



ARMENIAN CHURCH ENDOWMENT FUND, INC.
Financial Statements
December 31, 2020 and 2019
With Independent Auditor's Report

Armenian Church Endowment Fund, Inc.
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December 31, 2020 and 2019

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INDEPENDENT AUDITOR'S REPORT

His Grace Bishop Daniel Findikyan, Primate
and the Board of Directors,
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, 2020 and 2019, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, 2020 and 2019, 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.

WithumSmith+Brown, PC

May 28, 2021

Armenian Church Endowment Fund, Inc.
Statements of Financial Position
December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Assets		
Cash and cash equivalents	\$ 6,507,923	\$ 2,455,635
Investments	120,768,542	112,894,218
Contributions receivable	69,900	43,041
Accrued interest receivable	64,361	63,839
Loan receivable	<u>23,237</u>	<u>45,737</u>
 Total assets	 <u>\$ 127,433,963</u>	 <u>\$ 115,502,470</u>
Liabilities and Net Assets		
Liabilities		
Custodial funds	\$ 46,316,329	\$ 39,592,855
Future obligations of charitable remainder annuities	60,123	63,387
Accounts payable and accrued expenses	<u>21,911</u>	<u>14,940</u>
Total liabilities	<u>46,398,363</u>	<u>39,671,182</u>
Net assets		
Without donor restrictions	1,356,000	1,258,491
With donor restrictions	<u>79,679,600</u>	<u>74,572,797</u>
Total net assets	<u>81,035,600</u>	<u>75,831,288</u>
 Total liabilities and net assets	 <u>\$ 127,433,963</u>	 <u>\$ 115,502,470</u>

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

Armenian Church Endowment Fund, Inc.
Statement of Activities and Changes in Net Assets
Year Ended December 31, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and revenues			
Contributions and custodial funds invested with ACEF	\$ -	\$ 4,888,792	\$ 4,888,792
Transfer to custodial funds	-	(4,031,569)	(4,031,569)
	-	857,223	857,223
Investment return	98,325	7,237,030	7,335,355
Administrative fee charged to custodial funds	114,790	-	114,790
Net present value adjustment to annuities	3,264	-	3,264
	216,379	8,094,253	8,310,632
Net assets released due to satisfaction of purpose restrictions	2,987,450	(2,987,450)	-
Total support and revenues	<u>3,203,829</u>	<u>5,106,803</u>	<u>8,310,632</u>
Expenses			
Program	2,819,408	-	2,819,408
Management and general expenses	286,912	-	286,912
Total expenses	<u>3,106,320</u>	<u>-</u>	<u>3,106,320</u>
Changes in net assets	97,509	5,106,803	5,204,312
Net assets			
Beginning of year	<u>1,258,491</u>	<u>74,572,797</u>	<u>75,831,288</u>
End of year	<u>\$ 1,356,000</u>	<u>\$ 79,679,600</u>	<u>\$ 81,035,600</u>

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

Armenian Church Endowment Fund, Inc.
Statement of Activities and Changes in Net Assets
Year Ended December 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenues			
Contributions and custodial funds invested with ACEF	\$ 100,000	\$ 4,348,382	\$ 4,448,382
Transfer to custodial funds	-	(3,724,611)	(3,724,611)
	100,000	623,771	723,771
Investment return	151,644	10,642,631	10,794,275
Administrative fee charged to custodial funds	85,714	-	85,714
Net present value adjustment to annuities	3,193	-	3,193
	340,551	11,266,402	11,606,953
Net assets released due to satisfaction of purpose restrictions	2,912,361	(2,912,361)	-
Total support and revenues	<u>3,252,912</u>	<u>8,354,041</u>	<u>11,606,953</u>
Expenses			
Program	2,781,142	-	2,781,142
Management and general expenses	256,164	-	256,164
Total expenses	<u>3,037,306</u>	<u>-</u>	<u>3,037,306</u>
Changes in net assets	215,606	8,354,041	8,569,647
Net assets			
Beginning of year	<u>1,042,885</u>	<u>66,218,756</u>	<u>67,261,641</u>
End of year	<u>\$ 1,258,491</u>	<u>\$ 74,572,797</u>	<u>\$ 75,831,288</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, 2020 and 2019

