

Episcopal Foundation of Dallas

Independent Auditor's Report and Financial Statements

December 31, 2021 and 2020

Episcopal Foundation of Dallas
December 31, 2020 and 2019

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Independent Auditor's Report

Board of Trustees
Episcopal Foundation of Dallas
Dallas, Texas

Opinion

We have audited the financial statements of Episcopal Foundation of Dallas, which comprise the statement of financial position as of December 31, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Episcopal Foundation of Dallas, as of December 31, 2021 and 2020, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Episcopal Foundation of Dallas, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Episcopal Foundation of Dallas ability to continue as a going concern within one year after the date that these financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance, and therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Episcopal Foundation of Dallas's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Episcopal Foundation of Dallas ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Fort Worth, Texas
April XX 2022

Episcopal Foundation of Dallas
Statements of Financial Position
December 31, 2021 and 2020

Assets

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 249,223	\$ 327,019
Restricted cash- agency funds	9,102	-
Contribution receivable	1,100	-
Accounts receivable	57,636	50,561
Investments	7,623,485	6,845,723
Restricted investments - agency funds	45,031,348	37,031,212
Furniture and equipment, net	-	1,103
Other assets	12,095	7,601
	<u>52,983,989</u>	<u>44,263,219</u>
Total assets	<u>\$ 52,983,989</u>	<u>\$ 44,263,219</u>

Liabilities and Net Assets**Liabilities**

Accounts payable	\$ 3,161	\$ 5,395
Agency funds	45,040,450	37,031,212
	<u>45,043,611</u>	<u>37,036,607</u>
Total liabilities	<u>45,043,611</u>	<u>37,036,607</u>

Net Assets

Without donor restrictions	7,938,628	7,224,862
With donor restrictions	1,750	1,750
	<u>7,940,378</u>	<u>7,226,612</u>
Total net assets	<u>7,940,378</u>	<u>7,226,612</u>
Total liabilities and net assets	<u>\$ 52,983,989</u>	<u>\$ 44,263,219</u>

Episcopal Foundation of Dallas
Statements of Activities
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Revenues and Other Support		
Contributions	\$ 6,800	\$ 106,055
Investment return, net	930,248	942,842
Administrative fee income, net	210,347	176,836
Other income, net	<u>15,565</u>	<u>2,901</u>
Total revenues and other support	<u>1,162,960</u>	<u>1,228,634</u>
Expenses		
Grants	239,729	241,698
Investment management - agency funds	<u>9,435</u>	<u>10,787</u>
Total program services	<u>249,164</u>	<u>252,485</u>
Administrative support	<u>200,030</u>	<u>165,170</u>
Total support services	<u>200,030</u>	<u>165,170</u>
Total expenses	<u>449,194</u>	<u>417,655</u>
Change in Net Assets Without Donor Restrictions	713,766	810,979
Net Assets, Beginning of Year	<u>7,226,612</u>	<u>6,415,633</u>
Net Assets, End of Year	<u>\$ 7,940,378</u>	<u>\$ 7,226,612</u>

Episcopal Foundation of Dallas
Statements of Functional Expenses
Years Ended December 31, 2021 and 2020

	2021 Program Services			2021 Support	
	Grants	Investment	Total Program	Administrative	Total
		Management	Services	Support	
Grants and other assistance	\$ 212,400	\$ -	\$ 212,400	\$ -	\$ 212,400
Salaries and wages	23,405	8,082	31,487	111,651	143,138
Payroll taxes	1,846	637	2,483	8,806	11,289
Professional fees and services	-	-	-	31,219	31,219
Advertising and promotion	-	-	-	1,966	1,966
Office expenses	198	68	266	942	1,208
Information technology	429	148	577	2,047	2,624
Occupancy	1,451	500	1,951	6,913	8,864
Conferences, conventions and meetings	-	-	-	1,117	1,117
Insurance	-	-	-	10,860	10,860
Depreciation	-	-	-	1,167	1,167
Other	-	-	-	23,342	23,342
	<u>\$ 239,729</u>	<u>\$ 9,435</u>	<u>\$ 249,164</u>	<u>\$ 200,030</u>	<u>\$ 449,194</u>
Total expenses					

	2020 Program Services			2020 Support	
	Grants	Investment	Total Program	Administrative	Total
		Management	Services	Support	
Grants and other assistance	\$ 215,499	\$ -	\$ 215,499	\$ -	\$ 215,499
Salaries and wages	22,521	9,062	31,583	110,336	141,919
Payroll taxes	1,720	692	2,412	8,424	10,836
Professional fees and services	-	-	-	24,506	24,506
Advertising and promotion	-	-	-	413	413
Office expenses	130	298	428	639	1,067
Information technology	359	144	503	1,758	2,261
Occupancy	1,469	591	2,060	7,199	9,259
Conferences, conventions and meetings	-	-	-	1,375	1,375
Insurance	-	-	-	8,929	8,929
Depreciation	-	-	-	1,397	1,397
Other	-	-	-	194	194
	<u>\$ 241,698</u>	<u>\$ 10,787</u>	<u>\$ 252,485</u>	<u>\$ 165,170</u>	<u>\$ 417,655</u>
Total expenses					

