

DRAFT

Episcopal Foundation of Dallas

Independent Auditor's Report and Financial Statements

December 31, 2018 and 2017



Episcopal Foundation of Dallas
December 31, 2018 and 2017

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Independent Auditor's Report

Board of Trustees
Episcopal Foundation of Dallas
Dallas, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of Episcopal Foundation of Dallas, which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 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 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 Foundation of Dallas as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in *Note 1* to the financial statements, in 2018, Episcopal Foundation of Dallas adopted Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Prior Year Audited by Other Auditors

The 2017 financial statements were audited by other auditors, and their report thereon, dated June 12, 2018, expressed an unmodified opinion.

June XX, 2019

Episcopal Foundation of Dallas
Statements of Financial Position
December 31, 2018 and 2017

Assets

	<u>2018</u>	<u>2017</u>
Cash	\$ 139,093	\$ 132,900
Accounts receivable	53,024	58,183
Investments	5,316,480	5,848,673
Agency funds	29,270,459	33,878,805
Furniture and equipment, net	1,429	2,245
Other assets	<u>6,974</u>	<u>6,666</u>
Total assets	<u>\$ 34,787,459</u>	<u>\$ 39,927,472</u>

Liabilities and Net Assets**Liabilities**

Accounts payable	\$ 36,738	\$ 49,856
Agency funds	<u>29,270,459</u>	<u>33,878,805</u>
Total liabilities	<u>29,307,197</u>	<u>33,928,661</u>

Net Assets

Without donor restrictions	5,478,512	5,997,061
With donor restrictions	<u>1,750</u>	<u>1,750</u>
Total net assets	<u>5,480,262</u>	<u>5,998,811</u>
Total liabilities and net assets	<u>\$ 34,787,459</u>	<u>\$ 39,927,472</u>

Episcopal Foundation of Dallas
Statements of Activities
Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Revenues and Other Support		
Contributions	\$ 110,495	\$ 7,400
Investment income (loss), net	(386,304)	950,442
Administrative fee income, net	176,278	186,790
Other income, net	<u>11,017</u>	<u>12,373</u>
Total revenues and other support	<u>(88,514)</u>	<u>1,157,005</u>
Expenses		
Grants	249,000	252,661
Investment management - agency funds	9,865	62,969
Administrative support	<u>171,170</u>	<u>112,201</u>
Total expenses	<u>430,035</u>	<u>427,831</u>
Change in Net Assets Without Donor Restrictions	(518,549)	729,174
Net Assets, Beginning of Year	<u>5,998,811</u>	<u>5,269,637</u>
Net Assets, End of Year	<u>\$ 5,480,262</u>	<u>\$ 5,998,811</u>

Episcopal Foundation of Dallas
Statement of Functional Expenses
Year Ended December 31, 2018

	<u>Program Services</u>			<u>Support</u>	<u>Total</u>
	<u>Grants</u>	<u>Investment Management</u>	<u>Total Program Services</u>	<u>Administrative Support</u>	
Grants and other assistance	\$ 227,006	\$ -	\$ 227,006	\$ -	\$ 227,006
Salaries and wages	18,718	7,853	26,571	108,781	135,352
Payroll taxes	1,432	707	2,139	8,321	10,460
Professional fees and services	-	-	-	27,150	27,150
Advertising and promotion	-	-	-	7,054	7,054
Office expenses	306	316	622	3,187	3,809
Information technology	308	152	460	2,363	2,823
Occupancy	1,148	567	1,715	6,671	8,386
Conferences, conventions and meetings	82	270	352	2,045	2,397
Insurance	-	-	-	3,558	3,558
Depreciation	-	-	-	816	816
Other	-	-	-	1,224	1,224
	<u>\$ 249,000</u>	<u>\$ 9,865</u>	<u>\$ 258,865</u>	<u>\$ 171,170</u>	<u>\$ 430,035</u>
Total expenses included in the expense section on the statement of activities					

Episcopal Foundation of Dallas
Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating Activities		
Change in net assets	\$ (518,549)	\$ 729,174
Items not requiring (providing) cash		
Depreciation	816	698
Net realized and unrealized (gains) losses on investments	624,020	(788,943)
Changes in		
Accounts receivable	5,159	(1,595)
Other assets	(308)	(2,014)
Accounts payable	(13,118)	16,702
	<u>98,020</u>	<u>(45,978)</u>
Net cash provided by (used in) operating activities		
Investing Activities		
Purchases of investments	(357,039)	(268,598)
Proceeds from sale of investments	265,212	259,784
Purchases of furniture and equipment	-	(2,449)
	<u>(91,827)</u>	<u>(11,263)</u>
Net cash used in investing activities		
Increase (Decrease) in Cash	6,193	(57,241)
Cash, Beginning of Year	<u>132,900</u>	<u>190,141</u>
Cash, End of Year	<u>\$ 139,093</u>	<u>\$ 132,900</u>

