



ARMENIAN CHURCH ENDOWMENT FUND, INC.

Financial Statements

December 31, 2018 and 2017

With Independent Auditors' Report

**Armenian Church Endowment Fund, Inc.
December 31, 2018 and 2017**

TABLE OF CONTENTS

Independent Accountants' Review Report	1
Financial Statements	
Statements of Financial Position	2
Statements of Activities and Changes in Net Assets (Deficit)	3-4
Statements of Functional Expenses	5
Statements of Cash Flows	6
Notes to Financial Statements	7-19

INDEPENDENT AUDITORS' REPORT

The Very Rev. Fr. Daniel Findikyan, Primate
and the Board of Directors of the Armenian Church Endowment Fund, Inc.:

We have audited the accompanying financial statements of Armenian Church Endowment Fund, Inc., which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities and changes in net assets, functional expenses 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.

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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Armenian Church Endowment Fund, Inc. 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.

Emphasis of Matter

As discussed in Note 2 to the financial statements, in 2018, Armenian Church Endowment Fund, Inc. adopted Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities* (Topic 958). Our opinion is not modified with respect to this matter.



April 19, 2019

Armenian Church Endowment Fund, Inc.
Statements of Financial Position
December 31, 2018 and 2017

	2018	2017
Assets		
Cash and cash equivalents	\$ 2,860,181	\$ 944,895
Investments	96,436,702	106,541,054
Contributions receivable	18,809	79,217
Accrued interest receivable	62,809	61,274
Loan receivable	<u>68,237</u>	<u>106,337</u>
Total assets	<u>\$ 99,446,738</u>	<u>\$ 107,732,777</u>
Liabilities and Net Assets		
Liabilities		
Custodial funds	\$ 32,107,498	\$ 34,618,940
Future obligations of charitable remainder annuities	66,580	69,702
Accounts payable and accrued expenses	<u>11,019</u>	<u>14,354</u>
Total liabilities	32,185,097	34,702,996
Net assets		
Without donor restrictions	1,042,885	1,145,833
With donor restrictions	<u>66,218,756</u>	<u>71,883,948</u>
Total net assets	<u>67,261,641</u>	<u>73,029,781</u>
	<u>\$ 99,446,738</u>	<u>\$ 107,732,777</u>

The Notes to Financial Statements are an integral part of these statements.

Armenian Church Endowment Fund, Inc.
Statements of Activities and Changes in Net Assets
Year Ended December 31, 2018

	Without Donor Restriction	With Donor Restriction	Total
Support and revenues			
Contributions and custodial funds invested with ACEF	\$ --	\$ 3,607,156	\$ 3,607,156
Transfer to custodial funds	<u>--</u>	<u>(2,086,308)</u>	<u>(2,086,308)</u>
	--	1,520,848	1,520,848
Investment loss	(56,277)	(4,474,493)	(4,530,770)
Administrative fee charged to custodial funds	169,992	--	169,992
Net present value adjustment to annuities	<u>3,122</u>	<u>--</u>	<u>3,122</u>
	116,837	(2,953,645)	(2,836,808)
Net assets released due to satisfaction of purpose restrictions	<u>2,711,547</u>	<u>(2,711,547)</u>	<u>--</u>
Total support and revenues	2,828,384	(5,665,192)	(2,836,808)
Expenses			
Program	2,662,812	--	2,662,812
Management and general expenses	<u>268,520</u>	<u>--</u>	<u>268,520</u>
Total expenses	<u>2,931,332</u>	<u>--</u>	<u>2,931,332</u>
Changes in net assets	(102,948)	(5,665,192)	(5,768,140)
Net assets, beginning of year	<u>1,145,833</u>	<u>71,883,948</u>	<u>73,029,781</u>
Net assets, end of year	<u>\$ 1,042,885</u>	<u>\$ 66,218,756</u>	<u>\$ 67,261,641</u>

The Notes to Financial Statements are an integral part of this statement.

Armenian Church Endowment Fund, Inc.
Statements of Activities and Changes in Net Assets
Year Ended December 31, 2017

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Support and revenues			
Contributions and custodial funds invested with ACEF	\$ 244,158	2,766,751	\$ 3,010,909
Transfer to custodial funds	<u> --</u>	<u>(1,495,977)</u>	<u>(1,495,977)</u>
	244,158	1,270,774	1,514,932
Investment income	109,570	9,557,950	9,667,520
Administrative fee charged to custodial funds	93,999	--	93,999
Net present value adjustment to annuities	<u>3,908</u>	<u> --</u>	<u>3,908</u>
	451,635	10,828,724	11,280,359
Net assets released due to satisfaction of purpose restrictions	<u>2,698,761</u>	<u>(2,698,761)</u>	<u> --</u>
Total support and revenues	3,150,396	8,129,963	11,280,359
Expenses			
Program	2,609,899		2,609,899
Management and general expenses	<u>240,719</u>	<u> --</u>	<u>240,719</u>
Total expenses	<u>2,850,618</u>	<u> --</u>	<u>2,850,618</u>
Changes in net assets	299,778	8,129,963	8,429,741
Net assets, beginning of year	<u>846,055</u>	<u>63,753,985</u>	<u>64,600,040</u>
Net assets, end of year	<u>\$ 1,145,833</u>	<u>\$ 71,883,948</u>	<u>\$ 73,029,781</u>

The Notes to Financial Statements are an integral part of this statement.

