

**CORPORATION FOR THE RELIEF OF WIDOWS,
WIDOWERS AND CHILDREN OF THE CLERGY OF
THE PROTESTANT EPISCOPAL CHURCH IN THE
STATE OF NEW JERSEY**

FINANCIAL STATEMENTS - MODIFIED CASH BASIS

April 30, 2018

**CORPORATION FOR THE RELIEF OF WIDOWS, WIDOWERS AND CHILDREN OF THE CLERGY
OF THE PROTESTANT EPISCOPAL CHURCH IN THE STATE OF NEW JERSEY**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Corporation for the Relief of Widows, Widowers and Children of the Clergy of the Protestant
Episcopal Church in the State of New Jersey

Report on the Financial Statements

We have audited the accompanying financial statements of the Corporation for the Relief of Widows, Widowers and Children of the Clergy of the Protestant Episcopal Church in the State of New Jersey (the "Corporation") which comprise the statements of assets and net assets - modified cash basis as of April 30, 2018 and 2017, and the related statements of revenues, expenses and change in net assets - modified cash basis, and cash flows - modified cash basis 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 the modified cash basis of accounting described in Note B; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets and net assets of the Corporation as of April 30, 2018 and 2017, and its revenues, expenses and change in net assets, and its cash flows for the years then ended, in accordance with the modified cash basis of accounting described in Note B.

Basis of Accounting

We draw attention to Note B of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Mercedien, P.C.

Certified Public Accountants

August 27, 2018

**CORPORATION FOR THE RELIEF OF WIDOWS, WIDOWERS AND CHILDREN OF THE CLERGY
OF THE PROTESTANT EPISCOPAL CHURCH IN THE STATE OF NEW JERSEY**

STATEMENTS OF ASSETS AND NET ASSETS - MODIFIED CASH BASIS
April 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash	\$ 73,607	\$ 73,247
Restricted investments	2,092,606	1,943,419
Accounts receivable	<u>2,214</u>	<u>2,012</u>
Total Assets	<u>\$ 2,168,427</u>	<u>\$ 2,018,678</u>
 NET ASSETS		
Unrestricted	\$ (3,774)	\$ 12,231
Temporarily restricted	1,380,183	1,214,429
Permanently restricted	<u>792,018</u>	<u>792,018</u>
Total Net Assets	<u>\$ 2,168,427</u>	<u>\$ 2,018,678</u>

**CORPORATION FOR THE RELIEF OF WIDOWS, WIDOWERS AND CHILDREN OF THE CLERGY
OF THE PROTESTANT EPISCOPAL CHURCH IN THE STATE OF NEW JERSEY**

STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS -
MODIFIED CASH BASIS
Year Ended April 30, 2018

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Revenue				
Clergy contributions	\$ -	\$ 2,062	\$ -	\$ 2,062
Dividends- Diocese of New Jersey	-	38,208	-	38,208
Dividends- Diocese of Newark	-	23,062	-	23,062
Realized and unrealized gains	-	144,730	-	144,730
Net assets released from restrictions	<u>42,308</u>	<u>(42,308)</u>	<u>-</u>	<u>-</u>
Total revenue	<u>42,308</u>	<u>165,754</u>	<u>-</u>	<u>208,062</u>
Expenses				
Annuities	3,960	-	-	3,960
Contributor refunds	1,420	-	-	1,420
Office	7,655	-	-	7,655
Professional fees	8,350	-	-	8,350
Additional distribution to beneficiaries	<u>36,928</u>	<u>-</u>	<u>-</u>	<u>36,928</u>
Total expenses	<u>58,313</u>	<u>-</u>	<u>-</u>	<u>58,313</u>
Change in net assets	(16,005)	165,754	-	149,749
Net assets, beginning of year	<u>12,231</u>	<u>1,214,429</u>	<u>792,018</u>	<u>2,018,678</u>
Net assets, end of year	<u>\$ (3,774)</u>	<u>\$ 1,380,183</u>	<u>\$ 792,018</u>	<u>\$ 2,168,427</u>

**CORPORATION FOR THE RELIEF OF WIDOWS, WIDOWERS AND CHILDREN OF THE CLERGY
OF THE PROTESTANT EPISCOPAL CHURCH IN THE STATE OF NEW JERSEY**

STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS -
MODIFIED CASH BASIS
Year Ended April 30, 2017

