Financial Statements and
Report of Independent Certified Public Accountants

EPISCOPAL RELIEF & DEVELOPMENT

December 31, 2018 and 2017

EPISCOPAL RELIEF & DEVELOPMENT

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of
Episcopal Relief & Development:

We have audited the accompanying financial statements of Episcopal Relief & Development (the "Organization"), which comprise the statements of financial position as of December 31, 2018 and 2017, and 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

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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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 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 Episcopal Relief & Development as of December 31, 2018 and 2017, 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.

Other reporting required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated July 30, 2019, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Grant Thornton LLP

New York, New York
July 30, 2019

EPISCOPAL RELIEF & DEVELOPMENT
Statements of Financial Position
As of December 31, 2018 and 2017

	2018	2017
ASSETS		
Cash and cash equivalents	$ 9,056,729	$ 8,538,656
Receivables, net (Note 3)	3,404,401	3,028,996
Beneficial interest in trusts held by DFMS (Note 4)	18,526,543	21,823,864
Prepaid expenses	194,197	206,891
Due from DFMS	71,837	-
Beneficial interest in outside trusts held by others (Note 2)	353,087	393,804
Property and equipment, net (Note 5)	72,566	85,663
Total assets	$ 31,679,360	$ 34,077,874
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	$ 1,475,112	$ 1,090,666
Due to DFMS	-	28,844
Accrued postretirement benefits other than pensions (Note 7)	1,729,179	1,896,842
Total liabilities	3,204,291	3,016,352
NET ASSETS (Note 2)		
Without donor restrictions	15,917,148	18,384,591
With donor restrictions (Note 8)	12,557,921	12,676,931
Total net assets	28,475,069	31,061,522
Total liabilities and net assets	$ 31,679,360	$ 34,077,874

The accompanying notes are an integral part of these financial statements.

EPISCOPAL RELIEF & DEVELOPMENT
Statements of Activities
For the years ended December 31, 2018 and 2017

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND OTHER SUPPORT						
Contributions, bequests, grants, and other	$ 12,628,216	$ 7,009,336	$ 19,637,552	$ 9,433,310	$ 15,129,986	$ 24,563,296
Investment (loss) return (Note 4)	(1,258,557)	(115,407)	(1,373,964)	3,472,389	170,442	3,642,831
Change in beneficial interest in outside trusts held by others	-	(40,717)	(40,717)	-	22,843	22,843
Contributed services (Note 2)	1,173,502	1,038,636	2,212,138	1,191,676	-	1,191,676
Other income	36,338	-	36,338	216,323	-	216,323
Government revenue	446,167	-	446,167	528,640	-	528,640
Net assets released from restrictions	8,010,858	(8,010,858)	-	8,479,853	(8,479,853)	-
Total revenues and other support	21,036,524	(119,010)	20,917,514	23,322,191	6,843,418	30,165,609
EXPENSES						
Sustainable development	13,245,777	-	13,245,777	14,081,359	-	14,081,359
Disaster relief and recovery	6,450,448	-	6,450,448	5,547,633	-	5,547,633
Total program expenses	19,696,225	-	19,696,225	19,628,992	-	19,628,992
Fundraising	2,577,056	-	2,577,056	2,645,019	-	2,645,019
Administration	1,230,686	-	1,230,686	1,069,277	-	1,069,277
Total expenses	23,503,967	-	23,503,967	23,343,288	-	23,343,288
Changes in net assets	(2,467,443)	(119,010)	(2,586,453)	(21,097)	6,843,418	6,822,321
Net assets, beginning of year	18,384,591	12,676,931	31,061,522	18,405,688	5,833,513	24,239,201
Net assets, end of year	$ 15,917,148	$ 12,557,921	$ 28,475,069	$ 18,384,591	$ 12,676,931	$ 31,061,522

The accompanying notes are an integral part of these financial statements.