Armenian Church Endowment Fund, Inc.
Statements of Functional Expenses
Years Ended December 31, 2018 and 2017

	2018			2017		
	Allocations Program	Management and General	Total	Allocations Program	Management and General	Total
Salaries	\$ 22,649	\$ 67,948	\$ 90,597	\$ 22,301	\$ 66,901	\$ 89,202
Fringe benefits	3,205	9,614	12,819	2,846	8,539	11,385
Occupancy	9,000	27,000	36,000	9,000	27,000	36,000
Distributions paid	2,627,958	--	2,627,958	2,575,752	--	2,575,752
Professional fees	--	107,200	107,200	--	105,928	105,928
Office expense	--	4,176	4,176	--	9,030	9,030
Marketing and promotion	--	6,386	6,386	--	1,944	1,944
Taxes and fees	--	24,893	24,893	--	2,473	2,473
Conferences	--	478	478	--	482	482
Computer maintenance	--	5,200	5,200	--	4,900	4,900
Insurance	--	15,625	15,625	--	13,522	13,522
	\$ 2,662,812	\$ 268,520	\$ 2,931,332	\$ 2,609,899	\$ 240,719	\$ 2,850,618

The Notes to Financial Statements are an integral part of these statements.

Armenian Church Endowment Fund, Inc.
Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Changes in net assets	\$ (5,768,140)	\$ 8,429,741
Adjustments to reconcile changes in net assets to net cash used by operating activities		
Net realized and unrealized losses (gains)	9,331,326	(12,624,730)
Donor restricted contributions - endowment	(1,520,848)	(1,270,774)
Changes in net present value of annuities	(3,122)	(3,908)
Changes in assets and liabilities		
Contributions receivable	60,408	277,327
Accrued interest receivable	(1,535)	1,633
Custodial funds	(2,511,442)	4,456,604
Accounts payable and accrued expenses	(3,335)	(7,396)
Net cash used by operating activities	<u>(416,688)</u>	<u>(741,503)</u>
Cash flows from investing activities		
Donor restricted contributions - endowment	1,520,848	1,270,774
Principal payment on loan receivable	38,100	166,163
Purchase of investments	(18,670,700)	(31,113,244)
Proceeds on sale of investments	19,443,725	27,611,194
Net cash provided (used) by investing activities	<u>2,331,973</u>	<u>(2,065,113)</u>
Net change in cash and cash equivalents	1,915,285	(2,806,616)
Cash and cash equivalents		
Beginning of year	<u>944,895</u>	<u>3,751,511</u>
End of year	<u>\$ 2,860,180</u>	<u>\$ 944,895</u>
Supplemental disclosure of cash flow information		
No amounts were paid for interest or taxes during the years ended December 31, 2018 and 2017.		
Income taxes paid	<u>\$ 23,191</u>	<u>\$ 848</u>

The Notes to Financial Statements are an integral part of these statements.

Armenian Church Endowment Fund, Inc.
Notes to Financial Statements
December 31, 2018 and 2017

1. NATURE OF ACTIVITIES

Armenian Church Endowment Fund, Inc. ("ACEF") is a private, Delaware not-for-profit corporation incorporated in 2005. Prior to the date of incorporation, ACEF operated as an unincorporated component of the Diocese of the Armenian Church of America (Eastern) (the "Diocese"), a non-profit religious organization established in 1934. ACEF functions as the custodian of certain funds delivered to it by the Diocese and other affiliated churches and organizations of the Diocese. ACEF's primary purpose is to make investment decisions regarding the funds it holds, to maintain in perpetuity the permanently restricted funds received from contributors and to administer and distribute a consistent annual level of income to all beneficiaries named by the contributors. ACEF also holds custodial funds in a management capacity for the Diocese and other churches and organizations, where the funds are managed and held for their benefit.

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. Accordingly, ACEF's resources are classified and reported as separate classes of net assets based on the existence or absence of donor-imposed restrictions as follows:

- Without donor restrictions - include expendable resources that are used to carry out ACEF's operations and are not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by ACEF or may be limited by contractual agreements with outside parties.
- With donor restrictions - Net assets subject to donor-imposed restrictions that will be met either by the actions of ACEF or through the passage of time. Items that affect this net asset category are gifts for which donor-imposed restrictions have not been met in the year of receipt. Expirations of restrictions on net assets with donor restrictions are reported as net assets released from restrictions. Also included in this category are net assets subject to donor-imposed restrictions to be maintained permanently by ACEF, including gifts and pledges wherein donors stipulate that the corpus of the gift be held in perpetuity and that only the income may be made available for distribution to the beneficiary agencies, subject to the ACEF's spending policies.

Revenue and Support Recognition

Revenues and gains and losses on investments and other assets are reported as changes in net assets without donor restrictions unless limited by explicit donor-imposed restrictions or by law. Expenses are reported as decreases in net assets without donor restrictions and are allocated to functional categories depending upon the ultimate purpose of the expenditure. Releases of net assets with donor restrictions which include either the satisfaction of a donor requirement or the passage of time are reported as net assets released from restrictions in the statements of activities and changes in net assets.