Episcopal Foundation of Dallas
Notes to Financial Statements
December 31, 2018 and 2017

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The Episcopal Foundation of Dallas (Foundation) is a Texas not-for-profit corporation whose mission is to strengthen and support faith communities by partnering wise investments with purposeful giving. The Foundation is organized and operated with an independent Board of Trustees outside the jurisdiction of the Episcopal Diocese of Dallas (Diocese), the Episcopal Church and the Diocesan and General Conventions of the Church. The Foundation provides investment management services to Episcopal churches, schools and agencies within the Episcopal Diocese of Dallas, and makes grants to these organizations in addition to other not-for-profits whose work is consistent with the mission of the Foundation and the Diocese. The Foundation's revenues and other support are derived principally from its own investment earnings and administrative fees charged to investment partners (Agency Funds).

Agency Funds

The Foundation maintains funds for various Diocesan institutions in which it has no economic interest. These funds are held as agency accounts. The Foundation records agency funds at fair value and recognizes a corresponding liability of an equal amount.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2018 and 2017, the Foundation held no cash equivalents and the Foundation's cash account did not exceed the federally insured limit.

Investments and Net Investment Income

Investments in equity securities having a readily determinable fair value are carried at fair value. Investment return includes dividends, interest and realized and unrealized gains and losses on investments carried at fair value less external and direct internal investment expenses. Realized and unrealized gains and losses are determined using the average cost method.

Episcopal Foundation of Dallas
Notes to Financial Statements
December 31, 2018 and 2017

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in net assets without donor restrictions. Other investment return is reflected in the statements of activities with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions

The Foundation maintains a diversified pooled investment portfolio for the benefit of the Foundation and participating Episcopal entities recorded as Agency Funds. Investment income, realized and unrealized gains and losses from securities, and investment expenses in the pooled investment portfolio are allocated monthly to individual accounts based on the relationship of the fair value of each account to the total fair value of the pooled investments portfolio, as adjusted for additions to or deductions from the individual accounts.

Furniture and Equipment

Furniture and equipment are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful life of each asset which ranges from three to ten years. Total accumulated depreciation was \$6,025 and \$5,661 at December 31, 2018 and 2017, respectively. Upon sale or retirement, the cost and related accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss is recognized in the statements of activities and changes in net assets.

Net Assets

Net assets, revenues and gains and losses are classified based on the existence or absence of donor restrictions. Net assets without donor restrictions are available for use in general operations and not subject to donor restrictions. Net assets with donor restrictions of \$1,750 at December 31, 2018 and 2017, are subject to donor restrictions for the benefit of another Diocesan organization.

Net assets without donor restrictions include \$616,017 and \$697,583 of donor advised funds at December 31, 2018 and 2017, respectively. Although grant recommendations are accepted from the donors or other advisors of these funds, the ultimate discretion regarding their use lies with the Board of Trustees.

Contributions

Contributions are provided to the Foundation either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts – with or without donor restrictions. The value of unconditional gifts of cash, with or without donor restrictions, is recorded at fair value.

Gifts having donor stipulations which are satisfied in the period the gift is received are reported as revenue and net assets without donor restrictions.

Episcopal Foundation of Dallas

Notes to Financial Statements

December 31, 2018 and 2017

Income Taxes

The Foundation is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law except to the extent it has unrelated business taxable income. For the years ended December 31, 2018 and 2017, the Foundation had no material unrelated business income. Accordingly, no provision for income tax has been provided in the accompanying financial statements.

The Foundation received a ruling from the Internal Revenue Service which determined the Foundation meets the requirements of an integrated auxiliary of a church and as such is not required to file Form 990. Management, however, intends to continue filing Form 990 because it is widely used to evaluate not-for-profit organizations and provides transparency to investment partners and donors. The Foundation's informational returns are generally subject to examination for three years after the later of the due date or date of filing. As a result, the Foundation is no longer subject to U.S. federal income tax examinations by tax authorities for years prior to fiscal year 2015.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Certain costs have been allocated among the program and administrative support categories based on a time study conducted for each employee, specific identification and other methods.