EPISCOPAL RELIEF & DEVELOPMENT
Statements of Cash Flows
For the years ended December 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	$ (2,586,453)	$ 6,822,321
Adjustments to reconcile changes in net assets to net cash (used in) provided by operating activities:		
Change in value of beneficial interest in outside trusts	40,717	(22,843)
Depreciation	31,534	43,076
Change in allowance for doubtful accounts	1,667	-
Change in discount on contribution receivables	(8,891)	(3,419)
Net realized and unrealized losses (gains) on investments	1,534,249	(3,508,899)
Changes in assets and liabilities:		
Receivables	(368,181)	(586)
Prepaid expenses	12,694	17,439
Due from DFMS	(71,837)	-
Accounts payable and accrued expenses	384,446	(36,697)
Due to DFMS	(28,844)	(335,907)
Accrued postretirement benefits other than pensions	(167,663)	366,241
Net cash (used in) provided by operating activities	(1,226,562)	3,340,726
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of equipment	(18,437)	(12,192)
Purchases of investments	(160,285)	(675,366)
Distribution from trust funds	1,923,357	2,645,324
Net cash provided by investing activities	1,744,635	1,957,766
Net increase in cash and cash equivalents	518,073	5,298,492
Cash and cash equivalents, beginning of year	8,538,656	3,240,164
Cash and cash equivalents, end of year	$ 9,056,729	$ 8,538,656

The accompanying notes are an integral part of these financial statements.

1. ORGANIZATION AND NATURE OF ACTIVITIES

Episcopal Relief & Development (the "Organization") is an affiliate of the Domestic and Foreign Missionary Society of the Protestant Episcopal Church of the United States of America (the "Society" or "DFMS"). Episcopal Relief & Development was established by a resolution of the General Convention of the Episcopal Church in 1940 in order to meet the needs of European refugees fleeing World War II. Today, the Organization facilitates healthier, more fulfilling lives in communities struggling with hunger, poverty, disaster and disease worldwide.

The Organization was incorporated in July 2002 and has been classified by the Internal Revenue Service as a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code in accordance with an agreement between the Executive Council of the Episcopal Church and the Organization. The accompanying financial statements include the activity of the Organization, as a stand-alone entity, as of and for the years ended December 31, 2018 and 2017. The Organization's financial position, changes in net assets and cash flows are also included in the Society's consolidated financial statements as of and for the years ended December 31, 2018 and 2017.

Working closely with Anglican and ecumenical partners, the Organization serves the needs of more than 3 million people. Through its sustainable development and disaster efforts, the Organization implements programs in the following areas:

Sustainable Development

The Organization is focused on partnering with communities worldwide to overcome the challenges of hunger, poverty, and disease through a fully integrated and holistic approach to development. Using the Sustainable Development Goals ("SDGs") as a framework, the Organization creates long-term development strategies, demonstrating a measurable impact in three transformative program priorities: women, children and climate.

Women - focuses on helping communities promote the rights of women and children and move toward the vision that everyone deserves a life free from violence in a society where they are treated with dignity and respect. Only then can communities truly heal and thrive.

Children - supports and protects kids under six so they reach appropriate health and developmental milestones. This focus on early development is foundational and critical to helping children achieve their full potential as future contributing members of their communities.

Climate - focuses on how families and communities can work together to adapt to the effects of rapidly changing weather patterns. This work includes preparing for and recovering from climate-caused traumas such as floods, hurricanes and other disasters.

Disaster Relief & Recovery

In collaboration with local Anglican and ecumenical partners, the Organization responds to emergencies, both natural and human-caused, in the United States of America and around the world — providing assistance to help alleviate suffering, restore dignity and jump-start economic recovery. With technical and financial support from the Organization, church and other partners deliver critical supplies such as food, water and other necessities after emergencies, and remain present long after the crisis is over to help communities heal, recover and rebuild long-term. The Organization focuses on reaching the most underserved and marginalized communities, and accompanying them through the long-term recovery process.

US Disaster Program - Through a wide network of Episcopal dioceses and other church institutions in the US, the Organization offers resources and training to help people prepare for disasters and provide emergency support so vulnerable communities can make a full and sustained recovery.

Disaster Risk Reduction - Working with Anglican partners around the world, the Organization's efforts help individuals and congregations prepare in advance of crises to reduce the impact on vulnerable and underserved communities. This involves coordination and training of local partners and communities so they are better able to serve and care for at-risk populations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared using the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities ("ASU 2016-14"). The ASU amends the current reporting model for not-for-profit organizations and requires certain additional disclosures. The significant changes include:

- Requiring the presentation of two net asset classes classified as "net assets without donor restrictions" and "net assets with donor restrictions";
- Modifying the presentation of underwater endowment funds and related disclosures;
- Requiring the use of the placed in service approach to recognize the satisfaction of restrictions on gifts used to acquire or construct long-lived assets, absent explicit donor stipulations otherwise;
- Requiring that all not-for-profits present an analysis of expenses by function and nature in a separate statement or in the notes to the financial statements;
- Requiring disclosure of quantitative and qualitative information on liquidity;
- Presenting investment return net of external and direct internal investment expenses; and
- Modifying other financial statement reporting requirements and disclosures intended to increase the usefulness to the reader.

