

The Falls Church Endowment Fund, Inc.
Notes to the Financial Statements
For the Year Ended December 31, 2016

1. Nature of Organization

Organization and Basis of Presentation

The Falls Church Endowment Fund, Inc. ("TFCEF"), was formed December 31, 1976, as a nonprofit corporation in the City of Falls Church in the Commonwealth of Virginia and in accordance with the Internal Revenue Service Code of 1954, for the purpose of furthering the ministry and outreach of the Christian Church. The Internal Revenue Service considers TFCEF to be a Public Charity, and is, hence, governed by the IRS rules and regulations associated with a Public Charity.

The 2016 Annual Report to the Commonwealth of Virginia was filed December 23, 2015, and the Statement of Annual Registration Fee Assessment of \$25 was paid on December 23, 2015.

The Articles of Incorporation state that TFCEF members are divided into two classes, Class A and Class B. Class A members are members of the Vestry of The Falls Church Episcopal ("Church"). Class B members are members of the Church who are eligible to vote at the Church annual meeting.

TFCEF is governed in accordance with the By-laws. Current By-laws are not dated and do not have signatures of Board members; hence, there is no impression or evidence of adoption. At December 31, 2016, certain Board members, noting inconsistencies between the Articles of Incorporation and the By-laws, were contemplating revisions that would resolve conflicts.

Governance. The By-laws state that only members of the Church are eligible for the TFCEF Board of Directors ("Board") membership and that the Board consists of five seats which may be increased or decreased within the limits prescribed in the By-laws. Each seat is up for re-election every five years, and only one seat per year may be up for re-election. TFCEF Board members are elected by the Vestry of the Church at the beginning of each term. Under certain circumstances (in the event of unexpected vacancies, for example) Board members may be elected by the TFCEF Board.

2016 Board Directors and term ends were: Christopher Thayer, 2016; John McDonnell, 2017; Thomas R. Harter, 2018; Michael Snyder, 2019; and Thomas Smolinski, 2020.

Annual Meeting. A TFCEF Board annual meeting must be held on the first Thursday in December at 8:00 p.m. at the principal office of the corporation. Additional "regular" Board meetings are at the discretion of the Board of Directors. Board Officers must be elected at the Annual Meeting for one-year terms.

The 2016 Annual meeting was held on the first Thursday in December at 9:00 a.m. in the Church Parlor. A note of the change in time was determined prior to two weeks before the 9:00 a.m. meeting.

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Officers. TFCEF By-laws require that there be a President, Vice President, Secretary, and Treasurer. Other Officers may be elected from time-to-time by the Board. The By-laws do not state duties for each Office.

2016 Board Officers were Thomas E. Smolinski, President; John McDonnell, Vice President; Thomas R. Harter, Treasurer; and Michael Snyder, Secretary.

2. Summary of Significant Accounting Policies

A summary of TFCEF's significant accounting policies applied in the preparation of the accompanying financial statements as well as supplementary information which may be useful to TFCEF governing body is as follows:

Basis of Presentation. Financial statements presentation follows the recommendation of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financials Statement of Not-for-Profit Organizations*. Under SFAS No. 117, an organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted funds, temporarily restricted net assets, and permanently restricted net assets.

General Ledger. The TFCEF Treasurer maintained the 2016 General Ledger manually. Manual accounting records typically allow for mathematical errors which rarely occur when using a computer software ledger. The 2016 TFCEF manual records, however, appear to be free of error.

Funds and Revenue Recognition. TCEF donations and grants received were recorded as unrestricted, temporarily restricted, or permanently restricted support depending on donor specification. All donor-restricted support was reported as an increase in Temporarily or Permanently Restricted Net Assets depending on the nature of the restriction. Board of Directors designations from the operating funds to restricted funds were treated as equity reclassifications.

Unrestricted Operating Fund. TFCEF maintained an Operating Fund which was used to accumulate financial resources for its general day-to-day operation. Funds donated to the organization for which there was no intention specified by the donor were used for general operation of the organization programs and administration.

Restricted Funds with Temporary Restrictions. TCEF Restricted Funds, which are often temporarily restricted, were used to accumulate financial resources restricted for specific purposes as originally or subsequently specified by each donor. The establishment of each Fund was determined as per TFCEF policy. As per records in the Fund archives the Fund did not accept restricted donations without prior Board approval.

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At December 31, 2016, TFCEF's Temporarily Restricted Funds were:

Steve Kuhn Memorial Scholarship for the Fellows Program Fund

TFCEF maintains the Steve Kuhn Memorial Scholarship Fund for the Fellows Program Fund. The purpose of this Fund seemed to be in accordance with the purpose of the TFCEF as stated in the TFCEF Articles of Incorporation. Approved by the Fund Board, the Fund was established in 2005 as per stipulations by the widow of Steve Kuhn (Ms. Cynthia Leamon); donations and matching contributions were made by 76 individuals between 2005 and 2007. As per the TFCEF Treasurer the intention of this Restricted Fund as determined by Mr. Kuhn's widow is to support the Church Fellows program which existed prior to 2016. During 2016 the Church had no Fellows program, and no Funds were disbursed in this regard. At December 31, 2016, the Church Rector was in the process of re-establishing the program.