	2020			2019		
	<u>Allocations Program</u>	<u>Management and General</u>	<u>Total</u>	<u>Allocations Program</u>	<u>Management and General</u>	<u>Total</u>
Salaries	\$ 25,607	\$ 76,820	\$ 102,427	\$ 24,040	\$ 72,121	\$ 96,161
Fringe benefits	3,121	9,363	12,484	3,321	9,964	13,285
Occupancy	9,000	27,000	36,000	9,000	27,000	36,000
Distributions paid	2,781,680	-	2,781,680	2,744,781	-	2,744,781
Professional fees	-	110,640	110,640	-	109,465	109,465
Office expense	-	4,298	4,298	-	4,472	4,472
Marketing and promotion	-	4,613	4,613	-	6,383	6,383
Taxes and fees	-	3,370	3,370	-	2,350	2,350
Conferences	-	469	469	-	664	664
Computer maintenance	-	6,299	6,299	-	6,000	6,000
Insurance	-	44,040	44,040	-	17,744	17,744
	<u>\$ 2,819,408</u>	<u>\$ 286,912</u>	<u>\$ 3,106,320</u>	<u>\$ 2,781,142</u>	<u>\$ 256,163</u>	<u>\$ 3,037,306</u>

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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating activities		
Changes in net assets	\$ 5,204,312	\$ 8,569,647
Adjustments to reconcile changes in net assets to net cash used in operating activities		
Net realized and unrealized gains	(11,568,637)	(15,572,462)
Donor restricted contributions - endowment	(857,223)	(623,771)
Changes in net present value of annuities	(3,264)	(3,193)
Changes in assets and liabilities		
Contributions receivable	(26,859)	(24,232)
Accrued interest receivable	(522)	(1,030)
Custodial funds	6,723,474	7,485,357
Accounts payable and accrued expenses	<u>6,971</u>	<u>3,921</u>
Net cash used in operating activities	<u>(521,748)</u>	<u>(165,763)</u>
Investing activities		
Donor restricted contributions - endowment	857,223	623,771
Principal payment on loan receivable	22,500	22,500
Purchase of investments	(10,465,141)	(25,582,843)
Proceeds on sale of investments	<u>14,159,454</u>	<u>24,697,789</u>
Net cash provided by (used in) investing activities	<u>4,574,036</u>	<u>(238,783)</u>
Net change in cash and cash equivalents	4,052,288	(404,546)
Cash		
Beginning of year	<u>2,455,635</u>	<u>2,860,181</u>
End of year	<u>\$ 6,507,923</u>	<u>\$ 2,455,635</u>
Supplemental disclosure of cash flow information		
No amounts were paid for interest during the years ended December 31, 2020 and 2019.		
Income taxes paid	<u>\$ -</u>	<u>\$ 695</u>

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

Armenian Church Endowment Fund, Inc.
Notes to Financial Statements
December 31, 2020 and 2019

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

Contributions

ACEF recognizes contributions as revenue when they are received or unconditionally pledged and records these revenues as with or without donor support according to donor stipulations that limit the use of these assets due to time or purpose restrictions. Donor stipulations met in the same year of receipt are recorded as without donor restricted support. When a donor restriction is met, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from donor restrictions. Conditional promises to give are not included as support until the conditions are substantially met. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows.

Armenian Church Endowment Fund, Inc.
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Other revenues are obtained from investment income. These revenues are shown net of investment expenses and are used to offset program and management and general expenses. Revenue from these sources are recognized when earned. Certain investment income has been classified as with donor restrictions based on donor stipulations.

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 are stated at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between willing market participants at the measurement date. 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, limited liability companies, commingled trusts and offshore investment funds and 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.

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% of the average trailing twelve-quarter market values of each fund. In accordance with this policy, total distributions of \$4,388,442 and \$4,191,751 were distributed from all funds, including custodial funds, for the years ended December 31, 2020 and 2019, respectively. Distributions paid to beneficiary agencies from the endowment funds were \$2,781,680 and \$2,744,781 at December 31, 2020 and 2019, 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% 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.

Armenian Church Endowment Fund, Inc.
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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 market value in the fund. The fee is based on the costs incurred each year to operate the fund. Administrative fees of \$324,640 and \$292,525 were charged to all funds for the years ended December 31, 2020 and 2019, respectively. 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 investment return.

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 5).

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, 2020 and 2019, ACEF paid \$0 and \$695 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, 2020 and 2019. 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 of loan receivable reasonably approximates fair value as it bears 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.

Armenian Church Endowment Fund, Inc.
Notes to Financial Statements
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New Accounting Pronouncements Issued Not Yet Effective

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’s proposed effective date, as of the date of these financial statements, is for fiscal years beginning after December 15, 2021.