Cash and Cash Equivalents

Cash and cash equivalents include funds held in money market account investments and certificates of deposit with a maturity of three months or less at the time of acquisition.

Investments

Investments in equity securities with readily determinable values and all investments in debt securities are measured at fair value in the statements of financial position. ACEF has invested funds in certain investments that are considered alternative investments. These investments have been established as corporations, limited partnerships and trusts but are not traded on any public exchange or market. The alternative investments invest in various investment vehicles, including U.S. and global publicly traded equities and bonds, privately held companies, and global currencies. Those investments that are traded in the U.S. or on foreign exchanges are valued based on current traded value. Investments in privately held companies are valued at the net value based on audited or unaudited financial statements.

Armenian Church Endowment Fund, Inc.
Notes to Financial Statements
December 31, 2018 and 2017

Estimates of fair value for certain investments have been used for valuing those underlying investments that are not readily traded. Income or loss, including realized and unrealized gains and losses on investments, interest and dividends is included in net assets without donor restrictions unless the income or loss is restricted by donor or law.

Distributions of Investment Returns

Distributions are made annually from investment returns to beneficiary organizations that were selected by the donors at the time the endowment fund was established. Custodial funds receive an annual distribution, which is paid to the organization that established the custodial account. The ACEF policy for annual distributions is calculated at an annual amount equal to approximately 4.5 percent of the average trailing twelve-quarter market values of each fund. In accordance with this policy, \$4,031,006 and \$3,919,102 was distributed from all funds, including custodial funds, for the years ended December 31, 2018 and 2017, respectively. Distributions paid to beneficiary agencies from the endowment funds were \$2,627,958 and \$2,575,752 at December 31, 2018 and 2017, respectively, as shown in the statements of functional expenses. The total net return, which includes interest and dividend payments plus net capital appreciation earned by the pooled investments, net of the operating expenses and distributions, is applied to each fund at year-end.

New accounts or additional contributions to an existing account that have been in ACEF for less than one year will not receive a full 4.5 percent distribution. A prorata calculation is used based on the date of receipt of the contribution. The calculation for the distributions for accounts that have been in ACEF for more than one year but less than three years is based on the date the contribution was received and the ending market values for each quarter.

Administrative and Investment Fees

An administrative fee is charged annually to all funds, including custodial funds, based on the actual expenses incurred each year to invest and manage the funds. This fee is charged to each fund based on the weighted average market share held by a fund to the total of all market values in the fund and is based on the costs incurred each year shown as management and general expenses in the statements of activities and changes in net assets. Administrative fees of \$303,374, and \$274,866 were charged to all funds for the years ended December 31, 2018 and 2017, respectively. The investment fees are charged annually to all funds, including custodial funds, based on the actual investment expenses incurred each year to invest and manage the funds and have been reported as a reduction of the investment income (loss).

Concentration of Credit Risk

Financial instruments which potentially subject ACEF to concentrations of credit risk are cash and cash equivalents and investments. ACEF places cash and its investments in high quality securities with several financial and investment institutions which helps limit ACEF's exposure to concentrations of credit risk. However, ACEF is subject to the inherent risks associated with market fluctuations which it attempts to minimize by holding a diversified portfolio. Periodically, cash balances at financial institutions may exceed amounts insured by the Federal Deposit Insurance Corporation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates included in the financial statements include the valuation of investments classified as Level III investments (Note 6).

Armenian Church Endowment Fund, Inc.
Notes to Financial Statements
December 31, 2018 and 2017

Income Taxes

ACEF is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except for any unrelated business income tax (“UBIT”) that is assessed on pass-through income earned on passive investments for certain limited partnerships. During the years ended December 31, 2018 and 2017, ACEF paid \$23,191 and \$848 for UBIT tax on these passive investments. There is no provision for Federal income tax recorded in the statements of activities and changes in net assets. There are no uncertain tax positions at December 31, 2018 and 2017. ACEF did not have any income tax related penalties or interest included in the financial statements presented.

Fair Value of Financial Instruments

The carrying amounts of financial instruments including cash equivalents, short-term contributions, accrued interest and accounts payable and accrued expenses approximate their fair values because of the relatively short maturity of these instruments. The value on loans receivable reasonably approximates fair value as they bear a market rate of interest.

Functional Expenses

Expenses are reported in the statements of activities and changes in net assets based on the nature and function of the expenses as a program service or supporting function. ACEF incurs expenses that are attributable to both program and supporting functions. These expenses require allocation on a reasonable basis that is consistently applied. Salaries are allocated based on time spent in each of the functional categories for each employee. Fringe benefits and occupancy expenses are allocated using the weighted average of salaries in each category. Other administrative expenses are directly charged to general and administrative.