ASU 2016-14 is effective for the Organization's fiscal year beginning January 1, 2018, and the Organization has applied the amendments retrospectively as required by the standard. A presentation of net assets as previously reported as of December 31, 2017 and 2016, and as required under ASU 2016-14 follows:

		December 31, 2017 Presentation under ASU 2016-14		
	As Previously Presented	Without Donor Restrictions	With Donor Restrictions	Total
Net assets:				
Unrestricted	$ 18,384,591	$ 18,384,591	$ -	$ 18,384,591
Temporarily restricted	11,806,917	-	11,806,917	11,806,917
Permanently restricted	870,014	-	870,014	870,014
Total net assets	$ 31,061,522	$ 18,384,591	$ 12,676,931	$ 31,061,522

		December 31, 2016 Presentation under ASU 2016-14		
	As Previously Presented	Without Donor Restrictions	With Donor Restrictions	Total
Net assets:				
Unrestricted	$ 18,405,688	$ 18,405,688	$ -	$ 18,405,688
Temporarily restricted	4,986,342	-	4,986,342	4,986,342
Permanently restricted	847,171	-	847,171	847,171
Total net assets	$ 24,239,201	$ 18,405,688	$ 5,833,513	$ 24,239,201

The Organization's net assets consist of the following:

With donor restrictions - net assets resulting from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled by actions of the Organization. Donor-imposed stipulations require that the principal be maintained in perpetuity.

Net assets with donor restrictions also include contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire with the passage of time or can be fulfilled by actions of the Organization pursuant to those stipulations.

Without donor restrictions - net assets that do not contain donor-imposed stipulations. Net assets without donor restrictions also include those net assets that are designated for a certain purpose(s) by the Organization's Board of Directors.

The significant amount of net assets of the Organization has resulted from the Board's insistence on expending its funds prudently to ensure that the grant recipients derive the maximum long-term benefits from these funds as intended by the original donors.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with original maturities of less than three months from the date of purchase to be cash and cash equivalents, except for those cash equivalents which are included in the Organization's investment accounts and intended for long-term investment purposes.

Concentration of Credit Risk

Financial instruments which potentially subject the Organization to concentration of credit risk consist primarily of cash and cash equivalents. The Organization maintains its cash and cash equivalents with creditworthy, high-quality financial institutions. At certain times the Organization's cash account balances may exceed federally insured limits. However, the Organization has not experienced, nor does it anticipate, any losses with respect to these bank accounts.

Fair Value Measurements

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. As required by US GAAP, for fair value measurements, the Organization uses a fair value hierarchy that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available.

Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the transparency of inputs as follows:

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the measurement date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.

Level 2 - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the measurement date. The nature of these securities include investments for which quoted prices are available but traded less frequently and investments that are fair valued using other securities, the parameters of which can be directly observed.

Level 3 - Securities that have little to no pricing observability as of the measurement date. These securities are measured using management's best estimate of fair value where the inputs into the determination of fair value are not observable and require significant management judgment or estimation.

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 judgment by an entity. The Organization 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 fair value hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the Organization's perceived risk of that instrument.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, receivables, accounts payable and accrued expenses approximate fair value due to the short maturity of these financial instruments.

Fixed Assets

Property and equipment are stated at cost, or in the case of donation, at fair value as determined on the date of gift. Assets, including improvements costing $1,500 or greater with an expected useful life longer than five years are capitalized and depreciated using the straight-line method over the estimated useful lives of the respective assets (5 years for furniture, vehicles, and equipment).

Leasehold improvements are amortized over the estimated useful lives of the improvements or the term of the leases to which they pertain, whichever is shorter.

Beneficial Interest in Outside Trusts

From time to time, certain donors have established trusts with third-party administrators, typically banks or other Episcopal entities, the terms of which require the income earned from such gifts to be paid to the Organization and/or other specified beneficiaries and the principal to be invested in perpetuity. The income received from these outside trusts has been recorded as either support with donor restrictions or without donor restrictions based upon the respective donor's imposed stipulations. The fair value of the Organization's outside trust assets has been recognized as a component of net assets with donor restrictions. The beneficial interest in outside trusts is measured each year and the change in fair value of the trust's underlying investments is recognized on the statement of activities. The Organization's beneficial interest in outside trusts is classified as Level 3 within the FASB's fair value hierarchy as of December 31, 2018 and 2017.