Episcopal Foundation of Dallas
Statements of Cash Flows
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating Activities		
Change in net assets	\$ 713,766	\$ 810,979
Items not requiring (providing) cash		
Depreciation	1,167	1,397
Net realized and unrealized gains on investments	(578,041)	(703,310)
Changes in		
Contribution receivable	(1,100)	-
Accounts receivable	(7,075)	6,178
Other assets	(4,494)	286
Accounts payable	(2,234)	(1,019)
	<u>121,989</u>	<u>114,511</u>
Investing Activities		
Purchases of investments	(369,729)	(363,808)
Proceeds from sale of investments	169,944	271,254
Cash received for agency funds	9,102	-
	<u>(190,683)</u>	<u>(92,554)</u>
Increase (decrease) in Cash and Cash Equivalents	(68,694)	21,957
Cash and Cash Equivalents, Beginning of Year	<u>327,019</u>	<u>305,062</u>
Cash and Cash Equivalents, End of Year	<u>\$ 258,325</u>	<u>\$ 327,019</u>
Cash and Cash Equivalents	\$ 249,223	\$ 327,019
Restricted Cash for Agency Funds	<u>9,102</u>	<u>-</u>
Total Cash and Restricted Cash	<u>\$ 258,325</u>	<u>\$ 327,019</u>

Episcopal Foundation of Dallas

Notes to Financial Statements

December 31, 2021 and 2020

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 (investment partners), 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.

Restricted Investments - Agency Funds

The Foundation maintains funds for various Diocesan institutions in which it has no economic interest. The Foundation invests these funds on behalf of the investment partners, and they are held as agency accounts. The Foundation records agency funds at fair value and recognizes a corresponding liability of an equal amount. Investment gains and losses related to agency funds are not presented on the statements of activities.

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. Cash equivalents consisted entirely of money market accounts with brokers at December 31, 2021 and 2020. The Foundation's cash account did not exceed the federally insured limit.

Restricted Cash – Agency Funds

The Foundation received cash to be invested on behalf of investment partners that at December 31, 2021 was not transferred to the investment accounts.

Episcopal Foundation of Dallas

Notes to Financial Statements

December 31, 2021 and 2020

Accounts Receivables

Accounts receivable are stated at the amount of consideration from churches, schools and agencies of which the Foundation has an unconditional right to receive. The accounts receivable consists of administrative fee income that is transferred directly from the agency funds on a quarterly basis. Management believes no allowance for uncollectible accounts is necessary at December 31, 2021 and 2020.

Investments and Net Investment Return

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 investment expenses. Realized and unrealized gains and losses are determined using the average cost method.

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 investment partners. 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 acquisitions over \$500 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 \$7,489 and \$6,322 at December 31, 2021 and 2020, respectively.

Net Assets

Net assets, revenues, 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.

Episcopal Foundation of Dallas

Notes to Financial Statements

December 31, 2021 and 2020

Net assets with donor restrictions of \$1,750 at December 31, 2021 and 2020, are subject to donor restrictions for the benefit of another Diocesan organization. Some restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. At December 31, 2021 and 2020, the Foundation did not have net assets required to be maintained in perpetuity.

Net assets without donor restrictions include \$912,985 and \$815,027 of donor advised funds at December 31, 2021 and 2020, 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 recorded for each contribution is recognized as follows:

Nature of the Gift	Value Recognized
<i>Conditional gifts, with or without restriction</i>	
Gifts that depend on the Foundation overcoming a donor-imposed barrier to be entitled to the funds	Not recognized until the gift becomes unconditional, <i>i.e.</i> the donor-imposed barrier is met
<i>Unconditional gifts, with or without restriction</i>	
Received at date of gift – cash and other assets	Fair value
Received at date of gift – property, equipment and long-lived assets	Estimated fair value
Expected to be collected within one year	Net realizable value
Collected in future years	Initially reported at fair value determined using the discounted present value of estimated future cash flows technique

In addition to the amount initially recognized, revenue for unconditional gifts to be collected in future years is also recognized each year as the present-value discount is amortized using the level-yield method.

Episcopal Foundation of Dallas

Notes to Financial Statements

December 31, 2021 and 2020

When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Absent explicit donor stipulations for the period of time that long-lived assets must be held, expirations of restrictions for gifts of land, buildings, equipment and other long-lived assets are reported when those assets are placed in service.