New Accounting Pronouncements Adopted in Current Year

During 2018, the ACEF adopted ASU 2016-14 – Not-for-profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-profit Entities*. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity’s liquidity, financial performance and cash flows. The main provisions of this guidance include: presentation of two classes of net assets versus the previously required three; recognition of capital gifts for construction as a net asset without donor restrictions when the associated long-lived asset is placed in service; and recognition of underwater endowment funds as a reduction in net assets with donor restrictions. The guidance also enhances disclosures for board designated amounts, composition of net assets without donor restrictions, liquidity and presentation of expenses by both their natural and functional classification. A recap of the net asset reclassifications driven by the adoption of ASU 2016-14 as of December 31, 2016 is as follows:

Net Assets Classifications	ASU 2016-14 Classifications		
	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
As previously presented:			
Unrestricted net assets	\$ 218,426	\$ --	\$ 218,426
Temporarily restricted net assets	--	7,100,697	7,100,697
Permanently restricted net assets	--	57,280,917	57,280,917
Net assets as previously presented	218,426	64,381,614	64,600,040
Reclassifications to implement ASU 2016-14			
Underwater endowment - opening balance at January 1, 2017	627,629	(627,629)	--
Net assets as reclassified	\$ 846,055	\$ 63,753,985	\$ 64,600,040

Additional adjustments to the revenues and expenses shown at December 31, 2017 were required to reflect the required treatment of all investment expenses to be netted with investment income. There was \$200,000 of additional investment expenses that now have been netted against investment income at December 31, 2017, that previously had been included in operating expense, with associated changes to the release of net assets and a reduction in the administrative fee charged to custodial funds.

Armenian Church Endowment Fund, Inc.
Notes to Financial Statements
December 31, 2018 and 2017

New Accounting Pronouncements Issued Not Yet Effective

In June 2018 the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2018-08, *Not-for-Profit Entities, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (Topic 958). The FASB is issuing this ASU to improve and clarify existing guidance on revenue recognition of grants and contracts by not-for-profit organizations (“NFPs”) because there is diversity in practice among NFPs with characterizing grants and similar contracts with government agencies and others as reciprocal transactions (exchanges) or nonreciprocal transactions (contributions) and distinguishing between conditional and unconditional contributions. This ASU also provides guidance to help determine whether a contribution is conditional or unconditional, and better distinguish a donor-imposed condition from a donor-imposed restriction. The effective date would be for fiscal years ending in 2021.

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842), which requires the recognition of a “right to use” asset and a lease liability, initially measured at the present value of the lease payments, on the statement of financial position for all of the company’s lease obligations. This ASU is effective for fiscal years beginning after December 15, 2019.

In May 2014, the FASB issued accounting standards update ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606), which provides a comprehensive new revenue recognition model that requires a company to recognize revenue in an amount that reflects the consideration it expects to receive for the transfer of promised goods or services to its customers. The standard also requires additional disclosure regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. This ASU, which was deferred by ASU 2015-14, is effective for annual periods and interim periods beginning after December 15, 2018. The ASU is to be applied retrospectively or using a cumulative effect transition method. Early adoption is permitted.

In June 2016, the FASB issued two standards that address the accounting for financial instruments. ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*, which is effective for fiscal years beginning after December 2018 which includes guidance for equity investments held by a not-for-profit organization and adds guidance on the comprehensibility of investments in debt securities. It also requires the measurement of certain equity investments such as venture capital funds, partnership interests in accordance with ASC 958-321. ASU 2016-13, *Measurement of Credit Losses on Financial Instruments*, which is effective for fiscal years beginning after December 2020, requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions will now use forward-looking information to better inform their credit loss estimates.

ACEF is currently evaluating the effect that these pronouncements will have on its consolidated financial statements and related disclosures.

3. LOANS RECEIVABLE

Loans receivable of \$68,237 and \$106,337, representing unsecured loans made to one and two parishes were outstanding as of the years ended December 31, 2018 and 2017, respectively. Specific repayment terms have been established for one of the loans with repayment dates over an eight-year period through 2023. There are no specified repayment terms for the second loan, which was paid in full during the year ended December 31, 2017. Accrued interest receivable was \$62,809 and \$61,274 at December 31, 2018 and 2017, respectively and is accrued on the outstanding balances at rates of 2.25 percent to 3.50 percent per annum for each year. The rates of interest are subject to change on an annual basis at the discretion of the Board of Directors. No allowance against the loan receivable principal or accrued interest has been recorded for the years ended December 31, 2018 and 2017. Future maturities as of December 31, 2018 are: 2019 - \$22,500; 2020 - \$22,500; 2021 - \$22,500; thereafter - \$23,237.

Armenian Church Endowment Fund, Inc.
Notes to Financial Statements
December 31, 2018 and 2017

4. CONTRIBUTIONS RECEIVABLE

Contributions receivables of \$18,809 and \$79,217 for the years ended December 31, 2018 and 2017, respectively, represent receivables due within one year.