The following table summarizes the changes in fair value associated with the Organization's beneficial interest in outside trusts for the years ended December 31, 2018 and 2017:

	2018	2017
Balance as of beginning of the year	$ 393,804	$ 370,961
Realized and unrealized (losses) gains	(40,717)	22,843
Balance as of end of the year	$ 353,087	$ 393,804

Contributions and Grants

Contributions and grants, including unconditional promises to give (pledges), are reported as revenues in the period received or pledged. Contributions of assets, other than cash, are recorded at their estimated fair value at the date of gift. Contributions to be received after one year are discounted using an appropriate credit adjusted discount rate which articulates with the collection period of the respective pledge. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution and nature of fundraising activity.

Government Revenue

Revenue from government grants and contracts is recognized as earned, that is, as related costs are incurred under the grant or contract agreement. Amounts received in advance under government grants and contracts are reflected as deferred revenue.

Payroll, Pension and Retirement Plans

The Society provides and administers certain employee benefit plans on behalf of the Organization and is fully reimbursed for all related costs. See Notes 6 and 7 for details of the plans.

Contributed Services

Contributed services are valued at their estimated fair value and are recognized as revenues and expenses on the statement of activities. Contributed services for the years ended December 31, 2018 and 2017, totaled $1,173,502 and $1,191,676, respectively. Such contributed services include office space, payroll, financial management and accounting, computer services, human resources, telecommunications and building maintenance provided by the Society and outside legal services.

Additionally, a number of volunteers, including members of the Organization's Board of Directors, have made significant contributions of time to the Organization's policy-making, program and support activities. The value of such services does not meet the criteria for recognition as contributed services under US GAAP and, accordingly, is not reflected on the accompanying financial statements.

Functional Allocation of Expenses

The costs of providing the Organization's programs and supporting services have been summarized on a functional basis on the accompanying statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses such as occupancy and related expenses are allocated based on square footage, and salary and benefits are allocated equitably based on time and effort.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, the disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant management estimates and assumptions relate to the discounting of receivables; realizability of receivables; actuarial valuations; useful lives assigned to fixed assets; and, the reported fair value of certain of the Organization's assets. Actual results may differ from these estimates.

Income Taxes

The Organization follows guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This standard provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if the position is "more-likely-than-not" to be sustained if the position were to be challenged by a taxing authority. The standard also provides guidance on measurement, classification, interest and penalties, and disclosure and had no impact on the accompanying financial statements. The Organization has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and, to identify and evaluate other matters that may be considered tax positions. As of December 31, 2018, the Organization has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

Reclassifications

Certain 2017 financial statement amounts have been reclassified to conform to the 2018 financial statement presentation. Such changes had no effect on total assets, liabilities, revenues, expenses or change in net assets as previously reported.

Subsequent Events

The Organization evaluated its December 31, 2018 financial statements for subsequent events through July 30, 2019, the date the financial statements were available to be issued.

New Pronouncements

In June 2018, the FASB issued ASU No. 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made, which requires organizations to determine whether a contribution is conditional based on whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. If the agreement (or a referenced document) includes both, the recipient is not entitled to the transferred assets (or a future transfer of assets) until it has overcome the barriers in the agreement. For contributions received by the Organization, this update is effective for the fiscal year beginning January 1, 2019. For contributions made, this update is effective for the fiscal year beginning January 1, 2020. The Organization is currently evaluating the new guidance and has not determined the impact this standard may have on the financial statements nor decided upon the method of adoption.

3. RECEIVABLES, NET

Receivables, net, consist of the following at December 31, 2018 and 2017:

	2018	2017
Pledges receivable, net	$ 975,631	$ 577,000
Other contributions receivable	517,981	1,175,981
Contributed rent receivable, net	1,038,636	326,231
Stock gifts receivable	173,384	176,894
Matching gifts receivable	30,911	25,637
Government grants receivable	342,272	527,647
Other receivables	325,586	219,606
Total receivables, net	$ 3,404,401	$ 3,028,996

Pledges receivable, net, which are recorded at the present value of their expected future cash flows at December 31, 2018 and 2017, consist of the following:

	2018	2017
Amounts expected to be collected:		
Within one year	$ 407,500	$ 522,558
In one to four years	615,615	65,000
Total pledges receivable	1,023,115	587,558
Allowance for uncollectible pledges	-	(1,667)
Present value discount (rates ranging from 0.65% to 1.76%)	(47,484)	(8,891)
Pledges receivables, net	$ 975,631	$ 577,000