In June 2016, the FASB issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments*, which is effective for fiscal years beginning after December 2021 and 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 financial statements and related disclosures.

3. LOAN RECEIVABLE

Loan receivable of \$23,237 and \$45,737 as of December 31, 2020 and 2019, respectively, represents an unsecured loan made to one parish. Annual repayment terms of \$22,500 have been established for the loan with a final due date of December 2023. Accrued interest receivable was \$64,361 and \$63,839 at December 31, 2020 and 2019, respectively, and is accrued on the outstanding balance at 2.25% per annum. 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, 2020 and 2019. Future maturities as of December 31, 2020 are: 2021 - \$23,237.

4. CONTRIBUTIONS RECEIVABLE

Contributions receivable of \$69,900 and \$43,041 for the years ended December 31, 2020 and 2019, respectively, represent receivables due within one year.

5. 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 observable quoted market prices in active markets for identical assets and liabilities to the extent possible (Level 1). 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 2). 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 3).

Investments that have been included in Level 3 are measured using the cost approach, observed transaction price used in subsequent valuations, liquidation value, company financial statements and the assessments by the investment managers 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. Investments in partnerships that are considered investment companies and reflect the net asset value at fair value have been reflected in these financial statements using the practical expedient.

Armenian Church Endowment Fund, Inc.
Notes to Financial Statements
December 31, 2020 and 2019

The following tables summarize the assets (liabilities) which have been accounted for at fair value on a recurring basis as of December 31, 2020 and 2019, 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. There were no changes in investment leveling methodology for the years ended December 31, 2020 and 2019. In addition, there were no transfers between investment leveling classifications during the years ended December 31, 2020 and 2019. As described in Note 2 and as shown in the level 3 table below, there were transfers out of level 3 in the fair value table to investments measured at net present value using the practical expedient.

Asset Class	2020			
	Total	Level 1	Level 2	Level 3
Hedge funds				
Multi strategy	\$ 2,589,533	\$ 2,589,533	\$ -	\$ -
Multi strategy (a)	3,342,329	-	-	3,342,329
Real estate fund (b)	2,033,876	-	-	2,033,876
Fixed income fund - government bonds	3,383,833	3,383,833	-	-
	<u>11,349,571</u>	<u>\$ 5,973,366</u>	<u>\$ -</u>	<u>\$ 5,376,205</u>
Investments measured at net asset value (1)	<u>109,418,971</u>			
	<u>\$ 120,768,542</u>			

Asset Class	2019			
	Total	Level 1	Level 2	Level 3
Global equity funds	\$ 4,605,587	\$ 4,605,587	\$ -	\$ -
Hedge funds				
Multi strategy	2,653,877	2,653,877	-	-
Multi strategy (a)	3,070,366	-	-	3,070,366
Real estate fund (b)	2,298,790	-	-	2,298,790
Fixed income fund - government bonds	5,195,521	5,195,521	-	-
	<u>17,824,141</u>	<u>\$ 12,454,985</u>	<u>\$ -</u>	<u>\$ 5,369,156</u>
Investments measured at net asset value (1)	<u>95,070,077</u>			
	<u>\$ 112,894,218</u>			

(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.

- 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 buys secondary positions in other limited partnerships, primarily in U.S. private real estate strategies.

Armenian Church Endowment Fund, Inc.
Notes to Financial Statements
December 31, 2020 and 2019

The following is a summary of activity for the years ended December 31, 2020 and 2019 for assets measured at fair value in level 3:

	<u>Hedge Funds</u>	<u>Real Estate</u>	<u>Total</u>
Balance, beginning of year January 1, 2019	\$ 3,023,862	\$ 2,357,966	\$ 5,381,828
Realized and unrealized gains	46,504	181,701	228,205
Sales	<u>-</u>	<u>(240,877)</u>	<u>(240,877)</u>
Balance, beginning of year January 1, 2020	3,070,366	2,298,790	5,369,156
Realized and unrealized (loss) gains	271,963	(222,220)	49,743
Sales/redemptions	<u>-</u>	<u>(42,694)</u>	<u>(42,694)</u>
Balance, end of year December 31, 2020	<u>\$ 3,342,329</u>	<u>\$ 2,033,876</u>	<u>\$ 5,376,205</u>

The following table lists investments measured using the practical expedient by class and investment strategy as well as the unfunded commitments, redemption frequency and notice period for investments in entities that calculate fair value using net asset value per share or its equivalent:

<u>Strategies</u>	<u># of Funds</u>	<u>2020 Valuation</u>	<u>2019 Valuation</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Global equity funds (a)	9	\$ 62,878,692	\$ 55,011,090	\$ -	Daily - Monthly	1 - 33 days
Emerging market funds (b)	1	-	1,944,494	-	Quarterly	No notice
Private equity funds (c)	23	23,733,973	16,611,689	5,906,949	Quarterly - Illiquid	33 days
Hedge Funds (d)	10	<u>22,806,306</u>	<u>21,502,804</u>	<u>-</u>	Quarterly - Annually	33 - 120 days
		<u>\$ 109,418,971</u>	<u>\$ 95,070,077</u>	<u>\$ 5,906,949</u>		

- a) Global equity funds are actively managed funds that invest in stocks and other securities issued by companies in domestic and foreign markets. Investments are held within a commingled trust or limited partnership structure. All of the assets in this class may be redeemed on a daily to monthly basis without restrictions.
- b) Emerging market funds include a commingled fund that invests in a diversified portfolio of equity securities of companies incorporated in emerging markets. All assets in this class may be redeemed on a quarterly basis.
- c) Private equity funds are actively managed funds and fund-of-funds that invest in private and public companies through a variety of strategies including, but not limited to early and late stage venture capital, leveraged buy-outs, distressed assets, special situations, and credit strategies. These investments are generally not redeemable from the fund manager. Instead distributions are received throughout the liquidation of the underlying assets of the fund, typically over 10 years or more.
- d) Hedge funds are actively managed funds and fund-of-funds employing a variety of strategies, including not limited to multi-strategy, absolute return, long/short/ arbitrage, event-driven, distressed debt, and credit. Hedge funds have the ability to invest long and short, shift from a net long position to a net short position, apply leverage, invest in derivatives, and invest in the debt or equity of public and private companies in domestic and foreign markets. An additional 1% of the value of this class has redemption restrictions limiting redemption amounts per period to a fund level or investor level gate per period. The remaining 99% of the class has no restrictions on redemptions beyond the redemption frequency and notification period.

Armenian Church Endowment Fund, Inc.
Notes to Financial Statements
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6. INVESTMENT RETURN, NET

Investment return, net, which includes investment income allocable to custodial funds for the years ended December 31, was:

	<u>2020</u>	<u>2019</u>
Interest, dividend income and capital gains distributions	\$ 108,753	\$ 1,045,624
Unrealized gain	13,162,368	13,300,587
Realized (loss) gain	(1,593,731)	2,271,875
Investment expenses	<u>(370,800)</u>	<u>(418,316)</u>
	11,306,590	16,199,770
Investment return shared with custodial funds	<u>(3,971,235)</u>	<u>(5,405,495)</u>
Net investment return	<u>\$ 7,335,355</u>	<u>\$ 10,794,275</u>

7. FINANCIAL ASSETS AND LIQUIDITY RESOURCES

As of December 31, 2020, and 2019, financial assets and liquidity resources available within one year for general operating expenses were as follows:

	<u>2020</u>	<u>2019</u>
Financial assets		
Cash and cash equivalents	\$ 6,507,923	\$ 2,455,635
Investments	120,768,542	112,894,218
Contributions receivable	69,900	43,041
Loan and accrued interest receivable	<u>23,237</u>	<u>22,500</u>
	<u>127,369,602</u>	<u>115,415,394</u>
Less: Financial assets unavailable for general expenditures		
Perpetual endowments and accumulated earnings subject to appropriation beyond one year	(79,679,600)	(74,572,797)
Custodial funds held in investments	<u>(46,316,329)</u>	<u>(39,592,855)</u>
	<u>(125,995,929)</u>	<u>(114,165,652)</u>
Total financial assets and liquidity resources available within one year	<u>\$ 1,373,673</u>	<u>\$ 1,249,742</u>

The financial assets above are not subject to donor or other contractual restrictions that make them unavailable for general expenditures. Annual allocations authorized by the board in the subsequent year would be funded from net assets with restrictions as part of the spending policy in place for the endowment funds.

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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:

	<u>2020</u>	<u>2019</u>
Diocese of the Armenian Church	\$ 19,315,886	\$ 11,530,314
Other organizations	<u>27,000,443</u>	<u>28,062,541</u>
Total custodial funds	<u>\$ 46,316,329</u>	<u>\$ 39,592,855</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

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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%, 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% 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% 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% 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.