5. FINANCIAL ASSETS AND LIQUIDITY RESOURCES

As of December 31, 2018, financial assets and liquidity resources available within one year for general operating expenses were as follows:

Financial assets	
Cash and cash equivalents	\$ 2,860,181
Investments	96,436,702
Contributions receivable	18,809
Loan and accrued interest receivable	<u>131,046</u>
	99,446,738
Less: Financial assets unavailable for general expenditure	
Net assets restricted for long-term endowment fund	(66,088,370)
Custodial funds held in investments	(32,107,498)
Loan receivable due in greater than one year	<u>(108,546)</u>
	<u>(98,304,414)</u>
Total financial assets and liquidity resources available within one year	<u>\$ 1,142,324</u>

The financial assets above are not subject to donor or other contractual restrictions that make them unavailable for general expenditures within one year of the statement of financial position date. Additionally, allocations authorized by the board in the subsequent year would be funded from long term investments as part of the spending policy in place for the endowment funds.

6. FAIR VALUE MEASUREMENTS

ACEF has provided fair value disclosure information for relevant assets and liabilities in these financial statements. ACEF values applicable assets and liabilities using quoted market prices in active markets for identical assets and liabilities to the extent possible (Level I). To the extent that such market prices are not available, ACEF will next attempt to value such assets and liabilities using observable measurement criteria, including quoted market prices of similar assets and liabilities in active and inactive markets, utilizing net asset values for funds that can be redeemed in the near term and other corroborated factors (Level II). In the event that quoted market prices in active markets and other observable measurement criteria are not available, ACEF will develop measurement criteria based on the best information available (Level III).

Investments that have been included in Level III are measured using the cost approach and the information that was provided by the fund managers. For investments in partnerships, the fair value of these investments has been estimated using the net asset value of ACEF's ownership interest in partners' capital. These investments cannot be redeemed until distributions for each fund will be received as the underlying assets of the fund are liquidated. However, the time of sale of these underlying assets is unknown.

The following tables summarize the assets (liabilities) which have been accounted for at fair value on a recurring basis as of December 31, 2018 and 2017, along with the basis for the determination of fair value. Certain investments that are measured at fair value using the net asset value per share practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in these tables are intended to permit the reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

Armenian Church Endowment Fund, Inc.
Notes to Financial Statements
December 31, 2018 and 2017

Asset Class	2018			
	Total	Level I	Level II	Level III
U.S. Equity				
Mutual fund - large cap	\$ 6,313,244	\$ 6,313,244	\$ --	\$ --
Global equity fund (w)	16,360,754	11,645,863	--	4,714,891
Emerging Markets Equity fund	898,957	898,957	--	--
Hedge Funds				
Multi-strategy (a)	3,023,862	--	--	3,023,862
Multi-strategy (b)	2,443,242	--	--	2,443,242
Long/short equity strategies (c)	2,146,957	--	--	2,146,957
Diversified (d)	1,560,165	--	--	1,560,165
Real Estate (e)	2,357,966	--	--	2,357,966
Private Investments				
Private equity strategies (f)	1,230,711	--	--	1,230,711
Private equity strategies (g)	795,126	--	--	795,126
Private equity strategies (h)	8,748,621	--	--	8,748,621
Fixed Income				
Mutual fund - government bonds	4,972,543	4,972,543	--	--
	<u>50,852,148</u>	<u>\$ 23,830,607</u>	<u>\$ --</u>	<u>\$ 27,021,541</u>
Investments measured at net asset value (1)	<u>45,584,554</u>			
	<u>\$ 96,436,702</u>			

Asset Class	2017			
	Total	Level I	Level II	Level III
U.S. Equity				
Mutual fund - large cap	\$ 7,240,193	\$ 7,240,193	\$ --	\$ --
Global equity fund	6,033,424	6,033,424	--	--
Emerging Markets Equity fund	3,630,324	3,630,324	--	--
Hedge Funds				
Multi-strategy	2,858,942	2,858,942	--	--
Multi-strategy (a)	1,591,019	--	--	1,591,019
Multi-strategy (b)	2,406,629	--	--	2,406,629
Long/short equity strategies (c)	2,927,152	--	--	2,927,152
Diversified (d)	7,372,833	5,552,613	--	1,820,220
Real Estate (e)	2,396,775	--	--	2,396,775
Private Investments				
Private equity strategies (f)	1,352,821	--	--	1,352,821
Private equity strategies (g)	1,241,942	--	--	1,241,942
Private equity strategies (h)	4,110,921	--	--	4,110,921
Fixed Income				
Mutual fund - government bonds	8,434,835	8,434,835	--	--
	<u>51,597,810</u>	<u>\$ 33,750,331</u>	<u>\$ --</u>	<u>\$ 17,847,479</u>
Investments measured at net asset value (1)	<u>54,943,244</u>			
	<u>\$ 106,541,054</u>			

Armenian Church Endowment Fund, Inc.
Notes to Financial Statements
December 31, 2018 and 2017

(1) In accordance with subtopic 820-10 certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statements of financial position.