4. BENEFICIAL INTEREST IN TRUSTS HELD BY THE SOCIETY

The Organization maintains two beneficial interests in trusts, that are held and managed by the Society, and which consist of both marketable and non-exchange traded securities. The Organization's beneficial interest is reported at fair value or the value provided by the respective fund manager or general partner as of the measurement date. Earnings from these trust funds are used to support the administrative and program activities of the Organization. The change in fair value of the trust funds is reflected on the accompanying statements of activities as part of investment return. The trusts' investment portfolio consists of common stock, bonds, mutual funds, certificates of deposit, alternative investments, money market funds and cash equivalents. Each trust fund in the portfolio holds a designated number of shares in the pool or the portfolio of the Society as a whole. The fair value assigned to a share fluctuates with the changing fair value of the underlying investments. The number of shares assigned to each trust fund changes only when additions are made, usually by gifts or contributions, or by reinvestment of income distributions or by withdrawals of principal from those funds whose terms permit such withdrawals.

The Organization's trusts hold shares in the overall portfolio of the Society rather than the individual financial instruments and therefore have the same composition of investments as that of the Society's total trust fund portfolio. The Organization's trust funds represent 4.52% and 4.86% of the Society's total trust fund investment portfolio as of December 31, 2018 and 2017, respectively. While principally all of the underlying trusts' investments are readily marketable, based on quoted fair values, since the Organization's beneficial interest in the trusts cannot be priced on an active exchange, the interests in the trusts are classified as Level 3.

The Society follows the "total return" approach to investments and utilizes a prudent portion of realized and unrealized endowment fund returns, including interest and dividends, to provide for current designated and undesignated expenditures annually. Total return consists of two elements: yield and appreciation. Based on the Organization's long-term investment strategy, the Board of Directors of the Organization sets the payout rate on the endowment funds at a percentage (currently 5%) of a five-year moving average fair value of the endowment portfolio. Any return in excess of this percentage is reinvested to protect the real dollar value of these funds against the effects of inflation.

The following table summarizes the changes in fair value associated with the Organization's beneficial interest in trusts held by the Society for the years ended December 31, 2018 and 2017:

	2018	2017
Balance, beginning of year	$ 21,823,864	$ 20,284,923
Contributions	-	541,434
Investment (loss) return	(1,373,964)	3,642,831
Distribution from trusts	(1,923,357)	(2,645,324)
Balance, end of year	$ 18,526,543	$ 21,823,864

5. PROPERTY AND EQUIPMENT, NET

Property and equipment, net, consists of the following at December 31, 2018 and 2017:

	2018	2017
Leasehold improvements	$ 8,450	$ 8,450
Equipment and furniture	453,508	440,282
	461,958	448,732
Accumulated depreciation	(389,392)	(363,069)
Property and equipment, net	$ 72,566	$ 85,663

Depreciation expense amounted to $31,534 and $43,076 for the years ended December 31, 2018 and 2017, respectively.

6. PENSION PLAN

The Society maintains a defined contribution plan (the "Plan") for all eligible lay employees, including the Organization's staff. Under the Plan, the Organization contributes 5% of eligible employees' salaries and also matches employee contributions to the Plan up to 4%. It is the opinion of the Plan's legal counsel that as a Church Plan, this plan is exempt from the requirements of the Employee Retirement Income Security Act of 1974 ("ERISA"). Pension expense for this plan recognized on the accompanying financial statements, relating to the Organization's staff, amounted to $430,266 and $400,400 for the years ended December 31, 2018 and 2017, respectively.

7. POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

The Society sponsors postretirement benefit plans which provide both health care (fully contributory until the retiree reaches age 65) and life insurance (noncontributory) benefits to both lay and clergy personnel.

The following sets forth the status of the plans, as they relate to the Organization's staff, at December 31, 2018 and 2017:

	2018	2017
Change in benefit obligation:		
Benefit obligation, beginning of year	$ 1,896,842	$ 1,530,601
Service cost	152,240	145,223
Interest cost	63,284	61,518
Actuarial (gain) loss	(378,927)	168,056
Benefits paid	(4,260)	(8,556)
Benefit obligation, end of year	$ 1,729,179	$ 1,896,842
Change in plan assets:		
Plan assets, beginning of year	$ -	$ -
Employer contributions	4,260	8,556
Benefits paid	(4,260)	(8,556)
Plan assets, end of year	$ -	$ -
Components of accrued benefit cost:		
Funded status	$ (1,729,179)	$ (1,896,842)
Unrecognized actuarial net (gain) loss	(165,818)	213,109
Accrued benefit cost	$ (1,894,997)	$ (1,683,733)
Amounts recognized in net assets without donor restrictions consist of:		
Net (gain) loss	$ (165,818)	$ 213,109
Prior service cost	-	-
Net amount recognized	$ (165,818)	$ 213,109