This Fund was assumed to be only temporarily restricted as implied in discussions with Ms. Leamon. At December 31, 2016, the Fund Treasurer was in dialog with Ms. Leamon hoping to obtain a written document from her stating her original intentions about Fund restrictions such as Fund intent and issues regarding possible preservation of principal contributions.

Designated Funds and Restricted Funds with Permanent Restrictions. A permanently restricted designated or restricted fund is a fund to which donor-specified contributions may not be spent; the donated funds must stay in the fund in perpetuity. At December 31, 2016, the TFCEF had no Permanently Restricted Funds.

Method of Accounting. TFCEF maintained its book on a cash basis of accounting, and the accompanying financials reports are presented on a cash basis as well; only one adjustment in the amount of \$1,500 would be needed to convert the reports from cash to accrual.

Recognition of Assets. TFCEF Board is responsible for preserving and maintaining all Fund assets.

Income Taxes. TFCEF is exempt from Federal and local income taxes under Section 501(c)(3) of the Internal Revenue Service on any net income derived from activities related to exempt purpose. TFCEF is taxed on net income from certain unrelated business activities.

For the year ended December 31, 2016, TFCEF did not record any net income from taxable unrelated business activities.

Management. TFCEF is managed by a Board of Directors whose Officers carry-out the daily functions of TFCEF operations.

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Budget. During 2016 there was no formal budget since administrative expenses were immaterial, generally consisting of Board approved contracts, i.e., insurance and tax accounting. In late 2016 the Board sent out a public solicitation for grant requests by means of mailings and newspaper notices. The Board individually read and evaluated all grant requests, then met to jointly discuss and award grants. Grant requests received between annual solicitations could have been immediately considered or deferred to the annual solicitation period.

Procedures and Controls. TFCEF incorporated GAAP and Diocesan recommended procedures and controls at the discretion of the Board.

Cash Equivalents. TFCEF considered all highly liquid investments and interest-bearing deposits with an original maturity date of three months or less to be cash equivalents.

Investments. Certain funds were invested in accounts at Dodge and Cox Funds and at Vanguard. Other funds were invested in a pooled fund held by the Trustees of the Fund ("TOTF"); the Bishop of Virginia is an ex-officio member of the TOTF Board of Directors.

Financial Review. The full Board received and reviewed quarterly financial statements and investment performance information at each meeting.

Use of Estimates. The preparation of financial statements in conformity with U.S. generally accepted accounting principles required 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 and expenses and their functional expense allocation during the reporting period. Actual results could differ from those estimates.

3. Reserve Funds for Repairs and Replacements

TFCEF had no land, buildings, computer equipment, or other personal property, so no funds were reserved for replacement purposes.

4. Cash and Cash Equivalents

As of December 31, 2015 and 2016, The TFCEF reported that it maintained its cash funds in the following manner:

<u>Institution</u>	<u>Type of Account</u>	<u>2015</u> <u>Amount</u>	<u>2016</u> <u>Amount</u>	<u>Diff.</u>
SunTrust Bank	Money Market	\$ <u>7,319</u>	<u>\$6,292</u>	(<u>\$1,027</u>)

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5. Investments

As of December 31, 2015 and 2016, TFCEF maintained its investment funds in the following manner.

<u>Institution</u>	<u>Type of Account</u>	2015 <u>Balance</u>	2016 <u>Balance</u>	<u>Diff.</u>
<i>Publicly-traded</i>				
Dodge and Cox	Balanced fund	\$315,666	\$440,090	\$124,426
Vanguard 500 Admiral Shares	Index fund	188,318	210,778	22,460
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Total – 75% of total investments		503,984	650,868	146,886
<i>Other Securities</i>				
Trustee of the Funds	Pooled fund	307,935	213,167	(94,768)
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Total - 25% of total investments		307,935	213,167	(94,768)
 Total		 <u>\$811,919</u>	 <u>\$864,035</u>	 <u>\$52,116</u>

At the February 27, 2015, meeting the Board determined that at least 70% of its invested assets would be with at least two balanced global fund managers with different styles of investing, and the Board would monitor the results on a comparative basis and replace a manager as necessary.