The following table lists investments measured using the practical expedient by class and investment strategy as of December 31, 2018:

Strategies	# of Funds	2018 Valuation	Unfunded Commitment	Redemption Commitment	Redemption Notice Period
Long only equity funds					
Developed ex U.S. equity (i)	1	\$ 6,999,940	\$ --	None	Monthly
Long strategy (j)	1	4,566,573	--	None	Monthly - 31 days
Global equity fund (k)	1	2,325,100	--	None	Triennially - 90 days
Global equity fund (l)	1	5,039,398	--	None	Monthly - 15 days
Global equity fund (m)	1	5,676,018	--	None	Monthly
Emerging markets equity fund (n)	1	2,372,729	--	None	Monthly
Emerging markets equity fund (o)	1	1,772,240	--	None	Quarterly - no notice
Hedge Funds					
Long/short strategy (p)	1	138,418	--	None	75 days - see below
Diversified strategy (q)	1	25,261	--	None	33 days* - see below
Diversified strategy (r)	1	2,747,894	--	None	Quarterly - 60 days
Diversified strategy (s)	1	5,461,979	--	None	Semiannual - 60 days notice
Diversified strategy (t)	1	281,032	1,500,000	None	Annually - 120 days notice
Global equity fund (u)	1	3,005,110	--	None	Monthly - 33 days notice
Global equity fund (v)	1	<u>5,172,862</u>	<u>--</u>	None	Daily - 2 days notice
		<u>\$ 45,584,554</u>	<u>\$ 1,500,000</u>		

- a) This investment is a commingled fund that has multi-strategy capabilities, with a focus on distressed credit investments. Redemptions are quarterly with 65 days' notice.
- b) This investment is a limited partnership that makes event driven investments across the capital structure of companies equity and debt. Redemptions are quarterly with 65 days' notice.
- c) This investment is a fund of funds that invests in hedge funds that pursue long/short equity strategies globally. Redemptions may be made annually at December 31 with 75-day notice. Redemptions may be made on other dates subject to a 2 percent redemption fee.
- d) This investment is a commingled fund that invests in global long/short equities. Redemptions are quarterly on the last day of the month with 60 days' notice.
- e) This investment is a limited partnership that buys secondary positions in other limited partnerships, primarily in U.S. private real estate strategies.
- f) This investment is a limited partnership that invests in private limited partnerships that invest in equity securities, warrants or other options that are not actively traded.
- g) This investment is a limited partnership that makes investments in venture capital, management buy-outs, etc.
- h) This investment class includes seventeen limited partnerships that invest in private equity, venture capital, and/or private credit investments, including secondary investments.

Armenian Church Endowment Fund, Inc.
Notes to Financial Statements
December 31, 2018 and 2017

- i) This investment is a commingled fund that invests in non-US equity securities of companies worldwide. Redemptions are made on the last business day of the month.
- j) This investment is a commingled fund that takes long and short positions in US equity securities of companies worldwide, with a net exposure of 100 percent to the US equity market. Redemptions are made monthly with 31 days' notice.
- k) This investment is a commingled fund that invests in European securities. Redemptions are made tri-annually with 90 days' notice.
- l) This investment is a commingled fund that invests in equity securities of companies worldwide. Redemptions are made monthly with 15 days' notice.
- m) This investment is a commingled fund that invests in worldwide equity securities. Redemptions are made monthly with six days' notice.
- n) This investment is a commingled fund that invests in a diversified portfolio of equity securities of companies incorporated in the Asia-Pacific region, excluding Japan. Redemptions occur on the first business day of the month.
- o) This investment is a commingled fund that invests in a diversified portfolio of equity securities of companies incorporated in emerging markets. Redemptions are made quarterly.
- p) This investment is a fund of funds that invests in hedge funds that pursue global long/short equity strategies. Redemptions may be made annually at December 31 with 75-day notice following a one-year lockup. After the lockup, investors may also redeem at June 30 subject to a 5 percent redemption fee.
- q) This single manager fund of funds offers a blend of systematic and discretionary global macro strategies by investing in multiple equity and fixed income hedge funds. Redemptions may be made quarterly on the first business day with 33 days' written notice, subject to a ten percent gate at the class share level.
- r) This investment is a commingled fund that has multi-strategy capabilities, including long/short equity, long/short credit, and distressed securities. Redemptions may be made quarterly with 60 days' notice.
- s) This investment is a limited partnership that invests across multiple strategies including distressed debt, performing debt, equity securities, event arbitrage, commodities, private equity and real estate. Redemptions may be made semiannually with 60 days' notice.
- t) This investment is a commingled fund with a European focus that has multi-strategy capabilities, including long/short equity, long/short credit, and distressed securities. Redemptions are made annually with 120 days' notice.
- u) This investment is a commingled fund that invests in global equity securities. Redemptions are made monthly with 33 days' notice.
- v) This investment is a limited partnership that invests in global equity securities. Redemptions may be made daily with 2 business days' notice.
- w) This investment is a commingled fund that invests in global securities. Redemptions are made monthly with 30 days' notice.