The net periodic postretirement benefit cost for the years ended December 31, 2018 and 2017 includes the following components:

	2018	2017
Service cost	$ 152,240	$ 145,223
Interest cost	63,284	61,518
Amortization of accumulated net loss	-	-
Amortization of unrecognized prior service cost	-	-
Net periodic postretirement benefit cost	$ 215,524	$ 206,741

The estimated net loss included in net assets without donor restrictions expected to be recognized as components of net periodic benefit cost for the year ended December 31, 2018 is $0.

	2018	2017
Changes in assets and benefit obligations recognized in net assets without donor restrictions:		
Net (gain) loss	$ (378,927)	$ 168,056
Amortization of unrecognized prior service cost	-	-
Total change recognized in net assets without donor restrictions	$ (378,927)	$ 168,056
Total recognized in net periodic benefit cost and net assets without donor restrictions	$ (163,403)	$ 374,797

The changes in the postretirement benefits obligation are included as part of administration expense on the accompanying statements of activities.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	1-Percentage Point Increase	1-Percentage Point Decrease
Effect on total of service and interest cost	$ 51,400	$ (39,367)
Effect on postretirement benefit obligation	392,870	(305,331)

	2018	2017
Weighted-average assumptions used to determine benefit obligations at December 31:		
Discount rate	4.20 %	3.59 %
Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31:		
Discount rate	3.59 %	4.11 %
Expected long-term return on plan assets	N/A	N/A
Assumed health care trend rates at December 31:		
Health care cost trend rate assumed for next year	6.40 %	0.90 %
Rate to which the cost trend rate assumed to decline (ultimate trend rate)	4.10 %	4.20 %
Year that the rate reaches the ultimate trend	2087	2082

Contributions

Annual contributions are determined by the Organization based upon calculations prepared by the Plan's actuary. Projected contributions for 2018 are expected to be $17,369.

Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

	Benefit Payments
Year Ending December 31:	
2019	$ 13,849
2020	14,461
2021	17,111
2022	24,316
2023	27,985
2024 - 2028	221,035

8. NET ASSETS

Net assets with donor restrictions are available for the following purposes and net assets were released from donor restrictions by incurring expenses satisfying the purpose of the restriction, by the passage of time, or by the occurrence of other specific events, as follows for the years ended December 31, 2018 and 2017:

	2018	2017
Sustainable development	$ 425,790	$ 1,034,830
Disaster relief and recovery	8,923,897	9,710,555
DFMS donated rental lease (Note 10)	1,038,636	326,232
Pledges due in future fiscal years	975,631	211,264
Endowment funds:		
Corpus	476,210	476,210
Accumulated unspent earnings	364,670	524,036
Beneficial interest in investments held by third-party trustees	353,087	393,804
Total	$ 12,557,921	$ 12,676,931

9. ENDOWMENT FUNDS

The Organization has adopted the provisions of "Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds" of the Accounting Standards Codification. This standard provides guidance on classifying the net assets associated with donor-restricted endowment funds held by organizations subject to the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), passed by the State of New York in September 2010, and also requires additional disclosures about endowments for both donor-restricted funds and board-designated funds.

Under New York State UPMIFA ("NYPMIFA"), the Organization classifies as donor-restricted endowment net assets: (a) the original value of gifts donated to its donor-restricted endowment; (b) the original value of subsequent gifts to its donor-restricted endowment; and (c) accumulations to its donor-restricted endowment made in accordance with the directions of the applicable donor gift instrument, at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund includes the accumulated unspent earnings on the donor-restricted endowment funds that remains within net assets with donor restrictions until such amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by NYPMIFA.

In accordance with NYPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: the purpose, duration, and preservation of the endowment fund; expected total return of investments; general economic conditions; other resources of the Organization; and the investment policy of the Organization.

The Organization has a policy of appropriating for distribution each year a Board of Directors approved spending rate of its endowment fund's average fair value over the preceding five years. In establishing this policy, the Organization considered the long-term expected return on its endowment. Accordingly, over the long-term, the Organization expects the current spending policy to grow at a pace at least equal to inflation. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. The Organization in cooperation with the Society, targets a diverse asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints. For 2018 and 2017, the spending amounts approved totaled $949,001 and $920,000, respectively.

The Organization has adopted investment policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of appropriate benchmarks without placing the assets at an imprudent level of risk.