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Revenue				
Clergy contributions	\$ -	\$ 1,416	\$ -	\$ 1,416
Dividends- Diocese of New Jersey	-	37,920	-	37,920
Dividends- Diocese of Newark	-	20,915	-	20,915
Other income	89	-	-	89
Realized and unrealized gains	-	174,430	-	174,430
Net assets released from restrictions	<u>33,928</u>	<u>(33,928)</u>	<u>-</u>	<u>-</u>
Total revenue	<u>34,017</u>	<u>200,753</u>	<u>-</u>	<u>234,770</u>
Expenses				
Annuities	3,600	-	-	3,600
Office	6,848	-	-	6,848
Professional fees	6,000	-	-	6,000
Additional distribution to beneficiaries	<u>30,328</u>	<u>-</u>	<u>-</u>	<u>30,328</u>
Total expenses	<u>46,776</u>	<u>-</u>	<u>-</u>	<u>46,776</u>
Change in net assets	(12,759)	200,753	-	187,994
Net assets, beginning of year	<u>24,990</u>	<u>1,013,676</u>	<u>792,018</u>	<u>1,830,684</u>
Net assets, end of year	<u>\$ 12,231</u>	<u>\$ 1,214,429</u>	<u>\$ 792,018</u>	<u>\$ 2,018,678</u>

**CORPORATION FOR THE RELIEF OF WIDOWS, WIDOWERS AND CHILDREN OF THE CLERGY
OF THE PROTESTANT EPISCOPAL CHURCH IN THE STATE OF NEW JERSEY**

STATEMENTS OF CASH FLOWS - MODIFIED CASH BASIS
Year Ended April 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 149,749	\$ 187,994
Net unrealized gains on investments	(100,888)	(163,312)
Decrease in cash from:		
Accounts receivable	<u>(202)</u>	<u>(560)</u>
Net cash from operating activities	<u>48,659</u>	<u>24,122</u>
 Cash Flows from Investing Activities		
Purchase of investments	<u>(48,299)</u>	<u>(13,516)</u>
Net cash from investing activities	<u>(48,299)</u>	<u>(13,516)</u>
 Net change in cash	360	10,606
Cash, beginning of year	<u>73,247</u>	<u>62,641</u>
Cash, end of year	<u>\$ 73,607</u>	<u>\$ 73,247</u>

**CORPORATION FOR THE RELIEF OF WIDOWS, WIDOWERS AND CHILDREN OF THE CLERGY
OF THE PROTESTANT EPISCOPAL CHURCH IN THE STATE OF NEW JERSEY**

NOTES TO FINANCIAL STATEMENTS

A. NATURE OF ORGANIZATION

The Corporation was established as a New Jersey Corporation in 1807 to provide financial assistance to the surviving spouses and children of the contributing clergy. All Episcopal clergy, not over 55 years old, who have served and resided in New Jersey for at least one year are qualified to become contributors. Annual contributions of \$20 are paid by the contributing clergy.

Upon the death of a contributor, an annuity of \$120 per year is paid to the surviving spouse for life. An annuity of \$60 per year is paid to any minor child until such child reaches age 21. Whenever only one child of a contributor is eligible to receive any benefits, an annuity of \$90 per year is paid until such child reaches age 21. An additional distribution is made annually to the beneficiaries out of surplus funds of the Corporation.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of the Corporation have been prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America ("U.S. GAAP"). That basis differs from U.S. GAAP primarily because the Corporation has not recorded deferred income from members, accounts payable to vendors, or a liability for future annuity payments to its beneficiaries.

The Corporation is required to report information regarding its financial position and activities according to three classes of net assets:

- Unrestricted net assets - net assets not subject to donor-imposed stipulations, and therefore are expendable for operating purposes.
- Temporarily restricted net assets - net assets subject to donor-imposed stipulations that will be met by actions of the Corporation and/or by the passage of time.
- Permanently restricted net assets - net assets subject to donor-imposed stipulations that they be maintained permanently by the Corporation. Generally, the donors of these assets permit the Corporation to use all or part of the income earned on related investments for general or donor-specified purposes.

Cash

Cash includes highly liquid debt instruments with original maturities of ninety days or less.

Accounts Receivable

The Corporation records accounts receivable for annual contributions of the contributing clergy. The Corporation considers all accounts receivable to be fully collectible; accordingly, no allowances for doubtful accounts is required. If amounts become uncollectible, they will be charged to the change in net assets when that determination is made.

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NOTES TO FINANCIAL STATEMENTS

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are valued at their fair value in the statements of revenue, expenses and change in net assets - modified cash basis. The Corporation reports investment income and gains and losses in the statements of revenue, expenses and change in net assets - modified cash basis as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law.

Income Taxes

The Corporation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state law. Income generated by activities that would be considered unrelated to the Corporation's mission would be subject to tax, which, if incurred, would be recognized as a current expense. No such tax has been recognized as of April 30, 2018 or 2017.

U.S. GAAP requires management to evaluate tax positions taken by the Corporation and recognize a tax liability if the Corporation has taken an uncertain position that more likely than not would not be sustained upon examination by taxing authorities. Management evaluated the Corporation's tax positions and concluded that the Corporation had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance.