Armenian Church Endowment Fund, Inc.
Notes to Financial Statements
December 31, 2018 and 2017

The following is a summary of activity for the years ended December 31, 2018 and 2017 for assets (liabilities) measured at fair value based on unobservable measure criteria (Level 3):

	<u>Hedge Funds</u>	<u>Real Estate</u>	<u>Private Investments</u>	<u>Global Equity</u>	<u>Total</u>
Balance, beginning of year 1/1/17	\$ 8,353,482	\$ 1,599,980	\$ 3,878,673	\$ --	\$ 13,832,135
Realized and unrealized gains	214,305	364,081	1,278,982	--	1,857,368
Purchases	2,400,000	807,732	3,101,118	--	6,308,850
Sales	(2,500,000)	(375,018)	(1,461,736)	--	(4,336,754)
Investment income (loss)	<u>277,232</u>	<u>--</u>	<u>(91,352)</u>	<u>--</u>	<u>185,880</u>
Balance, beginning of year 1/1/18	8,745,019	2,396,775	6,705,685	--	17,847,479
Realized and unrealized (loss) gains	(309,737)	125,524	977,688	--	793,475
Purchases	5,667,170	115,390	4,042,019	5,500,000	15,324,579
Sales/redemptions	(4,928,226)	(279,723)	(837,428)	--	(6,045,377)
Investment loss	<u>--</u>	<u>--</u>	<u>(113,506)</u>	<u>(785,109)</u>	<u>(898,615)</u>
Balance, end of year 12/31/18	<u>\$ 9,174,226</u>	<u>\$ 2,357,966</u>	<u>\$10,774,458</u>	<u>\$4,714,891</u>	<u>\$ 27,021,541</u>

7. INVESTMENT INCOME

Investment income, including investment income allocable to custodial funds for the years ended December 31, was:

	2018	2017
Interest, dividend income and capital gains distributions	\$ 3,233,836	\$ 2,190,523
Unrealized (loss) gain	(13,710,848)	8,866,249
Realized gain	4,379,522	3,758,481
Investment expenses	<u>(507,768)</u>	<u>(546,569)</u>
	(6,605,258)	14,268,684
Net investment loss (income) shared with custodial funds	<u>2,074,488</u>	<u>(4,601,164)</u>
Net investment (loss) income	<u>\$ (4,530,770)</u>	<u>\$ 9,667,520</u>

8. CUSTODIAL FUNDS

Custodial funds are managed by ACEF and have been included in the investment pool. Each fund shares, on a pro rata basis based on their fund balances, in the investment earnings, expenses and the allocated undistributed earnings of the investment pool as determined by the allocation and distribution policies of ACEF. The custodial funds remain the property of the investing entity and are fully refundable at the investors' request and subject to the return of funds policy of ACEF which allows for a ninety-day timeframe for repayment of funds. Custodial funds were comprised of the following as of December 31:

	2018	2017
Diocese of the Armenian Church	\$ 14,381,733	\$ 14,904,737
Other organizations	<u>17,725,765</u>	<u>19,714,203</u>
Total custodial funds	<u>\$ 32,107,498</u>	<u>\$ 34,618,940</u>

9. ENDOWMENTS

Endowment Funds

Permanently restricted net assets consist of approximately 140 donor-restricted endowment funds established for a variety of purposes. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Uniform Prudent Management of Institutional Funds Act ("UPMIFA") provides guidance on the maintenance and spending of endowment funds when the intent of the donors is not clear. UPMIFA provides guidelines for the expenditure of a donor restricted endowment fund, absent explicit donor stipulations. UPMIFA eliminates the requirement for a permanent endowment to be maintained at its historic dollar value amount and instead allows not-for-profits to adopt prudent spending policies which can allow for the temporary invasion of corpus. The permanent endowments of ACEF are subject to written instruments in which the donor's intent as to purpose and spending policies are explicitly indicated. As a result, ACEF classifies these as net assets with donor restrictions. The permanent endowments historical gift value includes (a) the original value of gifts donated to the permanent endowment and (b) the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund, included with net assets with donor restrictions that is not classified as historical gift value is classified as appreciation until those amounts are designated for expenditure by ACEF in a manner consistent with the standard of prudence prescribed by state law. ACEF considers the following factors in making a determination to distribute or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of ACEF and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the organization
- (7) The investment policies of the organization.

Investment Return Objectives, Risk Parameters and Strategies

ACEF has adopted investment and spending policies, approved by the Board of Trustees, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 4.5 percent, while growing the funds if possible. Therefore, ACEF expects its endowment assets, over time, to produce an average rate of return of approximately 7.5 percent annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy

ACEF has a policy of appropriating for distribution each year 4.5 percent of its endowment fund's average fair value of the prior 12 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, ACEF considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. ACEF expects the current spending policy to allow its endowment funds to grow at a nominal average rate of 2 percent annually. This is consistent with ACEF's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

Armenian Church Endowment Fund, Inc.
Notes to Financial Statements
December 31, 2018 and 2017

Board-Designated Endowment Net Assets

Funds which are invested in the endowment pool that are not restricted by the donor accumulate in a quasi-endowment which allows for appropriation of investment return each year. The funds can be used at the discretion of and approved by the board and there are no other restrictions on the use of these funds.