Change in Accounting Principle

In 2018, the Foundation adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. A summary of the changes is as follows:

- The statements of financial position distinguish between two new classes of net assets – those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets – unrestricted, temporarily restricted and permanently restricted.
- Investment income is shown on the statements of activities net of external and direct internal investment expenses. Disclosure of the expenses netted against investment income is no longer required.
- Expenses are reported by nature and function on a separate statement of functional expense.

Episcopal Foundation of Dallas

Notes to Financial Statements

December 31, 2018 and 2017

- Notes to the financial statements include enhanced quantitative and qualitative disclosures providing additional information useful in assessing liquidity and cash flows available to meet operating expenses for one year from the date of the statement of financial position.
- ASU 2016-14 clarifies that for purposes of allocating expenses to functional categories, only activities which constitute direct conduct or supervision of program services can be included in program expense. As a result, accounting, reporting and general oversight associated with grants and investment management, previously included as program expense, are included in administrative support for 2018. The result is a reduction in program expense and an increase in administrative support.

Note 2: Fair Value Measurements and Disclosures

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. The hierarchy comprises three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Investments

The following table presents the fair value measurements of the Foundation's investments recognized in the accompanying statements of financial position measured at fair value on a recurring basis. The investments consist of mutual funds accounted for at fair value based on quoted prices in active markets in which the mutual funds are traded (Level 1 inputs) at December 31, 2018 and 2017. There were no changes in valuation techniques during the years ended December 31, 2018 and 2017.

	2018	2017
Mutual funds		
Domestic equity	\$ 2,236,596	\$ 2,523,371
International equity	1,437,921	1,676,088
Domestic fixed income	978,487	984,930
International fixed income	339,131	329,853
Real estate	324,345	334,431
	<hr/>	<hr/>
Total	\$ 5,316,480	\$ 5,848,673
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Episcopal Foundation of Dallas
Notes to Financial Statements
December 31, 2018 and 2017

Agency Funds

The following table presents the fair value measurements of agency fund investments recognized in the accompanying statements of financial position measured at fair value on a recurring basis. The investments consist of mutual funds accounted for at fair value based on quoted prices in active markets in which the mutual funds are traded (Level 1 inputs) at December 31, 2018 and 2017. There were no changes in valuation techniques during the years ended December 31, 2018 and 2017.

	<u>2018</u>	<u>2017</u>
Mutual funds		
Domestic equity	\$ 12,313,821	\$ 14,616,786
International equity	7,916,633	9,708,847
Domestic fixed income	5,387,168	5,705,266
International fixed income	1,867,121	1,910,696
Real estate	1,785,716	1,937,210
	<u> </u>	<u> </u>
Total	<u>\$ 29,270,459</u>	<u>\$ 33,878,805</u>

Note 3: Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of December 31, 2018, comprise the following:

Financial assets at year-end	
Cash and cash equivalents	\$ 139,093
Accounts receivable	53,024
Investments	<u>5,316,480</u>
	<u> </u>
Total financial assets	<u>5,508,597</u>
Financial assets available to meet cash needs for general expenditures within one year	 <u>\$ 5,508,597</u>

The Foundation manages its liquidity by operating within a prudent range of financial soundness and stability and maintaining adequate liquid assets to fund operating needs. The Foundation's investments are subject to a spending guideline which allows the Foundation to be as generous and as consistent as possible in making grants to the Episcopal community while also maintaining the value of the fund over time. The guideline is for planning purposes and to demonstrate due diligence and it is the intent of the Board of Trustees that investments remain without restriction and not subject to any self-imposed limits that create designated assets.

Episcopal Foundation of Dallas
Notes to Financial Statements
December 31, 2018 and 2017

Note 4: Related Party Transactions

Agency funds include \$5,835,131 and \$6,612,856 held on behalf of a not-for-profit organization that has the same Board of Trustees as the Foundation at December 31, 2018 and 2017, respectively. The not-for-profit organization incurred administrative fees with the Foundation of \$36,158 and \$34,291 for the years ended December 31, 2018 and 2017, respectively. A receivable for administrative fees and services was outstanding from this organization in the amount of \$19,672 and \$20,093 at December 31, 2018 and 2017, respectively.

Note 5: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Investments

The Foundation invests in various mutual funds which are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying statements of financial position.

Administrative Fee Income

Approximately 35% and 33% of the Foundation's administrative fee income was generated from two individual agency funds for the years ended December 31, 2018 and 2017, respectively. Of those percentages, approximately 20% and 18% was generated from the related organization identified in *Note 4* for the years ended December 31, 2018 and 2017, respectively.

Note 6: Subsequent Events

Subsequent events have been evaluated through **June XX, 2019**, which is the date the financial statements were available to be issued.