With the exception of endowment pledges and beneficial interest in outside trusts held by others, the following tables summarize endowment net asset composition by type of fund as of December 31, 2018 and 2017:

	2018		
Composition of Endowment Net Assets By Type of Fund	**Without Donor Restrictions**	**With Donor Restrictions**	**Total**
Donor-restricted endowment funds	$ -	$ 840,880	$ 840,880
Board-designated quasi-endowment funds	17,685,663	-	17,685,663
Total	$ 17,685,663	$ 840,880	$ 18,526,543
Changes in Endowment Net Assets			
Endowment net assets, beginning of year	$ 20,823,618	$ 1,000,246	$ 21,823,864
Investment loss	(1,258,557)	(115,407)	(1,373,964)
Appropriation of endowment assets for expenditure	(905,042)	(43,959)	(949,001)
Withdrawal from endowment funds	(974,356)	-	(974,356)
Endowment net assets, end of year	$ 17,685,663	$ 840,880	$ 18,526,543

	2017		
Composition of Endowment Net Assets By Type of Fund	**Without Donor Restrictions**	**With Donor Restrictions**	**Total**
Donor-restricted endowment funds	$ -	$ 1,000,246	$ 1,000,246
Board-designated quasi-endowment funds	20,823,618	-	20,823,618
Total	$ 20,823,618	$ 1,000,246	$ 21,823,864
Changes in Endowment Net Assets			
Endowment net assets, beginning of year	$ 19,412,404	$ 872,519	$ 20,284,923
Investment return	3,472,389	170,442	3,642,831
Contributions	541,434	-	541,434
Appropriation of endowment assets for expenditure	(877,285)	(42,715)	(920,000)
Withdrawal from endowment funds	(1,725,324)	-	(1,725,324)
Endowment net assets, end of year	$ 20,823,618	$ 1,000,246	$ 21,823,864

10. COMMITMENTS

Effective January 1, 2016, the Organization entered into an agreement with the Executive Council of the Episcopal Church ("Executive Council") and the Society regarding the working relationship between the Organization and Executive Council and the Society. This agreement supersedes agreements from 2002, 2007 and 2011. The current agreement extends through December 31, 2018.

The agreement identifies the range of financial, accounting, building services, technology, human resources and investment services that the Society will provide at no cost to the Organization (see Note 2). The agreement also includes a 3-year lease for the Organization's current office suite that commenced on January 1, 2016. The value of the lease is calculated at a monthly rate of $27,186. This monthly rate is payable solely from the grant authorized by the General Convention of The Episcopal Church in its 2016-2018 budget. The rent is offset against the grant, such that neither the rent nor the grant is paid in cash, and the Organization has no obligation to pay rent during the lease term. As of December 31, 2018 and 2017, the Organization recognized a contributed rent receivable of $0 and $326,231, respectively, for the remaining term of this lease.

In addition, on October 19, 2018, the Organization entered into a similar agreement for a 3-year lease term for the period January 1, 2019 through December 31, 2021. The value of this lease is calculated at a monthly rate of $28,851. This monthly rate is payable solely from the grant authorized by the General Convention of The Episcopal Church in its 2019-2021 budget. As of December 31, 2018, the Organization recognized a contributed rent receivable of $1,038,636.

11. FUNCTIONAL EXPENSE ALLOCATION

Expenditures allocated to functional categories on the accompanying statements of activities based on program and administrative activities are as follows for the years ended December 31, 2018 and 2017.

	Program Services			Supporting Services		2018	2017
	Sustainable Development	Disaster Relief & Recovery	Total	Fundraising	Administration	Total	Total
Direct support	$ 6,013,879	$ 3,882,966	$ 9,896,845	$ -	$ -	$ 9,896,845	$ 10,759,395
Contributed services	880,715	394,059	1,274,774	74,987	149,973	1,499,734	1,517,908
Salaries	2,696,824	923,932	3,620,756	960,223	800,926	5,381,905	4,816,470
Employee benefits	888,327	282,186	1,170,513	409,805	161,342	1,741,660	2,009,019
Insurance	23,628	12,809	36,437	2,012	1,881	40,330	62,208
Printing and mailing costs	217,136	49,819	266,955	502,712	11,251	780,918	736,661
Advertising and promotion	26,271	11,646	37,917	36,278	2,443	76,638	114,504
Telephone	64,838	23,417	88,255	6,792	8,889	103,936	98,082
Rent and utilities	36,518	6,419	42,937	-	-	42,937	40,822
Equipment and depreciation	265,388	80,723	346,111	11,074	7,572	364,757	98,756
Bank charges, legal and accounting fees	244,117	126,446	370,563	36,616	18,814	425,993	334,758
Office supplies	21,449	5,024	26,473	9,638	4,416	40,527	15,048
Resource and reference	9,945	1,156	11,101	1,069	1,032	13,202	4,586
Consultants	695,438	402,868	1,098,306	462,506	18,203	1,579,015	1,165,779
Travel	765,562	203,041	968,603	45,722	20,953	1,035,278	1,051,249
Conferences/workshops/ memberships/meeting expense	395,742	43,937	439,679	17,622	22,991	480,292	518,043
Total expenses	$ 13,245,777	$ 6,450,448	$ 19,696,225	$ 2,577,056	$ 1,230,686	$ 23,503,967	$ 23,343,288