The Corporation did not record any interest or penalties on uncertain tax positions in the accompanying statements of assets and net assets - modified cash basis as of April 30, 2018 or 2017, or in the accompanying statements of revenues, expenses and changes in net assets - modified cash basis for the years then ended. If the Corporation were to incur any income tax liability in the future, interest on any income tax liability would be reported as interest expense and penalties on any income tax liability would be reported as income taxes.

Subsequent Events

Management has evaluated events for potential recognition and disclosure that occurred through August 27, 2018, the date the financial statements were available to be issued. No items were determined by management to require disclosure.

Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which now requires net assets to be presented in two classes, instead of three. The two classes will be net assets with donor restrictions and net assets without donor restrictions. Additional enhanced disclosures will be required to present the amounts and purposes of board designations, composition of net assets with donor restrictions and how the restrictions affect the use of resources. ASU 2016-14 requires the entity to communicate qualitative and quantitative information on how it manages its liquid resources available to meet the cash flow needs for general expenditures within one year of the statement of assets and net assets - modified cash basis date, including disclosure of the availability of financial assets at the statement of assets and net assets - modified cash basis date, affected by 1) its nature, 2) external limits imposed by donors, grantors, laws and contracts with others, and 3) internal limits imposed by governing board decisions. ASU 2016-

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NOTES TO FINANCIAL STATEMENTS

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements (Continued)

14 requires reporting of expenses by both their natural and functional classification. ASU 2016-14 also requires reporting of investment returns net of external and direct internal investment expenses and removes the requirement to disclose the netting of such investment expenses. ASU 2016-14 is effective for the Corporation for the year ending April 30, 2019, with early adoption permitted.

C. FAIR VALUE MEASUREMENT

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. In determining fair value, the Corporation uses various methods including market, income and cost approaches. Based on these approaches, the Corporation often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable inputs. The Corporation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques the Corporation is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value are classified and disclosed in one of the following three categories:

- Level 1 — Quoted prices for identical assets and liabilities traded in active exchange markets.
- Level 2 — Observable inputs other than Level 1 including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data. Level 2 also includes derivative contracts whose value is determined using a pricing model with observable market inputs or can be derived principally from or corroborated by observable market data.
- Level 3 — Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation; also includes observable inputs for nonbinding single dealer quotes not corroborated by observable market data.

During the years ended April 30, 2018 and 2017, there were no changes to the Corporation's valuation techniques that had, or are expected to have, a material impact on its financial position or changes in net assets.

The following is a description of the valuation methodologies used for instruments measured at fair value:

Diocesan Investment Trust of the Diocese of New Jersey ("DIT") - The fair value of the DIT investments are based on the fair value of the underlying pooled investments which are comprised of money market funds, common stocks, fixed income and mutual funds.

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NOTES TO FINANCIAL STATEMENTS

C. FAIR VALUE MEASUREMENT (CONTINUED)

Equity Securities - The fair value of equity securities is the market value based on quoted market prices, when available, or market prices provided by recognized broker-dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the instrument.

Investments at April 30, 2018 and 2017, respectively, are as follows:

	April 30, 2018			Total
	Level 1	Level 2	Level 3	
Equity securities	\$ 1,036,488	\$ -	\$ -	\$ 1,036,488
DIT pooled investments				1,056,118
Total Investments				<u>\$ 2,092,606</u>

	April 30, 2017			Total
	Level 1	Level 2	Level 3	
Equity securities	\$ 980,631	\$ -	\$ -	\$ 980,631
DIT pooled investments				962,788
Total Investments				<u>\$ 1,943,419</u>

In accordance with U.S. GAAP, investments measured at fair value using the net asset value per share practical expedient have not been classified in the fair value hierarchy. The following table presents quantitative information about the DIT investments.

	April 30, 2018 <u>Fair Value</u>	April 30, 2017 <u>Fair Value</u>	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
DIT pooled investments	\$ 1,056,118	\$ 962,788	\$ 0	Daily	1 day

The following tables present investment activity by type of investment:

	Year Ended April 30, 2018		
	DIT Pooled Investments	Equity Securities	Total
Balance, May 1, 2017	\$ 962,788	\$ 980,631	\$ 1,943,419
Purchases	12,778	12,778	25,556
Dividends	38,208	23,062	61,270
Realized and unrealized gains	80,552	64,178	144,730
Fees	-	(5,529)	(5,529)
Sales (income distributed)	(38,208)	(38,632)	(76,840)
Balance, April 30, 2018	<u>\$ 1,056,118</u>	<u>\$ 1,036,488</u>	<u>\$ 2,092,606</u>

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NOTES TO FINANCIAL STATEMENTS