The following tables provide information regarding the change in endowment net assets for the years ended December 31:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, January 1, 2017	\$ 616,217	\$ 63,419,237	\$ 64,035,454
Investment income	108,806	9,557,950	9,666,756
Contributions	298,086	1,270,774	1,568,860
Other	--	167,795	167,795
Amounts appropriated for expenditure	<u>(50,644)</u>	<u>(2,698,761)</u>	<u>(2,749,405)</u>
Endowment net assets, December 31, 2017	972,465	71,716,995	72,689,460
Investment loss	(56,278)	(4,249,492)	(4,305,770)
Contributions	--	1,520,848	1,520,848
Other	--	75,317	75,317
Amounts appropriated for expenditure	<u>(48,259)</u>	<u>(2,975,298)</u>	<u>(3,023,557)</u>
Endowment net assets, December 31, 2018	<u>\$ 867,928</u>	<u>\$ 66,088,370</u>	<u>\$ 66,956,298</u>

Investment by type of fund

	<u>2018</u>		
Donor restricted "true" endowment			
Historical gift value	\$ --	\$ 60,099,808	\$ 60,099,808
Appreciation	--	5,988,562	5,988,562
Board designated funds functioning as endowment	<u>867,928</u>	<u>--</u>	<u>867,928</u>
	<u>\$ 867,928</u>	<u>\$ 66,088,370</u>	<u>\$ 66,956,298</u>
	<u>2017</u>		
Donor restricted "true" endowment			
Historical gift value	\$ --	\$ 58,551,990	\$ 58,551,990
Appreciation	--	13,165,005	13,165,005
Board designated funds functioning as endowment	<u>972,465</u>	<u>--</u>	<u>972,465</u>
	<u>\$ 972,465</u>	<u>\$ 71,716,995</u>	<u>\$ 72,689,460</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires ACEF to retain as a fund of perpetual duration. Deficiencies of this nature of approximated \$809,000 and \$304,000 at December 31, 2018 and 2017, respectively. There were thirty-one individual donor funds having a historical basis of approximately \$16,059,000 with a corresponding fair value of \$15,250,000 as of December 31, 2018. There were five individual donor funds having a historical basis of \$3,507,000 with a corresponding fair value of \$3,203,000. These deficiencies resulted from unfavorable market fluctuations that occurred during the last fiscal year and continued distributions for certain programs that were deemed prudent by the Board of Directors.

Armenian Church Endowment Fund, Inc.
Notes to Financial Statements
December 31, 2018 and 2017

10. NET ASSETS WITH DONOR RESTRICTIONS

ACEF's net assets with donor restrictions consisted of the following at December 31:

	2018	2017
United States Armenian churches and schools	\$ 760,089	\$ 2,854,028
Overseas Armenian churches and schools	181,367	1,248,134
Christian education	669,564	1,415,708
Diocesan programs	74,923	1,577,498
Spiritual leadership fund	165,138	363,153
Cultural programs	10,009	58,118
Clergy support	3,029,383	3,717,384
Seniors programs and social services	49,450	117,136
ACYOA	34,373	73,925
Camp and youth programs	67,450	226,997
Life income funds	49,209	66,061
Information and publication activities	228,709	457,496
Scholarship programs	10,797	79,377
Cathedral	70,476	245,260
Other programs	2,843	16,066
Alumni fund	11,678	35,293
Mission parishes	703,490	780,324
	<u>6,118,948</u>	<u>13,331,958</u>
Expendable subject to purpose restrictions	6,118,948	13,331,958
Principle required to be held in perpetuity by donor	60,099,808	58,551,990
	<u>\$ 66,218,756</u>	<u>\$ 71,883,948</u>

Net assets released from donor-imposed restrictions consisted of the following for the years ended December 31:

	2018	2017
United States Armenian churches and schools	\$ 820,544	\$ 827,683
Overseas Armenian churches and schools	439,846	446,415
Christian education	300,331	287,133
Diocesan programs	608,585	618,634
Spiritual leadership fund	82,212	83,678
Cultural programs	13,686	13,444
Clergy support	112,965	118,080
Seniors programs and social services	27,905	28,258
ACYOA	16,341	16,275
Camp and youth programs	65,891	38,396
Life income funds	13,545	13,603
Information and publication activities	94,989	96,683
Scholarship programs	25,886	18,523
Cathedral	72,568	73,861
Other programs	6,451	8,126
Alumni fund	9,802	9,969
	<u>\$ 2,711,547</u>	<u>\$ 2,698,761</u>

Armenian Church Endowment Fund, Inc.
Notes to Financial Statements
December 31, 2018 and 2017

11. RELATED PARTY TRANSACTIONS

ACEF rents space under an annual lease agreement from the Diocese. Total rent expense under this agreement was \$36,000 for each of the years ended December 31, 2018 and 2017. The future commitment under the lease agreement at December 31, 2018 was for \$36,000 for the year ending December 31, 2019.

The Diocese provides an employee directed tax-deferred savings plan, which is available to all full-time employees after sixty days of employment. The savings plan is non-contributory by ACEF. All ACEF employees are eligible to participate in the Diocese plan.

12. COMMITMENTS

ACEF has commitments of approximately \$15,137,000 under subscription agreements to fund capital calls of private equity limited partnerships as of December 31, 2018.

13. SUBSEQUENT EVENTS

The 2018 annual distribution of approximately \$4,500,000 was approved in March 2019.

ACEF has evaluated subsequent events occurring after the statement of financial position date through the date of April 19, 2019 which is the date the financial statements were available to be issued. Based on this evaluation, ACEF has determined that no other subsequent events have occurred which require disclosure in or adjustment to the financial statements.