	Program Services			Supporting Services		2017
	Sustainable Development	Disaster Relief & Recovery	Total	Fundraising	Administration	Total
Direct support	$ 6,964,705	$ 3,794,690	$ 10,759,395	$ -	$ -	$ 10,759,395
Contributed services	924,953	365,269	1,290,222	151,791	75,895	1,517,908
Salaries	2,523,201	707,533	3,230,734	785,957	799,779	4,816,470
Employee benefits	1,336,854	268,891	1,605,745	309,689	93,585	2,009,019
Insurance	51,283	1,519	52,802	9,350	56	62,208
Printing and mailing costs	160,282	274	160,556	576,105	-	736,661
Advertising and promotion	9,507	3	9,510	103,164	1,830	114,504
Telephone	62,565	23,992	86,557	9,090	2,435	98,082
Rent and utilities	28,204	12,618	40,822	-	-	40,822
Equipment and depreciation	71,874	13,986	85,860	12,896	-	98,756
Bank charges, legal and accounting fees	233,246	10,826	244,072	31,446	59,240	334,758
Office supplies	3,275	1,611	4,886	2,415	7,747	15,048
Resource and reference	1,786	705	2,491	1,000	1,095	4,586
Consultants	444,648	197,153	641,801	510,298	13,680	1,165,779
Travel	834,870	143,594	978,464	58,971	13,814	1,051,249
Conferences/workshops/ memberships/meeting expense	430,106	4,969	435,075	82,847	121	518,043
Total expenses	$ 14,081,359	$ 5,547,633	$ 19,628,992	$ 2,645,019	$ 1,069,277	$ 23,343,288

12. LIQUIDITY AND AVAILABILITY OF RESOURCES

The Organization manages its liquidity risk in two folds; through a continuous board of directors' oversight over its overall liquidity as well as through an active and continuous management's monitoring and control over its liquidity activities.

The Board of Directors has also authorized management to keep 100% of all undesignated bequests received in a Liquidity Fund (i.e., cash and cash equivalent) up to a required ceiling, and this fund can be utilized at management discretion. As a condition to this discretionary fund, management is required to monitor and report to the Board of Directors on liquidity annually.

On a daily basis, management manages working capital needs actively and intentionally through a proactive organization-wide cash flow forecast- to ensure sound and stable operations across its programs and also to maintain reasonable assurance that both short- and long-term obligations will be discharged as well as optimizing investments returns. Excluded from donor-imposed restrictions are general expenditures for restricted programs available and intended to be expended within a year.

The Organization's financial assets available within one-year of the statement of financial position date for general expenditures are as follows:

Financial assets as of December 31, 2018	
Cash and cash equivalents	$ 9,056,729
Receivables, net	3,404,401
Beneficial interest in trusts held by DFMS	18,526,543
Beneficial interest in outside trusts held by others	353,087
	31,340,760
Less:	
Donor-imposed restrictions unavailable for general expenditures, due to:	
Purpose - Development & Disaster	1,058,093
Pledges with no donor-imposed purpose restrictions due in the future	975,631
Donated rental lease	1,038,636
Beneficial interest in outside trusts held by others	353,087
Amounts relating to donor-restricted endowment funds	840,880
	4,266,327
Board designated endowment fund:	14,685,663
	14,685,663
Total financial assets available within one year	$ 12,388,770

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of
Episcopal Relief & Development:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Episcopal Relief & Development (the "Organization"), 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, and the related notes to the financial statements, and have issued our report thereon dated July 30, 2019.

Internal control over financial reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting ("internal control") to design audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in the Organization's internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and other matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Intended purpose

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Grant Thornton LLP

New York, New York
July 30, 2019