At December 31, 2016, the funds were invested with:

- a) Dodge and Cox Balanced Fund, a Fund dating to 1931, has the objectives of seeking regular income, conservation of principal, and an opportunity for long-term growth of principal and income. The Fund invests in a diversified portfolio of equity securities and debt securities.
- b) The Vanguard 500 Index Fund Admiral Shares, the industry’s first index fund for individual investors, offers diversified exposure to the U.S. equity market. The Fund offers exposure to 500 of the largest U.S. companies, which span many different industries and account for about three-fourths of the U.S. stock market’s value. Although key risk is the volatility that comes with its full exposure to the stock market the Fund is broadly diversified within the large-capitalization market; it may be considered a core equity holding in a portfolio.
- c) The Trustees of the Funds (“TOTF”) is a nonprofit 501(c)(3) related organization of the Diocese of Virginia and provides its services to Episcopal Church entities in all three of the dioceses within Virginia. Services include investment and endowment

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management services for long-term and short-term needs. Overseen by an elected board of trustees, TOTF is a distinctly Episcopal investment option which as of 2016 served appr. 150 organizations with the management of almost \$140 million in assets. The Bishop of the Diocese of Virginia is an ex-officio member of the TOTF Board of Directors.

6. Other Assets

Notes Receivable. TFCEF had the following balances in notes receivable at December 31, 2016:

Diocesan Missionary Society	\$15,000
<i>- 15-year Promissory Note, Jan. 1, 2002, 6.5% per annum</i>	
Diocesan Missionary Society	40,000
<i>- 15-year Promissory Note, Nov. 30, 2002, 3.5% per annum</i>	
Matthew Rhodes & Amy-Breeman-Rhodes	11,000
<i>- 30-months, starting Sept. 2014, -0% per annum</i>	

Total	<u>\$66,000</u>

7. Liabilities. At December 31, 2016, on a cash basis TFCEF had Accrued Expenses in the amount of \$-0-; if TFCEF books were reported on an accrual basis the Accrued Liabilities at December 31, 2016, would be \$1,500, accruing for the cost of the 2016 audit.

8. Revenue

As an IRS-defined public charity, TFCEF must pass several tests to maintain its public status; one of them is as follows: Total "allowed public support contributions" during the past five-year period (includes current year) must exceed 10% of (total contributions + interest + dividends). For purposes of this test, the "allowed public support contributions" for any one person during the past five-year period cannot exceed 2% of (total contributions + interest + dividends). TFCEF management indicated that the organization met this requirement.

Donors/Concentrations. 97% of the 2016 annual revenue came from the invested funds. The remaining 3% of the 2016 revenue came from four donors.

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9. Grants and Expenses

Grants. During 2016 TFCEF Board adhered to their guidelines regarding the total amount of grants to be awarded annually. The minutes of the October 2014 Board meeting regarding grant distributions read as follows:

“The preliminary amount of grant distribution for a calendar year will be 5% of the Fund Balance as of the beginning of that year, unless the total of grants awarded for all years is less than 50% of the investment earnings for all years net of fund expenses, in which case 5% is changed to 10% of the Fund Balance.

“The preliminary amount will be subject to further adjustments by the Directors based upon:

- 1) Significant economic changes that have occurred since the beginning of the year,
- 2) The lack of quality grant requests received for the year, or
- 3) Unusual and critical financial need conveyed in the applications for assistance received.”

TFCEF donated funds during 2016 to the following organizations:

Falls Church Community Service Council, Inc.	\$20,000
Homestretch	10,000
Rebuild Together Arlington/Fairfax/Falls Church	12,500
shepherd’s center of McLean, Arlington, Falls Church	1,000
The Arc of Northern Virginia	1,000
Virginia Theological Seminary	1,236

	<u>\$45,736</u>

TFCEF management on a routine basis obtained documentation from the grantee organizations showing evidence of their nonprofit status.

Related Party Transactions. Some donors (less than 3% of the annual revenue) were also members of The Falls Church Episcopal and the TFCEF Board of Directors, as is customary. No related party received funds for services.

Insurance. During 2016 TFCEF maintained a commercial package and umbrella insurance policies with The Church Insurance Company of Vermont via the Diocese of Virginia. TFCEF also maintained a fidelity bond in the amount of \$250,000. The 2016 policy period started December 31, 2015, and ended December 31, 2016. The policy was paid in full during 2016; therefore, no prepaid insurance expense adjusting journal entry was necessary.

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Board Risk Assessment. The TFCEF Board maintained that their quarterly review and the outside review each year are adequate due to the experience of the Board members and the relative simplicity of the financial reports. Each Board member read and signed a statement regarding conflict of interest.

Employees and Payroll. TFCEF had no employees during 2016.

10. Systems Security

TFCEF data maintained all records manually. The Treasurer had no off-site records.

11. Subsequent Events

Management has evaluated all subsequent events after the balance sheet date and through the financial statement issuance date. No subsequent events have occurred that would need recognition in the Financial Statements or disclosure in the Notes to the Financial Statements and Supplementary Information.

Management did, however, note that during 2017 funds invested with Trustee of the Funds were transferred to Dodge and Cox. Also, minutes of the February 24, 2017, Board meeting reflect that the Board extended the term of loan and the monthly debt service payment from seminarian Matthew Rhodes.