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

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

Income Taxes

The Foundation is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income.

The Foundation files tax returns in the U.S. federal jurisdiction.

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.

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 statements of functional expenses present 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.

Episcopal Foundation of Dallas

Notes to Financial Statements

December 31, 2021 and 2020

Note 2: Fair Value of Assets and Liabilities

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.

Recurring Measurements

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying statements of financial position measured at fair value on a recurring basis. At December 31, 2021 and 2020, investments, all of which are classified as Level 1, consist of the following:

Investments

	<u>2021</u>	<u>2020</u>
Mutual funds		
Domestic equity	\$ 3,568,288	\$ 2,965,945
International equity	2,037,089	1,996,259
Domestic fixed income	1,583,706	1,110,514
International fixed income	434,402	368,155
Real estate	-	404,850
	<u> </u>	<u> </u>
Total	<u>\$ 7,623,485</u>	<u>\$ 6,845,723</u>

Episcopal Foundation of Dallas
Notes to Financial Statements
December 31, 2021 and 2020

Restricted Investments - Agency Funds

	<u>2021</u>	<u>2020</u>
Mutual funds		
Domestic equity	\$ 20,659,878	\$ 16,043,968
International equity	12,142,544	10,798,551
Domestic fixed income	9,840,415	6,007,205
International fixed income	2,388,511	1,991,494
Real estate	<u>-</u>	<u>2,189,994</u>
Total	<u>\$ 45,031,348</u>	<u>\$ 37,031,212</u>

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2021.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. 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, 2021 and 2020.

Episcopal Foundation of Dallas

Notes to Financial Statements

December 31, 2021 and 2020

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, 2021 and 2020, comprise the following:

	2021	2020
Financial assets at year-end		
Cash and cash equivalents	\$ 249,223	\$ 327,019
Contribution receivable	1,100	-
Accounts receivable	57,636	50,561
Investments	7,623,485	6,845,723
Total financial assets	7,931,444	7,223,303
Donor imposed restrictions		
Restricted funds	1,750	1,750
Financial assets available to meet cash needs for general expenditures within one year	\$ 7,929,694	\$ 7,221,553

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 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.

Note 4: Related Party Transactions

Agency funds include \$7,755,541 and \$7,043,084 held on behalf of a not-for-profit organization that has the same Board of Trustees as the Foundation at December 31, 2021 and 2020, respectively. The Foundation does not appoint the Board of Trustees on behalf of the organization. The not-for-profit organization incurred administrative fees with the Foundation of \$40,952 and \$33,589 for the years ended December 31, 2021 and 2020, respectively. A receivable for administrative fees and services was outstanding from this organization in the amount of \$10,482 and \$8,116 at December 31, 2021 and 2020, respectively.

Episcopal Foundation of Dallas

Notes to Financial Statements

December 31, 2021 and 2020

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% of the Foundation's administrative fee income came from two investment partners for the year ended December 31, 2021. For the year ended December 31, 2020, 46% of the Foundation's administrative fee was from three investment partners. Of those percentages, approximately 19% was generated from the related organization identified in *Note 4* for the years ended December 31, 2021 and 2020.

Note 6: Revenue from Contracts with Churches, Schools and Agencies

Administrative Fee Income

The Foundation manages investments on behalf of churches, schools and agencies within the agencies within the Episcopal Diocese of Dallas (investment partners). The Foundation is entitled to a 0.55% investment management fee on the value of the funds invested. Performance obligations are determined based on the nature of the services provided by the Foundation in accordance with the contract. Revenue for performance obligations satisfied over time is recognized ratably over the year based on time elapsed. The Foundation believes this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation.

Contract Balances

At December 31, 2021 and 2020, the Foundation had receivables from churches, schools and agencies for \$57,636 and \$50,561, respectively. At December 31, 2021 and 2020, the Foundation had no contract liabilities.

Episcopal Foundation of Dallas

Notes to Financial Statements

December 31, 2021 and 2020

Performance Obligations and Transaction Price Allocated to Remaining Performance Obligations

The performance obligations for these contracts are generally completed over time for as long as the funds are invested and managed by the Foundation. The Foundation assesses the investment management fee at the end of each quarter as services are provided to the churches, schools and agencies.

Significant Judgments

The Foundation determines the transaction price based on standard charges for services provided in accordance with the Foundation's policy. There are no implicit or explicit price concessions provided to churches, schools and agencies.

Disaggregation of Revenue

For the year ended December 31, 2021 and 2020, the Foundation recognized revenue over time from investment management fees charged to churches, schools and affiliates of \$210,347 and \$176,836 respectively.

Note 7: Subsequent Events

Subsequent events have been evaluated through **May XX, 2022**, which is the date the financial statements were available to be issued.