 6,906,152</u>	<u>\$ 6,491,384</u>

As disclosed above, concentration of the Fund's investments in excess of 10% of the fair values of its portfolio included approximately (i) 81% in equity mutual funds, and (ii) 19% in a fixed-income mutual fund.

During each fiscal year, investment returns consisted of the following:

	Year Ended July 31,	
	2017	2016
Interest and dividends	\$ 74,438	\$ 73,833
Trust fund income	761	825
Realized gains	85,982	89,210
Unrealized gains (losses)	<u>519,410</u>	<u>(165,214)</u>
	<u>\$ 680,591</u>	<u>\$ (1,346)</u>

The FASB's ASC Topic 820, *Fair Value Measurements*, 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 identical investments, at the reporting date.
- Level 2 Valuations are based on (i) quoted prices for 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.

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

Notes to Financial Statements July 31, 2017 and 2016

NOTE B - INVESTMENTS (CONTINUED)

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.

The Fund's investments are valued entirely under Level 1 of the fair-value hierarchy.

The availability of available market data is monitored to assess the appropriate classification of financial instruments within the fair-value hierarchy. Changes in economic conditions or valuation techniques may require the transfers of financial instruments from one level to another. In such instances, the transfer is reported at the beginning of the reporting period. For fiscal-years 2017 and 2016, there were no transfers between or among the levels.

NOTE C - EXPENSES

[1] Grants paid:

During each fiscal year, grant payments were made to the following recipients:

	Year Ended July 31,	
	2017	2016
The Rev.	\$ 9,000	\$ 9,000
The Rev.	16,800	14,600
The Rev.	13,350	13,800
The Rev.	5,250	10,500
The Rev.		3,300
The Rev.	6,900	6,900
The Rev.		1,500
The Rev.	1,350	5,400
The Rev.	27,000	25,900
The Rev.		3,433
The Rev.	19,500	19,200
The Rev.	<u>12,300</u>	<u>12,300</u>
	<u>\$ 111,450</u>	<u>\$ 125,833</u>

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

Notes to Financial Statements July 31, 2017 and 2016

NOTE C - EXPENSES (CONTINUED)

[2] Supporting services:

During each fiscal year, general and administrative and fund-raising expenses were composed of the following:

	Year Ended July 31,	
	2017	2016
General and administrative:		
Compensation:		
Accounting services	\$ 15,000	\$ 15,000
Grant coordinator services	<u>12,000</u>	<u>12,000</u>
	27,000	27,000
Professional fees	14,000	14,000
Meeting costs	15,461	23,724
Office expenses	7,304	4,362
Insurance	<u>1,829</u>	<u>1,774</u>
	65,594	70,860
Fund-raising services	<u>1,873</u>	<u>4,000</u>
	<u>\$ 67,467</u>	<u>\$ 74,860</u>

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. There were no contributions to endowment net assets during either fiscal year 2017 or 2016, 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:

NYPMIFA is applicable to all of the Fund's institutional funds, including its donor-restricted fund. The Board of Directors adheres 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.

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

Notes to Financial Statements July 31, 2017 and 2016

NOTE D - ENDOWMENT (CONTINUED)

[4] 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 NYPMIFA may require the Fund to retain as a fund of perpetual duration. Under the terms of NYPMIFA, the Fund has no responsibility to restore such decreases in value. There were no such deficiencies as of July 31, 2017 and 2016.