C. FAIR VALUE MEASUREMENT (CONTINUED)

	<u>Year Ended April 30, 2017</u>		
	<u>DIT Pooled Investments</u>	<u>Equity Securities</u>	<u>Total</u>
Balance, May 1, 2016	\$ 874,064	\$ 892,527	\$ 1,766,591
Purchases	10,770	10,770	21,540
Dividends	37,920	20,915	58,835
Realized and unrealized gains	77,954	96,476	174,430
Fees	-	(5,171)	(5,171)
Sales (income distributed)	(37,920)	(34,886)	(72,806)
Balance, April 30, 2017	<u>\$ 962,788</u>	<u>\$ 980,631</u>	<u>\$ 1,943,419</u>

D. NET ASSETS

Temporarily Restricted

Temporarily restricted net assets are available for the following purposes or period:

	<u>April 30,</u>	
	<u>2018</u>	<u>2017</u>
Distribution to beneficiaries	<u>\$ 1,380,183</u>	<u>\$ 1,214,429</u>

Net assets were released from donor restrictions as follows:

	<u>Year Ended April 30,</u>	
	<u>2018</u>	<u>2017</u>
Purpose restriction accomplished:		
Expense incurred to satisfy donor restrictions	<u>\$ 42,308</u>	<u>\$ 33,928</u>

Permanently Restricted

Permanently restricted net assets are endowment funds restricted in perpetuity to continue the purpose of the Corporation. Income from these assets are designated for distribution to beneficiaries.

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NOTES TO FINANCIAL STATEMENTS

E. ENDOWMENT POLICY

Endowment Description

In June 2009, the State of New Jersey enacted a version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA" or the "Act"). During 2009, the Board of Directors interpreted the Act as allowing the Corporation the powers to manage and invest the funds in good faith and with the care an ordinarily prudent person, in a like position, would exercise under similar circumstances. The Board of Directors also interpreted UPMIFA as requiring the assets in an endowment fund to be donor-restricted assets until appropriated for expenditure by the Board of Directors, unless stated otherwise in the gift instrument. As a result of this interpretation, the Corporation has not changed the way permanently restricted net assets are classified. The original value of all gifts donated to the endowment fund will be classified as permanently restricted net assets with endowment earnings classified as temporarily restricted net assets until those amounts are appropriated for expenditure.

Interpretation of Relevant Law

The Corporation has interpreted the UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Corporation classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of the subsequent gift to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Corporation in a manner consistent with the standard of prudence prescribed by UPMIFA.

Endowment Spending Policy

The by-laws of the organization require that after the annuities chargeable to the Corporation and its expenses shall have been paid, four tenths of the remainder shall be added to the principal of the fund; six tenths may by the vote of the Corporation, be divided among the widows and minor children of deceased contributors.

Endowment Investment Policies

The Corporation has adopted investment policies that seek long-term capital growth, current income and growth of income, consistent with prudent, conservative and risk-averse investments for its endowment.

To satisfy its long-term objectives, the Corporation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Corporation targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

Under the provisions of the UPMIFA and U.S. GAAP, losses in the market value of donor-restricted endowment funds are required to be offset by reductions in temporarily restricted net assets or unrestricted net assets, or both. An endowment fund that has become "underwater" will therefore result in decreases in temporarily restricted or unrestricted net assets, despite the absence of any legal obligation to restore the endowment fund for such losses. Unrestricted net assets that have been reduced because of this requirement will be restored from future gains for that reduction.

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NOTES TO FINANCIAL STATEMENTS

E. ENDOWMENT POLICY (CONTINUED)

Endowment net assets by type of fund and changes in endowment net assets for the years ended April 30, 2018 and 2017, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, May 1, 2017	\$ -	\$ 1,151,401	\$ 792,018	\$ 1,943,419
Investment return:				
Investment income	-	61,270	-	61,270
Net appreciation (realized and unrealized)	-	144,730	-	144,730
Total investment return	-	206,000	-	206,000
Contributions	-	25,556	-	25,556
Appropriation for expenditure	(82,369)	-	-	(82,369)
Transfer	82,369	(82,369)	-	-
Endowment net assets, April 30, 2018	<u>\$ -</u>	<u>\$ 1,300,588</u>	<u>\$ 792,018</u>	<u>\$ 2,092,606</u>

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, May 1, 2016	\$ -	\$ 974,573	\$ 792,018	\$ 1,766,591
Investment return:				
Investment income	-	58,835	-	58,835
Net appreciation (realized and unrealized)	-	174,430	-	174,430
Total investment return	-	233,265	-	233,265
Contributions	-	21,539	-	21,539
Appropriation for expenditure	(77,976)	-	-	(77,976)
Transfer	77,976	(77,976)	-	-
Endowment net assets, April 30, 2017	<u>\$ -</u>	<u>\$ 1,151,401</u>	<u>\$ 792,018</u>	<u>\$ 1,943,419</u>

F. RELATED PARTY

The Corporation and the DIT are related through a common board (committee) member.