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:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, January 1, 2019	\$ 867,928	\$ 66,218,743	\$ 67,086,671
Investment return	151,644	10,642,631	10,794,275
Contributions	100,000	623,771	723,771
Other	-	13	13
Amounts appropriated for expenditure	<u>(2,741)</u>	<u>(2,912,361)</u>	<u>(2,915,102)</u>
Endowment net assets, December 31, 2019	1,116,831	74,572,797	75,689,628
Investment return	98,326	7,237,030	7,335,356
Contributions	-	857,223	857,223
Other	-	-	-
Amounts appropriated for expenditure	<u>(3,208)</u>	<u>(2,987,450)</u>	<u>(2,990,658)</u>
Endowment net assets, December 31, 2020	<u>\$ 1,211,949</u>	<u>\$ 79,679,600</u>	<u>\$ 80,891,549</u>

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	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor restricted "true" endowment			
Historical gift value	\$ -	\$ 61,577,766	\$ 61,577,766
Appreciation	-	18,101,834	18,101,834
Board designated funds functioning as endowment	<u>1,211,949</u>	<u>-</u>	<u>1,211,949</u>
	<u>\$ 1,211,949</u>	<u>\$ 79,679,600</u>	<u>\$ 80,891,549</u>
	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor restricted "true" endowment			
Historical gift value	\$ -	\$ 60,720,543	\$ 60,720,543
Appreciation	-	13,852,254	13,852,254
Board designated funds functioning as endowment	<u>1,116,831</u>	<u>-</u>	<u>1,116,831</u>
	<u>\$ 1,116,831</u>	<u>\$ 74,572,797</u>	<u>\$ 75,689,628</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 approximated \$197,000 and \$320,000 at December 31, 2020 and 2019, respectively. There were five individual donor funds having a historical basis of \$3,509,000 with a corresponding fair value of \$3,312,000 as of December 31, 2020. There were six individual donor funds having a historical basis of approximately \$3,524,000 with a corresponding fair value of \$3,204,000 as of December 31, 2018. 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.

10. 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, 2020 and 2019. The future commitment under the lease agreement at December 31, 2020 is \$36,000.

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.

11. COMMITMENTS

ACEF has commitments of approximately \$14,700,000 under subscription agreements to fund capital calls of private equity limited partnerships and other investments as of December 31, 2020.

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12. NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2020</u>	<u>2019</u>
United States Armenian churches and schools	\$ 3,921,233	\$ 2,860,074
Overseas Armenian churches and schools	1,667,689	1,191,414
Christian education	1,789,811	1,407,469
Diocesan programs	2,213,330	1,502,880
Spiritual leadership fund	446,759	352,917
Cultural programs	91,683	65,597
Clergy support	5,275,702	4,309,897
Seniors programs and social services	151,628	116,464
ACYOA	91,050	72,131
Camp and youth programs	294,358	221,335
Life income funds	32,570	42,755
Information and publication activities	555,911	445,694
Scholarship programs	133,919	88,725
Cathedral	315,496	236,226
Other programs	25,575	16,774
Alumni fund	44,915	34,082
Mission parishes	<u>1,050,205</u>	<u>887,820</u>
Expendable subject to purpose restrictions	18,101,834	13,852,254
Principle required to be held in perpetuity by donor	<u>61,577,766</u>	<u>60,720,543</u>
	<u>\$ 79,679,600</u>	<u>\$ 74,572,797</u>

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

	<u>2020</u>	<u>2019</u>
United States Armenian churches and schools	\$ 941,744	\$ 904,040
Overseas Armenian churches and schools	465,586	468,812
Christian education	334,817	324,780
Diocesan programs	653,195	637,705
Spiritual leadership fund	86,549	84,935
Cultural programs	25,664	25,444
Clergy support	126,450	123,649
Seniors programs and social services	26,181	27,274
ACYOA	17,349	16,941
Camp and youth programs	70,044	67,035
Life income funds	13,527	13,562
Information and publication activities	100,005	98,135
Scholarship programs	30,659	26,826
Cathedral	76,395	74,970
Other programs	8,962	8,125
Alumni fund	10,323	10,128
	<u>\$ 2,987,450</u>	<u>\$ 2,912,361</u>

13. RISKS AND UNCERTAINTIES

The COVID-19 virus global pandemic continues to impact the global economy. While it is reasonably possible that the virus could have a negative effect on the financial condition and results of operations, the specific impact is not readily determinable as of the date of the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

14. SUBSEQUENT EVENTS

The 2020 annual distribution of approximately \$4,800,000 was approved in March 2021.

ACEF has evaluated subsequent events occurring after the statement of financial position date through the date of May 28, 2021, 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.